worcestershire countycouncil

Pensions Committee
Friday, 9 October 2020, Online only - 10.00 am

Minutes

Present:

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

Available papers

The members had before them:

A. The Agenda papers (previously circulated); and

B. The Minutes of the meeting held on 26 June 2020 (previously circulated).

256 Named Substitutes (Agenda item 1)

None.

257 Apologies/ Declarations of Interest (Agenda item 2)

Apologies were received from Ms T Fagan and Mr R Phillips (as Chairman of the Pension Board).

258 Public Participation (Agenda item 3)

None.

259 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 26 June 2020 be confirmed as correct record and signed by the Chairman.

260 Pension Board and Pension Investment Sub-Committee Minutes (Agenda item 5)

The Committee considered the Pension Board and Pension Investment Sub-Committee Minutes.

In the ensuing debate, the following point was raised:

- The creation of sub-groups from within the Board to examine elements of the Business Plan and Risk Register was a good idea. The only concern would be the resource implications of servicing those sub-groups. Rob Wilson responded that it was anticipated that time-limited task and finish groups would be established to look at elements of the Business Plan and Risk Register. Bridget Clark added that it was important for Board

members to have the detailed information to fully understand the Pension Fund issues to enable them to provide the necessary level of support and challenge to the Committee. It was more a question of confidence-building and was not anticipated to be resource intensive.

Questions were raised about matters in the exempt section of the Pension Investment Sub-Committee Minutes. On the advice of the Committee Officer, the Committee agreed to exclude the public and press to answer the particular queries. Set out below is the summary of the proceedings of the meeting during which the press and public were excluded. There is no exempt Minute.

- Concern was expressed about the performance of a particular investment Fund Manager within the LGPS Central Active Emerging Markets portfolio that the fund was invested in. Philip Hebson advised that LGPS Central were aware of the poor performance of the particular Fund Manager and were closely scrutinising their performance. This Fund had argued the case with LGPS Central to be able to speak directly to individual investment managers rather than receive LGPS Central's take on their performance. LGPS Central had set up an open day for funds to be able to speak to a number of their investment managers
- What view was taken regarding the assertion by representatives of LGPS Central that 2-3 managers was the maximum number of investment managers that would be effective within a portfolio? Philip Hebson responded that LGPS Central seemed to have settled on a 3-investment manager model on the basis that it provided a reasonable diversification of investment style. This Fund had always had a higher appetite for risk than some other Funds within LGPS Central and therefore had not used the multiple manager model in the past (apart from two managers for the Emerging Market allocation). Other funds took a different approach and part of LGPS Central's responsibility was to establish a consensus approach.

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

261 LGPS Central

The Committee considered the LGPS Central update.

Update (Agenda item 6)

In the ensuing debate, the following points were raised:

- Rob Wilson indicated that the Committee would be kept updated on the progress of the appointment to the position of Director for Responsible Investment and Engagement at LGPS Central
- Had the location of offices in Matlock and Wolverhampton had an impact on recruitment at LGPS Central? The Chairman indicated that at a recent LGPS Central general meeting, it was disclosed that the offices at Wolverhampton were being leased and there was concern expressed by some fund members about the approach being taken to find new accommodation. It should also be borne in mind that any change in location would have implications for LGPS Central staff. Rob Wilson added that future location options were due to be reported to the Practitioners Advisory Forum (PAF) on 5 November and would then be reported back to this Committee
- Although the Government had indicated that pooling arrangements would continue, they had also suggested that there would be changes to the process. Did this imply that an element of competition would be opened up between the pools? Rob Wilson commented that feedback was awaited on a recent Government consultation but apart from the continuation of pooling, no further information had been made available. Philip Hebson added that the Government consultation had been legally challenged on the basis that it had been incorrectly carried out and therefore should be declared null and void. As a result, the consultation would need to be rerun correctly. There was always the underlying threat from the Government that if pooling did not work then the LGPS funds could be merged into one unfunded scheme
- In response to a concern about the late realisation by LGPS Central about the need to keep costs within the base budget, Rob Wilson commented that this principal should have been implicit in the company from the outset but unfortunately partner funds had had to press home this message
- In relation to a query about the factors that were blocking the delivery of the pooling arrangements, Rob Wilson indicated that issues had arisen around the delivery agreement process amongst partner funds, how LGPS Central operated in delivering products and ensuring LGPS Central

understood partner funds governance arrangements. The aim was to examine these blockages to make the company more efficient and effective going forward
- The Chairman recognised the valuable but difficult work undertaken by Rob Wilson on behalf of the Fund in liaising with both partner funds and LGPS Central, especially in his current role as Chairman of PAF.

RESOLVED: that the LGPS Central Update be noted.

262 Pension Investment Update (Agenda item 7)

The Committee considered the Pension Investment update.

