

**COUNCIL**  
**16 MAY 2019****REPORTS OF COMMITTEES****(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS  
COMMITTEE**

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**Initial Strategic Asset Allocation**

1. Every three years the Fund takes stock of the performance and composition of the Fund's Strategic Asset Allocation. Given the improved funding position of the fund and the implementation of the Equity Protection Strategy, it was felt that it would be beneficial to conduct an interim review in advance of the 2019 actuarial valuation to assess the suitability of the current investment strategy and asset allocation set in 2016.
2. Hymans Robertson LLP were commissioned to undertake the review which took into account any scope to improve the risk return profile of the Fund's investments, optimising diversification benefit where possible, whilst being mindful of contribution rates, income generation and the dynamic structured equity arrangement in place. David Walker from Hymans Robertson LLP presented the key findings to the Committee. In particular Hymans are supportive of the Committee's development of a core set of investment beliefs as a framework for decision making. Hymans believe that any recommendations from this report are tested against these beliefs to ensure there is a robust process for testing investment decisions that can stand up to scrutiny and can be clearly explained to external parties or new members of Committee.
3. The Committee has noted the initial strategic allocation review undertaken by Hymans Robertson LLP and the key findings of the review detailed in the Executive Summary of the report. The Committee asked that the detailed strategic allocation review, to be undertaken later in the year, is referenced to the key findings of the review detailed in the Executive Summary of the Hymans Robertson report.

**LGPS Central Update**

4. The Committee has received a presentation from Joanne Segars, Chair, Mike Weston, newly appointed Chief Executive Officer and Callum Campbell, Head of Client Services and Stakeholder Relations of LGPS Central which set out progress to date, new product launches, the current "state of play", key performance indicators, foundations for the future, working arrangements with Worcestershire and partner funds, and global emerging market sub-fund.
5. The Committee has noted the LGPS Central Update and presentation provided at the meeting.

## **Pension Administration Strategy**

6. The aims of the Pensions Administration Strategy are to: provide a high-quality pension service to members; set out the quality and performance standards expected of the Fund and its scheme employers; and promote good working relationships and improve efficiency between the Fund and its scheme employers. The Strategy sets out the expected levels of performance of the Fund and the scheme employers and these will be monitored and performance levels will be reported annually. The Strategy will be effective immediately and the Fund will continue to keep the strategy and policy document under review and update as required to reflect changes in scheme regulations and Fund working practices. The Committee has approved the 2019 Pensions Administration Strategy.

## **Administering Authority Update**

7. The Committee has noted the general update from the Administering Authority in relation to the Guaranteed Minimum Pension (GMP) Reconciliation and Rectification, Administration Software, Covenant Review, the McCloud Case, and the Fair Deal Consultation.

## **Worcestershire County Council Pension Fund Administration Budget 2019/20**

8. The forecast outturn for Worcestershire County Council Pension Fund Administration Budget is estimated to be £11.213m compared to a budget of £9.931m, a difference of £1.282m. The key reason for the variance is investment management fees - when the original budget was set it was assumed that the management fees relating to our investment of £100m in the US Property Fund 'Stonepeak' would be incurred as the capital was gradually invested over the next 2 to 3 years. However the management fees are based on the committed sum rather than as the capital is invested, hence the significant variance. The Committee has agreed the variation to the Pension Fund Administration Budget, including manager fees, for 2018/19 totalling £11.213m.

9. The budget now proposed for 2019/20 is £12.640m, an increase of £2.709m (+27%) from the original 2018/19 budget. The largest proportion of the budget (£10.599m) is investment managers' fees and this is the key reason for the increase in the budget. The Committee has approved the Pension Fund Administration Budget, including manager fees, for 2019/20 totalling £12.640m.

10. In line with good governance practice, officers are bringing budget monitoring reports back to Committee twice a year. In the interim, variations against budget will be monitored and if they become very significant, the Chief Financial Officer to the Pension Fund will approve variations to the budget and report these to the Committee retrospectively for ratification. The Committee noted the indicative budget allocations for 2020/21 and 2021/22 and that the variations against budget will be monitored. The Committee has granted delegated authority to the Chief Financial Officer to approve variations of up to £0.5m.

## **Pension Fund Training Programme for Pensions Committee Members and Pension Board**

11. The Committee has noted the feedback from the Pensions Training event held on the 18 December 2018; and the Training Plan.

