worcestershire countycouncil

Pensions Committee
Friday, 26 June 2020, Online only - 10.00 am

		Minutes
Present:		Mr P Middlebrough (Chairman), Mr V Allison, Ms T Fagan, Mr A I Hardman and Mr R C Lunn
Available papers		The members had before them: A. The Agenda papers (previously circulated); and B. The Minutes of the meeting held on 17 March 2020 (previously circulated).
243	**Named Substitutes (Agenda item 1)**	None.
244	**Apologies/ Declarations of Interest (Agenda item 2)**	Apologies were received from Mr R W Banks, Ms D Morris and Mr P A Tuthill.
245	**Public Participation (Agenda item 3)**	None.
246	**Confirmation of Minutes (Agenda item 4)**	**RESOLVED that the Minutes of the meeting held on 17 March 2020 be confirmed as a correct record and signed by the Chairman.**
247	**Pension Board and Pension Investment Sub-Committee Minutes (Agenda item 5)**	The Committee considered the Pension Board and Pension Investment Sub-Committee Minutes. Simon Lewis, Committee Officer informed the Committee that there had been no meetings of the Pension Board since the last meeting and therefore there were no Minutes for the Committee to review. **RESOLVED that the Minutes of Pension Investment Sub-Committee be noted.**
248	**Local Government**	The Committee received a Local Government Pension Scheme (LGPS) Central Update.

Pension Scheme (LGPS) Central Update (Agenda item 6)

In the ensuing debate, the following points were raised:

- Rob Wilson indicated that there had been no further planned transitions of assets to LGPS Central. An agreement in principle had been reached with LGPS Central over their budget for next year. There had been changes at the top level of the organisation, notably Mike Marshall leaving his position as Head of Responsible Investment as well as the Chief Investment Officer being replaced internally. An appointment had yet to be made to the Head of Private Markets. A remote Responsible Investment Conference would take place on 3 July
- It was queried whether the structure of future budgets had been agreed with LGPS Central because if there was a formula in place, efforts could be focused on whether the company's budgetary expectations were realistic or not? Rob Wilson responded that the budget had been agreed in totality. There remained a number of areas that still needed to be resolved including the cost-sharing basis. The budget had been agreed based on last year's budget plus inflation and represented more of a position statement at this stage. The basis of what could be delivered from that budget in terms of product delivery etc had also been determined. Negotiations were being led by the Chief Financial Officer at Cheshire West and Cheshire Council on behalf of the partner funds
- There needed to be more incisive work at an early stage in the budget-setting process. Other issues needed to be taken into account including an understanding of the staffing issues and the impact of the location of offices
- In response to a query, Rob Wilson indicated that Mike Marshall was leaving LGPS Central and a regular meeting with the Chief Executive of LGPS Central had been arranged for next week to discuss a range of issues including this. Philip Hebson added that Mike Marshall was well-regarded by partner funds and was therefore a loss to the organisation
- What were the risks to the Fund as a result of the staffing issues in LGPS Central especially given the volatility of markets at present? Rob Wilson responded that staffing was a risk Pension Fund that officers continually watched and sought to discuss with the company. Discussions continued with LGPS Central regarding performance but the

overall company position had been highlighted as a risk in need of further review and officers would keep the Committee updated

- The Committee's concerns about risks to the Fund of the top level staff turnover at LGPS Central, particularly in the circumstances of a volatile market place should be raised at the next meeting with the Chair and Chief Executive of LGPS Central. Michael Hudson responded that LGPS Central had asked to meet representatives of the Fund and this would be arranged outside the formal Committee setting to include the Chairman of the Committee.

RESOLVED: that the LGPS Central Update be noted.

249 Pension Fund Unaudited Annual Report and Accounts 2019/20 (Agenda item 7)

The Committee considered the Pension Fund Unaudited Annual Report and Accounts 2019/20.

In the ensuing debate the following points were made:

- Rob Wilson confirmed that the Annual Report would be reported to the September Committee meeting. Grant Thornton was currently auditing the Pension Fund accounts. They had indicated that in the present circumstances, the process was taking longer to complete than usual. There had been a decrease in the total asset value of the Fund by £160m as a result of the impact of Covid-19 on valuations. There had been a 7% increase in contributions. An overall surplus of £9m had been reported for the last financial year. If the accounts were signed off by the external auditor on time, the final accounts would be reported to this Committee in September
- Although a small operating surplus had been recorded, profitability had declined, but given the recent market volatility it was a reasonable outcome for the Fund.

RESOLVED: that the unaudited Pension Fund Accounts 2019/20 be approved.

250 Pension Investment Update (Agenda item 8)

The Committee received a Pension Investment Update.