In the ensuing debate, the following points were raised:

- Philip Hebson commented that there had been a bounce back in the performance of the equity markets in Quarter 2, following the falls experienced post Covid 19 in Quarter 1. The market recovery had been aided by the quantitative easing measures introduced by the Government. It was too early at this stage to get a realistic valuation of the property and infrastructure portfolio. Performance in Quarter 3 indicated that the US markets had recovered better than the UK and European markets but it should be noted that the US market was made up of different indices to the other markets
- In response to a query, Philip Hebson confirmed that the UK indices were not reflective of the range and performance of UK PLCs, with a significant weighting towards oil and mining etc
- Philip Hebson indicated that fortnightly update meetings were held with representatives of River and Mercantile to discuss the Equity Protection Strategy. The performance of the US markets sat within the parameters of the range set out in the Strategy. Europe and the UK indices were close to the point where downside protection would need to be activated. However, these indices were set within a tighter range and it was expected that there would be a further movement either upwards or downwards within these markets. At present, the Strategy was providing the expected levels of protection
- It was queried why the duration of the Equity Protection for the UK market had not been extended to 18 months similar to the European

market. Philip Hebson advised that attempts had been made to ensure that the Strategy fitted the Fund's underlying equity position. The issue was the longer the duration of the contract, the more expensive that protection became. In addition, given expected levels of volatility in the market, the Fund would be more comfortable with shorter contract periods

- Would a clear outcome of the US presidential election be beneficial to markets at least in the short term? Philip Hebson responded that there was a viewpoint that an outright win for Biden would be bad for the US markets but a Biden win with a Republican Congress would be positive. There appeared to be doubt about the possibility of a Trump victory. If there was a challenge to the outcome of the election then the uncertainty created would have a negative impact on markets, albeit in the short term
- Philip Hebson explained that conversations were being held with representatives of LGPS Central with a view to increasing the Fund's investment in property and Infrastructure. The outcome would be reported back to Committee with recommendations as to how investment would be moved forward
- Philip Hebson indicated that the funding level was currently at 91% which gave an indication that the Fund was in a relatively healthy position. The key issue for the Fund going forward was impact of the level of Government debt and the ability of the different sectors, or perhaps more specifically individual companies to recover economically from the economic crisis
- Rob Wilson explained that the Fund still had a high equity weighting compared to property and infrastructure investment. This reflected the positive equity market rebound over the last quarter whereas property and infrastructure had remained relatively stable based on valuations and the impact of Covid 19
- There was a danger of undertaking an overly critical attitude to the approach taken by companies to Responsible Investment without understanding other less overt environmental aspects of their business and recognising the success of that business. Philip Hebson commented that it was a case of carefully examining each individual company to get a full picture of their business approach because in many cases the ethical issues around

Responsible Investment were very nuanced

- In response to a query, Rob Wilson commented that by being part of the LAPFF Forum, the Fund was able to engage with companies as part of the collective LGPS Funds to influence behaviour. However, there was always a question mark about the effectiveness and robustness of engagement as opposed to the impact of disinvestment
- The Fund had committed itself to an engagement approach whether aggressive or soft so the Committee would await the outcome and recommendations of the ESG Audit working group on this matter.

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 funding position compared to the investment performance be noted;

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

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

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

g) The update on the development of a Climate Risk Monitoring report and the Environment Social and Governance (ESG) Audit procurement exercise be noted.

263 Business Plan (Agenda item 8)

The Committee considered the Business Plan.

In the ensuing debate, the following points were raised:

- Bridget Clark commented that the consultation on the McCloud Judgement had closed on 8 October and the Fund had responded accordingly. An

Administration Forum had been held to explain to employers what was required from them as a result of the recommendations from MHCLG. Employers would continue to be engaged on this matter. The amount of work and level of resources required to deliver this work was considerable

- The level of resources necessary to support the work associated with the McCloud Judgement were unknown and therefore a proportionate response was required at this stage. Bridget Clark indicated that the resource implications were being carefully monitored. In addition, there was a concern about future challenges from individuals who had been impacted as a result of not being in the Fund
- Bridget Clark explained that the Restriction to Public Sector Termination (known as exit cap) had now completed the parliamentary processes and ministerial sign off was awaited to establish the primary legislation. MHCLG had recently issued a consultation paper to support the Government legislation on exit caps which proposed radical changes to the way payments would be made when someone was released from employment on the grounds of redundancy or business efficiency where actuarial strain and/or a redundancy compensation payment was payable. As proposed individual members would be asked to make a contribution to the actuarial strain if they did not want any reduction on their pension payments in the future. This had an impact on members but also employers in terms of additional administrative input. The implementation of the changes would affect members on lower salaries who had longer service. Members would also be allowed to defer release of their pension when made redundant over the age of 55 which brought LGPS in line with other public sector funds. The consultation closed on 9 November and the Fund would respond accordingly. Resource implications were being examined
- In response to a query about the deferment of the receipt of the pension when a member was made redundant over the age of 55, Bridget Clark advised that under the proposals members would have the option of taking their full pension as at the date of termination but they would need to make a contribution to the actuarial strain. They could take a partial reduction and that might or might not require a contribution. They could take full reduction as advised by the Government

actuary or they could defer release of their pension benefits. If deferment was requested, at any point in the future they requested to receive their pension, the Government actuary had produced reduction tables to calculate the reduction from 46.3% to 0% dependent on how many years before their normal retirement age (NRA) the request was made

