Worcestershire County Council

Agenda
Pension Board

Monday, 9 March 2020, 2.30 pm
County Hall, Worcester

DISCLOSING INTERESTS

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

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

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

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

WHAT MUST I DO WITH A DPI?

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

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

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

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

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

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

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

Not normally. You must withdraw only if it:

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

DON'T FORGET

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

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

Pension Board
Monday, 9 March 2020, 2.30 pm, County Hall, Worcester

Membership: **Employer Representatives**
Ms P Agar
Mr R J Phillips
Vacancy
Vacancy

Member Representatives
Mr P Ferrett
Mr S Howarth
Ms K Wright
Vacancy

Agenda

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1	**Election of Chairman** The Board Terms of Reference stipulate that the Chairman should be elected for a four-year period and be an Employer representative.	
2	**Appointment of Vice-Chairman** The Board Terms of Reference stipulate that the Vice-Chairman should be elected for a four-year period and be a Member representative.	
3	**Apologies**	
4	**Declarations of Interest**	
5	**Confirmation of Minutes** To confirm the Minutes of the meeting held on 27 September 2019 (previously circulated).	
6	**Good Governance and Fund Investment Advisor Objectives**	1 - 10
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Agenda produced and published by Sheena Jones, Democratic Governance and Scrutiny Manager (Interim Monitoring Officer), County Hall, Spetchley Road, Worcester WR5 2NP

To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer, on 01905 846621,

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Friday, 28 February 2020

worcestershire countycouncil

AGENDA ITEM 6

PENSION BOARD
9 MARCH 2020

GOOD GOVERNANCE AND FUND INVESTMENT ADVISOR OBJECTIVES

Recommendations

1. **The Chief Financial Officer recommends that the Pension Board consider and advise the Pensions Committee:**

   (a) on the Scheme Advisory Board 'Good Governance' review and Worcestershire Pension Fund 'Good Governance' position statement attached as Appendix 1;

   (b) on The Pension Regulator's governance reviews; and

   (c) on the objectives for the Fund's Investment Advisor.

Background and Purpose

2. The purpose of this report is to update the Pension Board on the outcomes of the 'Good Governance' reviews conducted by the Scheme Advisory Board (SAB) and The Pension Regulator (TPR). Also, an update is provided on the objectives for the Fund's investment adviser following a report earlier in 2019 by the Competition and Markets authority (CMA) which obliges pensions schemes to set objectives for their Investment consultancy (IC) and advisers.

3. Strong governance of the Fund has always been paramount, and with the financial pressures now faced by employers, 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.

4. Because of this level of inspection there were two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator looking at how to strengthen governance. This paper highlights the findings from those reviews and provides a current position statement for the Fund for consideration by the Board.

Scheme Advisory Board Guidance

5. Earlier this year, Hymans Robertson were appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structures for the LGPS. The SAB commissioned work to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance.

6. A number of stakeholder groups contributed their time and expertise to the review either via the online survey, one-to-one interviews, or through attendance at seminars and webinars.

7. The Hymans project team delivered the findings to the SAB on 8 July. The report sets out the results of the survey, recognising strengths and weaknesses in all governance models and proposes that an outcomes-based approach would be the most effective method of improving governance, rather than mandating a single governance structure for all. This allows funds to continue doing what currently works well while still ensuring the highest governance standards across the scheme.

8. The report recommends introducing key benchmarks which will be used to assess each fund, these include: evidencing robust conflict management, providing sufficient administration capabilities and resource, having a clear and inclusive policy on employer and scheme member engagement and holding regular, independent governance reviews.

9. The SAB agreed to take forward the findings and conclusions to improve governance in the LGPS, and released the report for publication in July. download the full report here. The main conclusions were:

- Governance structure is not the only determinant of good governance. Funds with similar governance models deliver different results and good examples exist across a range of different set ups

- Survey respondents were also clear that establishment of new bodies is not required, although this should be facilitated for funds who wish to pursue other arrangements voluntarily. Instead, the focus should be on greater specification of required governance outcomes from within the existing structures, and a process to hold funds to account for this

- Respondents favour developing a set of standards that all funds are required to achieve, drawing on current best practice and not imposing disproportionate burden on administering authorities or disrupting current practices that deliver good outcomes already

- Respondents emphasised that independent review is needed to ensure consistency in application of standards.

