

Worcestershire County Council

# Agenda

## Pensions Committee

**Tuesday, 17 March 2020, 2.00 pm**  
**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 3<sup>rd</sup> 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.

## **Pensions Committee**

### **Tuesday, 17 March 2020, 2.00 pm, 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

#### **Coopted Members**

Mr V Allison	Employer Representative
Ms T Fagan	Herefordshire Council
Vacancy	Employee Representative

## **Agenda**

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1	<b>Named Substitutes</b>	
2	<b>Apologies/Declarations of Interest</b>	
3	<b>Public Participation</b> <i>Members of the public wishing to take part should notify the Democratic Governance and Scrutiny Manager (Interim Monitoring Officer) 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 16 March 2020). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	<b>Confirmation of Minutes</b> To confirm the Minutes of the meeting held on 31 January 2020 (previously circulated)	
5	<b>Pension Board and Pension Investment Sub-Committee Minutes</b>	1 - 2
6	<b>LGPS Central Update</b>	3 - 50
7	<b>Pension Fund Strategy Statement</b>	To follow
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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Monday, 9 March 2020

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**PENSIONS COMMITTEE**  
**17 MARCH 2020****PENSION BOARD AND PENSION INVESTMENT SUB-COMMITTEE MINUTES**

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**Recommendation**

- 1. The Committee is asked to note the Minutes of the 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.
4. The relevant Minutes for this meeting relate to the Pensions Investment Sub-Committee meeting on 3 March 2020 and the Pension Board on 9 March 2020.

**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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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**  
**17 MARCH 2020****LOCAL GOVERNMENT PENSION SCHEME (LGPS)**  
**CENTRAL UPDATE**

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**Recommendation**

1. **The Chief Financial Officer recommends that the LGPS Central Update be considered and 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 under 2 years and several the local authorities have transitioned some of their existing asset allocations to be managed by the company. WPF transferred its Active Emerging Market funds into the LGPS Central's Global Active Emerging Market managed mandate in July 2019.

**Transition of Assets**

4. The next planned fund to transition across is the Corporate Bonds mandate which should be completed this month and has been detailed within the Pensions Investment update on this agenda.

**LGPS Central Draft Strategic Business Plan & proposed budget for 2020/21.**

5. Each year LGPSC is required to produce an updated budget and Strategic Business Plan. An update was provided to the Committee on the 31 January 2020. The intention of the Company and Practitioners Advisory Forum (PAF) which has key representation from lead officers for each of the Partner funds was to take an agreed set of papers to the Shareholder Forum which was being held on the 11 February 2020.

6. However, there were still several areas in negotiation at this time and the Shareholders meeting was rearranged to the 20 March 2020.

7. In setting the budget and business plan for the current financial year being 2019/20 Partner Funds jointly undertook rigorous due diligence on the proposed operating budget, which involved comprehensive analysis of the Company's proposed items of expenditure and a series of negotiations with the Company's senior management team.

8. This was the same for 2020/21 with a dedicated Finance working group (FWG) set up who initially met with representatives from LGPSC on the 5th November to begin discussions and have been ongoing since November, finally reaching a point at which the FWG were prepared to support the 2020/21 budget proposed by LGPS Central on the 4 March which was subsequently discussed at the monthly PAF meeting on the 5 March 2020.

9. In the 31 January 2020 report to Committee, LGPS were seeking an annualised budget of £13.110m compared to the 2019/20 annualised budget of £11.158m an increase of 17.5%. After further negotiation by FWG (mainly reducing staffing assumptions and pay increases) the proposed annualised budget presented at PAF on the 5 March 2020 was £12.211m an increase of 9.4%. The key reasons for the increase are due to costs linked to new products & services £0.677m and strengthening infrastructure £0.421m.

10. However, £0.377m of the items removed from the budget are expected to be presented for in-year approval as they relate principally to six products & services (Funds: property; private equity vintage 2020; targeted return & global small-cap. Services: sustainable equities & LDI, LGPSC has acknowledged that the global small cap & targeted return funds are currently programmed for April 2021 launches). If all of these were agreed in year, then this would increase the annualised budget to £12.588m an increase of 12.8%

### **Cost Saving 2020/21**

11. To recap the updated 2019 Cost Savings Model presented to Committee in January was forecasting £284m of collective cost savings from the launch of the Pool in April 2018 to March 2034. This forecast was based on:

- post management fee cost transparency review opening total expense ratio's (TERs) for 18/19
- LGPSC proposed phased budget of £12.4m for 20/21, thereafter an annualised budget of £13.1m (Will now be revised to £12.2m)
- fairly demanding future TER assumptions

12. The 2019 Cost Savings Model presented in January suggested:

- that the Pool will 'break-even' in 2025/26, one year later than suggested by the 2017 Cost Savings Model – two Partner Funds, together with the ITA, currently fail to breakeven
- gross savings of £365m need to be achieved to cover cash outflows over the life of the model (principally: £236m of LGPSC entity operating costs, £68m of transition costs and £39m of service provider fees) before positive cost savings can be achieved
- on average, Partner Funds will receive around 40p in the pound of gross cost savings

13. The estimated impact for Worcestershire Pension Fund (WPF) is a forecast loss of £0.281m at the end of 2033/34 compared to the £3.977m saving in the original model.

14. Out/Underperformance has the potential to overwhelm cost savings with each +/- 10bp in net relative performance adding or subtracting £320m to/from cumulative savings over the life of the model.



15. Although an updated cost sharing model with the proposed revised budget is not yet available, the proposed budget reduction from that previously presented, is likely to have a minimal impact for Worcestershire Pension Fund (WPF) on the cost sharing highlighted in January 2020.

#### 31 January Committee resolution

16. The Committee agreed that in light of the fact that the Shareholders Forum meeting was likely to take place in advance of the next scheduled meeting of the Committee and to avoid any unnecessary delay, the Chief Financial Officer be given delegated authority, in consultation with the Chairman of the Committee to carry out due diligence on the LGPS Central budget updated proposals and to enable the Chairman as Shareholder to agree the proposed 2020/21 LGPSC budget unless the updated budget extended the break-even position of the WPF beyond 2038 thereby impacting on the original cost-sharing agreement.

#### **Strategic Business Plan (SBP) 2020/21**

17. The papers for the Shareholders meeting on the 20 March were sent out by LGPSC on the 5 March 2020. Part of the papers were the proposed SBP attached as an Appendix. Members will note that the budget contained in the SBP is £11.443m which is a phased budget and the £12.221m highlighted in para graph 9 above is the equivalent annualised (full year effect) budget for 2020/21.

18. It should be noted that a unanimous decision from Shareholders is required to approve any such increase.

#### **Staffing**

19. LGPSC have been looking to build resources in the Private Markets team to facilitate the launch of new sub-funds, manage Partner Funds' legacy assets, generate investment cost savings and develop the internal investment capability for the collective benefit of Partner Funds. At the time of writing this report LGPSC were in the later stages of appointing a Head of Private Markets

20. A new Non-Executive Director, Susan Martin has recently been appointed.

#### **Annual Stakeholders meeting 11 March 2020**

8. This meeting was attended by some of our members and was an opportunity to access LGPSC progress and meet some of the individual Fund managers.

#### **PAF Working Groups**

9. 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

10. Considerable focus continues to be placed on the client agreements that LGPS Central need to have in place as these are still outstanding. However, the Fund performance reports have developed well since the last report and are now mostly in a format that the partner funds require.

11. 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.

**12. Please note that the Appendix contains 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

County Council: 01905 763763

Worcestershire Hub: 01905 765765

### Specific Contact Points for this report

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## **Supporting Information**

- Appendix – 2020/21 LGPSC Strategic business plan and budget (**Exempt Information – Salmon pages**)

## **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.
- Minutes of the Pensions Committee on the 31 January 2020
- Minutes of the Shareholders meeting on the 1 November 2019

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

Document is Restricted

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**PENSIONS COMMITTEE**  
**17 MARCH 2020****GOOD GOVERNANCE REVIEWS AND OBJECTIVES OF THE  
FUND'S INVESTMENT ADVISOR**

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

- (a) The Scheme Advisory Board (SAB) 'Good Governance' review and Worcestershire Pension Fund 'Good Governance' position statement attached as Appendix 1 be noted;**
- (b) The Pension Regulator's (TPR) governance reviews be noted; and**
- (c) The objectives for the Fund's Investment Advisor as detailed in Appendix 2 be agreed;**

**Background**

2. At the last meeting, a report was provided on Governance. It was highlighted that strong governance of the Pension Fund has always been paramount, and with the collapse of several private sector funds, alongside the set-up of the pension pools and pressures to maintain balanced funds the need to maintain the strong governance of LGPSs has never been more important.

3. Because of this level of inspection there have been two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator looking at how to strengthen governance. This previous report in October 2019 highlighted the findings from those reviews and set out a proposal to strengthen the Pension Board as a first step which was agreed.

4. At the December Committee it was noted that due to the announcement of the General Election and delay in some of the follow up reports meant there was a slight delay in some of the requirements and guidance. As such, it was felt that these should be first reviewed and discussed at the Pensions Board which met on the 9<sup>th</sup> March 2020 and the outcomes brought back to the March Pension Committee for further discussion and agreement.

**Scheme Advisory Board Guidance**

5. The October Committee detailed the review undertaken by Hymans Robertson who were appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structures for the LGPS. The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance.

6. The SAB agreed to take forward Hymans Robertson's findings and conclusions to improve governance in the LGPS, and released the report for publication in July which was included in the October Committee report

7. The key proposals were:

- **An 'Outcomes-based approach** to LGPS governance with minimum standards rather than a prescribed governance model. Critical features of the 'outcomes based' model should include:
  - a) robust conflict management including clarity on roles and responsibilities for decision-making
  - b) assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget;
  - c) explanation of policy on employer and scheme member engagement and representation in governance; and
  - d) regular independent review of governance - this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
- **Enhanced training requirements** for s151 and s101 committee members (requirements for s101 should be on a par with LPB members)
- **Update relevant guidance and better sign-posting.** This should include 2014 CIPFA guidance for s151s on LGPS 2014 CIPFA guidance for s151s on LGPS responsibilities and 2008 statutory guidance on governance compliance statements. This guidance pre-dates both TPR involvement in LGPS oversight, local pension boards and LGPS investment pooling.

#### *SAB Latest update*

8. At the last SAB meeting on the 3 February 2020 the Board agreed that an implementation group should be established immediately to prepare a detailed implementation plan for consideration when it next meets on the 4th May 2020.

9. Pensions Committee are asked to take on board the comments from the Pensions Board on the 9 March 2020 and to note and comment on the position statement attached as Appendix 1 of how our Fund compares to the practices recommended by SAB.

#### **The Pensions Regulator (TPR)**

10. In addition to the work being undertaken by the SAB, TPR also published its report in September 2019 into the governance and administration risks in public service pension schemes, including the 10 UK local government funds who were engaged with between October 2018 and July 2019. The key findings were reported to the October Committee.

11. The key areas of focus that were covered with the findings and recommendations, together with case studies were as follows and these will be considered alongside the SAB governance review being discussed at the Pensions Board:

- Record keeping
- Internal Controls
- Administrators

- Member Communication
- Internal Dispute Resolution Procedure
- Pension Boards
- Employers and contributions
- Cyber Security
- Internal Fraud and false claims

12. The findings and recommendation from the TPR review will be considered alongside the outcome of the SAB 'Good Governance' review.

### **Competition and Markets authority (CMA) order on Fiduciary management and Investment consultants**

13. At the last Committee On 10 June the Competition and Markets authority (CMA) published the Investment Consultancy and Fiduciary Management Market Investigation order 2019. In summary, the Order defines the Fiduciary Management (FM) services and obliges pension schemes to formally tender for such services. It also obliges pensions schemes to set objectives for their Investment consultancy (IC) providers as well as placing a variety of new obligations on FM and IC service providers.

14. It potentially had consequences for LGPS pools, however on the 29 July the DWP published a consultation on regulations to enact the provisions of the CMA order which explicitly rules out the LGPS as falling under the scope of the obligations in relation to FM service providers. The requirement to set objectives for IC providers remained and a deadline set for the 10 December 2019. Although Worcestershire Pension Fund (WPF) is looking to agree the objectives retrospectively it has supporting evidence in place prior to this deadline.

15. On the 31 July 2019 The TPR published guidance on the implementation of the CMA order which similarly reflects the position that the LGPS is within the scope only of the IC strategic objectives requirements. Administering authorities should take note of the DWP consultation and the TPR's guide "Setting Objectives for the Provider of Investment Consultant Services. IC Objectives Guide. This may result in WPF setting up formal objectives for its Investment consultancy advisor. Part of the TPR's guidance states the following:

- Setting objectives for advisers is an important part of an effective system of governance. We expect that by putting objectives in place, trustees will be better positioned to assess the quality of the service they receive and to deliver better outcomes for their members
- In setting objectives for your investment adviser, you will want to receive their input to ensure that the objectives being set are consistent with the service being offered and are realistic. In obtaining your adviser's input, you should be aware of the potential for their input to be subject to conflicts of interest and you should be prepared to challenge their input. You should also consider whether to involve a third party to help you set those objectives
- Once objectives have been agreed, we would expect these to be signed off in accordance with your existing governance framework, ensuring that all members of the trustee board have sight of and, if relevant, agree with the adviser objectives that have been set and the ongoing monitoring process of these.

16. The proposed formal objectives are attached at Appendix 2 for consideration and agreement by the Pensions Committee after taking on board the advice and comments from the Pension Board on the 9 March 2020.

## **Contact Points**

### County Council Contact Points

County Council: 01905 763763

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### Specific Contact Points for this report

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## **Supporting Information**

- Appendix 1 – Fund’s Good Governance position statement
- Appendix 2 - Fund’s Investment Advisor proposed objectives

## **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:

October and December 2019 – Pension Committee report on the changes to the Pension Board and background to the Good Governance reviews by SAB and TPR



## AGENDA ITEM 8

### Proposed Worcestershire Pension Fund Position Statement: Good Governance

Appendix 1

This position statement has been prepared to summarise how we are taking forward the LGPS Scheme Advisory Board's (SAB) Good Governance workstream in preparation for draft statutory guidance being issued. The numbering relates to the recommendations in the November 2019 Hymans Robertson Phase II [report](#) 'Good governance in the LGPS'. We are also closely monitoring SAB's Responsible investment guidance workstream.

Good Governance proposal	Current position	Identified actions
<b>A. General</b>		
A.1 MCHLG will produce statutory guidance to establish new government requirements for funds to effectively implement the proposals below. ("the Guidance")	Awaiting draft guidance to review and benchmark	Prepare for guidance
A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for the fund ('the LGPS senior officer')	Our Chief Financial Officer is so named	No further action needed
A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS fund as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer	We publish a governance compliance statement as part of <a href="#">our annual reports</a>	Benchmark our governance compliance statement against the guidance and peers annually
<b>B. Conflicts of interest</b>		
B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance	Elected members' (not officers') conflicts of interest are declared at the start of each Pensions Committee meeting	Review best practices employed at other funds (including private sector) to help identify possible conflicts and approaches in preparation for producing a policy
B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB	Awaiting draft guidance	To ensure that all those involved in the management of the LGPS are aware of this position statement and consider training and guidance to Fund members.

Good Governance proposal	Current position	Identified actions
<b>C. Representation</b>		
<p>C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party</p>	<p>Information about the Pensions Committee is available <a href="#">via</a> our website  The Pension Board's terms of reference are available <a href="#">via</a> our website  <a href="#">Our annual reports</a>, <a href="#">our Investment Strategy Statement</a> and para K of appendix 1 of <a href="#">the Worcestershire County Council constitution</a> contain information about representation</p>	<p>Review whether the current position remains adequate annually using comparator Funds to benchmark practices.</p>
<b>D. Knowledge and understanding</b>		
<p>D.1 Introduce a requirement in the Guidance for the key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively</p>	<p>We use a knowledge and skills questionnaire for new elected members and key officers, using them to form action plans as to how gaps can be resolved.  Our elected members' training programme is tabled at most Pensions Committee meetings.  Our officers participate in training provided by the LGA, attend the annual LGPS conference, are on the distribution list for <a href="#">LGPC bulletins</a> and develop the</p>	<p>Update the knowledge and skills questionnaire for all members.  Review whether the current position remains adequate annually through a gap analysis and draw up appropriate training plans to address.</p>

Good Governance proposal	Current position	Identified actions
	LGPS knowledge of our employers through <a href="#">monthly employer newsletters</a> .	
D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding	Our s151 officer's previous role was the most senior officer at another LGPS fund and skills framework completed 18 months ago	s151 to also complete skills framework assessment and address within his CPD programme.
D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements	Our current training policy was tabled at the <a href="#">22 June 2018 Pensions Committee meeting</a>	Review annually with Pension Board the current policy. The review should take account of the level and scope of training for officers, the latest external training available and the attendance records of elected members
D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for S151 officers to consider including LGPS training within their training qualification syllabus	Awaiting guidance	To respond to CIPFA and CIPP, expected guidance and consider peer / CIPFA / LGA review
<b>E. Service delivery for the LGPS function</b>		
E.1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with the descriptions and business processes	The <a href="#">Worcestershire County Council constitution</a> and <a href="#">our annual reports</a> contain information about roles and responsibilities, and we have job descriptions for every officer's role.	To publish a matrix that meets the requirements of the guidance and clarifies the role and responsibility of everyone involved in every stage of the processes we carry out during a member's administration lifecycle
E.2 Each authority must publish an administration strategy	We comply with this requirement	To conclude our 2020 annual review of our <a href="#">Pension Administration Strategy</a> by taking account of all employer feedback to our proposed changes resulting from our consultation.

Good Governance proposal	Current position	Identified actions
		To benchmark our strategy for completeness and innovation with comparator funds to continual develop.
E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of the service	These are included in <a href="#">our annual reports</a> and the quarterly Business Plans tabled at <a href="#">Pensions Committee meetings</a>	To use this information to allocate resources between processes and to re-engineer processes.  To continually work with the Pension Board to check and develop our KPIs and seek out benchmarking.
E.4 Each administering authority must ensure their committee included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year	Quarterly Business Plans are tabled at <a href="#">Pensions Committee meetings</a>	To review the effectiveness of our Business Plans
E.5 Each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including appropriate market supplements, relevant to the needs of their pensions function. Administering authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function	Our recruitment and staffing levels are not constrained by Worcestershire County Council and we are able to use market forces adjustments	To seek out what information, for example from CIPFA benchmarking, is available about pay in the LGPS
<b>F. Compliance and improvement</b>		
F.1 Each administering authority must undergo a biennial independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts	We do not currently do this	Prepare for guidance but are keen to explore peer review as noted in F2 below and will seek to explore options if guidance is not forthcoming quickly.
F.2 LGA to consider establishing a peer review process for LGPS Funds	We do not currently do this	Prepare for guidance and investigate external benchmarking, like <a href="#">PASA</a>

**Proposed objectives for WPF Investment advisor**

<b>Task</b>	<b>KPI / Outcome</b>
<p>A. Provide qualitative general advice to the fund on markets, RI, risk and strategies that have no direct monetary decisions but shape the Fund's thinking at relevant Pension Committee, Investment Sub Committee, local pension board (as required) and meetings with Officers.</p>	<ul style="list-style-type: none"> <li>• Attend all Pension Committee and Investment Sub-Committee Meetings unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication.</li> </ul>
<p>B. Monitoring the Fund's portfolios and considering and providing general advice on the desirability of retaining particular classes of assets or of changing them.</p>	<ul style="list-style-type: none"> <li>• Provide quarterly written reports to Committees in line with Committee timescales and reporting requirements, which include questions for Officers and Councillors to use at meetings with investment managers and a yearly review for publication in the Fund's Annual Report. Highlighting areas upon which members' attention should be focused.</li> <li>• Attend all quarterly review meetings with 'Active' fund managers unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication.</li> <li>• Any areas of poor performance highlighted, challenged and solutions identified.</li> <li>• Pensions &amp; Investment Sub Committee satisfied with the value for money represented by the Services</li> </ul>
<p>C. Support the Fund with achieving timely and cost-effective implementation of the Fund's investment decisions where appropriate, considering the evolution of the LGPS Central pool</p>	<ul style="list-style-type: none"> <li>• Ensure a focus on key risk / return priorities</li> <li>• Any areas of misalignment with the Funds objectives and / or poor performance highlighted, challenged and solutions identified</li> </ul>

Task	KPI / Outcome
<p>D. Provide other ad-hoc support and advice as required by either the Pensions and Investment Sub Committee or the Pensions Fund Investment Manager</p>	<ul style="list-style-type: none"> <li>• Any ad hoc support and advice provided in line with agreed service specifications and on a timely basis</li> <li>• Advisor's fee shared and updated at year end with open report of any additional fees earned through advice.</li> <li>• Conflicts register updated at least half yearly, and upon any changes to the Financial Advisor as soon as they are known to that person.</li> </ul>
<p>E. Oversight of the relationship between the fund and the pool, ensuring what the pool offers complies with strong transition, sound governance and the requirements of the fund.</p>	<ul style="list-style-type: none"> <li>• Attend all quarterly performance review meetings with LGPS Central for which the fund has invested unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication.</li> <li>• Any areas of poor performance highlighted, challenged and solutions identified.</li> </ul>
<p>F. Support the fund in training, through transparent general advice.</p>	<ul style="list-style-type: none"> <li>• Pensions, Investment Sub Committee and Board satisfied with the quality and content of any training requested</li> </ul>
<p>G. Ensure the Fund complies with relevant investment pensions regulations, legislation and supporting guidance, and reflects the policies approved by the Pensions Committee.</p>	<ul style="list-style-type: none"> <li>• No instances of non-compliance with relevant regulations or policies</li> </ul>

**PENSIONS COMMITTEE**  
**17 MARCH 2020****PENSION INVESTMENT UPDATE**

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**Recommendation**

1. The Chief Financial Officer recommends that:
  - a) The Independent Financial Adviser's fund performance summary and market background be noted (Appendices 1 and 2);
  - b) The update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted;
  - c) The update on the Pensions Investment Sub Committee's decision to invest £50m into the British Strategic Investment Fund (BSIF) which is a Fund with a mixture of Property and Infrastructure assets 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 be noted;
  - g) The update on Responsible Investment activities (Appendix 4) and Stewardship investment pooling and the Stewardship code be noted;
  - h) The update on the LGPS Central report on the voting undertaken on the Funds behalf be noted (Appendices 5 to 7);
  - i) The update on the development of a Climate Risk Monitoring Platform be noted;
  - j) The proposed Environment Social and Governance (ESG) Audit be agreed; and
  - k) The update on the feedback on the 'spectrum of capital (Appendix 8) 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 up to the end of December 2019 together with the following supporting information.

- Portfolio Evaluation overall Fund Performance Report up to the end of December 2019 (Appendix 2)

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 Sub Committee (Appendix 1).

#### JP Morgan Corporate Bond

4. The transition of this mandate to LGPS Central's appointed managers (Fidelity and Neuberger Berman) should have taken place by the time this Committee report is presented. JP Morgan has shown an underperformance of -0.05% (0.39% v 0.44%) in Q4 2019 against their benchmark. Their performance against benchmark over the last 12 months has improved to 1.1% outperformance (11.7% v 10.6%), in line with their target.

5. Relative to their performance target, they are behind by -0.5% over three years, and -0.4% over ten years, which is a slight improvement since the last report. They finish at breakeven since inception in April 2003.

#### **Property and Infrastructure Commitments**

6. Just to recap the Strategic Asset Allocation Report presented to the Pensions Committee on the 13 December 2019 agreed to increase the allocation to Infrastructure or a mix of Infrastructure and Real Estate by 5% from the current strategic allocation of up to 15% of the Fund to 20% and reduce the overall Equity strategic allocation exposure (proposal to reduce Market Cap indices element) by 5% (from 75% to 70%), with Fixed income remaining at 10%. This will help reduce portfolio risk and reduce portfolio concentration to large cap companies and therefore increase diversification across the number and size of companies in which the portfolio invests

7. The table below highlights the total commitments to the end of December 2019 being £591million and the amount that has been drawn, i.e. the capital invested being £434million (73%). These types of investments can take several years to be fully committed.

Table 1: Property and Infrastructure Commitments

<b>Property &amp; Infrastructure Commitments</b>	<b>Commitment £'m</b>	<b>Amount Drawn Dec 19</b>	<b>%</b>
Total Commitment Property Investments	242	172	71%
Total Commitment Infrastructure Investments	349	262	75%
<b>Total</b>	<b>591</b>	<b>434</b>	<b>73%</b>



## Venn Commercial Real Estate Fund II

8. Pensions Committee in March 2019 agreed a £30m investment for the Venn Commercial Real Estate Fund II after robust due diligence had been undertaken and reported. Negotiations have been continuing throughout the year and Venn's management team have recently been discussing some updated proposals which were discussed and agreed at Investment Sub Committee on the 3 March 2020

9. The key changes are to include a larger proportion to the UK given the feeling is that there will be increased opportunities now that Brexit for instance has been agreed. Previously before the Fund was looking to concentrate on mainly European investments.

### British Strategic Investment Fund (BSIF)

10. After due consideration of all due diligence and meetings that have been undertaken The Investment Sub Committee on the 3 March 2020 agreed to invest £50m into BSIF, a Fund with a mixture of Property and Infrastructure assets. The BSIF presentation provided at the investment Sub Committee is attached for information at Appendix 3. This will go towards the targeted agreed strategic asset allocation of 20% which currently as at the end of December is just under 15% in overall investments.

### Transition of Corporate Bond assets to LGPS Central Global Active Investment Grade Corporate Bond Fund

11. LGPS Central appointed Analytics to provide transition oversight to look to provide as smooth a transition as possible within the target implementation shortfall. LGPS Central then asked Analytics to procure a transition manager and on 22 August appointed Blackrock as Transition Manager. A transition kick off meeting was undertaken again on the 18 November 2019 and funds should have transitioned by the time this report is presented.

### Overall Management Fees

12. The Management fees are in the region of 8.3bps compared to the 17bps we pay now, 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 considered before any real ongoing savings are achieved. An update will be presented to the next meeting.

### Estimated Funding Levels

13. 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 is circa 20% to 144% (based on 2019 valuation)

14. 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. The Actuary provided a preliminary valuation in September 2019 and further detail is provided in the 2019 Actuarial Valuation Funding Strategy Statement report on this agenda. This has been updated for discount rate assumptions, life expectancy trends, covenant, data quality etc. The estimated funding levels in March 2019 were 91% with a deficit of £265m. The Asset valuation as at the end of January 2020 was £2.933m. However there has been some recent significant volatility in the markets due mainly to the effects of the Coronavirus and it is likely that this will continue over the ensuing months which will impact on the overall funding levels.

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

	Mar-16	Mar-18	Oct-18	Dec-18	Mar-19
Assets £'M	1,952	2,701	2,708	2,650	2,795
Liabilities £'M	2,606	2,794	2,861	2,871	3,065*
<b>Surplus (-) / Deficit</b>	<b>654</b>	<b>93</b>	<b>153</b>	<b>221</b>	<b>265</b>
<b>Estimated Funding Level</b>	<b>75%</b>	<b>97%</b>	<b>95%</b>	<b>92%</b>	<b>91%</b>

\* Note this is based on the Actuary preliminary valuation that the next triennial review is based on. The other Liability figures before this were based on a like for like comparison to the assumptions used in the 2016 valuation.

15. Note the valuation takes on board the extension of the Equity protection.

#### Equity Protection update

16. Members will recall that a number of Equity Protection options / considerations were discussed and provided at the last Committee. A caveat to the discussions was that the Actuary believed 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. Note this only covers our passive portfolio of approximately £1.1bn (including the Equity Protection valuation).

17. Members agreed as *part of the Strategic Asset Allocation report to Committee on the 13 December 2019*: -

- a) To use the Equity Protection strategy as a tool to manage and mitigate the risk of having still a relative high equity exposure but review regularly and update at Pensions Investment Sub Committee;
- b) To agree trigger points were discussions should take place to discuss if any action such as restructuring or even exiting the Equity Protection strategy; and
- c) That Fund officers with the support of the Fund's current Investment Advisor closely monitor the existing strategy and bring back more detailed information on how the strategy has performed at least on a quarterly basis to Pensions Investment Sub Committee

18. Following this recommendation 6 weekly reviews have been implemented with River & Mercantile (R&M) and discussions held on the 6 January 2020 and after due consideration no action was recommended. A further review took place on the 14 February 2020, 28 February and the 3 March 2020 due to the volatility of the markets, mainly to the Coronavirus.

19. R&M provided an update to the Pensions Investment Sub Committee on the 3 March 2020 and advised that no action at this point was necessary as the strategy was doing what it was set out to do. The Investment Sub Committee asked for a range of options / triggers based on different market scenarios that could be written into the existing Investment Management agreement so that action could be taken urgently if necessary. These are currently being progressed and discussed with R&M.

### **Strategic Asset Allocation**

20. Table 3 below shows the asset allocations against the Strategic Asset Allocation targets (before the revised targets agreed by Committee in December 2019). This highlights that our overall investment in equities is still high being over 79.2% (80.0% as at Sept 2019) (including the equity protection) compared to the strategic asset allocation target at that time of 75%. This is mainly due to being overweight on the active equity portfolio and underweight on Fixed income. Although the actual Property and Infrastructure investments are at the previous 15% target levels, action is being taken to find suitable assets with the aim to increase this to the targeted 20% level

**Table 3 Strategic Asset Allocation targets**

<b>Fund as at the 31<sup>st</sup> December 2019</b>		<b>Strategic Asset Allocation targets</b>	
Asset Class	Portfolio Weight	Asset Class	Portfolio Weight
<b>Actively Managed Equities</b>	<b>25.0%</b>	<b>Actively Managed Equities</b>	<b>20.0%</b>
Far East Developed	13.2%	Far East Developed	10.0%
Emerging Markets	11.8%	Emerging Markets	10.0%
<b>Passively Managed Equities – Market Capitalisation Indices</b>	<b>31.3%</b>	<b>Passively Managed Equities – Market Capitalisation Indices</b>	<b>40.0%</b>
United Kingdom	13.2%	United Kingdom	23.5%
North America	11.6%	North America	9.0%
Europe ex UK	6.5%	Europe ex UK	7.5%
<b>Passively Managed Equities – Alternative Indices</b>	<b>15.6%</b>	<b>Passively Managed Equities – Alternative Indices</b>	<b>15.0%</b>
Global	15.6%	Global	15.0%
<b>Equity Protection</b>	<b>7.2%</b>		
<b>Fixed Interest</b>	<b>6.1%</b>	<b>Fixed Interest</b>	<b>10.0%</b>
Actively Managed Bonds & Corporate Private Debt	5.3%	Actively Managed Bonds & Corporate Private Debt	10.0%
	0.8%		
<b>Actively managed Alternative Assets</b>	<b>14.8%</b>	<b>Actively managed Alternative Assets</b>	<b>15.0%</b>
Property	5.8%	Property & Infrastructure	15.0%
Infrastructure	9.0%		
<b>TOTAL</b>	<b>100.0%</b>	<b>TOTAL</b>	<b>100%</b>

### **Responsible Investment (RI) Activities**

21. 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

22. The Fund adopts a policy of risk monitoring and engagement with companies with sub-optimal governance of financially material Responsible Investment (RI) issues, 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)

23. 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.

