Worcestershire County Council

Agenda
Pensions Committee

Friday, 21 June 2019, 10.00 am
County Hall, Worcester

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DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and 'other disclosable interests'

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
  - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
  You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests OR**
  relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
  - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Simon Mallinson Head of Legal and Democratic Services July 2012 WCC/SPM summary/f

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Pensions Committee
Friday, 21 June 2019, 10.00 am, County Hall, Worcester

Membership: Mr P Middlebrough (Chairman), Mr R W Banks, Mr A I Hardman, Mr R C Lunn and Mr P A Tuthill

Co-opted Members

Vacancy	Herefordshire
Mr V Allison	Employer Representative
Vacancy	Employee representative

Agenda

Item No	Subject	Page No
1	**Named Substitutes**	
2	**Apologies/Declarations of Interest**	
3	**Public Participation** *Members of the public wishing to take part should notify the Head of Legal and Democratic Services in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case, 20 June 2019). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.*	
4	**Confirmation of Minutes** To confirm the Minutes of the meeting held on 19 March 2019 (previously circulated – pink pages)	
5	**Pension Board and Pension Investment Committee Minutes**	1 - 2
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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Thursday, 13 June 2019

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AGENDA ITEM 5

PENSIONS COMMITTEE
21 JUNE 2019

PENSION BOARD AND PENSION INVESTMENT SUB-COMMITTEE MINUTES

Recommendation

1. **The Committee is asked to note the Minutes of the Pension Board and Pension Investment Sub-Committee**

2. 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. A link to its Minutes on the Council's web site is set out below.

3. The Pensions Board has requested that their deliberations be reported to the Committee and a link to its Minutes on the Council's web site is also set out below.

Supporting Information

Links to the Pension Board and Pensions Investment Sub-Committee Minutes can be found below:
http://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=395&Year=0
http://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=532&Year=0

Contact Points

County Council Contact Points
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Worcestershire Hub: 01905 765765

Specific Contact Points for this report
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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

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AGENDA ITEM 6

PENSIONS COMMITTEE
21 JUNE 2019

LOCAL GOVERNMENT PENSION SCHEME (LGPS) CENTRAL UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the LGPS Central Update be noted.**

Background

2. The government set out in 2014 its approach and reasoning (Opportunities for collaboration, cost savings and efficiencies) for asset pooling with responsibility for asset allocation staying with the 90 administering authorities. Worcestershire Pension Fund (WPF) in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) set up a collective investment vehicles called LGPS Central. The Company was authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1 April 2018.

3. LGPS Central has been in operation just over 15 months and a number of the local authorities have transitioned some of their existing asset allocations to be managed by the company. WPF first transfer of funds is likely to be triggered by the launch of LGPS Central's Global Active Emerging Market managed mandate which is expecting to start operating from July 2019.

Transition of Assets

4. The next planned fund to transition across is the Emerging Markets active equities. Worcestershire currently has mandates with JP Morgan and Schroder's. Due diligence on the proposed LGPS Mandate with the 3 appointed fund managers, Union Bank Switzerland (UBS), Vontobel and Bank of Montreal (BMO) has been successfully concluded. This has been detailed in the Pension Investment update earlier on the agenda together with details of the transition. Corporate Bonds is planned to transition after this and Worcestershire Pension Fund (WPF) has a current mandate with JPMorgan and details can be found in the Pensions Investment update. Regular updates will be provided to Committee and there is planned to be a similar product information day for Corporate Bonds as there was with Emerging Markets.

LGPS Cost Sharing Agreement

5. The cost sharing model continues to be looked at by the Practitioners Advisory Forum (PAF) Finance working group and their findings will be reported to the October Committee.

Staffing
6. The new Chief Executive of LGPS Central, Mike Weston has continued to meet with all individual partner funds during his first few months and is due to report back on his findings and future proposals shortly.

PAF Working Groups
7. PAF have a number of Work streams which meet regularly and aims to work closely with LGPS Central to ensure that all the funds requirements are met. These are

- Client Oversight and Governance Group
- Investment Working Group
- Responsible Investment Working Group
- Finance Working Group

8. An update on the work completed by the Investment Working Group over the past year is attached for members consideration

9. Considerable focus is still being placed on the client agreements that LGPS Central need to have in place as these are still outstanding as well as developing fund performance reports in a format that the partner funds require.

10. There are regular individual partner fund meetings with the Head of Client Service and Stakeholder Engagement. LGPSC also provide detailed updates to the monthly Practitioner Advisory Forum (PAF) Meetings.

Supporting Information

- Appendix – Investment Working Group Review of work to date

Contact Points

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Specific Contact Points for this report
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Background Papers
In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

LGPS Central business case submission to government 15 July 2016.

PAF – Investment Working Group (IWG) Update

The Investment Working Group (IWG) has continued to meet monthly over the last six months with representation from Officers of all 8 Partner Funds, together with multiple attendees from LGPS Central Limited (LGPSC), dependent on the Agenda and other items for discussion and development.

Meetings have followed a similar format thus far, beginning with Partner Fund discussions on Strategic Asset Allocation (SAA) and the potential for shared investment opportunities; specifically, in the Alternatives space, where it is recognised that LGPSC may not be able to provide a sub-fund in the short to medium term. Product Development, given the combined investment priorities identified by the Partner Funds in December 2018, has been the main discussion topic with LGPSC.

Members of IWG, alongside Members of the Client Oversight and Governance Working Group (COGG) have been instrumental in the development of a Product Development Protocol (PDP) with LGPSC. This is a 9 Phase approach which documents the various stages of developing any new sub-fund, beginning with a strategy discussion at IWG and ultimately ending with the transition of assets into the sub-fund. Key to the PDP, however, is that at every Phase there is a 'client touch-point' for LGPSC which ensures that Partner Fund's (and their Advisors) continue to buy-into the product being developed and the investment managers appointed as part of the procurement process. If a Partner Fund (and their Advisors) or LGPSC are not in complete agreement, then the development of the product or procurement stage does not proceed to the next Phase, or it may be that the previous Phase gets revisited. Whilst this may seem onerous and bureaucratic and is likely to take 6-9 months in totality, it will ensure that sub-funds are launched with information being made available to all parties and within the full knowledge of all Partner Funds (and their Advisors). It should also ensure that the maximum assets available are invested. In general in going through this process, the only reason not to invest, for a Partner Fund interested at the outset, should be because of a change in their SAA.

Over the last six months, IWG has been focussed on the transitions of the:

- Global Active Equity Multi-Manager sub-fund; and
- Global Emerging Market Equity Multi-Manager sub-fund.

And has approved Business Plans for the:

- Global Corporate Bond sub-fund;
- Master Private Equity Pooling Partnership LP vehicle;
- Low Carbon Multi Factor sub-fund.

IWG's ongoing work includes:

- Development of the Infrastructure sub-fund;
- Development of the Multi-Factor sub-fund;
- Development of the Multi-Asset Credit sub-fund;
- Development of the Emerging Market Debt sub-fund

Papers have also been received from LGPSC on:

- The case for investing in Global Smaller Companies; and
- The case for a 2% capped UK benchmark.

Collaborating with IWG, LGPSC appointed both a Transition Advisor and a Transition Manager to assist with the transition of Partner Funds' assets into the Active External Global Equity Multi Manager sub-fund in March 2019. The Product Development Liaison Group (PDLG) was formed as part of this process.

PDLG consisted of a weekly 9am conference call on a Thursday morning with all interested parties involved; this included Partner Funds, the Transition Advisor and Transition Manager, Company representatives and Northern Trust as Depositary. All involved agreed this was a positive way to communicate and thus ensure a successful outcome to an extremely complicated multi-stakeholder transition. The PDLG format will be repeated with the Global Emerging Market Equity and Global Corporate Bond sub-funds in due course.

Given that LGPSC has been fully operational for over 12 months and now has considerable assets under management (AUM) the role of IWG needs to adapt. This became apparent in developing the PDP and it has been agreed that as well as Product Development and Investment Strategy, IWG has a significant role to play in monitoring Investment Performance, both performance of the individual sub-funds and the value add of LGPSC. To facilitate this, in April 2019, IWG meetings moved to a new quarterly cycle whereby the focus changes each month:

- Month 1 (Jan, Apr, Jul, Oct) – Product Development
- Month 2 (Feb, May, Aug, Nov) – Policy & Performance Monitoring
- Month 3 (Mar, Jun, Sep, Dec) – Strategy and New Products

Following Partner Fund's 2019 Actuarial Valuations and subsequent reviews of Investment Strategy, the IWG in September 2019 will be dedicated to Strategic Asset Allocation and agreeing the collective investment priorities of the Partner Funds with LGPSC to inform the product development, workplan and business case for the LGPS Central pool in 2020/21.

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AGENDA ITEM 7

PENSIONS COMMITTEE
21 JUNE 2019

PENSION INVESTMENT UPDATE

Recommendation

1. **The Chief Financial Officer recommends that:**

   a) **The Independent Financial Adviser's fund performance summary and market background be noted (Appendices 1 to 3);**

   b) **The update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted;**

   c) **The update that River & Mercantile will provide on the currency hedging options required for the specific US Property Debt Walton Street Fund II investment within the Management fee for the existing Equity Protection Mandate be noted;**

   d) **The outcome of the due diligence meetings relating to the active Emerging Market investments (Exempt Appendix 4) and that steps will now be taken to transition these funds to the LGPS Central Global Emerging Markets Fund be noted;**

   e) **The outcome of the due diligence conducted relating to the Active Corporate Bonds mandate (Exempt Appendix 5) be noted and that the transition into the LGPS 'Global active Investment Grade Corporate Bond Fund be agreed;**

   f) **The funding position compared to the investment performance be noted;**

   g) **The Equity Protection current static strategy be extended to mid 2020 in order to protect employer contributions and provide certainty to the Actuary that the Equity Protection is in place when the actuary certificate has to be signed off;**

   h) **The Chief Financial Officer be granted delegated authority in consultation with the Chairman of the Pensions Committee to explore static strategy options as to whether more upside participation can be implemented over this period without giving up too much downside protection;**

   i) **The Equity Protection Strategy be considered as part of the Asset Allocation review that will be conducted from June through to around November 2019 to ascertain as to whether this should become an integral part of the Funds future investment strategy;**

j) The update on Responsible Investment activities and Stewardship investment pooling be noted (Appendix 7);

k) LGPSC compile and vote on invested shares on the Funds behalf in line with the LGPSC Voting principals *(*Appendix 8, 9 and 10*);* and

l) The development of a Climate Risk Monitoring Platform (Appendix 11) be noted.

Background

2. The Committee will receive regular updates on Fund performance. The Fund's Independent Financial Adviser has provided a Fund performance summary and a brief market background update at Appendix 1 together with the following supporting information.

- Bar Chart of active investment managers' performance (Appendix 2)
- Portfolio Evaluation overall Fund Performance Report (Appendix 3)

The market background update is provided to add context to the relative performance and returns achieved by the Fund's investment managers.

3. The Committee will also receive regular updates regarding 'on watch' managers and will receive recommendations in relation to manager termination in the event of a loss of confidence in managers by the Pension Investment Advisory Panel (Appendix 1).

JP Morgan Emerging Markets

4. JP Morgan reported an underperformance of -0.5% (7.4% v. 7.9%) over the quarter. The cumulative effect of four poor quarters has hit their performance badly against their benchmark over one year, now behind by -6.5% (-4.7% v. 1.9%).

5. This scale of underperformance has continued to have a clear negative impact on their three year performance against target, now -1.9% annualised. Since inception they have slipped further behind target, at -1.6% against their performance requirement.

6. Stock selection had a negative impact on performance in Q4, country allocation was positive.

7. Given the imminent transition to the new management arrangements with LGPS Central, some reflection on the history of this mandate is to some degree inevitable. Since inception in December 2011 the deliberate value bias of this portfolio has been out of favour and has therefore struggled in performance terms versus managers with more of a growth style. The decision to appoint two managers with contrasting styles was sensible at the time, and to some degree the fact that LGPS Central have chosen to appoint three Emerging Market managers vindicates that, beyond the desire to avoid manager concentration risk. We have always struggled to compare JP Morgan's performance against managers with similar style characteristics, due to the lack of them. Pooling provides a new opportunity.

JP Morgan Corporate Bond

8. JP Morgan reported an outperformance of 0.6% (4.7% v 4.1%) in Q1 2019 against their benchmark. Their performance against benchmark over the last 12 months has

sneaked back into positive territory at 0.1% (3.3% v 3.2%), however that is still well behind their performance target.

9. Relative to their performance target, they are behind by -0.5% over three years, and -0.4% over ten years, which is an improvement. It is likely that this fund will transition to mandates provided by LGPS Central which are explained further in this report.

Property and Infrastructure Commitments

10. The Committee have previously agreed to allocate £27m to Walton Street Fund II a US Property Debt Fund and at the last meeting agreed to 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.

11. Discussions have been held with River and Mercantile who currently provide our Equity Protection strategy who have the facility to implement this type of currency hedging option. We are pleased to announce that River & Mercantile have agreed to provide this facility at no extra cost to the management fee currently being charged for the Equity Protection Strategy. Changes are currently being made to the Investment agreement to implement this facility.

Transition of Active Emerging Market Equities and Corporate Bonds to LGPS Central

Active Emerging Markets

12. Pensions Committee have been kept up to date with the process being conducted for the transition across of our active Emerging Markets equities to the LGPS Central Active Global Emerging markets mandate (AGEM). Worcestershire currently has active emerging market mandate with JP Morgan and Schroder's totalling £356.1m as at the end of March 2019.

13. The Pensions Committee in March agreed to the transition the existing active emerging market equities to the LGPS Central AGEM subject to this due diligence taking place. If there were no issues from the due diligence, then we will work closely with LGPS Central to ensure a smooth a transition as possible and regular updates will be provided to Committee.

Due Diligence undertaken

14. There was an initial interview with LGPS Central on the 5 April 2019 to understand the investment objectives and processes that had taken place and further individual meetings with the 3 appointed managers on the 25 April 2019 and the 8 May 2019. An invite from WPF was made to all partner funds. Derbyshire had conducted their own due diligence via conference call and West Midlands Pension Fund joined us for this process.

15. A detailed update from these due diligence meetings was provided to the Pensions Investment Sub Committee on the 11 June attached as Exempt Appendix 4.

Overall Management Fees

16. The Management fees are in the region of 37bps compared to the 65 to 69bps we pay at the moment so an estimated saving based on the existing Assets under management of approximately £1.1m per annum. However the transitions costs will need to be taken into account before any real ongoing savings are achieved.

Overall Conclusion

17. Based on the 3 interviews with the fund managers and the interviews with LGPS Investment Directors on the 5 April it was concluded that the existing Active Emerging Market funds with JP Morgan and Schroder's be transitioned into the LGPS Global Emerging Markets fund. This was discussed and agreed with the Chair of the Pensions Investment Advisory Panel.

Corporate Bonds

18. Pensions Committee in March were informed that the next potential transition is likely to be the existing active corporate bonds mandate currently with JP Morgan with an existing value as at March 2019 of £145.8m. The mandate being proposed by LGPS Central is a 'Global active Investment Grade Corporate Bond Fund. A rigorous process similar to that of the AGEMS above was detailed in a report (Exempt Appendix 5) to the Pensions Investment Sub Committee on the 11 June 2019 to appoint 2 fund managers being Fidelity IL Pension Management and Neuberger Berman (Europe) Limited.

Due Diligence

19. As part of the necessary due diligence all partner funds had the opportunity to meet and interview the 2 fund managers at a Partner Fund Investment Working Group on the 16 May 2019. Our Independent Investment Advisor also attended.

20. Based on the evidence provided in the presentation Exempt Appendix 5 and the meetings with the 2 fund managers with all partner funds and their advisor, the Pensions Investment Sub Committee agreed to the transition the existing Active Bonds mandate with JP Morgan to LGPSC Active Bond mandate and that this be forwarded to Pensions Committee on the 21 June for final consideration and agreement

Overall Management Fees

21. The Management fees are in the region of 8.3bps compared to the 17bps we pay at the moment so an estimated saving based on the existing Assets under management of approximately £0.1m per annum. However the transitions costs will need to be taken into account before any real ongoing savings are achieved.

22. LGPS Central are to arrange a product information day in order that Committee members can understand more about the proposed investment and ask questions directly to the appointed fund managers.

Estimated Funding Levels

23. Table 2 shows the overall Funding level of the Fund. It should be noted that this is a weighted average across all the employers that are part of the Fund The range of funding levels across the employers was circa 20% to 120% (based on 2016 valuation)

24. 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. Mercers have provided an estimated update on a 'like for like' basis (Table 2 below) using the same assumptions as at the last valuation. The report to the March Committee showed that the fund was estimated to be 94% funded (on a like for like basis) with a deficit of £182m as at the end of January 2019.

25. The Actuary provided a very initial 2019 valuation updated for discount rate assumptions, life expectancy trends, data quality etc, which have still to be finalised. The estimated funding levels March 2019 were to 92% with a deficit of £245m. Further work is ongoing and a report on the updated position will be provided in October.

Table 2: Estimated Pension Fund Funding levels based on a like for like comparison to the 2016 actuarial valuation.

	Mar-16	Mar-18	Aug-18	Oct-18	Dec-18	Jan-19	Mar-19
Assets £'M	1,952	2,701	2,823	2,708	2,650	2,699	2,795
Liabilities £'M	2,606	2,794	2,842	2,861	2,871	2,881	3,040*
Surplus (-) / Deficit	**654**	**93**	**19**	**153**	**221**	**182**	**245**
Estimated Funding Level	**75%**	**97%**	**99%**	**95%**	**92%**	**94%**	**92%**

** Note this is based on the initial estimated liabilities by the actuary on what the next triennial review will be based and will be subject to change*

Triennial Valuation 2020/21 to 2022/23 and Equity Protection considerations

26. Initial discussions have commenced with the actuary on the next triennial valuation and very draft initial contributions have been discussed with the County and District councils. There is still a lot of areas to finalise, such as risk management, investment returns, data quality, covenant, public sector pay estimates, etc., before final contribution rates will be finalised.

27. As part of a strategy meeting with the Actuary on the 15 May 2019 discussions were held concerning the Equity Protection Strategy

28. The actuary provided a specific paper on the 'impact of Equity Protection on contributions'. River & Mercantile were in attendance along with the Funds Independent Investment advisor.

29. This emphasised that the Fund had implemented an equity protection strategy as at the 31 March 2018 for a specific reason; to protect from the risk of falls in the investment markets leading to deterioration in the Pension Fund's funding position with consequent increased contributions at the next valuation.

30. Given the expiry date, it was felt a good time to review whether the current structure should continue or whether an alternative long term approach should be adopted. A number of potential strategies were considered:

a) We no longer require the protection strategy, and the options are left to expire and not renewed;
b) The same static strategy is renewed;
c) A different static strategy which offers different downside protection and upside potential is adopted; and
d) A longer-term dynamic strategy is better suited to the Fund's objectives.

31. The paper provided by the Actuary considered these options for a number of different market scenarios to illustrate the impact competing structure have on contributions. It also provided a more in depth analysis of the static approach (protection for a certain fixed length of time) and dynamic approach (a longer term tool to control equity downside risk).

32. The caveat to all this was that the Actuary believes that the Fund could benefit from using an equity protection strategy in terms of providing increased certainty and affordability of contributions if markets were to deteriorate.

33. In discussions it was felt that there were a number of aspects to consider being:

a) **The Governance angle** to protect from the risk of increased employer contributions. This would mean extending the current static strategy to around mid-2020 slightly past the formal sign off date for the 2019 actuarial valuation (31 March 2020). As part of this consideration it would be investigated as to whether more upside participation can be implemented over this period without giving up too much downside protection. This would also provide the Actuary certainty that the Equity Protection is in place when the actuary's rates and adjustments certificate has to be signed off;
b) **The Risk profile** as technically the Equity Protection strategy does help provide diversification in the portfolio and reduces the risk profile as part of the valuation (admittedly at a cost similar to paying an insurance premium); and
c) **A longer term dynamic strategy.** This needs to be considered as part of the Asset Allocation review that will be conducted from June through to around November 2019 to ascertain whether the Equity Protection Strategy should become an integral part of the Funds future investment strategy.

34. This was discussed and agreed with the Pensions Investment Sub Committee on the 12 June 2019 and were asked to recommend to Pensions Committee that:

a) The Equity Protection current static strategy be extended to mid 2020 in order to protect employer contributions and provide certainty to the Actuary that the Equity Protection is in place when the actuary certificate has to be signed off.
b) Those options be explored as to whether more upside participation can be implemented over this period without giving up too much downside protection be delegated to the Chief Financial Officer in consultation with the Chair of Pensions Committee; and.
c) The Equity Protection Strategy be considered as part of the Asset Allocation review that will be conducted from June through to around November 2019 to ascertain as to whether this should become an integral part of the Funds future investment strategy

Strategic Asset Allocation

35. Table 3 below shows the existing asset allocations against the Strategic Asset Allocation targets. This highlights that our overall investment in equities is still high being over 83.1% (83.2% in December 2018) (including the equity protection) compared to the target of 75%. This is mainly due to the committed Property and Infrastructure investments not being fully drawn down at this stage. As the drawdowns occur then this will bring in the actual asset allocations within the target parameters set as part of the investment strategy.

Table 3 Strategic Asset Allocation targets

Fund as at the 31 March 2019			Strategic Asset Allocation targets	
Asset Class	Portfolio Weight		Asset Class	Portfolio Weight
Actively Managed Equities	**27.3%**		**Actively Managed Equities**	**20.0%**
Far East Developed	14.3%		Far East Developed	10.0%
Emerging Markets	13.0%		Emerging Markets	10.0%
Passively Managed Equities – Market Capitalisation Indices	**31.5%**		**Passively Managed Equities – Market Capitalisation Indices**	**40.0%**
United Kingdom	13.8%		United Kingdom	23.5%
North America	11.3%		North America	9.0%
Europe ex UK	6.4%		Europe ex UK	7.5%
Passively Managed Equities – Alternative Indices	**15.3%**		**Passively Managed Equities – Alternative Indices**	**15.0%**
Global			Global	15.0%
Equity Protection	**8.9%**			
Fixed Interest	**5.9%**		**Fixed Interest**	**10.0%**
Actively Managed Bonds & Corporate Private Debt	5.9%		Actively Managed Bonds & Corporate Private Debt	10.0%
Actively managed Alternative Assets	**11.1%**		**Actively managed Alternative Assets**	**15.0%**
Property	5.1%		Property & Infrastructure	15.0%
Infrastructure	6.0%			
TOTAL	**100.0%**		**TOTAL**	**100%**

Responsible Investment (RI) Activities

36. The term' responsible investment' refers to the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes. It has relevance before and after the investment decision and it is a core part of our fiduciary duty. It is distinct from 'ethical investment' which is an approach in which moral persuasions of an organisation take primacy over its investment considerations

37. The Fund adopts a policy of risk monitoring and engagement with companies with sub-optimal governance of financially material Responsible Investment (RI) issues, in order to positively influence company behaviour and enhance shareholder value; influence that would be lost through a divestment approach. The Fund extends this principle of “engagement for positive change” to the due diligence, appointment and monitoring of external fund managers.

Local Authority Pension Fund Forum (LAPFF)

38. LAPFF exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 79 public sector pension funds and five pools in the UK with combined assets of over £230 billion.

39. Some key highlights from their quarterly engagement report (Jan to Mar 19) were:-

- Ryanair Chair commits to standing down in 2020 after prospect of shareholder resolution by LAPFF
- Auditing, Reporting and Governance Authority(ARGA) to replace FRC after LAPFF consultation contribution acknowledged
- LAPFF part of investor group leading to Shell's proposal to include carbon reduction metrics in executive remuneration
- LAPFF joins investors calling on Facebook, Google and Twitter to strengthen controls on streaming of objectionable content following the Christchurch shooting
- LAPFF calls for tech company IPOs to adopt the principle of one share, one vote.
- The Forum joins investors in calling for the 20 largest carbon emitting utilities companies based in the US to commit to achieving net-zero carbon emissions by 2050
- LAPFF takes role of liaising with affected communities in investor tailings dam initiative.

40. Through LAPFF, the Fund engaged with 104 companies during the quarter on issues ranging from human rights climate change, environmental issues, reporting and sustainability. Most engagements concerned human rights. One engagement led to a change in process and eight engagements led to a moderate / small improvement. Most engagements were conducted by meetings with specialist staff or the company Chair. The issues are set out in the Quarterly Engagement Report which is attached at Appendix 6 and is also available on LAPFF's website together with the previous quarterly engagement reports. : lapff qrtly-engagement-reports.

Stewardship Code

41. Our Stewardship code has received approval from the Financial Report Council and is currently on their website.

Stewardship in Investment Pooling

42. As part of LGPS Central we are actively exploring opportunities to enhance our stewardship activities. More information is on the LGPS website LGPSCentral – Responsible Investment. One of the principal benefits, achieved through scale and resources arising from pooling are the improved implementation of responsible investment and stewardship. Through its *Responsible Investment & Engagement Framework* and its Statement of Compliance with the UK Stewardship Code, LGPS Central is able to help implement the Fund's own *Responsible Investment Framework*. LGPS Central issues Quarterly Stewardship Reports to demonstrate progress on matters of investment stewardship and can be found on the above link for which the quarter ending the 31 December 2018 is currently available.

Stewardship Themes

43. Each of the partner funds were invited to take part in a short survey, to gauge interest in a list of potential stewardship themes. The outcome was an agreed shortlist of four (proposed at a recent Responsible Investment Working Group RIWG), which comprised of climate change, single-use plastic, technology & disruptive industries, and tax transparency. Further details of these 4 themes and the progress to date are detailed in Appendix 7. The RIWG aim is to formulate objectives and plans for each of the four themes by the end of June 2019.

Voting Decisions
44. Currently LGPS Central compiles and votes the shares for West Midlands Pension Funds voting records (via LGPS Central contract with Hermes EOS). This is also used to the LGPS Central reports.

45. It is felt that this would be beneficial for Worcestershire Pension Fund, but would mean taking the voting decisions away from our active fund managers and having the votes executed in line with LGPS Central's Voting Principles (See Appendix 8). Given we are looking to transition our Emerging Markets mandates to LGPS Central who would then deal with our voting records, this would only leave our Mandate with Nomura.

46. Discussions have been held with Michael Marshall the LGPSC *Director of Responsible Investment & Engagement and there would be no extra cost to the Fund. If agreed then the first report on our voting records would be available for the October Committee. The report provides a*

- Donut charts for how votes have been cast in different markets (example attached Exempt Appendix 9), covering all portfolios in scope
- Table of vote-by-vote disclosure for full transparency (example Exempt Appendix 10 attached).

47. *It is recommended that the Pensions Committee agree that LGPSC compile and vote on the Funds behalf in line with the LGPSC Voting principals*

<u>Development of a Climate Risk Monitoring Platform</u>
48. The partner fund Responsible Investment Working Group and LGPS Central are proposing to develop a Climate Risk Monitoring Platform. This would provide four optional deliverables

- Assistance drawing up a climate change framework and strategy
- Per fund an annual climate change risk report tailored to individual funds requirements comprising
    - Climate scenario analysis, fund wide, all asset classes
    - Carbon metrics scorecard (carbon footprint, stranded asset analysis, etc.
    - Annual climate stewardship plan
- Per fund annual training of Pensions Committee
- Task Force for Climate-related Financial Disclosures (TCFD) report for public disclosure with our annual report

49. Appendix 11 provides a presentation that was provided detailing the steps to develop this platform. Pensions Committee will be updated as this develops.

Responsible Investment Conference
50. LGPS Central are providing a Responsible Investment Conference on the 9 July 2019 in Birmingham and all members of the Committee, Investment Sub Committee and Board have been invited

51. **Please note that Appendices 4, 5, 7,9 and 10 contain exempt information (on salmon pages) and should members wish to discuss the information included in these Appendices they would need to consider passing the appropriate resolution and moving into exempt session.**

Contact Points

County Council Contact Points
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Supporting Information

- Independent Financial Adviser summary report (Appendix 1)
- Bar Chart of active investment managers' performance (Appendix 2)
- Portfolio Evaluation overall Fund Performance Report (Appendix 3)
- Active Global Equities Mandate presentation (Appendix 4) **(Exempt Information – Salmon pages)**
- Active Corporate Bonds presentation (Appendix 5) **(Exempt Information – Salmon pages)**
- LAPFF Quarterly Engagement Report October to December 2018 (Appendix 6)
- Stewardship Themes (Appendix 7) **(Exempt Information – Salmon pages)**
- LGPSC Voting principals (Appendix 8)
- LGPSC Voting report examples (Appendix 9 and 10) **(Exempt Information – Salmon pages)**
- Climate Risk Monitoring Platform (Appendix 11)

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

- Agenda papers and Minute of the Pensions Committee meeting held on 19 March 2019

REPORT PREPARED FOR

Worcestershire Pension Fund

11th June 2019

Philip Hebson
MJ Hudson Allenbridge

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Independent Investment Adviser's report for the Pensions Investment Sub Committee meetings

11/12 June 2019

Global overview

Those of us of a certain vintage will remember a very popular film, "It's a Mad, Mad, Mad, Mad World". It used to be classified as comedy, but now it should be under the description of current affairs. That Big Dipper? Replace it with the acrobatics aeroplane, soaring and diving all over the place. The falls of Q4 2018 turned out to be Much Ado About Nothing as we turned into 2019, but the same threats still remain. The main issues were easing of concerns about a China/USA trade war (since heightened again) and central banks stepping back from quantitative tightening, at least for the time being.

The term "Shouty politics" has been used to describe how President Trump goes about his business. Nothing new about that; just look at how Prime Minister's Questions used to be conducted. However it would be true to say that US politics is certainly noisy these days, what with calls for the President to be impeached simply not going away and trade negotiations seemingly being conducted with the aid of a megaphone. However what is going on beneath the surface is where we should focus our attention, and with the Fed lowering its projections for growth and inflation the spectre of recession reappeared. That, linked to the renewed concerns about trade with China (and possibly Europe), is something that should be taken seriously. Frankly impeachment talk is just a side show, for now.

Oh dear Mrs May, this really is a rather long goodbye. Goodbye to Europe and goodbye to her. I am not brave enough to predict what the outcome(s) will be, but almost any way it does not make Britain look exactly Great in the eyes of the rest of the world. Under the surface here, mixed messages; growth and anticipated growth is slowing on one hand, while on the other employment statistics remain robust with wages gently picking up. I've said it before, markets do not like uncertainty, but it can provide opportunities for the savvy investor. See, I haven't mentioned the "B" word!

Elections for the European Parliament loom and by the time you read this we will know the outcome. I'm not sure that the word "fascinating" is one that I would readily attach to the EU, but I am awaiting the outcome of this election with interest. As one who will probably be a detached observer at some stage before long, I will be watching to see how the balance between traditional politics and the rise of populist parties across Europe plays out at this level, rather than just at the nationalistic level. While the polls predict that the traditionalists will still have the upper hand, the future direction of travel of the EU is up for grabs. Continued progress with federalism, or ultimately a disintegration of the Union? In the meantime, trade issues loom, not just with the UK but also the USA. What will the summer bring?

In contrast to other countries the bounce back in Japanese markets was distinctly muted. This seemed to be more to do with a series of negative surprises which then started to undermine confidence. Observations of economic news in the USA and resulting interest rate trends caused some reassessment of the outlook. Including China in particular, there is an expectation of lower external trade, including cars and electrical items, which when coupled to higher wage costs working through are serving to depress the corporate earnings outlook. All this may turn out to be overly pessimistic, but possibly explains the impact on sentiment.

Looking at Asia ex Japan and Emerging Markets together two main issues were at play. For the Asian region the more benign tone of the China/USA trade issues settled some nerves (since rattled again) helped sentiment. For China the technical change in weighting of their listed shares in MSCI benchmark indices also helped markets recover, however artificial that seems. Elsewhere geopolitical tensions in the region didn't help, including the spat between India and Pakistan, and the abrupt end to the USA/North Korea summit. The other factor was the strong rally in the oil price which helped some of the producer nations, such as Russia and Columbia. With increasing tension between the USA and Iran, that recovery may be sustained.

There seems to be a common theme in this overview, wherever the USA is mentioned there is increased tension. Food for thought.

Worcestershire Pension Fund Quarter to end March 2019

Summary and Market Background

The value of the Fund in the quarter rose to £2.72bn, an increase of £98.1m compared to the end December value of £2.63bn. The Fund produced a return of 4.8% over the quarter, which gave an underperformance against the benchmark of -2.7%. This was mainly attributable to a notional negative contribution from the equity protection strategy as markets experienced a significant recovery from the falls seen in Q4 2018. The underperformance from the active equity managers and the underweight position in UK equities also detracted from total Fund performance during this period. Over a 12 month period the Fund also recorded a negative relative return against the benchmark of -2.3% (4.4% v. 6.7%). The Fund has outperformed over the three and five year periods, and is in line with the benchmark over ten years, details of which can be found in Portfolio Evaluation Limited's report.