10. 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 s151sand s101 committee members (requirements for s101should be on a par with LPB members)

- **Update relevant guidance and better sign- posting**. This should include2014 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.

11. SAB agreed that following publication of the report, the Secretariat should commence work, in conjunction with scheme stakeholders, to outline the practical steps necessary to implement the main options set out in the report for consideration by the Board. Once approved, scheme stakeholders will be given the opportunity to comment on the Board's recommendations before any formal approach is made to MHCLG Ministers for changes to the scheme's regulations or guidance.

12. A position statement of how our Fund compares to the practices recommended by SAB is detailed in Appendix 1 and Pensions Committee in December 2019 agreed that this should be discussed first at Pension Board and then presented to the March Pensions Committee.

The Pensions Regulator

13. In addition to the work being undertaken by the SAB, The Pensions Regulator 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 report summarises the key findings against the Regulator's Code of Practice 14 both in terms of exceeding and falling short of required standards and was discussed in detail at the SAB meeting on the 6 November 2019.

14. In commenting on the report, Chair of the Board, Councillor Roger Phillips said "This key area of work ties in closely in with the Board's own Good Governance project. In identifying examples of best practice as well as areas for further improvement the report will undoubtedly be of great assistance to LGPS funds in seeking to enhance their own governance and administration arrangements." The full report can be found here Governance & Admin Risk report and the Executive Summary and conclusions are as follows:-

15. Overall, TPR found several common areas, some requiring improvement but others demonstrating good practice relating to the various risk areas investigated. These findings align with the findings from TPR annual public service governance and administration survey. The key improvement areas are summarised below: -

- **Key person risk**: While most scheme managers demonstrated a good knowledge of what TPR expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored.

- **Pension boards**: Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged.

- **Fraud / scams**: TPR saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.

- **Employers**: TPR saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally, this was connected to fund resourcing but also related to different philosophies related to taking security over assets.

16. The key areas of focus that were covered with the findings and recommendations, together with case studies were as follows:

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

17. Overall, TPR noted:

- Not all funds are the same and there is a variety of equally valid approaches to mitigating risk used across funds in the LGPS.

- It is important that scheme managers recognise, and maintain, a separation between the fund and Local Authority to avoid an over-reliance on the Local Authority's policies and procedures. When establishing its own policies and procedures a scheme manager should be able to seek assistance from the pension board, meaning steps should also be taken to ensure the pension board is able to fulfil its role. Where this is not possible, scheme managers should feed into creating Local Authority policies to make sure they are fit for purpose.

- There are clear benefits to the operation of the fund where there is an engaged s.151 officer who is directly involved.

- Good quality data and record-keeping standards underpin all aspects of successfully running a fund and these areas should be treated as a priority to drive good outcomes.

- Scheme managers that have developed and implemented a robust pension administration strategy have found them useful. While not a legal requirement, scheme managers should consider whether this type of document will be useful and look to introduce them where this is the case.

- A common risk is the unexpected departure of key members of the scheme manager's staff. Succession planning and clearly recorded processes help mitigate this risk.

- Measuring governance and administration is challenging and requires more than just an analysis of raw figures. Scheme managers should therefore put in place appropriate reporting measures that they believe capture both quantitative and qualitative assessments. This approach should be tailored to the specific circumstances of their fund.

- Scheme managers should take a holistic approach when considering the governance and administration risks to their fund. Most risks are connected to each other and a scheme manager should understand how a risk materialising will impact on other areas of governance and administration.

- Risks to funds are constantly changing and evolving. For example, the methods used by scammers change over time. Scheme managers should be alert to the changing nature of risks and adapt their approaches accordingly.

