

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

LGPS Central Update

1. The Committee has received a presentation from Mike Weston, Chief Executive Officer and Callum Campbell, Head of Client Services and Stakeholder Relations of LGPS Central which set out the shared objectives, progress to date, the First 100 Days of the Chief Executive, key performance indicators 2019/20, LGPS Central responsibilities, Worcestershire Assets under Stewardship, current pooling progress, product development protocol and responsible investment and engagement.
2. It is anticipated that around 34% of Worcestershire Pension Fund's assets will be transferred to LGPS Central over the next 5 years to 2023. The main reason this is lower than the other pool members is because of the current allocation in passive funds and the existing commitments to property and Infrastructure. The Committee has noted the LGPS Central update.

Pension Board and Pension Investment Sub-Committee Minutes

3. As set out in the Terms of Reference of the Pension Investment Sub-Committee, all decisions taken and recommendations will be reported back to the next available ordinary meeting of the Pensions Committee in the form of the minutes of the ISC. In addition, the Pensions Board has requested that their deliberations be reported to the Committee. The Committee noted the Minutes of the Pension Board and the Pension Investment Sub-Committee.

Pension Investment Update

4. The Committee has noted the Independent Financial Adviser's fund performance summary and market background. The Committee has noted the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel.
5. The Committee has been kept up to date with the process being conducted for the transition across of the Fund's active Emerging Markets equities to the LGPS Central Active Global Emerging markets mandate (AGEM). Worcestershire had active emerging market mandates with JP Morgan and Schroder's totalling £356.1m as at the end of March 2019. The transition involved the restructuring of two mandates being Worcestershire and Leicestershire to three active global emerging markets equity mandates (BMO, UBS and Vontobel). Originally, further Partner Funds were identified as wanting to contribute to the funding however, it was agreed

that due to the make-up of the legacy mandates only Worcestershire and Leicestershire would fund this launch. Transition trading commenced on 8 July 2019 and completed on 16 July 2019. The transition overall was successful and close to the targeted implementation shortfall. The overall Assets under management (AUM) that have been transferred including Leicestershire is just over £536million. It is anticipated that Derbyshire and Nottinghamshire will also invest into this fund increasing the AUM to an estimated £736million. The Committee has noted the outcome of the transition of the active Emerging Market investments to the LGPS Central Global Emerging Markets Fund.

6. The existing active corporate bonds mandate is currently with JP Morgan with an existing value as at June 2019 of £151.1m. LGPS Central had appoint 2 fund managers, Fidelity IL Pension Management and Neuberger Berman (Europe) Limited. The initial stages of the transition of the existing active corporate bonds mandate have commenced and funds are likely to transfer early 2020. The Committee has noted the update on the transition of the Active Corporate Bonds mandate into the LGPS 'Global active Investment Grade Corporate Bond Fund.

7. 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. The Actuary provided a preliminary valuation in September 2019 which has been updated for discount rate assumptions, life expectancy trends, covenant, data quality etc. The estimated funding levels in March 2019 were to 91% with a deficit of £265m. The Asset valuation as at the end of August 2019 was £2.914m. The Committee has noted the funding position compared to the investment performance.

8. The Committee has noted the update on the Equity Protection current static strategy extension. The Committee has noted the update on Responsible Investment activities and Stewardship investment pooling. The Committee has noted the update on the LGPS Central report on the voting to be undertaken on the Funds behalf. The Committee has noted the update on the development of a Climate Risk Monitoring Platform.

Actuarial Valuation and Draft Pension Fund Strategy Statement Consultation

9. Every three years, in line with legislation, the Fund Actuary, Mercer, carries out a full Actuarial Valuation of the Fund to calculate how much the employers in the Scheme need to contribute going forward to ensure that its liabilities, the pensions due to current and future pensioners, will be paid as they fall due. The purpose of the Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

10. At present Mercer have left the main structure of the FSS and the supporting Appendices as the existing 2018 document and just added in new wording as required to cover investment pots, the McCloud judgement and other legislative changes.

11. The provisional results show that the Fund's funding level has increased from 75% funded at 31 March 2016 to 91% at 31 March 2019. The key points relate to the target recovery period for the Fund, a key change to the method of valuing the Fund's liabilities, the remedy to the McCloud judgement not being known, and

investment 'pots'.

12. The consultation on the draft FSS will be sent to Employers on 21 October and will be asked to respond by Friday the 22 November 2019. These will then be considered and the final proposed actuarial valuation and FSS will be presented to the Pensions Committee on the 13 December 2019. The Committee has approved the draft Funding Strategy Statement that is subject to employer consultation. The Committee has noted the results of the provisional Actuarial Valuation.