### **Risk Register**

12. The risk register has been through a major refresh including a review of all previous risks, a new format and has been updated. This new Risk Register introduces a new approach to measuring risk. The following colour coding is used for the residual risk scores: Red  $\geq 45$ ; Amber  $\geq 25$  but  $< 45$ ; and Green  $< 25$ .

13. Risk scores can range from 0 to 100 and are derived by multiplying an impact score by a probability score as follows: Impact = 0 (none); 5 (minor); 15 (moderate); 20 (major); or 25 (severe). Probability = 0 (no chance); 1 (25% likely to happen); 2 (50:50); 3 (75% likely); or 4 (certain to happen).

14. The risk register shows the following number of risks by colour category: Red – 5 risks; Amber – 11 risks; and Green - 13 risks. The risk register will be kept under regular review and will be reported to each Committee. Future reports will identify risks which have changed score/category for improved tracking/monitoring purpose. The Committee has noted the re-formatted and updated Risk Register.

### **Business Plan**

15. The purpose of the Worcestershire Pension Fund (WPF) Business Plan 2018 - 2020 is to outline the Fund's strategic direction, goals and objectives, as well as providing Action Plans (project and business as usual) of the key priorities in order to further these objectives and setting a sustainable financial plan. The Committee has noted the report and that a further update will be brought to the June Committee meeting.

### **Pension Fund Unaudited Annual Report and Accounts 2018/19 Proposed Draft Format**

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 proposed draft format for the Annual report 2018/19 is aimed to make the document more user-friendly and easier to read whilst ensuring compliance to statutory regulations. The Committee has noted the proposed extract of the draft format for the unaudited Pension Fund Annual Report and Accounts 2018/19.

### **Forward Plan**

17. The Committee has noted the Forward Plan and that it would be reviewed at each Committee meeting.

## Pensions Investment Update

18. The Committee has noted the Independent Financial Adviser's fund performance summary and market background.
19. The Committee has noted the update on the Investment Managers who continue to be placed 'on watch' by the Pension Investment Advisory Panel, namely JP Morgan – Emerging Markets and JP Morgan – Bonds.
20. The Committee has noted the update on the Property and Infrastructure commitments. The Committee has authorised the Chief Financial Officer to revisit the specific US Property Debt Walton Street Fund II investment and consider currency hedging options at each capital drawdown of the investment, in consultation with the Chairman of the Pensions Committee and Chairman of the Pensions Investment Advisory Panel. The Committee has noted the outcome of the due diligence report for Venn Fund II.
21. Worcestershire currently has active emerging market mandate with JP Morgan and Schroder's totalling £331.2m as at the end of December 2018. The Committee has agreed the transition of the existing active Emerging Market investments into the LGPS Central Global Emerging Markets Fund subject to appropriate due diligence being undertaken.
22. The potential next transition is likely to be the existing active corporate bonds mandate currently with JP Morgan with an existing value as at December 2018 of £139.1m. The mandate being proposed by LGPS Central is a 'Global active Investment Grade Corporate Bond Fund. The Committee has noted the potential transition of the existing Active Corporate Bond fund into the LGPS active.
23. The last actuarial valuation undertaken as at the 31 March 2016 showed that the fund was 75% funded with a £654m deficit at this point. In November 2018 the fund was estimated to be 99% funded with a deficit of £19m as at the end of August 2018. However, the asset valuations were subject to market fluctuations and subsequently by December 2018 estimated funding levels had reduced to 92% with a deficit of £221m, with a recovery in January to 94% funded with a deficit of £182m. The Committee has noted the funding position compared to the investment performance.
24. At the meeting on the 28 November, the Committee were presented with a report detailing the Pension funds approach to responsible investment and seeking approval to the Stewardship Compliance Statement. As part of that report, it was agreed that the key areas of the Local Authority Pension Fund Forum (LAPFF) quarterly engagement be reported to the Committee. As part of LGPS Central, the Fund is actively exploring opportunities to enhance its stewardship activities. The Committee has noted the update on Responsible Investment activities and Stewardship investment pooling.
25. The Ministry of Housing, Communities and Local Government Minister have issued new statutory guidance on LGPS asset pooling. This will set out the requirements on administering authorities, replacing previous guidance, and builds on previous Ministerial communications and guidance on investment strategies. The Committee has noted the LGPS - Statutory guidance on asset pooling informal consultation and the proposed response from Worcestershire County Council

Pension Fund.

**Mr R W Banks**  
**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 19 March 2019.