- Many scheme managers have a clear understanding of how their funds operate and want to provide the best experience for savers. Where scheme managers liaise with each other to discuss common challenges and solutions to them, whether at formal events or through ad hoc engagement, often leads to improved governance standards. TPR encourage such action.

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

18. On the 10 June the 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

19. It potentially had consequences for LGPS pools, however on the 29th 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 remains with a deadline for doing so of 10 December 2019 and although Worcestershire Pension Fund is looking to agree the objectives retrospectively it will have supporting evidence that they were in place prior to this deadline.

20. On the 31 July 2019 The Pension Regulator (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

will 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.

21.. The proposed formal objectives will be presented at the Board for consideration.

Contact Points

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

Specific Contact Points for this report
Michael Hudson
Worcestershire Pension Fund Chief Finance Officer
Tel: 01905 846908
Email: MHudson@worcestershire.gov.uk

Supporting Information

- Appendix 1 – Funds Good Governance position statement

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 2019 – Pension Committee report on the changes to the Pension Board.

Draft Worcestershire Pension Fund Position Statement: Good Governance **Appendix**

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
A. General		
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 our annual reports	Benchmark our governance compliance statement against the guidance and peers annually
B. Conflicts of interest		
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
C. Representation		
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	Information about the Pensions Committee is available via our website The Pension Board's terms of reference are available via our website Our annual reports, our Investment Strategy Statement and para K of appendix 1 of the Worcestershire County Council constitution contain information about representation	Review whether the current position remains adequate annually using comparator Funds to benchmark practices.
D. Knowledge and understanding		
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	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 LGPC bulletins and develop the LGPS knowledge of our employers through monthly employer newsletters.	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.

Good Governance proposal	Current position	Identified actions
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 22 June 2018 Pensions Committee meeting	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
E. Service delivery for the LGPS function		
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 Worcestershire County Council constitution and our annual reports 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 Pension Administration Strategy by taking account of all employer feedback to our proposed changes resulting from our consultation. To benchmark our strategy for completeness and innovation with comparator funds to continual develop.

Good Governance proposal	Current position	Identified actions
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 our annual reports and the quarterly Business Plans tabled at Pensions Committee meetings	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 Pensions Committee meetings	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
F. Compliance and improvement		
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 PASA

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AGENDA ITEM 7

PENSION BOARD
9 MARCH 2020

PENSION INVESTMENT AND FUND UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the Pension board consider and advise the Pensions Committee on:**

   a) **The Funds proposed draft 2020 Investment Strategy Statement attached at Appendix 1**
   b) **The Funds proposed Environmental, Social and Governance audit specified in paragraph 8**
   c) **The Fund's position against the 'Spectrum of capital (Appendix 2) in paragraph 9**
   d) **Review of feedback from Triennial Consultation 2019 in paragraph 12; and**
   e) **Scheme Advisory Board Responsible Investment Consultation in paragraph 14 and attached at Appendix 3.**

Purpose of Report

2. This report provides an update to the Board on several Investment and Funding areas for consideration and advice back to the Pensions Committee.

Background

Draft Investment Strategy Statement 2020

3. 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 current ISS was approved by the Committee in March 2017 (Minute no 79 refers) 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) has also outlined new guidance on preparing and maintaining an Investment Strategy Statement which are reiterated in paragraph 5 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 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 (ESG) considerations are considered 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.

6. The last ISS was agreed by Pension committee in June 2018 and the latest draft version (Appendix 1) has been updated to take on board recommendations from the Funds strategy review in March 2019 and strengthen the Environmental, Social and Governance (ESG) areas and Responsible Investment (RI) activities.

Environmental Social and Governance (ESG) and Responsible Investment (RI) Activities

7. 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

ESG Audit

8. 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 31st January 2020. on '**Responsible Investment, Sustainable/Ethical Investment and Impact Investment.**

9. A key aspect of the presentation was where as a Fund we would wish to be on the 'Spectrum of capital (Appendix 2) 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.

Development of a Climate Risk Monitoring Platform

10. The Pension Board are asked to note that 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

11. 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 and the aim will be to bring this to the Board in June 2020 for consideration before going to the Pension Committee.