24. The quarterly engagement report (October to December 19) highlighted that: -

- Climate concerns remain centre stage at the close of the year. The wildfires in Australia (cover), floods in Indonesia and Saudi Arabia and other extreme weather-induced events in the last months of 2019 permeated public consciousness with the real and sometimes deadly impact of climate change. Shareowners engaging with companies continue to push, not only for companies’ strategies to further the transition to net zero and their physical resilience, but also for alignment of corporate direct and indirect lobbying activities which can markedly affect national policy making.
- The report also highlights other areas relating to climate emergency, company engagement and the 2019 LAPFF annual conference

25. Through LAPFF, the Fund engaged with 35 companies during the quarter on issues ranging from human rights, climate change, environmental issues, governance and board composition. Most engagements concerned climate change and governance. Three engagements led to a substantial improvement and ten engagements led to a change in process /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 4 and is also available on LAPFF’s website together with the previous quarterly engagement reports. : [LAPFF quarterly-engagement-reports](#)

#### **Stewardship in Investment Pooling**

26. As part of LGPS Central we are actively exploring opportunities to enhance our stewardship activities. More information is on the LGPS website [LGPS Central – 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 2019 is currently available.

### *Stewardship Themes*

27. 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 is provided in the quarterly stewardship report.

### **Voting Decisions**

28. At the last meeting it was agreed that it would be beneficial for LGPS Central would compile and vote the shares for Worcestershire Pension Fund voting records (via LGPS Central contract with Hermes EOS and executed in line with LGPS Central's Voting Principles).

29. 'Donut' charts for how votes have been cast in different markets and regions (Appendices 5 and 6) and a Table of vote-by-vote disclosure for full transparency is available at Appendix 7.

### **Development of a Climate Risk Monitoring Platform**

30. As highlighted in the June report, the partner fund Responsible Investment Working Group and LGPS Central are developing a Climate Risk Monitoring Service. 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

31. All partner funds have now agreed to take this forward. A procurement exercise has been completed for Climate Scenario Analysis and Carbon Risk Metrics and providers appointed. Work is now ongoing to look to provide initial reports for each individual partner fund and this should be available for the June Committee report.

### **Environment Social and Governance (ESG) Audit**

32. Given the increase and focus on RI and particularly Climate change it is evident that the Fund needs to conduct an ESG audit to establish a baseline for the Fund for future action and consideration. This is also on the back of the presentation to members by Karen Shackleton from Pensions for Purpose on the 31 January 2020. on **'Responsible Investment, Sustainable/Ethical Investment and Impact Investment.**

33. A key aspect of the presentation was where as a Fund we would wish to be on the 'Spectrum of capital (Appendix 8) ranging from 1 being the traditional forms of investment through to 8 being Philanthropy. Members have been asked for their view and based on the feedback so far Members would like to see the Fund on 4 between a mix of sustainable and impact driven investments. The ESG audit will help the Fund

establish where we are and help formulate future strategic actions required for the Funds investment approach.

34. It is anticipated that this review will cost in the region of £20 to £30k and agreement is sought from Committee to look at procuring this ESG audit with a view to reporting back to the June Committee if possible. The Funding has been provided and highlighted within the Pensions Admin Budget for 2020/21 on the same agenda.

**35. Please note that Appendix 3 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)
- Portfolio Evaluation Overall Fund Performance Report (Appendix 2)
- BSIF Presentation (Appendix 3) **exempt information (on salmon pages)**
- LAPFF Quarterly Engagement Report April to June 2019 (Appendix 4)
- 'Donut' charts for how votes have been cast in different markets and regions Appendices 5 and 6 and a Table of vote-by-vote disclosure (Appendix 7)
- Spectrum of Capital (Appendix 8)

## **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 13 December 2019

REPORT PREPARED FOR  
**Worcestershire Pension Fund**

March 2020

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**MJ Hudson Allenbridge**

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## Independent Investment Adviser's report for the Pension Investment Sub Committee meeting

3 March 2020

### Global overview

Brexit is done, bar the shouting, of which there will inevitably be a fair amount. At least on this side of the Channel we have a sort of stability, not sure about those to the south of it! Coming up, US Presidential elections and the shouting is just starting. The sad business of Coronavirus is making the headlines; it is too early to tell if this will have anything more than a short term impact on GDP in the region and elsewhere.

Global economic data was better than expected in Q4 but remained mixed. Aside from the Federal Reserve, which cut interest rates for the third time in the year, central banks declined to cut rates but remained committed to loose monetary policy. Meanwhile, pressure has been mounting on governments to loosen fiscal policies, most notably in the Eurozone, where extended quantitative easing and the continued slowing of the economy have raised questions over the amount of capacity left for monetary policy to stimulate growth. The announcement of a 'Phase One' US-China trade deal and a new majority government in the UK helped to ease global political uncertainty.

**GDP:** US GDP is expected to grow 2.2% in Q4, whilst last quarter's GDP was revised up from 1.9% to 2.1%. The US consumer confidence index grew from 125.1 in August to 126.5 in December; however this was a slight decline from 126.8 in November. US-China trade tensions continued to cause concern.

In the UK, Q4 GDP growth is expected to be around 0.1%, due to continuing long-term Brexit uncertainty, the running down of supplies ordered by businesses as part of no-deal Brexit contingencies, and political uncertainty leading up to the December election. The British Chamber of Commerce Quarterly Economic survey pointed to a worsening service sector, continuing negative indicators for manufacturing and export orders, and the lowest manufacturing investment for eight years. In the Eurozone, GDP growth is predicted to be 0.2% for Q4, as growth in the region continued to remain weak, especially in Germany.

**CPI:** In Q4, inflation levels in the US rose from 1.7% at the end of the previous quarter, to 2.3%. The majority of price rises were due to housing, medical care, and gasoline, whilst used cars and trucks, household furnishings and operations, and airlines fares declined.

In the UK, the consumer price index fell from 1.7% at the end of Q3 to 1.3%; this is below the 2.0% target set by the Bank of England (BoE). The decline was driven primarily by accommodation services and clothing, while the greatest increases came from water, electricity, gas and other fuels.



**Central Banks:** In Q4, central banks continued with dovish policies but the pace of interest rate cuts slowed. Whilst the Fed cut rates once more, the BoE, the European Central Bank (ECB), and the Bank of Japan (BoJ) all held rates steady. The Fed stated that while it does not plan to reduce rates further in the near future, it would be ready to step in. This was shown with its involvement in the Repo market at the end of Q4, with the aim of halting a repeat of September's Repo interest rate spikes. In her first months as ECB president, Lagarde reiterated Draghi's loose stance on monetary policy, and continued to press for governments to loosen fiscal policy. It was also announced that Andrew Bailey, head of the FCA, would take over from Mark Carney as Governor of the Bank of England on 16<sup>th</sup> March 2020.

**Political Headlines:** In the UK, Boris Johnson was elected as Prime Minister with a significant majority. In the US, the main headline was the impeachment of President Donald Trump, with the Senate voting against his removal. The new team of EU Commissioners were put in place on 1 December. In Germany, the new SPD leadership unexpectedly announced that they would keep their party in coalition with Angela Merkel's CDU. Meanwhile, in France, Macron was under pressure as protests against his proposed pension reforms set him in conflict with French unions.

## Summary and Market Background

The value of the Fund in the quarter rose to £2.94bn, an increase of £12m compared to the end September value of £2.93bn. The Fund produced a return of 1.7% over the quarter, which was -0.3% below the benchmark. The equity protection strategy provided a small positive contribution to returns, with the main detractor being relatively underweight in the traditional market cap. passive indices and a relatively low return from the alternative benchmark passive portfolio. Over a 12 month period the Fund recorded a negative relative return against the benchmark of -3.9% (13.5% v. 17.3%). The Fund has performed close to benchmark over the three, five and ten year periods, details of which can be found in Portfolio Evaluation Limited's 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 2018, up until after the next Triennial valuation in April 2019 (covering an 18 month period). This protection has now been extended until Q3 2020 to help manage the Fund's risk profile ahead of the new funding period. The strategic asset allocation review has been completed and was approved at the Pensions Committee meeting in December. An increase in allocation to the alternatives portfolio (up to 20% from 15%) was sanctioned, work has commenced on implementation. Further work will be undertaken to seek appropriate means to bring the actual allocation to fixed interest closer to the strategic allocation (10%). The main allocation continues to be in equities (70%) and the focus will be to ensure that risk and reward continues to be managed in a balanced manner, using a blend of passive and active management on a regional basis. An equity protection overlay will form part of the overall risk management strategy, with the objective of continuing to provide some protection to the funding level in the event of significant falls in equity markets.

The asset allocation review has also highlighted the need for the Fund to manage Environmental, Social and Governance (ESG) issues in a more proactive manner, assisted in part by LGPS Central. To enable the Fund's stakeholders to gain an understanding of the issues that are involved and actions that need to be considered a training programme has been initiated, starting with a presentation from Karen Shackleton from Pensions for Purpose. This provided valuable guidance about what should be considered and how to set objectives for the Fund in terms of how and to what extent ESG standards will be implemented and monitored.

As previously reported Emerging Markets assets have now been transitioned to LGPS Central and their appointed managers (BMO, Vontobel and UBS). The monitoring of this mandate will need to focus on how LGPS Central manages it on a Fund of Funds basis, along


with scrutiny of the individual managers as necessary. The transition of the Corporate Bonds mandate, currently managed by JP Morgan, to the LGPS Central sub fund (the appointed managers are Fidelity and Neuberger Berman) is in process at the time of writing.


Our two active equity managers had a very divergent experience in Q4 2019 Nomura (Pacific) enjoyed another good quarter, with an outperformance of 1.5%, whereas LGPS Central (Emerging Markets) underperformed during their second quarter by -0.4%. Hardly an auspicious start. JP Morgan (Bonds) nearly performed in line with their benchmark (6bps under!).


The alternative passive strategies underperformed the total passive benchmark by -1.1% (0.7% v. 1.8%). Active market equities outperformed the passive equities group by 0.4% (2.8% v. 2.4%), which reflects in aggregate terms the regional market indices that they represent rising more than those in the passive section of the Fund, despite a strong performance from the UK market within that, with Europe being the laggard.

### Equities


Over the course of Q4 2019, equity markets performed well; as political uncertainty and concerns regarding the global economy subsided, to some extent investors' risk appetite increased, and thus so did allocations to equities. Concerns over the trade war continued to weigh on markets, with mixed messages throughout the quarter. Whilst a trade deal was agreed in mid-December, alleviating some uncertainty, the trade war endures. Nonetheless, continued central bank support helped spur-on markets globally. Generally, fears of a recession calmed, as economic data proved better than expected, although typically such data was either negative or neutral.


 **UK:** UK markets were slightly up in Q4 with the FTSE 100 up by 2.7% and the FTSE All-Share by 4.2%, bringing year to date returns to 17.2% and 19.1%, respectively. However, the FTSE 100 was the worst performing equity market of those that we monitor. Domestic stocks, and economically sensitive areas of the market outperformed; however, oil and gas lagged despite increasing crude oil prices. UK small and mid-cap stocks performed well over the quarter. In contrast, the retail sector performed poorly, with retail sales declining by 1% in the quarter, with many retail companies posting lower profits as a result. Wider earnings reports were broadly mixed.

 **EU:** The Euro STOXX 50 increased by 5.2% in Q4. Like other developed markets, the EU region made strong positive gains over the quarter, boosted by the ECB's re-start of quantitative easing. Sectors that performed well included IT, consumer discretionary and materials.

 **US:** The US stock market made strong gains over the quarter. The S&P 500 index reached record highs in Q4, finishing the quarter up 9.1%. Over the year, the S&P 500 rose 31.5% and was the strongest performing equity index that we track. Well-performing sectors included energy stocks, which rose as the oil price increased, whilst real estate and

industrials performed below market average. For Q4, it is estimated that S&P 500 earnings would be down by -2.1% year-on-year, whilst revenues were expected to grow 2.7% year-on-year; this would mark the fourth continuous quarter of net profit margin declines. However, it should be noted that Q4 2018 represented the fourth highest net profit margins since 2008.

 **Japan:** The Japanese equity market had a very strong quarter; the Nikkei 225 was up 8.9% during Q4, pushing returns to 23.5% over the course of 2019. Japan had a good start to the quarter, with textiles & apparels the only sector on the Tokyo Stock Exchange to decline. Abenomics restarted and the BoJ continued with loose monetary policies. However, the Japan-South Korea trade war, the typhoon and the consumption tax weighed on the economy.

 **China:** The MSCI China Index rose by 14.0% over the quarter. The Chinese government continued to support its economy as it experienced slower growth. Despite continued instability in Hong Kong, the Hang Seng increased by 8.4% over the quarter.

 **Emerging Markets:** The MSCI Emerging Markets index was up 11.7% for Q4, bringing returns in 2019 to 18.6%, which is at the lower end of returns for the indices that we track. Civil unrest across emerging markets held down equity returns, along with continued uncertainty over the US-China trade war. Despite this, emerging markets performed well. The increase in oil prices helped to boost the stock market returns of some emerging market countries, including Russia, Colombia and India.

## [Fixed Income](#)

**Government Bonds:** In Q4, bond yields rose as the impact of accommodative central bank policies was felt, and progress was made in US-China trade deal talks. The 10-year US Treasury yield rose by 25 bps, and the US yield curve steepened. This was driven by optimism over a potential end to the trade war, and better than expected US economic data.

While the leadership of the ECB has changed, policy has not, so far. Loose monetary policy continues, although bond yields have been rising throughout the Eurozone. French government 10-year yields turned positive, whilst 10-year German bond yields rose from -0.6% to -0.2%. Japanese government bond yields also rose but remained negative. In Britain, increased confidence in a Brexit deal was balanced with increased spending proposals by the new government, but overall the UK 10-year yield rose by only 33 bps.

**Investment Grade Corporate Bonds:** In Q4, IG corporate bonds outperformed government bonds but underperformed US high yield bonds. US investment grade corporate bonds outperformed both pan-European, and UK corporate investment grade bonds.

The Bloomberg Barclays US Corporate Investment Grade TR Index Unhedged returned 1.2%, bringing the year to date return up to 14.5%. US corporate bond spreads tightened due to strong foreign and domestic demand.

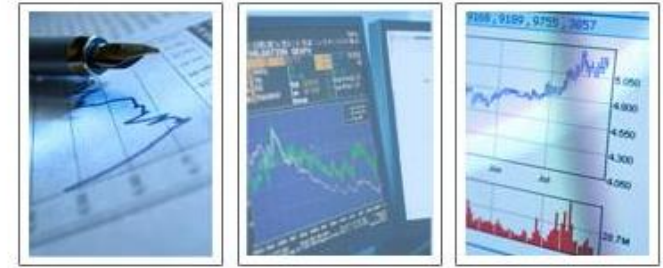
**High Yield Credit:** Better than expected economic data allayed fears of a recession, and reduced global tensions helped to propel US high yield bonds which outperformed developed market government bonds, as well as US IG Corporate Bonds. The Bloomberg Barclays US Corporate High Yield TR Index Unhedged returned 2.6% in Q4. US high yield spreads continue to be tighter than the historical average, tightening 27bp over Treasuries.

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P O R T F O L I O  
E V A L U A T I O N  
L I M I T E D

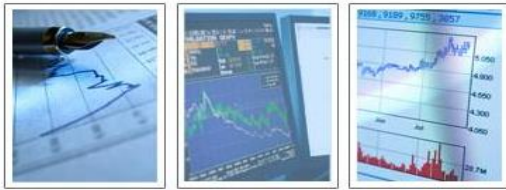
Quarterly Risk and Return Analysis  
Total Fund

Worcestershire County Council Pension Fund



Specialists in Investment Risk and Return Evaluation

Period ending 31<sup>st</sup> December 2019



Specialists in Investment Risk and Return Evaluation

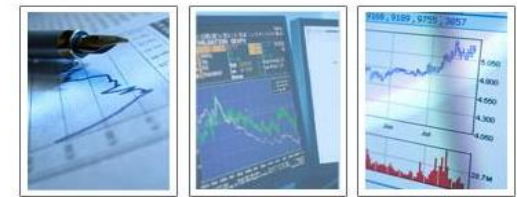
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## Worcestershire County Council Pension Fund Total Fund

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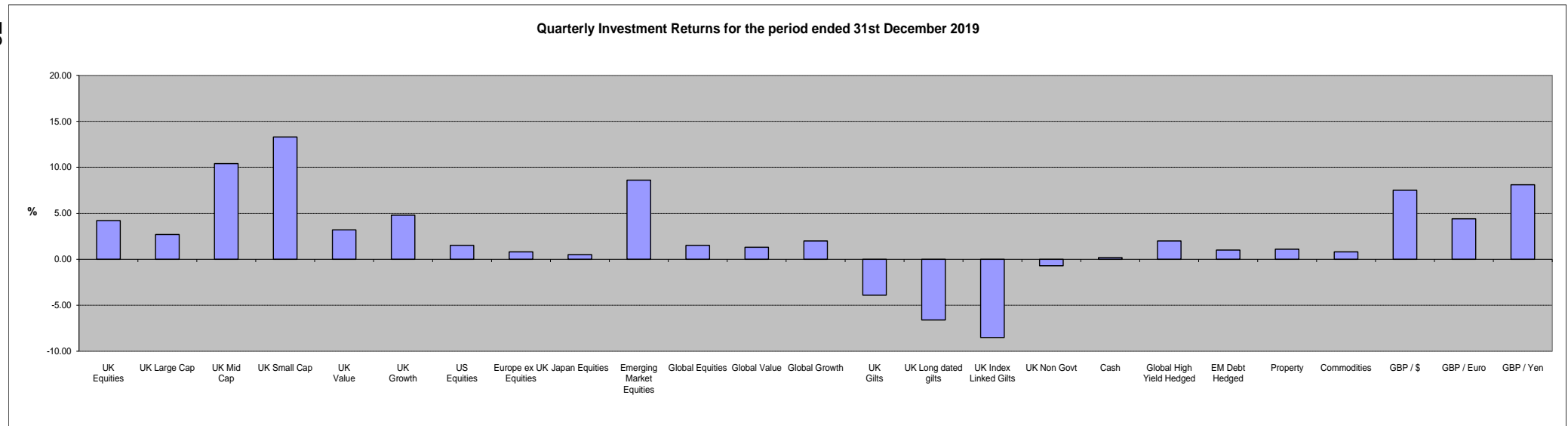


## Portfolio Evaluation Ltd Market Commentary Q4 2019 (Sterling)

After a positive first nine months of the year equity markets continued with positive returns, albeit in a volatile quarter in terms of markets that depreciated and then rallied strongly. The UK performed strongly following the election; mid and small cap (in particular) stocks performed particularly strongly whilst the performance of the FTSE 100 despite having positive returns was quite muted probably due to sterling appreciation and performance earlier in the year. Over the quarter global equity markets also performed strongly; however due to sterling appreciation the impact of non UK equity markets on UK investors was limited. The positive global outlook this quarter saw growth stocks continue to outperform value as they have done for recent years. Over the year the UK and global equity markets performed strongly.

Over the quarter bond market returns were negative as yields increased and investors reduced their exposure to bonds whilst over the year they had positive returns with the result that yields reduced further. Property has had a quiet year in terms of return as have other 'alternative' asset classes over the year with Private Equity typically being the strongest performer.

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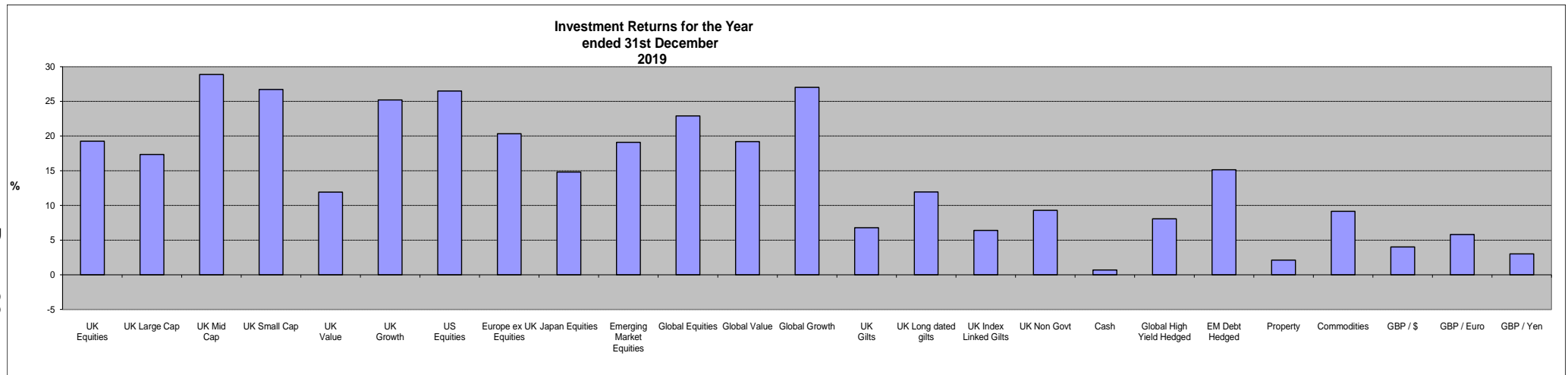


It would appear that markets are set to remain in a late market cycle phase for a while given the economic growth, especially as some economic growth indicators improved this quarter, and it is not uncommon for markets to produce positive returns in this phase; however this can be more volatile. This phase may remain resilient



for a while as it is supported by dovish central bank policy, continuing low inflation and positive consumer demand (it should be noted that there is in the developed world a lower supply of available workers than previously).

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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 many market commentators are discussing more defensive strategies going forwards (this would not have been not a successful relative strategy in 2019) although many are also viewing emerging markets positively and corporate bonds over government bonds. There are some risks in the returns that can be achieved, these include Trade Wars remain on going between the US, China and to some degree Europe, we are also in the position where central banks may not be able to continue lowering interest rates much more. We are also seeing increased political risk and it must be remembered that 2020 is an election year in the United States. In the UK despite Brexit going ahead there are significant risks as the UK seeks a trade deal with both Europe and the United States.

Market volatility has recently become stable and in core asset classes has reduced slightly; however risk within multi asset class portfolio has not reduced as the risk levels between asset classes has increased as diversification benefits reduce.

**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](mailto:nick.kent@portfolioevaluation.net)) or visit our website at [www.portfolioevaluation.net](http://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.

## Worcestershire County Council Pension Fund - Commentary

### Period ending 31<sup>st</sup> December 2019

**QUARTERLY SUMMARY:**      **Worcestershire County Council Pension Fund Return: 1.7%**      **Benchmark Return: 2.0%**      **Excess Return: -0.3%**

- Equity assets were the highest return generators at 2.1%; active equities being the higher at 2.8% return and passive generating 2.4%. The alternative equity pool generated a lower 0.7% return. The mid-market credit fund followed generating a return of 1.9% whilst corporate bonds generated a lower return of 0.4%. Infrastructure followed generating a return of 0.1% whilst property was a negative return generator overall at -0.1%
- The Fund has underperformed its benchmark primarily due to asset allocation; it is significantly underweight the (relatively) high returning passive equity pool and overweight the low returning (relatively) EPO. Stock selection also contributed slightly to the underperformance primarily due to the underperforming Property and Infrastructure pools; equity assets contributed positive excess over the quarter.
- Overall, and with the exception of the mid-market credit fund, all primary asset classes underperformed their respective benchmarks.
- Within active equities the LGPSC Emerging Market Fund was the highest return generator (a 3.7% return) but underperformed the return of its benchmark whilst the Nomura portfolio comfortably outperformed its respective benchmark but generated a lower return of 1.9%. Passives underperformed slightly with negative excess via asset allocation as the Fund is underweight this (relatively) high returning asset class
- Over the quarter the EPO portfolio had an overall return of 1.2% and improved the overall equity return by 0.1%
- Other outperformers of note have been the US property via Walton Street, property via AEW and the Stonepeak infrastructure fund; all outperformed their respective benchmarks over the period
- Underperformers of note have been all the infrastructure funds with the exception of Stonepeak, Invesco European property and but to a lesser extent UK property and the US Walton Street II Fund
- The latest valuation data supplied by VENN, Walton Street I, Green, EQT, Invesco Real Estate UK Residential Fund and Stonepeak was for period ending September 2019.

**YEAR SUMMARY:**      **Worcestershire County Council Pension Fund**      **Return: 13.5%**      **Benchmark Return: 17.3%**      **Excess Return: -3.9%**

- Over the year the Fund has generated a return of 13.5% underperforming its benchmark by -3.9%; when excluding the equity options overlay, the Total Fund underperformed by -1.5% (i.e. the EPO strategy has significantly detracted from value; however note that the benchmark was amended to include the equity protection strategy in April 2019).
- Over the year equities have been the strongest performer generating a return of 15%, followed by corporate bonds at 11.7%, infrastructure generating a return of 5.9% and property being the lowest at 2.4%
- The Fund's underperformance has been generated by stock selection: dominated by the negative returning EPO, and also via JPMorgan and Schroder Emerging Market portfolios (this group was in transition mode from mid-June to mid-July). Stock selection within infrastructure and property also contributed to the Fund's underperformance over the year. Asset allocation was also a negative contributor over the year via the overweight exposure to the EPO
- Overall the EPO has provided a significant drag on performance. It has however continued to lower Fund volatility.

**THREE YEAR SUMMARY:**      **Worcestershire County Council Pension Fund**      **Return: 8.0%**      **Benchmark Return: 8.2%**      **Excess Return: -0.2%**

- Over the three year period, the Fund has generated a return of 8.0% and has underperformed the benchmark by -0.2%. It should be noted that there has been a significant number of new mandates established in that timeline especially in the property and infrastructure asset classes. Additionally an equity protection overlay program (EPO) has been started and recently the EMM equity portfolio has been restructured
- The EPO has reduced overall performance slightly because equity markets have continued to rise over the last few years; however Fund volatility has reduced. In effect the EPO is performing as expected given its mandate and structure
- The Total Risk and Active risk are consistent with a typical multi asset class fund that uses both passive and active strategies.