Risk Register

13. The Risk Register is kept under regular review and, following the September 2019 review by officers, a new risk WPF 30 (Failure to maintain the quality of our member data) has been added to the Register. It has a residual risk score of 25. The residual risk score for WPF 09 (Being reliant on LGPS Central Limited's investment approach following transitioning of assets) has been increased, as the Fund has transitioned some assets. The residual risk score for WPF 07 (future changes to LGPS legislation or other legislation) has been reduced from 25 to 20 to reflect the mitigating actions that are now in place. The Committee has noted the Worcestershire Pension Fund Risk Register as at 19 September 2019.

Pension Fund Audited Annual Report and Accounts 2018/19

14. The Annual Report (only available electronically) 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. Improvements have been made to the presentation and style of the annual report to look at making this more user friendly and easier to read.

15. The Accounts of Worcestershire Pension Fund were signed off by the external Auditor unqualified and on time.

16. The Committee has approved the audited Pension Fund Annual Report and Accounts 2018/19

Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2019/20

17. . The forecast outturn for 2019/20 is estimated to be £12.752m compared to a budget of £12.630m, a difference of £0.122m. The main reason for the variance is investment management fees (increase of £0.153m) due to some commitments to Property and Infrastructure being drawn earlier than originally anticipated. An increase above budget for investment professional fees (£0.045m) has also been incurred for additional independent advice on the transition of Emerging Market and Bonds to LGPS Central and advice on Capital gains tax from the Fund's tax consultants. This is partly offset by some of the Guaranteed Members Pension exercise being undertaken in 2018.19 and thus saving on the 2019.20 budget a reduction of £0.066m).

18. The Committee has noted the variation to the Pension Fund Administration Budget, including manager fees, for 2019/20 totalling £12.752m.

Business Plan

19. The Business Plan is now reviewed and updated quarterly to deliver an extra management / governance tool to help officers to manage the Fund's activities; and help the Pensions Committee to ensure that the ongoing management and development of the Fund is in line with longer term policy, objectives and strategy. The Committee has noted the Worcestershire Pension Fund (WPF) Business Plan as at 20 September 2019 and the Administering Authority update.

Pension Fund Training Programme

20. The Committee has noted the feedback from the Pensions Training events on the 19 June 2019 and the 8 July 2019; and the Training Plan for Pensions Committee and Pension Board members.

Governance and Pension Board

21. Earlier this year, Hymans Robertson were appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structures for the LGPS. The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance. The report recommends introducing key benchmarks which will be used to assess each fund. The SAB agreed to take forward the findings and conclusions to improve governance in the LGPS and released a report published in July. The key proposals included an 'Outcomes-based approach to LGPS governance, enhanced training requirements and update of relevant guidance and better sign-posting.

22. In addition to the work being undertaken by the SAB, the Pensions Regulator (PR) also published its report in September 2019 into the governance and administration risks in public service pension schemes, including the 10 UK local government funds who were engaged with between October 2018 and July 2019. The report summarises the key findings against the Regulator's Code of Practice 14 both in terms of exceeding and falling short of required standards and will be discussed in detail when the SAB next meets on the 6 November 2019. Overall, the PR found a number of common areas, some requiring improvement but others demonstrating good practice relating to the various risk areas we investigated. The key areas for improvement related to Key person risk, Pension boards, Fraud / Scams and Employers.

23. The Committee has agreed that a further report is brought back to the December Pensions Committee benchmarking the Fund and administration of the Fund against the Scheme Advisory Board and Pension Regulator's governance reviews, with recommendations to further strengthen the Fund.

24. The Competition and Markets authority (CMA) has published the Investment Consultancy and Fiduciary Management Market Investigation Order 2019. In summary, the Order defines the Fiduciary Management (FM) services and obliges pension schemes to formally tender for such services. It also obliges pensions

schemes to set objectives for their Investment consultancy (IC) providers as well as placing a variety of new obligations on FM and IC service providers. The Department for Work and Pensions subsequently published a consultation on regulations to enact the provisions of the CMA Order which explicitly rules out the LGPS as falling under the scope of the obligations in relation to FM service providers. The requirement to set objectives for IC providers remains with a deadline for doing so of 10 December 2019. The Committee has agreed that the objectives for the Fund's Advisor be brought back to the next Pensions Committee for review and approval

Forward Plan

21. The Committee has noted the Forward Plan.

Public Participation

22. The Committee received a representation from Mr Philip Oliver, Friends of the Earth requesting that the Committee divest its pension fund from fossil fuels and move to investing in low carbon funds.

Mr P Middlebrough
Chairman

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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 16 October 2019.