As a continuing reminder, particularly to the wider external readership of this report, the equity protection strategy mandate with River & Mercantile was *implemented to secure some protection to the funding level* against a relatively significant fall in equity values, as seen in the fourth quarter, up until after the next Triennial valuation in April 2019 (covering an 18 month period), after which the position will be reviewed. Consideration is being given to extending the protection period until Q2 2020 to help manage the Fund's risk profile ahead of the new funding period. Hymans Robertson has completed a review of the Fund's current asset allocation strategy, which will help guide the decisions that will be made when the strategic asset allocation review takes place later this year. This will include a review of the risks associated with the Fund's relatively high allocation to equities and how that can be mitigated in the future, alongside consideration of a further switch to other asset classes that will seek to maintain returns while reducing risk. The Hymans report has highlighted some asset classes that could be considered in the future, but which are currently unattractive due to their high relative valuations.

This quarter saw some significant developments in the process of transitioning the day to day management of Fund investments to LGPS Central. LGPS Central announced the appointment of their selected three managers for the Emerging Markets sub fund; BMO, Vontobel and UBS. They have also announced the two managers selected for the Corporate Bonds sub fund; Fidelity and Neuberger Berman. Subject to final approval, transition is likely to take place in Q3 this year.

World markets bounced back strongly in the first quarter after the horrors at the end of 2018. That bounce back up until the end of March is very welcome, given that the values then form the basis of the English and Welsh Funds' triennial valuation, which in turn helps determine the required employer contribution rates for the next funding period. The Fund's active equity managers all saw the value of their mandates recover, but sadly not by enough

to help their relative performances. Schroders (Emerging Markets) was the relative “best” of the pack, with an in line performance, then it’s downhill from there with Nomura (Pacific) underperforming by -0.4% and JP Morgan (Emerging Markets) tail end Charlie again with an underperformance of -0.5%. A small glimmer of good news from active bonds; JP Morgan (Bonds) managed to save some house credibility with an outperformance of 0.7% against their benchmark.
The total passive benchmark outperformed the alternative passive strategies by 0.3% (9.8% v. 9.5%). Passive equities outperformed the active equities group by 3.3% (9.8% v. 6.5%), which reflects a combination of the relative underperformance of the active managers with the regional market indices that they represent rising less than those in the passive section of the Fund.

World markets roared away as we entered the New Year, such as by the end of the quarter virtually all of the ground lost in Q4 2018 had been made up. Sterling value gains were muted in comparison with the US$ and the Euro. All of the main market groupings showed good gains in the quarter, and with the exception of Emerging Markets were also ahead on a 12 month basis again. It is difficult to fathom out the sanity of markets at times!
Over the quarter, using the sterling adjusted basis, the MSCI World Index rose by 9.9%. The USA achieved the biggest gain, having been one of the biggest fallers in Q4 2018, up 11.1%. The UK was up by 9.4%, which to some degree reflects the fact that the falls had opened up some good relative value. Asia (ex Japan) was up 8.9% and Europe was up 8.0%. Emerging Markets rose 7.4%, with the usual mix within that, particularly after the fall in the oil price rapidly reversed as tensions in the Middle East increased. Japan struggled, having been one of the biggest fallers in Q4 2018 it was also the laggard in terms of gains in Q1 2019, rising just 4.4%.

In sterling terms, bond markets as a whole had a muted quarter, with a reversal of fortunes compared to Q4 2018. In general terms corporate bonds, particularly global high yield issues, outperformed government bonds, although UK gilts enjoyed a good quarter.

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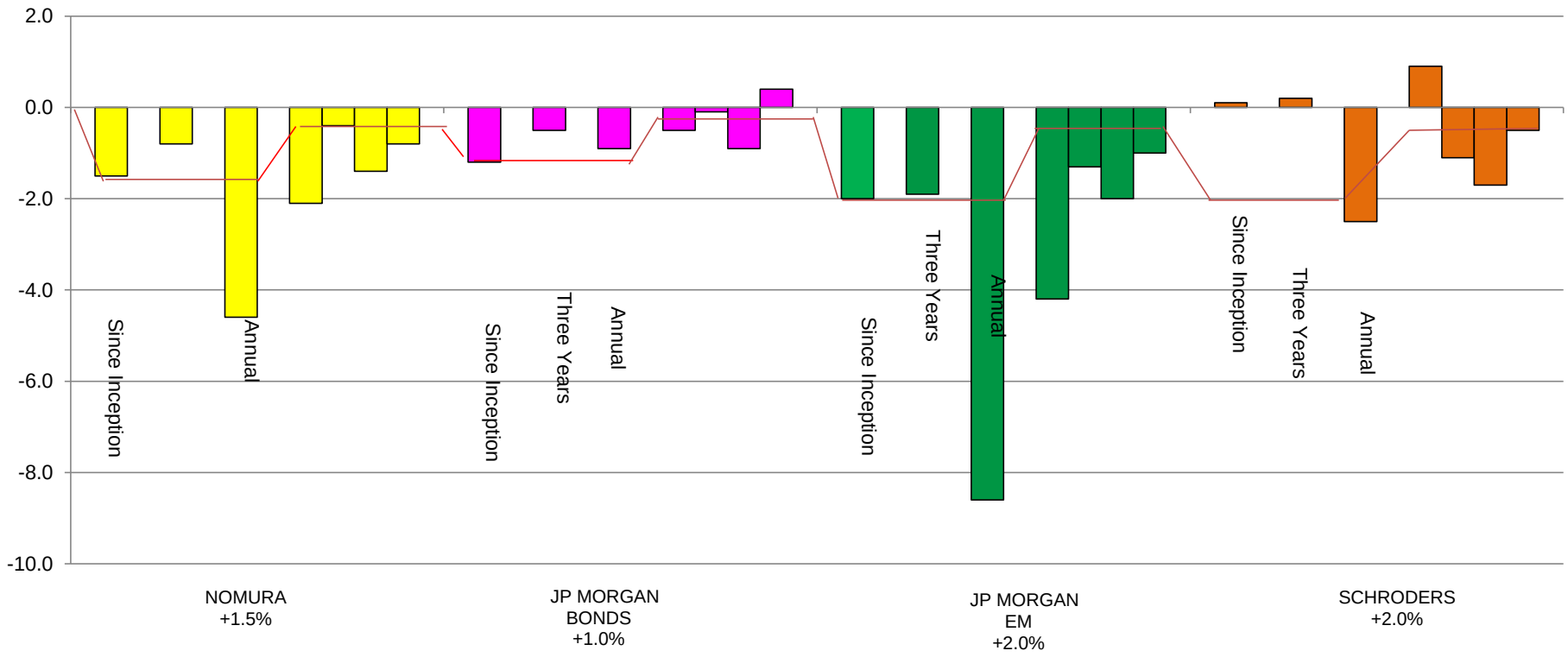
Worcestershire County Council Pension Fund - Chart showing for each active manager: performance since inception, three years, annual performance Apr 2018 to Mar 2019 and latest year in quarter ends June 2018 to March 2019, relative to performance requirement

0 = Performance Requirement (**PR**)



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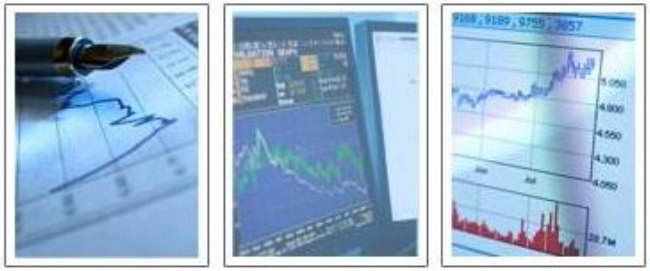

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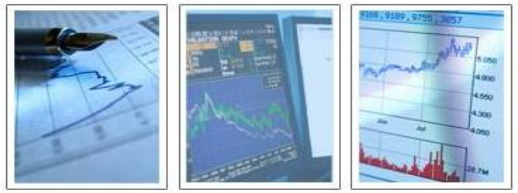
Quarterly Risk and Return Analysis
Total Fund

Worcestershire County Council Pension Fund

Period ending 31st March 2019



Specialists in Investment Risk and Return Evaluation

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Worcestershire County Council Pension Fund Total Fund

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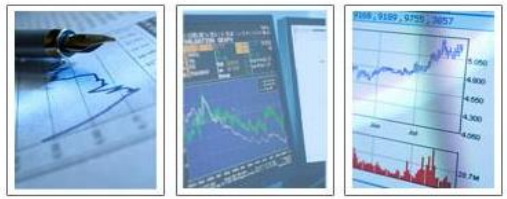

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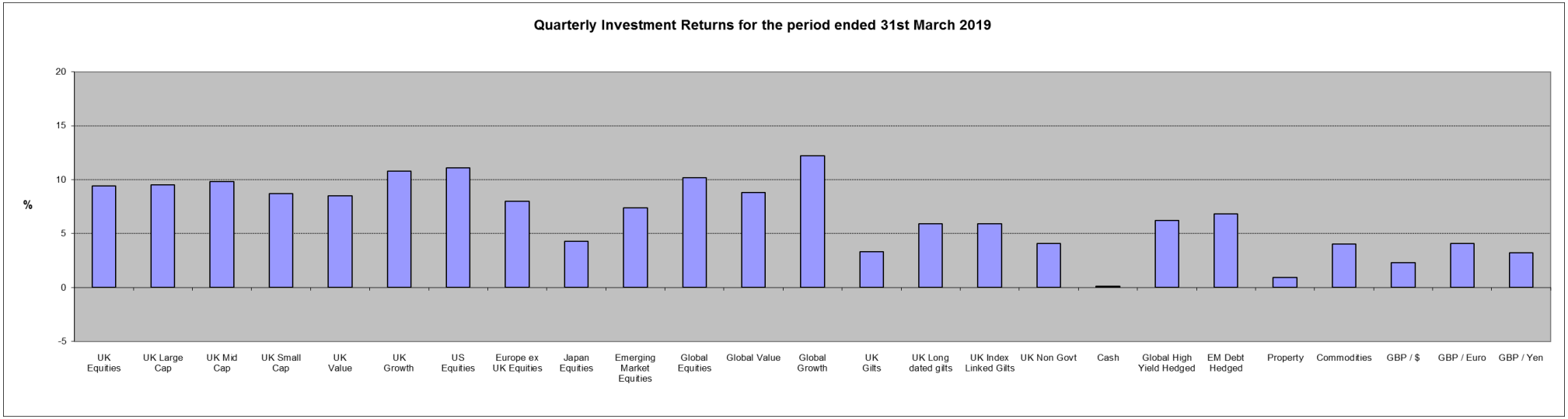
Portfolio Evaluation Ltd Market Commentary Q1 2019 (Sterling)

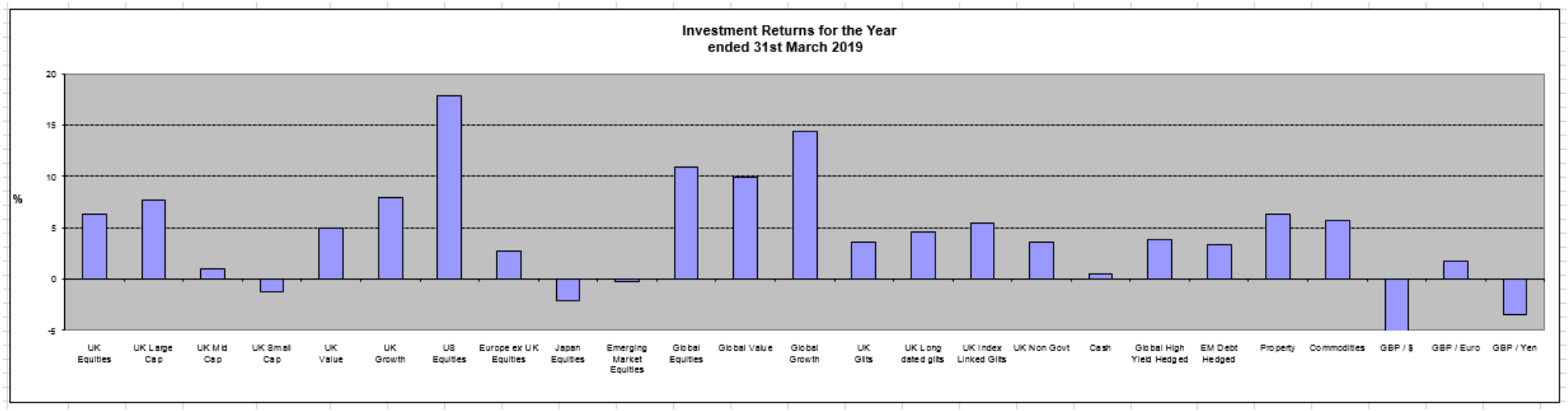
After a disappointing quarter and year ended December 2018 most markets bounced back in the quarter ended March 31 2019 to an extent that left the losses posted in 2018 largely recovered.

The last quarter of 2018 saw markets fall due largely to increase uncertainty caused by a number of factors including central banks discussing raising rates and / or easing quantitative easing, slower global economic growth (of particular note was China) which some saw as being a precursor to a potential recession, trade war issues (US and China), increased market volatility, and some geopolitical concerns. The first quarter of 2019 saw many of these concerns reduce as the US authorities reduced the likelihood of short term interest rate hikes, the Chinese have undertaken measures to reduce the decline in economic growth due to monetary tightening, there have been positive steps gained in global trade discussions and inflation seems muted in developed markets. The response to this has been a rise global markets.

Looking forwards market commentators continue to expect lower global economic growth and corporate earnings growth with the Eurozone looking particularly vulnerable. Many investors seem to expect growth to continue into 2020 and potentially to 2021 as the outlook for a recession gets moved back due partly positive central bank actions and benign inflation. However despite this quarter many market commentators are discussing more defensive strategies going forwards, and many are also viewing emerging markets positively.



Within the UK the obsession and lack of resolution with Brexit has continued through the quarter. This continues to lower the economic growth outlook and reduce the willingness of both companies and investment managers to invest in the UK. The 'high street' sector continues to struggle with high costs and lower revenues whilst business is still reviewing how to proceed in the future. Despite posting significant equity market gains the concerns about the future outlook helps to explain the relatively lack lustre performance of UK stockmarkets when compared to many others. The more positive global outlook this quarter saw growth outperform value however the market return was very sector specific led by Technology, Basic Materials and Consumer Goods (except for Autos). Given market events over the last 12 months UK equities have shown mixed results over time, however Technology Healthcare, Basic Materials and Oil & Gas sectors have been strong performers whilst Financials, Industrials, Consumer Goods and Consumer Services have dragged.



Market volatility has continued to increase as a result of the outlook and in particular the risk levels between asset classes has also increased as diversification benefits reduce. Many commentators expect this to continue throughout 2019.

For further information

If you would like further information about the topics contained in this newsletter or would like to discuss your investment performance requirements please contact Nick Kent or Deborah Barlow Tel: +44 (0)1937 841434 (e-mail: nick.kent@portfolioevaluation.net) or visit our website at www.portfolioevaluation.net. Please note that all numbers, comments and ideas contained in this document are for information purposes only and as such are not investment advice in any form. Please remember that past performance is not a guide to future performance.

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Worcestershire County Council Pension Fund - Commentary
Period ending 31st March 2019

QUARTERLY SUMMARY: **Worcestershire County Council Pension Fund Return: 4.8% Benchmark Return: 7.5% Excess Return: -2.7%**

- The Fund achieved a total return of 4.8%. Equities were the highest returning asset class generating a return of 5.5%, the Corporate Bond Fund followed generating a return of 4.8%. Infrastructure assets also had a positive return of 0.6% whilst Property assets had a negative return of -1.1%. Within equities, passive equities were the highest returning assets at 9.8% followed by the alternatives at 9.5% and the active equity pool generating 6.5%. The equity protection strategy was a negative return generator at -14.3% which is reflective of market movements during quarter 1 of 2019
- The Fund underperformed its benchmark by -2.7%. This was dominated by the equity protection portfolio which is managed by River and Mercantile; this accounted for 2.4% of the attribution to excess return but this was not unexpected given markets movements during the quarter, as well as the structure of the Fund (for example the bond collateral and options). Asset allocation also detracted from excess via the significant underweight position held in the (relatively) high returning UK equity assets. Stock selection within the active equity EMM portfolios and Nomura all dragged on the Total Equity and Total Fund excess returns. The JPM Corporate Bond Fund outperformed, whilst property and infrastructure underperformed their respective benchmarks. Within Infrastructure, the Stonepeak Infrastructure Core Fund generated the highest outperformance with a positive excess return of 18% compared to its respective benchmark

- All index funds tracked their benchmarks as expected

- The latest valuation data supplied by VENN, Walton Street, Green, EQT and Stonepeak was for period ending December 2018. While for the Invesco Real Estate UK Residential Fund we have been supplied only an inception contract note without any December 2018 or Q1 2019 valuation data.

YEAR SUMMARY: **Worcestershire County Council Pension Fund Return: 4.4% Benchmark Return: 6.7% Excess Return: -2.3%**

- Over the year the Fund has generated a return of 4.4% underperforming its benchmark by -2.3%. The EQT Mid-Market Credit II and Property had the highest positive returns generating 8.4% and 5.2% respectively. Both Equities and the Corporate Bond Fund also generated positive returns of 4.6% and 3.3% respectively. Infrastructure was the lowest returning asset class generating 2.5% over the year. Within the equity pool the alternatives were the highest return generators at 13.2%, followed by the passive pool generating 9.4%. The active pool generated a negative return of -1.5%; only the Emerging Markets fund via Schroder generated a positive return over this period

- Stock selection was the dominant contributor of the underperformance over the year due to the negative returning equity protection strategy coupled with the underperformance generated via the active equity pool; note that both Nomura and JPM generated negative returns versus their positive returning benchmarks. Infrastructure assets also contributed to the underperformance; all underlying UK Infrastructure Funds have all underperformed their respective benchmarks, while Stonepeak and First State have outperformed. Property assets were also a source of underperformance albeit to a much lower degree; only the US Walton Street Fund outperformed its respective benchmark

- Asset allocation was a negative contributor over the year via the overweight exposure to the negative returning Active Equity portfolios; Nomura, and the 'off benchmark' exposure to the equity protection portfolio. Being overweight the high returning Alternatives pool coupled with the underweight exposure to the Corporate Bond portfolio both generated positive excess via asset allocation

- The Total Risk and Active risk are consistent with a typical multi asset class fund that uses both passive and active strategies.

THREE YEAR SUMMARY AND LONGER: **Worcestershire County Council Pension Fund** **Return: 11.7%** **Benchmark Return: 11.2%** **Excess Return: 0.5%**

- Over the three year period, the Fund has generated a return of 11.7% outperforming the benchmark by 0.5%. Equities generated the highest asset class return at 12.8%. Property and Infrastructure followed with positive returns of 8.3% and 6.7% respectively, with the JPM Corporate Bond Fund generating the lowest return of the Total Fund with +3.3%. It should be noted that all primary asset classes and fixed income assets have successfully outperformed their respective benchmarks

- Stock selection within the active equity assets has proved particularly successful; the passive equity pool also contributed positively as did the property pool. Asset allocation over the three year time period was also a positive contributor due to the underweight exposure to the (relatively) low returning Corporate Bond Fund. Both Alternative and Active Equity pools were also positive contributors to the asset allocation positive excess, however, the overweight off benchmark exposure to the equity protection portfolio has reduced the positive excess

- Over the past three year period, this Fund has successfully outperformed for more observations than underperformed. This has occurred in both positive and negative markets. It is notable that when markets are negative the average excess return generated when outperforming is higher (+0.48% v -0.38%) whilst in positive markets the level of excess generated while outperforming is less (+0.25% v -0.45%).

- The Total Risk and Active risk are consistent with a typical multi asset class fund that uses both passive and active strategies.

Client: Worcestershire County Council Pension Fund
Manager: Multi-manager
Mandate: Total Fund
Asset Class: Combined Assets
Benchmark: Worcestershire Total Fund Index
Inception: 31-Mar-1987
Mkt Val: £2.7bn

Total Fund Overview
Worcestershire CC Pension Fund
Report Period: Quarter Ending March 2019

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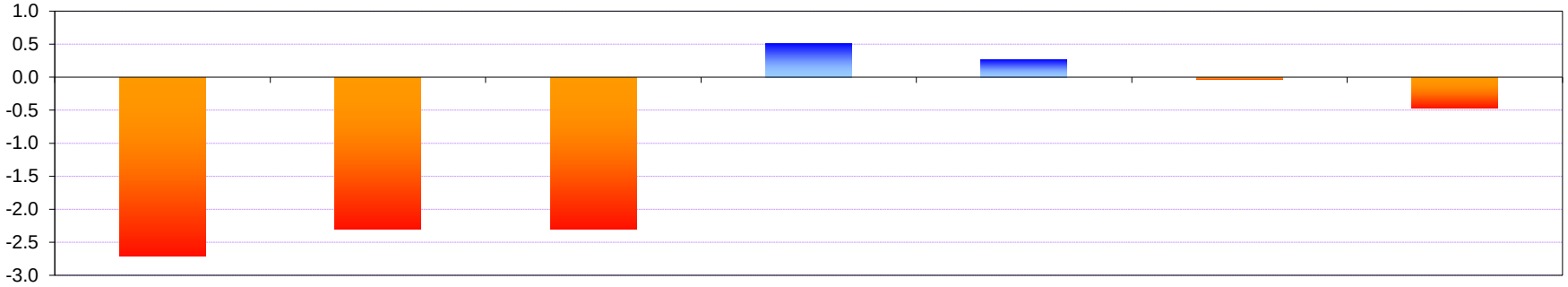
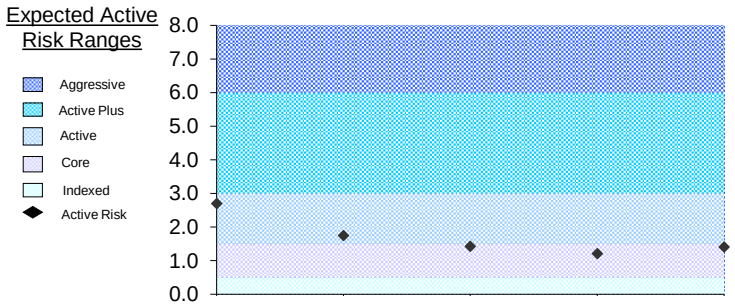
Excess Return Analysis (%)



	QTR	YTD	1 Yr	3 Yr	5 Yr	10Yr	Since Mar 87 (p.a.)
Excess Return	-2.7	-2.3	-2.3	0.5	0.3	0.0	-0.5
Portfolio Return	4.8	4.4	4.4	11.7	9.2	11.4	8.0
Benchmark Return	7.5	6.7	6.7	11.2	8.9	11.4	8.5

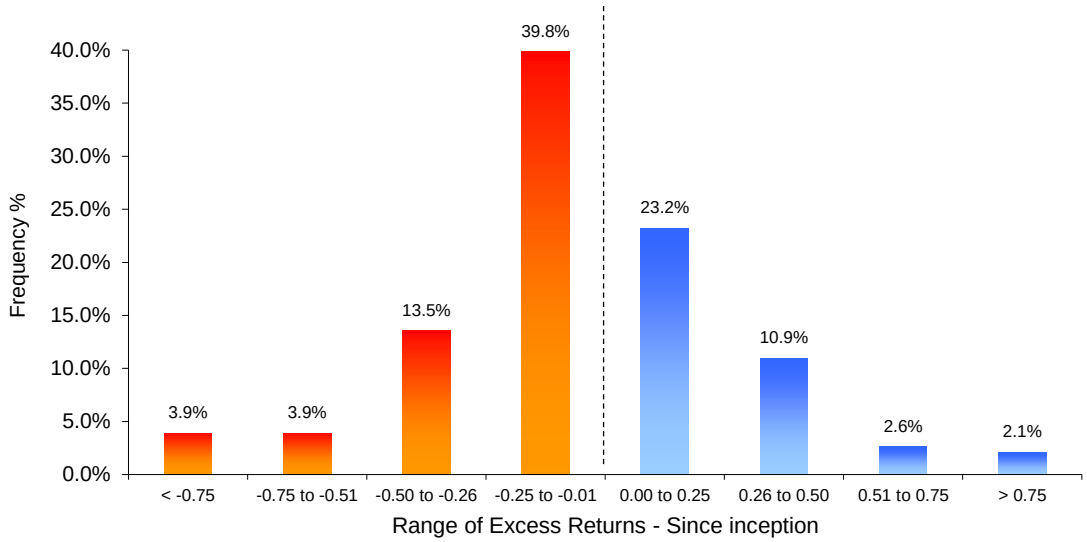
All returns for periods in excess of 1 year are annualised. The portfolio return is net.

Ex-Post Active Risk Analysis (%)



	1 Yr	3 Yr	5 Yr	10 Yr	Mar 87
Active Risk	2.7	1.8	1.4	1.2	1.4
Portfolio Risk	6.6	7.4	7.9	10.4	12.6
Benchmark Risk	8.5	7.8	8.1	10.3	12.4

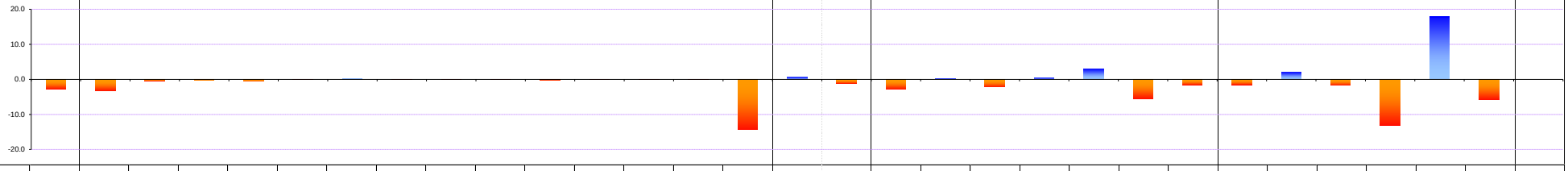
Excess Return Consistency Analysis



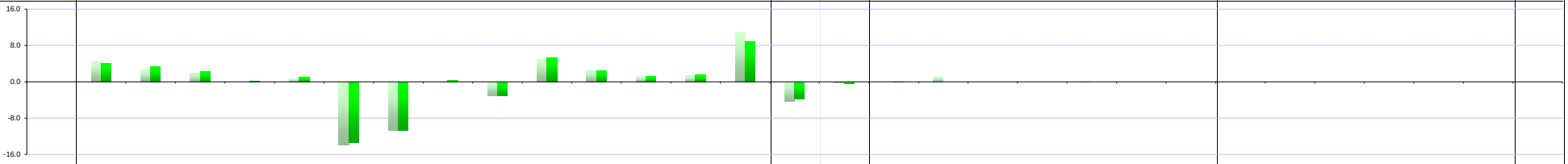
Ex-Post Active Risk measures the volatility of the actual excess returns achieved by the Portfolio/Fund.
Excess Return Consistency Analysis measures the frequency of the Portfolio/Fund's outperformance (Blue) and underperformance (Red) versus its benchmark, calculated using monthly (or quarterly if indicated) returns since inception.

Attribution to Total Fund Excess Return Analysis
Worcestershire County Council Pension Fund
for Quarter Ended 31st March 2019

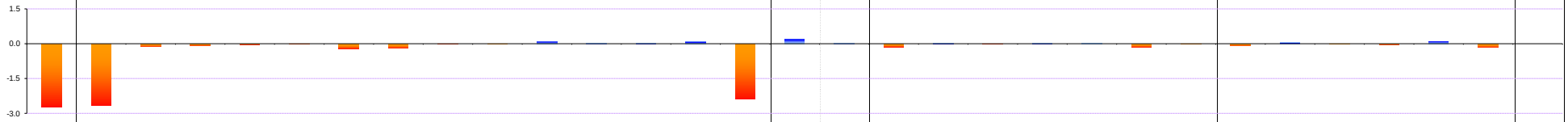
Market Value: £2.7bn



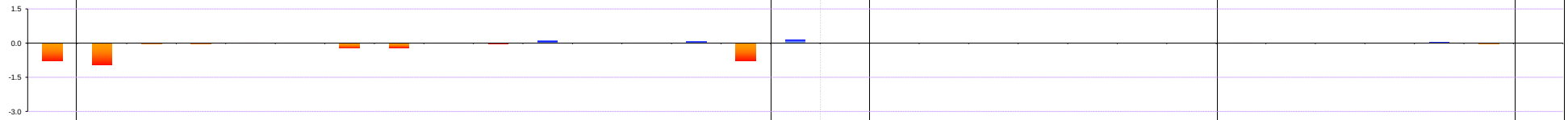
	Total Fund	Total Equity	Total Active	Far East Dev - Nomura	EMM - JPM	EMM - Schroder	Total Passive	UK - L&G	North America n - L&G	Europe ex UK - L&G	Total Alts	FTSE RAFI DEV - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	R&M EQ Protection	Corp Bond - JPM	EQT Mid-Mkt Credit II	Total Property	Total UK Property	UK Prop - Invesco	UK Prop - VENN	US Prop - Walton Street	Euro Prop - Invesco	Prop - AEW	Total Infra	UK Infra - Green	UK Infra Core - Hermes	UK Infra - Hermes II	Infra Core - Stonepeak	First State	Cash
Excess Return	-2.7	-3.3	-0.4	-0.3	-0.6	-0.1	0.2	0.0	0.0	0.0	-0.2	0.0	0.0	-0.1	-14.3	0.6	-1.1	-2.8	0.3	-2.2	0.5	3.0	-5.5	-1.5	-1.5	2.1	-1.7	-13.0	18.0	-5.7	0.0
Portfolio Return	4.8	5.5	6.5	5.4	7.4	7.9	9.8	9.4	11.3	8.0	9.5	7.8	8.0	13.2	-14.3	4.8	0.4	-1.1	2.5	0.0	2.6	4.6	-3.9	0.0	0.6	4.0	0.4	-11.0	20.9	-3.5	0.0
Benchmark Return	7.5	8.8	6.9	5.8	7.9	7.9	9.6	9.4	11.3	8.1	9.7	7.9	8.0	13.2	0.0	4.1	1.6	1.7	2.2	2.2	2.2	1.6	1.6	1.6	2.1	1.8	2.0	2.1	2.9	2.2	0.0



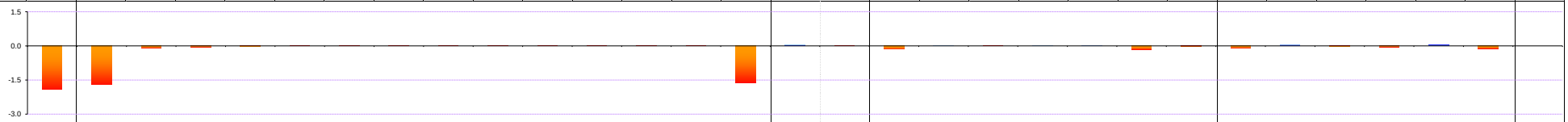
	Total Fund	Total Equity	Total Active	Far East Dev - Nomura	EMM - JPM	EMM - Schroder	Total Passive	UK - L&G	North America n - L&G	Europe ex UK - L&G	Total Alts	FTSE RAFI DEV - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	R&M EQ Protection	Corp Bond - JPM	EQT Mid-Mkt Credit II	Total Property	Total UK Property	UK Prop - Invesco	UK Prop - VENN	US Prop - Walton Street	Euro Prop - Invesco	Prop - AEW	Total Infra	UK Infra - Green	UK Infra Core - Hermes	UK Infra - Hermes II	Infra Core - Stonepeak	First State	Cash
Portfolio Start	100.0	83.2	26.6	14.0	5.9	6.7	30.8	13.5	10.9	6.4	15.0	5.8	4.5	4.7	10.8	5.3	0.2	5.2	1.1	0.1	1.0	0.6	2.8	0.8	6.1	1.9	1.6	0.3	0.3	2.0	0.0
Portfolio End	100.0	83.1	27.3	14.2	6.1	7.0	31.5	13.8	11.3	6.5	15.3	5.9	4.6	4.9	8.9	5.4	0.5	5.1	1.1	0.1	1.1	0.7	2.5	0.7	5.9	1.8	1.5	0.3	0.4	1.9	0.0
Benchmark Start	100.0	78.7	24.0	12.0	6.0	6.0	44.7	24.2	11.0	9.5	10.0	3.3	3.3	3.3	0.0	9.6	0.4	5.2	0.0	0.1	1.0	0.6	2.8	0.8	6.1	1.9	1.6	0.3	0.3	2.0	0.0
Benchmark End	100.0	78.9	24.0	12.0	6.0	6.0	44.9	24.4	11.0	9.5	10.0	3.3	3.3	3.3	0.0	9.1	0.9	5.1	1.1	0.1	1.1	0.7	2.5	0.7	5.9	1.8	1.5	0.3	0.4	1.9	0.0



	Total Fund	Total Equity	Total Active	Far East Dev - Nomura	EMM - JPM	EMM - Schroder	Total Passive	UK - L&G	North America n - L&G	Europe ex UK - L&G	Total Alts	FTSE RAFI DEV - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	R&M EQ Protection	Corp Bond - JPM	EQT Mid-Mkt Credit II	Total Property	Total UK Property	UK Prop - Invesco	UK Prop - VENN	US Prop - Walton Street	Euro Prop - Invesco	Prop - AEW	Total Infra	UK Infra - Green	UK Infra Core - Hermes	UK Infra - Hermes II	Infra Core - Stonepeak	First State	Cash
Excess Return	-2.7	-2.6	-0.1	-0.1	0.0	0.0	-0.2	-0.2	0.0	0.0	0.1	0.0	0.0	0.1	-2.4	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	-0.2	0.0	-0.1	0.0	0.0	0.0	0.1	-0.2	0.0



	Total Fund	Total Equity	Total Active	Far East Dev - Nomura	EMM - JPM	EMM - Schroder	Total Passive	UK - L&G	North America n - L&G	Europe ex UK - L&G	Total Alts	FTSE RAFI DEV - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	R&M EQ Protection	Corp Bond - JPM	EQT Mid-Mkt Credit II	Total Property	Total UK Property	UK Prop - Invesco	UK Prop - VENN	US Prop - Walton Street	Euro Prop - Invesco	Prop - AEW	Total Infra	UK Infra - Green	UK Infra Core - Hermes	UK Infra - Hermes II	Infra Core - Stonepeak	First State	Cash
Asset Allocation	-0.8	-0.9	0.0	0.0	0.0	0.0	-0.2	-0.2	0.0	0.0	0.1	0.0	0.0	0.1	-0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0



	Total Fund	Total Equity	Total Active	Far East Dev - Nomura	EMM - JPM	EMM - Schroder	Total Passive	UK - L&G	North America n - L&G	Europe ex UK - L&G	Total Alts	FTSE RAFI DEV - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	R&M EQ Protection	Corp Bond - JPM	EQT Mid-Mkt Credit II	Total Property	Total UK Property	UK Prop - Invesco	UK Prop - VENN	US Prop - Walton Street	Euro Prop - Invesco	Prop - AEW	Total Infra	UK Infra - Green	UK Infra Core - Hermes	UK Infra - Hermes II	Infra Core - Stonepeak	First State	Cash
Stock Selection	-1.9	-1.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.6	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	-0.2	0.0	-0.1	0.0	0.0	0.0	0.1	-0.1	0.0

The **Returns Summary** details the Portfolio, Benchmark and Excess Returns. The Excess Returns are plotted. the **Asset Allocation Summary** details the weights held by the portfolio and benchmark in each asset class/manager. The green plots are the over/underweigh t exposures of the Fund (v Fund benchmark) at the beginning and end of the period. The **Attribution to Excess Return**, identifies how each asset class/manager has contributed to the overall excess return of the Total Fund. It is broken down into **Asset Allocation** (how successful the decision to over/underweight each asset class was) and then into **Stock Selection** (how well each manager/s decisions have performed). The **Asset Allocation** plus the **Stock Selection** excess returns are all additive and equal the **Total Excess Return** of the Fund.