Review of feedback from Triennial Consultation 2019. How can we improve feedback?

12. The provisional individual employer funding results and proposed employer contribution rates for 2020/2021 to 2022/2023 were discussed at the Employer Administration Forum on the 14 October 2019. A presentation from Mercers covered the assumptions used in and the results of the actuarial valuation as at 31 March 2019. Initial meetings were also held with the County Council and District Councils early September 2019. All employers were offered the opportunity to meet up with Mercers, the Funds actuarial advisors to discuss further their results. Around 50 Employers (25%) took up this option.

13. The consultation on the draft Funding Strategy Statement was sent to Employers on 21 October 2019 and were asked to respond by Friday, 22 November 2019. However, this was extended as some Employers were sent their results later than expected. There were 13 formal responses received which is just under 7% of our employers. The overall feedback response was poor, and the Pensions Committee requested that the Pensions Board review the consultation process to look to improve the response rate for the future.

Scheme Advisory Board Responsible Investment Consultation Feedback

14. At the meeting of the Scheme Advisory Board on the 6 November, approval was given for the first part of guidance on Responsible Investment (RI) to be published for consultation until the 11 January 2020 Appendix 3. The aim of this first part of RI guidance is to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating Environmental Social & Governance (ESG) policies as part of investment strategy statements. The Board wished to make it clear that there is no intention to prescribe the extent to which ESG policies must be adopted as this must clearly remain a matter for local consideration and agreement in accordance with MHCLG’s statutory guidance.

15. The Board also agreed that work should commence on drafting part two of the guidance, the aim of which is to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy. As part of the consultation on part one of the guidance, consultees are therefore also invited to submit details of case studies that evidence the successful adoption of ESG policies those focused on the risks associated with climate change. Consultees are also invited to suggest other matters that should be included in the part two guidance. The Board issued the following statement on the 24 February 2020.

“The Scheme Advisory Board wishes to thank all those who responded to the request for comments on Part 1 of the Responsible Investment draft guidance. Responses have been generally positive with some very helpful drafting points that would help to improve the

content and readability of the document. However, some respondents have raised concerns around the issue of fiduciary duty in the context of the LGPS and, in particular, the role and responsibilities of elected members responsible for making investment decisions.

The Board is also aware that the issue of fiduciary duty was discussed during the recent case in the Supreme Court involving the Palestine Solidarity Campaign and MHCLG that could shed some light on how the fiduciary duty test applies to investment decision makers in the LGPS. More recently, the government has introduced amendments to the Pension Schemes Bill which potentially could have a significant impact on the way in which investment strategy statements are prepared on issues like ESG and climate change.

For these reasons, the view is taken that it would be imprudent at this stage to offer any definitive advice or guidance on how the fiduciary duty test applies to investment decision makers in the LGPS. The Board has therefore decided to take stock until it has had the opportunity to evaluate the judgement handed down by the Supreme Court and when more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill.

Notwithstanding this decision, the Board is mindful that there are matters outside of fiduciary duty where advice and information would continue to be helpful. The Board has therefore decided to restructure the proposed guidance to explain and clarify the terminology associated with responsible investment and provide investment decision makers with a range of information, case studies and tools to help them meet the challenges associated with responsible investment. The revised document will be circulated in draft to scheme stakeholders for comment in the normal way.

This change of direction will not preclude the Board from addressing the issue of fiduciary duty as a separate issue once the Supreme Court judgement in the foreign boycott case has been handed down and when there is more certainty about the government's proposals under the Pension Schemes Bill."

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

Supporting Information
Appendix 1 – Draft 2020 Investment Strategy Statement
Appendix 2 – Spectrum of Capital Slide
Appendix 3 – SAB Responsible Investment consultation

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

Worcestershire Pension Fund
DRAFT 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 consultant.