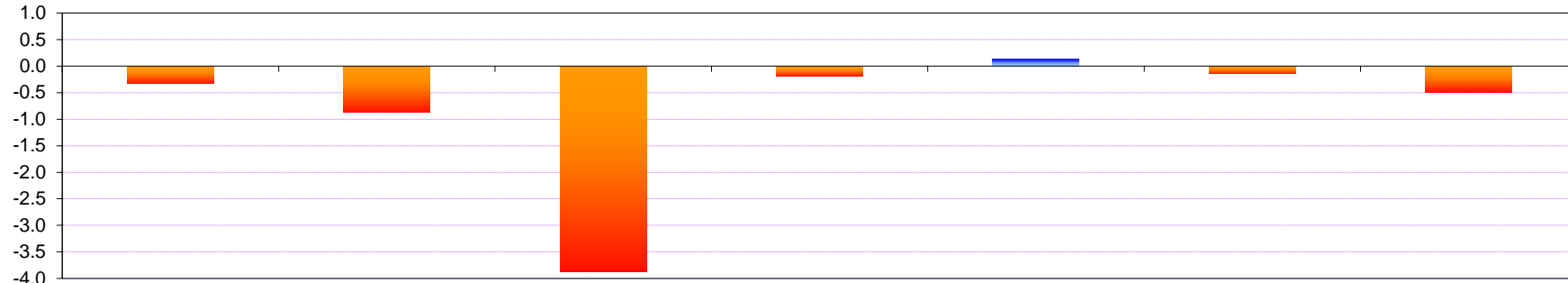
## Total Fund Overview

### Worcestershire CC Pension Fund

#### Report Period: Quarter Ending December 2019



#### Excess Return Analysis (%)

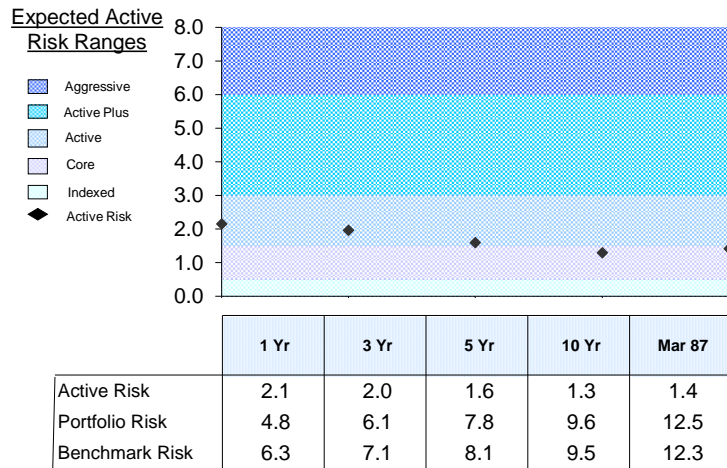


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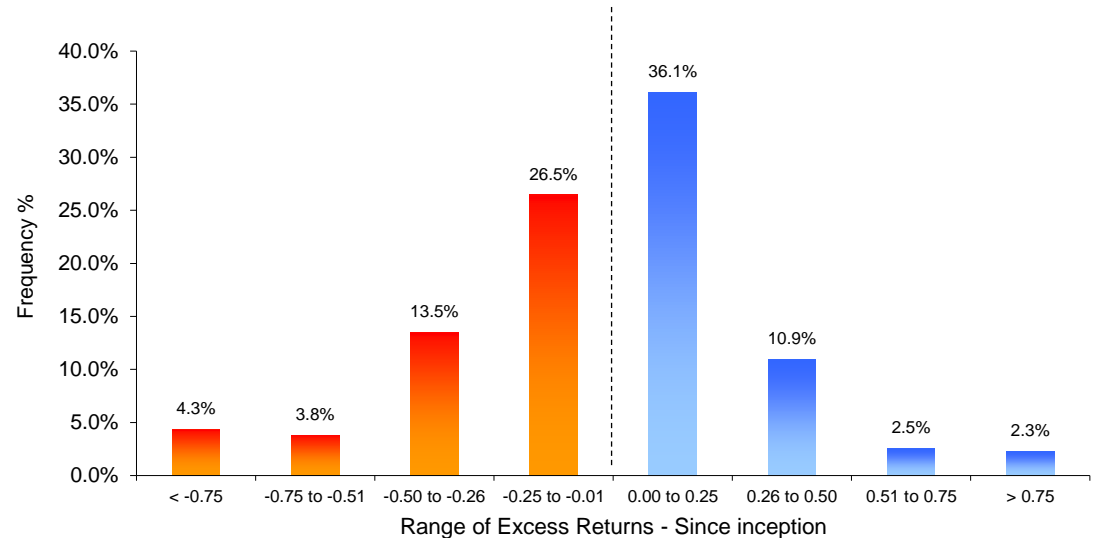
	QTR	YTD	1 Yr	3 Yr	5 Yr	10Yr	Since Mar 87 (p.a.)
Excess Return	-0.3	-0.9	-3.9	-0.2	0.1	-0.1	-0.5
Portfolio Return	1.7	8.2	13.5	8.0	9.7	8.8	8.1
Benchmark Return	2.0	9.1	17.3	8.2	9.5	9.0	8.6

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

#### Ex-Post Active Risk Analysis (%)



#### 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.







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



Market Value: £2.9bn

	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
<b>Total Equity Fund</b>	<b>Client Specific Weighted Index</b>	<b>Mar-16</b>	<b>2,332.5</b>	<b>79.2</b>	<b>2.1</b>	<b>2.3</b>	<b>-0.1</b>	<b>9.0</b>	<b>9.9</b>	<b>-0.9</b>	<b>15.0</b>	<b>19.5</b>	<b>-4.6</b>	<b>8.4</b>	<b>8.7</b>	<b>-0.3</b>							<b>12.7</b>	<b>12.8</b>	<b>-0.2</b>
<b>Total Equity Fund ex Overlay</b>	<b>Client Specific Weighted Index</b>	<b>Mar-16</b>	<b>2,335.6</b>	<b>79.3</b>	<b>2.0</b>	<b>2.3</b>	<b>-0.3</b>	<b>9.3</b>	<b>9.9</b>	<b>-0.6</b>	<b>17.9</b>	<b>19.5</b>	<b>-1.6</b>	<b>8.5</b>	<b>8.7</b>	<b>-0.3</b>							<b>12.7</b>	<b>12.8</b>	<b>-0.1</b>
<i>Total Active Equity Fund</i>	Client Specific Weighted Index	Mar-16	738.3	25.1	2.8	2.2	0.6	8.9	7.6	1.2	15.9	15.0	0.9	8.9	8.1	0.8							14.0	13.1	1.0
Far East Developed Fund - Nomura	FTSE Developed Asia Pacific Index	Feb-03	390.0	13.2	1.9	0.4	1.5	11.5	7.8	3.7	17.5	14.0	3.5	8.6	7.1	1.5	12.0	10.9	1.1	9.0	8.3	0.6	10.5	10.3	0.2
Emerging Markets Fund - LGPSC	FTSE All World Emerging Market Index	Jul-19	348.2	11.8	3.7	4.0	-0.3															-0.2	0.7	-0.8	
<i>Total Passive Equity Fund</i>	Client Specific Weighted Index	Mar-16	922.4	31.3	2.4	2.7	-0.3	11.1	10.6	0.5	21.9	21.2	0.8	8.9	8.6	0.4							12.7	12.2	0.5
UK Equity Fund - L&G	FTSE All Share Index	Dec-15	388.9	13.2	4.2	4.2	0.0	8.9	8.9	0.0	19.1	19.2	0.0	7.0	6.9	0.2							10.3	10.1	0.2
North American Equity Fund- L&G	FTSE All World North American Index	Dec-15	341.9	11.6	1.4	1.4	0.0	13.7	13.6	0.0	26.5	26.5	0.0	12.4	12.4	0.1							17.9	17.9	0.0
Europe ex UK Equity Fund- L&G	FTSE Developed Europe Ex. UK Index	Dec-15	191.6	6.5	0.9	0.9	0.0	11.3	11.5	-0.2	20.3	20.5	-0.2	8.5	8.7	-0.2							11.9	12.1	-0.2
<i>Total Alternatives Fund</i>	Client Specific Weighted Index	Mar-16	458.8	15.6	0.7	0.6	0.1	12.3	12.4	-0.1	23.0	23.3	-0.3	10.6	11.0	-0.3							14.4	14.8	-0.4
FTSE RAFI DEV Fund - L&G	FTSE RAFI Developed 1000 QSR Net Index	Dec-15	172.1	5.8	0.8	0.8	0.0	10.3	10.2	0.0	18.9	18.9	0.0	7.5	7.5	-0.1							14.1	14.2	-0.1
MSCI World Min Vol TR Fund - L&G	MSCI World Minimum Volatility Net Index	Dec-15	135.0	4.6	-2.6	-2.7	0.0	11.0	10.9	0.1	19.8	19.8	0.1	10.1	10.1	0.0							15.0	15.0	0.0
MSCI World Quality TR Fund - L&G	MSCI World Quality Total Return Net Index	Dec-15	151.7	5.2	3.7	3.7	0.0	16.0	16.0	0.0	31.3	31.4	-0.1	15.1	15.3	-0.2							18.1	18.2	-0.1
Equity Protection - River & Mercantile		Jan-18	213.1	7.2	1.2	0.0	1.2	-3.9	0.0	-3.9	-17.7	0.0	-17.7										0.5	0.0	0.5
Equity Protection - River & Mercantile ex Overlay		Jan-18	216.1	7.3	0.1	0.0	0.1	-0.9	0.0	-0.9	1.6	0.0	1.6										-3.2	0.0	-3.2
<b>Corporate Bond Fund- JPM</b>	<b>Barclays Capital Global Aggregate - Ex Treasury, Ex Government Related 100% Hedged to GBP Absolute Return + 6.5%</b>	<b>Mar-03</b>	<b>155.4</b>	<b>5.3</b>	<b>0.4</b>	<b>0.4</b>	<b>-0.1</b>	<b>6.6</b>	<b>6.2</b>	<b>0.4</b>	<b>11.7</b>	<b>10.6</b>	<b>1.1</b>	<b>4.5</b>	<b>4.0</b>	<b>0.5</b>	<b>4.0</b>	<b>3.6</b>	<b>0.4</b>	<b>5.6</b>	<b>5.1</b>	<b>0.4</b>	<b>5.2</b>	<b>5.3</b>	<b>-0.1</b>
<b>EQT Mid-Market Credit II</b>	<b>Absolute Return + 6.5%</b>	<b>May-18</b>	<b>22.5</b>	<b>0.8</b>	<b>1.9</b>	<b>1.6</b>	<b>0.3</b>	<b>7.9</b>	<b>4.8</b>	<b>3.1</b>	<b>8.4</b>	<b>6.5</b>	<b>1.9</b>										<b>10.3</b>	<b>6.7</b>	<b>3.5</b>
<b>Total Property Fund</b>	<b>Client Specific Weighted Index</b>	<b>Mar-16</b>	<b>169.6</b>	<b>5.8</b>	<b>-0.1</b>	<b>1.8</b>	<b>-1.9</b>	<b>3.5</b>	<b>5.4</b>	<b>-2.0</b>	<b>2.4</b>	<b>7.2</b>	<b>-4.8</b>	<b>6.7</b>	<b>7.1</b>	<b>-0.4</b>							<b>7.6</b>	<b>7.1</b>	<b>0.5</b>
<i>Total UK Property Fund</i>	Absolute Return +9%	Jul-18	66.9	2.3	1.1	2.2	-1.1	3.7	6.7	-2.9	6.3	9.0	-2.7										6.8	9.0	-2.2
UK Property Fund - Invesco	Absolute Return +9%	Oct-18	40.8	1.4	0.2	2.2	-2.0	-2.5	6.7	-9.2	-2.5	9.0	-11.5										-2.0	9.0	-11.0
UK Property Fund - VENN	Absolute Return +9%	Jul-15	26.0	0.9	2.5	2.2	0.3	6.4	6.7	-0.2	9.2	9.0	0.2	12.0	9.0	3.0							10.5	9.1	1.4
US Property Fund- Walton Street GBP	Absolute Return + 6.5%	Feb-16	13.1	0.4	5.0	1.6	3.4	8.9	4.8	4.0	13.9	6.5	7.4	7.2	6.5	0.7							13.2	6.2	7.0
US Property Fund- Walton Street USD	N/A	Feb-16	N.A.	N/A	1.7	0.0	1.7	5.6	0.0	5.6	7.9	0.0	7.9	7.1	0.0	7.1							8.5	0.0	8.5
US Property Fund- Walton Street II GBP	Absolute Return + 7.0%	Jun-19	1.6	0.1	0.1	1.7	-1.6																2.4	3.4	-1.0
Euro Property Fund- Invesco	Absolute Return + 6.5%	Feb-16	67.7	2.3	-3.1	1.6	-4.7	0.5	4.8	-4.3	-3.4	6.5	-9.9	4.3	6.5	-2.2							6.2	6.3	-0.1
Property Fund- AEW	Absolute Return + 6.5%	Oct-17	20.3	0.7	2.3	1.6	0.7	6.1	4.8	1.3	6.1	6.5	-0.3										6.1	6.5	-0.4
<b>Total Infrastructure Fund</b>	<b>Client Specific Weighted Index</b>	<b>Mar-16</b>	<b>264.9</b>	<b>9.0</b>	<b>0.1</b>	<b>2.2</b>	<b>-2.1</b>	<b>5.3</b>	<b>6.7</b>	<b>-1.4</b>	<b>5.9</b>	<b>8.9</b>	<b>-3.0</b>	<b>6.7</b>	<b>8.4</b>	<b>-1.6</b>							<b>6.8</b>	<b>8.3</b>	<b>-1.5</b>
UK Infrastructure Fund - Green	Absolute Return +7.6%	Apr-15	49.1	1.7	0.0	1.8	-1.9	3.2	5.6	-2.4	7.3	7.6	-0.3	6.3	7.6	-1.3							5.7	7.6	-1.9
UK Infrastructure Core Fund - Hermes	Absolute Return +8.4%	May-15	45.1	1.5	-0.5	2.0	-2.6	3.1	6.2	-3.1	3.5	8.4	-4.9	5.4	8.4	-3.0							6.4	8.4	-2.0
UK Infrastructure Fund - Hermes II	Absolute Return +8.5%	Jun-18	39.1	1.3	-1.6	2.1	-3.6	3.8	6.3	-2.5	-7.5	8.5	-16.0										-3.6	8.7	-12.3
Infrastructure Core Fund - Stonepeak	Absolute Return +12%	Jan-18	79.3	2.7	5.9	2.9	3.0	30.2	8.9	21.3	57.3	12.0	45.4										15.0	12.0	3.0
First State Fund	Absolute Return +9%	Jun-18	52.4	1.8	-2.0	2.2	-4.2	1.5	6.7	-5.2	-2.1	9.0	-11.1										4.8	9.2	-4.4
<b>Worcestershire CC Total Fund ex Overlay</b>		<b>Mar-87</b>	<b>2,948.0</b>	<b>100.1</b>	<b>1.6</b>	<b>2.0</b>	<b>-0.4</b>	<b>8.6</b>	<b>9.1</b>	<b>-0.6</b>	<b>15.8</b>	<b>17.3</b>	<b>-1.5</b>	<b>8.0</b>	<b>8.2</b>	<b>-0.2</b>	<b>9.7</b>	<b>9.5</b>	<b>0.2</b>	<b>8.9</b>	<b>9.0</b>	<b>-0.1</b>	<b>8.1</b>	<b>8.6</b>	<b>-0.5</b>
<b>Worcestershire CC Total Fund</b>		<b>Mar-87</b>	<b>2,944.9</b>	<b>100.0</b>	<b>1.7</b>	<b>2.0</b>	<b>-0.3</b>	<b>8.2</b>	<b>9.1</b>	<b>-0.9</b>	<b>13.5</b>	<b>17.3</b>	<b>-3.9</b>	<b>8.0</b>	<b>8.2</b>	<b>-0.2</b>	<b>9.7</b>	<b>9.5</b>	<b>0.1</b>	<b>8.8</b>	<b>9.0</b>	<b>-0.1</b>	<b>8.1</b>	<b>8.6</b>	<b>-0.5</b>

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

<b>Total Fund Benchmark</b>	<b>CLIENT SPECIFIC BM AS AT JUNE 2017:</b>	<b>Notes:</b>
	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	Q3 2019: - Disinvested from Schroders Emerging Market Equity Fund and JP Morgan Emerging Market Equity Fund as at 1st July 2019 - Invested into the LGPSC Emerging Market Fund as at 19th July 2019 - Assets from JP Morgan and Schroders moved to transition Fund COB 1st July, assets then moved to LGPS Central COB 18th July Therefore the returns for the above are partial period returns Q2 2019: Invested into the Walton Street US Property Fund II on 28/06/2019 and the inclusion of Equity Protection - River & Mercantile ex Overlay which follows in the Total Equity and Total Fund 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 account 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.



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

Market Value: £2.9bn

	30th September 2019		Net Investment (£000s)	Total Income (£000s)	Total Gain/Loss (£000s)	31st December 2019	
	Market Val (£000s)	Exposure (%)				Market Val (£000s)	Exposure (%)
<b>Total Equity Fund</b>	<b>2,345,642</b>	<b>80.0</b>	<b>-40,000</b>	<b>0</b>	<b>26,901</b>	<b>2,332,543</b>	<b>79.2</b>
<b>Total Equity Fund ex Overlay</b>	<b>2,331,302</b>	<b>79.5</b>	<b>-40,000</b>	<b>0</b>	<b>44,268</b>	<b>2,335,570</b>	<b>79.3</b>
<i>Total Active Equity Fund</i>	759,277	25.9	-40,000	0	18,979	738,257	25.1
Far East Developed Fund - Nomura	423,106	14.4	-40,000	0	6,941	390,048	13.2
Emerging Markets Fund - LGPSC	336,171	11.5	0	0	12,038	348,209	11.8
<i>Total Passive Equity Fund</i>	900,523	30.7	0	0	21,842	922,365	31.3
UK Equity Fund - L&G	373,384	12.7	0	0	15,508	388,891	13.2
North American Equity Fund- L&G	337,233	11.5	0	0	4,626	341,859	11.6
Europe ex UK Equity Fund- L&G	189,907	6.5	0	0	1,708	191,615	6.5
<i>Total Alternatives Fund</i>	455,670	15.5	0	0	3,157	458,826	15.6
FTSE RAFI DEV Fund - L&G	170,721	5.8	0	0	1,392	172,114	5.8
MSCI World Min Vol TR Fund - L&G	138,630	4.7	0	0	-3,660	134,970	4.6
MSCI World Quality TR Fund - L&G	146,319	5.0	0	0	5,424	151,743	5.2
Equity Protection - River & Mercantile	230,172	7.8	0	0	-17,077	213,095	7.2
Equity Protection - River & Mercantile ex Overlay	215,831	7.4	0	0	290	216,121	7.3
<b>Corporate Bond Fund- JPM</b>	<b>154,783</b>	<b>5.3</b>	<b>0</b>	<b>0</b>	<b>603</b>	<b>155,386</b>	<b>5.3</b>
<b>EQT Mid-Market Credit II</b>	<b>13,777</b>	<b>0.5</b>	<b>0</b>	<b>0</b>	<b>8,710</b>	<b>22,487</b>	<b>0.8</b>
<b>Total Property Fund</b>	<b>176,456</b>	<b>6.0</b>	<b>8,451</b>	<b>0</b>	<b>-15,275</b>	<b>169,632</b>	<b>5.8</b>
<i>Total UK Property Fund</i>	68,228	2.3	-6,491	184	5,127	66,863	2.3
UK Property Fund - Invesco	40,722	1.4	-1,949	184	2,041	40,814	1.4
UK Property Fund - VENN	27,506	0.9	184	184	-1,641	26,049	0.9
US Property Fund- Walton Street	16,238	0.6	-2,133	0	-995	13,110	0.4
US Property Fund- Walton Street II	1,608	0.1	-3,919	0	3,920	1,609	0.1
Euro Property Fund- Invesco	70,530	2.4	0	0	-2,785	67,745	2.3
Property Fund- AEW	19,853	0.7	-623	0	1,076	20,305	0.7
<b>Total Infrastructure Fund</b>	<b>242,116</b>	<b>8.3</b>	<b>0</b>	<b>0</b>	<b>22,776</b>	<b>264,893</b>	<b>9.0</b>
UK Infrastructure Fund - Green	49,098	1.7	27,687	0	-27,710	49,074	1.7
UK Infrastructure Core Fund - Hermes	48,929	1.7	0	0	-3,843	45,086	1.5
UK Infrastructure Fund - Hermes II	41,366	1.4	0	0	-2,290	39,076	1.3
Infrastructure Core Fund - Stonepeak	42,060	1.4	0	0	10,294	52,354	1.8
First State Fund	60,664	2.1	0	0	18,640	79,304	2.7
<b>Cash Fund</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>
<b>Worcestershire CC Total Fund ex Overlay</b>	<b>2,918,434</b>	<b>99.5</b>	<b>-31,549</b>	<b>0</b>	<b>61,083</b>	<b>2,947,967</b>	<b>100.1</b>
<b>Worcestershire CC Total Fund</b>	<b>2,932,774</b>	<b>100.0</b>	<b>-31,549</b>	<b>0</b>	<b>43,716</b>	<b>2,944,941</b>	<b>100.0</b>

Note: Cashflow into cash reflects sum of portfolio contributions minus net investments. It is assumed that cash for the Fund is held outside of the invested assets and is therefore withdrawn from the Total Fund

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

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## Quarterly Engagement Report

October-December  
2019



# Arcelor Mittal, National Grid, BHP, Southern Company, National Express, Vale

## CLIMATE EMERGENCY



# Climate concerns remain centre stage at close of year

The wildfires in Australia (cover), floods in Indonesia (above) and Saudi Arabia and other extreme weather-induced events in the last months of 2019 permeated public consciousness with the real and sometimes deadly impact of climate change. Shareowners engaging with companies continue to push, not only for companies' strategies to further the transition to net zero and their physical resilience, but also for alignment of corporate direct and indirect lobbying activities which can markedly affect national policy making.

## Positive Climate Outcomes at Arcelor Mittal, National Grid and Southern Company

### ArcelorMittal Commits to Publishing Trade Body Memberships

LAPFF and other Climate Action 100+ investors held a teleconference with company representatives to press on ambitious target setting in 2020 and for the company to publish its review of membership of trade bodies.

In December, Arcelor announced publicly it would publish its trade body memberships in its next Climate Action report, due in 2020.

Setting credible science-based targets for the 2020 to 2030 period is crucial to give investors confidence that the board is managing the required net zero transition. Thyssenkrup, one of the world's largest steel producers and Mahindra-Sanyo, an Indian steel company, have already set science-based targets.

# CLIMATE EMERGENCY

## National Grid Announces New Zero Carbon Sensitivity Analysis

At a meeting with **National Grid**, LAPFF and other Climate Action 100+ investors sought more granularity on climate targets, including science based targets and operating the grid at zero carbon by 2025. Clarification was also sought on integrating renewables into the grid and on the roll-out of electric vehicle charging points. A final request of the company was to enhance TCFD disclosure for the US business, including methane management.

In November, the chief executive, John Pettigrew, announced a new sensitivity analysis for net zero carbon emissions

**“Clean transport offers immediate air quality benefits to our communities and longer term renewables enablement.”**

Sir Peter Gershon

by 2050, adding to its recently stated ambition to operate a zero carbon grid in the UK by 2025. In addition, in July the National Grid Electricity System Operator announced it was joining the Powering Past Coal Alliance, a global alliance of governments, businesses and organisations working to progress the transition away from coal power, something specifically requested at the previous Climate Action 100+ meeting with the company.

The above achievements were welcomed. LAPFF would like to see further progress in respect of TCFD disclosure for the US business and on the roll out of electric vehicle charging points. The Chair, Sir Peter Gershon, spoke about National Grid’s Transition to Net Zero at the 2019 LAPFF conference and participated in an animated question and answer session.

## Southern Company Drops Membership in ACCCE

LAPFF has been part of a collaborative engagement with **Southern Company** to discuss the company’s progress on its climate targets. At a March 2019 meeting, this investor group requested that Southern commit to identifying who on

the board is responsible for overseeing an economically attractive execution of the net zero carbon transition, developing and publishing a detailed transition plan toward achieving net zero emissions by 2050 in line with a just transition, with clear near-term benchmarks and plans for 2025 and 2030 and meaningfully incorporating transition milestones into executive compensation metrics. Southern representatives were also asked to disclose how political lobbying and trade association activities will support the company’s decarbonisation commitment.

On lobbying activity, Southern has announced that it will not renew its membership in the American Coalition for Clean Coal Electricity (ACCCE) next year. Given the pushback LAPFF and other

investors have received in requesting this type of action in climate lobbying resolutions, this is no small feat. Companies typically respond that they reap other benefits from industry organisation membership and can better achieve their climate objectives while remaining members, but offer no time-bound assessments for progress or criteria for withdrawal.

Company representatives were pushed to respond to a letter sent from the ‘Net Zero by 2050 Investor Coalition’ sent in April as well as to move more quickly on investment in renewables, to prevent stranded assets in natural gas facilities. The company reported on renewables initiatives and responded that it was ‘difficult to go quickly.’



- The Australian extractive sector needs to be proactive in enabling Paris-aligned public policy. LAPFF joined other investors in a public letter, calling on **Australian companies** to do more to direct their trade associations and industry bodies in enabling Paris aligned policy and for companies to contribute constructively to that process.

- **LaFargeHolcim** carbon targets were validated by the Science-Based Targets initiative (SBTi) in December. According to SBTi, the targets are ‘adequate and consistent with the global effort to keep temperatures below 2°C. LAPFF is a member of the Climate Action 100+ collaborating group who have been engaging with the cement and building materials company.

- LAPFF has signed the PRI-coordinated investor statement on **airlines and aerospace companies**. The purpose of this is to publicly signal investor support for actions airlines and aerospace companies can take to manage climate risks and opportunities inherent in their business. It is also intended to inform investor engagement with relevant companies by providing a high-level, unified set of expectations on climate change.

# COMPANY ENGAGEMENT



## National Express improves relations with Unions

LAPFF has been engaging with **National Express** since 2010 over allegations of anti-union activity in the company’s US operations. The Forum has met with the both management and employees and their representatives on numerous occasions. However, for many years, the engagement had been amongst the most challenging LAPFF had experienced.

Then something changed. At its 2017 AGM, National Express announced that Matthew Ashley would replace David Duke as head of its North American division. There were hopes on the union side that this change might signal the start of improved relations, and public acrimony markedly reduced. LAPFF took this as a good sign that the company and unions were starting to build a productive relationship. We now understand that



Matthew Ashley, Executive Director, National Express

antagonistic conduct in union elections has fallen significantly and relations are substantially improved.

The late LAPFF Chair, Cllr Kieran Quinn, had stated after the last meeting with National Express Chair, Sir John Armitt, that he wished this engagement could be over and done with. At long last, it seems that it might be.

## OTHER NOTABLE ENGAGEMENTS

### Boeing commits to independent review of governance

When LAPFF began engagement with **Boeing**, the initial objective was to find out more about the company’s operations in relation to the war in Yemen. However, this engagement took place not long after two Boeing aircraft crashed in Indonesia and Ethiopia, killing over 300 people, so the Forum also followed up on these incidents. This line of inquiry has ramped up over the past few months with now former CEO, Dennis Muilenburg, testifying before Congress about deficiencies in Boeing’s risk management system that allegedly contributed to the crashes. Mr. Muilenburg was ousted just before Christmas and was replaced by David Calhoun, who Boeing had appointed as interim chair. Boeing has kept the Chair and CEO roles separate in appointing



# COMPANY ENGAGEMENT



Lawrence Kellner as the new Chair. There has been further news in early January 2020 about production of the Boeing 737 MAX being suspended pending further regulatory review, including concerns about additional problems with the aircraft.

LAPFF Chair, Cllr Doug McMurdo, spoke with Boeing representatives in August 2019. One of the suggestions he made was that Boeing undertake an independent review of its governance arrangements in the wake of the Indonesian and Ethiopian crashes. Not only has Boeing separated its Chair and CEO roles, but a subsequent article reported that the company has committed to an independent assessment of its governance.

It is hard to know whether these changes and commitments will lead to an improved safety culture, especially in light of the recent news of the aircraft's production being suspended and possible additional problems with the 737 MAX. There was also another crash of a Boeing aircraft on 7 January 2020, with no survivors. Press reports suggest that part of the problem for Boeing has been reduced safety oversight by the US Federal Aviation Administration, and this seems unlikely to change imminently, although European regulators are now reportedly getting involved. However, these two changes are positive steps, and the Forum will continue engagement both on safety and the company's role in the war in Yemen.

## LAPFF Members Co-file a Range of Shareholder Resolutions

Board directors at US companies are notoriously difficult to engage, and with new proposed rules on filing shareholder resolutions, such engagement looks set to become even more difficult. However, this context is not deterring shareholders

who, while they can, continue to file shareholder resolutions with a plethora of US companies across a range of topics.

LAPFF members are among these shareholders, filing resolutions at **Chevron, Amazon, Alphabet, Eli Lilly, Citigroup** and **Honeywell** over the quarter. It is hoped that these resolutions will put pressure on companies to improve their strategies on climate resilience. This appears to have been the case at **AngloAmerican** where investors have been able to withdraw their climate lobbying resolution after indications of investor support and sufficient movement from the company. Anglo has now agreed to lobbying in line with the Paris Agreement.

Filing shareholder resolutions in the US is an engagement tactic that frequently yields results, with up to one-third of resolutions being withdrawn and appropriate company representatives agreeing to meet. It remains to be seen what level of support these new resolutions achieve, but the board members in question will no doubt be taking note of the heightened participation by UK investors in co-filing shareholder resolutions.

## BHP Stakeholder Seminar: Community – Investor Dialogue

In October, LAPFF and the London Mining Network held an event for investors to meet with community members in

South America affected by BHP's mining operations. The aim was two-fold: to allow community members to share their human rights and environmental concerns with investors, and to provide investors with additional information to feed into their investment processes.

The event was well-attended and well-received with both investors and community members finding the opportunity to interact extremely useful. A similar response was received following presentations by community members from two Brazilian communities affected by **BHP** and **Vale** at the LAPFF Annual Conference in December. The community members at the October event were not comfortable with the idea of having BHP present, so LAPFF informed a company representative that the seminar was taking place and met with him subsequently to discuss a right-of-reply for the company. LAPFF provided BHP with a summary of the community concerns, and was told that this information will be used as a basis for a company response.

The unwillingness of the community representatives to have representation from BHP at the October event demonstrates the current lack of trust between the communities and the company. This lack of trust is evident in relationships with a number of companies, not just BHP. Through seminars such as these and in subsequent company engagement, the aim is for LAPFF and other investors to facilitate a more trusting relationship, but there is a long way to go.



## COMPANY ENGAGEMENT



### Sainsbury's to release sustainability strategy in early 2020

LAPFF Vice-Chair Cllr Rob Chapman met with Sainsbury's chair, Martin Scicluna and Judith Batchelar, Director of Sainsbury's Brands, to understand better the board's strategy for resilient and sustainable business practices, including plastic reduction, as well as a commitment to work toward a zero carbon business using a just transition approach.

The climatic and environmental risks facing companies with supply chains as diverse and complex as Sainsbury's are significant. These risks range from disruption to supply chains caused by changing weather patterns to increased legislation around plastic packaging. Therefore, the company needs to progress on improving its supply chain sustainability.

However, the company did detail the steps it had recently taken toward mitigating its environmental impact, including announcing the target of cutting single use plastic by 50% by 2025 and reporting in line with the Taskforce on Climate-related Financial Disclosure (TCFD) in the 2020 annual report.

The Company is planning to release a formal strategy in early 2020, which will provide more details on what it would take to reach net-zero by 2050 and associated shorter term targets.

### BP strategy and Paris Agreement goals

LAPFF, along with other Climate Action 100+ investors, met with BP CEO-elect Bernard Looney in November to discuss the company's strategy relating to the Paris Goals as well as investor expectations of oil and gas companies more broadly. The Forum also asked the company about its governance of and practices relating to corporate climate lobbying, requesting that BP undertake and report on an industry association mapping exercise.

After the successful passage of a resolution requesting that BP evaluate and disclose the consistency of each new capex investment (co-filed by ten LAPFF member funds) this meeting provided company representatives the opportunity to outline the progress made in developing a sufficient process for assessing and disclosing the alignment of capex with Paris goals.

The Forum would like to see BP disclose a clear methodology to assess the carbon intensity of each material capex and how this analysis informs the company's scenario analyses using multiple IPCC scenarios and varying commodity price assumptions.

### POLICY ENGAGEMENT

The fourth fringe meeting to discuss changes to secure investment in the Just Transition took place at the October SNP conference in Aberdeen. Organised by the Smith Institute, the meeting provided a platform for LAPFF to set out what these changes should be.

The meeting was chaired by Scottish Just Transition Commissioner Richard Hardy, who spoke about low carbon opportunities supporting rural economies. Cllr Alasdair Rankin, representing LAPFF, recognised the work of the Scottish Just Transition Commission and noted LAPFF's recommendation for the UK government to establish a Just Transition Commission, along the lines of the Scottish Commission, to bring the public and private sectors together.

Hazel Gulliver, Head of Scotland and EU policy, Scottish Power, noted that Scotland was 'leading the charge' in terms of climate targets and on delivering infrastructure for new renewables and electric vehicle charging. Paul Wheelhouse, MSP for Energy, Connectivity and the Islands, concurred that Scotland's climate targets of 75% emission reductions by 2030 were driving strategy, further highlighting the 'Just Transition' element in terms of impacts on workers.

## COMPANY ENGAGEMENT

The fringe meeting speakers addressed the question ‘Investing in a Just Transition for a net zero carbon economy – what needs to change?’ In response to the employment challenges and potential job cuts faced by industries in flux, Paul Wheelhouse MSP stated

**‘We cannot do to the oil and gas industry what we did to coal’**



LAPFF has responded to the New Zealand Government consultation on mandating companies to report in a consistent and defined manner how climate change impacts their business and investments. LAPFF supports new mandatory reporting requirements to be widespread and implemented on a comply or explain basis. LAPFF considers the Taskforce on Climate-related Financial Disclosure (TCFD) Framework is currently best practice for climate related decisions and that adoption of climate related reporting will improve decision making within companies and make it easier for investors to accurately quantify long term value of the companies in which they invest.