Attribution to Total Fund Excess Return Analysis
Worcestershire County Council Pension Fund
for Year Ended 31st March 2019

Market Value: £2.7bn

	Total Fund	Total Equity	*Total Active*	Far East Dev - Nomura	EMM - JPM	EMM - Schroder	*Total Passive*	UK - L&G	North America - L&G	Europe ex UK - L&G	*Total Alts*	FTSE RAFI DEV - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	*R&M EQ Protection*	Corp Bond - JPM	EQT Mid-Mkt Credit II	Total Property	*Total UK Property*	UK Prop - Invesco	UK Prop - VENN	US Prop - Walton Street	Euro Prop - Invesco	Prop - AEW	Total Infra	UK Infra - Green	UK Infra Core - Hermes	UK Infra - Hermes II	Infra Core - Stonepeak	First State	Cash
Returns Summary (%)																															
Excess Return	**-2.3**	**-2.5**	**-3.2**	-3.1	-6.6	-0.5	**1.1**	0.1	0.1	-0.2	**-0.6**	0.1	0.0	-0.1	**-5.5**	**0.1**	**2.5**	**-1.8**	0.2	0.0	-1.9	10.2	-4.5	-5.9	**-5.9**	-1.0	-9.3	-16.0	5.6	4.6	**0.0**
Portfolio Return	**4.4**	**4.6**	**-1.5**	-1.7	-4.7	1.4	**9.4**	6.5	17.6	2.7	**13.2**	7.7	15.5	18.1	**-5.5**	**3.3**	**8.4**	**5.2**	4.6	0.0	7.1	16.7	2.0	2.5	**2.5**	6.5	-0.9	-9.0	17.6	9.8	**0.0**
Benchmark Return	**6.7**	**7.0**	**1.7**	1.4	1.9	1.9	**8.3**	6.4	17.5	2.9	**13.7**	7.7	15.5	18.1	**0.0**	**3.2**	**5.9**	**7.0**	4.4	0.0	9.0	6.5	6.5	8.4	**8.4**	7.6	8.4	7.0	12.0	5.2	**0.0**
Asset Allocation Summary (%)																															
Portfolio Start	**100.0**	**86.5**	**29.4**	15.8	6.5	7.0	**33.0**	14.9	11.0	7.2	**14.5**	5.8	4.2	4.4	**9.6**	**5.3**	**0.0**	**4.7**	0.8	0.0	0.0	0.5	2.6	0.7	**3.6**	1.9	1.7	0.0	0.1	0.0	**0.0**
Portfolio End	**100.0**	**83.1**	**27.3**	14.2	6.1	7.0	**31.5**	13.8	11.3	6.5	**15.3**	5.9	4.6	4.9	**8.9**	**5.4**	**0.5**	**5.1**	1.1	0.1	1.1	0.7	2.5	0.7	**5.9**	1.8	1.5	0.3	0.4	1.9	**0.0**
Benchmark Start	**100.0**	**82.5**	**24.0**	12.0	6.0	6.0	**48.5**	28.0	11.0	9.5	**10.0**	3.3	3.3	3.3	**0.0**	**10.0**	**0.0**	**3.9**	0.8	0.0	0.0	0.5	2.6	0.7	**3.5**	1.9	1.7	0.0	0.1	0.0	**0.0**
Benchmark End	**100.0**	**78.9**	**24.0**	12.0	6.0	6.0	**44.9**	24.4	11.0	9.5	**10.0**	3.3	3.3	3.3	**0.0**	**9.1**	**0.9**	**5.1**	1.1	0.1	1.1	0.7	2.5	0.7	**5.9**	1.8	1.5	0.3	0.4	1.9	**0.0**
Attribution to Excess Return (%)																															
Excess Return	**-2.3**	**-2.1**	**-1.2**	-0.7	-0.5	-0.1	**0.1**	0.0	0.0	0.1	**0.2**	0.0	0.1	0.1	**-1.2**	**0.2**	**0.0**	**-0.1**	0.0	0.0	0.0	0.1	-0.1	0.0	**-0.3**	0.0	-0.1	0.0	0.1	-0.1	**0.0**
Asset Allocation	**-0.5**	**-0.7**	**-0.3**	-0.2	0.0	-0.1	**0.1**	0.0	0.0	0.1	**0.2**	0.0	0.1	0.1	**-0.7**	**0.2**	**0.0**	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0	**0.0**
Stock Selection	**-1.8**	**-1.4**	**-1.0**	-0.5	-0.4	0.0	**0.0**	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**-0.5**	**0.0**	**0.0**	**-0.1**	0.0	0.0	0.0	0.1	-0.1	0.0	**-0.3**	0.0	-0.1	0.0	0.0	-0.1	**0.0**

Attribution to Total Fund Excess Return Analysis - Unannualised
Worcestershire County Council Pension Fund
for 3 Year Ended 31st March 2019

Market Value: £2.7bn

	Total Fund	Total Equity	*Total Active*	Far East Dev - Nomura	EMM - JPM	EMM - Schroder	*Total Passive*	UK - L&G	North America n - L&G	Europe ex UK - L&G	Other Overseas (Capital	*Total Alts*	FTSE RAFI DEV - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	*R&M EQ Protection*	Corp Bond - JPM	EQT Mid-Mkt Credit	Total Property	*Total UK Property*	UK Prop - Invesco	UK Prop - VENN	US Prop - Walton Street	Euro Prop - Invesco	Prop - AEW	Total Infra	UK Infra - Green	UK Infra Core - Hermes	UK Infra - Hermes II	Infra Core - Stonepeak	First State	Cash
Returns Summary (%)																																
Excess Return	**1.9**	**0.5**	**3.0**	2.4	0.3	8.7	**1.6**	0.9	0.0	-0.7	-10.5	**-1.7**	-0.4	0.2	-0.6	**5.1**	**1.5**	**3.9**	**4.5**	-2.0	-6.7	11.6	10.7	1.5	-2.2	**-4.9**	-3.3	-6.6	-16.0	-13.6	-1.5	**0.0**
Portfolio Return	**39.6**	**43.5**	**50.2**	46.1	50.5	58.9	**40.8**	32.2	60.7	36.8	-0.1	**47.5**	46.3	41.8	58.5	**5.1**	**10.1**	**8.4**	**27.2**	4.6	0.0	41.1	31.5	22.3	7.7	**21.5**	21.3	20.8	-8.9	1.6	5.9	**0.0**
Benchmark Return	**37.7**	**43.0**	**47.2**	43.7	50.2	50.2	**39.3**	31.3	60.7	37.6	10.3	**49.2**	46.7	41.6	59.1	**0.0**	**8.6**	**4.6**	**22.7**	6.7	6.7	29.5	20.8	20.8	9.9	**26.4**	24.6	27.4	7.0	15.2	7.4	**0.0**
Asset Allocation Summary (%)																																
Portfolio Start	**100.0**	**84.7**	**27.0**	15.0	5.7	6.2	**36.1**	28.3	1.7	6.0	9.3	**12.4**	3.7	4.5	4.3	**0.0**	**6.9**	**0.0**	**4.6**	0.0	0.0	1.2	0.2	3.2	0.0	**3.8**	1.8	2.0	0.0	0.0	0.0	**0.0**
Portfolio End	**100.0**	**83.1**	**27.3**	14.2	6.1	7.0	**31.5**	13.8	11.3	6.5	0.0	**15.3**	5.9	4.6	4.9	**8.9**	**5.4**	**0.5**	**5.1**	1.1	0.1	1.1	0.7	2.5	0.7	**5.9**	1.8	1.5	0.3	0.4	1.9	**0.0**
Benchmark Start	**100.0**	**81.7**	**24.0**	12.0	6.0	6.0	**47.7**	27.2	11.0	9.5	0.0	**10.0**	3.3	3.3	3.3	**0.0**	**10.0**	**0.0**	**4.7**	0.0	0.0	1.4	0.2	3.1	0.0	**3.6**	1.7	1.9	0.0	0.0	0.0	**0.0**
Benchmark End	**100.0**	**78.9**	**24.0**	12.0	6.0	6.0	**44.9**	24.4	11.0	9.5	0.0	**10.0**	3.3	3.3	3.3	**0.0**	**9.1**	**0.9**	**5.1**	1.1	0.1	1.1	0.7	2.5	0.7	**5.9**	1.8	1.5	0.3	0.4	1.9	**0.0**
Attribution to Excess Return (%)																																
Excess Return	**1.9**	**0.5**	**0.9**	0.5	-0.1	0.4	**0.1**	0.1	0.2	-0.2	-0.1	**0.2**	0.0	0.0	0.2	**-0.6**	**1.3**	**0.0**	**0.3**	0.2	0.1	0.1	0.0	0.1	0.0	**-0.3**	-0.1	-0.1	-0.1	0.1	-0.1	**0.0**
Asset Allocation	**0.8**	**-0.5**	**0.0**	0.2	-0.1	0.0	**-0.1**	-0.1	0.2	-0.2	0.1	**0.3**	0.0	0.0	0.2	**-0.8**	**1.2**	**0.0**	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0	**0.0**
Stock Selection	**1.1**	**1.0**	**0.8**	0.4	0.0	0.5	**0.2**	0.2	0.0	0.0	-0.2	**0.0**	0.0	0.0	0.0	**0.1**	**0.1**	**0.0**	**0.3**	0.2	0.1	0.1	0.0	0.1	0.0	**-0.3**	-0.1	-0.1	-0.1	0.1	-0.1	**0.0**

Manager Return Analysis
Worcestershire County Council Pension Fund
for Period Ended 31st March 2019

Market Value: £2.7bn

	Benchmark	Incep Date	Market Value (£m)	Weight	QTR			Year To Date			1 Year			3 Year			5 Year			10 Year			Since Inception		
					PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER
Total Equity Fund	**Client Specific Weighted Index**	**Mar-16**	**2,263.4**	**83.1**	**5.5**	**8.8**	**-3.3**	**4.6**	**7.0**	**-2.5**	**4.6**	**7.0**	**-2.5**	**12.8**	**12.7**	**0.1**							**12.8**	**12.7**	**0.1**
Total Active Equity Fund	Client Specific Weighted Index	Mar-16	743.5	27.3	6.5	6.9	-0.4	-1.5	1.7	-3.2	-1.5	1.7	-3.2	14.5	13.8	0.8							14.5	13.8	0.8
Far East Developed Fund - Nomura	FTSE Developed Asia Pacific Index	Feb-03	387.0	14.2	5.4	5.8	-0.3	-1.7	1.4	-3.1	-1.7	1.4	-3.1	13.5	12.8	0.6	11.2	10.5	0.7	11.0	10.9	0.1	10.2	10.2	0.0
Emerging Markets Fund - JPM	FTSE All World Emerging Market Index	Dec-11	165.7	6.1	7.4	7.9	-0.6	-4.7	1.9	-6.6	-4.7	1.9	-6.6	14.6	14.5	0.1	9.5	9.8	-0.2				7.4	7.4	0.0
Emerging Markets Fund- Schroder	FTSE All World Emerging Market Index	Oct-11	190.7	7.0	7.9	7.9	-0.1	1.4	1.9	-0.5	1.4	1.9	-0.5	16.7	14.5	2.2	11.3	9.8	1.5				8.8	6.7	2.0
Total Passive Equity Fund	Client Specific Weighted Index	Mar-16	859.3	31.5	9.8	9.6	0.2	9.4	8.3	1.1	9.4	8.3	1.1	12.1	11.7	0.4							12.1	11.7	0.4
UK Equity Fund - L&G	FTSE All Share Index	Dec-15	375.5	13.8	9.4	9.4	0.0	6.5	6.4	0.1	6.5	6.4	0.1	9.7	9.5	0.2							9.9	9.6	0.2
North American Equity Fund- L&G	FTSE All World North American Index	Dec-15	307.7	11.3	11.3	11.3	0.0	17.6	17.5	0.1	17.6	17.5	0.1	17.1	17.1	0.0							17.7	17.7	0.0
Europe ex UK Equity Fund- L&G	FTSE Developed Europe Ex. UK Index	Dec-15	176.1	6.5	8.0	8.1	0.0	2.7	2.9	-0.2	2.7	2.9	-0.2	11.0	11.2	-0.2							11.1	11.3	-0.2
Total Alternatives Fund	Client Specific Weighted Index	Mar-16	418.1	15.3	9.5	9.7	-0.2	13.2	13.7	-0.6	13.2	13.7	-0.6	13.8	14.3	-0.4							13.9	14.3	-0.4
FTSE RAFI DEV Fund - L&G	FTSE RAFI Developed 1000 QSR Net Index	Dec-15	159.7	5.9	7.8	7.9	0.0	7.7	7.7	0.1	7.7	7.7	0.1	13.5	13.6	-0.1							14.2	14.3	-0.1
MSCI World Min Vol TR Fund - L&G	MSCI World Minimum Volatility Net Index	Dec-15	124.5	4.6	8.0	8.0	0.0	15.5	15.5	0.0	15.5	15.5	0.0	12.3	12.3	0.0							15.1	15.1	0.0
MSCI World Quality TR Fund - L&G	MSCI World Quality Total Return Net Index	Dec-15	133.9	4.9	13.2	13.2	-0.1	18.1	18.1	-0.1	18.1	18.1	-0.1	16.6	16.7	-0.1							17.3	17.4	-0.1
Equity Protection - River & Mercantile		Jan-18	242.5	8.9	-14.3	0.0	-14.3	-5.5	0.0	-5.5	-5.5	0.0	-5.5										4.1	0.0	4.1
Corporate Bond Fund- JPM	**Barclays Capital Global Aggregate - Ex Treasury, Ex Government Related 100% Hedged to GBP**	**Mar-03**	**145.8**	**5.4**	**4.8**	**4.1**	**0.6**	**3.3**	**3.2**	**0.1**	**3.3**	**3.2**	**0.1**	**3.3**	**2.8**	**0.5**	**3.7**	**3.4**	**0.3**	**5.6**	**5.2**	**0.4**	**5.0**	**5.2**	**-0.2**
EQT Mid-Market Credit II	**Absolute Return + 6.5%**	**May-18**	**14.0**	**0.5**	**0.4**	**1.6**	**-1.1**																**8.4**	**5.9**	**2.5**
Total Property Fund	**Client Specific Weighted Index**	**Mar-16**	**139.6**	**5.1**	**-1.1**	**1.7**	**-2.8**	**5.2**	**7.0**	**-1.8**	**5.2**	**7.0**	**-1.8**	**8.3**	**7.1**	**1.3**							**8.4**	**7.1**	**1.3**
Total UK Property Fund	Absolute Return +9%	Jul-18	31.0	1.1	2.5	2.2	0.3																4.6	4.4	0.2
UK Property Fund - Invesco	Absolute Return +9%	Oct-18	2.0	0.1	0.0	2.2	-2.2																0.0	4.4	-4.4
UK Property Fund - VENN	Absolute Return +9%	Jul-15	29.0	1.1	2.6	2.2	0.5	7.1	9.0	-1.9	7.1	9.0	-1.9	12.2	9.0	3.2							10.9	9.2	1.7
US Property Fund- Walton Street GBP	Absolute Return + 6.5%	Feb-16	19.4	0.7	4.6	1.6	3.0	16.7	6.5	10.2	16.7	6.5	10.2	9.6	6.5	3.1							13.5	6.2	7.3
US Property Fund- Walton Street USD	N/A	Feb-16	24.7	N/A	2.2	0.0	2.2	6.1	0.0	6.1	6.1	0.0	6.1	5.5	0.0	5.5							8.7	0.0	8.7
Euro Property Fund- Invesco	Absolute Return + 6.5%	Feb-16	69.3	2.5	-3.9	1.6	-5.5	2.0	6.5	-4.5	2.0	6.5	-4.5	6.9	6.5	0.4							7.6	6.3	1.3
Property Fund- AEW	Absolute Return + 6.5%	Oct-17	19.9	0.7	0.0	1.6	-1.5	6.6	6.5	0.1	6.6	6.5	0.1										5.1	6.5	-1.4
Total Infrastructure Fund	**Client Specific Weighted Index**	**Mar-16**	**161.9**	**5.9**	**0.6**	**2.1**	**-1.5**	**2.5**	**8.4**	**-5.9**	**2.5**	**8.4**	**-5.9**	**6.7**	**8.1**	**-1.4**							**6.7**	**8.1**	**-1.4**
UK Infrastructure Fund - Green	Absolute Return +7.6%	Apr-15	50.3	1.8	4.0	1.8	2.1	6.5	7.6	-1.0	6.5	7.6	-1.0	6.6	7.6	-0.9							6.0	7.6	-1.6
UK Infrastructure Core Fund - Hermes	Absolute Return +8.4%	May-15	41.0	1.5	0.4	2.0	-1.7	-0.9	8.4	-9.3	-0.9	8.4	-9.3	6.5	8.4	-1.9							6.8	8.4	-1.6
UK Infrastructure Fund - Hermes II	Absolute Return +8.5%	Jun-18	7.9	0.3	-11.0	2.1	-13.0																-8.9	7.0	-16.0
Infrastructure Core Fund - Stonepeak	Absolute Return +12%	Jan-18	10.8	0.4	20.9	2.9	18.0	17.6	12.0	5.6	17.6	12.0	5.6										1.3	12.1	-10.7
First State Fund	Absolute Return +9%	Jun-18	51.9	1.9	-3.5	2.2	-5.7																5.9	7.4	-1.5
Worcestershire CC Total Fund		**Mar-87**	**2,724.7**	**100.0**	**4.8**	**7.5**	**-2.7**	**4.4**	**6.7**	**-2.3**	**4.4**	**6.7**	**-2.3**	**11.7**	**11.2**	**0.5**	**9.2**	**8.9**	**0.3**	**11.4**	**11.4**	**0.0**	**8.0**	**8.5**	**-0.5**

PF = Portfolio Return BM = Benchmark Return ER = Excess Return

Total Fund Benchmark

CLIENT SPECIFIC BM AS AT JUNE 2017:

25.5% FTSE All Share

9.5% FTSE Developed Europe Ex UK

12% FTSE All World Emerging Markets

10% 1/3 FTSE RAFI DEV 1000 QSR Total Return NET & 1/3 MSCI World Minimum Vol Total Return NET & 1/3 MSCI World Quality Total Return NET

11% FTSE All World North America

12% FTSE Developed Asia Pacific

Corp Bonds: 10% Barclays Global Agg Corporate Bond HEDGED into GBP

Infrastructure: Weighted Client Specific Index

Property: Weighted Client Specific Index

Notes:

For the Total Fund benchmark the weightings for the Infrastructure and Property will match the actual drawdowns/market values of the funds, then the remainder will be put into UK Passive Equities .

Fees/fund charges have been taken into accound for the Total Fund return. Fees were found within the data for Hermes in July and L&G for August. The fees applied may not be final or all of the fees for Worcestershire CC Total Fund Portfolio.

Total Infrastructure and Total Property are measured against a weighted index of the funds underlying benchmarks.

Historic data up to and including 31.03.2016 has been provided by the WM Co and L&G.

Market Value: £2.7bn

Total Fund Reconciliation Analysis
Worcestershire County Council Pension Fund
for Quarter Ended 31st March 2019

	31st Dec 2018		Net	Total	Total	31st Mar 2019	
	Market Val (£000s)	Exposure (%)	Investment (£000s)	Income (£000s)	Gain/Loss (£000s)	Market Val (£000s)	Exposure (%)
Total Equity Fund	**2,183,989**	**83.2**	**-40,000**	**0**	**119,437**	**2,263,426**	**83.1**
Total Active Equity Fund	697,901	26.6	0	0	45,602	743,503	27.3
Far East Developed Fund - Nomura	366,664	14.0	0	0	20,355	387,020	14.2
Emerging Markets Fund - JPM	154,388	5.9	0	0	11,360	165,748	6.1
Emerging Markets Fund- Schroder	176,848	6.7	0	0	13,887	190,735	7.0
Total Passive Equity Fund	808,693	30.8	-26,914	0	77,567	859,346	31.5
UK Equity Fund - L&G	354,554	13.5	-11,789	0	32,752	375,517	13.8
North American Equity Fund- L&G	285,673	10.9	-9,512	0	31,567	307,728	11.3
Europe ex UK Equity Fund- L&G	168,466	6.4	-5,613	0	13,248	176,101	6.5
Total Alternatives Fund	394,299	15.0	-13,086	0	36,866	418,079	15.3
FTSE RAFI DEV Fund - L&G	153,029	5.8	-5,114	0	11,830	159,745	5.9
MSCI World Min Vol TR Fund - L&G	119,103	4.5	-3,928	0	9,304	124,479	4.6
MSCI World Quality TR Fund - L&G	122,166	4.7	-4,044	0	15,732	133,855	4.9
Equity Protection - River & Mercantile	283,096	10.8	0	0	-40,598	242,497	**8.9**
Corporate Bond Fund- JPM	**139,150**	**5.3**	**0**	**0**	**6,624**	**145,774**	**5.4**
EQT Mid-Market Credit II	**5,620**	**0.2**	**0**	**0**	**8,371**	**13,991**	**0.5**
Total Property Fund	**136,263**	**5.2**	**4,729**	**0**	**-1,397**	**139,595**	**5.1**
Total UK Property Fund	29,077	1.1	1,229	0	714	31,020	1.1
UK Property Fund - Invesco	2,003	0.1	0	0	0	2,003	0.1
UK Property Fund - VENN	27,074	1.0	1,229	0	714	29,017	1.1
US Property Fund- Walton Street	14,603	0.6	4,109	0	711	19,423	0.7
Euro Property Fund- Invesco	72,697	2.8	-608	0	-2,832	69,257	2.5
Property Fund- AEW	19,886	0.8	0	0	10	19,895	0.7
Total Infrastructure Fund	**161,477**	**6.1**	**-601**	**0**	**1,000**	**161,876**	**5.9**
UK Infrastructure Fund - Green	49,786	1.9	-1,456	0	1,968	50,298	1.8
UK Infrastructure Core Fund - Hermes	40,801	1.6	0	0	149	40,950	1.5
UK Infrastructure Fund - Hermes II	8,753	0.3	82	0	-959	7,876	0.3
First State Fund	53,829	2.0	0	0	-1,892	51,937	1.9
Infrastructure Core Fund - Stonepeak	8,307	0.3	773	0	1,734	10,814	0.4
Cash Fund	**0**	**0.0**	**27,524**	**0**	**-27,524**	**0**	**0.0**
Worcestershire CC Total Fund	**2,626,498**	**100.0**	**-8,347**	**0**	**106,511**	**2,724,663**	**100.0**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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of the Local Government Act 1972.

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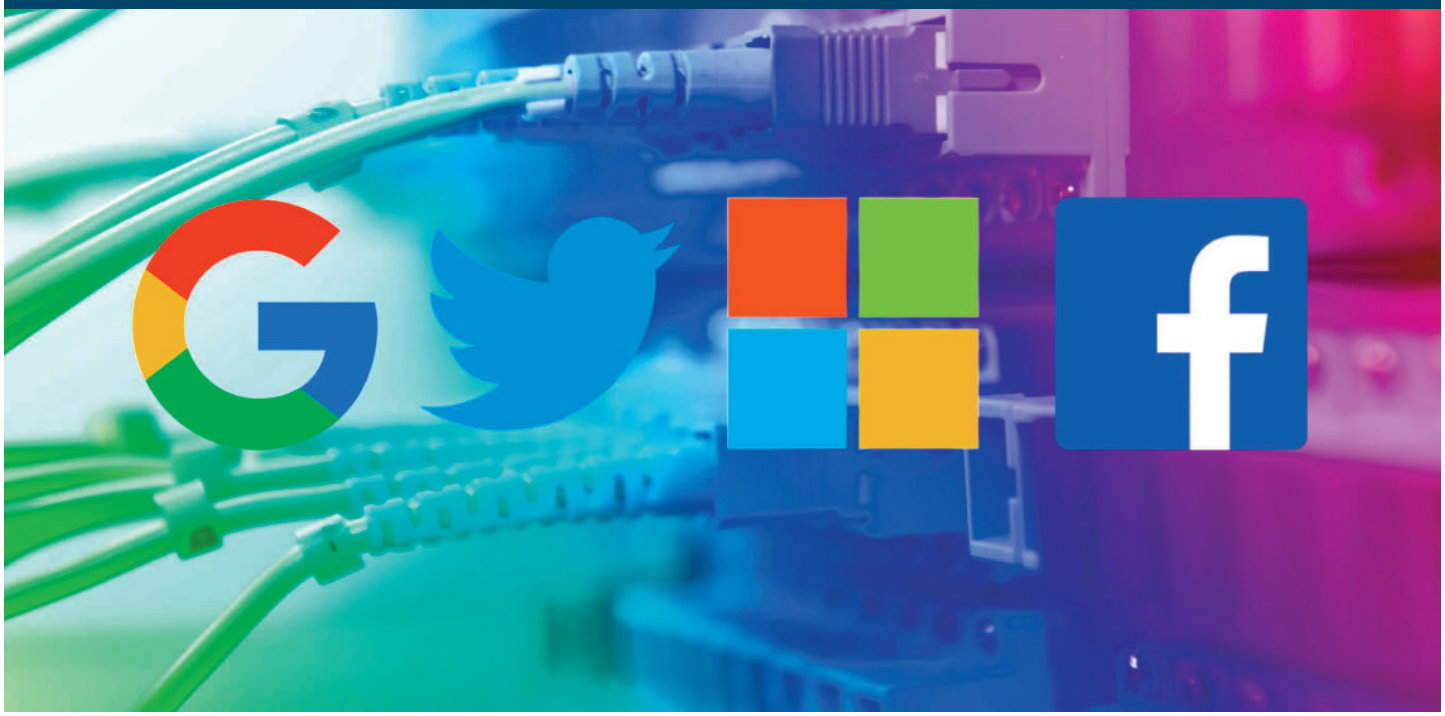
The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 80 public sector pension funds and six Pools in the UK with combined assets of over £230 billion.

QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2019



Ryanair Chair commits to standing down in 2020 after prospect of shareholder resolution by LAPFF

Auditing, Reporting and Governance Authority (ARGA) to replace FRC after LAPFF consultation contribution acknowledged

LAPFF part of investor group leading to Shell's proposal to include carbon reduction metrics in executive remuneration.

LAPFF joins investors calling on Facebook, Google and Twitter to strengthen controls on streaming of objectionable content following the Christchurch shootings.

LAPFF calls for tech company Initial Public Offerings (IPOs) to adopt the principle of one share, one vote.

The Forum joins investors in calling for the 20 largest carbon emitting utilities companies based in the US to commit to achieving net-zero carbon emissions by 2050.

LAPFF takes on role of liaising with affected communities in investor tailings dam initiative.

This Quarter – At A Glance

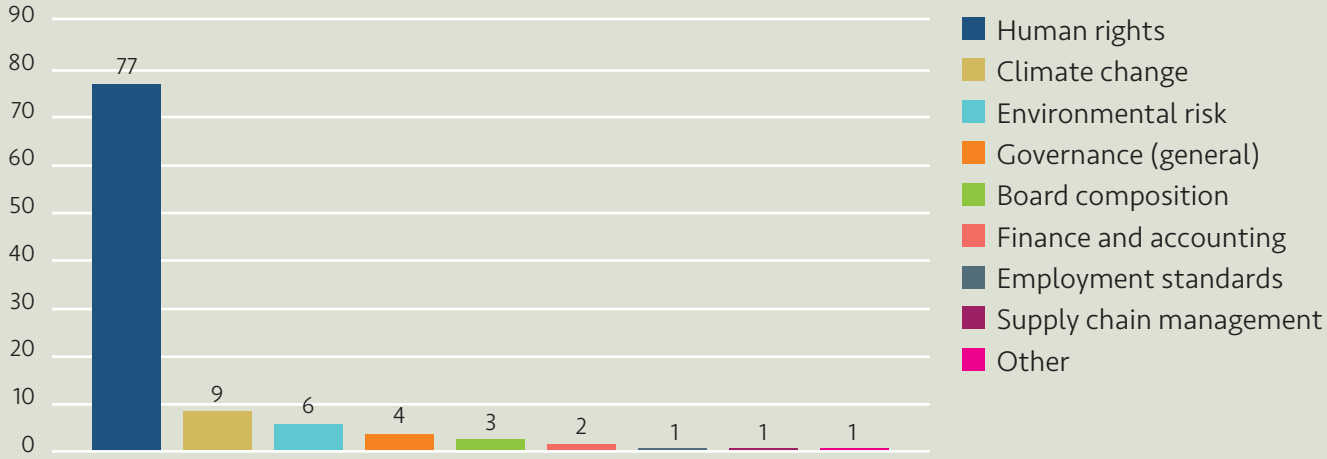
In February Ryanair announced that current Chairman David Bonderman would be replaced during 2020. The statement was made after LAPFF had voiced an intention to requistion the AGM in order to propose a resolution requesting Mr Bonderman resign from the Board.

The Government announced plans to replace the Financial Reporting Council (FRC) with the Auditing, Reporting and Governance Authority (ARGA). This comes in the aftermath of the Kingman Review which recommended the FRC be disbanded, a position promoted by LAPFF after many years of raising concerns over the FRC.

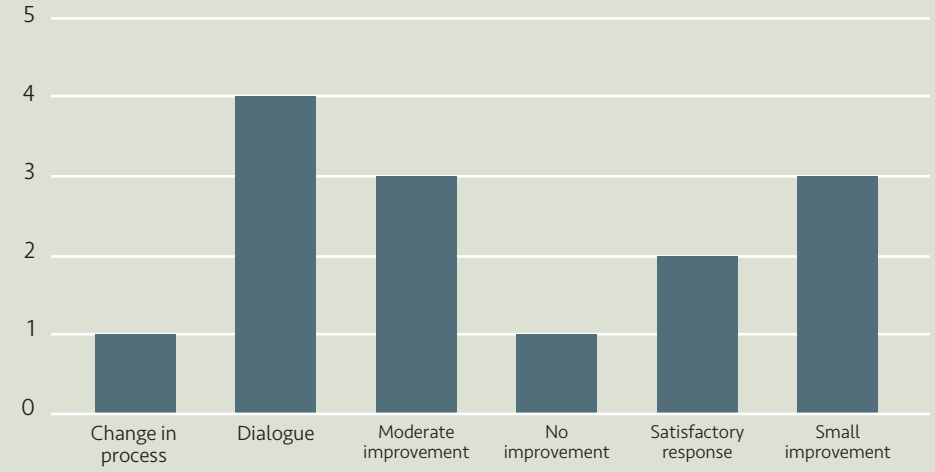
After pledging to include the overall reduction of its net carbon footprint in considering executive remuneration outcomes, Royal Dutch Shell Plc published its remuneration report enacting this commitment. As a member of the Climate Action 100+ investor initiative, LAPFF welcomes Royal Dutch Shell's steps in addressing the need to tackle climate change proactively. This is a small but pioneering step towards enabling companies to prepare for the low carbon transition.

