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Pensions Committee
Friday, 21 June 2019, County Hall, Worcester - 10.00 am

	Minutes
Present:	Mr P Middlebrough (Chairman), Mr R W Banks, Mr R C Lunn, Ms T Southall and Mr P A Tuthill
Also attended:	Mr R J Philips attended as an observer.
Available papers	The Members had before them: A. The Agenda papers (previously circulated); and B. The Minutes of the meeting held on 19 March 2019 (previously circulated). Mr R W Banks had stepped down as Chairman of the Pensions Committee and the members of the Committee thanked Mr Banks for his work as Chairman since the inception of the Committee.
178 Named Substitutes (Agenda item 1)	Ms T Southall substituted for Mr V Allison.
179 Apologies/ Declarations of Interest (Agenda item 2)	Apologies were received from Mr V Allison and Mr A I Hardman. Mr P Middlebrough and Ms T Southall declared an interest as members of the Fund.
180 Public Participation (Agenda item 3)	None.
181 Confirmation of Minutes (Agenda item 4)	**RESOLVED that the Minutes of the meeting held on 19 March 2019 be confirmed as a correct record and signed by the Chairman.**
182 Pension Board and Pension Investment Committee Minutes	**RESOLVED that the Minutes of the Pension Board and Pension Investment Sub-Committee be noted.**

(Agenda item 5)

183 LGPS Central Update (Agenda item 6)

The Committee received an update on LGPS Central.

In the ensuing debate, the following points were raised:

- Philip Hebson indicated that it was recognised that some improvements had been made, there remained concerns about the overall approach of LGPS Central
- In response to a query, Rob Wilson commented that robust discussions were ongoing with LGPS Central with regard to the rolling forward of the cost-sharing model to ensure that the best outcome was achieved for the Fund
- Michael Hudson explained that Mike Weston, the Chief Executive of LGPS Central would be preparing a ‘Hundred Day” initial findings report. This report would be followed by a meeting of partner fund Section 151 officers in November
- The Chairman indicated that the key message to relay to representatives of LGPS Central was that concerns remained but that the Committee would continue to review its performance and welcomed the next visit of the Chief Executive for an update.

RESOLVED that the LGPS Central Update be noted.

184 Pension Investment Update (Agenda item 7)

The Committee considered the Pension Investment Update.

In the ensuing debate, the following points were raised:

- Philip Hebson indicated that since the last meeting, the value of the Fund had increased. The timing of the increase was particularly welcome given the impending Triennial Valuation. The markets had been volatile and unpredictable during the last 2 quarters and he expected this volatility to continue in the near future. The contract with JP Morgan and Schroders in relation to Emerging Markets would terminate at the beginning of July. Representatives of LGPS Central had indicated that the Corporate Bonds mandate was scheduled to be transitioned to the pool by August 2019. He considered that this timescale was challenging
- Was it intended to renew the Equity Protection Strategy within similar parameters to the existing

agreement? Philip Hebson advised that the intention was to make some subtle differences to the parameters of the existing Strategy in order to capture more upside gain but at the expense of the level of downside protection

- Rob Wilson explained that the estimated funding levels at March 2019 showed that the Fund was 92% funded with a deficit of £245m. The outcome of the McCloud judgement had yet to be received and could have a negative impact on liabilities of up to 1%. It was proposed to extend the Equity Protection current static strategy to mid 2020 in order to protect employer contributions and provide certainty to the Actuary. The extended period would cover the Triennial Valuation and allow time to consider options going forward
- Following the negative experience of Kent County Council, a key issue to consider for investment in Corporate Bonds should be company liquidity. Philip Hebson responded that liquidity was an important investment consideration. The Fund could gain confidence from the liquidity of its existing corporate bond portfolio although nothing could be taken for granted. In addition, pension funds tended to take a long-term investment approach and therefore avoiding the need to over-react to short-term changes in market conditions. The Fund also had a diverse range of investments which meant that it was not over-exposed to the vagaries of particular markets
- In response to a query, Michael Hudson advised that the aim of the Equity Protection Strategy was to develop an approach that provided more exposure to upside whilst reducing downside protection with as close as possible to a net zero cost
- Was it difficult to achieve a net zero cost for the Strategy whilst satisfying the conflicting demands for downside protection and increased upside gain under the Equity Protection Strategy? Michael Hudson responded that River & Mercantile had a very helpful graphical tool which enabled the Fund to establish the appropriate kink point to maximise the benefit to the Fund at as near to net zero cost as possible. River & Mercantile had been asked to determine appropriate parameters for the Strategy. These parameters would be agreed with them before the Strategy was enacted at a point when River & Mercantile considered that the market conditions were most favourable. A key factor in this consideration was the discount rates.

Philip Hebson added that the timing of the introduction of the Strategy was critical. There was a cost to the Fund of the work undertaken by River & Mercantile but he considered that it was minimal and represented good value for money in the circumstances

- Michael Hudson commented that the performance of the Strategy over the last 12 months had vindicated the decision to take out equity protection, particularly given the Fund's over-exposure to the equity market. A lessons-learned exercise would be carried out in due course. Philip Hebson added that it would be beneficial for members to see two sets of figures for the performance of the Strategy with and without the overlay position
- Was it appropriate for the Fund to focus on responsible investment given its duty to maximise investment performance? In response it was recognised that the Fund had a fiduciary responsibility to Council Taxpayers however there was a general move towards responsible investment amongst pension funds and it would always be a factor in any investment decision. Although the Fund needed to take a balanced view, it was required to have a responsible investment policy
- Responsible investment was part of the due diligence process for the consideration of investment opportunities and new ESG products were continually evolving. The increased emphasis on responsible investment had helped companies develop their investment approach across their product range and had improved profitability and investment returns
- Philip Hebson advised that in future, the Fund would be able to draw on the responsible investment expertise of the representatives of LGPS Central. ESG products were improving all the time and it was important that the Fund considered investments of this nature otherwise run the risk of missing out on future investment opportunities.