### MEDIA COVERAGE

Pension fund group ‘brings mining community voice’ to investors, IPE, 23 October 2019

McDonald’s Under Fire for Steve Easterbrook’s Exit Deal,

Restaurant Business, 26 November, 2019  
LGPS urged to put the ‘social’ back into ESG,

Room151, 10 December 2019

The rant before Christmas: five people on Mike Ashley’s naughty list, The Telegraph, 16 December 2019

Mike Ashley blocks Labour councillor from Sports Direct board meetings after Corbyn row, Telegraph, 1 November 2019



### VOTING ALERTS

LAPFF issued voting alerts for both the **BHP** and **ANZ** AGMs during the quarter. Both alerts addressed climate lobbying, an aspect of company behaviour that is increasingly surfacing in shareholder resolutions. For both companies, the Forum recommended votes in favour of two resolutions, one procedural resolution to change company articles of association to allow for the second, substantive, resolution on company membership of trade associations with poor policies and records on tackling climate change. LAPFF has had word from the lead filer of the resolutions to ANZ, the Australasian Centre for Corporate Responsibility (ACCR) that the company chair has committed to producing a formal review of its industry associations to be published prior to 30 June 2020.

### NETWORKS AND EVENTS

In keeping with LAPFF’s objective of obtaining the best information possible for members, LAPFF engaged with networks and attended events with other investors, with affected stakeholders (including community representatives and workers) non-governmental organisations (NGOs) asset managers and politicians and policy makers over the quarter.

Participation in investor collaborations included meetings on co-filing possibilities at **AngloAmerican**, **Alphabet**, **Amazon** and topic-based engagements including a Mining and Tailings Dam Safety Summit and the just transition. The Forum also met with a Japanese corporate governance expert, Megumi Terayama, to compare notes on developments in the UK and Japanese markets.

Stakeholder engagement focused on meeting community members affected by dam collapses at Samarco and Brumadinho in relation to **BHP** and **Vale** operations. It also included engaging with the BALPA and ITF unions about industrial relations at **Ryanair**. LAPFF also had meetings with NGOs including CERES and ShareAction in relation to coordinated engagements.

Asset managers are an important stakeholder for both LAPFF member funds and pools, and LAPFF engaged with both Baillie Gifford and LGIM over the quarter. On the policy and politics front, LAPFF spoke about the just transition at a SNP Fringe Meeting at the SNP Party Conference, as well as attending an event at which the four major political parties presented on net zero emissions and a healthier environment. The Forum also attended a Public Sector Green Finance Summit in October.

LAPFF funds are increasingly requesting presentations on a range of issues. During 2019 these have often focussed on the investment implications of climate change. Member funds addressed over the quarter include Bedfordshire Employers AGM, Camden, Merseyside, Barnet, Lancashire, and Warwickshire.

# 2019 LAPFF ANNUAL CONFERENCE



## The 2019 LAPFF Annual Conference took place in Bournemouth from 4 – 6 December in its second year at the Hilton Bournemouth

Speakers ranged from Brazilian representatives of communities affected by the Samarco and Brumadinho dam collapses to Sir Peter Gershon, Chair of National Grid, to Kenneth Clarke and John Bercow, who offered their thoughts on Parliament and Brexit proceedings.

The conference started with an update on the investor tailings dam initiative led by Adam Matthews from the Church of England Pensions Board and John Howchin from the Swedish Council of

Ethics to the AP Funds. Brazilian community members also gave a devastating account of their experiences with tailings dams. This was followed by sessions on food waste and plastic and a LAPFF engagement round up. On the second morning, delegates heard from Sir Peter Gershon, chair of National Grid, on the Transition to net zero, followed by a discussion of the just transition initiative led by Nick Robins at LSE and other speakers providing a range of views and perspectives on the energy transition. Martin Gilbert of Aberdeen Standard then provided his experiences on employees on boards. Other sessions addressed cybersecurity and social media abuse, media standards, how to spot failing companies, management remuneration,

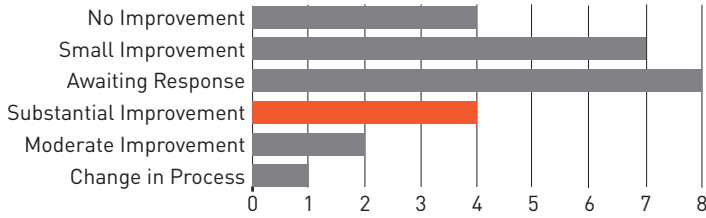
Above: Brazilian representatives of communities affected by the Samarco and Brumadinho dam collapses

the future for UK financial regulation, and climate change accounting. Ken Clarke addressed the delegates prior to the evening’s dinner.

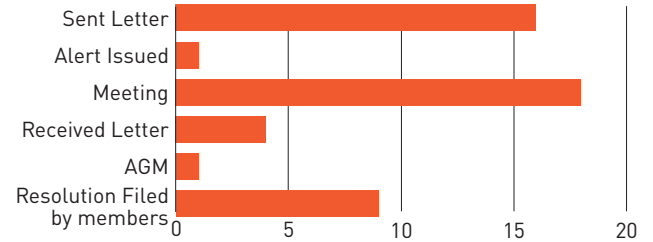
The final morning of the conference covered gender diversity and ArcelorMittal’s ‘journey toward carbon neutrality’. The conference concluded with a lively speech by John Bercow, former Speaker of the House of Commons, who made a plea for reasoned parliamentary and societal debate and who is apparently an avid fan of tennis, and of Roger Federer in particular.

# ENGAGEMENT DATA

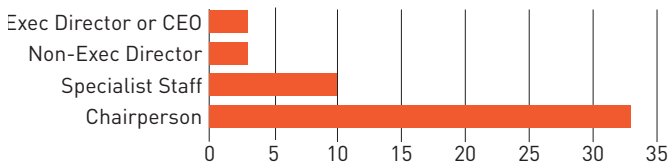
## MEETING ENGAGEMENT OUTCOMES



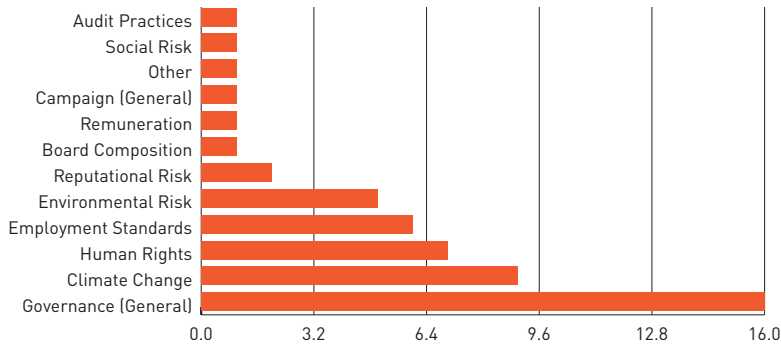
## ACTIVITY



## POSITIONS ENGAGED



## ENGAGEMENT TOPICS



## COMPANY DOMICILES



LAPFF has had word from the lead filer of the resolutions to ANZ, the Australasian Centre for Corporate Responsibility (ACCR), that the company chair has committed to producing a formal review of its industry associations to be published prior to 30 June 2020



# COMPANY PROGRESS REPORT

35 Companies engaged over the quarter in 50 engagements

Company/Index	Activity	Topic	Outcome
Alphabet	Sent letter	Human Rights	Dialogue
Amazon	Resolutions co-filed by members	Human Rights/ Governance	Dialogue
Anglo American	Meeting	Climate Change/ Governance	Dialogue
ANZ Bank	Meeting	Climate Change/ Governance	Dialogue
ArcelorMittal	Meeting	Climate Change	Substantial Improvement
BHP	Meeting	Human Rights	Dialogue
Boeing	Sent letter	Governance (safety)	No Improvement
BP	Meeting	Governance	Small Improvement
British American Tobacco	Meeting	Social Risk (health)	Small Improvement
Charles Schwab	Meeting	Governance	Awaiting Response
Charter Communications	Resolution co-filed by members	Governance	Dialogue
Chevron	Resolution co-filed by members	Climate Change/ Governance	Dialogue
Chipotle Mexican Grill Inc	Meeting	Environmental Risk	Small Improvement
Citigroup	Resolution co-filed by members	Climate Change/ Governance	Dialogue
Easyjet	Sent letter	Employment Standards	Awaiting Response
Eli Lilly	Resolution co-filed by members	Governance	Dialogue
Honeywell	Resolution co-filed by members	Governance	Dialogue
Marks & Spencer	Sent letter	Employment Standards	Awaiting Response
McDonalds	Sent letter	Remuneration	Dialogue
National Grid	Meeting	Climate Change	Substantial Improvement
Pepsico	Received letter	Environment (plastics)	Moderate Improvement
Philip Morris	Meeting	Governance (tax)	Small Improvement
Reach	Meeting	Reputational Risk	Moderate Improvement
Rio Tinto	Sent letter	Employment Standards	Awaiting Response
Royal Dutch Shell	Sent letter	Audit Practices	Dialogue
Ryanair	Meeting	Governance/ Employment Standards	Small Improvement
Sainsbury	Meeting	Climate Change/ Environment	Small Improvement
Severn Trent	Received letter	Governance	Small Improvement
Smith & Nephew	Sent letter	Employment Standards	Awaiting Response
Southern Company	Received letter	Climate Change	Substantial Improvement
Suzano	Meeting	Climate Change	Small Improvement
Total	Meeting	Governance (corruption)	Dialogue
Vale	Meeting	Human Rights	No Improvement
Vodafone	Sent letter	Employment Standards	Awaiting Response
Walt Disney Company	Resolution Filed	Governance	Dialogue

## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

### LAPFF DEVELOPMENTS

The Forum welcomed new fund members during the quarter: the Essex Pension Fund, Brent Pension Fund and Bexley Pension Fund

#### Individual Member Funds

Avon Pension Fund  
Barking and Dagenham Pension Fund  
Barnet Pension Fund  
Bedfordshire Pension Fund  
Bexley Pension Fund  
Brent Pension Fund  
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 Pension Fund  
Durham Pension Fund  
Dyfed Pension Fund  
Ealing Pension Fund  
East Riding Pension Fund  
East Sussex Pension Fund  
Enfield Pension Fund  
Environment Agency Pension Fund  
Essex Pension Fund  
Falkirk Pension Fund  
Gloucestershire Pension Fund  
Greater Gwent Pension Fund  
Greater Manchester Pension Fund  
Greenwich Pension Fund  
Gwynedd Pension Fund  
Hackney Pension Fund  
Hammersmith and Fulham Pension Fund  
Haringey Pension Fund  
Harrow Pension Fund  
Havering Pension Fund  
Hertfordshire Pension Fund  
Hounslow Pension Fund  
Islington Pension Fund  
Kingston upon Thames Pension Fund

Lambeth Pension Fund  
Lancashire County Pension Fund  
Leicestershire Pension Fund  
Lewisham Pension Fund  
Lincolnshire Pension Fund  
London Pension Fund Authority  
Lothian Pension Fund  
Merseyside Pension Fund  
Merton Pension Fund  
Newham Pension Fund  
Norfolk Pension Fund  
North East Scotland Pension Fund  
North Yorkshire Pension Fund  
Northamptonshire Pension Fund  
Northumberland Pension Fund  
Nottinghamshire Pension Fund  
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  
Tower Hamlets Pension Fund  
Tyne and Wear Pension Fund  
Waltham Forest Pension Fund  
Wandsworth Borough Council Pension Fund  
Warwickshire Pension Fund  
West Midlands ITA Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
Westminster Pension Fund  
Wiltshire Pension Fund  
Worcestershire Pension Fund  
**Pool Company Members**  
Border to Coast Pensions Partnership  
Brunel Pensions Partnership  
LGPS Central  
London CIV  
Northern LGPS  
Wales Pension Partnership

## Worcestershire Pension Fund

### Hermes EOS

Over the last quarter we made voting recommendations at **23** meetings (**157** resolutions). At **eight** meetings we recommended opposing one or more resolutions. We supported management on all resolutions at the remaining **15** meetings.

#### Global

We made voting recommendations at **23** meetings (**157** resolutions) over the last quarter.



■ Total meetings in favour **65.2%**  
■ Meetings against (or against AND abstain) **34.8%**

#### Australia and New Zealand

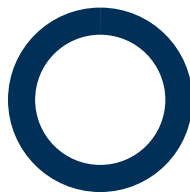
We made voting recommendations at **six** meetings (**56** resolutions) over the last quarter.



■ Total meetings in favour **33.3%**  
■ Meetings against (or against AND abstain) **66.7%**

#### Developed Asia

We made voting recommendations at **two** meetings (**four** resolutions) over the last quarter.



■ Total meetings in favour **100%**

#### Emerging and Frontier Markets

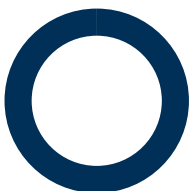
We made voting recommendations at **14** meetings (**91** resolutions) over the last quarter.



■ Total meetings in favour **71.4%**  
■ Meetings against (or against AND abstain) **28.6%**

#### Europe

We made voting recommendations at **one** meeting (**six** resolutions) over the last quarter.



■ Total meetings in favour **100%**

The issues on which we recommended voting against or abstaining on resolutions are shown below.

**Global**

We recommended voting against or abstaining on **26** resolutions over the last quarter.



- Board structure **26.9%**
- Remuneration **38.5%**
- Shareholder resolution **19.2%**
- Audit and accounts **15.4%**

**Australia and New Zealand**

We recommended voting against or abstaining on **15** resolutions over the last quarter.



- Board structure **13.3%**
- Remuneration **53.3%**
- Shareholder resolution **33.3%**

**Emerging and Frontier Markets**

We recommended voting against or abstaining on **11** resolutions over the last quarter.



- Board structure **45.5%**
- Remuneration **18.2%**
- Audit and accounts **36.4%**



## Worcestershire Pension Fund

Hermes EOS

### Engagement by region

Over the last quarter we engaged with **25** companies held in the Worcestershire Pension Fund portfolios on a range of **61** environmental, social and governance issues and objectives.

#### Global

We engaged with **25** companies over the last quarter.



- Environmental **26.2%**
- Social and Ethical **16.4%**
- Governance **23.0%**
- Strategy, Risk and Communication **34.4%**

#### Australia & New Zealand

We engaged with **three** companies over the last quarter.



- Environmental **16.7%**
- Governance **50.0%**
- Strategy, Risk and Communication **33.3%**

#### Developed Asia

We engaged with **ten** companies over the last quarter.



- Environmental **15.2%**
- Social and Ethical **30.3%**
- Governance **21.2%**
- Strategy, Risk and Communication **33.3%**

#### Emerging & Developing Markets

We engaged with **11** companies over the last quarter.



- Environmental **47.6%**
- Governance **14.3%**
- Strategy, Risk and Communication **38.1%**

#### Europe

We engaged with **one** company over the last quarter.



- Governance **100.0%**

## Engagement by theme

Over the last quarter we engaged with 25 companies held in the Worcestershire Pension Fund portfolios on a range of 61 environmental, social and governance issues and objectives.

### Environmental

Environmental topics featured in 26.2% of our engagements over the last quarter.



- Climate Change 68.8%
- Forestry and Land Use 6.2%
- Pollution and Waste Management 18.8%
- Water 6.2%

### Social and Ethical

Social and Ethical topics featured in 16.4% of our engagements over the last quarter.



- Conduct and Culture 10.0%
- Diversity 20.0%
- Human Capital Management 30.0%
- Human Rights 30.0%
- Labour Rights 10.0%

### Governance

Governance topics featured in 23.0% of our engagements over the last quarter.



- Board Diversity, Skills and Experience 28.6%
- Board Independence 14.3%
- Executive Remuneration 21.4%
- Shareholder Protection and Rights 35.7%

### Strategy, Risk and Communication

Strategy, Risk and Communication topics featured in 34.4% of our engagements over the last quarter.



- Audit and Accounting 9.5%
- Business Strategy 19.0%
- Integrated Reporting and Other Disclosure 23.8%
- Risk Management 47.6%

Notices:  
The data presented here relate to voting decisions for listed securities held in Worcestershire Pension Fund portfolios.

Meeting Date	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
21/11/2019	CNOOC Limited	Special	All For		
23/10/2019	Keppel DC REIT	Special	All For		
15/10/2019	Telstra Corporation Limited	Annual	All For		
16/10/2019	CSL Limited	Annual	Against	3,4a,4b 2b	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
21/10/2019	Stockland	Annual/Special	All For		
07/11/2019	BHP Group Limited	Annual	Against	8,9 7 21 22	Apparent failure to link pay & appropriate performance Apparent failure to link pay & appropriate performance Fund manager or client vote SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
12/12/2019	Westpac Banking Corp.	Annual	Against	4 2d 6b	Apparent failure to link pay and appropriate performance Concerns to protect shareholder value SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
18/12/2019	National Australia Bank Limited	Annual	Against	2 6b,7	Apparent failure to link pay & appropriate performance SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
15/10/2019	Ping An Healthcare & Technology Co. Ltd.	Special	All For		
30/10/2019	China Construction Bank Corporation	Special	All For		
18/11/2019	Gree Electric Appliances, Inc. of Zhuhai	Special	All For		
18/11/2019	Midea Group Co. Ltd.	Special	Against	1	Insufficient/poor disclosure
22/11/2019	Industrial & Commercial Bank of China Ltd.	Special	All For		
10/12/2019	Ping An Insurance (Group) Co. of China Ltd.	Special	All For		
29/11/2019	HCL Technologies Limited	Special	All For		
09/12/2019	PT Bank Mandiri (Persero) Tbk	Special	Against	1	Insufficient/poor disclosure
03/12/2019	Oil Co. LUKOIL PJSC	Special	All For		
24/12/2019	Magnit PJSC	Special	All For		
30/12/2019	Mobile TeleSystems PJSC	Special	All For		
07/11/2019	AVI Ltd.	Annual	All For		
27/11/2019	Sasol Ltd.	Annual	Against	1,3,6.1,6.2,6.3,6.4 1.1	Concerns about overall performance Concerns about overall performance
28/11/2019	Discovery Ltd.	Annual	Against	1 4,1,4.2	Apparent failure to link pay and appropriate performance Lack of independence on board
20/12/2019	Yandex NV	Special	All For		

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# The Spectrum of Capital

	1	2	3	4	5	6	7	8
Investment Approach	Traditional	Responsible	Sustainable	Impact-Driven			Philanthropy	
Financial Goals	Deliver competitive risk-adjusted financial returns				Tolerate higher risk	Tolerate below market returns	Partial capital preservation	Accept full loss of capital
Impact Goals:	Avoid harm and mitigate ESG risks							
	Benefit all stakeholders							
	Contribute to solutions							
	Don't consider May have significant negative outcomes for people and the planet	Avoid harm Try to prevent significant effects on important negative outcomes for people & planet	Benefit Effect important positive outcomes for various people and the planet	Contribute to solutions Have a material effect on important positive outcome(s) for underserved people or the planet				
The 'impact economy'								

Source: *The rise of Impact: Five steps towards an inclusive and sustainable economy.*  
 UK National Advisory Board on impact investing 2017 &  
 Impact Management Project 2017

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**PENSIONS COMMITTEE**  
**17 MARCH 2020****INVESTMENT STRATEGY STATEMENT UPDATE**

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

- a) the Fund's 2020 Investment Strategy Statement (ISS) Appendix 1 be agreed; and**
- b) The Committee consider how the Employers will be monitored within the High, Medium and Low risk investment strategies set out in Appendix 2.**

**Background**

2. The LGPS Investment Regulations that came into effect from 1 November 2016 required all funds to publish a new ISS by 1 April 2017. The Fund's 2017 ISS was designed in collaboration with the seven other funds within LGPS Central to ensure a consistent approach to investment beliefs and responsible investment beliefs.

3. The current 2018 ISS was approved by the Committee on the 22 June 2018 and under Regulation 7(6) and (7); the ISS must then be kept under review and revised from time to time and at least every three years.

4. The Department for Communities and Local Government (DCLG) also previously outlined guidance on preparing and maintaining an Investment Strategy Statement which are reiterated in section 3 below.

**Investment Strategy Statement Guidance Requirements**

5. Regulation 7(1) requires an Administering Authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS must include:

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

### **Investment Strategy Statement proposed amendments**

6. LGPS Central and the Funds Independent Investment adviser have provided support in reviewing the existing 2018 ISS and the recommendation from the Hymans Strategic Asset Allocation report that was presented to Committee in March 2019 have also been incorporated in particular their suggested equity beliefs.

7. The ISS has been updated to particularly strengthen the 'Stewardship and Responsible Investment (RI) areas and also introduce the proposed 'Investment Pots' and have 3 Investment strategies being High, Medium and Low risk investment strategies.

### **Investment Strategies**

8. In order that the Fund delivers on its key objectives (ensuring that each employer takes the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost), the Fund has introduced three distinct investment strategies (High, Medium and Low risk). These are detailed in Appendix A of the attached proposed 2020 ISS.

9. Each investment strategy has its own strategic asset allocation benchmark. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating required long-term returns, whilst taking account of market volatility, risk and the nature of the Fund's liabilities.

10. The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. The Fund undertakes a fundamental review of the strategic asset allocation every three years following actuarial valuations. The Fund also monitors compliance with this statement at least quarterly and monitors progress towards the long-term funding objective for relevant groups of employers on a regular basis.

11. In addition to the fundamental review of the strategic asset allocation undertaken every three years, the Fund will monitor progress of employers within these Strategies on a regular basis. This gives the Fund the opportunity to adjust the strategic asset allocation in the event that a group of employers are ahead or behind their funding plan.

12. The table below provides a snapshot provided by the actuary of the value of assets and liabilities at the time of the valuation and the number of employers that are in the different investment strategies.

<b>Strategy</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Total</b>
<b>Assets (£m)</b>	2,366	361	61	2,788
<b>Liabilities (£m)</b>	2,688	369	59	3,116
<b>Proportion (based on liabilities)</b>	86%	12%	2%	100%
<b>Number of Employers</b>	141	22	20	183

*Note Parish Councils have been grouped together as 1 overall employer in the table above and the low risk employers mainly relate to orphaned employers*



13. The actuary has provided some summarised information on how the Employers will be monitored and how often they will be reviewed in Appendix 2 below. A full explanation of the process undertaken to assess employer funding progress will be provided in the Fund's Investment Risk Management document which will be published on the website after further dialogue and agreement with the actuary.

### **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 & Capital strategy manager

Tel: 01905 846908

Email: [RWilson2@worcestershire.gov.uk](mailto:RWilson2@worcestershire.gov.uk)

### **Supporting Information**

- Investment Strategy Statement - Appendix 1
- High level proposal of how Employers will be reviewed within the suggested Investment strategies – Appendix 2

### **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**

## **DRAFT Investment Strategy Statement 2020**

### **1. Introduction**

This is the Investment Strategy Statement (the ‘Statement’) of the Worcestershire Pension Fund (the Fund) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Regulations”). In preparing this Statement, the Pensions Committee has consulted with such persons as it considered appropriate.

Worcestershire County Council is the administering authority for the Fund under the regulations. Worcestershire County Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's assets and comprises of Elected Members and one Employee Representative and one Employer Representative. In addition, the Fund has the statutory Local Pensions Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty. Finally, the Pensions Investment Sub Committee advises the Pensions Committee on investment issues relating to the Fund. The Local Pensions Board has no decision-making powers whereas the Pensions Investment Sub Committee does.

This statement which is reflected in the Strategic Allocation in Appendix A demonstrates the importance of Asset allocation on returns over the long term.

The Statement is subject to review at least annually and from time to time on any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. In preparing this statement, the Committee has considered advice from the investment adviser.

The responsibilities of relevant parties are set out in Appendix B.

The Fund's Statement of Investment Beliefs are set out in Appendix D.

Related Fund policies and statements are as follows and are publicly available on the Fund's website:

- Funding Strategy Statement (on website)
- Governance Compliance Statement (Within Annual Report on website)
- Policy Statement on Communication Strategy (Within Annual Report on website)
- Policy Statement on Governance Strategy (Within Annual Report on website)

## 2. Fund Objectives

The primary objectives of the Fund are 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.

The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit. The full funding projection is achieved over a 15-year time frame.

In addition, the Fund has the following objectives:

- To be a leading performer in the LGPS sector
- To provide excellent customer service

### Funding Strategy Statement

The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The FSS can be viewed on the website.

All Local Government Pension Scheme (LGPS) funds must produce, consult on and publish a document called a "Funding Strategy Statement" (FSS). The purpose of the FSS is:

- a) To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- b) to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- c) to take a prudent longer-term view of funding those liabilities.

However, there will be conflicting objectives which need to be balanced and reconciled. For example, for most employer's objective a) implies low contribution rates, because they would see pension liabilities being "best met" by gaining as much help as possible from the investment strategy over the long term, which would lead you towards an equity-biased investment strategy. By contrast, objectives b) and c) imply stability and prudence of employer contribution rates, which would lead you towards a bond biased investment strategy.

Therefore, the best that can be achieved is a sensible balance between these different objectives

### 3. Risk

The risk tolerance of the Fund is determined through working with the Pensions committee, the investment managers, officers and independent advisers by the setting of investment beliefs, funding and investment objectives. This is incorporated into the Strategic Investment Allocation Benchmark (SIAB), bands and benchmarks. Risk taken against that benchmark is monitored by the Pensions Committee using a risk register and risk management tools as advised by the Fund's fund managers, investment advisers and the Fund's Actuary.

The fund is exposed to Investment, operational, governance and funding risks. These risks are identified, measured, monitored and then managed. This is carried out using risk registers with section responsibility and oversight from the Chief Financial Officer.

The principal risks affecting the Fund are as follows:

#### ***Funding Risks Liabilities versus the Strategic Investment Allocation Benchmark (SIAB)***

- a) The risk of deterioration in the funding level of the Fund. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark assisted by the Fund's investment advisor. The strategic asset allocation benchmark seeks to achieve the appropriate balance between generating the required long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

- b) The risk of changing demographics such as improvement in longevity and other demographic factors, increasing the cost of benefits.

The Fund monitors this by reviewing mortality and other demographic experience and assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

- c) Systemic risk, i.e., the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund mitigates systemic risk through a diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles.

- d) Inflation risk the fund mitigates inflation risk through holding a portfolio of growth and inflation linked assets. Inflation risk is considered at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

- e) Future Investment Returns (Discount rate) risk the funding and investment strategies are inter-linked and discount rate risk is mitigated through derivation based on the underlying long-term investment strategy. Discount rates are considered at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

- f) Currency risk that the currency of the Fund's SIAB underperforms relative to sterling (i.e., the currency of the liabilities). The currency risk of the benchmark is considered at least triennially in the setting of the SIAB. Recommended changes will be expressed through changes in the benchmark and implemented by the investment managers

***Asset Risks (the portfolio versus the SIAB)***

- a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- b) Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- c) Currency risk that the currency of the Fund's assets underperforms relative to the SIAB.
- d) Manager underperformance when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.
- e) Responsible Investment (RI) risks, including climate-related risks, that are not given due consideration by the Fund or its investment managers.

**The Fund manages these asset risks by: -**

- Constraining how far Fund investments deviate significantly from the SIAB by setting diversification guidelines and the SIAB strategic ranges.
- By investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
- By investing across a range of liquid assets, including quoted equities and bonds; the Fund has recognised the need for some access to liquidity in the short term.
- Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process.
- In appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.
- The Fund actively addresses environmental, social and governance (ESG) risks through implementation of its Responsible Investment (RI) beliefs.

The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, the Pensions Committee is comfortable taking this risk in general but may act to mitigate potentially significant risks as and when they are identified.

The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme Regulations.

### **Operational Risk**

- a) Transition risk of incurring unexpected costs in relation to the transition of assets amongst managers.

When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers to mitigate this risk when it is cost effective to do so.

- b) Risk of a serious operational failure by asset managers and/or LGPS Central

These risks are managed by having robust governance arrangements with LGPS Central and by quarterly monitoring with asset managers

- c) Custody risk of losing economic rights to Fund assets, when held in custody or when being traded.

These risks are managed by:

- The use of a global custodian for custody of assets.
- The use of formal contractual arrangements for all investments.

When the Fund's investments are pooled in LGPS Central, the Asset servicer contract will include depositary protection over investment vehicles.

- d) Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:

- Maintaining a comprehensive risk register with regular reviews.
- In-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny/oversight and reporting of KPIs of its service providers and audit of the operations they conduct for the Fund.

- e) Cashflow management risks

The Fund is becoming more mature and although its cashflow has been positive after taking investment income, the table below shows that this will not be the case in 2021/22 due mainly to the impact of several employers who will be paying their contributions 3 years in advance in 2020/21 and the improved overall funding position. Therefore, managing cashflow will become an increasingly important consideration in setting the investment strategy. Mitigating actions are already being taken to manage the cashflow shortfall such as investing in assets that produce cashflows such as Property, Infrastructure and fixed income that can be used to meet these payments.

The table below sets out the cashflow position of the Fund over the last six fiscal years and is continually monitored.

<b>Cashflow Management</b>	<b>2021-22</b>	<b>2020-21</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>
	<b>£'M</b>	<b>£'M</b>	<b>£'M</b>	<b>£'M</b>	<b>£'M</b>	<b>£'M</b>
Contributions receivable	60.7	170.7	87.7	81.8	185.2	107.8
Benefits Payable	-122.7	-117.0	-111.5	-106.3	-98.0	-95.5
	<b>-62.0</b>	<b>53.7</b>	<b>-23.8</b>	<b>-24.5</b>	<b>87.2</b>	<b>12.3</b>
Investment income	50.0	50.0	48.3	51.7	35.8	29.4
<b>Net Cashflow</b>	<b>-12.0</b>	<b>103.7</b>	<b>24.5</b>	<b>27.2</b>	<b>123.0</b>	<b>41.7</b>

## 4. Investment Strategy

### Funding Policy

The objectives of the Worcestershire funding policy are expressed in its FSS. The Fund has a strong employer covenant, being funded largely by tax-raising local authorities. Therefore, the Committee can adopt a long-term view, without concern about the ability of its sponsors to meet their liabilities.

Given the on-going restructuring of public bodies the Fund is now maturing increasingly faster. Positive cashflow are declining (investment income is available if the Fund does go Cashflow negative) and this position is being closely monitored. However, at this time it is not felt necessary to change the investment strategy of the Fund.

As the Fund has a deficit of assets against liabilities (91% funded at the 2019 Triennial Valuation), the Committee wishes to achieve the maximum assistance from investments in reducing this shortfall. This would suggest a higher risk strategy to generate returns, but this is moderated by the realisation that such a strategy can also lose significant amounts of money in the short-medium term.

It is all the employer organisations in the Fund who feel the result of unstable employer rates, and for the precepting authorities, ultimately the local taxpayer either through the Council Tax or through service levels. Therefore, another very important consideration is the need for relative stability of investment returns, given that employee rates are fixed by statute and the tools available in the actuarial valuation process for smoothing of returns are limited. This can be achieved by investments that are inherently more stable, such as bonds. However, it is also aided by diversification (so that the ups and downs on particular investments do not arise together), and by seeking returns from both markets ("beta") and investment managers ("alpha") whose returns are skill based and relatively independent of the market.