COMPANY ENGAGEMENT ACTIVITIES

Engagement topics



Meeting outcomes



GOVERNANCE RISK

Financial Reporting Council to be Disbanded
The Government has announced plans to replace the Financial Reporting Council (FRC) with the Auditing, Reporting and Governance Authority (ARGA). Both the Kingman Review, which recommended the replacement, and the recent CMA consultation acknowledged LAPFF's contribution to the debate and enacted the Forum's recommendation to disband the FRC. The ARGA will have stronger enforcement powers. LAPFF's position has also been picked up by the BEIS Select Committee Enquiry into audit following the collapse of Carillion. The day after evidence had been taken from the large accounting firms, the first major audit case, AssetCo, to result in a Court judgment since 1968 found against Grant Thornton. The judgment confirms the statutory objective of audited accounts consistent with the position of George Bompas QC. The following week evidence from the CEO of the ICAEW confirmed that there were issues between International Accounting Standards and Company Law, something that had been previously denied. Members of the BEIS Committee have made it clear that the problem is not the law but the standards.

Ryanair
Ryanair Chairman, David Bonderman, will step down from the board by the 2020 AGM, the Company has said. This announcement comes after a lengthy shareholder rights campaign spearheaded by LAPFF. 2018 was a turbulent year including strikes by staff resulting in widespread travel disruption and the issuance of a profit warning. After continued challenge on the long-term tenure of the Chair, the Company announced that he will not seek re-election next summer. LAPFF had drafted a shareholder resolution requesting that Mr Bonderman resign. This draft resolution was conveyed to Ryanair just before the Company's statement about Mr Bonderman's stepping down was released.

Response to EU Consultation on Remuneration Report
LAPFF responded to a targeted consultation on standardising the presentation of remuneration reports under the Shareholders' Rights Directive. The aim of the consultation was to contribute towards the production of non-binding guidelines which help companies disclose clear, understandable, comprehensive and comparable information on individual directors' remuneration. In LAPFF's view, overall, implementation of the proposals will improve the disclosure of matters relating to executive compensation across EU markets. Standardising the reporting format will also help shareholders to assess directors' remuneration, to what extent that remuneration is linked to the performance of the company and how the company implements its remuneration policy in practice. As such, the response is largely supportive of the proposed reporting framework.

Dual-class Shareholdings at Tech Companies
LAPFF joined other investors in writing to Lyft, the US ride-share company, expressing opposition to the dual-class share structure proposed in its IPO. To provide context, a restatement of LAPFF's policy on support for the principle of one share, one vote was re-issued publicly. LAPFF considers that shareholders who have the same financial commitment to the company should have the same rights and that dual share structures with differential voting rights are disadvantageous to many shareholders and should be reformed. In the public statement, investors have called for shareholders' economic exposure and risk be aligned with their influence and voting rights post IPO.

Social Media Companies
LAPFF has joined a group of investors calling for social media companies to strengthen controls on objectionable content and live streaming following the Christchurch shootings in March. The Forum's involvement came about due to increasing concerns about the social and financial damage that could be caused by inappropriate or illegal content on social media even before Christchurch, with members considering engagement in 2017 and having made contact with New Zealand Super in February of this year.

ENVIRONMENTAL AND CARBON RISK

Along with other investor participants in the 'Climate Action 100+' initiative, Cllr Robert Chapman met with executives from steel manufacturing giant, **ArcelorMittal**. The meeting focused on the Company's progress towards decarbonising operations and planning for the transition to a low carbon economy. As part of the discussion, Cllr Chapman pressed on whether the company would be setting science-based targets in line with the Paris Accord, and if ArcelorMittal would consider linking carbon reduction performance with executive remuneration.

A range of issues were discussed at a Climate Action 100+ meeting with Simon Thompson, chair of **Rio Tinto** and the corporate head of strategy. The Company had just issued its first report aligned with the Taskforce on Climate Related Financial disclosure. Having disposed of its last coal assets in 2018, the Company sets out the impact of the low-carbon transition on its other commodities. As with many companies, the greatest challenges come with scope 3 emissions - the use of products down the supply chain - and for Rio Tinto, the supply of iron-ore to the steel sector is a case in point. A resolution had been filed with the Australian entity, Rio Tinto Ltd, on the Company's lobbying activities, in particular its relationship with the Minerals Council of Australia (MCA). The resolution has been withdrawn after the Company agreed to work more closely with the MCA to ensure future statements are 'technology neutral'.

In December, at least one LAPFF member fund joined other investors in filing a resolution for the **Exxon** 2019 AGM, requesting that the Company disclose short, medium and long-term greenhouse gas reduction targets in line with the Paris climate agreement. Exxon challenged the proposal seeking no-action relief with the US Securities and Exchange Commission (SEC) and the resolution did not make it to the ballot.

As a member of the Climate Majority Project, LAPFF joined other coalition members calling on the 20 largest carbon emitting US utility companies to commit to achieving net-zero carbon emissions by 2050, and to make this commitment by September 2020. The institutional investor statement called for a transition away from carbon intensive energy production and for companies to devise economically attractive ways to achieve net zero targets. Central to this was recommendations on governance reforms companies should adopt to maintain focus on the overall goal of net-zero emissions.

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SOCIAL RISK

Human Rights and Employment Standards

Institutional investors, led by the Church of England and Swedish Council of Ethics of the AP funds, have begun a large-scale initiative to prevent the further collapse of tailings dams. The initiative stems from the collapse of the Vale tailings dam in Brumadinho in late January. The Church of England convened a meeting of companies, investors, industry groups and industry experts on 4 March to discuss the causes of tailings dam failures. Cllr Robert Chapman attended the event on behalf of LAPFF. The Forum has been asked to play a pivotal role in the initiative, that of liaising with community members affected by both the Brumadinho and Samarco disasters. A statement from the community members was read out at the end of the March meeting, and LAPFF will continue to look for opportunities to bring the community representatives into future meetings.

The LAPFF chair met with Santander Consumer USA (SCUSA) to discuss employment standards, the failed appointment of a new CEO - Andrea Orcel, and the possibility of Santander's joining RE100, the renewable energy initiative. Cllr Doughty also attended an investor roundtable with the Nestle chair, Paul Bulcke, and asked about the Company's response to millennial demands for more socially and environmentally responsible practices. He further asked whether the UK Modern Slavery Act had had any impact on Nestle's approach to supply chain management.

LAPFF, along with a large a coalition of investors, signed a letter sent to 49 insurance companies to encourage the development of best practice around the provision of micro-insurance. The letter outlined that privately provided micro-insurance can create an affordable, accessible safety net which enables people to climb out of poverty. Insurance companies should consider specially tailored policies aimed at providing fair and transparent insurance products to those customers who are the least well served today.

Diversity

LAPFF continued to engage with companies on gender diversity through its membership in the 30% Club Investor group. As part of this initiative a letter was sent to Millennium & Copthorne Hotels plc, outlining the benefits of embracing cognitive diversity and requesting a meeting with the Chair to discuss the importance of diversity considerations in board balance, independence and in executive appointments. On 21 March, shortly after the meeting request was made, the company announced that Ms Paola Bergamaschi Broyd will be joining M&C's Board of Directors as an independent Non-Executive Director with immediate effect. LAPFF also attended a meeting with executive search firm Warren Partners to discuss the challenges the firm has found in increasing the number of female placements at board level.

MEDIA COVERAGE

Ryanair

Ryanair bows to investor pressure as Michael O'Leary moves upstairs and chairman departs – Telegraph. 4 February

O'Leary remains commanding presence at Ryanair – FT, 4 February 2019

Ryanair boss O'Leary in chance to win €100m bonus – FT, 8 February 2019

Investors ready to block €100m bonus package for Ryanair boss – The Telegraph, 23 February 2019

Pension fund forum hails move to replace Ryanair chair – Local Government Chronicle, 4 February

Technology IPOs

Investors call for Lyft to scrap dual-class share plans – FT, 17 March 2019

Investors Ask Lyft to Scrap Two-Share Plan Ahead of IPO - Bloomberg, 16 March 2019.

Investor group calls on Lyft to scrap dual-class share structure – Reuters, 18 March 2019.

Illegal Dividends

UK audit inquiry reignites 'illegal dividends' dispute – IPE, 18 February 2019

UK to replace audit regulator after damning review – IPE, 12 March 2019

Climate

BP agrees to more climate reporting after 'constructive' investor talks – IPE, 1 February 2019

NETWORKS AND EVENTS

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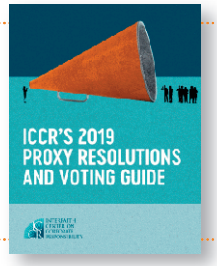
Church of England Tailings Dam Meeting
The Church of England and Swedish Council of Ethics convened a meeting with ICMM and a few member companies to tackle the collapse of tailings dams. LAPFF presented a statement from the communities affected by the Brumadinho and Samarco dam collapses.

IRMA Investor and Finance Industry Meeting
Update on new Initiative for Responsible Mining Assurance (IRMA) standard and discussion about the role investors can play in the initiative.

ICCR Proxy Voting Guide Overview
ICCR presented an overview of the shareholder resolutions being proposed in the US. Lobbying, climate change and human rights are the areas with the most resolutions being filed.



APPG
Nicola Parish, Executive Director of Frontline Regulation and Pauline Lancum, Case Management Team Leader, at The Pensions Regulator (TPR) spoke about the regulator's role in local authority pensions. In the well-attended session, they explained TPR's role in local authority pensions, how TPR is changing as a regulator as well as the challenges ahead and how TPR and LAPFF can work together.

Nomura Research Institute
The Forum met with Chie Misui of Nomura Research Institute. Discussion were centred around Japanese companies providing disclosure in English, and also problems around the financial statements and audit reports not being issued in sufficient time for investors in advance of the annual meeting.

COMPANY PROGRESS REPORT

104 companies engaged over the quarter

Q1 2019 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
AFRICAN RAINBOW MINERALS	ESP	Sent letter	Human Rights
AIA	ESP	Sent letter	Human Rights
ANGLO AMERICAN	ESP	Sent letter	Human Rights
ANGLO GOLD ASHANTI	ESP	Sent letter	Human Rights
ANTOFAGASTA MINERALS	ESP	Sent letter	Human Rights
ANZ-AUSTRALIA & NEW ZEALAND BANK	HBE	Sent Letter	Governance (General)
ARCELORMITTAL SA (2)	ECE	Meeting	Climate Change
ASIA COMMERCIAL JOINT STOCK BANK	ESP	Sent letter	Human Rights
BANCO BRADESCO	ESP	Sent letter	Human Rights
BANCO DAVIVIENDA	ESP	Sent letter	Human Rights
BANCO DE CHILE	ESP	Sent letter	Human Rights
BANCO DE CREDITO E INVERSIONES	ESP	Sent letter	Human Rights
BANCO SANTANDER CHILE	ESP	Sent letter	Human Rights
BANCO SANTANDER MEXICO	ESP	Sent letter	Human Rights
BANCO SANTANDER SA	PPI	Meeting	Employment Standards
BANDHAN BANK	ESP	Sent letter	Human Rights
BANK CENTRAL ASIA	ESP	Sent letter	Human Rights
BANK MANDIRI	ESP	Sent letter	Human Rights
BANK OF NINGBO	ESP	Sent letter	Human Rights
BANK OF THE PHILIPPINE ISLANDS	ESP	Sent letter	Human Rights
BANK RAKYAT	ESP	Sent letter	Human Rights
BARRICK	ESP	Sent letter	Human Rights
BB SEGURIDADE PARTICIPACOES	ESP	Sent letter	Human Rights
BBVA CONTINENTAL	ESP	Sent letter	Human Rights
BDO UNIBANK	ESP	Sent letter	Human Rights
BHP	ESP	Sent letter	Human Rights
BOTSWANA INSURANCE HOLDINGS	ESP	Sent letter	Human Rights
CAFCA LTD (2)	CAM	Sent Letter	Finance and Accounting
CHINA MERCHANT'S BANK	ESP	Sent letter	Human Rights
CHINA PACIFIC INSURANCE	ESP	Sent letter	Human Rights
CHIPOTLE MEXICAN GRILL INC	CAM	Sent Letter	Environmental Risk
CODELCO	ESP	Sent letter	Human Rights
COMMERCIAL INTERNATIONAL BANK	ESP	Sent letter	Human Rights
CREDICORP	ESP	Sent letter	Human Rights
CREDIT AGRICOLE EGYPT	ESP	Sent letter	Human Rights
DISCOVERY	ESP	Sent letter	Human Rights
ENTERPRISE GROUP	ESP	Sent letter	Human Rights
EXXON MOBIL CORPORATION (2)	ECE	Meeting	Climate Change
FIRSTRAND	ESP	Sent letter	Human Rights

Q1 2019 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
FREEPORT-MCMORAN	ESP	Sent letter	Human Rights
GENERAL ELECTRIC COMPANY (3)	ECE	Received Letter	Climate Change
GHANA COMMERCIAL BANK	ESP	Sent letter	Human Rights
GLENCORE	ESP	Sent letter	Human Rights
GOLD FIELDS	ESP	Sent letter	Human Rights
GOLDCORP	ESP	Sent letter	Human Rights
GUARANTY TRUST BANK	ESP	Sent letter	Human Rights
HDFC STANDARD LIFE	ESP	Sent letter	Human Rights
HYDRO	ESP	Sent letter	Human Rights
ICICI PRUDENTIAL	ESP	Sent letter	Human Rights
ITAU UNIBANCO	ESP	Sent letter	Human Rights
JX NIPPON	ESP	Sent letter	Human Rights
KASIKORNBANK	ESP	Sent letter	Human Rights
KENYA COMMERCIAL BANK	ESP	Sent letter	Human Rights
KOTAK MAHINDRA BANK	ESP	Sent letter	Human Rights
LIBERTY HOLDINGS	ESP	Sent letter	Human Rights
LOCKHEED MARTIN CORPORATION	OTH	Sent Letter	Human Rights
LONMIN	ESP	Sent letter	Human Rights
MAX FINANCIAL	ESP	Sent letter	Human Rights
MCDONALD'S CORPORATION	CAM	Sent Letter	Environmental Risk
MEARS GROUP PLC	ESP	Meeting	Board Composition
MILLENNIUM & COPTHORNE HOTELS PLC (2)	CAM	Sent Letter	Board Composition
MINERA SAN CRISTOBAL	ESP	Sent letter	Human Rights
MINSUR	ESP	Sent letter	Human Rights
MITSUBISHI MATERIALS	ESP	Sent letter	Human Rights
MMG	ESP	Sent letter	Human Rights
NATIONAL MICROINSURANCE BANK	ESP	Sent letter	Human Rights
NESTLE SA (2)	HBE	Meeting	Governance (General)
NEWCREST MINING	ESP	Sent letter	Human Rights
NEWMONT	ESP	Sent letter	Human Rights
OLD MUTUAL	ESP	Sent letter	Human Rights
ORANO	ESP	Sent letter	Human Rights
PEPSICO INC.	HBE	Meeting	Supply Chain Management
PING AN	ESP	Sent letter	Human Rights
POLYRUS	ESP	Sent letter	Human Rights
PORTO SEGURO	ESP	Sent letter	Human Rights
RESTAURANT BRANDS INTERNATIONAL INC	CAM	Sent Letter	Environmental Risk
RIO TINTO	ESP	Sent letter	Human Rights
RIO TINTO GROUP (GBP) (2)	ECE	Meeting	Climate Change
SANLAM	ESP	Sent letter	Human Rights
SOUTH32	ESP	Sent letter	Human Rights
SOUTHERN COMPANY	ECE	Meeting	Climate Change
STANDARD BANK GROUP	ESP	Sent letter	Human Rights

Q1 2019 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
STANDARD CHARTERED	ESP	Sent letter	Human Rights
SUL AMERICA	ESP	Sent letter	Human Rights
SUMITOMO METAL MINING CO., LTD.	ESP	Sent letter	Human Rights
SUNDARAM FINANCE	ESP	Sent letter	Human Rights
TECK	ESP	Sent letter	Human Rights
TI FINANCIAL	ESP	Sent letter	Human Rights
TOTAL SA	ECE	Meeting	Environmental Risk
UNITED UTILITIES GROUP PLC	CAM	Meeting	Other
VALE	ESP	Sent letter	Human Rights
VIETNAM PROSPERITY JOINT COMMERCIAL BANK	ESP	Sent letter	Human Rights
WAFA ASSURANCE	ESP	Sent letter	Human Rights
YUM! BRANDS INC.	CAM	Sent Letter	Environmental Risk
ZANACO	ESP	Sent letter	Human Rights

Company domiciles

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham
- Barnet LB
- Bedfordshire Pension Fund
- Border to Coast Pensions Partnership
- Brunel Pensions Partnership
- Cambridgeshire Pension Fund
- Camden Pension Fund
- Cardiff & Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation Pension Fund
- Clwyd Pension Fund (Flintshire CC)
- Cornwall Pension Fund
- Croydon Pension Fund
- Cumbria Pension Fund
- Derbyshire Pension Fund
- Devon Pension Fund
- Dorset County Council
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing Pension Fund
- East Riding Pension Fund
- East Sussex Pension Fund
- Enfield Pension Fund
- Falkirk Pension Fund
- Gloucestershire
- Greater Gwent Pension Fund
- Greater Manchester Pension Fund
- Greenwhich Pension Fund
- Gwynedd Pension Fund
- Hackney Pension Fund
- Hammersmith and Fulham
- Haringey Pension Fund
- Harrow Pension Fund
- Havering Pension Fund
- Hertfordshire
- Hounslow Pension Fund
- Islington Pension Fund
- Kingston upon Thames Pension Fund
- Lambeth Pension Fund
- Lancashire
- Leicestershire Pension Fund
- Lewisham Pension Fund
- LGPS Central
- Lincolnshire Pension Fund
- London CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton LB
- Newham Pension Fund
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire Pension Fund
- Northern LGPS
- Northamptonshire Pension Fund
- Northumberland Pension Fund
- Nottinghamshire County Council
- Oxfordshire Pension Fund
- Powys Pension Fund
- Redbridge Pension Fund
- Rhondda Cynon Taf Pension Fund
- Shropshire Pension Fund
- Somerset Pension Fund
- South Yorkshire Pension Authority
- Southwark Pension Fund
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk Pension Fund
- Surrey Pension Fund
- Sutton Pension Fund
- Swansea Pension Fund
- Teesside Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets Pension Fund
- Tyne and Wear Pension Fund
- Wales Pension Partnership
- Waltham Forest Pension Fund
- Wandsworth Council
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Westminster
- Wiltshire Pension Fund
- Worcestershire Pension Fund

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of the Local Government Act 1972.

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LGPS CENTRAL LIMITED

Voting Principles

March 2019

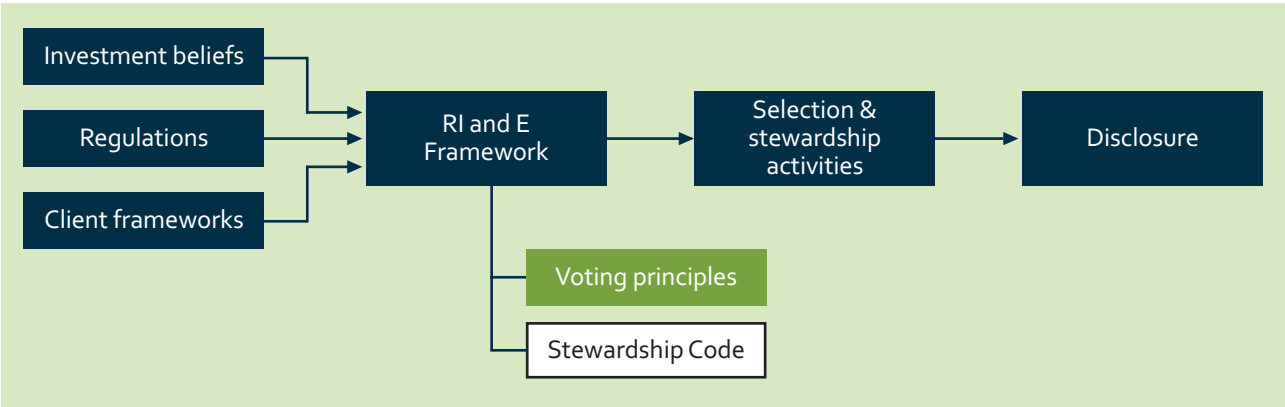
LGPS Central Limited

1.0 INTRODUCTION TO LGPS CENTRAL LIMITED'S VOTING PRINCIPLES, MARCH 2019

1.1 ABOUT THIS DOCUMENT

This document describes LGPS Central Limited's ("the Company") approach to exercising its delegated voting rights at the shareholder meetings of companies based in the UK. For non-UK securities the Company currently applies the international voting guidelines of its chosen proxy research provider. The principles in this document apply to voting rights attached to securities held in the Company's Authorised Contractual Scheme ("ACS"). As detailed in the Company's UK Stewardship Code, voting is a core component of the Company's approach to investment stewardship. This document is owned by the Company's Director of Responsible Investment & Engagement, and is implemented by the Investment Team, with ultimate responsibility resting with the Executive Committee. It is subject to annual review by the Board of the Company.

Figure 1: The Voting Principles in context



1.2 RESPONSIBLE INVESTMENT AND VOTING AT LGPS CENTRAL LIMITED

Using our clients' investment beliefs, the Company has published a Responsible Investment and Engagement Framework which sets two aims: (1) primarily, to support the Company's investment objectives; (2) secondarily, to be an exemplar for responsible investment (RI) within the financial services industry and raise standards across the marketplace. A three-pillar framework supports these aims. The pillars are *Selection*, *Stewardship*, and *Transparency & Disclosure*. Voting is a core component of the Company's approach to Stewardship.

2.0 CORPORATE GOVERNANCE, STEWARDSHIP AND VOTING IN THE UK

Consistently with its approach to RI, the Company's principles regarding corporate governance, stewardship and voting in UK markets are informed by the Company's fiduciary responsibilities and, by extension, those of its clients and partner funds. The Company uses its voting rights to support the long-term economic interests of its stakeholders and to ensure boards of directors are accountable to shareholders.

2.1 UK CORPORATE GOVERNANCE CODE

The Company supports the UK Corporate Governance Code ("the Code") and believes that strong standards of corporate governance translate ultimately into healthy and stable financial markets. UK companies are expected to adhere to the Code and to provide high quality disclosure on the extent of compliance with the Code in the annual report. The Company does not view the Code as a corporate governance "straightjacket", and companies are encouraged to use the "explain" feature of the Code where particular circumstances make deviation from the Code appropriate. Such explanations should be sufficiently detailed and transparent. Beyond the Code's provisions, it is important that companies adhere to the spirit of the Code and that Boards feel empowered to make appropriate arrangements and disclosures that are suitable to the business in question. Rather than recapitulate the principles and provisions of the Code, this document focuses on areas of corporate governance and voting that require particular clarification.

2.2 CYCLICAL STEWARDSHIP

Voting is inherently linked to engagement, and the votes cast by the Company at company meetings will typically reflect the outcomes of engagement activities during the year in review. Equally, a voting decision can set the tone for subsequent engagement. A vote is a process, not an event, and the Company's approach may be described as "cyclical stewardship". The Company's intention is that its voting decisions do not come as a surprise to our investee companies, and dialogue with companies facilitates this, and develops a two-way relationship of trust. Where the Company takes the decision to not support a resolution, this should be interpreted by the Boards of companies as an expression of strong and conscious dissatisfaction, not as a mechanical or thoughtless matter of routine. In order to send a strong signal, the Company makes a limited, tactical use of abstain.

2.3 MARKET TRANSFORMATION

The Company recognises its role as a large, diversified and long-term investor. It has an interest in improving the standards of corporate governance within financial markets and aspires to act, therefore, in a leadership role. Where certain standards or targets set the "minimum" (for example in matters relating to the diversity of company boards) the Company will consider voting beyond the minimum (for example by requiring a faster rate of progress on diversity within company boards). The Company's voting and stewardship activities are supported by its membership of various partnership organisations.

2.4 VOTING PROCEDURES

The Company engages a proxy research provider to analyse and provide advice relating to the Company's voting opportunities, consistently with the Company's policies. The provider also executes the Company's votes through the relevant intermediaries.

The Company has an active securities lending programme. To ensure that the Company is able to vote its shares at important meetings, it has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. The Company monitors the meetings and proportion of the securities on loan, and will restrict and/ or recall lent stock in select circumstances, with due consideration to the advantages of voting the shares versus the cost implications of recalling or restricting the loan of the stock.

The Company's voting decisions are arrived at through a collegiate approach, incorporating the views of members of the Responsible Investment & Engagement ("RI&E") Team and fund managers as appropriate for the company in question. The Company's votes are executed in compliance with its Conflicts of Interest policy.

2.5 VOTING DISCLOSURE

The Company's disclosure of its Voting Principles, and its voting outcomes, supports the Company's ambition of full transparency. With regards to voting outcomes, disclosures are made in three formats. Firstly, a report summarising the Company's voting activities is provided on a quarterly basis in the Company's *Quarterly Stewardship Report*. Secondly, the Company reports an annual summary of its voting activities, as well as other aspects of RI. Thirdly, the Company discloses its voting decision for every resolution at every eligible company meeting via the Company website. Each of these disclosures is available to the public.

From time to time the Company might choose to "pre-declare" its voting intentions for particular resolutions. This might include declarations made through third party platforms, such as the platform administered by the Principles for Responsible Investment.

3.0 VOTING PRINCIPLES

The principles below describe the broad parameters the Company will consider before casting its votes. They are supplementary to the principles and provisions of the Code, which is fully supported by the Company. It is not possible for one document to cover every eventuality and this document's ambition is to serve as a guide. The Company will override the guidelines below where this is deemed to be in the long-term economic interests of the Company's stakeholders. Where issues are insufficiently addressed by the Code or by this document, the Company will come to a decision using internal research and the advice of the Company's chosen proxy research provider.

3.1 A GREAT BOARD WITH A LONG-TERM VIEW

PRINCIPLES

Composition & committees

Good governance starts with a great board. Led by the Chair and/or the chair of the Nominations Committee, we expect our investee companies to appoint an effective board of directors whose combined expertise is a key strategic asset to the company. We believe the most effective boards include a diversity of skills, experiences and perspectives. Through our voting decisions (and otherwise) we support the Davies Review, the Hampton-Alexander Review and the Parker Review. Board members should be able to devote sufficient time to their directorship, should refrain from becoming "overboarded" and should attend all relevant meetings including committee meetings (audit, nomination, remuneration or other). Non-attendance should be explained in the Annual Report. Overboarded directors will not be supported, even if they are from demographics that are currently underrepresented in UK boardrooms. The board should demonstrate collective awareness of material short, medium and long-run risks including, where material, climate change. The Chair should ensure the board is of an appropriate size and, while the Company is not prescriptive on board size, would consider boards of 5 or fewer members, or boards of sixteen or more members, as red flags warranting further analysis. In line with the Code we expect the majority of board members, excluding the Chair, to be independent according the criteria defined in the Code. Independence is not, however, a sufficient condition for the support of a director's election or re-election: each director must offer a valuable contribution to the functioning of the board. With regards to the so-called "nine year rule" of independence: whilst we include "a tenure of fewer than nine years" among our criteria for independence, we fully support directors that make valuable contributions to the boardroom, even if their tenure exceeds this guideline.

Consistently with the Code, boards should include nomination, remuneration, and audit committees. The latter two board committees should be composed solely of independent non-executive directors who have served on the board for at least a year, and participation by executives in these committee meetings should be by exceptional invitation only and explained in the annual report. Both the audit and the remuneration committee should have at least three members. The annual report should include a clear report from each committee Chair explaining the issues the committee has prioritised during the year in review, outlining progress made without recourse to boiler-plate language. Particular attention is paid to the overboarding of audit committee members owing to the requirement to read financial papers in sufficient detail. External advisors on remuneration and audit should be accountable to the committees, and details should be disclosed in the annual report including the nature of services provided and whether the advisor provides additional services. Conflicts of interest relating to external advisers should be disclosed and managed effectively. The Company supports the creation of additional committees that are appropriate to the business model in question, but we do not support unwarranted layers of governance, or the outsourcing of important issues to less experienced directors. We typically support board oversight of sustainability issues, either through committee structures or through individual responsibility. We support the election of employee representatives where this improves the quality of the board and accountability to stakeholders.

Leadership

The role of the Chair is of special significance, as is the relationship between the Chair and CEO. Accordingly we pay particular attention to our vote on the re-election of the Chair. We support the Code's principles and provisions in relation to the role of the Chair and the eligibility of candidates. In exceptional circumstances we will support an interim Executive Chair, but expect a cut-off date to be provided, along with the appointment of a Deputy Chair and/or a strong Senior Independent Director ("SID"). Such exceptions should be discussed with shareholders and a clear and convincing rationale must be disclosed. The SID is another role of significance and we would not usually support the re-election of a non-independent SID, where independence is defined as per the Code.

Effectiveness, evaluation & election process
The effectiveness of boards should be reviewed internally (by an independent director, usually by the SID) on an annual basis, and should be reviewed by an external party every three years. Companies should seek shareholder input into the process for determining board effectiveness, and the identity of the triennial external reviewer should be disclosed in the annual report. Boards and their committees should establish a suitable number of meetings per year and the location of the meetings should be appropriate to the business and to the residency of the board members. In order to preserve the board's accountability to shareholders, directors should be re-elected on an annual basis by majority vote (excepting controlled companies, where director re-election ought to follow the Code). Director biographies should be sufficiently detailed in order for voting shareholders to make an informed judgement, and the Nominations Committee reports should describe the contribution the director will make, or has made, to the board during the year

3.2 A TRANSPARENT AUDIT FUNCTION, SUPPORTING TRUE AND FAIR REPORTING

PRINCIPLES

The audit committee of the Board plays a critical role and votes pertaining to its composition and conduct carry particular importance for shareholders. The committee should be composed of at least three independent non-executive directors with recent financial experience, and each member should have been on the board for at least a year in order to become familiar with the business. Members of the audit committee should achieve 100% committee meeting attendance and the thresholds for overboarding are stricter for audit committee members than for other directors. Attendance by executives at audit committee meetings should be by invitation only and should be explained in the annual report. We expect the audit committee to take responsibility for reviewing internal audit controls.

A company should disclose its auditor tendering policy and details of the tendering process (when it occurs).
The Company supports the EU's audit reforms, primarily that the external auditor should be independent and conflict-free (from the company and from audit committee members), and there should be regular tendering and rotation (at a minimum: tendering at least every 10 years, rotating every 20, with no re-appointment until at least four years following the rotation). The lead audit partner should be rotated and named in the annual report. Auditor fees must be clearly disclosed and non-audit fees should not exceed 50% of total fees. Where this limit is breached, the audit committee should plan for fee reduction. Companies should not provide auditors with limited liability or indemnification. The resignation of an auditor during the financial year should be clearly explained, as should any qualifications to the annual report. There should be no material omissions. The audit committee should ensure that adequate whistleblowing procedures are in place.

As with all elements of corporate disclosure, boilerplate should be avoided at all costs. Disclosures should be clear, relevant, as concise as possible and AGM materials should be available in English in sufficient time before the meeting. We will consider voting against the annual report where disclosure falls short of the mark. We support the FRC's guidance on risk management, internal control and related financial and business reporting.

The statement of viability should be clearly disclosed. Companies should provide sufficient disclosure on material and emerging risks across a suitably long-term horizon. "Long-term" should relate to the company's business cycle and should never be limited to the next twelve months. Aside from a description of risks, the strategic report should detail the contribution and composition of the company workforce.

3.3 STEWARDING OUR CAPITAL, PROTECTING SHAREHOLDER RIGHTS

PRINCIPLES

We aim to be responsible stewards of the capital bestowed on us by our clients. In turn, we expect companies to steward the capital we provide to them with care and concern for long-term outcomes. We would like our companies to be granted the flexibility to manage their capital structure effectively and raise additional capital where necessary in a timely and cost-efficient manner. We are against giving companies unlimited authorisation to raise capital unless there is a sufficiently compelling case. We encourage companies to use the 14-day General Meeting ("GM") facility to raise extraordinary, unanticipated volumes of capital and expect prior dialogue with shareholders.

Securities that are accompanied by shareholder rights are more valuable than securities lacking these rights. Clearly, we wish to preserve or enhance this value, not fritter it away. We avoid, therefore, the unnecessary dilution of our shares and seek to preserve our rights of pre-emption. We expect resolutions pertaining to capital decisions to be split out on the proxy statement, rather than "bundled" into one resolution. We will not typically approve the creation of non-voting shares and usually vote against attempts by controlling shareholders to increase the differential between his or her level of equity ownership and voting control. Stock splits are approved on a case-by-case basis with reference to the justification disclosed by the company.

