

**Pensions Committee****Wednesday, 16 October 2019, County Hall, Worcester - 10.00 am****Present:****Minutes**

Mr P Middlebrough (Chairman), Mr V Allison, Mr R W Banks, Mr A I Hardman, Mr R C Lunn, Ms P Marsh, Mr J Price and Mr P A Tuthill

**Available papers**

The members had before them:

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

**191 Named Substitutes (Agenda item 1)**

Ms P Marsh substituted for Ms T Fagan.

**192 Apologies/ Declarations of Interest (Agenda item 2)**

An apology was received from Ms T Fagan.

Mr V Allison, Ms P Marsh, Mr P Middlebrough and Mr J Price declared interests as members of the Fund.

**193 Public Participation (Agenda item 3)**

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

**194 Confirmation of Minutes (Agenda item 4)**

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

**Exclusion of Public and Press**

**RESOLVED** that pursuant to Section 100A of the Local Government Act 1972, the press and public shall be excluded from the meeting during items 5 and 7 on the grounds that there would be disclosure to them of information relating to the financial or business affairs of any particular person (including the authority holding the information) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

**Summary of the proceedings of the meeting during**

**195 Local Government Pension Scheme (LGPS) Central Update (Agenda item 5)**

**which the press and public were excluded. (This is a fair summary of the proceedings.)**

The Committee received a presentation from Mike Weston, Chief Executive and Callum Campbell, Head of Client Services and Stakeholder Relations of LGPS Central.

In the ensuing debate, the following points were raised:

- There remained a debate as to whether the Pool was meeting the requirements of its partner funds. Mike Weston responded that he was clear that Strategic Asset Allocation was the responsibility of the partner funds and it was LGPS Central's responsibility to provide suitable investment products to meet those needs. Individual funds had different perspectives as to how best to invest their assets and LGPS Central was obliged to try to meet those needs but the reality was that compromise solutions had to be found
- In response to a query, Mike Weston explained that LGPS Central had recently launched a pooled asset investment fund of £2.1m in All World Equity Climate Factor which he hoped would give Responsible Investment (RI) a wider audience
- In response to a query, Michael Hudson, Chief Financial Officer indicated that he had no concerns about the Fund's current total level of fund assets under management by LGPS Central Stewardship at this stage, especially considering advisory passive holdings
- In response to a query about the Pool's approach to RI and in particular investment in fossil fuel companies, Mike Weston commented that the arguments for investment in fossil fuel companies were nuanced. For example, although BP was seen as a major fossil fuel producer, it also invested in renewable energy as they were conscious that the supply of fossil fuels would end one day. It was important to enter into dialogue with companies to understand their RI approach and to invest in companies that had a commitment to do the right thing
- It was disappointing that there was a lack of action points in the LGPS Central presentation. There remained communication issues and a perception that the Pool acted as it saw fit rather than in the best interests of partner funds. Mike Weston responded that he was conscious of the fact that some partner funds were in the early stages of the

transfer of assets into the pool. He stressed that although not necessarily reflected in the presentation, action was being taken and more detail would be provided to a future meeting. Callum Campbell acknowledged that communication with partner funds could be improved. A lot of work was taking place behind the scenes which was not obvious to members. He hoped that partner funds could see the change of focus of the pool with the client at the heart. The Communications Strategy was being reviewed including a revamp of director performance reports and an improvement of the web site and social media presence

- Had LGPS Central considered approaching funds from outside the pool to join? Mike Weston responded that the Pool's primary focus was on ensuring that the business affairs of its partner funds were conducted in the right way. There was a commitment amongst the pools to act collaboratively rather than in competition
- In response to a query about the Pool's employment strategy in relation to gender balance, Mike Weston explained that the pool was committed to employing the best person for the relevant post whilst also being aware of the implications for gender balance. He would provide a copy of the pool's employment strategy for members
- In response to a query about the vacant NED position, Mike Weston indicated that the position remained vacant however interviews for the position had been held and the Board had a preferred candidate which would eventually require the approval of the Shareholders
- The Chairman thanked Mike Weston and Callum Campbell for attending and looked forward to a further update at a future Committee meeting.

**RESOLVED** that the LGPS update be noted.

**196 Pension Board and Pensions Investment Sub-Committee Minutes (Agenda item 6)**

**RESOLVED** that the Minutes of the Pension Board and Pension Investment Sub-Committee be noted.

**197 Pension**

The Committee considered the Pension Investment

## Investment Update (Agenda item 7)

Update.