In the ensuing debate, the following points were made:

- Philip Hebson commented that against the backdrop of the recent market turbulence the

Pension Fund had recorded overall performance of 3% ahead of the benchmark over the year to the end of March 2020 and 3.6% in the last quarter. There was an element of caution in that the Fund had fallen in value and the out-performance of the Fund was largely driven by the Equity Protection Strategy (EPS). However, there were quarters where there had been a substantial increase in the value of the Fund which was good news but the EPS provided a drag against benchmark performance. It did indicate that the benchmarking mechanics were not working effectively to show the true health of the Fund. Bespoke benchmarks worked well for certain investment classes eg Equities but were not so effective for alternatives such as Property and Infrastructure. It was an issue that would be raised with PEL along with LGPS Central and River & Mercantile, to see if a more appropriate method of performance measurement was available

- The current success of the performance of the Fund largely related to actions taken before Covid-19. It was therefore important to build resilience and protect the Fund's funding position in the event of a second wave of the pandemic or any other environmental issues
- There did seem to be a degree of slowness in investing in infrastructure and the Fund did rely heavily on equity investment which was riskier albeit the Fund was benefiting from the alternative benchmarked passive investments. Philip Hebson commented that a useful appropriate and understandable approach for monitoring property and infrastructure investments had yet to be determined. The speed of deployment was also an issue that would be taken up with LGPS Central so that any investments that come forward have to be quick to draw down
- Was there anything coming out of the Climate Risk Monitoring Report and ESG Audit Report that would feed into the benchmark arrangements? Philip Hebson responded that it mainly depended on the actions that the Fund decided to take on investment options
- Philip Hebson confirmed that the last element of the transition of Corporate Bond to LGPS Central had now been completed. He anticipated that the transition costs would take 7 years to break-even on the reduced costs. It was therefore important for this sub-fund to outperform the market to enable the break-even point to be reached sooner

- Rob Wilson updated members on the latest funding position. In March 2019, the Fund was 90% funded but by March 2020 it had fallen to 81%. It was surprising how quickly the market had bounced back because by May 2020, it was 88% funded compared to liabilities
- Was the market growth an ongoing trend or had the Fund's performance been masked by impact of the Equity Protection Strategy? Rob Wilson explained that the positive performance of the Fund was partly as a result of the positive performance of the equity market but also due to increased diversification into other markets as well as from the impact of the Equity Protection Strategy. He added a note of caution that performance had plateaued out in June and the Strategy was due to expire at the end of August
- In addition to post balance sheet events, there was also the question of re-evaluation because employer contributions were based on a significantly better position that it was now. Rob Wilson responded that conversations had taken place with the actuary and a robust evaluation at year end would be undertaken. Given the bounce back in the market since and the fund being 88% funded in June 2020, it did not seem likely that a re-evaluation was necessary. In addition, the actuary had advised in the comments in the Accounts that in the present circumstances it might be better to pause and reflect
- What was the timeframe for the development of the Climate Risk Monitoring Platform (CRMP)? Rob Wilson responded that the LGPS Central report was expected by the end of September. A small working group would be established to look at the draft report in conjunction with the ESG audit report would then be reported to the December Committee. The CRMP should provide the Fund a number of scenarios on the impact of climate change and investment in sustainable assets. Philip Hebson added a caveat that the departure of Michael Marshall from LGPS Central might have an impact on the timeframe for that report
- Would there be an opportunity to look at investment in localised renewable energy opportunities to build resilience at a local level? In response the Chairman suggested Toni Fagan be included in the working group to develop the Climate Risk Monitoring platform. Toni Fagan welcomed being involved in the group. It was

agreed that the working group consist of no more than 3 members

- Rob Wilson commented that the Equity Protection Strategy had de-activated its investment in the FTSE Mandate when it reached the trigger point at the bottom end of the protection cap and the resultant savings of £27m had been reinvested in the UK Passive portfolio. The protection was still in place for the S&P and Eurostox markets. Discussions were ongoing with River and Mercantile with a view to continue the Strategy or take a more selective approach to applying the Strategy
- In response to a query, Rob Wilson confirmed that delegated powers were in place to make any necessary changes to the profile of the Equity Protection Strategy
- Rob Wilson indicated that at present, the Fund had a higher exposure to the Equity markets compared to the targets set out in the Strategic Asset Allocation.