Companies ought to disclose clear dividend policies. Dividends should be sufficiently covered and put to shareholder vote. Uncovered dividends should be accompanied by an explanation covering the sustainability of the dividend or distribution policy. Companies proposing scrip issues should offer a cash dividend option. Companies ought to explain why a share buyback programme is the most appropriate method of returning cash to shareholders, including the circumstances in which a buyback will be executed. The Company pays particular attention to share buyback programmes that could affect remuneration structures through the influence on earnings per share ("EPS") measurements: such structures must be buyback-neutral and buyback authorities must be within acceptable limits, expiring no later than the following AGM. The Company will typically vote against waivers of Rule 9 of the Takeover Code.

We are unlikely to support article changes that materially reduce shareholder rights. The Company is strongly opposed to virtual-only AGMs and views as fundamental the right to attend shareholder meetings in-person. We typically oppose resolutions seeking authority to limit the jurisdiction that applies to dispute resolution.

Merger and acquisition decisions are made on a case-by-case basis, with reference to the long-term economic interest of scheme members and compliance with the Company's Conflicts of Interest Policy. Decisions are arrived at through a collegiate approach including the RI&E Team and portfolio managers as relevant for the company in question. The Company will consider supporting transactions with the following characteristics: long-term benefits to shareholders, good quality disclosure, high quality management, supportive independent advice, approval of the independent directors. We seek to determine whether the deal yields a good strategic fit, and we value prior engagement with shareholders. We think poison pills should be generally discouraged and we do not support poison pills that entrench management or damage shareholder value. Introductions of poison pills should be clearly explained and put to shareholder vote. By contrast, poison pill redemption resolutions are generally supported. We will usually vote at courts and classes in a consistent manner with our GM vote.

The Company does not support resolutions seeking authority to make political donations, where the recipients are likely to be political parties or lobbying organisations of concern.

When it comes to capital, smaller companies might be afforded greater flexibility, depending on circumstance.

3.4 FAIR REMUNERATION FOR STRONG PERFORMANCE THROUGH THE CYCLE

PRINCIPLES

General

For the majority of the Company's UK listed investee companies, shareholders are entitled to vote annually on an advisory basis on the remuneration report and (typically) every three years on the remuneration policy (where the voting outcome is binding). Our voting decisions recognise that remuneration is contextual, rather than one-size-fits-all. Companies need flexibility to design and apply remuneration structures appropriate to the business in question. There is no requirement for remuneration structures to follow traditional models if more appropriate models can be found. Whilst the structure of remuneration policies is of prime importance, we are also concerned about the quantum of pay. Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company. Levels of executive remuneration that are, or are perceived to be, excessive and unfair can be demotivating to staff and reputationally damaging to the company. Executive pay should be considered in the context of overall workforce pay and in the context of the long-term financial needs of the company, its ability to meet its dividend policy and its ongoing requirement for capital investment and R&D. Remuneration structures should be simple and easy to understand for both shareholders and executives, who need clear lines of sight as to their objectives.

Governance

A remuneration committee, composed solely of independent non-executive directors, should design and apply appropriate remuneration structures and should enter into dialogue with shareholders and employee representatives. The outcome of consultations should be made known in advance of the AGM, such that policy changes do not come as a surprise to engaged shareholders or employee representatives. Any advisors to the remuneration committee should be disclosed with an explanation of the advice provided. Multiple relationships with the company should be transparent and the external auditor should not normally perform the role of remuneration advisor. The committee should feel empowered to apply discretion appropriately (including increases and decreases) and should be aware that it is possible to gain shareholder trust through the use of restraint. Where the remuneration report or policy receive large votes against (which we currently consider to be more that 20% oppose votes among minority interests), the company should consider changes to the remuneration committee, engaging shareholders and changing remuneration advisors. The output of the remuneration committee – including remuneration policies and reports – should exhibit intelligent design and proactivity. This can be achieved through appropriate departures from traditional remuneration models including Long Term Incentive Plans ("LTIP"). The remuneration committee and the nomination

committee should work together on succession planning and at an early stage of the recruitment process should start to design appropriate remuneration for incoming executives. We view exceptional payments as indicative of poor planning by the remuneration committee.

Disclosure
The Chair of the remuneration committee should author a detailed but intelligible report outlining the work undertaken during the year and, where relevant, how the committee has responded to significant levels of opposition votes. Disclosures should clearly relate remuneration structures to business strategy and should relate the levels of award to company performance, strategy, financial liabilities and overall workforce conditions. Any use of discretion should be fully explained. The median and maximum awards under the bonus scheme and incentive plans should be clear, as should the effect on EPS-based targets of share buyback schemes. The targets for variable pay, for this year and next, should be disclosed (there should be retrospective disclosure if the targets are commercially sensitive).

Structure and fairness
Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company.

An executive's base salary should reflect his or her role and level of responsibility. Base salary should not increase significantly without a clear, compelling and exceptional justification. The rate of salary should not be solely or mainly based on quartile comparison, and we would expect salary benchmarking to occur once every three years at a maximum. Salary increases should be set in the context of wage increases to the median worker. The remuneration committee should understand how base pay increases affect the total level of pay now and in the future. Contracts should be agreed on a 12 months basis.

Annual bonuses should have stretching, declared targets that link to company strategy. There should be consistency with the targets given prominence in the strategic report. Performance against targets should be disclosed in the remuneration report. In determining targets for variable pay, the remuneration committee should consider strategic, financial and non-financial measurements, and companies with high levels of ESG (environmental, social or governance) risk should consider using ESG metrics with appropriate weightings. In general, bonuses should be reduced from their current levels, and maximum and median rewards under annual bonuses should usually be lower than rewards within LTIP schemes, reflecting the dominance of the long-term over the short-term. The payment of a significant proportion of the annual bonus in deferred shares is welcomed where this improves alignment with shareholders, does not risk excessive dilution, and includes a suitable holding period. If a company experiences a significant negative event, bonus sanction should be considered even if the annual targets were met.

Incentive schemes should be transparent, understandable, long-term and appropriate to the circumstances and strategy of the company. For reasons of simplicity, companies should avoid having more than one active incentive plan. Performance conditions should ensure there is no reward for failure, nor for luck, and sufficient clawback and malus provisions should be designed and applied. The performance measurement period should have a minimum of three years, with a vesting period a minimum of three years from grant. Companies operating in sectors with long-term investment horizons should consider a performance period of more than three years. We are concerned that, despite the wide range of business models and investment horizons across UK listed companies, there are too many standard LTIP schemes with common vesting periods and performance targets, and we think this reflects a lack of intelligent design by remuneration committees. Committees should give thought to not having an LTIP and rewarding executives through a single bonus scheme which pays out in deferred shares with a holding period, based on stretching performance targets. Whether contained in an LTIP or otherwise, performance targets should not reward below-median performance and threshold vesting amounts should not be significant relevant to base salary.
Any performance award should be clearly linked to disclosed targets. Where comparator groups are used, the remuneration committee should disclose why the comparators are believed to be genuinely representative (e.g. with reference to their size, sector and performance). If awards depend on Total Shareholder Return ("TSR") relative to overseas peers, companies should disclose fair currency conversion policies in advance of the grant. There should be several performance targets, which should relate to shareholder return, to the business strategy and include financial and non-financial elements, according to the company's current and expected operating environment. We would not expect performance conditions to be re-tested between remuneration policy reviews. Following a change of control, awards under an LTIP plan should be made pro-rata for time and performance to date; they should not automatically vest. Share-based awards should not lead to excessive dilution and exceptions to this principle should be put to shareholder vote, which ought to receive support from the majority of minority shareholders. In the event of a decline in the share price, remuneration committees should prevent accidental ("windfall") gains through top level grants through the use of downward discretion. Remuneration policies should explain the treatment of M&A and share buybacks where these are likely to impact performance targets either directly or indirectly.

In order to achieve alignment with shareholders, executives should make a material, long-term investment in company shares and these shares should be subject to a suitable holding period following an executive's departure. Companies should disclose the time by which new executives should reach the target level share ownership. Whilst these shares may be hedged or used as collateral, the company should make it clear that this is not true for share awards earned through LTIPs. Executive share ownership for alignment purposes should be distinct from shares granted under LTIPs, though exceptions may be made where shares are vested and not subject to ongoing performance conditions. Significant share sales should be rationalised in the annual report. As with all aspects of remuneration, the remuneration committee should be wary of unintended consequences e.g. effects on risk taking or risk aversion, dividend policy design and M&A.

Remuneration committees should be cognisant of the significant costs and liabilities of executives' pensions contributions, the overall remuneration structure, and the tax and regulatory environment. Whilst we use a 30% contribution rate as a guideline for the upper limit, we think executive pensions contributions must set in the context of contributions for the overall workforce. Changes in actuarial assumptions that affect transfer values should be clearly disclosed. No element of variable pay should be pensionable.

Certain payments to incoming and outgoing executives cannot be avoided, but remuneration committees should be mindful of opportunities to minimise such costs in alignment with long-term shareholders. Outgoing executives should not be rewarded for failure. Severance pay consequences should be considered before appointment, such that early termination does not lead to unanticipated liabilities. We will not usually support retention payments ("golden handcuffs"), but could support deferred payments to key staff during critical periods. A clear rationale should be presented during shareholder dialogue. Similarly, compensatory payments for new appointments (including where the appointee has had to forgo expected variable pay at a previous employer) could only be considered with a clear rationale and we would expect compensation to be awarded in shares and subject to perf conditions.
New appointments should normally begin on a lower salary to avoid creeping costs.

We will typically oppose tax equalisation payments where this introduces a new (net) cost to the company. We expect a cap on such payments to be disclosed.

Non-executive directors' fees should reflect the role and the level of responsibility and should not increase excessively from one year to the next. We do not expect non-executives to participate in LTIP schemes but understand that, exceptionally, directors may be granted shares at listing or pre-listing stage on a one-off basis. Share awards need a clear rationale and the policy should be applied consistently over time with conditions and parameters that ensure independence of the director's contribution. At a minimum this should include a requirement that share-based awards do not have performance conditions and are made at the market price. Additional benefits for non-executives should reflect necessary business duties only.

3.5 MISCELLANEOUS

PRINCIPLES

We are regularly called on to vote on shareholder proposals. These proposals address a range of topics including proxy access, articles of association, climate change, human rights and more. The Company takes a case-by-case approach to shareholder resolutions and will support resolutions that are appropriately worded and, on balance, support the long-term economic interests of our stakeholders and help to make boards of directors accountable to shareholders. We consider pre-declaring our voting intentions on shareholder proposals on a case-by-case basis.

We follow the Pension and Lifetime Savings Association's ("PLSA") guidance on related party transactions.

We usually support all employee share schemes, except where we have concerns over dilution.

Smaller companies and investment trusts are at different stages with respect to corporate governance arrangements, and our expectations of these companies reflect these differences in some circumstances. We are mindful of the QCA corporate governance code for smaller and medium listed companies and the Association of Investment Companies Code of Corporate Governance.

Where the Company has voting rights at private (unlisted) companies, votes will be cast drawing on principles articulated above as far as practicable.

About LGPS Central Limited
LGPS Central Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No: 10425159. Registered Office: Mander House, Mander Centre, Wolverhampton, WV1 3NB.

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FOR PROFESSIONAL CLIENTS ONLY

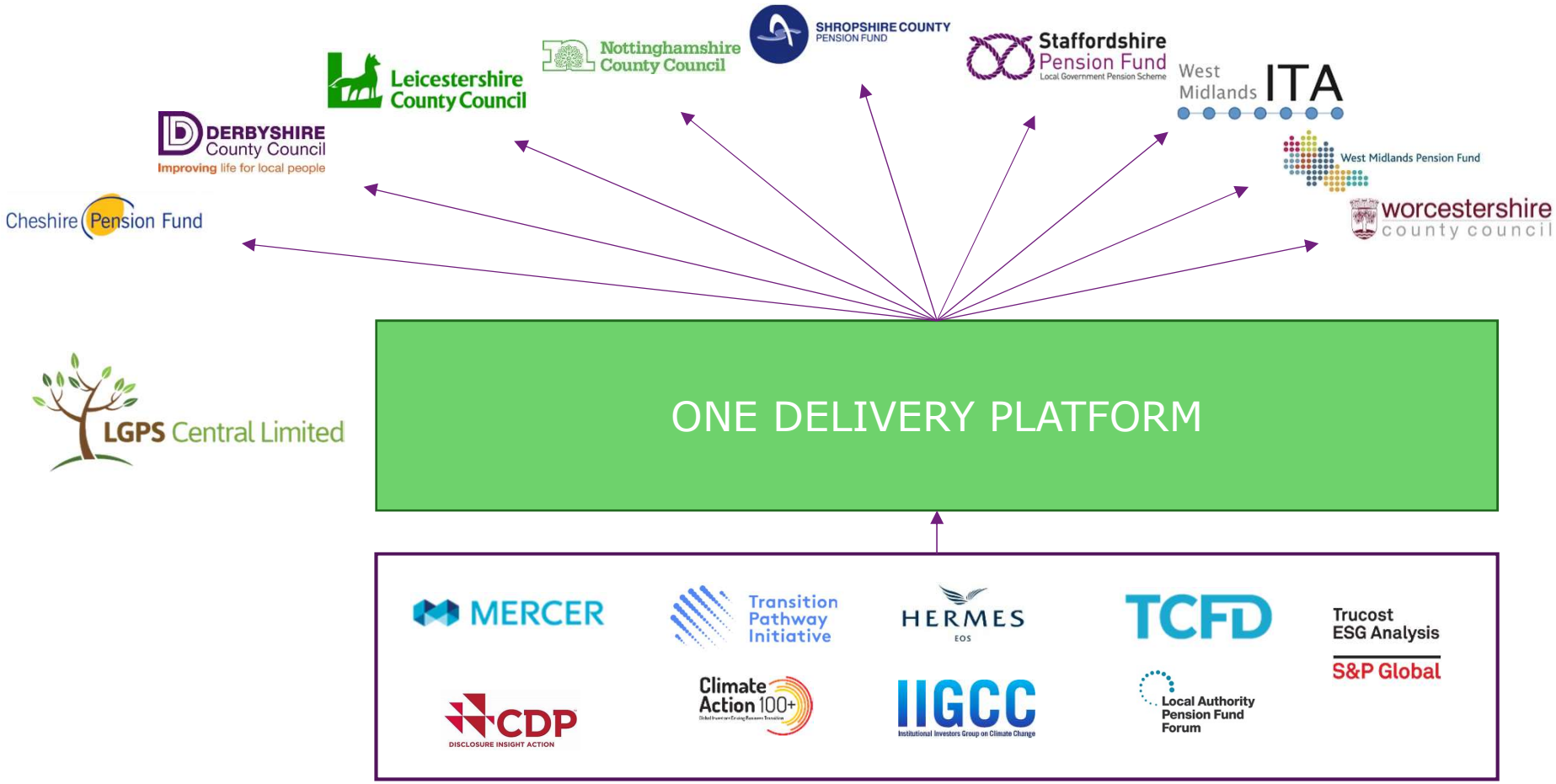
LGPS Central

DRAFT Climate Risk Monitoring Platform

Michael Marshall
Director of Responsible Investment & Engagement

March 2019

PLATFORM SERVICE PROVIDERS & PARTNERSHIPS (EXAMPLE)



WHAT DO YOU GET?

Four <u>Optional</u> Deliverables:

1. Assistance drawing up a climate change framework & strategy
2. Per fund, an annual Climate Change Risk Report, tailored to your fund, comprising
   - Climate scenario analysis, fund-wide, all asset classes
   - Carbon metrics scorecard (carbon footprint, stranded assets analysis, etc)
   - Annual Climate Stewardship Plan
3. Per fund, annual training of Pensions Committee (or equivalent)
4. TCFD report for public disclosure within your Annual Report

BENEFITS TO YOU

1. **Awareness** of climate-related risks and opportunities
    - No one can say you don't know what the risks are

2. **Action** to reduce climate-related financial risks
    - No one can say you're not considering all reasonable options

3. **Public communication** via annual TCFD report for inclusion in Annual Report
    - The government has asked a number of UK pension funds about this: it is the likely direction of travel

3. **Save time** procuring suppliers
    - All done through the LGPS Central climate platform. This saves costs too.

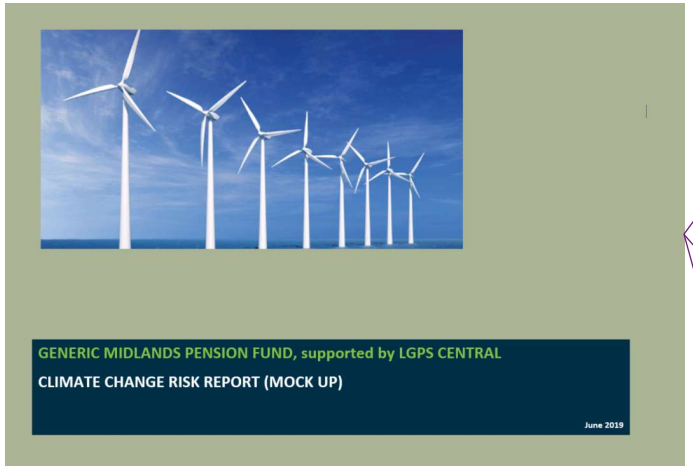
5. **Annual training** for elected members

6. **Centralised** reporting through the LGPS Central Climate Risk Monitoring Platform, synthesising the most pertinent information to your fund
    - No need to wade through numerous reports

7. **Stakeholder kudos**; greater immunity from challenge

CLIMATE CHANGE RISK REPORT

- Synthesised report covering climate risks, and an Annual Stewardship Plan



Scenario Analysis

- *What is the long-term estimated returns impact of climate risks for your asset allocation?*

Carbon Metrics Scorecard

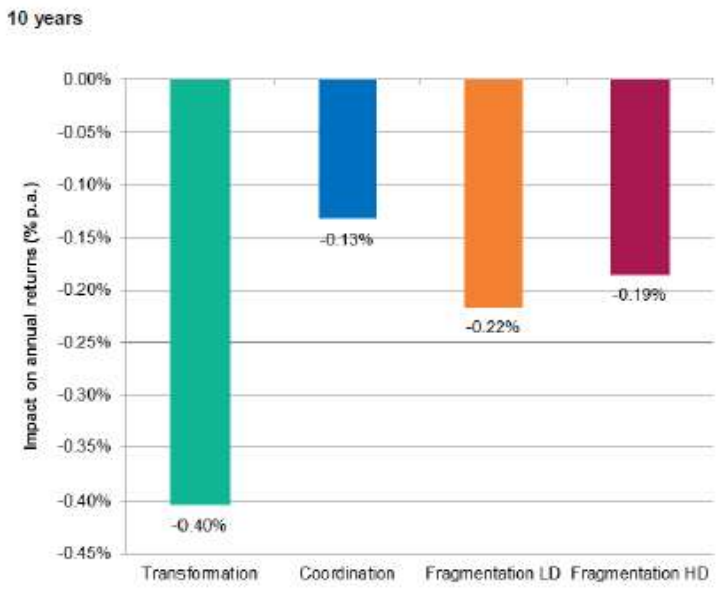
- *Carbon footprints; Carbon tax risk; Exposure to coal and other fossil fuel reserves*

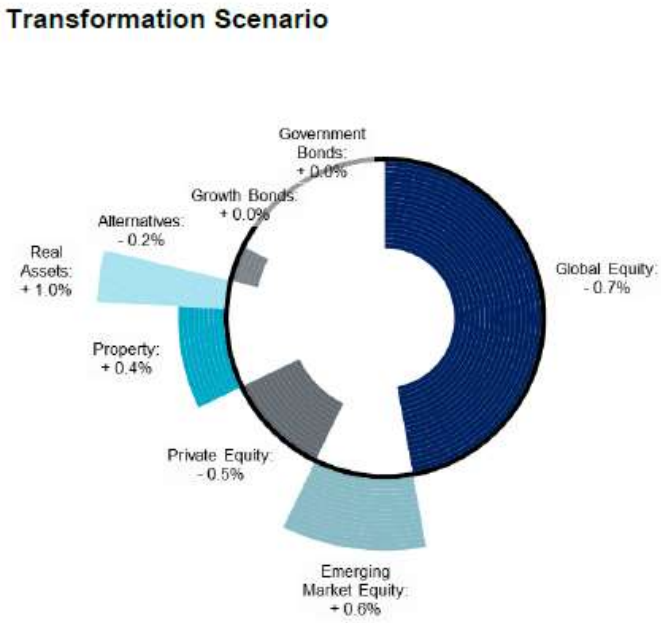
Annual Stewardship Plan

- *Priority companies for engagement; funds to monitor; policy engagement; key shareholder resolutions*

EXAMPLE OUTPUTS

- Climate scenario analysis, fund-wide, all asset classes





- *What is the long-term estimated returns impact of climate risks for your asset allocation, for a given climate scenario (i.e. 1.5 degrees, 2 degrees, 3 degrees, etc)?*

EXAMPLE OUTPUTS

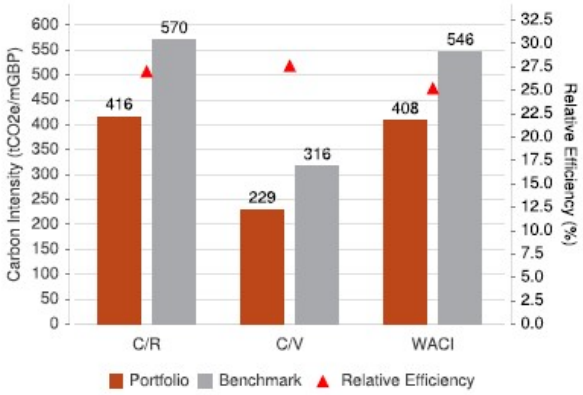
- Climate scenario analysis, fund-wide, all asset classes

	ACTIVE					PASSIVE					
IT	0.01%	-0.01%	0.00%	-0.02%	-0.07%	-0.07%	-0.03%	-0.02%	-0.08%	0.03%	-0.09%
HEALTH	-0.01%	-0.03%	-0.03%	0.03%	-0.01%	0.01%	-0.01%	-0.02%	-0.02%	0.01%	0.01%
REAL ESTATE	0.00%	-0.01%	0.02%	-0.02%	0.00%	-0.01%	0.00%	0.03%	0.00%	0.00%	-0.01%
TELECOMS	0.00%	0.00%	-0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
FINANCIALS	-0.01%	-0.07%	-0.02%	0.03%	0.02%	-0.01%	0.02%	-0.05%	0.02%	0.02%	0.04%
INDUSTRIALS	0.05%	0.14%	0.09%	-0.03%	-0.22%	-0.02%	-0.09%	0.03%	-0.03%	0.01%	-0.06%
CONSUMER DISCRETIONARY	-0.01%	0.05%	-0.02%	-0.04%	-0.14%	0.01%	-0.07%	0.04%	-0.01%	-0.01%	0.01%
CONSUMER STAPLES	0.03%	-0.27%	0.05%	-0.06%	0.09%	-0.03%	0.01%	0.04%	0.00%	0.00%	-0.18%
MATERIALS	-0.13%	0.13%	0.04%	-0.05%	0.03%	-0.10%	-0.06%	-0.17%	-0.19%	0.06%	-0.13%
UTILITIES	0.09%	0.13%	-0.16%	0.13%	0.04%	-0.07%	0.05%	-0.01%	-0.17%	-0.06%	0.02%
ENERGY	-0.05%	0.08%	-0.01%	0.18%	0.22%	0.07%	0.19%	0.13%	-0.30%	0.00%	0.10%
TOTAL EQUITIES (DM & EM)	-0.05%	0.14%	-0.05%	0.14%	-0.02%	-0.22%	0.01%	-0.01%	-0.79%	0.06%	-0.30%

- *Where in your fund are the hotspots of climate risk – measured in returns impact – split by fund and sector*
- *Which areas should I monitor more closely?*

EXAMPLE OUTPUTS

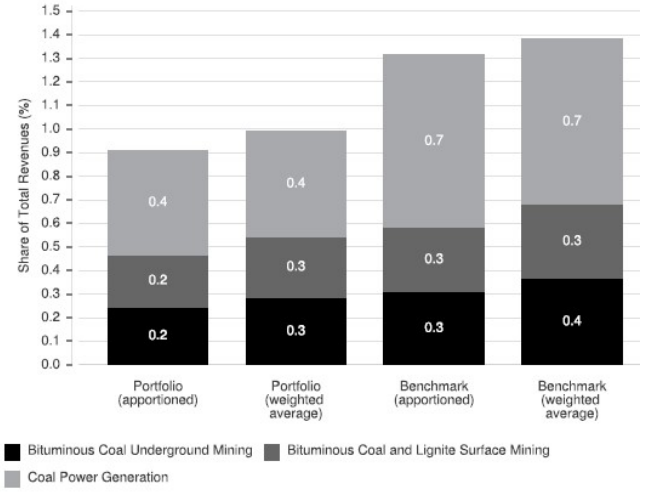
- *Carbon Footprint vs benchmark*



- *Stocks to prioritise for engagement*

Description	Provided Identifier	Holding (mGBP)	Sector	Carbon Apportioned (% of total)
China Shenhua Energy Co Ltd	CNE1000002R0	3.967	Energy	19.01
Veolia Environnement	FR0000124141	0.982	Utilities	2.97
Exxon Mobil Corp	US30231G1022	5.477	Energy	3.05
AGL Energy Ltd	AU000000AGK9	0.469	Utilities	1.81
Entergy Corp	US29364G1031	0.787	Utilities	1.80
Ube Industries	JP3158800007	0.356	Materials	1.76
FirstEnergy Corp	US3379321074	0.387	Utilities	1.58
Origin Energy Ltd	AU000000ORG5	1.109	Energy	1.62
Royal Dutch Shell PLC	GB00B03MLX29	4.825	Energy	2.29
Air Liquide	FR0000120073	3.487	Materials	1.54

- *Coal exposure & fossil fuels*



- *Carbon tax/ carbon price risk*

EXAMPLE OUTPUTS

LGPS Central

HERMES EOS

Transition Pathway Initiative

Climate Action 100+ Global Investors Driving Business Transition

IIGCC Institutional Investors Group on Climate Change

Local Authority Pension Fund Forum

Climate change

Climate change	# of companies engaged	# of issues & objectives engaged	# of objectives engaged	% of objectives with progress	# of objectives completed
Engagement programme companies	107	143	92	41%	6

Objectives for 2018-20

- **Climate change risk management** – (i) adoption of short to medium-term GHG reduction targets, aligned to executive remuneration; (ii) appraisal of asset portfolio risks from low-carbon scenarios; (iii) appraisal of the physical risks arising from climate change and implementation of an appropriate mitigation plan.
- **Low carbon alignment** – (i) development and publication of long-term science-based greenhouse gas emissions reductions targets in line with 2°C; (ii) development of a long-term strategy by which the company can survive and thrive in the transition to a low carbon economy; (iii) demonstration of support for the public policy ambition of the Paris Agreement, accompanied by leadership to develop appropriate public policy frameworks.
- **Disclosure** – (i) disclosure to the CDP initiative; (ii) disclosure in financial reporting of the company's approach to climate change risks and opportunities using the guidelines to be published by the TCFD.
- **Public policy & market best practice** – (i) support the Climate Action 100+ collaborative engagement initiative by acting as engagement lead for a range of companies in different regions and supporting development of an engagement impact measurement tool; (ii) improve the quality of wider investor engagement on climate change by contributing to collaborative engagements through the Institutional Investors Group on Climate Change in Europe, Ceres in the US and the Principles for Responsible Investment.

TIMELINE (DRAFT, EXAMPLE)

LGPS Central

Period	Action	Persons
26 Feb 2019	RI Working Group discussion	Central, PFs
7 Mar 2019	PAF discussion	Central, PFs
Mar 2019	Obtain quotes, select suppliers	Central, PFs
Apr-May 2019	Gather holdings data from custodians Clean data, QA, pass to suppliers	Custodians<->Central<-> Suppliers
June-July	Receive scenario analysis, carbon metrics QA	Suppliers -> Central
Sept	Issue Climate Change Risk Reports	Central -> Partner Funds
Sept	Issue TCFD reports	Central -> Partner Funds
Q4	Pensions Committees Training	Central, PFs
Feb 2020	Annual Stewardship Plan: Six-Monthly Report on Progress	Central -> Partner Funds
Etc	Etc	Etc

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All information is prepared as of 06.03.2019.

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worcestershire countycouncil

AGENDA ITEM 8

PENSIONS COMMITTEE
21 JUNE 2019

PENSION FUND UNAUDITED ANNUAL REPORT AND ACCOUNTS 2018/19

Recommendation

1. **The Chief Financial Officer recommends that the unaudited Pension Fund Annual Report and Accounts 2018/19 be approved.**

Background

2. 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

Legislative Requirements and Guidance

3. The requirement for and content requirements of LGPS pension fund annual reports in England and Wales was initially introduced under Regulation 34 of the LGPS (Administration) Regulations 2008. For reporting periods beginning 1 April 2014 and beyond, the statutory requirement in England and Wales can be found in Regulation 57 of The Local Government Pension Scheme Regulations 2013.

4. CIPFA published updated guidance in April 2019 that represents a general framework for pension fund administering authorities to meet their statutory obligation to prepare and publish an annual report for the pension fund. The Department for Communities and Local Government has adopted this guidance as statutory guidance for the purposes of regulation 57(3) in the 2013 Regulations.

5. The CIPFA guidance included the requirement for specific information to be published to assist the production of the scheme annual report compiled by the LGPS scheme advisory board.

Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report
Rob Wilson
Pensions, Investment, Treasury Management and capital strategy Manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Supporting Information

- Appendix - Pension Fund Annual Report and Accounts 2018/19

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

Worcestershire Pension Fund

Draft Unaudited Statement of Accounts 2018/19

Table of Contents

About the Accounts

BASIS OF PREPARATION

The statement of Accounts summarises the Fund's transaction for the 2018 / 2019 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

Explanatory Foreword and a Review of the Year 2018/19

Contains a review of the year and other general information about the accounts.

The Worcestershire Pension Fund Account

Details the money received and spent within the Pension Fund during 2018/19

Net Assets Statement

Statement showing the Pension Fund's financial position at 31 March 2019.

Notes to the Pension Fund Accounts

Notes providing additional information for the Fund Account and Net Assets Statement.

Statement of Accounting Policies

These are now shown against the relevant note as opposed to a prescribed list of accounting policies in previous year's accounts.

The accounts have been prepared on a going concern basis

1. Explanatory Foreword and a Review of the Year 2018/19

Foreword by the Chief Financial Officer

Welcome to the Worcestershire Pension Fund 2018/19 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

Table 1 Aim and Purpose of the Scheme

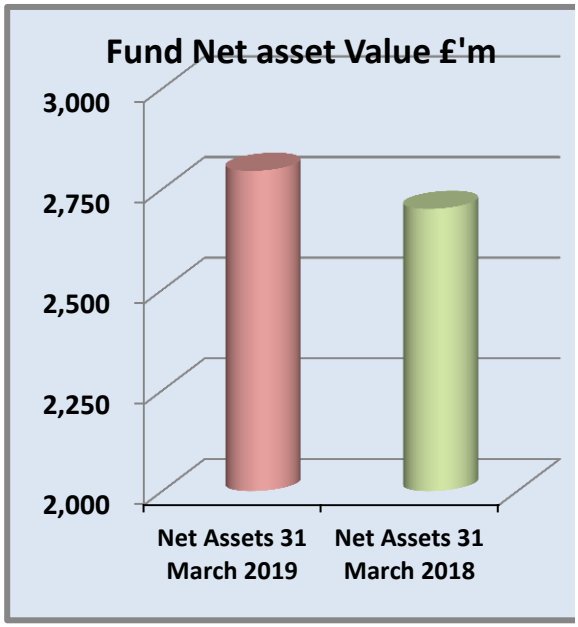
The aims of the Scheme are to:	
•	**enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, designated, community and admitted bodies**
•	**manage employers' liabilities effectively**
•	**ensure that sufficient resources are available to meet all liabilities as they fall due, and**
•	**Maximise the returns from investments within reasonable risk parameters.**
The purpose of the Scheme is to:	
•	**receive monies in respect of contributions, transfer values and investment income,**
•	**Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.**

Key headlines

- The value of the Fund's net assets increased by £94.3 million from £2,701.0 million at 31 March 2018 to £2,795.3 million at 31 March 2019:

- Income from contributions decreased by 48%, (£94.7 million from £195.6 million) due mainly to some employers paying their 3 year pension contributions upfront in 2017/18 to reduce the overall costs. This change in income level has had a knock on impact to a number of notes to the accounts.

- Net investment returns decreased by 10%, due to market volatility, tempered somewhat by the equity protection strategy. There was also some disinvestment from passively managed pooled funds to Infrastructure and property funds in line with the investment strategy.



- The investment income associated with the passive managed pooled funds and Equity Protection is retained within the pooled funds and reinvested increasing the value of the pooled funds' units and therefore increasing the market value of the Fund.