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 (Within Annual Report 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 projection is full funding is achieved over a 15year 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 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 link below:

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: PUT IN LINK

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 determined through working with the Pensions committee, the investment managers, officers and independent advisors through 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 over sight 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 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) 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 from April 2018 onwards the Asset servicer contract will include depositary protection over investment vehicles.

c) 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.

d) Cashflow management risks (To be updated)

The Fund is becoming more mature and although it is cashflow positive after taking investment income, managing cashflow will become an increasingly important consideration in setting the investment strategy. Specifically, should this position ever reverse, mitigating actions would be taken to manage the cashflow shortfall such as investing in assets that produce cashflows that could be used to meet these payments.

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

£'000	2014/15	2015/16	2016/17	2017/18	2018/19
Contributions					
Benefits					
Investment Income					
Net Position					

Mention latest actuary position and improved deficit, increased future rate but overall anticipated reduction in contributions. Mention generate income producing investments as part of the strategy

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 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.

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.

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.

9. Approach to Pooling
The Fund has entered 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 invest all its assets with LGPS Central but will maintain some cash balances locally. Investment strategy will be owned by the fund with advice from the fund manager/operator and Independent advisor.

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 pursing 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[1] 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 21st 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

Asset Allocation	%	Manager, Method & Performance Target
Actively Managed Equities		
Far East Developed	10.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	JP Morgan Asset Management and Schroder Investment Management - FTSE - All World Emerging Market Index +2.0%
Passively Managed Equities - Market Capitalisation Indices		
United Kingdom	20.5	Legal and General Asset Management - FTSE All Share Index
North America	8.0	Legal and General Asset Management - FTSE All World North America - Developed Series Index
Europe ex - UK	6.5	Legal and General Asset Management - FTSE All World Europe ex UK Index - Developed Series Index
Passively Managed Equities – Alternative Indices		
Global	15.0	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
Actively Managed Bonds		
Fixed Interest	10.0	JP Morgan Asset Management - 100% Barclays Global Aggregate Corporate Bond Index – Hedged into GBP and EQT Corporate Private Debt
Actively Managed Alternative Assets		
Property & Infrastructure	20.0	Through a mix of Green Investment Bank, Invesco, Hermes, Walton Street and Venn Partners, Stonepeak, Firststate, AEW etc
TOTAL	**100.0**	

Ranges

Asset Type	Core Asset Allocation	De-Risked Asset Allocation	Range %	De-Risked Range %	Role (s) within the Strategy
Equities	**70%**		**65 - 75**		Long term growth more than inflation expected; generate investment income i.e. dividends.
Growth Fixed Income	**10%**		**5 – 15**		Provide protection from changes in real yields both in terms of capital value and income
Property	**20%**		**15 – 25**		Diversification; generate investment income; provide some inflation-sensitive exposure; illiquidity premium
Infrastructure					Provides the Fund with access to a diversified (but long term, illiquid) return source and a stream of inflation related income
Index Linked Gilts	**0%**		**0%**		Provide protection from changes in real yields both in terms of capital value and income
Diversified Growth / Multi Asset	**0%**		**0%**		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 an ad hoc 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:
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- 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 4 voting members:

- 3 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)

  Non-voting
- 1 employee representative from a relevant Union.

The 3 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 Manager and HR Service Centre 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

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. 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 LGPS 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 Company 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 Company's clients, particularly in a low return environment. Fees and remuneration should be aligned with the long-term interests of our clients, 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 Company's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.

- **Climate change[1]:**

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.