- A representative of the Employers side commented that the process for the introduction of the public sector exit cap had speeded up and was being introduced at a time when councils were facing a funding gap as a result of the costs associated with Covid 19. Councils were therefore looking at the possibility of restructuring arrangements to close this funding gap and as a result potentially increase redundancies. These legislative changes would therefore create additional administrative costs. There was concern about the misalignment between the primary legislation and the LGPS legislation and the impact this would have on the Fund's business plan. Although there would be some administrative savings for the Fund, there would be a barrage of concerns/enquiries from members who were closer to retirement. Employers would do all they could to help the Fund but communication was key going forward. Bridget Clark agreed that the impact of these changes should not be underestimated. The Fund would look to the LGA and SAG to provide clear guidance and templates to assist employees/members. She undertook to share the consultation response with Committee and Pension Board members.

RESOLVED that the Worcestershire Pension Fund Business Plan as at 7 September 2020 be noted.

264 Risk Register (Agenda item 9)

The Committee considered the Risk Register.

In the ensuing debate, the following points were raised:

- As more of the Fund's investments were filtered through LGPS Central, a primary risk to the Fund would be if LGPS Central were not performing at the level expected. Rob Wilson commented that it was not just the cost saving but also the performance of LGPS Central that was important. Philip Hebson added that there was a financial risk associated with any of the Fund's investment

managers failing to perform at any one time

- It was agreed that the Risk Reference WPF 08 be reviewed to make the risk associated with the failure of LGPS Central to meet its performance targets more explicit.

RESOLVED that the 7 September 2020 Worcestershire Pension Fund Risk Register be noted subject to a review of Risk Reference WPF 08 to make the risk associated with the failure of LGPS Central to meet its performance targets more explicit.

265 Pension Fund Audited Annual Report and Accounts 2019/20 (Agenda item 10)

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

In the ensuing debate, the following points were raised:

- Rob Wilson explained that it had not been possible to bring the Annual Report to this Committee meeting and therefore a report would be brought to the next meeting. The timeframe for the production of the Annual Report had been extended to the end of December due to the Covid 19 pandemic. The Audit and Governance Committee had not been able to sign off the Accounts at its meeting on 2 October 2020 because the Engagement Manager for Grant Thornton had been unable to attend the Committee meeting due to ill-health
- Officers were congratulated for their work in preparing the Accounts within the statutory deadline in difficult circumstances. Was it anticipated that the Accounts would be signed off by the external auditor by end of October? Rob Wilson responded that all the external auditor's queries had been addressed so there should not be any significant delay but the external auditor had indicated that the statutory deadline was the end of November
- The lack of progress made on signing off the Accounts since the Audit and Governance Committee meeting on 2 October was disappointing but it should be noted that there were no significant issues highlighted by the external auditor at that meeting
- Rob Wilson undertook to update members of the Committee on the progress in the signing off of the Accounts and the production of the Annual Report.

RESOLVED that the unaudited Statutory Financial Statements for the year ended 31 March 2020 be noted.

266 Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2020/21 (Agenda item 11)

The Committee considered the Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2020/21.

In the ensuing debate, the following point was raised:

- Rob Wilson indicated that the potential increase in administration costs of the McCloud Judgement and the £95K exit cap would need to be included in future Administration budgets once realistic forecasts were known.

RESOLVED that the variation to the Pension Fund Administration Budget, including manager fees, for 2020/21 shown in the Appendix to the report totalling £13,961,700 be noted.

267 Training Update (Agenda item 12)

The Committee considered the Training update.

In the ensuing debate, the following points were raised:

- Rob Wilson explained that due to the impact of Covid 19, more condensed training sessions were being arranged of no longer than an hour and a half. As a result, the number of topics that could be covered was restricted and therefore more sessions were required. The next training session had been arranged on the 10 November and would cover the topics such as the McCloud Judgement, the cap on exit payments and pension investment. He made a plea for members to attend as many training events as possible to help increase their knowledge and skills base
- Shorter hour and a half training sessions via the videoconferencing facility were welcomed especially when arranged in the afternoon.

RESOLVED: that

a) The feedback from the Induction training and specific training events that have been undertaken since the last Committee be noted; and

b) The proposed training events plan for the next year up until April 2021 be noted.

268	**Forward Plan (Agenda item 13)**	The Committee considered the Forward Plan. **RESOLVED that the Forward Plan be noted.**

The meeting ended at 11.40am.

Chairman …….