In the ensuing debate, the following points were made:

- Philip Hebson, independent advisor to the Committee indicated that meetings had been held with representatives of the Fund's smaller investment companies eg Green Investment, Venn, First State and AEW. These meetings had been positive and officers had been encouraged by the outcome of their presentations
- It was queried why value of the Fund had decreased from December 2018 to March 2019, Rob Wilson, Finance Manager - Pensions Treasury & Capital explained that in December the liabilities had been based on a like for like comparison to the assumptions used in the 2016 valuation. The March 2019 valuation was based on updated actuarial assumptions and the actuary had taken a more prudent view of our forecast asset returns going forward which impacted on the liability fund valuation
- In response to a query, Rob Wilson commented that River and Mercantile had been asked to set out in monetary terms the net gain/loss over the period that the Fund had entered into the Equity Protection arrangements. Their findings would be reported to the next meeting
- In response to a query about the Fund's asset structure, Philip Hebson indicated that the Fund had had a high exposure to equity investment which had been beneficial to the Fund to this point. The Equity Protection Strategy had acted as an insurance policy to protect these gains. However, the Fund needed to maintain some level of exposure to risk in the future to maintain and potentially enhance the funding level.
- What were the implications for the Fund if it ever reached a funding level over 100%? Philip Hebson responded that it was difficult to be certain as every fund was different but it was possible in certain circumstances that the Fund might not need Equity Protection and invest in lower risk assets as it would have sufficient funding to be able to cope with any potential falls in the market
- The Committee should be cognisant of the fact that even though the Fund might be close to 100% funded, some individual employers within the Fund might not be in such a positive funding position

- In response to a query about the level of investment in higher risk active investments, Rob Wilson explained that a decision would need to be taken about the balance of the Fund's exposure to active and passive investments
- There were certain companies that had a strong track record of RI but their behaviour and unwillingness to change gave cause for concern from an environmental perspective. This was a matter that should be raised with the LAPFF.

**RESOLVED: that**

- a) The Independent Financial Adviser's fund performance summary and market background be noted;**
- b) The update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted;**
- c) The outcome of the transition of the active Emerging Market investments to the LGPS Central Global Emerging Markets Fund be noted;**
- d) The update on the transition of the Active Corporate Bonds mandate into the LGPS 'Global active Investment Grade Corporate Bond Fund be noted;**
- e) The funding position compared to the investment performance be noted;**
- f) The update on the Equity Protection current static strategy extension be noted;**
- g) The update on Responsible Investment activities and Stewardship investment pooling be noted;**
- h) The update on the LGPS Central report on the voting to be undertaken on the Fund's behalf be noted; and**
- i) The update on the development of a Climate Risk Monitoring Platform be noted.**

**Draft Pension  
Fund Strategy  
Statement  
Consultation  
(Agenda item 8)**

In the ensuing debate, the following points were raised:

- At the request of the Chairman, Roger Phillips, the Chairman of the LGPS Advisory Board provided an update on the latest position with regard to the McCloud Judgement. The Government's response to the McCloud Judgement had yet to be received and was taking longer than expected. It was important that individual Funds took account of the potential impact of the Judgement in their valuation going forward in consultation with employers. He emphasised the need to ensure that data was retained
- How had the smaller employers responded to the FSS consultation? Philip Hebson indicated that this was the first occasion that employers had been shown the overall picture and employers had generally been reflective in their response. Concerns raised by employers related more to the immediate financial impact rather than any long-term view.

**RESOLVED:** that

- a) the results of the provisional Actuarial Valuation be noted; and**
- b) the draft Funding Strategy Statement (that is subject to employer consultation be approved.**

**199 Risk Register  
(Agenda item 9)**

The Committee considered the Risk Register.

In the ensuing debate, the following points were raised:

- Would an element of competition develop between pools in the future? Philip Hebson advised that he did not think that it was likely that any fund would invest in another pool, not because the fund might not want to invest in their assets but rather that the pool itself was unlikely to accept new clients in the immediate future. There was a cross Pool collaboration group that could ultimately lead to joint investments in some asset classes, such as infrastructure
- In relation to Risk WPF 11 – Failure to pool assets using LGPS Central, Philip Hebson commented that the Fund should monitor the willingness of the Pool to invest in the sort of assets that could have a positive impact on the Fund's future funding levels.

**200 Pension Fund Audited Annual Report and Accounts 2018/19 (Agenda item 10)**

**RESOLVED:** that the Worcestershire Pension Fund Risk Register as at 19 September 2019 be noted.

The Committee considered the Pension Fund Audited Annual Report and Accounts 2018/19.