[1] *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.*

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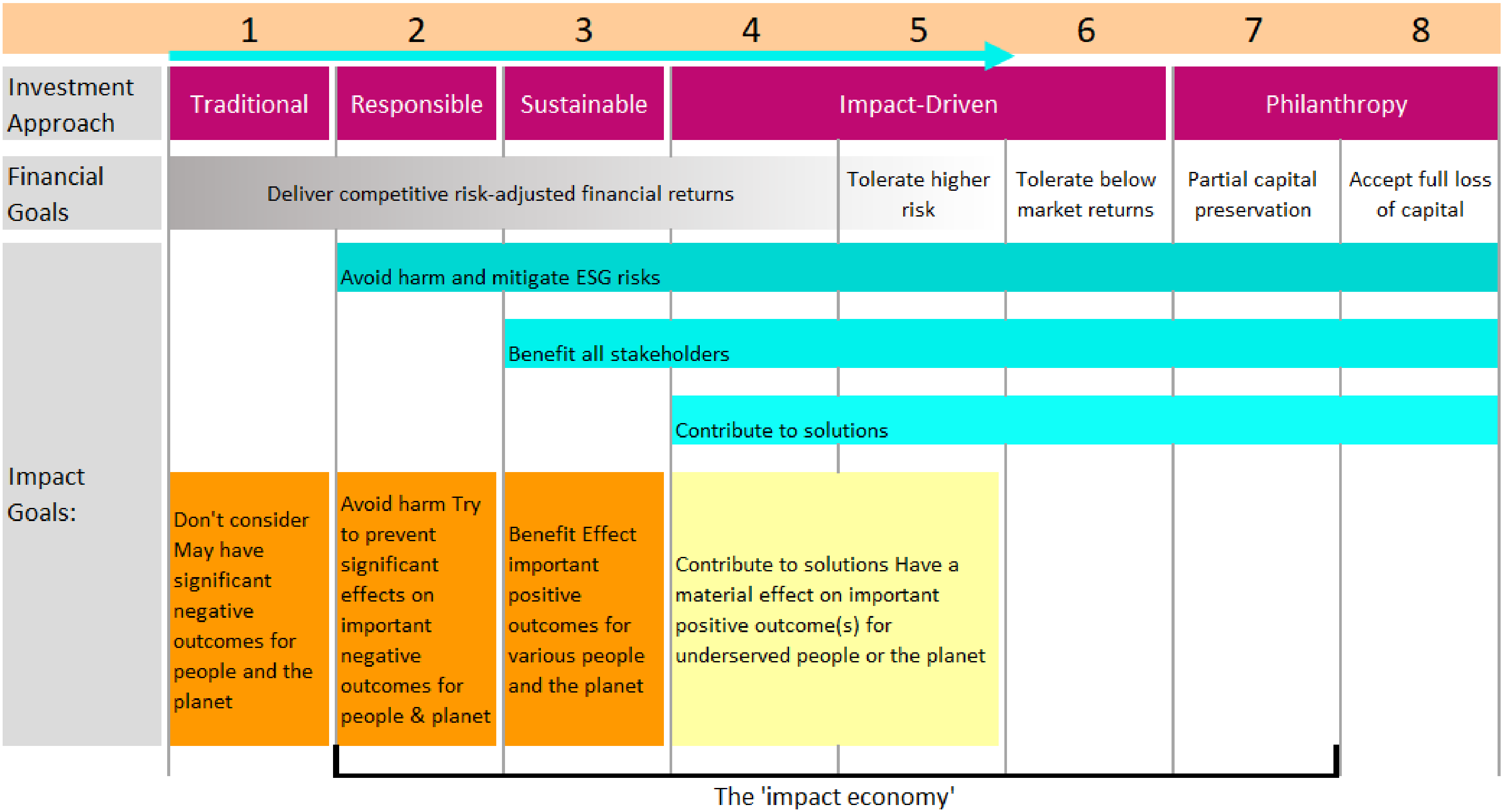
The Spectrum of Capital



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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Responsible Investment in the Local Government Pension Scheme

A Guide to the duties of Investment Decision Makers in LGPS Administering authorities

Introduction and purpose

1. This guidance has been prepared by the Local Government Scheme Advisory Board (SAB) in England and Wales to assist administering authorities and in particular those individuals delegated to make investment decisions on behalf of the authority. It sets out their duties with regard to developing and maintaining responsible investment (RI) policies according to the relevant scheme regulations, statutory guidance and public law and references developments to private sector pensions legislation In this area.

2. The guidance is further to and should be read in conjunction with the Ministry of Housing, Communities and Local Government's (MHCLG) revised *Guidance on Preparing and Maintaining an Investment Strategy Statement* published in July 2017.

