

Pension Board

Wednesday, 2 May 2018, County Hall, Worcester - 10.00 am

		Minutes
Present:		Mr K Bray (Independent Chairman), Ms L-M Chapman, Mr P Grove and Mr N Shaw
Available papers		The Members had before them: <ul style="list-style-type: none">A. The Agenda papers (previously circulated); andB. The Agenda papers and Minutes of the Pensions Committee on 19 March 2018 (previously circulated); andC. The Minutes of the meeting held on 31 January 2018 (previously circulated).
97	Apologies (Agenda item 1)	None.
98	Declarations of Interest (Agenda item 2)	Mr K Bray declared general interests in his role as the Forum Officer of the Local Authority Pension Fund Forum (LAPFF) - the Worcestershire Fund is a long-standing Forum member and in relation to work he undertook with a firm of US lawyers who were involved with Shareholder Litigation and had the County Council as one of its clients.
99	Confirmation of Minutes - 31 January 2018 (Agenda item 3)	RESOLVED that the Minutes of the meeting on 31 January 2018 be confirmed as a correct record and signed by the Chairman. It was noted that should the Board wish to advise the Pensions Committee on a particular matter, a formal resolution would need to be approved.
100	Update on financial management arrangements (Agenda item 4)	Members were informed that since the last meeting of the Board, Michael Hudson had commenced his role as Chief Financial Officer with the County Council. The Board welcomed Michael to the Council.
101	Pensions Committee - 19	The Board received the Agenda papers and Minutes of the Pensions Committee meeting held on 19 March 2018. Members received a brief summary and

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commentary on the various items considered by the Pensions Committee.

Administering Authority – Administration Update

- Bridget Clark commented in relation to the year end preparation, that since the report to the Pensions Committee in March, 3 of the 6 interfaces/reports from Worcestershire County Council's Managed Service Provider, Liberata UK, had been signed off
- From a Fund Member perspective, there had been a query raised and concerns about staffing resources within Liberata and there was a degree of concern as to whether these issues would be addressed before the year end. Bridget Clark responded that she was aware of these issues and addressing them with Liberata
- Did the Council monitor the number of members who had left the scheme following auto-enrolment? There had been an instance where a Member had not received important information about the payment of arrears after auto-enrolment and as a result decided to leave the scheme. Bridget Clark explained that the primary legislation and The Pension Regulator had given clear advice on the rules associated with auto-enrolment in respect of employees who were in the transitional period. The transitional period ceased at 30 September 2017 and employees who met the criteria were automatically enrolled. Staff who had subsequently met the criteria eg salary threshold, were required to be automatically enrolled and their membership and contributions backdated to 1 October 2017. In light of this particular case, a different approach had been implemented whereby employees would be informed in advance of the back-dating arrangements and salary deductions
- The Chairman commented that this was an unacceptable position to put people in and the situation would only get worse over time. He queried whether the Government was being lobbied to resolve the issue. Bridget Clark responded that representations had been made to the LGE. She emphasised that this issue affected only a small number of employees.
- The main concern was that an employee might receive a sudden request for payment of arrears in such circumstances. It would seem sensible to allow the payments to be spread over a 12 month period. Bridget Clark responded that all

approaches to minimise impact would be considered as she acknowledged that the back-dating payment arrangements would only get worse over time for those employees affected

- Were other employers within the scheme aware of this issue? Bridget Clark advised that very few cases had been found by other employers within the scheme however employers would be alerted in such circumstances
- In response to a query, Bridget Clark commented that there remained a lot of work remaining to complete the GMP reconciliation. In due course, the Committee would be asked to make a decision as to the margin for the underpayment/overpayment of pensions following the completion of the reconciliation exercise

Pension Investment Update

- With the volatility in the present market place, had consideration been given to the potential for investment in the currency market? Philip Hebson commented that the view had always been held that investment in the currency market was not consistent with the Pension Fund's investment strategy. The Chairman supported this view and argued that the currency market represented a nil/sum gain market
- Were there any investment managers that the Fund remained concerned about? Philip Hebson advised that JP Morgan Bonds remained on watch. It was acknowledged that the market they invested in was difficult and their performance had improved, albeit not to the extent required.

Alternatives Investment

- In response to a query, Philip Hebson explained that Hermes was in the process of being acquired by another company
- The robustness of the due diligence undertaken on the Hermes investment was queried. Philip Hebson advised that Bfinance had been employed on behalf of the Fund to undertake due diligence on Hermes including an assessment of the strengths and weaknesses of the HIF2 investment. Bfinance's methodology had been challenged and assurances sought from Hermes about the implications of the impending change of ownership. He was satisfied that the appropriate due diligence had been undertaken.

Equity Protection Strategy

- If the market fell by 10%, what level of debt protection would be afforded to the Fund's investments under the Equity Protection Strategy? Rob Wilson explained that the Strategy afforded protection for a market fall of up to 20% before the Fund would lose any money. A fall of 10% would have no impact on the Fund. If the market was to fall by 50%, there would be an impact but not to the magnitude that would be experienced without that protection
- Would the Strategy have any impact on the investment upside? Philip Hebson advised that in order to pay for the downside protection, some of the upside gains would have to be surrendered. He emphasised that equity protection only related to passive investments and the contract with River and Mercantile was for an 18 month period. Michael Hudson added that River and Mercantile continued to provide updates to the Fund on the progress of the Strategy

LGPS Central Update

- Rob Wilson confirmed that the Pool had now received FCA registration approval and became operational on 1 April 2018. The budget and business plan had been approved by the Shareholders Forum in March 2018. The Head of Client Services had also now been appointed
- The timescale for the transfer of staff from the West Midlands and Derbyshire Pension Funds and for the transfer of the funds from Worcestershire Pension Fund to the Pool was queried. Rob Wilson commented that the transfer of staff had taken place for the most part, although not as many staff had transferred from Derbyshire as expected. The timescale for the transfer of funds would be brought to the next Board meeting. Philip Hebson added that the Fund retained responsibility for the Strategic Asset Allocation. There was a lot of work to be undertaken to ensure that the Pool understood the investment requirements of the Fund
- There remained a number of cost uncertainties associated with the Pooling arrangements, in particular VAT contributions and the transfer of assets. How were these issues being addressed? Rob Wilson responded that following due diligence, it had been agreed to increase the Pool budget from £7.7m to £9.1m. Members would receive updates on the cost implications

- Was consideration being given to the transfer of the Equity Protection Strategy to the Pool and if so, how would this be achieved? Rob Wilson advised that he had received an assurance from LGPS Central that they would continue to aid the monitoring and implementation of the Equity Protection Strategy in relation to the passive equities should these be transferred to the pool before the current protection expires.

The Committee reports and minutes were noted.

102 Pension Board Work Plan (Agenda item 6)

The Board considered its work plan.

In the ensuing debate, the Chairman explained that one of his main objectives when he took over his role was to add value and as the Board was not a decision-making body, this was challenging to achieve and he hoped that the Board would be able to add value in the future.

The Board noted its work plan.

103 Insurance for Pension Board Members (Agenda item 7)

The Board considered the indemnity insurance for Board members.

In the ensuing debate, concern was expressed whether the Council's indemnity insurance provided adequate cover for Members of the Pensions Board. Rob Wilson advised that this issue had been raised at a previous Board meeting and advice had been sought from the Council's Insurance Officer and circulated to members. The Insurance Officer's advice was that as the Board was defined as a Committee of the Council, public liability insurance would be applicable to members of the Board. The Insurance Officer's advice would be circulated to members of the Board.

104 Any Other Business (Agenda item 8)

None.

The meeting ended at 11.40am.

Chairman