

**COUNCIL**  
**9 NOVEMBER 2017****REPORTS OF COMMITTEES****(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS COMMITTEE**

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**Administering Authority – Administration Update**

1. The Committee has noted the general update from the Administering Authority in relation to End of Year Arrangements, Annual Benefit Statements (2017) and FRS exercises, current Government Consultations, End of Transitional Delay Period for Automatic Enrolment, Worcestershire County Council – Change to Provider, Administration Forum, and Admissions to the Fund.

**Pension Investment Update**

2. The Committee has noted the Independent Financial Adviser's fund performance summary and market background.
3. The Committee has noted the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel, namely JP Morgan – Emerging Markets and JP Morgan – Bonds. The Committee has noted an update on First State, the new Infrastructure Manager to the Pension Fund.

**LGPS Central Update**

4. Andrew Warwick-Thompson commenced his position as Chief Executive Officer of LGPS Central Ltd. on 17 July 2017, and in so doing became the first employee of the Company. Eithne McManus was appointed as a Non-Executive Director and will chair the Audit, Risk and Compliance Committee. John Nestor was also appointed as a Non-Executive Director and will chair the Remuneration Committee. Eithne McManus and John Nestor are highly experienced and respected in their specialist fields and commenced their work in mid-July. The LGPS Central first formal Board meeting was held on 11 August.
5. The process of appointing a Chief Investment Officer also concluded in late June and Jason Fletcher, who currently fills the same role at the West Midlands Pension Fund, will commence at LGPS Central on 1 October 2017. Interviews for the role of Chief Operating Officer/Chief Financial Officer took place in early August and a job offer has been made and accepted.
6. The programme operates against a very demanding timetable but key milestones continue to be met. The necessary application for regulatory authorisation was submitted to the Financial Conduct Authority (FCA) on 21 July 2017, together

with the accompanying Regulatory Business Plan. It is expected that this will lead to the necessary authorisations to enable LGPS Central to carry out investment business in time for the 1 April 2018 deadline. The Committee has noted the LGPS Central update.

## **Equity Protection Strategy**

7. The Pension Fund's Actuary has calculated that due to the increase in the value of the fund's assets since the actuarial valuation held on 31 March 2016, at the end of June 2017, the Fund had a deficit but was c. £442m ahead of the funding plan.

8. Given that most of the improvement seen since the 2016 valuation is attributable to the rally in equity markets over the period, the Actuary has recommended that the Fund consider using an equity protection strategy to:

- Reduce the likelihood that further deficit contributions will be required at the 2019 valuation; and
- Seek to “bank” some of the recent upside with a few to potentially reducing contributions at future valuations.

9. An alternative approach to equity protection would be to simply de-risk by moving funds from equities to other asset classes. The challenge with this approach is that it would also reduce return commensurately which would have an impact on the affordability of providing future benefits.

10. The Committee has noted the equity protection report provided by the Fund's Actuary and provided delegated authority to the Chief Financial Officer in consultation with the Chairman and Vice-Chairman of the Pensions Committee and the Chairman of the Investment Advisory Panel to work with advisers and implement an equity spread protection strategy for the Fund's equities.

## **Implementation of the Markets in Financial Instruments Derivative (MiFID II)**

11. Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a ‘per se professional client’ or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted up by firms to an ‘elective professional client’ status.

12. Retail client status would mean that all financial services firms such as banks, brokers, advisers and fund managers will have to treat Worcestershire county Council as they do non-professional individuals and small businesses. This would include applying a series of protections to ensure that investment products are suitable for the customer’s needs, and that all the risks and features have been fully explained.

13. Such protections would prevent the Council being able to access the wide range of assets needed to implement an effective, diversified investment strategy for the Worcestershire County Council Pension Fund, as retail status would significantly restrict the range of financial institutions and instruments available.

14. MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). In order to continue to effectively implement the Fund's investment strategy after 3 January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the authority has an existing or potential relationship in relation to the investment of the pension fund.

15. The Committee has granted delegated authority to Chief Financial Officer in consultation with the Chairman and Vice-Chairman of the Committee to elect for professional client status for Worcestershire County Council as Administering Authority for the Worcestershire County Council Pension Fund, subject to opt-up applications review.

### **Pension Fund Annual Report**

16. The annual report is a key communications channel between the Fund and a wide variety of stakeholders. The report contains information relating to fund investments, administration, governance, valuations, accounts and membership. The Committee has approved the Pensions Fund Annual Report and Accounts 2016/17.

**Mr R C Lunn**  
**Chairman**

### **Contact Points**

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### **Background Papers**

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) the following are the background papers relating to the subject matter of this report:

Agenda papers for the meeting of the Pensions Committee held on 6 October 2017.