- Contributions from staff and employers were less than the benefits paid and management expenses in 2018/19 by £33million due mainly to explanation provided above

- During the year a surplus resulted on the Pension Fund account (aside from the change in investments market value) totalling £16.8 million for 2018/19 million, a decrease of £98 million from the surplus of £114.8 million for 2017/18. This was mainly due to some employers paying their 3 year pension contributions upfront in 2017/18

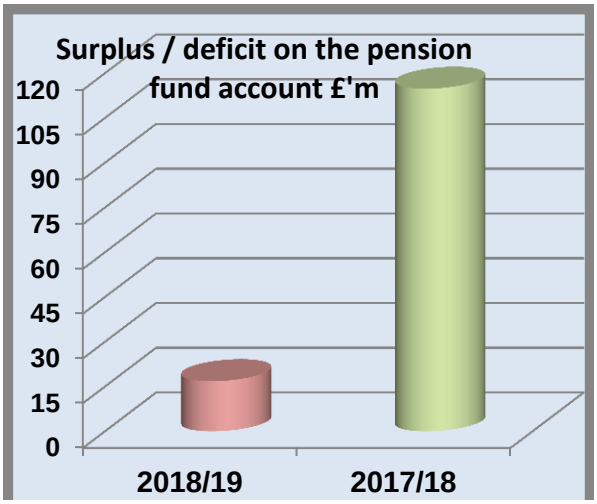


Table 2 analysis of changes within the fund's membership profile

	31 March 2018		31 March 2019	Change	Change %
Contributors to the fund	22,478		23,436	958	4.3
Pensions paid	17,507		18,089	582	3.3
Deferred members	20,351		20,729	378	1.9
	60,336		**62,254**	**1,918**	**3.2**

Scheme membership has continued to grow and is now in excess of 62,000. Active employer numbers have decreased from 208 to 196 at the end of March 2019 mainly due to a number of schools merging as Academies. The administrative challenges presented by this continued growth are considerable, given the additional data requirements of the 2014 Career Average Revalued Earnings (CARE) Scheme, and the increased emphasis on data quality demanded by the General Data Protection Regulation (GDPR) from May 2018 and new compliance standards introduced by the Pensions Regulator. In view of these challenges the Fund continues to review its systems and processes and importantly, the way it engages with, and receives data from scheme employers

Governance

The Council has established a Pension Committee to exercise the Administering Authority's responsibility for the management of the Worcestershire Pension Fund. The Pension Committee has overall responsibility for the management of the administration of the Fund and for the strategic management of the Fund's assets. In order to discharge its responsibility effectively the Pension Committee is supported by the Pension Administration Advisory Forum and the Pension Investment Advisory Panel.

The Council has also established a Pension Board, which has been operational since July 2015. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to: (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and; (b) to ensure the effective and efficient governance and administration of the Scheme.

The Pension Fund's Governance Policy Statement is published on the Council's website. The Policy Statement ensures that the Fund's governance arrangements comply with the LGPS Regulations and are aligned to prescribed best practice guidance.

Management of the fund's assets

The management of the fund's assets is operated through fourteen specialist external managers with seventeen mandates in total. The Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent financial adviser.

The fund's asset allocation is kept under regular review and the current long term investment allocation includes investments in a wide variety of UK and overseas companies, Corporate Bonds, Corporate Private Debt, Property and Infrastructure. As a result of an asset allocation review that took place in November 2016, the following Pension Committee endorsed recommendations were progressed during 2017/18 and have continued during 2018/19:

a) An increase in the allocation to Infrastructure or a mix of Infrastructure and Real Estate by 5% from the current strategic allocation of up to 10% of the Fund to 15%.

b) An increase in the Fund's allocation to alternative indices by 5% from the current strategic allocation of up to 10% of the Fund to 15%.

c) The Fund returns the Strategic Asset Allocation to North American equities to Passive Management.

As at 31st March 2019 the 2016 strategic asset allocation review recommendation of a 15% commitment to 'Alternatives including property' continued to be implemented following investments into a pooled Infrastructure Fund; First State European Diversification Fund, implementation of the commitments to Hermes II a pooled infrastructure fund and a Corporate Private Debt mandate with EQT. Further commitments to property debt funds for Walton Street and Venn were agreed by Committee in 2018/19 and are due to be implemented in 2019/20.

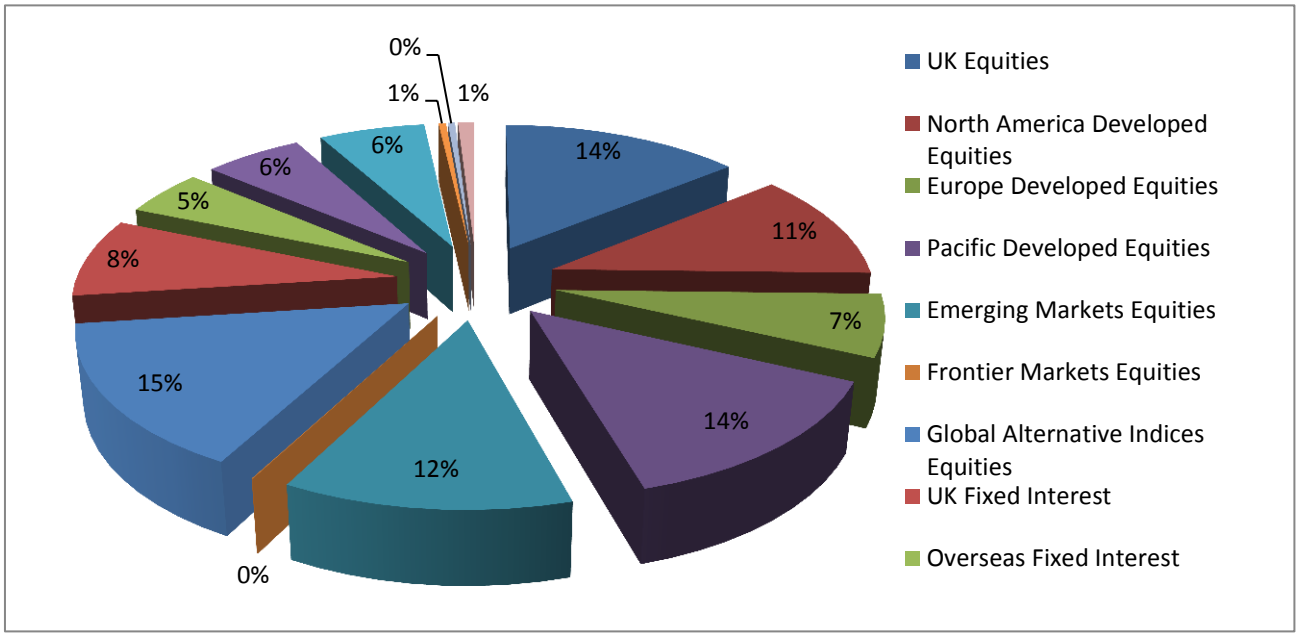
The majority of the improvement in the funds' assets since the 2016 valuation is attributable to the rally in equity markets over the period. The Actuary strongly recommended that the fund consider using an equity protection strategy to

- Reduce the likelihood that further deficit contributions will be required at the 2019 valuation and

- Seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations

River and Mercantile continued to manage the Equity Protection Strategy using a 'static' options hedge solution that was implemented during late February / early March 2018, providing asset valuation protection for the passive equity portfolio covering a period up to the next actuarial valuation in 2019. The following chart details the distribution of the fund's assets as at 31 March 2019:

Table 3 Distribution of the Funds Assets



Impact of Brexit

Ongoing discussions have taken place throughout the year with existing fund managers and our actuary to consider the implications of Brexit particularly on the market valuation of the fund. As detailed above the fund had already taken steps to diversify some of its asset allocations from equities into property and infrastructure as well as implementing an equity protection strategy to guard against major market fluctuations. Excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. Meetings were held with the actuary to potentially update the Employers IAS19 Pension statements at year end. However, the announcement that the UK's membership of the EU has been extended until the 31st October 2019 has minimised this risk, but continuing risk management steps will be taken leading up to this date.

LGPS Central

The 2017/18 accounts highlighted the government's approach and reasoning (Opportunities for collaboration, cost savings and efficiencies) for asset pooling with responsibility for asset allocation staying with the 90 administering authorities. Worcestershire Pension Fund (WPF) in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) set up a collective investment vehicles called LGPS Central.

The Company was authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1st April 2018.

Each Fund approved the regulatory capital requirements for LGPS central and its introduction on the 31st January 2018. All FCA regulated entities were required to hold regulatory capital designed to protect the solvency of the entity. It was calculated that £16m of capital was needed to be introduced ("Capital Introduced") by the eight Shareholding Funds to cover the capital requirement, a prudent buffer, set-up costs and operational liquidity. Each Fund provided £2million of capital on 31st January 2018, with Worcestershire's share consisting of £1.3million of equity and £0.7million of debt which has been met by Worcestershire Pension Fund

LGPS Central has been in operation just for 12 months and a number of the local authorities have transitioned some of their existing asset allocations to be managed by the company. WPF first transfer of funds is likely to be triggered by the launch of LGPS Central's Global Active Emerging Market managed mandate which is expecting to start operating from July 2019. WPF currently has two actively managed emerging market mandates with a total value of £355.3m as at the 31st March 2019.

Management of the fund's liabilities

The funding strategy is kept under regular review by the Pension Committee and the fund's actuary assesses at three yearly intervals the balance of the fund's assets against its liabilities. An actuarial valuation of the Worcestershire Pension Fund was carried out by Mercers as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. The key outcomes of the valuation at that point in time are detailed below:

- The Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. This is an increase on the 69% funded position as a result of the 2013 valuation.

- A common rate of contribution of 15.3% of pensionable pay per annum is required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

- The deficit of £654 million would be eliminated by a contribution addition of £34 million per annum increasing at 3.7% per annum for 18 years.

The next actuarial valuation will be undertaken in 2019/20, with any changes to the employers' contribution rates being implemented with effect from 1 April 2020.

To meet the requirements of the Regulations, Worcestershire County Council as administering authority of the fund has set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

Michael Hudson
LLB (Hons), LLM, CPFA
Chief Financial Officer

2. Fund Account (money received and spent during 2018/19)

For the year ended 31 March 2019

2017/18 £m		Notes	2018/19 £m
	Dealings with members, employers and others directly involved with the Fund		
185.2	Contributions	4	81.8
10.4	Transfers in from other pension funds	5	12.9
195.6			**94.7**
(98.0)	Benefits	6	(106.3)
(8.8)	Payments to and on account of leavers	7	(8.7)
(106.8)			**(115.0)**
88.8	**Net additions / (Withdrawals) from dealings with members**		**(20.3)**
(0.8)	Administrative expenses	8	**(1.1)**
(9.0)	Management expenses	9	**(12.0)**
79.0	**Net additions / (Withdrawals) including fund management and administrative expenses**		**(33.4)**
	Returns on investments		
37.2	Investment income	10	51.7
(1.4)	Taxes on income	11	(1.5)
105.3	Profit and losses on disposal of investments and changes in the market value of investments	12a & 15b	77.5
141.1	**Net return on investments**		**127.7**
220.1	**Net increase / (decrease) in the net assets available for benefits during the year**		**94.3**
2,480.9	**Opening fund net assets of the scheme**		**2,701.0**
2,701.0	**Closing fund net assets of the scheme**		**2,795.3**

The key reason for the difference in contributions is due to a number of organisations prepaying their 3 year (2017/18 to 2019/20) employer deficit recovery contributions and 90% of their normal contributions in 2017/18 up to the next triennial valuation due to take effect from the 1st April 2020. Management expenses have increased mainly due to disinvesting some existing passive equity funds into Infrastructure and Property funds which by their nature have larger management fees. The increase in investment income is mainly due to dividends from the managed Equity Protection fund which is retained within the pooled funds and reinvested to maintain the collateral required for the strategy.

3. Net Assets Statement for the year ended 31 March 2019 (showing the financial position at 31 March 2018 and 2019)

2017/18		Notes	2018/19
£m			£m
1.9	Long term Investment Assets	12	1.4
2,692.6	Investment Assets	12 &13	2,753.1
27.1	Cash Deposits	12	32.9
2,721.6			**2,787.4**
(32.2)	Investment Liabilities	12	(29.0)
25.6	Current Assets	17	39.2
1.8	Non-Current Assets	18	1.5
(15.8)	Current Liabilities	19	(3.8)
2,701.0	**Net Assets of the Fund available to fund benefits at the period end**		**2,795.3**

These Financial Statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) is disclosed in the Actuarial Statement (note 2 to the Accounts). Note 14 to the Accounts provide details on the Fair Value of assets

Financial assets are included in the Net Assets Statement above on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account. The values of investments as shown in the Net Assets Statement have been determined as follows:

i) **Market-quoted investments** the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) **Fixed interest securities** fixed interest securities are recorded at net market value based on their current yields.

iii) **Unquoted investments** the fair value of investments for which market quotations are not readily available is determined as follows:

   a. **Valuations of delisted securities** are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

   b. **Securities subject to takeover offer** – the value of the consideration offered under the offer, less estimated realisation costs.

c. **Directly held investments** include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

d. **Investments in unquoted property and infrastructure pooled funds** are valued at the net asset value or a single price advised by the fund manager.

e. **Investments in unquoted listed partnerships** are valued based on the Fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines* 2012.

iv) **Limited partnerships** Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) **Pooled investment vehicles** Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value or amortised cost of the liability are recognised by the Fund.

4. Notes to the Accounts (providing additional information for the Fund Account and Net Assets Statement)

These now comprise of a summary of significant accounting policies (shown against the relevant note as opposed to a prescribed list of accounting policies in previous year's accounts). Further information and detail of entries in the prime statements and other explanatory information and disclosures are as follows:-

NOTE 1: DESCRIPTION OF FUND

a) General

The Fund is administered by Worcestershire County Council on behalf of their own employees, those of the Herefordshire Council, the District Councils, Private Sector admitted bodies with staff transferred under TUPE from the Administering Authority and other bodies in the county of Worcestershire, other than teachers, police officers, and fire fighters.

In matters relating to the management of the Fund's assets the Pensions Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent investment adviser and the Scheme Manager.

The Pensions Committee consists of County Councillors and an Employer and Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually, and pension administration issues are discussed quarterly at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pensions Committee.

The day to day management of the Fund's investments is divided between external investment managers who operate in accordance with mandates set out in the Investment Strategy Statement.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. Organisations participating in Worcestershire County Council Pensions Fund include the following:

- Scheduled bodies which are automatically entitled to be members of the fund. These include county councils, district councils, foundation schools / colleges and academies

- Admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not for profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector

- Designated bodies which are organisations that have passed resolutions with town or parish councils

Membership details are set out below:

	31 March 2018	31 March 2019
Number of employers	208	196
Employee Members of the Fund		
County Council	8,083	8,256
Other Employers	14,395	15,180
Total	**22,478**	**23,436**
Pensioner Members of the Fund		
County Council	4,968	5,240
Other Employers	12,539	12,849
Total	**17,507**	**18,089**
Deferred Members of the Fund		
County Council	8,296	8,379
Other Employers	12,055	12,350
Total	**20,351**	**20,729**
Total Number of Members in the Fund	**60,336**	**62,254**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by employee members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2019. Employee contributions are matched by employer contributions which are set based on actuarial valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 5.5% to 41.9% of pensionable pay. The common 2018 / 2019 employer contribution rate for the Fund is 15.3%. In order to ensure employer contribution increases, required by the Fund's Actuary following the 31 March 2013 actuarial valuation, remained affordable, the Administering Authority agreed with employers to phase in any increases in their Secondary rate over a period of up to 6 years.

d) Pension Benefits

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website.

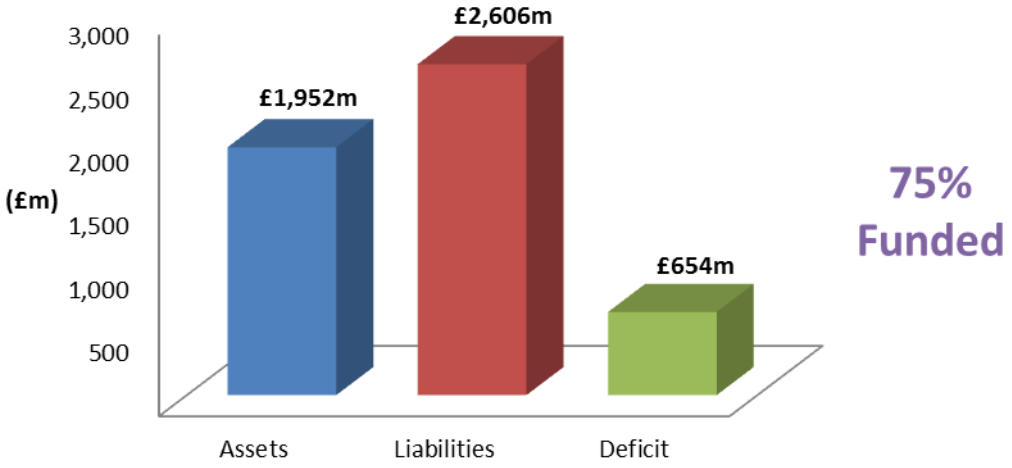
NOTE 2: FUNDING ARRANGEMENTS AND ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Funding Arrangements

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Worcestershire Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £654 million.



The valuation also showed that a common rate of contribution of 15.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 18 years, and the total initial recovery payment (the "Secondary rate") for 2019/20 is approximately £37 million. This amount makes allowance for some employers to phase in any increases in their Secondary rate over a period of up to 6 years. For all other employers, their Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their Secondary rate, either on an annual basis each April or by paying all 3 years' total amount in April 2017. In each case, that contribution is discounted to reflect its earlier payment.
Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.35% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

** Allowance was also made for short-term public sector pay restraint over a 4 year period.*

The assets were assessed at market value. The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.3% per annum
Rate of CPI Inflation/CARE benefits revaluation	2.1% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2% p.a. Both of these factors combined served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £3,826 million. Interest over the year increased the liabilities by c£100 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£34 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then an increase in liabilities of £218 million made up of "actuarial losses" (given the changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £4,178 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government is attempting to appeal the cases, but it is not known at this stage whether an appeal will even be possible. If the Government ultimately loses these cases then remedial action in the form of increases in benefits for some members is likely to be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

The LGPS Scheme Advisory Board has commissioned the Government Actuary's Department (GAD) to calculate some indicative costs on an LGPS-wide basis so that Funds can give some consideration to the overall issue and form a view on whether any more detailed work is required. Whilst GAD have not yet reported on their findings, initial indications are that the impact on liabilities could be of the order of 0.5% to 1% of liabilities. This is well within the approximations inherent in the liability calculation shown above, which is based on a "roll-forward" of the 2016 actuarial valuation results rather than being a full recalculation, and in any case is within normal acceptable tolerances for this type of work given the general approximations which need to be made. We have therefore not included a specific provision for the potential additional liabilities arising from the McCloud case.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Laura Evans
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2019

NOTE 3: EVENTS AFTER THE REPORTING DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. Management have reviewed and can confirm that there are no significant events after the reporting period.

NOTE 4: CONTRIBUTIONS RECEIVABLE

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund's Actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme Actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets. The contributions received are detailed below:-

	2017/18	2018/19
By Category	**£m**	**£m**
Employers		
Normal contributions	52.9	36.5
Deficit recovery contributions	36.5	18.8
Augmentation contributions	2.0	3.2
Additional contributions	71.2	0.0
Employees		
Normal contributions	22.3	23.0
Additional contributions	0.3	0.3
	185.2	**81.8**

	2017/18	2018/19
By authority:	**£m**	**£m**
Worcestershire County Council	77.9	9.4
Scheduled bodies*	91.6	58.2
Community admission bodies	6.5	5.4
Transferee admission bodies	8.2	7.8
Designated bodies	1.0	1.0
	185.2	**81.8**

The Key reason for the difference in contributions is due to a number of organisations prepaying their 3 year (2017/18 to 2019/20) employer deficit recovery contributions and 90% of their normal contributions in 2017/18 up to the next Triennial valuation due to take effect from the 1st April 2020

NOTE 5: TRANSFERS IN AND FROM OTHER PENSION FUNDS

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with LGPS regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. The Transfers in and from other Pension Funds are as follows:-

	2017/18	2018/19
	£m	£m
Individual transfers	10.4	12.9
	10.4	**12.9**

NOTE 6: BENEFITS PAYABLE

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities. The benefits paid are as follows:-

By category:	2017/18	2018/19
	£m	£m
Pensions	80.4	85.5
Commutations and lump sum retirement benefits	15.7	18.7
Lump sum death benefits	1.9	2.1
	98.0	**106.3**

By authority:	2017/18	2018/19
	£m	£m
Worcestershire County Council	36.8	39.1
Scheduled bodies	50.5	55.7
Admitted bodies	1.9	1.7
Community admission bodies	5.5	6.4
Transferee admission bodies	2.6	2.8
Designated bodies	0.7	0.6
	98.0	**106.3**

NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017/18	2018/19
	£m	£m
Individual transfers	8.8	8.7
Group transfers	0.0	0.0
	8.8	**8.7**

At year-end there were no potential liabilities in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions.

NOTE 8: ADMINISTRATIVE EXPENSES

All administrative expenses are accounted for on an accruals basis. All staff costs of the Fund's administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2017/18	2018/19
	£m	£m
Employee expenses	0.5	0.6
Support services	0.1	0.1
Actuarial services	0.2	0.4
Other expenses	0.0	0.0
	0.8	**1.1**

The audit fee for work completed by the Fund's external auditors for the year ended 31 March 2019 was £19,244 1.9% of total admin costs (£26,156 for the year ended 31 March 2018 3.25% of total admin costs).

NOTE 9: MANAGEMENT EXPENSES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment and administration of the Fund to be charged against the Fund.

The Code of Practice does not require any breakdown of the Fund's administrative expenses. However in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA guidance *accounting for Local Government Pension Scheme Management Costs*.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2017/18	2018/19
	£m	£m
Oversight and Governance	0.1	0.1
Investment Management Expenses		
Administration, management and custody fees*	8.9	11.9
Other expenses	0.0	0.0
	9.0	**12.0**

NOTE 9A: INVESTMENT MANAGEMENT EXPENSES

Fixed Income and Equity Investment Managers' expenses are charged on a percentage basis of the market value of assets under management and therefore increase or reduce as the value of these investments change. Global Custodian fees are agreed in the respective mandate governing their appointment.

The cost of obtaining investment advice from the Fund's Independent Investment Adviser is included in investment management charges. All investment management expenses are accounted for on an accruals basis. The management costs are as follows:-

	2017/18	2018/19
	£m	£m
Management fees	7.7	10.7
Custody fees	0.3	0.4
Transaction costs	0.9	0.8
	8.9	**11.9**

The £11.9m management expenses incurred in 2018/19 represent 42% or 42 basis points (bps) of the market value of the Fund's assets as at 31st March 2019 (0.33% or 33bps 31 March 2018).

The cash for the pooled property investments, pooled infrastructure investment and Equity Protection solution drawdowns were transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison.

The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the Fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature. The Equity Protection Strategy was implemented to reduce the likelihood that further deficit contributions will be required at the 2019 valuation and seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations.

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £9.7 million to £12.0 million for 2018/19 (£7.2 million to £9.0 million for 2017/18). It is important to note that the application of the guidance does not represent an actual increase in costs, or a decrease in the Fund's resources to pay pension benefits.

NOTE 10: INVESTMENT INCOME

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Income from other investments is accounted for on an accruals basis.

The changes in market value of investments during the year are recognised as income and comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

	2017/18	2018/19
	£m	£m
Fixed interest securities	5.0	14.4
Equity dividends	22.0	23.8
Pooled property investments	5.1	7.3
Pooled infrastructure investments	4.7	5.5
Interest on cash deposits	0.4	0.6
Securities lending	0.0	0.1
	37.2	**51.7**

NOTE 11: TAXES ON INCOME

The Fund is a registered public service scheme under section (1) of schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

	2017/18	2018/19
	£m	£m
Withholding tax – equities	(1.4)	(1.5)
	(1.4)	**(1.5)**

NOTE 12: INVESTMENTS

	Market value 31 March 2018	Market Value 31 March 2019
	£m	£m
Long term Investment Assets		
LGPS Central –AFIM	0.5	0.0
LGPS Central shares	1.4	1.4
Investment assets		
Fixed interest securities	359.8	361.5
Equities	752.5	715.7
Pooled investment vehicles	1,292.0	1291.0
Pooled property investments	128.5	171.8
Pooled Infrastructure investments	96.1	159.4
Pooled Debt Assets	0.0	12.4
Derivatives - futures	54.7	32.1
Derivatives - forward FX	1.8	0.1
Cash deposits	27.1	32.9
Investment income due	6.5	7.3
Amounts receivable for sales	0.7	1.8
Total investment assets	**2,721.6**	**2,787.4**
Investment liabilities		
Derivatives - futures	(30.2)	(20.8)
Derivatives - forward FX	(0.2)	(2.8)
Amounts payable for purchases	(1.8)	(5.4)
Total investment liabilities	**(32.2)**	**(29.0)**
Net investment assets	**2,689.4**	**2,758.4**

NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
-	£m	£m	£m	£m	£m
Long-term Investment Assets					
LGPS Central – AFIM	0.5	0.0	(0.5)	0.0	0.0
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	1.9	**0.0**	**(0.5)**	**0.0**	**1.4**

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
-	£m	£m	£m	£m	£m
Investment Assets					
Fixed interest securities	359.8	90.9	(88.3)	(0.9)	**361.5**
Equities	752.5	301.8	(304.5)	(34.1)	**715.7**
Pooled investment vehicles	1,292.0	1.7	(131.3)	128.6	**1,291.0**
Pooled Property investments	128.5	64.2	(22.8)	1.9	**171.8**
Pooled Infrastructure Investments	96.1	77.9	(16.0)	1.4	**159.4**
Pooled Debt investments	0.0	15.0	(2.9)	0.3	**12.4**
	2,628.9	**551.5**	**(565.8)**	**97.2**	**2,711.8**
Derivative contracts:					
Futures	24.5	1.4	(1.3)	(13.3)	**11.3**
Forward currency contracts	1.6	13.7	(7.3)	(10.7)	**(2.7)**
	2,656.9	**566.6**	**(574.9)**	**73.2**	**2,721.8**
Other investment balances:					
Cash deposits	27.1			4.3	32.9
Investment income due	6.5				7.3
Amount receivable for sales of investments	0.7				1.8
Amounts payable for purchases of investments	(1.8)				(5.4)
Net investment assets	**2,689.4**			**77.5**	**2,758.4**

Prior year comparators:

	Market value 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
-	£m	£m	£m	£m	£m
Long-term Investment Assets					
LGPS Central – AFIM	0.1	0.4	0.0	0.0	0.5
LGPS Central – Shares	0.0	1.4	0.0	0.0	1.4
	0.1	**1.8**	**0.0**	**0.0**	**1.9**
Investment Assets					
Fixed interest securities	130.7	324.8	(84.2)	(11.5)	**359.8**
Equities	676.2	277.7	(258.0)	56.6	**752.5**
Pooled investment vehicles	1,437.6	115.0	(290.3)	29.7	**1,292.0**
Pooled Property investments	101.5	51.6	(27.2)	2.6	**128.5**
Pooled Infrastructure Investments	98.6	7.8	(16.5)	6.2	**96.1**
	2,444.6	**776.9**	**(676.2)**	**83.6**	**2,628.9**

	Market value 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
-	£m	£m	£m	£m	£m
Derivative contracts:					
Futures	(0.1)	49.3	(39.1)	14.4	**24.5**
Forward currency contracts	1.0	10.4	(16.5)	6.7	**1.6**
	2,656.9	**566.6**	**(574.9)**	**73.2**	**2,721.8**
Other investment balances:					
Cash deposits	22.4			0.6	27.1
Investment income due	5.3				6.5
Amount receivable for sales of investments	2.2				0.7
Amounts payable for purchases of investments	(4.8)				(1.8)
Net investment assets	**2,470.7**			**105.3**	**2,689.4**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in Investment Management Expenses as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2018 / 2019 year amounted to £0.8 million, (2017 / 2018 £0.8 million). These transaction costs represent 0.03% or 3bps of the Market Value of the Fund's assets as at 31 March 2019 (3bps at 31 March 2018).

Indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not provided separately to the Fund.

NOTE 12B ANALYSIS OF INVESTMENTS (EXCL. DERIVATIVE CONTRACTS, CASH AND OTHER BALANCES)

		31 March 2018	31 March 2019
		£m	£m
Long term Investment Assets			
LGPS Central – AFIM		0.5	0.0
LGPS Central – shares		1.4	1.4
		1.9	**1.4**
Fixed interest securities			
UK Gilts		228.3	220.1
UK corporate quoted		10.9	7.3
Overseas public sector quoted		0.0	0.0
Overseas corporate quoted		120.6	134.1
		359.8	**361.5**
Equities			
UK quoted		13.1	13.2
Overseas quoted		739.4	702.5
		752.5	**715.7**
Pooled Investment Vehicles			
Other UK managed funds	– UK equities	398.0	375.0
	– Overseas equities	485.2	483.5
	– Global equities	387.1	417.8
Other overseas managed funds	– Overseas equities	21.7	14.7
		1,292.0	**1,291.0**
Pooled Funds - Additional Analysis			
Pooled property investments - UK		45.1	86.8
Pooled property investments - overseas		83.4	85.0
		128.5	**171.8**
Pooled Infrastructure investments		96.1	159.4
		96.1	**159.4**
Pooled Debt investments		0.0	12.4
		0.0	**12.4**
Derivatives - futures		54.7	32.1
Derivatives - forward FX		1.8	0.1
Cash deposits		27.1	32.9
Investment income due		6.5	7.3
Amounts receivable for sales		0.7	1.8
Total investment assets		**2,721.6**	**2,787.4**
Investment liabilities			
Derivatives - futures		(30.2)	(20.8)
Derivatives - forward FX		(0.2)	(2.8)
Amounts payable for purchases		(1.8)	(5.4)
Total investment liabilities		**(32.2)**	**(29.0)**
Net investment assets		**2,689.4**	**2,758.4**

NOTE 12C: PENSION FUND INVESTMENTS ANALYSED BY FUND MANAGER

The proportion of the market value of investment assets held by external fund managers at the year-end was:

External Fund Manager	2017/18		2018/19	
	£m	%	£m	%
JP Morgan Asset Management (Bonds)	139.8	5	144.6	5
JP Morgan Asset Management (Emerging Markets)	173.5	6	165.4	6
Nomura Asset Management UK Ltd	420.5	16	382.8	14
Schroder Investment Management	187.3	7	189.9	7
Legal and General Asset Management	1,270.3	47	1276.2	46
Green Investment Bank	49.2	2	48.3	2
Hermes (Fund I and II)	44.1	2	48.6	2
Invesco (Euro and a UK Property Fund)	70.2	3	108.2	4
VENN	26.3	1	26.7	1
Walton Street	17.3	1	17.0	1
AEW	18.8	1	19.9	1
Stonepeak	2.8	0	10.6	0
First State	0.0	0	51.9	2
EQT	0.0	0	12.4	0
River and Mercantile	255.8	9	241.8	9
WCC Managed Account	5.1	0	5.4	0
	2,681.0	**100**	**2,749.7**	**100**

The above excludes £1.4m (2017/18 £1.9m Invested in LGPS Central and £7.3m (2017/18 £6.5m) of Investment Income due.

The following investments represent more than 5% of the net assets of the scheme:

	Market value 31 March 2018	% of total Fund	Market value 31 March 2019	% of total Fund
Security	**£m**		**£m**	
LGIM – UK Equity Index Pooled Fund	398.0	15.0	375.0	13.7
LGIM – North America Index Pooled Fund	293.1	11.0	307.5	11.2
River and Mercantile UK Gilts	228.3	8.6	220.1	8.0
LGIM – Europe (ex-UK) Index Pooled Fund	192.1	7.2	176.0	6.4
LGIM - FTSE Developed Equity Pooled Fund	155.3	5.8	159.6	5.8

NOTE 12 D STOCK LENDING

The Fund operates the practice of lending stock to a third party for a financial consideration. Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the net assets statement to reflect the Fund's continuing economic interest of a proprietorial nature in those securities.

The total amount of stock lent at the year-end was £25.9 million (2018 £35.9 million). Counterparty risk is managed through holding collateral at the Fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £28.1 million (2018 £38.3 million) representing 108.3% of stock lent.

Income received from stock lending activities was £0.1 million for the year ending 31 March 2019 (2018 £0.1million). This is included within the 'Investment Income' figure detailed on the Fund Account.

Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower. There are no liabilities associated with the loaned assets.

NOTE 13A: ANALYSIS OF DERIVATIVES

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Objectives and Policies for Holding Derivatives

Most of the holding in derivatives is to hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the Fund and its investment managers.

In 2018/19 the Fund entered into a contract with River and Mercantile, to hedge the recent gains in Equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts.

a) Futures

The Fund's investment managers hold cash balances in order to ensure efficient and timely trading when opportunities arise. The Fund's management did not want this cash to be 'out of the market' and so enabled a number of investment managers to buy and sell futures contracts which had an underlying economic value broadly equivalent to the cash held. The economic exposure represents the notional value of the stock purchased under futures contracts and is therefore subject to market movements. The portfolio cannot be geared to and must have the liquidity needed to cover open positions. Derivative receipts and payments represent the realised gains and losses on futures contracts.

b) Forward Foreign Currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, the Fund's bond mandate targets outperformance against a global benchmark index. To reduce volatility associated with the fluctuating currency rates, the fund has enabled the bond mandate investment manager to purchase and sell forward foreign currencies as a hedge.

