

Pensions Committee**Tuesday, 19 March 2019, County Hall, Worcester - 9.30 am****Present:****Minutes**

Mr R W Banks (Chairman), Mr R C Lunn,
Mr P Middlebrough and Mr P A Tuthill

Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 21 January 2019 (previously circulated).

162 Named Substitutes (Agenda item 1)

None.

163 Apologies/ Declarations of Interest (Agenda item 2)

Mr R C Lunn declared an interest due to a previous business contact with the newly appointed Chief Executive Officer of LGPS Central.

Mr V Allison declared an interest as a member of the Pension Fund.

Mr R J Phillips declared an interest as Chairman of the LGPS Advisory Board.

164 Public Participation (Agenda item 3)

None.

165 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 21 January 2019 be confirmed as a correct record and signed by the Chairman.

166 Initial Strategic Asset Allocation Review (Agenda item 5)

The Committee considered the Initial Strategic Asset Allocation Review.

The Committee received a presentation from David Walker a Partner of Hymans Robertson on the review carried out by the company on the Fund's Investment Strategy.

In the ensuing debate, the following points were raised:

- Philip Hebson welcomed the report which proved to be a useful examination of the Fund's Investment Strategy
- Rob Wilson indicated that the comments in the report on the Equity Protection Strategy adopted by the Fund emphasised the need for a dialogue to take place with the Fund's actuary about whether or not to continue with equity protection
- Michael Hudson indicated that the simplicity of the Investment Strategy was key. There was a danger that the Strategy became over-complicated and overlooked its main purpose which was to benefit employees/employers
- The Fund appeared to be moving in the right direction with its Investment Strategy but one of the main challenges was that the Fund's investment did not fit neatly with that of LGPS Central. David Walker advised that there was an opportunity to engage with LGPS Central over the next 12 months. The Fund needed to focus on whether the pooling arrangements fitted in with the Fund's approach to investment rather than whether the appointed investment managers were considered satisfactory. He anticipated that product development would evolve over time. The danger was that without proper engagement, LGPS Central would act in isolation
- Philip Hebson commented that one of the issues facing the Fund was the correlation between the Fund's approach to investment and the investment products being provided by LGPS Central
- The way the pooling arrangements had been established had created an ongoing and misleading impression that pools were in charge of the investment process when in fact the pool's purpose was to act on behalf of its client funds. David Walker added that it was important to ensure that the right reporting mechanisms were in place with LGPS Central and appropriate monitoring and governance arrangements were in place
- In response to a query about the likelihood of the Fund needing to de-risk its investments, David Walker commented that when making such a decision, the Fund should be aware that funding and investment were interlinked and no decision should be made without reference to either aspect. Consideration of the impact of any approach to de-risking should take account of future service requirements

- For the benefit of Committee members, the detailed strategic allocation review to be undertaken later in the year should be referenced to the key findings of the review detailed in the Executive Summary of the Hymans/Robertson report.

RESOLVED that 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 be noted.

Exclusion of Public and Press

RESOLVED that pursuant to Section 100A of the Local Government Act 1972, the press and public shall be excluded from the meeting during item 6 on the grounds that there would be disclosure to them of information relating to the financial or business affairs of any particular person (including the authority holding the information) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Summary of the proceedings of the meeting during which the press and public were excluded. (This is a fair summary of the proceedings and there are no exempt minutes.)

167 LGPS Central Update (Agenda item 6)

The Committee considered the LGPS Central Update and received a presentation by Joanne Segars, Chair, Mike Weston, newly appointed Chief Executive Officer and Callum Campbell, Head of Client Services and Stakeholder Relations from LGPS Central.

In the ensuing debate, the following points were raised:

- Philip Hebson commented that although there were examples of good practice within LGPS Central, the overall perception was that the Pool was not meeting the aspirations and requirements of its partner funds. Other pools seemed to have a better approach to partnership working. Joanne Segars acknowledged that the Pool needed to work harder to ensure that it understood its partnership role and work more closely with partners. There were examples of good practice within the Pool which needed to be replicated throughout the organisation. Mike Weston added that he was keen to listen and take on board the concerns of partner funds
- In response to a query, Joanne Segars

commented that the Pool was in conversation with and learning from the best practice and experiences of other pools. Mike Weston added that he had only been in post for a short period of time and needed to understand the issues before taking the appropriate action