Consequently, the Committee has set an overall investment goal that reflects these four factors.

### Investment Strategies / Pots

In order that the Fund delivers on its key objectives (ensuring that each employer takes the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost), the Fund has introduced three distinct investment strategies (High, Medium and Low risk). These are detailed in Appendix A



Each investment strategy has its own strategic asset allocation benchmark. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating required long-term returns, whilst taking account of market volatility, risk and the nature of the Fund's liabilities.

The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. The Fund undertakes a fundamental review of the strategic asset allocation every three years following actuarial valuations. The Fund also monitors compliance with this statement at least quarterly and monitors progress towards the long-term funding objective for relevant groups of employers on a regular basis.

In addition to the fundamental review of the strategic asset allocation undertaken every three years, the Fund will monitor progress of employers within the High and Medium Strategies on a regular basis. This gives the Fund the opportunity to adjust the strategic asset allocation in the event that a group of employers are ahead or behind their funding plan.

This is an important mechanism used by the Fund to ensure that each employer continues to take the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost. The progress of employers in Low Risk Strategy will be monitored every year as these employers are already invested in their "target funding plan".

A full explanation of the process undertaken to assess employer funding progress will be provided in the Fund's Investment Risk Management document which will be published on the website

### **Investment Goal**

The Worcestershire Pension Fund's investment objective is to achieve a relatively stable "real" 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 employer bodies in respect of both past and future service liabilities.

### **Process for ensuring suitability of investments**

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund (set out in Appendix A) considering both the liability structure and the objectives set out above. The Fund benchmark is consistent with the Pensions Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The Investment beliefs in appendix D also assist in formulating the investment strategy.

The Pension Committee monitors investment strategy relative to the agreed asset allocation benchmark and strategic ranges. If ranges are breached, then appropriate action is taken by the Chief Financial Officer. In addition to ongoing monitoring the investment strategy is formally reviewed annually by Pensions Committee. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation. The Investment Sub Committee will be monitoring asset allocation on a quarterly basis.

## **5. Diversification**

The fund will be diversified across multiple asset classes with different risk return expectations and correlations to deliver the targeted return of the Fund. Appendix A shows the Strategic Investment Allocation Benchmark (SIAB) and strategic ranges.

## **6. Day-to-Day Management of the Assets**

### **Investment management structure**

The Pensions Committee retains responsibility for the investment strategy of the scheme but has delegated oversight of its implementation to the Chief Financial Officer. The day to day management of the Funds' investments is delegated to the Fund's external Investment Managers.

### **External Investment Managers**

The Fund has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The investment managers are required to comply with LGPS investment regulations.

### **Suitable Investments**

Subject to the LGPS regulations on allowable investments the Fund may invest in a wide range of assets and strategies including quoted equity, Government and Non-Government bonds, money markets, traded options, financial futures and derivatives, alternative strategies including Infrastructure and Property Pooled Funds. The fund uses external managers to carry out stock lending ensuring suitable controls/risk parameters are put in place to prevent losses. Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it will not be held.

When new asset classes are considered and are not listed above then approval will be sought from the Pensions Committee after receiving advice on its suitability and diversification benefits.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

### **Expected Return on the Investments**

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation (the discount rate). The individual mandates are expected to match or exceed the specific targets set for each portfolio over time.

### **Investment Restrictions**

The investment management arrangements prohibit the holding of investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Operating within the investment regulations, the Fund determines investments that are acceptable and approved as such by the Pensions Committee.

### **Additional Assets**

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Scottish Widows and Utmost Life.

The Fund monitors, from time to time, the suitability and performance of these vehicles.

### **Realisation of Investments**

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's liquidity characteristics are monitored on a regular basis and the majority of the Fund's investments may be realised quickly if required. A number of the Fund's alternative investments in Pooled Infrastructure and Property Funds, may be difficult to realise quickly in certain circumstances. The Fund will ensure that the Liquidity of the investments is suitable to meet future cash flow requirements.

### **Monitoring the Performance of Fund Investments**

The performance of the external investments is independently measured. In addition, officers of the Fund meet external investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance. The Pensions Committee meets at least quarterly to review markets, asset classes and funds.

## **7. Day-to-Day Custody of the Assets**

The Fund has appointed a global custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

## **8. Stock lending**

Stock lending is undertaken in respect of the Fund's quoted equities holdings through the custodian / asset servicer. There is a formal stock lending agreement and approved collateral. Stock lending may also take place in pooled investment vehicles held by the Fund.

For the assets managed by LGPS Central on the Funds behalf, the Company has an active securities lending programme. To ensure that the Company can 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

## 9. Approach to Pooling

The Fund has joined the LGPS Central pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to more uncorrelated asset classes. Becoming an FCA registered investment manager will lead to improved governance, transparency and reporting giving the Pension Fund assurance that its investments are being carried out effectively.

LGPS Central Ltd has been set up as an arms-length company, accredited by the Financial Conduct Authority, to manage the pooled investment assets of eight LGPS funds across the centre of England. The Worcestershire Pension Fund is one of the eight partner funds, all of whom hold equal shares in the company. LGPS Central started trading on 3rd April 2018 and all partner funds will gradually start to migrate assets to the company over the next few years.

The Fund is participating in the LGPS Central pool with the belief that the Fund will benefit from lower investments costs achieved through the aggregation of assets. In addition, the Fund will have greater access to a broader range of investable asset classes, including new and innovative products and services. LGPS Central and the partner funds have put in place a robust governance framework to ensure the company operates effectively and delivers timely and transparent reporting to shareholders and client funds.

The Fund will retain full responsibility and control over its strategic investment allocation policy with LGPS Central being responsible for implementing the strategy via the engagement and dismissal of managers and the day to day monitoring of manager investment performance. Subject to satisfactory due diligence and value for money considerations being satisfied, the Fund intends to continue to invest its assets with LGPS Central. Investment strategy will be determined by the fund with advice from the fund manager/operator and Independent adviser.

## 10. Responsible Investment (RI) and Stewardship

### What do we mean?

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

We define the concept of stewardship in the same way as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code which was updated in 2020:

"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society"

## Responsible Investment and LGPS Central

From 1 April 2018 the implementation of the Fund's investment strategy was undertaken by LGPS Central, an investment management company set up by 8 Local Authorities (including Worcestershire County Council) in line with the latest scheme regulations. The Fund will seek to ensure that LGPS Central is set up to deliver objectives of this RI policy alongside that of the other Funds involved.

It is expected that the Fund's ability to invest in a responsible way will be enhanced through LGPS Central due to the inherent benefits of scale, collectivism and innovation that will result from the project. In order to broaden its stewardship activities, LGPS Central has appointed EOS by Federated Hermes (EOS) as its (LGPS Central's) stewardship provider, with the remit of engaging companies on ESG issues, and executing the LGPS Central Voting Principles (see below).

### *RI Beliefs and Guiding Principles (See Appendix D)*

The Fund's RI Beliefs (see Appendix D) underpin its RI approach. Taking these beliefs as foundational, the Fund has adopted two RI aims: (1) primarily, to support the Fund's investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry and raise standards across the marketplace.

The Fund intends to realise these aims through actions taken both before the investment decision (which we refer to as the **Selection** of investments) and after the investment decision (the **Stewardship** of investments). Actions will be taken with reference to an evidence base, using the best available objective data sets. We aim to be **Transparent** to all stakeholders and accountable to our clients through regular **Disclosure** of RI activities, using best practice frameworks where appropriate. These ambitions yield the Fund's three RI pillars: Selection, Stewardship and Transparency & Disclosure.

### Selection

The Fund believes that effective management of financially material RI risks should support the Fund's requirement to protect returns over the long term. Investment managers will seek to incorporate RI into their investment process. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them. The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

- The Fund will set longer-term performance objectives for its investment managers.
- The Fund will seek to ensure that its long-term interests are aligned with that of its investment managers on all issues including on ESG considerations.
- Policies relating to ESG will be considered as part of the Fund's long-term investment planning process, following a thorough and robust investment appraisal.

We will use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of RI principles across our Investment strategy to make better more informed investment decisions and encourage / influence better corporate practices that lead to value creation and good risk management

- The Fund will consider the potential financial impact of ESG related issues on an ongoing basis (e.g. climate change or executive remuneration).
- The Fund will consider the potential financial impact of investment opportunities that arise from ESG related factors (e.g. investment in renewable energies or housing infrastructure).
- The Fund will consider investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e. Renewable energy and social impact investments

## Stewardship

### *Engagement*

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. The Fund adopts a policy of risk monitoring and engagement with companies on financially material 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.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. To this end, the Fund uses its membership of the Local Authority Pension Fund Forum (LAPFF) and being a partner to the LGPS Central pool to assist it in pursuing engagement activities.

The Fund will engage investee companies on issues, including ESG issues that are material to long term value creation and robust risk management in order to safeguard and grow the Fund

- The Fund is committed to compliance with the UK Stewardship Code<sup>1</sup> and working within the spirit of the Principles of Responsible Investment (“PRI”).
- We will hold our investment managers to account to ensure compliance with this policy
- The Fund is committed to collective engagement through its membership of the Local Authority Pension Fund Forum (LAPFF), the LGPS Central pool and other opportunities that arise from time to time.
- The Fund will exercise its voting rights in all markets where practicable

### Shareholder Voting

On the 21<sup>st</sup> June 2019 the Pensions Committee agreed that LGPS Central would via EOS vote shares in certain discretionary and pooled funds on the Fund’s behalf. These votes will be executed in line with LGPS Central’s published [Voting Principles](#). The Fund believes that the advantage of a consistent signal and working collectively through the pool will have a positive influence on company behaviour.

Shares held in passively managed portfolios will be voted according to the voting policies of the Fund’s appointed fund manager, Legal & General Investment Management (LGIM). The Pension Committee is satisfied that LGIM’s approach to shareholder voting is sufficiently robust and aids in the delivery of the Fund’s RI objectives.

### Transparency & Disclosure

The Fund is committed to the UK Stewardship Code and has provided a statement of compliance which has been approved by the Financial Reporting Council (FRC).

<http://www.worcestershire.gov.uk/worcestershirepensionfund/download/downloads/id/97/stewardship-compliance-statement.pdf>

The 2020 version of the UK Stewardship Code was published in November 2019 and is “effective” from January 2020. The Fund intends to align its disclosure so as to achieve compliance with the 2020 version of the Stewardship Code.

LGPS Central provides quarterly reporting for all funds managed by LGPS Central detailing how votes have been cast in different markets and a vote by vote disclosure for full transparency. Engagement and voting disclosure is also done specifically for listed securities held across Worcestershire Pension Fund portfolios

### **How will we monitor our performance on Responsible Investment?**

The Fund will ultimately be **transparent and accountable** in terms of its performance on Responsible Investment. This will be achieved through the following approach:

- The Fund will publish its Investment Strategy Statement on its website in line with the scheme regulations.
- Decisions relating to the setting of investment policy will be explained.
- The Fund will monitor closely its appointed investment managers whom the Fund rely on to implement its RI policy.
- The Fund will undertake an annual review of corporate governance, voting and engagement activity undertaken by the Fund and its underlying managers.
- The Fund will publish an annual summary of voting and engagement activity
- The Fund will ensure that its decision makers are properly trained and kept abreast of ESG issues to make informed decisions.
- The Fund will include ESG as standing item on Pensions Investment Sub Committee (or equivalent) agendas (with a view to reporting on manager performance in relation to ESG investing and noting any hot topics / issues arising).
- The Fund will undertake a fundamental review of any specific ESG issues that are considered by the Investment Sub Committee to be of potentially material financial impact.
- The Fund will consider and respond to feedback from stakeholders in relation to issues of concern.

## **11. Compliance with This Statement**

The Fund will monitor compliance with this statement. It will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement, so far as is reasonably practicable.

## **12. Compliance with Myners**

Following from the Myners’ report of 2000 into institutional investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations identifying investment principles to apply to pension schemes.

These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

The Myners' principles have since been updated, and the Fund continues to support and comply with them. Details of compliance are set out in the Fund's Governance Compliance Statement within the Annual Report, which can be found on the Fund's website.

**List of Appendices**

Appendix A – Strategic Allocation Investment Benchmark (SIAB) and Ranges.

Appendix B – Roles and Responsibilities

Appendix C – List of Advisers

Appendix D – Statement of Investment Beliefs



## Appendix A – Strategic Allocation Investment Benchmark and Ranges

	High	Medium	Low	
Asset Allocation	%	%	%	Manager, Method & Performance Target
<b>Actively Managed Equities</b>				
Far East Developed	10.0	5.0	0.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	5.0	0.0	LGPS Central active global emerging markets equity mandates with BMO, UBS and Vontobel - FTSE - Emerging Market Index +2.0%
<b>Passively Managed Equities - Market Capitalisation Indices</b>				
United Kingdom	20.5	15.5	0.0	Legal and General Asset Management - FTSE All Share Index
North America	8.0	5.5	0.0	Legal and General Asset Management - FTSE All World North America - Developed Series Index
Europe ex - UK	6.5	4.0	0.0	Legal and General Asset Management - FTSE All World Europe ex UK Index - Developed Series Index
<b>Passively Managed Equities – Alternative Indices</b>				
Global	15.0	5.0	0.0	Legal and General Asset Management: - 40% GPAE - FTSE-RAFI Dev. 1000 Equity Fund - 30% GPBK - MSCI World Mini Volatility Index - 30% STAJ - CSUF - STAJ MF36726/36727
<b>Actively Managed Bonds</b>				
Fixed Interest	10.0	30.0	50.0	- LGPSC Global Active Investment Grade Corporate Bond (Fidelity & Neuberger Berman) - Fund 50% GBP IG Corporate (Ex EM Issues) / 50% Global IG Corporate ((ex IG Corporate & EM Issues) hedged to GBP +0.80% - EQT Corporate Private Debt
<b>Actively Managed Alternative Assets</b>				
Property & Infrastructure	20.0	20.0	20.0	Through a mix of Green Investment Bank, Invesco, Hermes, Walton Street and Venn Partners, Stonepeak, Firststate, AEW etc
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

### Tolerance Ranges

Asset Type	High	Medium & Low	Role (s) within the Strategy
<b>Equities</b>	<b>+/- 5%</b>	<b>+/-2.5%</b>	Long term growth more than inflation expected; generate investment income i.e. dividends.
<b>Growth Fixed Income</b>	<b>+/- 5%</b>	<b>+/-2.5%</b>	Provide protection from changes in real yields both in terms of capital value and income
<b>Property</b>	<b>+/- 5%</b>	<b>+/-2.5%</b>	Diversification; generate investment income; provide some inflation-sensitive exposure; illiquidity premium
<b>Infrastructure</b>			Provides the Fund with access to a diversified (but long term, illiquid) return source and a stream of inflation related income
<b>Index Linked Gilts</b>	<b>+/- 5%</b>	<b>+/-2.5%</b>	Provide protection from changes in real yields both in terms of capital value and income
<b>Diversified Growth / Multi Asset</b>	<b>+/- 5%</b>	<b>+/-2.5%</b>	Diversification and dynamic asset allocation

## **Appendix B - Roles and Responsibilities**

### **Pension Committee**

The Pension Committee discharges the responsibilities of the Council as Administering Authority of the Fund pursuant to Section 101 and Regulations under Section 7 of the Superannuation Act 1972.

The Pension Committee discharges the responsibilities for management of the administration of the Fund. However, it will take views from the Investment sub committee to enable it to discharge its duties effectively.

The Pension Committee discharges the responsibilities for the strategic management of the Fund's assets. However, it will take strategic advice from the Investment Sub Committee to enable it to discharge its duties effectively. The dates of Pension Committee meetings will be synchronised with those of the Pension Sub Committee to ensure investment decisions are reviewed without unnecessary delay.

The Council appoints the Chairman and Vice-Chairman of the Pension Committee. The Chairman of the meeting has a second or casting vote in the case of equality of votes.

The Pension Committee is a formal committee of the Council and comprises a total of 8 voting members:

- 5 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)
- 1 co-opted voting employer representative and
- 1 co-opted voting employee representative from a relevant Union.

The 5 County Councillor members are formally appointed by the Head of Legal and Democratic Services in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders and the 3 co-optees are co-opted by the Chairman of the Committee.

The Pension Committee will be advised by on a regular basis by an Independent Financial Adviser and the Fund's Actuary.

### **Pension Committee Terms of Reference:**

The Pension Committee will meet at least quarterly or otherwise as necessary to take decisions on:

- Changes to the Investment Strategy Statement, including the strategic benchmark for asset allocation, Investment Manager benchmarks and Investment Manager targets.
- Transition of investments to LGPS Central or other Pooling arrangements
- The termination and appointment of Investment Managers and associated professional service providers.
- The termination and appointment of the Fund's Independent Financial Adviser, Performance Measurement Consultant, Global Custodian and Actuary.

- The Pensions Administration Strategy Statement, Policy Statement on Communication Strategy, Policy Statement on Governance Strategy, Funding Strategy Statement and Governance Compliance Statement.
- The Triennial and Interim Actuarial Valuations.
- The approval of the Pension Fund Annual Report and Accounts.
- The approval of the Pension Fund annual and triennial budgets.
- Key outstanding risks as identified in the Pension Fund Risk Register.
- The Pension Administration Advisory Forum arrangement and regular Forum reports, which consider and address outstanding member and employer issues and concerns.
- The Pension Sub Committee arrangement and regular Sub Committee reports, which monitor performance of the Fund's assets.
- Requests for admission of qualifying Community and Transferee Bodies wishing to join the Fund.
- Key pension policy discretions that are the responsibility of the Administering Authority.

All elected members and voting co-optees of the Pension Committee are subject to the Worcestershire County Council Code of Conduct for Members and must therefore register and keep updated their Disclosable Pecuniary Interests as required by the law and Code and disclose potential conflicts of interest as required by that Code.

Members of the Pension Committee are expected to hold the appropriate knowledge and skills to discharge their responsibility effectively – see Section 8.

The responsibility for advising the Pension Committee is delegated to the Chief Financial Officer.

Members of the Pension Committee have equal access to Pension Committee agenda papers and associated appendices in accordance with the legislation and constitutional Rules relating to access to information for committees. Formal meetings of the Committee will take place in public unless it has resolved to move into exempt session in accordance with the applicable access to information provisions.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 formally introduced the concept of asset pooling. Over time, as assets move into pooled structures the Pensions Committee will also become responsible for:

- The selection, appointment and dismissal of an investment pooling operator to manage the assets of the Fund;
- Determining what the administering authority requires the pool to provide to enable it to execute its local investment strategy effectively;
- Receiving and considering reports and recommendations from the Joint Committee and Practitioners Advisory Forum, established to oversee the pool, to ensure that the Fund's investor rights and views are represented effectively;
- Identifying and managing the risk associated with investment pooling;
- Ensuring that appropriate measures are in place to monitor and report on the ongoing costs of investment pooling; and
- Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.

## Local Pensions Board

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 Board consists of eight members appointed by the Chief Financial Officer, as follows:

- Four Member Representatives; and
- Four Employer Representatives.

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function.

### Core functions

The first core function of the Board is to assist the Administering Authority in securing 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. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.
- b) Review management, administrative and governance processes and procedures to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.
- c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.
- d) Assist with the development of and continually review such documentation as is required by the Regulations.
- e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.
- f) Monitor complaints and performance on the administration and governance of the scheme.
- g) Review the application of the Internal Dispute Resolution Process.
- h) Review the complete and proper exercise of Pensions Ombudsman cases.
- i) Review the implementation of revised policies and procedures following changes to the Scheme.
- j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.
- k) Review the complete and proper exercise of employer and administering authority discretions.
- l) Review the outcome of internal and external audit reports.
- m) Review draft accounts and Fund annual report.
- n) Review the compliance of particular cases, projects or process on request of the Committee.

- o) Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.

The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- a) Assist with the development of improved customer services.
- b) Monitor performance of administration, governance and investments against key performance targets and indicators.
- c) Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.
- d) Monitor investment costs including custodian and transaction costs.
- e) Monitor internal and external audit reports.
- f) Review the risk register as it relates to the scheme manager function of the authority.
- g) Assist with the development of improved management, administration and governance policies.
- h) Review the outcome of actuarial reporting and valuations.
- i) Assist in the development and monitoring of process improvements on request of Committee.
- j) Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.
- k) Any other area within the statement of purpose (i.e. ensuring effective and efficient governance of the scheme) the Board deems appropriate.

1. In support of its core functions the Board may make a request for information to the Committee regarding any aspect of the Administering Authority's function. Any such request should be reasonably complied with in both scope and timing.

In support of its core functions the Board may make recommendations to the Committee which should be considered, and a response made to the Board on the outcome within a reasonable period of time.

### **Worcestershire County Council Pension Investment Sub Committee (ISC)**

The role of the Worcestershire County Council Pension Fund Investment Sub-Committee shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

The Council appoints the Chairman and Vice-Chairman of the Pension Investment Sub Committee. The Chairman of the meeting has a second or casting vote in the case of equality of votes.

The Pension Investment Sub Committee is a formal committee of the Council and comprises a total of 6 voting members:

- 5 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund) (voting)
- 1 co-opted employee representative from a relevant Union. (non-voting).

The 5 County Councillor members are formally appointed by the Head of Legal and Democratic Services in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders and the co-optees are co-opted by the Chairman of the Committee.

The ISC will be advised by an Independent Financial Adviser who will attend all meeting and on an ad hoc basis by the Fund's Actuary

The composition of the Pension Investment Sub Committee is intended to reflect the abilities and knowledge of the individuals in matters relating to the investment of the Fund's assets rather than political representation. All members of the Sub Committee are entitled to vote if necessary for the Panel to fulfil its role and provide advice to the Pension Committee regarding the administration of the fund's assets.

The responsibility for advising the Pension Committee is delegated to the Chief Financial Officer.

#### **Terms of reference:**

The role of the Worcestershire County Council Pension Fund Investment Sub-Committee shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

The ISC may also be occasionally requested to by the Worcestershire County Council Pension Fund Committee to undertake research and report back on a specific investment area.

All decision taken, and recommendations will be reported back to the next available ordinary meeting of the Worcestershire County Council Pension Fund Committee in the form of the minutes of the ISC.

The ISC will be responsible for: -

- a. Reviewing strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
- b. Reporting regularly to Committee on the performance of investments and matters of strategic importance.
- c. Monitor investment managers' investment performance and recommend decision to terminate mandates on performance grounds to Committee.
- d. Monitor the Transition of investments to LGPS Central or other Pooling arrangements
- e. Researching and providing a report back to the Worcestershire County Council Pension Fund Committee on any specific investment areas requested.

#### **The ISC will have delegated authority to:**

- f. Approve and monitor tactical positions within strategic allocation ranges.
- g. Implement investment management arrangements in line with strategic policy including the setting of mandate parameters and the appointment of managers.
- h. Approve amendments to investment mandates within existing return and risk parameters.
- i. Delegate specific decisions to officers as appropriate.

The ISC would meet quarterly ahead of the main Committee meetings to review manager performance and make decisions within the strategic asset allocations agreed.

The ISC is advised by an Independent Financial Adviser who attends all meetings and on an ad hoc basis by the Fund's Actuary.

One of the regular quarterly meetings will include an annual meeting to consider the Fund's full year's performance.

The Fund's Investment Strategy Statement (ISS) sets out the arrangements in place for the management of the investments of the Worcestershire County Council Pension Fund.

The day to day management of the Fund's investments is divided between external Investment Managers, operating in accordance with mandates set out in the Investment Strategy Statement.

The Chairman of the Investment Sub Committee will attend the Pension Committee to ensure flow of information between the 2 bodies.

Members of ISC must not have a conflict of interest and are required to provide the Chief Financial Officer with such information as the Chief Financial Officer reasonably requires for the purposes of ensuring no conflict of interest exists prior to appointment to the ISC and on an ongoing annual basis.

Members of the ISC are required to hold the appropriate knowledge and skills to discharge their responsibility effectively.

### **Pension Administration Advisory Forum**

The Pension Administration Advisory Forum provides the Pension Committee with advice concerning the administration of the Fund. It is neither a decision-making body nor formal committee and will not normally meet in public. No voting rights apply to the Pension Administration Advisory Forum as the purpose of the Forum is to provide transparency of information to scheme employers and for scheme employers to provide advice to, and raise concerns with, the employer representative.

The Pension Administration Advisory Forum comprises:

- all Fund employers who wish to attend following invitation by the Administering Authority
- the Fund's Actuary (ad hoc basis)
- the Administering Authority's Pensions Administration Manager and HR & OD Service Commissioning Manager
- and the employer representative and employee representative of the Pension Committee.



### **Pension Administration Advisory Forum Terms of Reference:**

The Forum meets at least twice a year or otherwise as necessary to:

- Discuss an Annual Administration Report and respond to any issues raised by employers.
- Discuss Government Consultations relating to the administration and benefits of the LGPS.
- Discuss the outcomes of the triennial/interim valuations and respond to any issues raised by employers.
- Discuss the minutes and updates from the Pension Committee and ensure flow of information between the Pension Committee and the Forum.
- To advise on service delivery to all stakeholders.
- To bring stakeholders perspective to all aspects of the Pension Fund business.
- To ask the Administering Authority and the Pension Committee to consider topics which affect the Pension Fund.

## **Appendix C - Advisers as of March 2020**

### **MJ Hudson Allenbridge– Philip Hebson**

Investment policy, general investment matters.

### **Mercers**

Actuarial matters

### **Local Authority Pension Fund Forum (LAPFF)**

Company governance issues.

### **BNY Mellon**

Custodian, Stock lending.

## Appendix D - Statement of Investment Beliefs

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

### *Financial Market Beliefs*

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for skilled active managers.
- In making investments in illiquid assets, a return premium should be sought.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.
- The fund believes that investing for the long term can add value to the fund as it allows the fund manager to focus on long term value and use short term volatility to establish favourable investments.
- Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it should not be held.

### *Investment Strategy/Process Beliefs*

Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.

Risk should be viewed both qualitatively and quantitatively. Focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Listed Equities are expected to generate superior long-term returns relative to Government bonds and our beliefs in this Listed Equities are expanded below:   .
  - a. Passively managed market cap-based investment has a balancing role to play in most pension schemes' equity allocations, bringing liquidity, transparency and reducing average fee levels;
  - b. Market cap weighted indices have their drawbacks; adding carefully selected systematic, factor tilted equity strategies can improve risk-adjusted returns, benefiting from disciplined rebalancing (the "rebalancing premium");
    - i. Exposure to "valuation factors" can improve risk adjusted returns over time. Even if outweighed by technical factors in the short-term, diversified exposure to valuation-based factor tilts can add excess return per unit of risk over a reasonable timeframe;
    - ii. Exposure to the "low volatility factor" can reduce absolute equity volatility and improve risk-adjusted returns. Strategies can be implemented which manage downside risk while achieving market returns over time;
    - iii. Exposure to the "small size factor" can improve risk-adjusted returns. A diversified tilt towards medium and smaller sized businesses is generally rewarded over time;

- iv. Carefully selected exposure to actively managed growth strategies can improve the balance of overall equity exposure and improve risk adjusted returns;
  - c. Exposure to emerging markets provides diversification and the opportunity for higher returns due to the higher risk premium typically earned for investing in these markets;
  - d. With sufficient research and governance, active equity management can be incorporated to add value relative to market cap weighted indices; overall active equity exposure should be focused predominantly on stock-specific risk;
  - e. Currency exposure associated with investing in equities can add volatility. Whilst it can be desirable to retain exposure to some currencies, hedging a proportion of non-domestic currency exposure can reduce the volatility of equity investing;
- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
  - Active management can add value over time, but it is not guaranteed and can be hard to access managers who consistently out-perform the relevant benchmark. Where generating 'alpha' is particularly difficult, passive management is preferred.
  - Operational, counterparty, conflicts of interest and reputational risk need assessment and management, in addition to investment risk.
  - Concentrated portfolios (smaller numbers of holdings or less external managers) allow for greater investment focus, lower investment costs and enable more focused engagement with Responsible investment.
  - Managing fees and costs matter especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

### ***Organisational Beliefs***

- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- When outperformance of a desired benchmark is not possible the fund will use index funds, financial instruments or proxies (Investments that share similar characteristics) to gain exposure to the asset class in the most cost-effective way.
- Investment costs are necessary to generate outperformance in asset classes where outperformance is achievable. Investment costs are a certain cost that should be fully transparent and managed by the operator in the best interests of the pension Fund.

### ***Responsible Investment Beliefs***

- **Long termism:**

A long-term approach to investment will deliver better returns and the long-term nature of the Fund's liabilities allows for a long-term investment horizon

- **Responsible investment:**

Responsible investment is supportive of risk adjusted returns over the long term, across all asset classes. Responsible investment should be integrated into the investment processes of the Fund and its investment managers.

- **Diversification, risk management and stewardship:**

Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well diversified portfolios face systematic risk. Systematic risk can be mitigated over the long-term through widespread stewardship and industry participation.

- **Corporate governance and cognitive diversity:**

Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision making, and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.

- **Fees and remuneration:**

The management fees of investment managers and the remuneration policies of investee companies are of significance for the Fund, particularly in a low return environment. Fees and remuneration should be aligned with our long-term interests, and value for money is more important than the simple minimisation of costs.

- **Risk and opportunity:**

Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with the Fund's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.

- **Climate change<sup>1</sup>:**

Financial markets could be materially impacted by climate change and by the response of climate policymakers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of likeminded investors where feasible.

<sup>1</sup>By highlighting climate change, rather than other RI risk factors, we are not asserting that climate risk has, for all assets, greater economic significance than other factors. Our motivation for referring specifically to climate change risk derives from our recognition that it is a risk factor of particular importance to several stakeholders, and we have communicated our investment beliefs about climate change for reasons of transparency.

### Monitoring Proposal for the High, Medium and Low investment strategies / pots suggested by the actuary

#### 1. Employer allocations of assets and liabilities to the pots and funding information

- (a) The allocations to the pots will automatically be reviewed in detail alongside the actuarial valuation every 3 years.
- (b) The Fund will take into account the following when considering the overall risk when allocating an employer to a specific pot:
  - Employer type e.g. tax raising body, academy, admitted body
  - Employer ongoing covenant strength incl. any guarantee or security
  - Employer size, maturity and funding position
  - Employer status e.g. open/closed to new members and objectives
- (c) The above factors will be monitored regularly between valuations and the allocations between the pots will typically be reviewed in the following circumstances:
  - Material change in certain types of employers' funding position within agreed tolerances
  - Material change in an employer's status or covenant
  - Request from an employer to move pots, subject to the agreement of the Fund

The risk management framework to monitor the funding position and the covenant will be agreed in conjunction with the Fund Actuary (Mercer). The monitoring and risk analytics will be provided using Pfaroe which is an online leading risk analytics tool used by the Actuary for LGPS Funds. The monitoring information will be provided at future committee meetings along with a summary of any actions taken.

