

COUNCIL
18 JANUARY 2018**REPORTS OF COMMITTEES****(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS
COMMITTEE**

Administering Authority – Administration Update

1. The Committee has noted the general update from the Administering Authority in relation to Guaranteed Minimum Pension (GMP) Reconciliation exercise, Year end update, Administration Forum, Legal update, staffing update, and Admissions to the Fund.
2. GMP is an element of the pension payable by the fund to members. As it is related to state pension and contracting out it 'acts' differently to standard benefits payable from the fund, it therefore needs to be recorded separately. Over time the records held by Her Majesty's Revenue and Customs (HMRC) have become out of kilter with Pension fund records. This is a universal problem across the entire pension industry.
3. The Fund has a duty to undertake a GMP reconciliation exercise (for active, pensioners and deferred members) and to complete this exercise by 31 December 2018. The Committee has granted delegated authority to the Interim Chief Financial Officer to proceed with procuring external support and manage the delivery of the Fund's Guaranteed Minimum Pension reconciliation exercise.

Pension Investment Update

4. The Committee has noted the Independent Financial Adviser's fund performance summary and market background.
5. 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.
6. Taking into account JP Morgan's recent strong performance and as JP Morgan have now outperformed their performance target over the past three year, the Committee has agreed that JP Morgan - Emerging Markets be removed from list of 'on watch' managers.

LGPS Central Update

7. LGPS Central Shareholders have approved the appointment of the Board roles, which include the Chair, Non-Executive Directors (x2), Chief Executive Officer and

Chief Operating Officer/Chief Financial Officer. In addition, Jason Fletcher has been appointed as the Chief Investment Officer and started with the Company in October 2017. Interviews have been held for the role of General Counsel, and an offer has been made. Suitable office accommodation has been identified in Matlock, within the Council offices and plans being developed for its layout. With regards to the Wolverhampton offices, the Company is currently working in Mander House and are in the process of formalising the lease arrangements.

8. The application for the LGPS Central (operator) was submitted in July 2017, and a follow up meeting held in August 2017. A number of queries have been raised by the FCA with regard to technical regulatory questions and the controlled function roles, in addition, subsequent queries around IT, in particular cyber security, have been received. January 2018 is the target authorisation date, which is currently Amber in the risk register due to the requirement for the recruitment to the controlled functions.

9. Progress is being made with the implementation of services procured to date, and work continues on the remaining services, which include internal auditor, tax advisor and legal advisor.

10. The Pensions Policy for LGPS Central was agreed by Shareholders in October 2017, which sets out a two-tiered approach, one for those who join the company from Partner Funds, and those who join externally. Pension benefits are linked to the grade the staff join the company. The Committee has noted the LGPS Central update.

Equity Protection Strategy

11. The Pension Fund's Actuary has recommended that the Fund consider using an equity protection strategy to:

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

12. Following the Pensions Committee decision to grant delegated authority to the Interim Chief Financial Officer, in consultation with the Chairman and Vice-Chairman of the Committee, to work with advisers to implement an equity spread protection strategy for the Fund's equities, Fund officers, working with the Fund's independent Financial Adviser, undertook further research with potential providers for the solution.

13. Following this research, a static options hedge solution was considered to be the best option. After a bidding process, the Pension Investment Advisory Panel recommended that River and Mercantile be appointed to implement and manage the static options equity protection strategy. Fund officers will work with River and Mercantile during December 2017 and January 2018 to design and implement a strategy that optimises the level of downside protection gained from selling returns above 5% p.a. from the Fund's passive UK, U.S. and European equities over an 18 month period.

14. The Committee has noted the planned appointment of River and Mercantile to implement a static options equity protection strategy.

Alternatives Investment

15. Since June 2017 the market value of the Fund's assets has increased to c. £2.7bn and following further modelling undertaken by Bfinance (the Fund's specialist procurement adviser) an additional £75m is now recommended to be committed to ensure c. 100% deployment of the strategic asset allocation to pooled property and infrastructure funds. This would comprise of a £50m allocation to the overseas infrastructure funds selected in June 2017 (First State Investments and Stonepeak) and a £25m allocation to the latest fund launched by Hermes Infrastructure (Hermes Infrastructure Fund II) to maintain the proportion of UK and overseas commitments to infrastructure, subject to appropriate Bfinance due diligence.

16. The Committee has approved the following top-up commitments: £25m First State; £25m Stonepeak. The Committee has granted delegated authority to the Interim Chief Financial Officer to commit £25m to Hermes Fund II, subject to appropriate due diligence being undertaken by Bfinance and sign-off by the Chairman of the Committee.

17. Following Bfinance's recommendation that in the current market environment, corporate private debt offers an attractive risk adjusted return with strong downside protection and yield, the Pension Investment Advisory Panel has endorsed an initial £50m allocation to corporate private debt. The Committee has granted delegated authority to the Interim Chief Financial Officer to undertake a search for a £50m allocation to a new corporate private debt mandate. Any commitments to corporate private debt vehicles, and an associated amendment to the Fund's Investment Strategy Statement, will be subject to approval by the Committee.

Mr R W Banks
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 1 December 2017.