3. This guidance is based on the extant LGPS investment regulations 2016 and associated statutory guidance together with our understanding of related legislation. It does not anticipate or include any work undertaken by the SAB in conjunction with scheme stakeholders to explore the scope for recommending changes to MHCLG to amend the scheme's RI requirements to reflect recent changes made to the regulatory framework applying to schemes based on trust law. If changes to regulations and statutory guidance are made, this guidance will be updated to reflect them and will then be regularly reviewed to ensure that it remains timely and relevant

4. This guidance is intended to be permissive in that it does not seek to provide operational direction but rather seeks to clarify the parameters within which decisions can be made and policies formulated with regard to the integration of ESG considerations into the overall investment strategy of the authority. It is recognised that there will be variation between different administering authorities in terms of their approach to RI and no one guidance document could successfully cover all local situations..

5. The guidance is intended to assist investment decision makers, irrespective of their investment beliefs. In doing so it is recognised that different administering authorities will be at different stages of the RI journey as shown in the "Spectrum of Capital" below :-

The spectrum of capital

* This integration of sustainable practices across an organisation's core business may also be termed Corporate Social Responsibility (CSR), although many organisations have a separate (often philanthropic) CSR 'carve-out' that is distinct from their approach to sustainability

Source: G8 Social Impact Investment Taskforce, Asset Allocation Working Group (2014)

6. The guidance is intended to empower and equip administering authorities and those delegated to make investment decisions on behalf of the authority to meet their obligations in line with the Regulations and statutory guidance. It also sets out our understanding of the relevant fiduciary, general public law and code of conduct duties when making investment decisions based on extant case law and QC opinion.

7. The guidance is also relevant to local pension boards in the context of their statutory duty to assist their administering authority in complying with the policies set out in their Investment Strategy Statement (ISS) and that the ISS has been completed in accordance with MHCLG's statutory guidance on preparing and maintaining an ISS.

8. The guidance will be formally reviewed by the SAB, at least on an annual basis, after consultation with the Cross Pool Collaboration Group Responsible Investment Subcommittee and other key stakeholders.

Part 1 – Definitions

1A. What is Responsible Investment?

9. According to the PRI (Principles for Responsible Investment) established by the United Nations in 2006, responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long term returns.

There are six defined "principles" that signatories to PRI agree to:-

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be active owners and incorporate ESG issues into ownership policies and practices
- Seek appropriate disclosure on ESG issues by the entities in which they invest
- Promote acceptance and implementation of the Principles within the investment industry
- Work together to enhance effectiveness in implementing the Principles
- Report on activities and progress towards implementing the Principles

Further details about PRI's approach to responsible investment can be found at https://www.unpri.org/pri/what-is-responsible-investment

1B. What are ESG factors?

10**.** These are many and varied but according to PRI these typically include:-

Environmental

- Climate change, including physical risk and transition risk
- Resource depletion, including water
- Waste and pollution
- Deforestation

Social

- Working conditions, including slavery and child labour
- Local communities, including indigenous communities
- Conflict
- Health and safety
- Employee relations and diversity

Governance

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy

11. More examples of ESG factors are given at Appendix 1.

1C. What about climate risk?

12. Authorities will be aware of the growing concerns around the financial risks associated with climate change with particular emphasis both on the risks that are associated with climate change on the sustainability of companies in which pension funds invest and the role of pension funds could play in achieving a net zero carbon economy. In response to such concerns DWP have announced that from October 2019, private sector pension trustees will be required as part of their Statement of Investment Principles to publish their policy on ESG considerations, including the financially material risks associated with climate change.

1D. Financially Material Factors

13. Although statutory guidance refers to financial and non-financial factors it does not define them. Therefore, the definitions in this section are drawn from the private sector pensions world.

14. In their 2014 report, the Law Commission made clear that private sector pension trustees' fiduciary duty is to take account of financially material considerations, whatever their source. Where ESG considerations are financially materially, decision makers should take account of them. The Law Commission went on to say that this applies in exactly the same way as other risks in pension scheme investment, for example, interest rate risk, liquidity risk, market risk, political and counter party risk.