#### Review of Investment pot strategies

- (a) The investment strategies underlying the pots will be reviewed formally at each actuarial valuation along with the overall Fund investment strategy
- (b) A high-level health check will be performed annually allowing for market changes and outlook as well as underlying changes in the maturity and profile of the liabilities of the employers in each pot.
- (c) A formal review may be undertaken mid-valuation if there is a material shift of employers between pots and/or material shift in the funding position to more efficiently manage the overall risk.

The investment pots will be managed within the overall Fund investment strategy as far as possible. If any investment options are unavailable, and are deemed to be desirable, then the Fund will consider obtaining access to these options through the Central pool or potentially directly.

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**PENSIONS COMMITTEE**  
**17 MARCH 2020****RISK REGISTER**

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**Recommendation**

1. **The Assistant Director (HR, OD and Engagement) recommends that the Worcestershire Pension Fund (WPF) Risk Register as at 28 February 2020 be noted.**

**Background and update**

2. The Risk Register is kept under regular review and, following the February 2020 review by officers, an updated Register is attached as an Appendix.
3. Two new risks have been added to the Register:
  - a) WPF 31 (Pandemic): it has a residual risk score of 40; and
  - b) WPF 32 (GMP rectification): it has a residual risk score of 15.
4. No risk scores have been amended as a result of the February 2020 review.
5. Mitigating actions have been updated for actions that have been completed or changes to timelines.

**Supporting information**

- Appendix - WPF Risk Register 28 February 2020

**Contact Points**

County Council Contact Points  
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Specific Contact Points for this report

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Pensions Investment, Treasury Management & Capital Strategy Manager  
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### **Background Papers**

In the opinion of the proper officer (in this case the Assistant Director (HR, OD and Engagement)) there are no background papers relating to the subject matter of this report.



# Risk Register

As at 28 02 2020

## About this Risk Register

The following colour coding is used for the 32 residual risk scores:

- Red  $\geq 45$  (01 risks)
- Amber  $\geq 25$  but  $< 45$  (14 risks)
- Green  $< 25$  (17 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 02 12 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.

The 32 risks logged in this register are (in highest Residual Risk Score order):

- Mismatch in asset returns and liability movements.
- Failure to pool assets using LGPS Central Limited.
- Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure.
- Pandemic affecting the Fund's staff / the Fund's employers' Payroll or HR staff / staff at payroll providers who provide services to the Fund or its employers.
- Being reliant on LGPS Central Limited delivering its forecasted cost savings.
- Fair Deal consultation proposals being implemented.
- Failure to procure a pensions admin system for the future.
- Employers having insufficient skilled resources to supply our data requirements.
- Failure to appoint suitable investment managers and review their performance / markets / contracts.
- Failure of officers to maintain sufficient level of knowledge / competence.
- Failure of existing pension admin system to deliver the services contracted.
- Staff leaving or going on long term absence.
- Failure of business continuity planning.
- Cyber-attack leading to loss of personal data like bank account details.
- Failure to maintain the quality of our data.
- Future change to LGPS regulations or other legislation, for example the LGPS cost cap, the SAB's governance working groups, or the 'Restricting exit payments in the public sector' / 'Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk' consultations.
- 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.
- Being reliant on LGPS Central Limited's investment approach following transitioning of assets.
- Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.
- Failure to disclose relevant facts in the Annual Report or during audit(s).
- Liquidity / cash flow is not managed correctly.
- Failure to exercise proper stewardship of the Fund's assets.
- Fraud by staff.
- GMP rectification not completed in line with the Pensions Regulator's / our members' expectations.
- Failure of governance arrangements to match up to recommended best practice.
- Failure of custodian to deliver the services contracted.
- Not having an established and meaningful Business Plan / Pension Administration Strategy.
- Failure of the actuary to deliver the services contracted.
- Failure of investment adviser to deliver the services contracted.
- Fraud by scheme members.
- Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.
- Incorrect calculation of benefits through human error or delayed notification of a death.

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score	
Page 189	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. The equity protection arrangements have been extended for a further 12 months to Sep 2020 as part of the investment strategy review. 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. Monthly Investment Working Group meetings are held between the partner funds and LGPSC to explore new fund opportunities.	25	2	50 <b>R E D</b>
	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 and monitors 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. The first transfers of Fund assets (in emerging markets and corporate bonds) were undertaken in July 2019 / Feb 2020.	20	2	40 <b>A M B E R</b>

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
WPF 23 (Chief Financial Officer)	Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure.	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. As part of the 2019 actuarial valuation the Fund has actively engaged with employers about how much they will be expected to pay for LGPS years 20/21 to 22/23 by issuing interim results, by offering 1:1s with the actuary and by asking employers to complete an employer contribution election form. At a Fund level employers have confirmed that the LGPS remains affordable. The Fund has been able to offer some flexibility in exceptional circumstances: it has been agreed with a top 10 employer that owing to their financial pressures they can phase in increased payments, reflecting the Fund's 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 undertakes annual covenant reviews, is introducing employer grouped investment strategies on 1 April 2020 and works with at risk employers.	20	2	40  A M B E R

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
WPF 31 (HR Service Centre Manager)	Pandemic affecting the Fund's staff / the Fund's employers' Payroll or HR staff / staff at payroll providers who provide services to the Fund or its employers.	Inability to deliver critical functions like paying deaths.	20	2	40	To monitor guidance from Public Health England and the LGA. To investigate procedures that would see the Fund making approximated (under) payment of lump sum benefits in advance of doing full benefit calculations or amending the pensions payroll. To consider whether it is possible to make payments without a death certificate. To identify the priority order in which processes could be suspended (some like processing death grant nominations or adding starters who have died may require to be prioritised), allowing resources to be moved between the Fund's teams after developing appropriate training. To identify the options for prioritising payments e.g. leaving small pay outs whilst processing those above a £ amount or prioritising payments to those with access to little alternative sources of income. To identify whether / how the last pensioner payroll could be run without amendment. To identify how more cashflow would be raised quickly and the order in which the Fund's assets would be sold and what problems may happen regarding receiving the monies from any sale of assets. To arrange for an extension of permitted website content management system users. To liaise with other LGPS funds over developing an appropriate, documented way forward and identifying any potential for sharing resources.	20	2	40
WPF 10 (Chief Financial Officer)	Being reliant on LGPS Central Limited delivering its forecasted cost savings.	Paying too much in fees / investment under-performance.	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 Fund has raised concerns with LGPSC, and an update on the forecast cost savings and cost sharing model was provided at the 13 Dec Pensions Committee.	15	2	30

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
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 A M B
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	To react to the WCC roll out of Windows 10 and the fact that Altair, the current pensions administration system, needs to be moved off the Oracle platform, the hosting of Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood, the supplier of Altair, on an interim basis pending the existing arrangement being decommissioned Jun 2020. Once a national LGPS framework for pension admin systems is available (it is expected in May 2020) the Fund will make use of it.	15	2	30 A M B E R

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
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 consulting them on proposed changes to the Pension Administration Strategy wef 1 April 2020 and supports employers with monthly newsletters / its website / employer fora. Officers have developed 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 is undertaken.	15	2	30  A M B E R
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. 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. CMA objectives for the Fund's Investment Adviser are being tabled at the 17 March Pensions Committee.	25	1	25  A M B E R

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
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 as part of the Worcestershire County Council whole organisation redesign.	25	1	25 A M B
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. To react to the WCC roll out of Windows 10 and the fact that Altair, the current pensions administration system, needs to be moved off the Oracle platform, the hosting of Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood, the supplier of Altair, on an interim basis pending the existing arrangement being decommissioned Jun 2020. Once a national LGPS framework for pension admin systems is available the Fund will make use of it.	25	1	25 A M B E R



WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
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 was used to discuss informal succession planning.	25	1	25 A M B
WPF 21 (Chief Financial Officer)	Failure of business continuity planning.	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.	25	1	25 A M B
WPF 28 (HR Service Centre Manager) Page 195	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. Regular meetings are being set up with WCC IT Infrastructure. Systems are 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 A M B E R
WPF 30 (HR Service Centre Manager)	Failure to maintain the quality of our member data	Paying incorrect or no benefits / problems with the Pensions Regulator / reputational or financial loss.	25	2	50	We commission annual checks on the quality of our data and use the findings to target correcting those areas where our data is not of the highest quality.	25	1	25 A M B

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
WPF 07 (Chief Financial Officer)	Future change to LGPS regulations or other legislation, for example from the LGPS cost cap, the SAB's governance working groups, or the 'Restricting exit payments in the public sector' / '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, the Chair of the LGPS Scheme Advisory Board, will lead the Pension Board from 28 Feb. Our actuary is using individual member data when providing FRS data for individual employers' accounts. The Fund undertakes annual covenant reviews, is introducing employer grouped investment strategies on 1 April 2020 and works with at risk employers.	20	1	20 <b>G R E E N</b>

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual 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. The Fund is investigating making ill health liability insurance available to interested employers.	20	1	20 <b>GREEN</b>

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
WPF 09 (Chief Financial Officer)	Being reliant on LGPS Central Limited's investment approach following transitioning of assets.	Investment underperformance / regulatory non-compliance.	25	2	50	Emerging market assets were transferred in July 2019 and most corporate bond assets were transferred in Feb 2020. 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.	20	1	20 GREEN
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 Public Finance and Accountancy (CIPFA) knowledge and skills framework / best practice guidance to include induction training sessions for new members and quarterly ongoing training for all members. Training sessions were delivered in Sep 2018, Dec 2018, July 2019, Nov 2019 and 2020. 3 April is the next scheduled training session.	15	1	15 GREEN

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
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 Public Finance and Accountancy (CIPFA) example accounts and external audit accounts checklist. The 2019 statement of accounts has been signed off by the Fund's auditors.	15	1	15 GREEN
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 15% 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. The Fund has started work on the new Code. The Fund 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 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 Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
WPF 32 (HR Service Centre Manager)	GMP rectification not completed in line with the Pensions Regulator's / our members' expectations.	Claims from members, reputational damage or fines from the regulator.	15	1	15	In advance of receiving the final reports from HMRC that are expected by 29 Feb, the Fund is planning to ensure that sufficient resources are available to deliver the rectification by quickly dry running results ASAP the reports are received to identify whether the total costs are within the £500,000 limit authorised by the January Pensions Committee meeting. This will size the resource requirement and determine the approach used for cases of over and under payments. For example, will it be necessary to claw back any overpayments (and if so at what level / using what approach) and what communications will be required to support this? The Fund will investigate the taxation implications of underpayments / overpayments. The working assumption is that the Fund will write to affected members in June and implement the rectification in August.	15	1	15 GREEN
WPF 01 (Chief Financial Officer) Page 200	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 is 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. The Fund has a good governance position statement.	5	1	5 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 were completed in 2019.	5	1	5 GREEN

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
WPF 04 (Chief Financial Officer)	Not having an established and meaningful Business Plan / Pension Administration Strategy.	Poor decision making and delays in responding to stakeholders e.g. elected members.	5	4	20	Pension admin KPIs / investment performance / project summaries are included in the Business Plan 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 and following consultation with employers a revised one will be in effect from 1 April 2020.	5	1	5 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 requires a member signature as authorisation and does not take instructions over the phone. A signed form or instruction can be scanned and emailed to the Fund. Telephone callers are asked questions to check that they are who they claim to be. 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 actioned its 2019 information from NFI.	5	1	5 GREEN

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
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. The 2019 deferred and employee annual benefit statements were despatched before 31 Aug.	5	1	5 GREEN
WPF 27 (HR Service Centre Manager)  Page 202	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



**PENSIONS COMMITTEE**  
**17 MARCH 2020****BUSINESS PLAN**

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**Recommendation**

1. **The Assistant Director (HR, OD and Engagement) recommends that the Worcestershire Pension Fund (WPF) Business Plan as at 27 February 2020 be noted.**

**Background and update**

2. The Business Plan is now reviewed and updated quarterly to deliver an extra management / governance tool to:
  - a) Help officers to manage the Fund's activities; and
  - b) Help the Pension Board and Pensions Committee to ensure that the ongoing management and development of the Fund is in line with longer term policy, objectives and strategy.
3. A brief summary of any significant milestones and any issues that we are encountering with delivering is provided in the commentary at the end of each of the 5 key result area (KRA) sections.
4. As the Business Plan highlights the key current pensions administration issues, it replaces regular administering authority updates.
5. Attention is drawn to the following:
  - a) No projects have been added or removed from the Appendix;
  - b) On a 2019 / 2020 year to date basis (1 April 2019 to 31 January 2020) we continue to achieve our average turnaround targets for all pensions administration processes;
  - c) We are on schedule for all payments, monitoring and elected member support / training.
  - d) In advance of receiving the final GMP rectification reports from HMRC that are expected by 29 Feb, the Fund is planning to ensure that sufficient resources are available to deliver the rectification by quickly dry running results ASAP the reports are received to identify whether the total costs are within the £500,000 limit authorised by the January Pensions Committee meeting. This will size the resource requirement and determine the approach used for cases of over and under payments. For example, will it be necessary to claw back any

overpayments (and if so at what level / using what approach) and what communications will be required to support this? The Fund will investigate the taxation implications of underpayments / overpayments. The working assumption is that the Fund will write to affected members in June and implement the rectification in August;

- e) Our Pension Administration Strategy employer consultation has supported our proposed changes from 1 April 2020; and
- f) The Fund largely completed transitioning corporate bond assets to LGPS Central Limited in Feb 2020.

## **Supporting information**

- Appendix - WPF Business Plan 27 February 2020

## **Contact Points**

County Council Contact Points  
County Council: 01905 763763  
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 Assistant Director (HR, OD and Engagement)) there are no background papers relating to the subject matter of this report.

**Worcestershire  
Pension Fund**



# Business Plan

As at 27 02 2020

## 1 INTRODUCTION

### 1.1 Our Business Plan:

- a) Outlines our (Worcestershire Pension Fund's) purpose, goals and key result areas / supporting aspirations (i.e. what is regarded as good in our eyes).
- b) Presents our targets and budget.
- c) Details our performance against our investment benchmarks and against our administration target turnarounds.
- d) Summarises the projects we have in place to achieve our large pieces of work.

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

1.3 Our governance arrangements are set out in our [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, with employer and member contributions invested in financial markets / instruments.

2.4 Although 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, concerns remain over the long-term cost and sustainability of the LGPS.

2.5 We are one of 87 funds administering the LGPS nationally. Worcestershire County Council is the statutorily appointed Administering Authority.

2.6 We administer the LGPS for about **200** employers whose **22,000 employees** are members of the LGPS; for **20,000 deferred** members; and for **17,000 pensioners**.

2.7 We manage a **£2.94bn** pension fund to pay benefits as they are due.

2.8 We face increasing complexities in both the governance and administration of the LGPS and expect the following to create pressures on our resources and workloads:

- a) The Pension Regulator (TPR) increasing its requirements re record keeping, data cleansing and covenant reviews.
- b) The national LGPS Scheme Advisory Board encouraging good governance, best practice, increased transparency and coordinating technical / standards issues.
- c) Possible changes to tax / pensions legislation.
- d) The guaranteed minimum pension (GMP) reconciliation and rectification project.
- e) New employers (from outsourcing and academy conversions).
- f) Increasing expectations from stakeholders (e.g. member online access and employer access to information).
- g) Central government asset pooling requirements (we are a partner fund in LGPS Central Limited, LGPSC).
- h) An ever-changing environment: currently there are consultations on Fair Deal; the LGPS cost cap; restricting exit payments in the public sector; and changes to the valuation cycle / the management of employer risk.

### **3 PURPOSE, GOALS AND KEY RESULT AREAS (KRAs) / ASPIRATIONS**

3.1 Our purpose is to deliver on the benefit expectations of our members by managing investments to increase our assets and by understanding our liabilities.

3.2 Our goals 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 us to achieve our goals we have identified 5 KRAs:

- Accounting;
- Administration;
- Engagement / Communications / Member & Employer Relations;
- Governance & Staffing; and
- Investments, Funding & Actuarial.

3.4 Our 5 KRAs are underpinned by 14 supporting aspirations. A brief summary of any significant milestones and any issues that we are encountering with delivering these is provided in the commentary at the end of each KRA section.

3.5 The one-off (shown as shaded) and annually recurring (shown as unshaded) large pieces of work or projects that we are progressing to achieve these 14 supporting aspirations are detailed in the appendix called Operational Plan: Projects.

3.6 Our performance on our day to day business as usual activities is detailed in the Investment Targets and Administration KPIs sections of our Business Plan. Any business as usual issues or developments that we are encountering are included in the commentary at the end of each KRA section.

3.7 This Business Plan's numbering recommences on page 7 with section 4. The boldened and underlined five KRAs that follow are in alphabetical order. The (1) to (14) numbering of our 14 supporting aspirations used below is across the five KRAs. This approach is to ease cross referencing with the second and third columns of the spreadsheet that is Appendix 1 of this Business Plan.

## **KRA: Accounting**

1. To **ensure the proper administration, accounting and reporting of all our financial affairs.**
2. To produce clear **Annual Reports / Statement of Accounts** that enable members and stakeholders to understand the latest and future financial position.

### **Accounting KRA Commentary:**

Our 2019 annual report is available from the [About us > Our annual reports](#) area of our website.

Employers were given the option to make provision for McCloud provisions in their employer contributions 2020/2021 to 2022/2023 election forms. We have received 99 election forms.

Setting management fees aside, as they are dependent on market fluctuations, the budget detailed in section 6 is forecast to breakeven.

We are on schedule for all payments, monitoring and elected member support / training.

## **KRA: Administration**

3. 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.
4. To maintain **an effective administration system** for the **accurate maintenance of the records of all members** and to continually review and cleanse our data, ensuring it meets the Pension Regulator's requirements and supporting employers to provide correct data.
5. 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.
6. 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.
7. To **support a range of projects and business as usual activities such as the actuarial valuation**, policy reviews, committee member / officer training, contract reviews, FRS information for employers and performance monitoring for us and our employers to adhere to.

### **Administration KRA Commentary:**

In advance of receiving the final GMP rectification reports from HMRC that are expected by 29 Feb, the Fund is planning to ensure that sufficient resources are available to deliver the rectification by quickly dry running results ASAP the reports are received to identify whether the total costs are within the £500,000 limit authorised by the January Pensions Committee meeting. This will size the resource requirement and determine the approach used for cases of over and under payments. For example, will it be necessary to claw back any overpayments (and if so at what level / using what approach) and what communications will be required to

support this? The Fund will investigate the taxation implications of underpayments / overpayments. The working assumption is that the Fund will write to affected members in June and implement the rectification in August.

Our Pension Administration Strategy employer consultation has supported our proposed changes from 1 April 2020.

We will be suspending 6 (out of 352) pensions relating to members who have not returned a life certificate.

As detailed in section 5, on a 2019 / 2020 year to date basis (1 April 2019 to 31 January 2020) we continue to achieve our average turnaround targets for all processes.

To date in 2019 / 2020 we have had **3 data breaches**, **4 IDRPCs** and **0 complaints**.

The employer changes that we are aware of so far in 2019 / 2020 are:

- Malvern Hills Outdoor Education Co Ltd now being called Boundless Outdoors Ltd.
- Callow End Primary / Lower Broadheath Primary / Martley Primary joining DOWMAT w.e.f. 01 09 2019.
- The Redditch Vaynor Academy becoming Endeavour Schools Trust, with existing employer Crabbs Cross joining the trust w.e.f. 01 09 2019, and new employers St George's 1st / Nursery (Redditch) joining the Trust sometime from 01 09 2019.
- Worcestershire Children First being a new employer on 01 10 2019.
- Bordesley MAT comprising Trinity High Academy from 01 04 2019, and also Birchensale / Holyoaks from 01 05 2019.
- St Stevens 1st Redditch / Oldbury Park joining Central RSA Academy trust w.e.f. 01 09 2019 as new employers.
- Heart of Mercia MAT being a new MAT from 01 04 2019 comprising Hereford 6th Form / Worcester 6th Form.
- St Thomas More being a new school in the Our Lady of Lourdes Academy group.
- Bishop Anthony Education Trust from 24 07 19 being called The Diocese of Hereford Multi Academy Trust.
- Fortis Living merging with Waterloo Housing to form Platform Housing Group and looking to consolidate into one LGPS fund
- Upper Arley (w.e.f. 01 02 2020) and St George's Kidderminster (w.e.f. 01 09 2019) joining Black Pear
- Northleigh (w.e.f. 01 02 2020) joining Mercian Educational Trust
- North Worcester Primary (w.e.f. 01 09 2019) and Sidemore (w.e.f. 01 04 2020) joining Rivers C of E MAT
- Addaction changing their name and brand in the last week of February 2020 to 'We Are With You'
- Employer 272 (St Matthias C of E Primary School Cromwell Road, Malvern, Worcestershire WR14 1NA) being expected to join Spire C of E MAT (that currently comprises the two St Johns, employers 271 / 292)
- Millbrook Healthcare Ltd becoming a new employer having been awarded HIA contracts which commence on 1 April 2020

### **KRA: Engagement / Communications / Member & Employer Relations**

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

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

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

#### Engagement / Communications / Member & Employer Relations KRA Commentary:

Our new stand-alone website was launched on 22 Oct 2019. It includes a bespoke area for accessing our [monthly employer newsletters](#).

We are investigating the following page view statistics, as they do not seem consistent:

- Oct 19 had 8,597 page views compared to 4,752 in Oct 18 i.e. + 81%.
- Nov 19 had 4,642 page views compared to 4,024 in Nov 18 i.e. + 15%.
- Dec 19 had 3,922 page views compared to 7,082 in Dec 18 i.e. - 45%.
- Jan 20 had 5,471 page views compared to 11,103 in Jan 19 i.e. - 51%.

We are expecting 160 members to attend our 'Thinking about retirement' seminar on 6 Mar 2020.

Our next employer forum will be on 23 March. The agenda will include a keynote briefing on the changing role of the Pension Board and the latest developments at the LGPS Scheme Advisory Board from Roger Phillips.

#### **KRA: Governance & Staffing**

11. To ensure the **effective management and governance** 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.

12. 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.

13. To **continually review the effectiveness of our committees and advisers** and our decision-making.

#### Governance & Staffing KRA Commentary:

The transfer of pensions administration from HR & OD to Finance has been confirmed as part of the WCC whole organisation redesign and is expected to take place by 31 March 2021.

We have reviewed the 'Good Governance Principles' published by the Scheme Advisory Board and have produced a position statement on how we meet these principles and the actions required.

#### **KRA: Investments, Funding & Actuarial**

14. 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 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.

#### Investments, Funding & Actuarial KRA Commentary:

We have received 99 employer contributions 2020/2021 to 2022/2023 election forms. The deadline was 24 January.

We have received 62 employer covenant proformas. The deadline is 28 February.

The Fund's asset valuation as at the end of December 2019 was £2.94bn. The value of the Fund at 31 October 2019 was £2,865m.

As detailed in the next section, the Fund has generated an average annual return of 8.0% compared to its benchmark of 8.2% over the 3 years to 31 12 2019.

Over the year to 31 12 2019 the Fund generated a return of 13.5% compared to its benchmark of 17.3%.

The Fund largely completed transitioning corporate bond assets to LGPS Central Limited in Feb 2020.

We have identified the areas needed to be covered by a 2020 UK Stewardship Code report.

## **4 INVESTMENT TARGETS**

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

- a) Past service: Consumer Prices Index + 2.15% that will be reduced to 1.65% by the 2019 actuarial valuation.
- b) Future service: Consumer Prices Index + 2.75% that will be reduced to 2.25% by the 2019 actuarial valuation.

4.2 The 2016 actuarial valuation assumed annual Consumer Prices Inflation of + 2.5% that will be reduced to +2.4% by the 2019 actuarial valuation.

4.3 The 2016 actuarial valuation therefore set annual return on investment targets of 4.65% (for deficit recovery payments) / 5.25% (for future service contributions). These will be reduced to 4.05% / 4.65% by the 2019 actuarial valuation. The main reason for this is the actuary has a more prudent outlook on investments returns over the next 3 years.

4.4 To achieve this, we are a partner in LGPSC, have set benchmarks for our sectors and have achieved the 3-year returns shown in the right column:

Sector	Benchmark	Average annual Performance over the 3 years to 31 December 2019 v benchmark
Far East Developed	FTSE All World Asia Pacific Index + 1.5%	8.9% (0.8% above benchmark)
Emerging Markets	FTSE All World Emerging Market index +2.0%	
United Kingdom	FTSE All Share Index	7.0% (0.1% above benchmark)
North America	FTSE All World North America - Developed Series Index	12.4% (= benchmark)
Europe ex - UK	FTSE All World Europe ex UK Index - Developed Series Index	8.5% (0.2% below benchmark)
Global (alternatives)	40% GPAAE - FTSE-Research Affiliates Fundamental Index (RAFI) Dev 1000 Equity Fund, 30% GPBK - MSCI World Mini Volatility Index, 30% STAJ - CSUF - STAJ	10.6% (0.4% below benchmark)
Fixed Interest	Barclays Global Aggregate Corporate Bond Index – Hedged into GBP	4.5% (0.5% above benchmark)
	EQT Corporate Private Debt - Absolute Return 6.5%	Not available as only invested May 2018
Property / Infrastructure	Various absolute benchmarks for different fund managers	Property 6.7% (0.4% below benchmark) Infrastructure 6.7% (1.7% below bmark)

## 5 ADMINISTRATION KPIs

5.1 We measure our performance against CIPFA industry standard targets for our key pension administration processes. We have regular meetings that review how we are performing on a case by case basis (% processed within target) and our average performance for all the cases of a process (average turnaround). This informs our resource allocation between processes and highlights which processes to seek to improve.

Activity / Process April 2019 - January 2020	Number Processed	% Processed within target		Av Turnaround (working days)	Target (working days)
Joiners notification of date of joining	1581	98		9	40
Process and pay refund	287	100		2	10
Calculate and notify deferred benefits	809	75		24	30
Letter notifying actual retirement benefits	382	99		3	15
Letter notifying amount of dependant's benefits	57	96		3	10
Letter acknowledging death of member	150	89		3	05
Letter detailing CETV for divorce	63	100		2	45
Letter notifying estimate of retirement benefits	901	97		4	15
Letter detailing transfer in quote	262	94		3	10
Process and pay lump sum retirement grant	760	96		15	23
Letter detailing transfer out quote	145	95		3	10
Letter detailing PSO implementation	0	n/a		n/a	15

## 6 BUDGET

Our budget for 2019 / 2020 to 2021 / 2022 is summarised below.

The forecast outturn for 19/20 is £12.752m, an overspend of £0.122m.

The main reason for the 19/20 variance is investment management fees increasing by £0.153m due to some commitments to property and infrastructure being drawn earlier than originally anticipated.

An increase in investment professional fees of £0.045m has also been incurred for additional independent advice on the transition of emerging markets and bonds to LGPS Central Limited and advice on capital gains tax.

Some of the GMP exercise being undertaken in 18/19 instead of in 19/20 has provided an offset of £0.066m.

The 19/20 forecast is within the £0.5m variation limit delegated to the Chief Financial Officer by the Pensions Committee.

Detailed reporting of our budget position is provided twice a year to Pensions Committee and included in [our annual reports](#).

<b>Fund Investment</b>	<b>19/20</b>	<b>20/21</b>	<b>21/22</b>
INVESTMENT MANAGEMENT FEES	<b>10,599,400</b>	<b>11,382,600</b>	<b>12,190,400</b>
Investment Administration Recharge	142,300	142,300	145,100
Investment Custodial and related services	367,200	367,200	374,500
Investment Professional fees	77,900	81,000	71,500
Performance Measurement	15,300	15,500	15,800
INVESTMENT ADMINISTRATION COSTS	<b>602,700</b>	<b>606,000</b>	<b>606,900</b>
<b>Scheme Administration</b>			
Pension scheme Administration recharge	1,055,400	965,300	972,600
Actuarial services	300,000	240,000	300,000
Audit	27,500	27,500	27,500
Legal Fees	33,500	33,500	33,500
Committee and Governance recharge	11,200	11,000	11,000
SCHEME ADMINISTRATION COSTS	<b>1,427,600</b>	<b>1,277,300</b>	<b>1,344,600</b>
GRAND TOTAL (Excluding Investment Mgt Fees)	<b>2,030,300</b>	<b>1,883,300</b>	<b>1,951,500</b>
GRAND TOTAL (Including Investment Mgt Fees)	<b>12,629,700</b>	<b>13,265,900</b>	<b>14,141,900</b>

### Appendix 1 – Operational Plan: Projects

This appendix summarises the work that we are doing to achieve particular aims. For us a project is a piece of work that is something that we would not do on a daily basis like processing a retirement. Some of our projects recur annually.

It uses the following acronyms / abbreviations:

AA	Asset allocation
A/C	Accounting
Ac	Academies
Admit	Admitted
BCP	Business Continuity Plan
Bods	Bodies
CARE	Career average revalued earnings
CB	Corporate bonds
CEM	<a href="#">CEM Benchmarking Inc</a>
CIPFA	<a href="#">Chartered Institute of Public Finance &amp; Accountancy</a>
Coll	Colleges
Config	Configuration
Covs	Covenants
Cttee	Pensions Committee
EM	Emerging markets
Engage	Engagement
FI	Fixed interest
FRS	Financial Reporting Standards
FSS	Funding Strategy Statement
GMP	Guaranteed Minimum Pension
Gov	Governance
Inv	Investments, Funding & Actuarial
KRA	Key result area
LGPS	Local Government Pension Scheme
LGPSC	<a href="#">LGPS Central Limited</a>
Manag	Management
MHCLG	<a href="#">The Ministry of Housing, Communities and Local Government</a>
ONS	<a href="#">Office for National Statistics</a>
Q	Query
Rtn	Return
SAB	<a href="#">Scheme Advisory Board</a>
Sch	Scheduled bodies
SF	Superannuation Fund
Sub	Pension Investment Sub-committee
TBD	To be determined
TPR	<a href="#">The Pensions Regulator</a>
Y/End	Year end

~ ENDS ~



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**PENSIONS COMMITTEE**  
**17 MARCH 2020****PENSION ADMINISTRATION STRATEGY (PAS)**

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**Recommendation**

1. **The Assistant Director (HR, OD and Engagement) recommends that the proposed changes to the Worcestershire Pension Fund PAS to take effect from 1 April 2020 be approved.**

**Background and update**

2. Our PAS sets out the LGPS roles and responsibilities of us and our employers.
3. Our existing PAS was introduced on 1 April 2019 following a consultation with our employers.
4. The LGPS regulations do not require us to have a PAS, but, if we have a PAS, they require us to keep it under review.
5. On 9 January we issued a draft PAS April 2020 to our employer contacts.
6. We set track changes to allow them to see the proposed changes easily and invited them to comment on the changes that we proposed making by close of play on 14 February.
7. We have received no comments on the draft PAS.
8. The key areas of change were in relation to:
  - Investment pots consultation / notification / monitoring / management
  - Mandatory annual covenant reviews formalised
  - Employers specifically being required to retain data in line with our guidance, to include hours changes for all employees to ensure that we will be able to implement any McCloud remedy
  - Employers specifically being tasked with complying with TPR requirements
  - WPF to report on KPIs / breaches

**Supporting information**

- Appendix - WPF PAS April 2020

## **Contact Points**

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

### Specific Contact Points for this report

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Rob Wilson  
Pensions Investment, Treasury Management & Capital Strategy Manager  
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## **Background Papers**

In the opinion of the proper officer (in this case the Assistant Director (HR, OD and Engagement)) there are no background papers relating to the subject matter of this report.