- In response to a query about the Pool's approach to infrastructure investment and links with other pools, Mike Weston commented that the Pool had adopted an infrastructure asset plan. Joanne Segars added that different pools were at different stages with their infrastructure investment. Conversations were taking place to establish mutually beneficial opportunities for investment
- The Pool needed to understand that, with the increasing financial pressures facing councils, it was crucial for pension funds to be able to capture savings. Joanne Segars responded that the Pool was aware of the budget constraints facing councils and all investment fund costs were being reviewed in order to demonstrate budget savings. This process would be undertaken in conjunction with elected members from partner funds
- Was it difficult to recruit staff to the Pool given the its headquarters were located in Wolverhampton and Matlock? Mike Weston indicated that these locations had not proved an issue to date with recruitment. The lease of the building in Wolverhampton ended in 2021 and its viability as a headquarters would be reviewed at that stage
- There was very little in the content of the presentation by LGPS Central that could be considered to be confidential in nature. As much information as possible should be kept in the public arena
- Philip Hebson clarified that the review of the Equity Protection Strategy had been offered by LGPS Central rather than requested by Worcestershire Pension Fund as referred to in the presentation
- In response to a comment, Callum Campbell acknowledged that for this Fund the cost sharing and cost saving models were linked and that some of the recent changes had negatively impacted on the projected savings for the Fund. Joanne Segars added that this issue highlighted the need to work together to ensure the Pool's strategy was linked with that of the partner funds
- Philip Hebson commented that it was necessary for the Fund to undertake due diligence assessments on the three managers appointed by

LGPS Central to oversee investment in the emerging markets. If the Pool had consulted with the Fund earlier in the appointment process, this additional work might have been unnecessary. Callum Campbell acknowledged this concern and appropriate action would be taken in the future

- Was any action being taken to address the negative impact on this Fund's projected cost savings? Joanne Segars responded that there was a piece of work ongoing to address these concerns. Rob Wilson added that a report on cost savings should be available for the meeting of the Committee in June.

RESOLVED that the LGPS Central Update and presentation provided at the meeting be noted.

168 Pensions Administration Strategy (Agenda item 7)

The Committee considered the Pensions Administration Strategy.

In the ensuing debate, the following points were raised:

- The Pension Administration Strategy (PAS) was generic in nature and given the different sorts of employer in the scheme, would a more bespoke design be appropriate? Bridget Clark advised that she did not consider that the single PAS was particularly onerous for employers. Going forward, this standard approach would help employers and the administering authority to meet the prescribed service standards by providing timely and accurate information. She was also concerned that providing different approaches to different employers could lead to confusion
- The Pension Regulator was particularly vigilant in respect of the presentation of accurate information on scheme members. Reference should be made in the Strategy to the stance of the Pensions Regulator and the emphasis on providing the necessary information on time.

RESOLVED that the 2019 Pensions Administration Strategy be approved.

169 Administering Authority Update (Agenda item 8)

The Committee considered the Administering Authority Update.

In the ensuing debate, the following points were raised:

- Where incomplete information had been identified

**170 Worcestershire
County Council
Pension Fund
Administration
Budget 2019/20
(Agenda item 9)**

through the covenant review, how incomplete and fundamental was this information? Rob Wilson responded that in most cases, the employer was missing just one piece of information. A focused piece of work needed to be undertaken to finalise this review so that it could be fed into the Valuation

- Roger Phillips commented that attempts had been made to get agreement with the Government over the impact of the McCloud judgement on pension funds. The Government had wanted to increase contributions from employers as a result of the judgement. The consequences of the judgement for this Fund were not as great as for other funds. It was hoped that more precise arrangements could be agreed at less cost to the Fund
- Bridget Clark indicated that the next Administration Forum had been arranged on 3 April at 10.30am at County Hall, Worcester.

RESOLVED that the Administering Authority update be noted.

The Committee considered the Worcestershire County Council Pension Fund Administration Budget 2019/20.

In the ensuing debate, the following points were raised:

- Was it usual practice to pay management fees in advance as in the case of 'Stonepeak', rather than through a drawdown process? Philip Hebson responded that this arrangement was not unusual. The argument for paying fees in advance was that it helped managers who would be required to make investments from the outset on the Fund's behalf. The danger with a drawdown arrangement was that managers focused on making a deal as soon as possible rather than perhaps agreeing the best quality deal for the Fund. However, an argument could be made for either approach. Rob Wilson added that another factor was that the diversification of investment into property and infrastructure resulted in higher management fees, due also to the disinvestment in passive equities which had much smaller management fees
- In response to a query, Rob Wilson commented that it was difficult at this stage to understand how this Fund's investment approach compared to other funds. An initial benchmarking exercise had indicated that this Fund compared favourably in 2017/18. However, more would be known when

the next benchmarking exercise was completed using 2018/19 data.