RESOLVED: that

a) the Independent Financial Adviser's fund performance summary and market background be noted (Appendices 1 to 3 to the report);

b) the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted;

c) the update that River & Mercantile will provide on the currency hedging options required for the specific US Property Debt Walton Street Fund II investment within the Management fee for the existing Equity Protection Mandate be noted;

d) the outcome of the due diligence meetings relating to the active Emerging Market investments (Exempt Appendix 4 in the report) and that steps will now be taken to transition these funds to the LGPS Central Global Emerging Markets Fund be noted;

e) the outcome of the due diligence conducted relating to the Active Corporate Bonds mandate (Exempt Appendix 5 in the report) be noted and that the transition into the LGPS 'Global active Investment Grade Corporate Bond Fund be agreed;

f) the funding position compared to the investment performance be noted;

g) the Equity Protection current static strategy be extended to mid 2020 on a similar basis to the existing arrangements in order to protect employer contributions and provide certainty to the Actuary that the Equity Protection is in place when the actuary certificate has to be signed off;

h) the Chief Financial Officer be granted delegated authority in consultation with the Chairman of the Pensions Committee to explore static strategy options as to whether more upside participation can be implemented over this period without giving up too much downside protection;

i) the Equity Protection Strategy be considered as part of the Asset Allocation review that will be conducted from June through to around November 2019 to ascertain as to whether this should become an integral part of the Funds future investment strategy;

j) **the update on Responsible Investment activities and Stewardship investment pooling be noted (Appendix 7 in the report);**

k) **LGPSC compile and vote on invested shares on the Funds behalf in line with the LGPSC Voting principals *(*Appendix 8, 9 and 10 in the report*);* and**

l) **The development of a Climate Risk Monitoring Platform (Appendix 11 in the report) be noted.**

185 Pension Fund Unaudited Annual Report and Accounts 2018-19 (Agenda item 8)

The Committee considered the Pension Fund Unaudited Annual Report and Accounts 2018-19.

In the ensuing debate, the following points were raised:

- Michael Hudson explained that the outcome of the appeal by the Government against the Court of Appeal judgement on the McCloud case was not yet known. It was therefore not possible to determine whether any remedial action was necessary or what that action might be. He would consider whether it was appropriate to include a relevant Note in the final accounts
- In response to a query, Michael Hudson commented that there was a possibility that the national deadline for the publication of the final accounts could be put back as a result of the delay in the outcome of McCloud case. The LGA were considering what action to take. Bridget Clark added that all the Fund's employers were being kept up-to-date on this matter
- It was argued that the common rate of contribution of 15.3% of pensionable pay per annum required from employers quoted in the Accounts reflected the basic rate, rather than the common rate. Rob Wilson undertook to review the calculation of the common rate of contribution to ensure it was an accurate reflection of employers' contributions.

RESOLVED that the unaudited Pension Fund Annual Report and Accounts 2018/19 be approved.

186 Administering Authority Update (Agenda item 9)

The Committee considered the Administering Authority Update.

In the ensuing debate, the following points were raised:

- Bridget Clark indicated that due to delays in the GMP Reconciliation process, there were no

rectification decisions for the Committee to make at this stage. She would provide an update on the GMP Reconciliation and Rectification process at the October Committee meeting
- Officers were congratulated for the comprehensive nature of the KPI information provided in the report
- The outcome of Scheme Advisory Board Good Governance Review was due to be published in July and would be reported to the October Committee meeting.

RESOLVED that the Administering Authority update be noted.

187 Risk Register (Agenda item 10)

The Committee considered the Risk Register.

In the ensuing debate, the following points were raised:

- Michael Hudson commented that since the last meeting, the mitigation measures associated with each risk had been challenged and reassessed and as a result, a number of residual risk scores had been reduced. The only risk now rated as red related to the mismatch in asset returns and liability movements
- Was it likely that this risk would always be rated red? Michael Hudson anticipated that the proposed mitigation measures would be effective and could reduce this risk at some point
- In response to a query, Michael Hudson explained that the Fund's cashflow had not been as good as it should have been, but improvements have been made over the last 12 months. Consequently, greater investment had been made in the Council's Treasury Management team
- The risk in relation to the reliance on LGPS Central's investment approach had a residual probability of zero which begged the question whether it should remain on the Risk Register.

RESOLVED that the Worcestershire Pension Fund Risk Register as at 10 June 2019 be noted.

188 2019 - 2022 Business Plan (Agenda item 11)

The Committee considered the 2019 - 2022 Business Plan.

In the ensuing debate, Bridget Clark indicated that the Business Plan had yet to be finalised. However, she wanted to give members early sight of it and would welcome any feedback at this meeting or prior to its final publication.

RESOLVED that the 2019 - 2022 Business Plan be agreed.

189 Internal Audit Plan (Agenda item 12)

The Committee considered the Internal Audit Plan.

In the ensuing debate, Rob Wilson undertook to bring the combined audit group's report on LGPS Central to the October Committee meeting.

RESOLVED that the Internal Audit Plan be noted.

190 Forward Plan (Agenda item 13)

The Committee considered the Forward Plan.

In the ensuing debate, Rob Wilson confirmed that the Committee meeting scheduled on 4 October would be moved to 16 October 2019 at 10am.

RESOLVED that the Forward Plan be noted.

The meeting ended at 11.57am.

Chairman …………………………………………….