## Worcestershire Pension Fund Pension Administration Strategy

### PREFACE

This Pension Administration Strategy has been produced to:

- Set out the Local Government Pension Scheme (LGPS) roles and responsibilities of Worcestershire Pension Fund and our employers.
- Establish the levels of performance we and our participating employers are expected to achieve in carrying out their responsibilities.

**Help us to help you:** to administer the LGPS on behalf of our employers, we as the Scheme Administrator need our employers (in a manner that is data secure) to do a number of things including:

1. Provide us with **one named lead contact / account manager** who will liaise with us on behalf of their organisation, co-ordinating delivery of all LGPS requirements across their whole organisation (i.e. Finance Manager, Human Resources representative, Business Manager, Chief Executive, Payroll representative, etc.).
2. Maintain and supply us with an **Employer's contacts at my organisation Excel spreadsheet** in the format shown in Appendix 1.
3. **Calculate, notify and deduct employee contributions** for each employee in the LGPS (using a unique pensions identifier number for each employment) in accordance with the LGPS HR Guide (see: <http://www.lgpsregs.org/resources/guidesetc.php>) and the annual update issued by the LGA every March (see <http://www.lgpsregs.org/bulletinsetc/bulletins.php>).
4. By the 19th of the month following the month of deduction **remit to us all contributions**, including employer contributions) at the appropriate rate for the LGPS scheme year in question.
5. **Remit to us any additional pension contributions (APCs)** relating to their employees.
6. **Remit to Scottish Widows any additional voluntary contributions (AVCs).**
7. **Allocate trained resources** to supply us within the required timescales with:
  - a. The various pension administration forms and spreadsheets that we require for each life event that affects their employees.
  - b. The various regular and ad hoc pay, service, contributions and personal information that we require for their employees.
8. **Publish and forward to us an up to date employer policy statement** for all employer [discretions](#) under the LGPS regulations.
9. Appoint an adjudicator to **handle appeals** in accordance with the LGPS regulations.
10. **Keep abreast of** the range of material we make available.

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## CONTACT US

**Website:** [www.worcestershirepensionfund.org.uk](http://www.worcestershirepensionfund.org.uk)

**By email:** [pensions@worcestershire.gov.uk](mailto:pensions@worcestershire.gov.uk)

**By post:** Worcestershire Pension Fund, County Hall, Spetchley Road, Worcester, WR5 2NP

**By phone:** [Find out who to contact](#)

## 1. OUR RESPONSIBILITIES TO OUR EMPLOYERS AND MEMBERS

### **Our general responsibilities:**

1. To comply with all relevant legislation and guidance (for example from The Pensions Regulator).
2. To apply the LGPS regulations in line with our Policy Statement on our LGPS discretions. NB we can recover costs from an employer where costs have been incurred because of that employer's level of performance in carrying out its functions.
3. To accurately record and update member records on the pension administration system.
4. To maintain a compliant website that provides stakeholders with a first port of call for all of their pensions information needs, so that they can make informed decisions. NB we will make it clear that we are not able to provide financial advice.
5. To invest in digitisation to maximise self-service for our members and employers.
6. To maintain an appropriate range of up to date forms and guides.
7. To produce newsletters for all members at least annually.
8. To provide guidance on the secure submission of data.
9. To chase up information that we have asked for.
10. To agree timescales for dealing with bulk work / queries.
11. To appoint and manage appropriate specialist professional services organisations.
12. To review the Pension Administration Strategy annually in consultation with employers.

### **Governance – our responsibilities:**

1. To operate with a Pensions Committee and a Pension Board including employer and employee representatives.
2. To deliver appropriate training for the members of the Pensions Committee and Pension Board.
3. To maintain a Risk Register.
4. To produce, operate according to and maintain a Governance Policy Statement.
5. To report any failures to The Pensions Regulator / Scheme Advisory Board.

6. To deliver complaints and Internal Dispute Resolution Procedures (IDRP) appeal procedures.
7. To comply with any audit requirements / recommendations.

**Funding and investments – our responsibilities:**

1. To set out a clear and transparent Funding Strategy Statement and consult with employers on this.
2. To manage employers' annual covenant reviews to help us to manage risk.
3. To produce and maintain an Investment Strategy Statement.
4. To appoint and manage LGPS Central Limited, and the Fund's other investment managers.
5. To monitor the performance of the Fund's assets.
6. To produce a Statement on Compliance with the UK Stewardship Code for Institutional Investors.
7. To produce [responsible investment](#) information.
8. To consult and inform employers which investment pot they have been allocated to and how this will be monitored / managed in future

**Financial and data obligations – our responsibilities:**

1. To allocate the contributions received correctly to each employee record.
2. To keep a log of contributions received from each employer.
3. To retain the right to charge interest at 7% for persistent and ongoing late payment in the following circumstances:
  - a. If employer contributions (including deficit recovery payments) are overdue (if they are not received a month later than the due date specified).
  - b. If any other payments are overdue (if they are not received by the due date specified).
4. To pass on any fines levied by third parties arising from employer performance.
5. To inform each employer of any new contribution bandings table in place from each April.
6. To inform employers of any rechargeable items e.g. actuarial fees as they become due / at the end of financial year.
7. To produce an Annual Report and Financial Statements.

8. To manage admission agreements / the processes for admitting new employers.
9. To manage the delivery of Financial Reporting Standards (FRS) / International Accounting Standards (IAS) information to employers.
10. To take account of covenant reviews in setting employer contribution rates.
11. To advise employers when strain costs / compensatory added years payments are due.

**Annual return, actuarial valuations when being undertaken and annual benefit statements – our responsibilities:**

1. To process employer year end contribution returns within 1 month of receipt i.e. 31 May.
2. To produce annual benefit statements (ABS) for all employee and deferred members by 31 August.
3. To highlight annually if a member has exceeded their annual allowance and issue a Pension Savings Statement by 6 October.
4. To provide data to the Fund Actuary and Governments Actuary's Department to enable employer contribution rates to be accurately determined.
5. To provide an electronic copy of the actuarial valuation report and contributions certificate to each employer.

**New starts – our responsibilities:**

1. To accurately create member records on the pension administration system within 40 working days of notification from an employer of a new entrant to the LGPS.

**Changes in circumstances for employee members – our responsibilities:**

1. To accurately record and update member records on the pensions administration systems within 10 working days of completed notification.

**Employee members – our responsibilities:**

1. To update employee members' career average revalued earnings (CARE) accounts for the annual revaluation on 1 April.

**Transfer in / out estimates – our responsibilities:**

1. To provide transfer in information to the member within 10 working days of all information required being received.

2. To provide transfer out information within 10 working days of all information required being received.

**Divorce estimates – our responsibilities:**

1. Where a request for divorce information including a cash equivalent transfer value (CETV) is received from the member, or the Court, we will provide the member with a schedule of our charges and then issue the estimate within 45 working days of the receipt of the signed request from the member / receipt of the Court order.

**Outsourcing estimates – our responsibilities:**

1. To provide guidance to and the estimated fees (these are likely to be at least £5,000) that will be incurred by current employers participating in the LGPS who are considering outsourcing.

**Actual retirements – our responsibilities:**

1. To issue individual quotations / information within 15 working days after all information required to process a quotation has been received.
2. To issue employee members with a letter notifying them of their actual retirement benefits within 15 working days following receipt of the completed Leavers Form.
3. To issue deferred members with a letter notifying them of their actual retirement benefits within 15 working days following receipt of all documentation from the member.

**Ill health retirements – our responsibilities:**

1. To calculate and pay the benefits within 15 working days following receipt of all documentation.
2. To assist employers in discharging their responsibility to review Tier 3 ill health cases at 18 months.
3. To assist employers to select an Independent Registered Medical Practitioner (IRMP).
4. To provide information on the options for members who are terminally ill.

**Members leaving employment before retirement – our responsibilities:**

1. To provide members with Opt Out forms and information about going 50/50, refunds / becoming deferred / transfers out.

2. To provide members becoming deferred with the options available to them within 30 working days of receipt of all the correct information from the employer via the Leavers Form.
3. To process and pay a refund within 10 working days to an eligible member following receipt of all relevant documentation.

**Deferred members – our responsibilities:**

1. To update deferred members' benefits for the annual pensions increase award / annual CARE revaluation as appropriate.
2. To provide estimates of benefits that may be payable and any resulting employer costs within 15 working days of request.
3. To select an Independent Registered Medical Practitioner (IRMP).

**Death in service – our responsibilities:**

1. To provide an initial letter of acknowledgement to the next of kin / informant within 5 working days following a notification of death.
2. To provide a letter notifying dependents of benefits within 10 working days following receipt of identification / certificates and relevant documentation.
3. To expedite the payment of any benefits in an appropriate and caring manner.

**Additional voluntary contributions (AVCs), Additional Pension Contributions (APCs) and shared cost APCs (SCAPCs) – our responsibilities:**

1. To appoint and manage an in-house AVC provider.
2. To direct members / employers to information on these options as requested.

**Pensioners – our responsibilities:**

1. To make payment of any lump sum within 23 working days of receipt of all relevant fully completed retirement forms and certificates from the member, or retirement date if later.
2. To pay pension payments on the last working day of each month following retirement, unless this falls on a weekend or bank holiday when the payment will be made on the last working day before.
3. To pay LGPS benefits to their qualifying dependents.
4. To obtain annual life certificates from certain members.
5. To pay Her Majesty's Revenue & Customs.

6. To increase pensions annually if appropriate.
7. To provide payslips / P60s.

**Complaints / adjudication of disagreements – our responsibilities:**

1. To appoint an adjudicator to deal with disagreements and in accordance with the regulations reply within 2 months or any extension provided by the regulations.
2. To acknowledge complaints within 10 working days of receipt of the completed documentation.
3. To review and provide updates to the member in a timely manner.
4. To notify the employer of decisions and / or appeals as requested.
5. To listen sympathetically to complaints and respond to them within 10 days.

**Performance monitoring and reporting – our responsibilities:**

1. We will report on our key performance indicators (KPIs) to the Pensions Committee and the Pension Board. This will provide a mechanism for service level review and recognition of best practice.
2. We will seek to work closely with employers to:
  - Identify areas of poor performance.
  - Provide the necessary training and development.
  - To put in place appropriate processes to improve the level of service in the future.

**Reporting breaches – our responsibilities:**

1. To have procedures to be followed in relation to reporting breaches of the law to The Pensions Regulator.
2. To report data breaches to the Information Commissioner's Office (ICO).
3. To report all breaches to the Pensions Committee and the Pension Board.



## 2. EMPLOYERS' RESPONSIBILITIES

### Employers' general responsibilities:

1. To support us in engaging with our members and prospective members, making it clear that Worcestershire Pension Fund is not able to provide financial advice.
2. To be familiar with the HR and Payroll guides available at <http://www.lgpsregs.org/resources/guidesetc.php>
3. To provide us with up to date and correct information as and when requested in accordance with our timescales and data protection / pensions regulations, retaining information about employees in line with our [Personal Data Retention Guidance for Employers](#).
4. For larger bulk estimates, to make requests via the spreadsheet template provided by us and to give us as much notice in advance, for example when any redundancy exercises are planned.
5. To operate controlled, authorised processes and procedures.
6. To familiarise themselves with our:
  - a. Policy Statement on Communications.
  - b. Funding Strategy Statement.
  - c. Governance Compliance Policy.
  - d. Investment Strategy Statement.
7. To comply with [the Pensions Regulator's](#) requirements of employers offering pensions to their employees, including automatic enrolment and data quality.
8. To publish and forward to us an up to date employer policy statement for all employer discretions under the LGPS regulations.

### Financial and data obligations - employer responsibilities:

1. To calculate, collect and pay us no later than the 19<sup>th</sup> day of the month following the period of deductions:
  - All employee contributions deducted from payroll (excluding AVCs).
  - Employer contributions.
  - Any deficit lump sum payments due on a monthly basis.
2. To accompany each payment with the Payover Form PCF1.
3. To pay all rechargeable items to the Fund on receipt of the invoice within the timescales specified.
4. To provide us with accurate member data, using the monthly CARE spreadsheet.
5. To provide us with the annual Covenant data we require.

### **Annual return, actuarial valuations when being undertaken and annual benefit statements - employer responsibilities:**

1. To ensure we receive accurate year end information to 31 March through the Year End Spreadsheet by 30 April.
2. To submit accompanying paperwork detailing this together with payment or a formal request for a refund should there be any under / over payment discovered whilst reconciling.
3. To provide any additional information that may be requested to produce annual benefit statements for service up until 31 March in each particular year by the 30 April each year.
4. To ensure that all errors highlighted from the annual contribution and pensionable pay posting exercise are responded to and corrective action taken promptly.

### **New starts - employer responsibilities:**

1. To ensure that pension information is included as part of any new employment induction process, in contracts of employment and appointment letters.
2. To ensure that all employees subject to contractual admissions are bought into the LGPS from their relevant start date.
3. To provide us with accurate new member data, using the New Starter Form / interface within 4 weeks or at the members' start date or within 14 days of the first time the new employee is included on the employer's payroll run.
4. To provide each new employee with a link to our Guide to the LGPS and a New Starter Form with their contract of employment.
5. To determine the appropriate contribution rate (whether individually or by an automated process on payroll) and as soon as is reasonably practicable, notify the employee of the contribution rate which is to be deducted from the employee's pensionable pay and the date from which the rate will become payable. It is for the employer to determine the method by which the notification is given to the employee, but the notification must contain a statement giving the address from which further information about the decision may be obtained. The notification must also notify the employee of the right to appeal, including the process and timescales involved. Furthermore, the correct employee contribution rate should be applied and (if appropriate) adjusted throughout the year according to the employer's Policy Statement on discretions.

**Important note:** Where there is more than one contract of employment with the same employer, each membership shall be maintained separately and notified to us as above.

### **Changes in circumstances for employee members - employer responsibilities:**

1. To ensure that we are informed of any changes in the circumstances of employees, by completing the Employer Notification of Changes relating to Pensionable

Employment Form / Leavers Form / Ill Health Form / 50:50 cancel form / 50:50 Option Form / etc. within 4 weeks of the change. Changes include:

- a. Name.
  - b. Marital status.
  - c. NI number.
  - d. Contractual hours.
  - e. Any remuneration changes due to promotion and down grading.
  - f. Full time equivalent pensionable pay according to the pre 2014 definition.
  - g. Actual pensionable pay (including overtime/additional hours) in 100/100 and 50/50 according to the post 2014 definition (CARE).
  - h. Employee contribution rate.
  - i. Employee number and / or post number.
  - j. Date joined LGPS (if adjusted).
  - k. Confirmation of 50/50 or 100/100 entry.
  - l. Additional Voluntary Contributions (AVC) contributions.
  - m. Shared cost AVC contributions (if applicable).
  - n. Additional Pension Contributions (APC).
  - o. Notification of Flexible Retirement.
2. To apply assumed pensionable pay (APP) for pension purposes during periods of reduced or nil pay as a result of sickness, injury or relevant child related leave (i.e. ordinary maternity, paternity or adoption leave or paid shared parental leave and any paid additional maternity or adoption leave). **Important note:** If the employee receives no pay, employer contributions should still be paid.
  3. To calculate and provide to the member the APP amount should an employee wish to purchase Additional Pension Contributions (APC) or a Shared Cost Additional Pension Contribution (SCAPC) contract to buy back the pension 'lost' during the absence, **Important note:** before a period of absence employers must bring to the attention of the employee that they can buy back the 'lost' pension and also direct employees to the APC calculator at:  
<https://www.lgpsmember.org/more/apc/index.php>

#### **Retirement estimates - employer responsibilities:**

1. To submit a request using the Request for Estimate Form. Each form must be signed by an authorising officer.
2. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests by an agreed timescale with us.

#### **Transfer in / out estimates - employer responsibilities:**

1. To submit a request using the Request for Estimate Form. Each form must be signed by an authorising officer.

2. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests by an agreed timescale with us.

**Divorce estimates - employer responsibilities:**

1. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests, by an agreed timescale with us.

**Outsourcing estimates - employer responsibilities:**

1. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests, by an agreed timescale with us.
2. Re staff transfers e.g. outsourcings, to ensure early notification / liaison with us when considering an outsourcing exercise which affects members / eligible members of the LGPS.

**Actual retirements - employer responsibilities:**

1. To submit the appropriate Leavers Form to us as soon as the information is available. N.B. The Leavers Form must be completed fully and be signed by an authorising officer, as it confirms the information required to enable the benefits to be calculated and the employer's decision as to the type of benefit that is to be paid to the member.
2. To include a reference in the retirement letter to remind employees to advise us directly if they subsequently move house so that we can maintain contact with the retired member.

**Ill health retirements - employer responsibilities:**

1. To determine whether an ill health benefit award is to be made, based on medical evidence and the criteria set in the LGPS regulations.
2. After obtaining an opinion from an approved Independent Registered Medical Practitioner (IRMP) on the appropriate Medical Certificate, determine which tier (1, 2, or 3) is to be awarded.
3. Submit the completed Medical Certificate and Leavers Form to us with all related paperwork and a copy of the notice letter issued to the member (which must confirm the level of ill health benefits awarded and the appeal information).
4. To keep a record of and at 18 months review all Tier 3 ill health retirements, arranging as appropriate a further medical certificate.

5. To notify us to recover any overpayment of benefits following a discovery of gainful employment.
6. To include a reference in the dismissal letter to remind employees to advise us directly if they subsequently move house so that we can maintain contact with the retired member.

**Members leaving employment before retirement - employer responsibilities:**

1. To notify us using the Leavers Form, ensuring all relevant information is included on the form, within a reasonable time of the members leave date.
2. To include a reference in the acknowledgement letter to remind employees to advise us directly if they subsequently move house so that we can maintain our contact with the retired member.
3. To send us notification of any eligible employees subject to automatic enrolment, who opt out of the LGPS within 6 weeks of joining.

**Deferred members - employer responsibilities:**

1. To keep adequate records of the following for members who leave the LGPS with deferred benefits, as early payment of benefits may be required:
  - a. Name.
  - b. Last known address.
  - c. NI Number.
  - d. Payroll number.
  - e. Date of birth.
  - f. Last job information including job description.
  - g. Salary details.
  - h. Date and reason for leaving.
2. To determine, following an application from the former employee to have their deferred benefits paid early, whether or not they are eligible for early payment on ill health grounds in line with the criteria set in the relevant (NB these depend on date of leaving) regulations and after seeking suitable medical opinion from an IRMP.
3. To determine whether any actuarial reduction can be waived on compassionate grounds in accordance with the employers Discretionary Policy Statement.

**Death in service - employer responsibilities:**

- 1 To inform us immediately of an employee who has died – this can initially be by telephone or email to enable us to calculate or cease benefits.
- 2 Any notification of death in service should be followed with the receipt of a completed Leavers Form.

### **Death of pensioner / deferred member - employer responsibilities:**

1. Although employers have no responsibilities on the death of these members, it would be helpful if they could help when a dependent contacts them by advising the dependent to contact us.

### **Additional voluntary contributions (AVCs), Additional Pension Contributions (APCs) and shared cost APCs (SCAPCs) - employer responsibilities:**

1. To communicate to employees the option of SCAPCs to cover periods of 'lost pensions' and the timeframe they must elect to purchase a SCAPC. **Important note:** Members must elect to make APCs within 30 days of returning to work following the absence, but employers have the discretion to extend this period. This should be laid out in the employer's Policy Statement on discretions.

### **Adjudication of disagreements – employer responsibilities**

1. Under regulation 72 of the [LGPS 2013 Regulations](#), any decisions made by an employer affecting an employee's rights to membership, or entitlement to benefits must be made as soon as is reasonably practicable and notified to the employee in writing including a reference to their right to appeal in line with regulation 73 of the LGPS regulations.
2. An employer must notify us of a decision made under Regulation 72. Every notification must:
  - Specify the rights under Stage 1 and Stage 2 of the appeals procedure quoting the appropriate regulations.
  - Specify the time limits within the appeal, under either stage, which apply.
  - Specify to whom an application for appeal must be made to. For first stage appeals this must be the nominated person of the employer who made the decision. For second stage appeals this will be the appointed person at the Administering Authority.
3. Employers must notify us of any first stage appeals they receive.
4. Each employer is required to nominate and name the person to whom applications under stage 1 of the Appeals Procedure should be made.

### 3. FURTHER INFORMATION

We administer the LGPS and manage over £2,900 million of worldwide assets on behalf of over 200 employers and over 60,000 members.

As at the 31 March 2019 actuarial valuation we were 91% funded.

We have a budget of £1.4m for pensions administration and have 21 staff in our pension administration department. We work with the following:

AEW  
Barclays  
BNY Mellon  
EQT  
First State Investments  
Grant Thornton UK LLP  
Hermes Investment Management  
Invesco Real Estate  
Legal & General Investment Management  
LGPS Central Limited  
Mercer  
MJ Hudson  
Nomura Asset Management UK Ltd  
Scottish Widows  
Stonepeak Infrastructure partners  
UK Green Investment Bank  
Venn Partners  
Walton Street Capital, LLC

This Pension Administration Strategy has been prepared in accordance with LGPS regulations, see (reg 59): <http://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php>

#### **Audit**

We are subject to audit of our processes and internal controls. Employers are expected to fully comply with any requests for information from both internal and approved external auditors. Any subsequent recommendations will be considered and where appropriate implemented with employer cooperation.

#### **Benchmarking**

We will regularly monitor our costs and service performance by benchmarking with other administering authorities. Details of the costs of administration, quality measures and standards of performance will be published in the Annual Report and Financial Statements.

#### **Data Protection Act 2018**

We are a Data Controller as part of the Data Protection Act 2018 which incorporates the General Data Protection Regulation (GDPR). This means we store, hold and manage personal data in line with statutory requirements to enable us to provide pension administration services. To enable us to carry out our statutory duty, we are required to share information with certain bodies, but will only do so in limited circumstances. More information about how we hold data and who we share it with can be found in our Privacy Notice at [www.worcestershirepensionfund.org.uk](http://www.worcestershirepensionfund.org.uk)

**Secure Data Transfer**

We will follow Worcestershire County Council's (the Fund's Administering Authority) data security guidelines when sending any personal data, including its published data sharing policy. This means that member's personal data will only be transferred from one party to the other via an acceptable method specified by the Administering Authority which may include any of the following:

- Secure email.
- Paper forms signed by an authorising officer from the employer.
- Password protected Excel spreadsheets.
- Password protected portal.

**FOR OFFICE USE ONLY:**

Worcestershire Pension Fund Pension Administration Strategy

Version: FINAL first review

Author: Chris Frohlich, Engagement Manager

Dated: April 2020

Signed Off: Pensions Committee 17 03 20



**APPENDIX 1: Employer's contacts at my organisation Excel spreadsheet**

**Organisation**  
**In group**  
**Companies House**  
**email addresses**  
**Finance**  
**Finance emails**  
**Payroll**  
**Payroll emails**  
**HR**  
**HR emails**



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## **Policy Statement on Communications**

### **1 Introduction**

We aim to produce clear communications in a plain English style that provide everyone with any interest in the Fund with ready access to all the information they need to make informed decisions.

We may make our communications available in languages other than English or in Braille or in other formats upon request to suit those with special needs.

We can be contacted in person, by letter, by phone or by email.

We aim to respond to all requests in a timely manner and by meeting the enquirer's information objectives.

We will collaborate with other Funds throughout the year to produce communications that benefit from shared expertise and cost saving.

We aim to continually develop our communications / the resource we devote to engagement.

Our flagship communications offering is our website at:  
[www.worcestershirepensionfund.org.uk](http://www.worcestershirepensionfund.org.uk)

We aim to maintain a compliant website that provides stakeholders with a first port of call for all of their pensions information needs, so that they can make informed decisions. NB we are not able to provide financial advice.

We aim to invest in digitisation to maximise self-service for our members and employers.

### **2 Communicating with employers**

We will engage with our prospective and actual employers to:

- Explain our requirements of them.
- Define their information needs and expectations of us.
- Identify and deliver their training needs.

We will maintain an up to date Pension Administration Strategy.

We will maintain an Employers area on our website to provide regularly updated guidance / forms including monthly employer newsletters.

We will deliver a bi-annual employer forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters.

Of the 5 members of our Pension Board there are 2 employer representatives who scrutinise all Pensions Committee decisions and can take items for discussion to our Pensions Committee on behalf of employer.

The Pensions Committee of 8 has 1 employer representative.

### **3 Communicating with members**

We will make available a range of publications / forms for prospective and actual scheme members including a Guide to the LGPS.

We will provide an annual benefit statement to our employee members and our deferred members by 31 August.

We will provide an annual newsletter to our employee members and our deferred members.

We will provide an annual newsletter, an annual payslip and a P60 to our pensioner members. We will also provide them with a pension payslip when there is a change of more than £1 per month in their pension.

Of the 5 members of our Pension Board there are 2 member / trade union representatives who scrutinise all Pensions Committee decisions and can take items for discussion to our Pensions Committee on behalf of members.

The Pensions Committee of 8 has 1 member / trade union representative.

### **4 Communications with other stakeholders**

Our Annual Report and Financial Statements are available from our website.

Our website will also provide up to date information about our governance, funding, investments, finances and operations.

We will deliver appropriate communications to comply with and apply all relevant legislation / guidance (for example from The Pensions Regulator, The Local Government Association, Her Majesty's Revenue & Customs, The Local Government Pension Scheme Advisory Board, etc.).

We will deliver a training programme for members of our Pensions Committee and Pension Board.

**FOR OFFICE USE ONLY:**

Worcestershire Pension Fund Policy Statement on Communications

Version: FINAL first review

Author: Chris Frohlich, Engagement Manager

Dated: April 2020

Signed Off: Pensions Committee 17 03 2020

**PENSIONS COMMITTEE**  
**17 MARCH 2020****WORCESTERSHIRE COUNTY COUNCIL PENSION FUND**  
**ADMINISTRATION BUDGET 2020/21**

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**Recommendation**

1. **The Chief Financial Officer recommends that:**
  - a) **the Pension Fund Administration Budget, including manager fees, for 2020/21 shown in the Appendix totalling £13.296m be approved;**
  - b) **the indicative budget allocations for 2021/22 and 2022/23 be considered and noted;**
  - c) **variations against budget will be monitored be noted; and**
  - d) **variations up to £0.5m be delegated to the Chief Financial Officer to the Pension fund to approve be agreed.**

**Purpose of the report**

2. This report seeks Members' approval for the 2020/21 for the Worcestershire County Council Pension Fund Administration Budget, as shown in the attached Appendix. The budget and Forecast Outturn for 2019/20 are also shown.
3. The Appendix also shows indicative budgets for the following two years 2021/22 and 2022/23. These budgets are indicative and incorporate the actions to meet the next Triennial valuation, the Investment Strategy and improved communication and engagement.

**Background**

4. To ensure good governance budgets are required to monitor the stewardship of the Fund's expenditure and financial plans assist in mitigating risks by allocating necessary resources to develop the service.
5. A number of services are required to ensure delivery of the Local Government Pension Scheme (LGPS) administering authority function. The Committee has ultimate responsibility for the procurement and monitoring of these services. It should be noted, however, that Worcestershire County Council, which is one of the employer bodies whose interests the Committee is responsible for, is at present also the provider of a number of these services.

### **Forecast outturn 2019/20**

6. The attached Appendix shows the forecast outturn estimated to be £12.752m compared to a budget of £12.630m, a difference of £0.122m. The main reason for the variance is investment management fees (increase of £0.153m) due to some commitments to Property and Infrastructure being drawn earlier than originally anticipated. An increase above budget for investment professional fees (£0.045m) has also been incurred for additional independent advice on the transition of Emerging Market and Bonds to LGPS Central and advice on Capital gains tax from our PWC Tax consultants. This is partly offset by some of the Guaranteed Members Pension exercise being undertaken in 2018.19 and thus saving on the 2019.20 budget a reduction of £0.066m)

7. This is within the £0.5m variation limit delegated to the Chief Financial Officer Committee and in line with the Admin budget reported to the October Committee where the variations were agreed.

### **Key features of the proposed 2020/21 budget**

8. The budget now proposed for 2020/21 is £13.296m, an increase of £0.666m (+5.3%) from the original 2019/20 budget (see Appendix). The largest proportion of the budget (£11.383m) is investment managers' fees that largely depend on the value of assets being managed, and the investment return performance which depends on market conditions. This includes the management fees for the Equity Protection that has been implemented and the contribution towards LGPS central.

9. The key reason for the increase in budget is the management fees are as follows: -

- a) Increase in assumed investment returns
- b) The strategy to increase our asset allocation to 20% of the portfolio into Property and Infrastructure and reduce our equity portfolio to 70% (from 75%) will increase our management fees given the low fees on our passive equity portfolio.

10. The Fund's "controllable" budget (i.e. excluding investment management fees) is £1.914m, which is a reduction of £0.116m (6.0%) net decrease on the original budget. The key reasons for this decrease are:

- a) The Guaranteed Minimum Pension Exercise which was approved by Committee on the 22 June 2018 was included as a one-off exercise in 2018/19 totalling £0.191m. However, £0.086m was paid in 2018/19 and therefore reduced the budget required in 2019/20 by £0.105m.
- b) Similar to how the county council provides for elections that occur over a longer period, an additional provision of £0.080m for 2019/20 for the cost of the triennial actuarial valuation of the fund as at April 2019 was provided which is not required in 2020/21. However,
  - i. £0.030m has been set aside for implementing the Employer Risk Framework from April 2020
  - ii. £0.030m for conducting an Environmental, Social and Governance (ESG) audit of the Fund. More detail is contained within the Investment update on this agenda and
  - iii. £0.015m for further website development

## **Summary**

11. The budget attempts to maintain service standards, fulfil statutory requirements while developing areas in response to the scheme changes. Comparability of data is difficult between funds nationally due to different methodology of reporting costs.

12. The budgeted Worcestershire Pension Fund administration costs are currently £22.93 per member for 2019/20. The proposed budget for 2020/21 will take these costs down to £21.01 per member (0.05% of the market value of the Fund's assets).