RESOLVED: that

- a) The variation to the Pension Fund Administration Budget, including manager fees, for 2018/19 shown in the Appendix to the report totalling £11.213m be agreed;
- b) The Pension Fund Administration Budget, including manager fees, for 2019/20 shown in the Appendix to the report totalling £12.640m be approved;
- c) The indicative budget allocations for 2020/21 and 2021/22 be noted;
- d) Variations against budget will be monitored be noted; and
- e) The Chief Financial Officer be granted delegated authority to approve variations of up to £0.5m.

171 Pension Fund Training Programme for Pension Committee Members and Pension Board (Agenda item 10)

The Committee considered the Pension Fund Training Programme for Pension Committee Members and Pension Board.

RESOLVED: that

- a) The feedback from the Pensions Training event on the 18 December 2018 attached as Appendix 1 be noted; and
- b) The Training plan be noted.

172 Risk Register (Agenda item 11)

The Committee considered the Risk Register.

RESOLVED that the re-formatted and updated Risk Register be noted.

173 Business Plan (Agenda item 12)

The Committee considered the Business Plan.

RESOLVED that the report be noted and that a further update be brought to the June Committee.

174 Governance Arrangements

The Committee considered the Governance Arrangements and Governance Policy Review.

**and
Governance
Policy Review
(Agenda item
13)**

In the ensuing debate, the following principal points were raised:

- It was requested that consideration be given to the inclusion of a non-voting employer representative on the Investment Sub Committee. Simon Lewis advised that the addition of further members would mean that the Sub Committee would be almost the same size as the Committee. Michael Hudson was not adverse to the idea and would give it consideration
- In response to a query, Michael Hudson indicated that he was keen to draw experience from the membership of the Committee in the formulation of the Sub Committee.

RESOLVED: that

- a) the role of the Investment Sub Committee (formerly known as the Pensions Investment Advisory Panel) be expanded and the draft Terms of Reference for the Investment Sub Committee and Pensions Committee attached as Appendix 1 to the report be agreed;**
- b) the updates required to take on board the monitoring required for LGPS Central Ltd be agreed;**
- c) the revised and updated Governance Policy Statement attached as Appendix 2 to the report be approved;**
- d) the approval of Council be sought for the updated terms of reference for the Committee and the updated Governance Policy Statement; and**
- e) the proposed change of name from Worcestershire County Council Pension Fund to Worcestershire Pension Fund be agreed and the revised Logo be noted.**

**175 Pension Fund
Unaudited
Annual Report
and Accounts
2018/19**

The Committee considered the Pension Fund Unaudited Annual Report and Accounts 2018/19 Proposed Draft Format.

RESOLVED that the proposed extract of the draft format for the unaudited Pension Fund Annual

	<p>Proposed Draft Format (Agenda item 14)</p> <p>Report and Accounts 2018/19 attached as an Appendix to the report be noted.</p>
<p>176 Forward Plan (Agenda item 15)</p>	<p>The Committee considered the Forward Plan.</p> <p>RESOLVED that the Forward Plan be noted and be reviewed at each Committee meeting.</p>
<p>177 Pensions Investment Update (Agenda item 16)</p>	<p>The Committee considered the Pensions Investment Update.</p> <p>In the ensuing debate, Philip Hebson indicated that due diligence was necessary on the transition of the existing active Emerging Market investments into the LGPS Central Global Emerging Markets Fund to satisfy the Fund members of the merits of the selection process for and the appropriateness of the appointment of the three investment managers.</p> <p>RESOLVED: that</p> <ul style="list-style-type: none"> a) The Independent Financial Adviser's fund performance summary and market background be noted (appendices 1 to 3 to the report); b) The update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted; c) The update on the Property and Infrastructure commitments be noted; d) The Chief Financial Officer be authorised 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 (Exempt Appendix 4 to the report); e) The outcome of the due diligence report for Venn Fund II be noted (Exempt Appendix 5 to the report); f) The transition of the existing active Emerging Market investments into the LGPS Central

Global Emerging Markets Fund subject to appropriate due diligence being undertaken be agreed (Exempt Appendix 6 to the report);

- g) The potential transition of the existing Active Corporate Bond fund into the LGPS active be noted;**
- h) The funding position compared to the investment performance be noted;**
- i) The update on Responsible Investment activities and Stewardship investment pooling be noted; and**
- j) The LGPS - Statutory guidance on asset pooling informal consultation and the proposed response from Worcestershire County Council Pension Fund be noted (Appendix 8 to the report).**

The meeting ended at 12.40pm.

Chairman