In the ensuing debate, the following points were made:

- Rob Wilson introduced the report and commented that the Accounts of Worcestershire Pension Fund had been signed off by the external Auditor unqualified and on time.
- Rob Wilson explained that the latest version of the Annual Report was an attempt to make them more user-friendly. The Chairman welcomed the new style of the Annual Report.

**RESOLVED** that the Audited Pension Fund Annual Report and Accounts 2018/19 be approved.

**201 Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2019/20 (Agenda item 11)**

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

In the ensuing debate the following points were made:

- Rob Wilson introduced the report and indicated that benchmarking information would be included in the budget forecast when it became available
- It was queried whether the Fund had any discretion over the level of the actuarial fee. Rob Wilson explained that the Fund was charged the agreed annual service fee for the routine actuarial work and an additional fee for each valuation undertaken. Michael Hudson added that the fees were set in the contract with Mercers, the Fund's actuary, which was due for review in October 2020. It was not known whether the valuation time-frame would change because that would have implications for the actuarial fee.

**RESOLVED** that the variation to the Pension Fund Administration Budget, including manager fees, for 2019/20 totalling £12.752m be noted.

**202 Business Plan (Agenda item 12)**

The Committee considered the Business Plan (including the Administering Authority update).

In the ensuing debate, the following points were raised:

- Did individual Fund members receive all the necessary information from Equitable Life in relation to the transfer of their business? Bridget Clark advised that feedback from individual members was being sought
- Bridget Clark introduced the Pensioner Members Newsletter to the Committee. The newsletter was an attempt to provide information to retired members in order to reduce the number of pension enquiries. The intention was that in the future this would be circulated electronically to retired members
- Bridget Clark indicated that the Fund's web pages had moved from the County Council's web site platform to the cloud. She would ensure that members received the link to the new web site.

**RESOLVED that the Worcestershire Pension Fund Business Plan as at 20 September 2019 and the Administering Authority update be noted.**

**203 Pension Fund Training Programme (Agenda item 13)**

The Committee considered the Pension Fund Training Programme.

Michael Hudson introduced the report and indicated that separate training would be provided for new members of the Committee, Sub-Committee and Pension Board. Any suggestions for changes to the programme would be welcomed either at this meeting or afterwards. Philip Hebson emphasised the importance of all members taking the opportunity to attend training sessions.

**RESOLVED: that**

- a) The feedback from the Pensions Training event on the 19 June 2019 and the 8 July 2019 be noted; and**
- b) The Training plan be noted.**

**204 Governance and Pension Board (Agenda item 14)**

The Committee considered the governance arrangements of the Pension Fund and proposed changes to the Pension Board Terms of Reference.

In the ensuing debate, the following points were raised:

- Philip Hebson considered that in general the standard of advice provided by professional advisors to the LGPS was improving and he

welcomed the moves to regulate the role of investment consultants

- The issue of whether the role of Chairman could be rotated annually between an employer representative and a member representative was raised. Michael Hudson noted that for consistency, it would be beneficial for the employer's side to retain the role of Chairman. If there was a difference of opinion, the Vice-Chairman could report the alternate view to the Committee. It was also vital that the Chairman had the necessary time, and detailed pension administration and regulatory knowledge to undertake the role. Any appointment would be made by the Board itself. He offered to review these arrangements when the Board Chairman's annual report was due for consideration
- The proposal to add an active and a retired member to the Board seemed to preclude representation by trade union members. Michael Hudson responded that he was keen to attract member nominees who represented other employers within the Fund, for example on behalf of Academies. If they happened to be a member of a trade union that was not an issue. Jim Price indicated that he could help with the recruitment of nominees.

**RESOLVED: that**

- a) a further report be brought back to the December Pensions Committee benchmarking the Fund and administration of the Fund against the Scheme Advisory Board and Pension Regulator's governance reviews, with recommendations to further strengthen the Fund;**
- b) objectives for the Fund's Advisor be brought back to the next Pensions Committee for review and approval;**
- c) the proposed changes to the Pension Board be recommended for approval to Full Council in November; and**
- d) the Chief Financial Officer be authorised to finalise and submit such a report to full Council, in consultation with the Head of Legal and Democratic Services.**

**205 Forward Plan  
(Agenda item  
15)**

**RESOLVED** that the Forward Plan be noted.

The meeting ended at 1.00pm

Chairman .....