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Futures

Outstanding exchange traded futures contracts are as follows:

ASSETS		Economic Exposure	Market Value 31 March 2018	Economic Exposure	Market Value 31 March 2019
Type of future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK gilt exchange traded	Under one year	0	0.0	1.9	0.0
UK FTSE exchange traded option	More than 1 year	0	25.9	0.0	23.5
EUROSTOXX exchange traded option	More than 1 year	0	14.3	0.0	4.5
US S+P exchange traded option	More than 1 year	0	14.3	0.0	3.8
Overseas exchanged traded	under one year	24.9	0.2	27.6	0.3
Total assets			**54.7**		**32.1**

LIABILITIES		Economic Exposure Value	Market Value 31 March 2018	Economic Exposure Value	Market Value 31 March 2019
Type of future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK gilt exchange traded	Under one year	(1.4)	0.0	0.0	0.0
UK FTSE exchange traded option	More than 1 year	0.0	(10.0)	0.0	(12.8)
EUROSTOXX exchange traded option	More than 1 year	0.0	(11.3)	0.0	(2.7)
US S+P 500 exchange traded option	More than 1 year	0.0	(8.7)	0.0	(5.1)
Overseas exchanged traded	Under one year	(19.6)	(0.2)	(21.4)	(0.2)
Total liabilities			**(30.2)**		**(20.8)**
Net futures			**24.5**		**11.3**

OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2019

Settlement	Currency Bought	Local Currency Value	Currency Sold	Local Currency Value	Asset Value	Liability Value
		£m		£m	£m	£m
One to six months	GBP	1.1	EUR	1.2	0.0	
One to six months	GBP	0.7	USD	0.9	0.0	
One to six months	USD	5.2	GBP	3.9	0.1	
One to six months	GBP	0.3	CAD	0.6		0.0
One to six months	GBP	60.2	EUR	70.1		(0.2)
One to six months	GBP	207.5	USD	274.0		(2.6)
					0.1	**(2.8)**
Net forward currency contracts at 31 March 2019						**(2.7)**
Prior year comparative:						
Open forward currency contracts at 31 March 2018					**1.8**	**(0.2)**
Net forward currency contracts at 31 March 2018						**1.6**

ANALYSIS OF CASH

Cash comprises demand deposits and cash equivalents; these include amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

	2017/18	2018/19
Cash	**£m**	**£m**
Cash deposits	19.4	18.2
Cash instruments	7.7	14.7
	27.1	**32.9**

NOTE 14: FAIR VALUE

NOTE 14 A: BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Fixed Interest Securities	Level 1	Fixed interest securities are valued at net market value based on current yields	Not required	Not required
Pooled Equity Funds	Level 2	Closing bid price where bid and offer prices are published; or the single price, as applicable	Net Asset Value (NAV)-based pricing set on a forward pricing basis and in the case of accumulation funds, reinvested income net of applicable withholding tax.	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Derivatives - Futures	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Property, Infrastructure and Debt Funds	Level 3	Unit or security price as advised by Investment Manager or responsible entity.	Funds share of net assets in limited partnership, using Financial Statements published by the manager as at the final day of the accounting period.	Valuations could be affected by material events occurring between the date of the financial statements provided and the fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Please see paragraphs under the Net assets Statement for more detail of our basis for measurement for the above Financial Instruments.

NOTE 14 B: FAIR VALUE HIERARCHY

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund into levels 1 to 3, based on the level at which the fair value is observable:

Values at 31 March 2019	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,086.3	1,323.2	343.6	2,753.1
Financial Assets at Amortised Cost	74.9			74.9
Total fair value financial assets	**1,161.2**	**1,323.2**	**343.6**	**2,828.0**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss		(29.0)		(29.0)
Total fair value financial liabilities	**0.0**	**(29.0)**	**0.0**	**(29.0)**
Net fair value financial assets	**1,161.2**	**1,294.2**	**343.6**	**2,799.0**

Values at 31 March 2018	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,119.5	1,348.5	224.6	2,692.6
Financial Assets at Amortised Cost	54.5	0.0	0.0	54.5
Total fair value financial assets	**1,174.0**	**1,348.5**	**224.6**	**2,747.1**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(32.2)	0.0	(32.2)
Total fair value financial liabilities	**0.0**	**(32.2)**	**0.0**	**(32.2)**
Net fair value financial assets	**1,174.0**	**1,316.3**	**224.6**	**2,714.9**

NOTE 14 C: SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Sensitivity Analysis	Valuation range	Value as at 31st March 2019	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	6.1%	171.8	183.8	159.8
Pooled Investments - Infrastructure Funds	6.1%	159.4	170.6	148.2
Pooled Investments - Debt Funds	6.1%	12.4	13.3	11.5
Total		**343.6**	**367.7**	**319.5**

Reconciliation of Fair Value Measurements within Level 3

Investment Movement	Pooled Investments – Property Funds	Pooled Investments – Infrastructure Funds	Pooled Investments - Debt Funds	Total
	£m	£m		£m
Market Value 1st April 2018	128.5	96.1	**0.0**	**224.6**
Transfers into Level 3	0.0	0.0	0.0	**0.0**
Transfers out of Level 3	0.0	0.0	0.0	**0.0**
Purchases and derivative Pymts	64.2	77.9	15.0	**157.1**
Sales and derivative receipts	(22.8)	(16.0)	(2.9)	**(41.7)**
Unrealised gains/(losses)	1.7	(1.4)	(0.2)	**0.1**
Realised gains/(losses)	0.2	2.8	0.5	**3.5**
Market value 31st March 2019	**171.8**	**159.4**	**12.4**	**343.6**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

NOTE 15: FINANCIAL INSTRUMENTS

In line with the adoption of IFRS 9 in the 2018/19 financial year, there were some presentational changes resulting from the removal of the "Loans and Receivables" classification. This concerned items such as Cash, Current Assets (Debtors and Income receivable) and Non-current assets. All such items gave rise to solely payments of principal and interest and the Pension Fund's business model is solely concerned with collecting the payments. Therefore the Assets concerned will be classified at Amortised Cost. The below table reconciles the presentation between IFRS 9 and IAS 39. Assets and Asset classes not shown below are unaffected and shall be disclosed as in previous years:

IAS 39 2017/18 SOA			IFRS 9 Starting position in 2018/19 SOA
Loans and Receivables 2017/18	Financial instruments at amortised cost 2017/18		Financial instruments at amortised cost 2017/18
£m	£m		£m
		Financial assets	
	1.9	Other share capital	1.9
39.2		Cash	39.2
13.5		Current Assets	13.5
1.8		Non-Current Assets	1.8
54.5	**1.9**		**56.4**
		Financial liabilities	
	(15.8)	Current Liabilities	(15.8)
0.0	**(15.8)**		**(15.8)**
54.5	**(13.9)**		**40.6**

NOTE 15 A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. The Loans and Receivables category was removed when IFRS 9 was adopted and the presentational changes are discussed above.

Fair value through profit and loss 2017/18	Financial Instruments at Amortised Cost 2017/18		Fair value through profit and loss 2018/19	Financial Instruments at Amortised Cost 2018/19
£m	£m		£m	£m
		Financial assets		
	1.9	Other share capital		1.4
359.8		Fixed interest securities	361.5	
752.5		Equities	715.7	
1,292.0		Pooled investment vehicles	1,291.0	
128.5		Pooled property investments	171.8	
96.1		Pooled Infrastructure investments	159.4	
		Pooled Debt investments	12.4	
54.7		Derivatives - Futures	32.1	
1.8		Derivatives - Forward FX	0.1	
	39.2	Cash		58.7
7.2		Other investment Balances	9.1	
	13.5	Current assets		13.4
	1.8	Non-current assets		1.5
2,692.6	**56.4**		**2,753.1**	**75.0**
		Financial liabilities		
(30.2)		Derivatives - Futures	(20.8)	
(0.2)		Derivatives - Forward FX	(2.8)	
(1.8)		Other investment balances	(5.4)	
	(15.8)	Current liabilities		(3.8)
(32.2)	**(15.8)**		**(29.0)**	**(3.8)**
2,660.4	**40.6**		**2,724.1**	**71.2**

NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018		31 March 2019
£m		£m
	Financial assets	
83.6	Fair value through profit and loss	97.2
0.6	Financial Assets at Amortised Cost	4.3
	Financial liabilities	
21.1	Fair value through profit and loss	(24.0)
105.3	**Total**	**77.5**

Fair value through profit and loss is the combination of realised and unrealised profit and loss.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

NOTE 16: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

In the course of every day operating, the Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk.

As detailed in the Investment Strategy Statement, the Fund holds equity and bond instruments in order to meet its investment objectives. The Fund's investment objectives and risk management policies are as follows;

1) The investment objective for the Fund is to:-
    a. ensure that sufficient assets are available to meet liabilities as they fall due;
    b. Maximise the return at an acceptable level of risk.

2) Risk management is mostly concerned with:
    a. avoiding the possibility of loss, or
    b. limiting a deficiency in the underlying Fund, or
    c. Avoiding a contribution rate increase in the future.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund’s risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. There are three main types of market risk that the Fund is exposed to as at 31 March 2019:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Equity risk refers to the risk arising from the volatility in stock prices; this can be systematic risk, the risk due to general market factors and affects the entire industry, or unsystematic risk, which refers to the risk specific to a company that arises due to the company specific characteristics. Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. Foreign exchange risk arises because of fluctuations in the currency exchange rates.

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1,000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place. An Equity Protection Strategy has also been implemented to protect against significant market falls in its passive equity portfolio.

Interest rate risk has been reduced through the holding of fewer bonds as a percentage of the Fund's total assets.

Foreign Exchange risk exists in relation to the Fund's overseas equity investments. The Fund runs un-hedged equity portfolios and therefore is subject to currency fluctuations. It is the Administering Authority's view that in the long-run currency volatility trends to an average of nil against Sterling and therefore any hedging of currency would just be an additional cost to the Fund.

The Fund contracts Portfolio Evaluation Ltd to measure the Fund's investment returns, absolute and relative risk for each portfolio and also for the Fund as a whole independently. The Fund receives quarterly reports from Portfolio Evaluation Ltd listing returns and risk. The Fund's Independent Investment Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's risk and comparisons to other LGPS Funds.

Equity Risk Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's Independent Investment Adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	3.3%
UK equities	9.3%
Overseas equities	12.1%
UK pooled investment vehicle	9.3%
Overseas pooled investment vehicle	10.5%
Global pooled investment vehicle	10.5%
Pooled property investments	6.1%
Pooled Infrastructure investments	6.1%
Pooled Debt Investments	6.1%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain the same.

If the market price of the Fund's investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in note 12):

Asset Type	Value as at 31 March 2019	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	32.9	0.0%	32.9	32.9
Investment portfolio assets:				
UK fixed interest securities	227.4	3.3%	234.9	219.9
Overseas fixed interest securities	134.1	3.3%	138.6	129.6
UK equities	13.2	9.3%	14.4	12.0
Overseas equities	702.5	12.1%	787.4	617.6
UK pooled investment vehicle	375.0	9.3%	409.7	340.3
Overseas pooled investment vehicle	498.2	10.5%	550.5	445.9
Global pooled investment vehicle	417.8	10.5%	461.7	373.9
Pooled property investments	171.8	6.1%	182.3	161.3
Pooled Infrastructure investments	159.4	6.1%	169.1	149.7
Pooled Debt Investments	12.4	6.1%	13.2	11.6
Net derivative assets	8.6	0.0%	8.6	8.6
Investment income due	7.3	0.0%	7.3	7.3
Amounts receivable for sales	1.8	0.0%	1.8	1.8
Amount payable for purchases	(5.4)	0.0%	-5.4	-5.4
Total	**2,757.0**		**3,007.0**	**2,507.0**

Prior-year comparators

Asset Type	Value as at 31 March 2018	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	27.1	0.0%	27.1	27.1
Investment portfolio assets:				
UK fixed interest securities	10.9	3.4%	11.3	10.5
Overseas fixed interest securities	120.6	3.4%	124.7	116.5
UK equities	13.1	8.2%	14.2	12.0
Overseas equities	739.4	12.5%	832.1	646.7
UK pooled investment vehicle	398.0	8.2%	430.5	365.5
Overseas pooled investment vehicle	506.9	12.4%	569.8	444.0
Global pooled investment vehicle	387.1	12.4%	435.1	339.1
Pooled property investments	128.5	7.4%	138.0	119.0
Pooled Infrastructure investments	96.1	7.4%	103.2	89.0
Net derivative assets	26.1	0.0%	26.1	26.1
Investment income due	6.5	0.0%	6.5	6.5
Amounts receivable for sales	0.7	0.0%	0.7	0.7
Amount payable for purchases	(1.8)	0.0%	(1.8)	(1.8)
Total	**2,459.2**		**2,717.5**	**2,200.9**

Interest Rate Risk Analysis

The Fund's direct exposure to interest rate movements is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2018	Value as at 31 March 2019
	£m	£m
Cash and cash equivalents	27.1	32.9
Cash balances	12.1	25.8
Fixed interest securities	359.8	361.5
Total	**399.0**	**420.2**

Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Council's treasury management adviser, Link Asset Services, has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2019 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	32.9	33.2	32.6
Cash balances	25.8	26.1	25.5
Fixed interest securities	361.5	365.1	357.9
Total change in assets available	**420.2**	**424.4**	**416.0**

Asset Type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	27.1	27.3	26.8
Cash balances	12.1	12.2	12.0
Fixed interest securities	359.8	363.4	356.2
Total change in assets available	**399.0**	**402.9**	**395.0**

A 1% increase in interest rates will not affect the interest received on fixed income but will reduce their fair value and vice versa. Changes in interest rates do not impact the value of cash deposits / cash and cash equivalent balances but they will have a small effect on the interest income received on those balances. Charges to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

The following table summarises the Fund's currency exposure:

Currency exposure - asset type	Asset value as at 31 March 2018	Asset value as at 31 March 2019
	£m	£m
Overseas quoted securities	739.4	702.5
Overseas pooled investment vehicle	506.9	483.0
Global pooled investment vehicle	387.1	433.0
Overseas pooled property investments	83.4	85.0
Total overseas assets	**1,716.8**	**1,703.5**

Overseas bonds are 100% hedged to GBP at 31 March 2019.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the fund's performance measurement provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.0% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 11.0% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2019	Change to net assets available to pay benefits +11.0%	-11.0%
	£m	£m	£m
Overseas quoted securities	702.5	779.9	625.1
Overseas pooled investment vehicle	483.0	553.1	443.3
Global pooled investment vehicle	433.0	463.8	371.8
Overseas pooled property investments	85.0	94.4	75.6
Total change in assets available	**1,703.5**	**1,891.2**	**1,515.8**

	Asset value as at 31 March 2018	Change to net assets available to pay benefits +8.1%	-8.1%
	£m	£m	£m
Overseas quoted securities	739.4	799.3	679.5
Overseas pooled investment vehicle	506.9	548.0	465.8
Global pooled investment vehicle	387.1	418.5	355.7
Overseas pooled property investments	83.4	90.2	76.6
Total change in assets available	**1,716.8**	**1,856.0**	**1,577.6**

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives position, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Investment restrictions are listed in the contract held with the manager, which limit the amount of credit risk the manager is allowed to take and also states an average credit rating with regards to bonds held that should be maintained.

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's Independent Investment Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's bond portfolio absolute and relative risk.

Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the Council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have an 'AAA' rating from a leading rating agency.

The fund's cash holding at 31 March 2019 was £58.4 million (31 March 2018: £39.2million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2018	Balances as at 31 March 2019
		£m	£m
Money market funds			
BNY Mellon Sterling Liquidity Fund	AAA	2.7	0.0
BNY Mellon US Dollar Liquidity Fund	AAA	3.2	6.4
JPM liq-ster Liquidity-x	AAA	0.8	0.0
JPM GBP Liquidity LVNAV	AAA	0.0	6.7
JPM liq-USD Liquidity-XDI	AAA	1.1	1.7
Bank deposit accounts			
The Bank of New York Mellon	A-1+	19.3	17.8
Bank current accounts			
Barclays Bank PLC	A-1	12.1	25.8
Total		**39.2**	**58.4**

The above Assets are held at Amortised Cost and are either liquid or very short dated securities in high-quality counterparties. Therefore the expected loss is assessed as a trivial sum and no allowance has been set aside for this.

Liquidity Risk

Market liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or to meet the financial obligations of the Fund as they fall due. The Fund's investment managers purchase quoted and tradable securities. Equities held are listed on major world stock markets and managers employed are highly experienced in equity trading. The liquidity risk relating to the bond holdings is monitored and managed by the bond manager on an on-going basis. The Council also takes steps to ensure that the pension fund has adequate cash resources to meet commitments.

NOTE 17: CURRENT ASSETS

	2017/18	2018/19
	£m	£m
Contributions due from employer in respect of:		
Employer	5.5	8.8
Members	2.1	1.7
Magistrates Courts Bulk Transfer Payment Due	0.4	0.6
Augmentation	0.9	0.1
Cash balances	12.1	25.8
Other Debtors	4.6	2.2
	25.6	**39.2**

The above Assets are carried at Amortised cost, other than cash balances and other debtors (see below), the funds are due from Government institutions and therefore no allowance for expected losses has been set aside.

NOTE 18: NON CURRENT ASSETS

	2017/18	2018/19
	£m	£m
Magistrates Courts Bulk Transfer Payment Due	0.8	0.0
*LGPS Central Capital Advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.0	0.2
Augmentation	0.3	0.6
	1.8	**1.5**

*This was part of the regulatory capital required to set up the company LGPS Central Limited.
**This includes debtor in relation to the lifetime tax allowance limit as the fund pays all the tax upfront on behalf of the pensioner and is reimbursed from additional pension deductions over time

NOTE 19: CURRENT LIABILITIES

	2017/18	2018/19
	£m	£m
Investment management expenses	(7.0)	(3.6)
Payroll and external vendors	(5.1)	(0.2)
Other expenses	(3.7)	(0.0)
	(15.8)	**(3.8)**

NOTE 20: RELATED PARTY TRANSACTIONS

Worcestershire County Council

The Fund is administered by Worcestershire County Council. Consequently there is a strong relationship between the Council and the Fund.

The Council incurred costs of £1.0 million in 2018/2019 (2017/2018: £0.8 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £9.4 million to the Fund in 2018/2019 (2017/2018: £77.6 million of which £46.9 million related to the payment of contributions for years 2 and 3 up to the next valuation).

LGPS Central Limited has been established to manage investment assets on behalf of nine LGPS funds across the Midlands. It is jointly owned in equal shares by the eight Administering Authorities participating.

A total of £0.5 million was refunded to the Fund by LGPS Central during 2018/2019 reflecting the cost of setting up the enterprise to the end of March 2018. The annual running costs of £0.5m was charged to the fund in 2018.19 by LGPS Central

Key Management Personnel

The posts of Chief Financial Officer, Finance Manager – Pensions and Treasury Management and HR Service Centre Manager are deemed to be key management personnel with regards to the Fund. The financial value of their relationship with the Fund (in accordance with IAS24) is set out below:

	2017/18	2018/19
	£000	£000
Short term benefits*	33	50
Long term/ post-retirement benefits**	418	389
	451	**439**

*This is the pension's element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions
**This is the accrued pension benefits, expressed as cash equivalent transfer value.

Governance

The Pensions Committee Employer Representative, Employee Representative and Chief Financial officer are active members of the Fund.

NOTE 21: CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Outstanding capital commitments (investments) at 31 March 2019 totalled £294.5 million (31 March 2018: £260.4 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Pooled Property Investments, Pooled Infrastructure investments and Pooled Debt Investments part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of the original commitment.

NOTE 22: CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund.

Contingent assets are not recognised in the financial statements, but are disclosed as a note to the accounts.

The Councils below have provided guarantees to a number of organisations that have been admitted to the Fund to fund any potential pension liability. The organisations with a pension liability in excess of £195,000 (which the Fund considers to be material for these purposes) are:-

- Balfour Beatty Living Places (£0.740miIllion), **Herefordshire County Council**
- Hoople Ltd joint venture company (£0.500million), **Herefordshire County Council**
- Civica UK Ltd (£0.360million), **Wychavon District Council**
- Bromsgrove District Housing Trust (£0.610 million), **Bromsgrove District Council**

There are a further 27 organisations with a pension liability less than £195,000. The Fund has considered various factors in determining the potential risk of having to fund any future liability, including risk of failure of the business and membership profile, and is satisfied that they do not represent a significant potential liability.

Eleven admitted body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

Note that although there have been no changes to the existing bonds and guarantees from the previous financial year; they have all been discussed with the Actuary ' Mercers'. It has been agreed that these will be reviewed as part of the next Triennial valuation which takes effect from the 1st April 2020 and the framework to review them going forward will also be agreed at that point.

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund provides an in-house AVC scheme for its members. In 2018 / 2019 some members of the Fund paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only.

The amounts administered under AVC arrangements are as follows:

	2017/18	2018/19
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	0.3	0.2
Retirement benefits paid or transferred	0.4	0.3

The combined value of the AVC funds at 31 March 2019 was £2.8 million, (31 March 2018 £2.9 million).

In accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 these amounts are not included in the Fund's Accounts but are disclosed as a note only.

NOTE 24: AGENCY SERVICES

The Fund pays discretionary awards to the former employees of Herefordshire County Council. The amounts paid are not included within the Fund's Accounts but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2017/18	2018/19
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	**0.1**

NOTE 25: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund's liabilities are calculated every three years by the appointed Actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 2. This estimate is subject to significant variances based on changes to the underlying assumptions.

NOTE 26: ASSUMPTIONS MADE ABOUT THE FUTURE AND ANY OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the notes to the accounts at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Item	Uncertainties	Effect is actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 2)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: ● a 0.5% increase in the discount rate assumption would result in an 8% decrease in the pension liability, which is equivalent to £229m ● a 0.25% increase in assumed earnings inflation would result in a 0.8% increase in the value of liabilities, which is equivalent to £23m ● a one-year increase in assumed life expectancy would result in a 2% increase in the value of liabilities, which is equivalent to £69m.

VALUATION OF INVESTMENTS LEVEL 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions as detailed in Note 14b.

Independent Auditor’s Report

To be inserted

worcestershire countycouncil

AGENDA ITEM 9

PENSIONS COMMITTEE
21 JUNE 2019

ADMINISTERING AUTHORITY UPDATE

Recommendation

1. **The Head of Human Resources and Organisational Development recommends that the Administering Authority update be noted.**

Guaranteed Minimum Pension (GMP) Reconciliation and Rectification

2. Progress continuing by our provider ITM. Activity is reasonably static as HMRC are behind in responding to queries.

3. HMRC have indicated that responses will be issued by the end of June 2019, and then a final extract by November 2019.

4. The Fund is meeting with ITM on 10 July to discuss impact of this delay and whether the Fund undertakes part rectification, pauses and then waits for November 2019.

5. Administering Authority continues to work on queries raised and returning these to ITM and responses are up-to-date.

Administration Software

6. Following the update to the March Committee, The Commercial Board has approved our exemption request and discussions will commence with Aquila Heywood and the Council's IT team in implementation

7. The extended contract will enable a move of the hosting from WCC to Aquila Heywood and for the service to be 'cloud' based. This approach eliminates the need for replacement servers, due January 2020 and avoids our software not being supported by Aquila Heywood from September 2019.

Key Performance Indicators

8. Following the approval and launch of the Pensions Administration Strategy (PAS) we are monitoring our performance indicators on a monthly basis. Table 1 shows March 2019 and Table 2 Shows April 2019. All targets are being met. Target will be reviewed annually and adjusted accordingly.

9. Going forward we will produce this data to Committee on a quarterly basis and will show monthly, and as time moves on, cumulative figures year to date.

Table 1

Activity / Process March 2019	Av Turnaround (working days)	Target (working days)
Joiners notification of date of joining	4	40
Process and pay refund	1	10
Letter detailing CETV for divorce	3	45
Letter detailing PSO implementation	None required	15
Letter detailing transfer in quote	4	10
Letter detailing transfer out quote	3	10
Letter notifying actual retirement benefits	2	15
Letter notifying amount of dependant's benefits	2	10
Letter acknowledging death of member	4	05
Process and pay lump sum retirement grant	13	23
Calculate and notify deferred benefits	9	30
Letter notifying estimate of retirement benefits	4	15

Table 2

Activity / Process April 2019	Av Turnaround (working days)	Target (working days)
Joiners notification of date of joining	6	40
Process and pay refund	No data available	10
Letter detailing CETV for divorce	2	45
Letter detailing PSO implementation	None required	15
Letter detailing transfer in quote	4	10
Letter detailing transfer out quote	4	10
Letter notifying actual retirement benefits	4	15
Letter notifying amount of dependant's benefits	2	10
Letter acknowledging death of member	5	05
Process and pay lump sum retirement grant	17	23
Calculate and notify deferred benefits	13	30
Letter notifying estimate of retirement benefits	3	15

Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765
Email: worcestershirehub@worcestershire.gov.uk

Specific Contact Points for this report
Bridget A Clark, HR & OD Service Commissioning Manager
Tel: 01905 846215
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Background Papers

In the opinion of the proper officer (in this case the Head of Human Resources and Organisational Development) there are no background papers relating to the subject matter of this report.

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AGENDA ITEM 10

PENSIONS COMMITTEE
21 JUNE 2019

RISK REGISTER

Recommendation

1. **The Chief Financial Officer recommends that the Committee comment on and note the WPF Risk Register as at 10 June 2019.**

Background and update

2. The refreshed Risk Register (as at 27 February 2019) was presented to the Committee at its meeting on 19 March 2019.

3. The Risk Register is kept under regular review and, following the May 2019 review by officers, an updated Register is attached as an Appendix.

4. No new risks have been added to the Register, and no residual risk scores have been increased.

5. The residual risk scores for the following risks have been reduced to reflect the mitigating actions that are now in place:

- WPF 01's score is now 5, down from 25.
- WPF 04's score is now 5, down from 20.
- WPF 06's score is now 30, down from 50.
- WPF 10's score is now 30, down from 75.
- WPF 17's score is now 5, down from 25.
- WPF 19's score is now 30, down from 50.
- WPF 24's score is now 30, down from 45.

Supporting information

- Appendix - WPF Risk Register 10 June 2019

Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Bridget A Clark, HR Service Centre Manager

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Email: bclark@worcestershire.gov.uk

Rob Wilson
Pensions Investment, Treasury Management & Capital strategy manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer)
There are no background papers relating to the subject matter of this report.
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Worcestershire Pension Fund

Risk Register

As at 10 06 2019

About this Risk Register

The following colour coding is used for the residual risk scores:

- Red > = 45 (07 risks)
- Amber >= 25 but < 45 (10 risks)
- Green < 25 (12 risks)

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).

The far-right column, Residual Risk Score, includes upwards or downwards arrows if the score has changed since the previous Risk Register (as at 27 02 2019 in this case).

In the far-right column, Residual Risk Score, the scores in brackets below the current score indicate what the previous score was if the score has changed since the previous Risk Register.

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 12 (Chief Financial Officer)	Mismatch in asset returns and liability movements.	Exposure to risk or missing investment opportunities or increases in employer contributions.	25	3	75	The Fund regularly reviews its Investment Strategy Statement, has a diversified portfolio and implements a policy of extended recovery periods to smooth employer contributions. Qualified advisers including an independent investment adviser are contracted, and the funding position / mortality and morbidity experience is reviewed regularly by the Pensions Committee. A set of options for updating the Equity Protection arrangements in place and including Equity protection in ongoing investment strategy reviews is on the agenda for the June Pensions Committee. Fund officers meet with investment managers on watch more frequently than with other managers. New ideas are always encouraged by officers who also carry out peer group discussions.	25	2	50 RED

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 11 (Chief Financial Officer)	Failure to pool assets using LGPS Central Limited.	Lack of compliance with Ministry of Housing Communities & Local Government (MHCLG) requirements.	25	3	75	The Fund is a working member and shareholder of the LGPS Central pool. The pool went live from the 1st April 2018 and met the government's pooling timetable and to the required standard. It also complied with FCA regulations. Each pool member has an equal share in the pool and the first Shareholders meeting and central committee have taken place. There is a Practitioners Advisory Form (PAF) with the pool's investment managers that meets monthly. The pool has a number of work streams: investments; client reporting; finance; responsible investment; and governance. Formal transition procedures are in place. The fund will take legal advice before not pooling its assets. The first transfer of Fund assets is planned for July (in emerging markets).	20	2	40 AMBER

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 23 (Chief Financial Officer)	Employers cannot pay their contributions.	Increase in liabilities.	20	3	60	Risk profile analysis is performed to understand the strength of an employer's covenant when setting the terms of admission agreements (that may require bonds) and in setting the term of deficit recovery periods during the actuarial valuation process, whilst attempting to keep employer contributions as stable and affordable as possible. The Fund pursues a policy of positive engagement with a view to strengthening employer covenants wherever possible. Contribution increases are phased over a three year period for most employers and allowances are provided for short term pay restraint where evidence is provided. The Fund monitors membership profiles and changes and ensures that employers are reminded of their responsibilities through sending reminders of employers responsibilities where this is appropriate. The Fund is in the process of making annual covenant reviews mandatory, of introducing employer grouped investment strategies and working with at risk employers, and has arranged an employer briefing by the actuary on these areas for 19 June.	20	2	40 AMBER

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 10 (Chief Financial Officer)	Being reliant on LGPS Central Limited delivering its forecasted cost savings.	Paying too much in fees / investment underperformance.	15	3	45	The Pension Investment Sub Committee monitors the costs of being a partner fund of LGPS Central Limited. LGPS Central's Practitioners' Advisory Forum (PAF) works on changes to mitigate this risk. The Pensions Committee and Fund officers carry out a subjective review and objective analysis of these costs following advice from its investment adviser. The Pensions Committee met with officers of LGPS Central on 19 Mar to follow up on raising its concerns on 28 Nov 2018. LGPS Central's new Chief Executive is meeting with all partner funds and will formally respond to concerns once all of these meetings have been held.	15	2	30 (75) AMBER
WPF 06 (Chief Financial Officer)	Fair Deal consultation proposals being implemented.	Increasing administrative complexity.	15	3	45	When the regulations come out the Fund will develop measures to mitigate this risk. Risk profile analysis is performed to understand the strength of an employer's covenant when setting the terms of admission agreements (that may require bonds), and the Fund will ensure that employers are made aware of consequences of their decisions and that they are financially responsible.	15	2	30 (50) AMBER

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 19 (HR Service Centre Manager)	Failure to procure a pensions admin system for the future.	Inability to pay pensions / reputational or financial loss / staff downtime / loss of service delivery / data loss.	25	3	75	Project team is established. The appropriate specialists are supporting the procurement. The Fund recognises that there is a small market of suppliers and may be able to collaborate with other LGPS Funds if our timescales allow. Following receipt of a proposal from the existing supplier, a Procurement Exemption Form for an interim contract with Aquila Heywood has been agreed by the Commercial Board.	15	2	30 (50) AMBER
WPF 24 (HR Service Centre Manager)	Employers having insufficient skilled resources to supply our data requirements.	Missing, incomplete and incorrect records on pensions administration system that undermines service delivery and causes difficulties in establishing correct benefits at individual level / liabilities at employer and whole of Fund level. Potential issues with The Pensions Regulator.	15	3	45	The Fund has reminded employers about their responsibilities by launching the Pension Administration Strategy (that advises employers that the Fund will pass on any fines and has the right to charge interest for late payments) on 1 April 2019 and supports employers with monthly newsletters / its website / employer fora. Officers are developing a 'New to the LGPS?' employer workshop and an employer workshop on 'Form Completion' to follow up on the 'Pensions Development Pathway', employers 'How to' and the 'What the Fund expects from its employers' calendar that were launched in May. Checking individual records at points of significant transaction. The as at 31 March 2018 periodic bulk data check by the actuary indicated that our data is in good shape.	15	2	30 (45) AMBER

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 08 (Chief Financial Officer)	Failure to appoint suitable investment managers and review their performance / markets / contracts.	Investment underperformance / regulatory non-compliance / paying too much in fees.	25	3	75	The Pension Investment Sub Committee has been introduced to deliver more effective decision making: its predecessor, the Pension Investment Advisory Panel, had to have its recommendations approved by the Pensions Committee. It monitors performance of the Fund's diverse range of investment managers, meeting with / placing managers on watch as appropriate. It and Fund officers carry out a subjective review and objective analysis of asset performance and take advice from the investment adviser, LGPS Central Limited / its partner Funds. Contract service is reviewed quarterly by the Pension Investment Sub Committee. The Finance Manager - Pensions reviews investment managers' internal control reports and reports any significant exceptions to the Chief Financial Officer.	25	1	25 AMBER
WPF 03 (Chief Financial Officer)	Failure of officers to maintain sufficient level of knowledge / competence.	Inability to carry out their duties.	25	3	75	Officers are appropriately qualified and participate in various scheme / industry groups / fora to keep up-to-date on pensions issues. They also review specialist publications. The Fund plans to develop its own workforce strategy in Autumn 2019 as part of the Worcestershire County Council whole organisation redesign.	25	1	25 AMBER