RESOLVED: 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 Sub Committee be noted;

c) The update on the transition of the Active Corporate Bonds mandate into the LGPS 'Global active Investment Grade Corporate Bond Fund be noted;

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

e) The update on the Equity Protection current static strategy be noted;

f) The update on Responsible Investment activities (Appendix 3) and Stewardship investment pooling and the Stewardship Code be noted;

g) The update on the LGPS Central report on the voting undertaken on the Funds behalf be noted (Appendices 4 to 6);

h) The update on the development of a Climate Risk Monitoring report and the proposed Environment Social and Governance (ESG) Audit be noted and the timeline and process specified below be agreed:

i. Receipt of draft report Late September;
ii. Set up a small working group of no more than 3 Members and Officers to review October to Mid November; and
iii. Final report with recommendations to Committee in December 2020.

251 Risk Register (Agenda item 9)

The Committee considered the Risk Register.

In the ensuing debate, the following points were raised:

- Bridget Clark reported that to date, there had been no increase in the number of reported deaths of fund members as a result of the recent pandemic but these figures would be kept under review. A questionnaire was being developed for the Fund team staff which would be issued next week. The information from the questionnaire would be used to help develop a training and development programme
- it was queried whether employers had expressed any concerns about cashflow as a result of the pandemic. Bridget Clark commented that this specific question had not been asked of employers but the monthly Newsletter asked employers if they have any concerns and no issues had been raised.

RESOLVED that the May 2020 Worcestershire Pension Fund Risk Register be noted.

252 Business Plan (Agenda item 10)

The Committee considered the Business Plan.

In the ensuing debate, the following points were made:

- Bridget Clark indicated that ITM had notified the fund of a further HMRC delay in the provision of their final data extracts which meant the timetable for GMP rectification in September could not be achieved and a new rectification date had been set by January 2021. The data set would be brought to the September Committee for review
- In response to a query about the write-off procedure and the realistic chance of the Fund

getting its money back, Bridget Clark indicated that the write-off procedure for pension overpayments was the responsibility of the Pensions Manager unless the amount was of high value in which case, it would be referred to the Chief Financial Officer. The relevant family would be contacted with a view to retrieving the payment. If repayment was not achieved, a review would take place and dependent on the amount, write-off would be considered. The service was proactive in chasing repayments hence the relatively low level recorded

- As the contract for Mercers to act as the Fund's actuary was due to expire shortly, would an employer representative be involved in the process for the appointment of the next actuary? Bridget Clark advised that the Fund followed the usual procurement guidance for the appointment of the actuary. There remained the option to extend the existing contract. If that was not possible then a full tendering exercise would be initiated. She would review the membership of the project group looking at the appointment of the Fund's actuary but stressed that the process was at a very early stage
- Mercers had been acting as the Fund's actuary for some time now and it would be beneficial at some point for the Fund to look at the options available in the market place to find the most appropriate actuary for the Fund's requirements
- Michael Hudson commented that there were a number of risks associated with the appointment of the Fund's actuary not least Covid-19. All these issues would be considered and he would report back on the appointment process to Committee in September.

RESOLVED that the Worcestershire Pension Fund Business Plan as at May 2020 and the Administering Authority update be noted.

253 Internal Audit Plan and Pensions Administration Internal Audit Report (Agenda item 11)

The Committee considered the Internal Audit Plan and Pensions Administration Internal Audit Report.

In the ensuing debate, the following point was made:

- With most of the Council's staff working from home, was Internal Audit reviewing staff working patterns and establishing how long this way of working would continue and when staff would be brought back to County Hall? Rob Wilson

commented that the Strategic Leadership Team were monitoring the situation closely. A relevant risk had been included in the Risk Register and Internal Audit fed into that process. Bridget Clark added that the Health and Safety team and facilities management had put in a considerable amount of work to ensure that county buildings complied with Government advice and regulations. The Council's assessment at present was that staff should work from home unless there was a business need to be in the office with the exception of staff who had been assessed as vulnerable. However, Government advice was evolving rapidly.

RESOLVED that the Internal Audit Plan and the audit of Pensions Administration be noted.

254 Training Update (Agenda item 12)

The Committee received a training update.

In the ensuing debate, the following points were made:

- Rob Wilson indicated that in the current circumstances, more regular, shorter training sessions were being arranged. As soon as things returned to normal, training would go back to its quarterly extended training programme. One-to-one training would be available for members should they require it
- It was important that all members continued to attend the requisite training sessions
- A plea was made that consideration be given to holding training events online because it was easier for members who worked to attend as well as being good for the environment.

RESOLVED: that

a) The feedback on the self-assessment questionnaires that were agreed at the March Committee be noted;

b) The feedback from the Investment Beliefs workshop on the 22 May 2020 be noted; and

c) The proposed training events plan for the next year up until April 2021 set out in Appendix 2 be agreed.

255 Forward Plan

The Committee considered its Forward Plan.

(Agenda item 13)	**RESOLVED that the Forward Plan be noted.**

The meeting ended at 11.30am.

Chairman …….