13. In terms of investment costs, the budget indicates spend of 41p per £1,000 (0.41% of market value as at March 2019) on managing its assets for 2019/20, including all pooled mandate costs

## **Risk Assessment**

14. The Committee is asked to recognise that some costs, particularly investment fees, are dependent upon factors that are outside of the Council's control. As such fees may go up or down, depending on market conditions.

15. The approval of this budget is essential to continue the good governance of the Fund. When viewed in relation to the overall value of assets, these 'controllable' costs represent 0.07% of the total Fund value.

16. In line with good governance practice, officers are bringing budget monitoring reports back to Committee twice a year. In the interim, variations against budget will be monitored and if they become very significant, the Chief Financial Officer to the Pension Fund will approve variations to the budget and report these to the Committee retrospectively for ratification.

## **Contact Points**

### County Council Contact Points

County Council: 01905 763763

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### Specific Contact Points for this report

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## **Supporting Information**

- Appendix detailing the 2019/20 Administration Budget monitoring and proposed 2020/21 Administration Budget with indicative budget allocations for 2021/22 and 2022/23

## **Background Papers**

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

Annual Report 2018/19





**Pension Fund Administration Budget Monitoring 2019/20, proposed budget 2020/21 and indicative budgets 2021/22 & 2022/23**

2019/20 Budget	2019/20 Forecast Outturn	2019/20 Variance	Description	2020/21 Annual Change	2021/22 Annual Change	2022/23 Annual Change	Comments
£	£		£	£	£	£	
<b>Fund Investment</b>							
<b>10,599,400</b>	<b>10,752,800</b>	<b>153,400</b>	INVESTMENT MANAGEMENT FEES	<b>11,382,600</b>	<b>12,190,400</b>	<b>13,122,600</b>	<i>Includes LGPS central Fees, Equity Protection and increasing commitment to Property &amp; Infrastructure. Offset by some savings on asset transition to LGPS Central</i>
142,300	139,500	-2,800	Investment Administration Recharge	142,300	145,100	148,000	<i>Increased Investment support</i>
367,200	360,000	-7,200	Investment Custodial and related services	367,200	374,500	382,000	
77,900	123,000	45,100	Investment Professional fees	81,000	71,500	72,000	<i>Increased support in 19.20 for transition of assets advice and Tax advice on Capital gains tax</i>
15,300	15,200	-100	Performance Measurement	15,500	15,800	16,100	<i>CEM Benchmarking and Portfolio Evaluation</i>
<b>602,700</b>	<b>637,700</b>	<b>35,000</b>	INVESTMENT ADMINISTRATION COSTS	<b>606,000</b>	<b>606,900</b>	<b>618,100</b>	
<b>Scheme Administration</b>							
1,055,400	989,600	-65,800	Pension scheme Administration recharge	995,700	973,600	996,000	<i>GMP one off exercise in 18.19 &amp; 19.20, New Altair developments including self service and other website development, changes to team structure. Employer monitoring and one off ESG Audit in 2020/21</i>
300,000	300,000	0	Actuarial services	240,000	300,000	240,000	<i>Triennial valuation allowed for April 2019</i>
27,500	27,500	0	Audit	27,500	27,500	27,500	
33,500	33,500	0	Legal Fees	33,500	33,500	33,500	
11,200	11,200	0	Committee and Governance recharge	11,000	11,000	11,000	
<b>1,427,600</b>	<b>1,361,800</b>	<b>-65,800</b>	SCHEME ADMINISTRATION COSTS	<b>1,307,700</b>	<b>1,345,600</b>	<b>1,308,000</b>	
<b>2,030,300</b>	<b>1,999,500</b>	<b>-30,800</b>	GRAND TOTAL (Excluding Investment Mgt Fees)	<b>1,913,700</b>	<b>1,952,500</b>	<b>1,926,100</b>	
<b>12,629,700</b>	<b>12,752,300</b>	<b>122,600</b>	GRAND TOTAL (Including Investment Mgt Fees)	<b>13,296,300</b>	<b>14,142,900</b>	<b>15,048,700</b>	

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**PENSIONS COMMITTEE  
17 MARCH 2020****WORCESTERSHIRE COUNTY COUNCIL PENSION FUND  
TRAINING FOR PENSIONS COMMITTEE MEMBERS**

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**Recommendation**

1. **The Chief Financial Officer recommends that the Committee:**
  - (a) **Consider the CIPFA Knowledge and Skills Framework for Members of Pension Committees as detailed in Appendix 1;**
  - (b) **Review and approve the Joint Training Policy for the Pensions Committee, Investment Sub Committee and the Local Pension Board (Appendix 2);**
  - (c) **Agree that by the end of April 2020 all members of the Committee, Investment Sub Committee and Pension Board, along with appropriate Administration officers complete the self-assessment questionnaires set out at Appendix 3. This will be used to inform consideration of further topics for training to be considered at the June Committee;**
  - (d) **Consider any proposed training event being developed for funds in the LGPS Central Pool and provide views on how this may fit into the Fund's overall training programme;**
  - (e) **Continue to consider the attendance of other councillors at training events; and**
  - (f) **Note and agree the proposed training events plan for the next year Appendix 4 and consider further topics for consideration or future training events.**

**Reason for Recommendations**

2. **To ensure that an appropriate approach to training is in place that ensures strong governance of the Fund.**

**Purpose of Report**

3. **This report addresses the training requirements of the Pensions Committee.**

## **Background**

4. The Committee agreed a Training Policy and Programme on the 22 June 2018 and a comprehensive training programme has since been delivered on a quarterly basis. This report seeks to update the Policy and Programme where required as well as highlighting the proposed training programme for the next year.

5. The Committee has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills and the CIPFA Knowledge and Skills Framework for Elected Representatives and Non-Executives in the Public Sector as the basis of its Training Policy and Programme (Appendix 1).

6. At the time of the June 2018 report, it was understood that CIPFA was working on an update to the existing Frameworks and this is still the case. This will be reported back to Committee as soon as it is known

7. A separate Framework for local pension boards was issued.

8. The Training Policy and Programme must also take account of:

- the training requirements set out by the Pensions Regulator's Code of Practice Number 14 on the Governance and Administration of Public Sector Pension Schemes
- the requirements of the Investment Principles
- the Committee's specific requirements
- the recent Scheme Advisory Boards 'Good Governance' recommendations.

## **Training Policy**

9. Board and Committee members, along with appropriate Administering Authority officers have been asked to complete a knowledge and skills self-assessment form as part of the required annual assessment within the Training Policy. The outcome of this will be presented to the June Pensions Committee. These have been used in the past to prepare annual training plans and a log of training undertaken is maintained by the officers of the Fund. The annual training plans have included a programme of external and internal training events designed to meet the requirements both of new members of the committee and the ongoing needs of existing members. These events are reported formally to members on an annual basis. Individual reports to authorise attendance by members at these events are put to the Chief Financial Officer on an event by event basis.

10. The current Training Plan now needs refreshing and it is proposed that the Pension Committee, Pensions Investment Sub Committee and the Local Pension Board adopt the joint Training Policy and operate a joint approach to the delivery of training attached as an Appendix 2.

11. The Committee, Investment Sub Committee and Pensions Board are asked to support self-assessments again being completed to inform future training policy needs and training requirements. A self-assessment attached at Appendix 3 was circulated for completion on the 11 February 2020 and the results will be collated and reported to the June Committee.

### **CIPFA Framework**

12. The current CIPFA Framework for a Pensions Committee is attached as Appendix 1. The Framework is intended to have two primary uses:

- As a tool for organisations to determine whether the Committee has the right skill mix to meet their fund's financial management needs; and
- As an assessment tool for individuals to measure their progress and plan their development.

13. The Framework is intended for application to all members of decision-making bodies. However, it has been designed so that organisations and individuals can tailor it to their own particular circumstances.

14. The Framework 8 key areas are:

- Pensions Legislation
- Pensions Governance
- Pensions Administration
- Pensions account and auditing standards
- Pensions services procurement and relationship management
- investment performance and risk management
- financial markets and products knowledge
- Actuarial methods standards and practices

15. In addition, in recognition of the more onerous roles of chairs and vice-chairs, the framework also includes a specimen role specification for the chair/vice-chair of a decision-making body.

### **Fund Documents and Training Material**

16. The Fund's website has been updated over the next 12 months to ensure that it holds documents that set out the Fund's policies and working practices in its publicly accessible area.

17. The intention also is to ensure that there is a password protected area that is set up to hold training material and exempt and commercially sensitive documents.

## **Pensions Regulator Training Toolkit**

18. The Pensions Regulator has provided an on-line training resource to assist those involved with the public-sector pension schemes. This is accessed via a “Trustee Toolkit” link on its website - [Link](#).

19. The Pensions Regulator also provides a free online learning programme called the Public Service toolkit, which anyone can register for - [Link](#). It provides a set of seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes. Each module provides an option to complete an interactive tutorial online and an assessment to test knowledge. The modules are:

- Conflicts of interest
- Managing risk and internal controls
- Maintaining accurate member data
- Maintaining member contributions
- Providing information to members and others
- Resolving internal disputes
- Reporting breaches of the law.

20. The Regulator suggests that each module’s tutorial should take no more than 30 minutes to complete.

21. The modules will assist with meeting the minimum knowledge and understanding requirements in relation to the contents of the Code of Practice but would not meet the knowledge and skills requirements in other areas such as Scheme regulations, the Fund’s specific policies and the more general pensions legislation.

22. Therefore, this toolkit should be used to supplement the existing training plans.

## **Training Programme for 2020/21**

23. The diary for 2020/21 includes provision for two offsite training events which are to be delivered to the Committee and the Local Pension Board. Short training sessions may be included in the quarterly meetings. Induction and refresher sessions can be arranged, as required.

24. Members may arrange a meeting with the Fund’s Officers to discuss their individual training requirements, which may then be incorporated into Development Plans.

## **LGPC Central Pool – Members Training**

25. The Central Pool have aided the delivery of the existing training programme for members of the Pensions Committee and we will continue to use this approach and sharing of resources across the Pool partners and fit this in as part of the current training programme.

## Training attendees

26. It is suggested that the invites for all training is extended to other councillors. This helps with both the effective running of the Committee when substitutes attend, and shapes future options for Committee membership.

## Training Plan

27. Training commenced from September 2018 and has continued to be delivered mainly on a quarterly basis with a mixture of Pensions administration and investment topics. The proposed training areas for the next year are attached at Appendix 4 and Committee is asked for its views on the content of the 2020/21 training and to suggest any other topics for future training. The plan is regularly reviewed, and training updates provided to each Pensions Committee.

## Training Events since the last Committee

28. Two training events have been provided to members of the Committee and the Pension Board on the 31 January 2020 and the 4 February 2020. The January training specifically covered Responsible Investment Sustainable/Ethical Investment and Impact Investment presented by Karen Shackleton from Pensions for Purpose. Committee and Pension Board members have since been asked where they would like to see the fund on the 'spectrum of capital' ranging from 1 being traditional forms of investment through to 8 Philanthropy. From the feedback so far, most members seem to favour the Fund being a 4 'impact driven investments (contribute towards solutions that have a positive outcome for various people and the planet).

29. Formal feedback from these events are detailed in Appendix 5. The events were well received, and 15 out of 20 members attended the 31 January training and 11 out of 20 members attended on the 4 February 2020.

## Contact Points

### County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

### Specific Contact Points for this report

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## Supporting Information

- Appendix 1 – CIPFA Knowledge and Skills Framework for Members of Pension Committees – core areas
- Appendix 2 - Worcestershire Pension Fund Proposed Training Policy for the Pension Committee and Local Pension Board 2020 – 2023
- Appendix 3 - Self-Assessment to inform future training
- Appendix 4 – Proposed Training Programme for 2020/21
- Appendix 5 – Training Evaluation Form

## **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.



### CIPFA Knowledge and Skills Framework for Members of Pension Committees

#### Core Areas:

#### **1. Pensions Legislative and Governance Context**

##### General Pensions Framework

A general awareness of the pensions legislative framework in the UK.

##### Scheme-specific legislation

- An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.
- An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2013 (as amended) as well as previous iterations and their main features.
- An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.
- A regularly updated appreciation of the latest changes to the scheme rules.
- Knowledge of the role of the administering authority in relation to LGPS.

##### Pensions regulators and advisors

- An understanding of how the roles and powers of the Pension Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.
- Knowledge of the internal dispute/appeal process.

##### General constitutional framework

- Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.
- Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.

##### Pensions scheme governance

- An awareness of the LGPS main features.
- Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.
- A detailed knowledge of the duties and responsibilities of committee members.
- Knowledge of the stakeholders of the pension fund and the nature of their interests.
- Knowledge of consultation, communication and involvement options relevant to the stakeholders.

## **2. Pensions Accounting and Standards**

- Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.
- 
- Awareness of the role of both internal and external audit in the governance and assurance process.

## **3. Financial Services Procurement and Relationship Management**

### Understanding public procurement

- Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and roles of key decision makers and organisations.
- A general understanding of the main public procurement requirements of UK and EU legislation.

### Supplier risk management

- Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.

## **4. Investment Performance and Risk Management**

### Total Fund

- Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.

### Performance of advisors

- Awareness of the Myners principles of performance management and the approach adopted by the Committee.

### Performance of the Committee

- Awareness of the Myners principles and the need to set targets for the Committee to report against them.

### Performance of support services

- Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.

## **5. Financial Markets and Products Knowledge**

### Investment Strategy

- Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property).

- Understanding of the role of these asset classes in long-term pension fund investing.

#### Financial markets

- Understanding of the primary importance of the investment strategy decision.
- A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.
- An awareness of the limits placed by regulation on the investment activities of local government pension funds

### **6. Actuarial Methods, Standards and Practices**

#### Valuations

- Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.
- Awareness of the importance of monitoring early and ill health retirement strain costs.
- A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.

#### Outsourcing

- A general awareness of the relevant considerations in relation to outsourcing and bulk transfers

**Worcestershire Pension Fund Proposed Training Policy for the Pension Committee, Pension Investment Sub Committee and Local Pension Board 2020 – 2023**

**Introduction**

Worcestershire County Council, as the administering authority for the Worcestershire Pension Fund, has adopted a recommendation from CIPFA on knowledge and skills.

This states:

- The Council has adopted the key recommendations of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.
- The Council recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.
- Accordingly, the Council requires the Pensions Committee, Pension Investment Sub Committee and the Local Pension Board to ensure that they have formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the Local Government Pension Scheme finance knowledge and skills for those responsible for financial administration and decision-making.
- These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
- The Pensions Committee, Pension Investment Sub Committee and the Local Pension Board will report on an annual basis how these policies have been put into practice throughout the financial year.
- The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Council's CFO, who will act in accordance with the Council's practices and, where he/she is a CIPFA member, with CIPFA Standards of Professional Practice.

The Pensions Committee and Pension Investment Sub Committee has adopted the CIPFA Knowledge and Skills Framework for Elected Representatives and Non-Executives in the Public Sector as the basis of its approach to training.

The Local Pension Board has adopted the CIPFA Pensions Panel Technical Knowledge and Skills Framework for Local Pension Boards as the basis of its approach to training.

The Myners Review recommended that there should be a legal requirement that where trustees are taking a decision, they should be able to take it with the skill and care of someone familiar with the issues concerned.

Investment Principle 1 concerns “Effective Decision Making”. As adapted for the Local Government Pension Scheme, it states:

- “Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.”

The recommendations from the Myners Review were taken forward by the Pensions Act 2004, which the Fund has followed as best practice.

The Training Policy and Programme takes account of the training requirements set out in the Pensions Regulator’s Code of Practice Number 14 on the Governance and Administration of Public Sector Pension Schemes that took effect from April 2015.

The Training Policy and Programme takes account of the ongoing specific requirements of the Pension Committee and the Local Pensions Board.

### **Delivery of Training**

The training programme is based around training seminars being run throughout the year, with a minimum of four. Each lasting up to half a day minimum.

In addition to the seminars, extra half or one day sessions are arranged, as required.

The investment managers, the Investment Advisor and the Actuary assist with training. They offer their own training seminars and provide speakers for the training programme.

Training seminars and conferences that are offered by industry wide bodies are attended.

Committee and Board Members are encouraged to use the Pensions Regulator’s on-line training resource that assists those involved with the public-sector pension schemes.

Members receive mailings of relevant publications.

The Fund’s Officers are available to assist with each Member’s individual training requirements.

### **Training for New Members**

A new Member is invited to attend a briefing session with the Head of Pensions. This session can include an assessment of the individual training needs.

In house induction sessions are available as required.

A new Member may also attend induction courses that are offered by the Fund's investment managers.

### **Additional Training for the Investment Sub Committee**

Six Committee Members, including the Chair and Vice Chair of the Committee, sit on the Investment Panel. The Panel carries out detailed monitoring of the investment management strategy and structure and of the performance of the individual managers. It makes recommendations to the Committee on changes to the structure. Additional training is arranged for the Members who sit on the Sub Committee.

The additional training is also provided in recognition of the more onerous roles of Chair and Vice Chair of the Committee.

### **Additional Training for the Chair and Vice Chair of the Local Pension Board**

The Chair and Vice Chair of the Board attend additional training in recognition of the more onerous roles of Chair and Vice Chair of the Board.

### **Monitoring and Reporting of Training**

Members assess their own training needs against the programme that is available.

A log is maintained of training offered and undertaken.

A report on training is included in the Fund's Annual report and Accounts.

### **Arrangements for Review of the Policy and Programme**

The Policy is reviewed and updated at least annually.

The Committee, Pension Investment Sub Committee and Board review the content and delivery of the training programme at each quarterly meeting.

**2020 Worcestershire Pension Fund Training Needs Questionnaire**

**Name:**

On a scale from 1 to 5 where:

**1** = No knowledge

**2** = Limited knowledge and understanding

**3** = Basic understanding

**4** = Broad ability to comprehend and apply knowledge

**5** = Sound understanding and ability to ask challenging questions

<b>No</b>	<b>Area of knowledge</b>	<b>1 to 5</b>
<b>1.0</b>	<b>Pensions Legislation</b>	
1.1	A general understanding of the pension's legislative framework in the UK.	
1.2	An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.	
1.3	An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	
1.4	A regularly updated appreciation of the latest changes to the scheme rules.	
<b>2.0</b>	<b>Pension Governance</b>	
2.1	Knowledge of the role of the administering authority in relation to the LGPS.	
2.2	An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.	
2.3	Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.	
2.4	Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.	
2.5	Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.	
2.6	Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.	
2.7	A detailed knowledge of the duties and responsibilities of pension board members.	
2.8	Knowledge of the stakeholders of the pension fund and the nature of their interests.	
2.9	Knowledge of consultation, communication and involvement options relevant to the stakeholders.	

No	Area of knowledge	1 to 5
2.10	Knowledge of how pension fund management risk is monitored and managed.	
2.11	Understanding of how conflicts of interest are identified and managed.	
2.12	Understanding of how breaches in law are reported.	
<b>3.0</b>	<b>Pension Administration</b>	
3.1	An understanding of best practice in pension's administration, e.g. performance and cost measures.	
3.2	An understanding of the required and adopted scheme policies and procedures relating to: <ul style="list-style-type: none"> <li>• Member data maintenance and record-keeping processes</li> <li>• Internal dispute resolution</li> <li>• Contributions collection</li> <li>• Scheme communications and materials</li> </ul>	
3.3	Knowledge of how discretionary powers operate.	
3.4	Knowledge of the pension's administration strategy and delivery (including, where applicable, the use of third-party suppliers, their selection, performance management and assurance processes).	
3.5	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.	
3.6	An understanding of what additional voluntary contribution arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.	
<b>4.0</b>	<b>Pensions Accounting &amp; Auditing standards</b>	
4.1	Understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.	
4.2	Understanding of the role of both internal and external audit in the governance and assurance process	
4.3	An understanding of the role played by third party assurance providers.	
<b>5.0</b>	<b>Pensions services procurement and relationship management</b>	
5.1	Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.	
5.2	A general understanding of the main public procurement requirements of UK and EU legislation.	
	Understanding of the nature and scope of risks for the pension	



<b>No</b>	<b>Area of knowledge</b>	<b>1 to 5</b>
5.3	fund and of the importance of considering risk factors when selecting third parties.	
5.4	An understanding of how the pension fund monitors and manages the performance of their outsourced providers.	
<b>6.0</b>	<b>Investment performance and risk management</b>	
6.1	Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.	
6.2	Awareness of the Myners principles of performance management and the approach adopted by the administering authority.	
6.3	Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	
<b>7.0</b>	<b>Financial markets and products knowledge</b>	
7.1	Understanding of the risk and return characteristics of the main asset classes (equities, bonds, property).	
7.2	Understanding of the role of these asset classes in long-term pension fund investing.	
7.3	Understanding of the primary importance of the fund's statement of investment principles and the investment strategy decision.	
7.4	A broad understanding of the workings of the financial markets and of the investment vehicles available to the pensions fund and the nature of the associated risk.	
7.5	An understanding of the limits placed by regulation on the investment activities of local government pension funds.	
7.6	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.	
<b>8.0</b>	<b>Actuarial methods, standards and practices</b>	
8.1	A general understanding of the role of the fund actuary.	
8.2	Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.	
8.3	Awareness of the importance of monitoring early and ill health retirement strain costs.	
8.4	A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.	
8.5	A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.	
8.6	A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.	

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**Worcestershire Pension Fund**

**Appendix 4**

**Proposed training programme for Pensions Committee, Investment Sub Committee & Pension Board members**

<b><u>Training Topics</u></b>	<b>04/02/2020</b>	<b>03/04/2020</b>	<b>16/06/2020</b>	<b>05/10/2020</b>	<b>Jan 2021</b>	<b>Apr 2021</b>
<b><u>Investments</u></b>						
1	Investment pooling (including transition of assets)			Y		
2	An overview of the main asset classes e.g. equities, bonds, private equity, trade finance, global property, infrastructure (including asset allocation)		Y			
3	Equities (including sustainable equities)				Y	
4	Fixed Income (Private Debt, Bonds etc.)			Y		
5	Alternatives (Property & Infrastructure)				Y	
6	Alternative Indexation		Y			
7	China; a new horizon		Y			
8	Financial Markets	Y				
9	De risking of the Investment Strategy				Y	
10	Responsible Investment (ESG)	Y				Y
11	The Investment Regulations			Y		
12	Performance and risk management of a pension fund (PEL & CEM Benchmarking)		Y			Y
<b><u>Administration and Governance</u></b>						
13	Guaranteed Minimum Pension (GMP)			Y		
14	The role of the Pensions Regulator		Y			
15	Covenant Monitoring		Y			
16	Data protection / personal data retention policy	Y				
17	Actuarial valuations, Triennial Review, Funding Strategy Statement and Employer Risk Framework					Y
18	Administrative processes and Lifecycle (Part one and Two) See below for topics (including an overview)		Y	Y	Y	
19	Demonstration of website developments and an introduction to possible future digital developments	Y				
20	knowledge of the duties and responsibilities of committee members & Role of Trustee	Y				
21	Data quality			Y		
22	Pension accounting and audit requirements		Y			
23	Corporate Governance and Good Governance		Y			

**Proposed training programme for Pensions Committee, Investment Sub Committee & Pension Board members**

<b>Training Topics</b>	<b>04/02/2020</b>	<b>03/04/2020</b>	<b>16/06/2020</b>	<b>05/10/2020</b>	<b>Jan 2021</b>	<b>Apr 2021</b>
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**Administration Lifecycle**

- Employers
  - Membership
  - Leavers (refunds / opt outs, deaths, becoming deferred and retiring, splitting retiring into ill health / redundancy / voluntary / flexible)
- Transfers in and Out (including changing climate for members seeking redress)

<b>Part One</b>	<b>Part Two</b>	<b>Part three</b>
<b>16/06/2020</b>	<b>05/10/2020</b>	<b>Jan-21</b>
Y		
Y		
	Y	
Y		
	Y	
	Y	
		Y
		Y
		Y
		Y

**Additional Voluntary Contributions (AVC) and Additional Pension Contributions (APC)**

**Nominations**

**Divorce**

**Decisions and Appeals (IDRP) & The Pensions Ombudsman**

**The starters process**

**How we interface with HMRC**

## Training Evaluation Form

**Title of event:** Pensions Admin & Investment Training

**Date of event:** 31<sup>st</sup> January 2020

**Location of event:** Council Chamber, County Hall, Worcestershire

**Trainers:** Karen Shackleton from Pensions for Purpose - *Journey of how funds move from traditional to responsible, then to sustainable and impact driven investment approaches*

<b>Instructions:</b> Please tick your level of agreement with the statements listed below	Strongly Agree	Agree	Disagree	Strongly Disagree	Not relevant to this event
1. The objectives of the training were met	13	1			
2. The presenters were engaging	14				
3. The presentation materials were relevant	14				
4. The content of the course was organised and easy to follow	10	3			
5. The trainers were well prepared and able to answer any questions	13	1			
6. The course length was appropriate	9	5			
7. The pace of the course was appropriate to the content and attendees	10	4			
8. The exercises/role play were helpful and relevant	N/A	N/A	N/A	N/A	N/A
9. The venue was appropriate for the event	8	6			
10. Will you be able to use this training to help in your Committee / Board duties?	10	4			

10. What was most useful?

The presentation was short to the point and very well delivered

The presenter knew her topic and the delivery was engaging

Karen was very good at explaining simply the concept of Responsible Investments and I found the training very helpful in increasing my understanding of the subject. It was good to hear that RI is really on lots of people's radar now.

11. What was least useful?

nothing

12. What else would you like to see included in this event? Are there any other topics that you would like to be offered training courses in?

13. Would you recommend this course to colleagues? Yes/No Why?

Yes

Yes – for the reasons given above.

14. Any other comments?

Thanks to Karen for the training and to Rob and your colleagues for organising it.

**THANK YOU FOR COMPLETING THIS EVALUATION FORM. FEEDBACK RECEIVED WILL BE USED TO PROVIDE IMPROVEMENTS TO FUTURE EVENTS.**

**EVALUATION FORMS SHOULD BE HANDED TO THE TRAINERS AT THE END OF THE EVENT. ALTERNATIVELY FORMS CAN BE SUBMITTED TO**  
[RWilson2@worcestershire.gov.uk](mailto:RWilson2@worcestershire.gov.uk)

## Training Evaluation Form

**Title of event: Pensions Admin & Investment Training**

**Date of event: 4<sup>th</sup> February 2020**

**Location of event: Council Chamber, County Hall, Worcestershire**

**Trainers: Valborg Lie LGPS Central Stewardship Manager and Chris Frohlich WPF Engagement Manager**

<b>Instructions:</b> Please tick your level of agreement with the statements listed below	Strongly Agree	Agree	Disagree	Strongly Disagree	Not relevant to this event
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<b>Instructions:</b> Please tick your level of agreement with the statements listed below	Strongly Agree	Agree	Disagree	Strongly Disagree	Not relevant to this event
1. The objectives of the training were met	3	8			
2. The presenters were engaging	7	4			
3. The presentation materials were relevant	4	7			
4. The content of the course was organised and easy to follow	4	7			
5. The trainers were well prepared and able to answer any questions	10	1			
6. The course length was appropriate	9	2			
7. The pace of the course was appropriate to the content and attendees	6	5			
8. The exercises/role play were helpful and relevant	N/A	N/A	N/A	N/A	N/A
9. The venue was appropriate for the event	7	4			
10. Will you be able to use this training to help in your Committee / Board duties?	5	6			

10. What was most useful?

- Engagement process and journey of WPF to improve and remain relevant to changing workforce and IT provision. More relevant to my jobs role.
- Update on Carbon / Green issues
- Chris signposting to webpage
- Raising Engagement awareness
- Honesty
- RI developments from Valborg very informative
- Engagement of LGPS Central with companies on ESG matters.
- ESG/ RI filled knowledge gap. Engagement session informative and looking forward to our digital infrastructure. It will be an interesting transition
- The RI part was the most interesting and relevant to me as a councillor
- The information on the increasing importance of ESG and RI. It is good to know that this is really moving forwards. It will be interesting to see the ESG audit for WPF and the outcome of the Spectrum of capital vote

11. What was least useful?

In depth knowledge of the investment strategy around environmental issues. Found it slightly above my range of understanding

12. What else would you like to see included in this event? Are there any other topics that you would like to be offered training courses in?

- Continue existing depth
- Impact re Carbon Neutral
- Well structure and interesting
- Spectrum of Capital Aim to move as far to the right as possible and focus on impact driven investments e.g. 5

13. Would you recommend this course to colleagues? Yes Why?

Very informative and good split between investments and admin

14. Any other comments?

ESG Impact investing etc. Still a very confusing space. Guidance in this still very much required

**THANK YOU FOR COMPLETING THIS EVALUATION FORM. FEEDBACK RECEIVED WILL BE USED TO PROVIDE IMPROVEMENTS TO FUTURE EVENTS.**

**EVALUATION FORMS SHOULD BE HANDED TO THE TRAINERS AT THE END OF THE EVENT. ALTERNATIVELY FORMS CAN BE SUBMITTED TO**

[RWilson2@worcestershire.gov.uk](mailto:RWilson2@worcestershire.gov.uk)



**PENSIONS COMMITTEE**  
**17 MARCH 2020****FORWARD PLAN**

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**Recommendation**

1. **The Chief Financial Officer recommends that the 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

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

Tel: 01905 846908

Email: [RWilson2@worcestershire.gov.uk](mailto: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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## Pensions Committee Proposed Forward Plan

Appendix

<b>Pension committee Items</b>	<b>13/12/2019</b>	<b>31/01/2020</b>	<b>17/03/2020</b>	<b>26/06/2020</b>	<b>09/10/2020</b>
LGPS Central Update	Y		Y	Y	Y
LGPS Central Budget and Strategic Business Plan		Y	Y		
Pension investment Update	Y		Y	Y	Y
Pension Key Performance Indicators (Within Business Plan Report)	➔	Y	Y	Y	Y
Pension fund Unaudited Annual Report				Y	
Pensions Final External Audit Report on Annual Report					Y
Pension fund administration Budget Approval			Y		
Pension fund administration Budget Monitoring			Y		Y
Government Actuary Dept (GAD) review update					Y
Members Training update	Y		Y	Y	Y
Investment Strategy Statement update			Y		
Strategic Asset Allocation Review	Y				
Administrative Authority update	➔	Y	Y	Y	Y
Equity Protection update			Y		
Risk Register	Y		Y	Y	Y
Actuarial Valuation and Funding Strategy Statement	Y				
Business Plan and Business Plan Monitoring	➔	Y	Y	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
Governance and Investment Advisors objectives	Y				
Stewardship Code Compliance Statement	➔	Y			
Pensions Committee & Investment advisory Panel terms of Reference			Y		
Admin Strategy (Flows into Business Plan where actions are)			Y		

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