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 07 (Chief Financial Officer)	Future change to LGPS regulations or other legislation, for example the LGPS cost cap (the McCloud case), the national governance survey of the LGPS, and the 'Restricting exit payments in the public sector' / 'late retirement increase factors' / 'Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk' consultations.	Increasing administrative complexity or failure to comply with The Pensions Regulator.	25	3	75	Officers participate in various scheme and industry groups and fora. The Committee and Board monitor LGPS developments. Roger Phillips is on the LGPS Scheme Advisory Board.	25	1	25 AMBER
WPF 18 (Chief Financial Officer)	Failure of existing pension admin system to deliver the services contracted.	Inability to pay pensions / reputational or financial loss / staff downtime / loss of service delivery / data loss.	25	2	50	Contract service is reviewed annually and there are regular meetings with the supplier, Aquila Heywood. Robust system maintenance routines. Internal and external systems support. Back-up procedures. Business Continuity Plan. The Pension Administration Strategy reminds employers of their responsibility to provide accurate and timely information on pay. It has been agreed to move the hosting of the Fund's pension admin system from Worcestershire County Council servers to the Aquila Heywood cloud.	25	1	25 AMBER
WPF 20 (Chief Financial Officer and HR Service Centre Manager)	Staff leaving or going on long term absence.	Insufficient staff resource or remaining staff not having the skills to do their areas of work.	25	2	50	Cross skilling is achieved by mentoring to develop officers with a high level of knowledge and experience. Functions are reviewed to ensure they are sufficiently staffed / have succession planning. Specialist agency cover is available. Absences will be managed in line with Worcestershire County Council's new attendance policy. The 2019 annual performance review cycle is being used to discuss informal succession planning.	25	1	25 AMBER

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 21 (Chief Financial Officer)	Failure of business continuity planning, for example hosting of pensions administration software on Worcestershire County Council's (WCC) servers.	Inability to deliver critical functions like paying pensioners.	25	2	50	The Fund and Worcestershire County Council (WCC) have Business Continuity Plans in place and these are regularly tested. The Fund will ensure that WCC includes delivery of support services to the Fund in its risk register. Remote access is widely in use by officers. A review of the current hosting provision of the pension admin system has resulted in a decision to move the hosting to the Aquila Heywood cloud.	25	1	25 AMBER
WPF 28 (HR Service Centre Manager)	Cyber attack leading to loss of personal data like bank account details.	Data Protection breach / fraud.	25	2	50	The Fund conforms with (Worcestershire County Council) WCC's breach notification process and WCC's data policy, for example through the use of data encryption and password protection. Systems currently (this will be changing) hosted by WCC are reviewed by internal and external audit and set up in line with data protection regulations. A complete address update is done regularly by employers. Mitigating processes include the Business Continuity Plan (BCP), data breach, addresses being checked by a dedicated checker and communication taking place with member / employer before a payment is made. All post office returns are investigated and followed up and nothing is sent out if new address is not found.	25	1	25 AMBER

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 22 (Chief Financial Officer)	The number of early retirements increases to levels in excess of the actuarial assumptions adopted. Pay and consumer price inflation significantly different from actuarial assumptions.	Increases required in employer contributions.	20	2	40	Employers are required to pay lump sums to fund costs for non-ill health cases. The Actuary monitors early retirement (including on the grounds of ill-health) experience being exhibited by the Fund's members and consequently adjusts the actuarial assumptions. The Fund ensures that employers are made aware of consequences of their decisions and that they are financially responsible. At each actuarial valuation an analysis is carried to ensure that the assumptions adopted are appropriate. The Fund holds discussions with employers through the Pension Administration Advisory Forum over the expected progression of pay in the short and long term. This information is then fed back to the Fund's Actuary with medium term financial plan budget evidence provided, if required. The Government's plan to increase pensions by the Consumer Prices Index Housing (CPIH) instead of CPI in future will reduce the Fund's liabilities.	20	1	20 GREEN

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 02 (Chief Financial Officer)	Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.	Poor decision-making / scrutiny.	15	2	30	Training policy, sessions and plans have been implemented in line with the Chartered Institute of Pension Fund Accountants (CIPFA) knowledge and skills framework / best practice guidance to include induction training sessions for new members and quarterly ongoing training for all members. There will be a change of the Pensions Committee Chair in June 2019 with the members of the committee remaining the same.	15	1	15 GREEN
WPF 05 (Chief Financial Officer)	Failure to disclose relevant facts in the Annual Report or during audit(s).	Audit criticism or reputational damage.	15	2	30	Robust review and sign off processes are in place to check the disclosure of relevant facts. Accounts are reviewed prior to sending them to external audit. The accounts are also checked against the Chartered Institute of Pension Fund Accountants (CIPFA) example accounts and external audit accounts checklist. The 2019 statement of accounts has been passed to the Fund's auditors.	15	1	15 GREEN

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 13 (Chief Financial Officer)	Liquidity / cash flow is not managed correctly.	Assets may need to be sold at unplanned times or investment opportunities may be missed.	15	2	30	Finance Manager - Pensions monitors Fund cash flow on a monthly basis. The Fund currently has under 10% of total net assets exposure to illiquid assets. All contributing employers are provided with deadlines for payments and clear guidelines for providing associated information. The Fund monitors contributions payable and paid on a monthly basis and also reconciles to E5 (our accounting system) on a monthly basis.	15	1	15 GREEN
WPF 14 (Chief Financial Officer)	Failure to exercise proper stewardship of the Fund's assets.	Potential erosion of investment returns or reputational damage.	15	2	30	The Fund has a Statement of Compliance with the Stewardship Code that will be reviewed regularly and participates in the Local Authority Pension Fund Forum (LAPFF) and other groups. The Pension Investment Sub Committee monitors Environmental, Social and Governance (ESG) policy regularly.	15	1	15 GREEN

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 26 (HR Service Centre Manager)	Fraud by staff.	Financial loss.	15	1	15	Changes to Altair leave a footprint that identifies who made the change. Manager checking is in place. Citrix has log-in security and Altair has multiple login protections. Month end reconciliations are also carried out. Declarations by staff of personal relationships / family members is required. Internal Audit review the Fund's processes regularly.	15	1	15 GREEN
WPF 01 (Chief Financial Officer)	Failure of governance arrangements to match up to recommended best practice.	Financial loss or loss of reputation / employer confidence or need to make major changes at short notice.	25	2	50	The Fund updated its Governance Compliance Statement on 19 March 2019. This will be included in the 2019 annual report. That report is signed off by its auditors. The Fund has replaced the Pension Investment Advisory Committee with a Pension Investment Sub Committee of the Pensions Committee that has decision making authority.	5	1	5 (25) GREEN
WPF 17 (Chief Financial Officer)	Failure of custodian to deliver the services contracted.	Loss / inaccessibility of assets / inability to invest.	25	1	25	The Finance Manager - Pensions reviews managers' SAS70 audit reports. The Fund has diversification of custody via pooled funds. Contract service is reviewed annually and there are regular meetings with the supplier, BNY Mellon. Audits have been completed in 2019.	5	1	5 (25) GREEN

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 04 (Chief Financial Officer)	Not having established and meaningful Operational Plans, Pension Administration Strategy, complaint monitoring and key performance indicators (KPIs).	Poor decision making and delays in responding to stakeholders e.g. elected members.	5	4	20	A KPI report is maintained and updated by the Finance Manager and is reviewed by the Pension Board and Pensions Committee on a regular basis. Investment performance is independently confirmed by Statesmen. E5 (our accounting system) management reports are available and automatic reporting is in place on the pensions admin system. A Pension Administration Strategy has been in place since 1 April 2019. Operational Plans and KPIs are in place and are tabled at Pensions Committee meetings.	5	1	5 (20) GREEN
WPF 15 (Chief Financial Officer)	Failure of the actuary to deliver the services contracted.	Financial loss or loss of reputation / employer confidence or need to make major changes at short notice.	20	1	20	Contract monitoring is in place and was reviewed in 2017. There are regular meetings with the supplier, Mercer.	5	1	5 GREEN
WPF 16 (Chief Financial Officer)	Failure of investment adviser to deliver the services contracted.	Financial loss or loss of reputation / employer confidence or need to make major changes at short notice.	20	1	20	Contract service is reviewed annually and there are regular meetings with the supplier, M J Hudson.	5	1	5 GREEN
WPF 25 (HR Service Centre Manager)	Fraud by scheme members.	Financial loss.	5	1	5	The Fund carries out National Fraud Initiative (NFI) checks, sends payroll slips / communications at intervals through the year to home addresses and requires evidence of certificates (e.g. birth certificate). The fund has received its 2019 information from NFI and is scheduled to complete actioning this by 31 July.	5	1	5 GREEN

WPF Risk Register as at 10 Jun 2019 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 27 (HR Service Centre Manager)	Incorrect calculation of benefits through human error or delayed notification of a death.	Too much being paid out in benefits.	5	1	5	In addition to system testing the Fund has a test system and a test site for Altair (the pension payroll system). Every calculation has independent checking and set procedures. Staff receive training and performance is benchmarked. The Fund has an overpayments process and reports overpayments to the Pensions Committee. Tracing agencies are used for members aged 65+. Life Certificates are also used.	5	1	5 GREEN
WPF 29 (HR Service Centre Manager)	Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.	Financial loss or loss of reputation / employer confidence or need for corrective action at short notice.	5	1	5	The Fund has a Policy Statement on Communications. Employee annual benefit statements that are returned to the Fund are passed on to the member's employer. Tracing agencies are used for finding deferred members aged 55+. The 2019 deferred annual benefit statements have gone out, with the actives (for which the format and the newsletter have been finalised) planned to go out in the week of 19 August.	5	1	5 GREEN
WPF 09 (Chief Financial Officer)	Being reliant on LGPS Central Limited's investment approach following transitioning of assets.	Investment underperformance / regulatory non-compliance.	25	3	75	We expect emerging market assets to be transferred in July 2019. The Pension Investment Sub Committee monitors performance of this investment manager. The Pensions Committee and Fund officers carry out a subjective review and objective analysis of asset performance resulting from decisions taken by the Pensions Committee following advice from its investment adviser.	25	0	0 GREEN

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AGENDA ITEM 11

PENSIONS COMMITTEE
21 JUNE 2019

2019 – 2022 BUSINESS PLAN

Recommendation

1. The Chief Financial Officer recommends that the Pension Committee the 2019 - 2022 Business Plan be agreed.

Introduction

2. The purpose of the Worcestershire Pension Fund (WPF) Business Plan 2019 -2022 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.

3. The Local Government Pension Scheme (LGPS) has been and remains in a period of uncertainty over further potential nationally imposed changes. A new Career Average Revalued Earnings (CARE) scheme was introduced from 1 April 2014, but concerns remain over the long-term cost and sustainability of the LGPS while the Government remain focussed on addressing pension fund deficits and reducing the costs of running the scheme.

4. The Fund continues to face increasing complexities in both the governance and administration of the scheme increasing pressure on resources and workloads. These include, but not an exhaustive list, the jurisdiction of the Pension Regulator and changes to the requirements for record keeping, data cleansing and covenant reviews, responsibility to the national Scheme Advisory Board, changes to the tax relief allowances, provision of data to/from HMRC for the guaranteed minimum pension reconciliation and rectification, increasing numbers of employer organisations (from outsourcing and academy conversions), delivery and monitoring of a robust investment strategy to create stability in employer contribution rates, and increasing expectations from stakeholders (e.g. scheme member and employer access to information). This means that the Fund will need to be flexible and responsive enough to adapt to all these changes.

Purpose and Vision of the Fund

5. The WPF is one of 91[1] funds administering the LGPS nationally. Worcestershire County Council is the statutorily appointed Administering Authority for the WPF. The LGPS is funded principally by its constituent employers and members, with assistance from investment returns. Unlike other public sector pension schemes, the LGPS is fully invested in financial markets / instruments and aimed to be fully funded over the long-term.

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[1] Extracted from Scheme Advisory Board website 2019

6. The WPF acts as the “custodian” of the scheme for future generations with the aim to ensure it’s in the best shape as possible in managing its assets (investments) and liabilities (pensioners).

7. The WPF recognise the importance of the LGPS to its Scheme Members as an excellent scheme, providing significant benefits to members and its contribution to the wider economy by potentially keeping people out of means tested support in their retirement. It is also a valuable recruitment tool for employers which assist in attracting and retaining staff but with the appreciation of the significant liabilities it can generate for them.

8. The long term goals[2] of the Fund are thus:

- To achieve and maintain a 100% solvency level over a reasonable period of time and then maintain sufficient assets in order for it to pay all benefits arising as they fall due
- Maintain a managed risk investment and funding strategy to achieve the first goal.
- Maintain stabilised employer contribution rates.
- To provide a high quality, low cost customer focused service.
- To be open and honest in all our decision making.

9. The attached WPF Business Plan details how it intends to achieve its vision and goals by focussing on the following five key areas:

- Governance & Staffing

- Funding & Actuarial Matters

- Investments and Accounting

- Engagement, Communications / Customer & Employer Relations

- Pensions Administration

Oversight of Delivery

10. Attached at Appendix 1 is the 2019-2022 WPF Business Plan which outlines 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. It is proposed that regular monitoring of progress and key performance indicators comes to both the Committee and the Pension Board as appropriate.

[2] WPF Funding Strategy Statement January 2019

Supporting Information

Appendix – Draft Business Plan with outline action programmes for 2019/20 and business as usual actions for 2019/20 to deliver the Pension Fund Business Plan.

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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Worcestershire Pension Fund

Business Plan

As at 31 05 2019

1 INTRODUCTION

1.1 This Business Plan:

a) Outlines the (Worcestershire Pension) Fund's purpose, goals and key result areas / aspirations (i.e. what is regarded as good in the Fund's eyes).
b) Presents the Fund's targets and budget.
c) Provides operational plans (for projects and business as usual) to summarise the work being actioned by the Fund.

1.2 The Plan is refreshed and tabled at each quarterly Pensions Committee meeting.

1.3 The Fund's governance arrangements are set out in its **Governance Policy Statement**.

2 BACKGROUND

2.1 The Local Government Pension Scheme (LGPS) is funded principally by its constituent employers, with members also contributing.

2.2 The benefits it provides are a valuable tool for employers in attracting and retaining staff.

2.3 Unlike all other public sector pension schemes the LGPS is a funded scheme, invested in financial markets / instruments.

2.4 A Career Average Revalued Earnings (CARE) LGPS linked to a normal retirement age of State Pension age (min 65) was introduced on 1 April 2014 and concerns remain over the long-term cost and sustainability of the LGPS.

2.5 The Fund is one of 89 funds administering the LGPS nationally. Worcestershire County Council is the statutorily appointed Administering Authority for the Fund.

2.6 The Fund administers the LGPS for about 200 employers whose 23,000 employees are members of the LGPS; for 20,000 deferred members; and for 18,000 pensioners.

2.7 The Fund manages a £2.8bn pension fund to pay benefits as they are due.

2.8 The Fund faces increasing complexities in both the governance and administration of the LGPS and increasing pressure on resources and workloads that include:

a) Increasing requirements of the Pension Regulator including requirements for record keeping, data cleansing and covenant reviews.
b) Responsibility to the national LGPS Scheme Advisory Board.
c) Changes to tax relief allowances.
d) The guaranteed minimum pension (GMP) reconciliation and rectification project.
e) New employers (from outsourcing and academy conversions).
f) Delivering and monitoring a robust investment strategy to create stability in employer contribution rates.
g) Increasing expectations from stakeholders (e.g. member online access and employer access to information).
h) Central government asset pooling requirements.

3 PURPOSE, GOALS AND KEY RESULT AREAS / ASPIRATIONS

3.1 The purpose of the Fund is to deliver on the pension promises made by managing investments to increase the Fund's assets and by understanding the Fund's liabilities.

3.2 The goals of the Fund are to:

a) Achieve and maintain a 100% funding level over a reasonable period of time to pay all benefits arising as they fall due.
b) Maintain a managed risk investment and funding strategy to achieve the first goal.
c) Maintain stabilised employer contribution rates.
d) Provide a high quality, low-cost, customer-focused service.
e) Be open and honest in all decision making.

3.3 To help it to achieve its goals the Fund has identified 5 key result areas, each of which is underpinned by a number of supporting aspirations:

Governance & Staffing

1. To ensure the ***effective management and governance of the Fund*** in a way that strives for continuous improvement through improved value for money, the promotion of excellent customer service and compliance with all regulatory / best practice requirements.

2. To ***recruit, train, nurture and retain highly motivated staff with the necessary professional, managerial and customer focus skills*** to deliver on the ever-increasing complexities of the LGPS.

3. To ***continually review the effectiveness of the Fund's committees and advisers*** and its decision-making.

Investments, Funding & Actuarial

4. To ***achieve a relatively stable "real" investment return above the rate of inflation*** over the long term, in such a way as to minimise and stabilise the level of contributions required to be paid into the Fund by employers in respect of both past and future service liabilities and ***to achieve a 100% funding level over a suitable timescale***. This includes setting of appropriate investment strategies, the appointment of capable investment managers, and the monitoring and reporting of investment managers' performance, with appropriate action being taken in the event of underperformance.

Accounting

5. To ***ensure the proper administration, accounting and reporting of all the Fund's financial affairs***.

6. To produce clear ***Annual Reports / Statement of Accounts*** that enable members and stakeholders of the Fund to understand the latest and future financial position.

Engagement / Communications / Member & Employer Relations

7. To ***continue to engage with the Fund's stakeholders***, maximising self-service and digitisation, seeking feedback, developing approaches which support the Fund's goals and developing a ***robust engagement strategy*** with employers and members.

8. To ***communicate the key benefits of the LGPS, ensuring increased awareness amongst the eligible membership of their benefits***. This includes effective communication to the Fund's scheme members and employers.

9. To have in ***place effective, documented business relationships with all the Fund's employers*** and to ensure regular reviews are carried out to assess the risk and strength of their covenants to the Fund.

Pensions Administration

10. To ***provide a lean, effective, customer friendly benefits administration service***, through the calculation and payment of benefits accurately and promptly in line with the targets published Pension Administration Strategy.

11. To maintain ***an effective administration system*** for the ***accurate maintenance of the records of all members of the Fund*** and to continually review and cleanse the Fund's data, ensuring it meets the Pension Regulator's requirements and supporting employers to provide correct data.

12. To ***optimise the use of technology to make processes more efficient and effective*** and to continually look at developing services in the most cost-effective manner following careful consideration of business cases. This will include an increased drive towards greater self-service provision for employers and employees, as well as less paper.

13. To ***become a role model of best practice amongst LGPS Funds*** being recognised by members and employers as providing an excellent service and to work ***collaboratively and in partnership with both internal and external organisations*** to provide higher quality services at a lower cost.

14. To ***support a range of projects and business as usual activities such as the actuarial valuation***, policy reviews, committee member / officer training, contract reviews, and performance monitoring for the Fund and its employers to adhere to.

4 INVESTMENT TARGETS

4.1 The 2016 actuarial valuation set the following real annual discount rates:

a) Past service: 2.15%.
b) Future service: 2.75%.

4.2 This means that the Fund needs to achieve a 2.5% annual real rate of return.

4.3 If inflation is at the Bank of England's target rate of 2%, the Fund requires a 4.5% annual return on its assets.

4.4 To achieve this, the Fund has set the following benchmarks for its appointed investment managers:

Sector	Benchmark
Far East Developed	FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	FTSE All World Emerging Market index +2.0%
United Kingdom	FTSE All Share Index
North America	FTSE All World North America - Developed Series Index
Europe ex - UK	FTSE All World Europe ex UK Index -Developed Series Index
Global	**40%** GPAE - FTSE-Research Affiliates Fundamental Index(RAFI) Dev 1000 Equity Fund, **30%** GPBK - MSCI World Mini Volatility Index, **30%** STAJ - CSUF - STAJ
Fixed Interest	Barclays Global Aggregate Corporate Bond Index – Hedged into GBP, EQT Corporate Private Debt
Property / Infrastructure	Invesco Real Estate, VENN Partners, Walton Street Capital, Green Investment Bank, Hermes, AEW (property), Stonepeak and First State (infrastructure)

5 ADMINISTRATION KPIs

5.1 The Fund measures its performance against target turnarounds for its key pension administration processes:

Activity / Process	**Turnaround Target (working days)**
Letter detailing transfer in quote	10
Letter detailing transfer out quote	10
Process and pay refund	10
Letter notifying estimate of retirement benefits	15
Letter notifying actual retirement benefits	15
Process and pay lump sum retirement grant	23
Letter acknowledging death of member	05
Letter notifying amount of dependant's benefits	10
Calculate and notify deferred benefits	30
Joiners notification of date of joining	40

6 BUDGET

The Fund's budget for 2019 / 2020 to 2021 / 2022 is:

Fund Investment	19/20	20/21	21/22
INVESTMENT MANAGEMENT FEES	**10,599,400**	**11,041,500**	**11,496,200**
Investment Administration Recharge	177,200	180,700	184,300
Investment Custodial and related services	367,200	374,500	382,000
Investment Professional fees	77,900	68,300	68,700
Performance Measurement	15,300	15,600	15,900
INVESTMENT ADMINISTRATION COSTS	**637,600**	**639,100**	**650,900**
Scheme Administration			
Pension scheme Administration recharge	1,031,000	1,015,700	1,039,800
Actuarial services	300,000	240,000	240,000
Audit	27,500	27,500	27,500
Legal Fees	33,500	33,500	33,500
Committee and Governance recharge	11,000	11,000	11,000
SCHEME ADMINISTRATION COSTS	**1,403,000**	**1,327,700**	**1,351,800**
GRAND TOTAL (Excluding Investment Mgt Fees)	**2,040,600**	**1,966,800**	**2,002,700**
GRAND TOTAL (Including Investment Mgt Fees)	**12,640,000**	**13,008,300**	**13,498,900**

APPENDICES

Appendix 1 – Operational Plan: Projects
This appendix summarises the work that the Fund is doing to achieve particular aims.

Appendix 2 – Operational Plan: Business as usual
This appendix summarises the work that the Fund does on a daily basis.

Operational Plan: Projects 31 May 2019	KRA	Lead	Start	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Comments
1 GMP reconciliation and rectification (310319)	Ad-min	BC	Apr-18		Cttee													In progress
2 GMP equalisation (TBD)	Ad-min	BC	TBC															awaiting guidance
3 Branding and digital strategy (TBD)	Eng-age	CF	Oct-18						Cttee									logo launched May 2019
4 Actuarial valuation / FSS / admiss + term pol (310320)	Ad-min	RW	Apr-19		FSS brief		Prelim		Admin Forum		FSS			Cttee	Admin Forum			Ongoing dialogue with stakeholders and actuaries
5 2019 Investment Strategy Statement (31 03 20)	Inv Fund	RW	Nov-18								FSS			Cttee				Asset allocation review underway
6 Review of Asset Allocation (30 11 19)	Inv Fund	RW	Nov-18				Prelim		Sub		Cttee		Sub	Cttee				Hymans work reporting
7 Pension admin system procurement (TBD)	Ad-min	BC	Oct-18	decis made				Imple ment					Option review	Cttee				Extend with new cloud option
8 Enveloping procurement (310719)	Ad-min	BC	Aug-18			Ask Tender					End							Interim solution in place
9 Transition assets to LGPS Central Limited (various)	Inv Fund	RW	Feb-19		Cttee	EM			CB									In progress
10 Pension Administration Strategy (010420)	Ad-min	CF	Apr-19									Con-sult		Cttee	publish			√ for 2019 now review annually
11 LGPS Central budget (various)	A/C	RW	Oct-17		Cttee						Cttee			Cttee				In progress
12 Annual Report & Accounts / associated docs (300919)	A/C	RW	Jan-19	to Audit	Cttee	signed off		Publish	Cttee					Cttee		to Audit	Cttee	In progress
13 Review data quality (TPR) (TBD)	Ad-min	LP	Jan-19															Awaiting detailed TPR guidance
14 CIPFA benchmarking (310719)	A/C	LP	Jun-19			Annual					Cttee							CIPFA engaged
15 ONS Trans / Bal and Inc / Expend return (quarterly)	A/C	RW	Jan-19			¼ rtn			¼ rtn			¼ rtn			¼ rtn			In progress
16 ONS Survey of Pensions Funds Bal sheet (300619)	A/C	RW	May-19		Annual												Annual	Data awaited
17 MHCLG SF3 LGPS Funds account (310819)	A/C	RW	Jul-19				Annual											Scheduled
18 TPR Occupational Pension Schemes Survey (310320)	A/C	LP	Mar-19											Annual				√ for 2019
19 CEM benchmarking (310719)	A/C	RW	Jun-19			Ann-ual			Cttee									Scheduled
20 Assess employer covenants (311220)	Eng-age	RW	Jul-18		FSS brief				Annual	Chase		Cttee		Cttee	Admin Forum			Make mandatory in progress
21 Deferred annual benefit statements (310819)	Eng-age	CF	Oct-18		Annual	Q manag											Annual	posted 3 June 2019
22 Employee annual benefit statements (310819)	Eng-age	CF	Oct-18				Annual	Q manag						Y/End				ABS / newsletter done
23 Pensioner P60s (290520)	Eng-age	SH	Feb-20	Annual												annual	Q manag	√ for 2019
24 Payslips reflecting pension increase (300420)	Eng-age	SH	Feb-20												Annual			√ for 2019
25 Revalue CARE accounts (06 04 2020)	Ad-min	SH	Mar-20												System config.			√ for 2019
26 Provide FRS info (various)	Ad-min	AL	Feb-19			Coll	ac				admit bods			Sch				Scheduled
27 Pension Savings Statements (061019)	Eng-age	LP	Aug-19				Annual											Scheduled

	Key Result Area	Operational Plan: Business As Usual 31 May 2019	Comments / Issues
1	A/C	Make payments to HMRC	
2	A/C	Monitor budget / expenditure / cashflow	Budget Monitored 7th June Cashflow monitored daily
3	A/C	Manage / reconcile the Custodian accounts for investments incl transactions, tax doc, cash contro	Monthly reconciliation completed and all necessary tax transactions and documentation dealt with
4	Engagement	Support / develop employers via workshops / Admin Forum / employer bulletins / forms	19 June FSS Forum
5	Engagement	Maintain / develop website incl member + employer newsletters / guides / forms	
6	Governance/Staff	Manage contracts for service / relationships with Mercer / Aquila Heywood / Investment Advisers /	
7	Governance/Staff	Train Pensions Committee / Pension Board / Investment Advisory Panel	19 June training
8	Governance/Staff	Monitor legislative changes / comply with new requirements	SI 2018 No. 1366
9	Governance/Staff	Monitor Risk Register / Operational Plans	
10	Governance/Staff	Support Pensions Committee / Pension Board decision making by preparing papers	21 June Pensions Committee meeting 11/12 June Pension Investment Sub Committee
11	Governance/Staff	Manage, train and develop staff	
12	Governance/Staff	Deliver governance through appropriate processes / documents / monitoring	RR for Pension Board
13	Governance/Staff	React to consultations	Fair Deal / Asset pooling requirements on AAs / The LGPS cost cap/ Late retirement increase factors/ The national governance survey of the LGPS / Restricting exit payments in the public sector / Changes to the Local Valuation Cycle and the Management of Employer Risk
14	Governance/Staff	Support members who are on the LGPS Central Shareholders Forum and Central Committee	Aided production of papers for Central Committee 21 June
15	Inv/Fund/Actuaria	Manage inv performance / managers incl LGPS Central / environmental social corporate governa	21 June Pensions Committee meeting 11/12 June Pension Investment Sub Committee Fund manager visits to active managers 24th June 2019
16	Inv/Fund/Actuaria	Manage funding / asset allocation / equity protection / investment portfolio	Managed Monthly, attendance at PAF in June and regular discussions with Independent Investment consultant
17	Inv/Fund/Actuaria	Attend LGPS Central's PAFs /working groups re investments, governance, ESG	Attended Partnership Advisory Forum (PAF), Client Oversight & Governance Group (COGG), Responsible Investment Working Group (RIWG), Investment Working Group (IWG), Weekly Asset Transition meetings, PLSA Conference (May)
18	Pension Admin	Process changes in status / pay / hours / personal details / nomination / 5050:100 / employer	April 2019 actual (target) was 6 (40) working days for new starts
19	Pension Admin	Process Additional Pension Contributions (APCs) and Additional Voluntary contributions (AVCs)	
20	Pension Admin	Provide calculations for divorces	April 2019 actual (target) was 2 (45) working days
21	Pension Admin	Process transfers in	April 2019 actual (target) was 4 (10) working days
22	Pension Admin	Process transfers out	April 2019 actual (target) was 4 (10) working days
23	Pension Admin	Provide pension estimates / support employer restructuring / redundancy	
24	Pension Admin	Process retirements (employees)	April 2019 actual (target) was 3 (15) working days
25	Pension Admin	Process retirements (deferred members)	April 2019 actual (target) was 4 (15) working days
26	Pension Admin	Process deaths	April 2019 actual (target) was 5 (5) working days
27	Pension Admin	Process refunds	April 2019 actual (target) was not available (10) working days
28	Pension Admin	Process becoming deferreds	April 2019 actual (target) was 13 (30) working days
29	Pension Admin	Collect contributions from employers / post CARE pay	
30	Pension Admin	Pay pensions	
31	Pension Admin	Collect pension overpayments / life certificates	
32	Pension Admin	Process admission of new employers	
33	Pension Admin	Terminate employers	
34	Pension Admin	Maintain, review and develop procedures / systems / process maps / standard letters	
35	Pension Admin	Benchmark performance / KPIs / Feedback	
36	Pension Admin	Deal with incoming letters / emails / calls	

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AGENDA ITEM 12

PENSIONS COMMITTEE
21 JUNE 2019

INTERNAL AUDIT PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Pensions Committee comment and note the Internal Audit Plan.**

2. Detailed below is the extract of the current Internal Audit plan for 2019/20 that relates to pensions. Any recommendations from these audit plans are reported to the Audit and Governance Committee and monitored on a regular basis.

Supporting Information

Appendix – Audit Plan 2019/20

Contact Points

County Council Contact Points
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Specific Contact Points for this report
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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

Extract of Internal Audit Plan relating to Pensions 2019.20

Worcestershire Pension Fund				
Audit Description	**Risk(s) being focussed on**	**High level audit work details and added value / assurance**	**Indicative Timing (Q1-4)**	**Days**
Pension financial controls	Poor value for money and / or fraudulent activity. Qualification of the Statement of Accounts.	To carry out testing of the financial controls and processes surrounding pension records and liabilities.	3	20
Pensions Investment	Ineffective governance arrangements. Partner Funds cannot place reliance on the Company's systems and controls. An approved annual budget is not in place or has been exceeded therefore requiring partners to add additional contributions. Investments do not adhere to responsible investment principles.	The audit will aim to provide assurance on the management of the risks associated with the investments of the Worcestershire Pension Fund and the transfer of funds to LGPS Central Ltd.	TBC	15

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AGENDA ITEM 13

PENSIONS COMMITTEE
21 JUNE 2019

FORWARD PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Pensions Committee comment and approve the Forward Plan.**

2. The forward plan was presented to the last Committee meeting to highlight the key areas that are anticipated to be reported in the future. The Forward Plan was approved and was to be reviewed at each Committee meeting. This is attached as an Appendix and Committee are asked to comment and approve the plan.

3. The highlighted areas are changes to the plan that were provided at the last Committee.

Supporting Information

Appendix – Forward Plan

Contact Points

County Council Contact Points
County Council: 01905 763763
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Specific Contact Points for this report
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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

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Pensions Committee Proposed Forward Plan

Appendix

Pension committee Items	05/10/2018	28/11/2018	19/03/2019	21/06/2019	04/10/2019	06/12/2019
LGPS Central Update	Y	Y	Y	Y	Y	Y
Pension investment Update	Y	Y	Y	Y	Y	Y
Pension Key Performance Indicators			➡	Y	Y	Y
Pension fund Unaudited Annual Report			Y	Y		
Pensions Final External Audit Report on Annual Report	Y				Y	
Pension fund administration Budget Approval	Y		Y			
Pension fund administration Budget Monitoring			Y		Y	
Government Actuary Dept (GAD) review update	Y	Y				
Members Training update		➡	Y	➡	Y	Y
Investment Strategy Statement update		X	Y			
Strategic Asset Allocation Review						Y
Administrative Authority update	Y	Y	Y	Y	Y	Y
Equity Protection update		Y	Y			
Risk Register	Y	Y	Y	Y	Y	Y
Actuarial Valuation and Funding Strategy Statement					Y	Y
Business Plan			Y		Y	
internal Audit Report				Y		Y
Local pension Board updates including such areas as Regulatory Scheme Advisory Board (SAB) updates			Y	Y	Y	Y
Stewardship Code Compliance Statement		Y				Y
Pensions Committee & Investment advisory Panel terms of Reference			Y			
Admin Strategy (Flows into Business Plan where actions are)		➡	Y			

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