15. More recently, the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 (the 2018 Regulations) that will apply to private sector pension trustees with effect from October 2019 defines financially material considerations as including, but not limited to, environmental, social and governance considerations, including climate change.

1E. Non-Financial Factors

16. Investment decisions will often have a mixture of motivations and therefore a clear non-financial motivation may be difficult to identify. However, for the purpose of this guidance non-financial factors are those which influence investment decisions and are primarily motivated by considerations other than financial. This is taken to mean any decision to disinvest or invest for which the primary motivation excludes consideration of the potential financial outcome. For example, withdrawing from tobacco investments purely on the basis of public health considerations or investing in a local social enterprise purely to achieve societal benefits.

17. Assessing whether a non-financial decision would have a significant financial detriment to the fund will always be a question of fact and degree. Divesting from a sector which makes up of 15% of a fund is likely to represent financial detriment whereas a portfolio of 3% may not.

18. According to the Law Commission, when making an investment decision based on a non-financial consideration, private sector trustees have a duty to ensure that the decision would not involve a risk of significant financial detriment to the fund and that it would be reasonable to assume that the scheme members agree with that decision. A similar provision may be found in LGPS statutory guidance.

1F Asset Stewardship

19. The 2012 UK Stewardship Code defines stewardship as the promotion of long term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole. The UK Stewardship Code is recognised as an effective standard for asset owners and asset managers to comply with and demonstrate best practice in discharging their stewardship responsibilities

Part 2. - Statutory Duties and Responsibilities of administering authorities

20. The duties of administering authorities are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

21. Administering authorities are also required by the Regulations to comply with statutory guidance published by MHCLG in July 2017 in preparing and maintaining their Investment Strategy Statement (ISS). Under that guidance, administering authorities are required to set out their policies in a number of key areas including responsible investment, risk, pooling, diversification and asset allocation.

2A – The Regulations

22. Regulation 7 of the Regulations requires that

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

The Regulations do not define 'investment' beyond clarifying in Regulation 3 a number of items that are included in that term.

(a) a contract entered into in the course of dealing in financial futures, traded options or derivatives;

(b) a contribution to a limited partnership in an unquoted securities investment;

(c) a contract of insurance if it is a contract of a relevant class, and is entered into with a person within paragraph (2) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of section 22 of the 2000 Act(7).

Accordingly, investment is assumed to have the commonly understood meaning as set out in the Oxford English Dictionary:

The use of money or capital to purchase an asset or assets (such as property, stocks, bonds, etc.), in the expectation of earning income or profit over time.

23. The Regulations contains the following provisions that relate to RI and which requires policies to be established in accordance with statutory guidance:

"7.— (1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

(2) The authority's investment strategy must include— (a) a requirement to invest fund 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 assessed 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 and 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 the rights (including voting rights) attaching to investments.

2B – Statutory Guidance

24. An LGPS administering authority with the assistance of their local pension board, will be principally concerned with ensuring that it meets the legislative requirements of the Regulations (detailed above) and associated statutory guidance published.

25. For the avoidance of doubt under the Regulations, as detailed above, an authority must, after taking proper advice, formulate an investment strategy which <u>must</u> be in accordance with guidance issued by the Secretary of State. It should be noted that this is a sterner test than "have regard to" on which most statutory guidance is based. In the matter of responsible investment, an authority must publish its policies on how ESG considerations are taken into account in the selection, non-selection and realisation of investments and the exercise of the rights, including the voting rights, attaching to investments.

26. To accompany the Regulations, MHCLG published revised statutory guidance in July 2017. The extant statutory guidance entitled 'Preparing and maintaining an investment strategy statement' expands upon earlier guidance, specifically on the regulations that relate to RI.

27. The guidance states that administering authorities will be expected to make their investment decisions within a 'prudential framework' with less central prescription. It goes on to describe a prudent approach to investment as a duty to discharge statutory responsibilities with care, skill, prudence and diligence.

28. In establishing RI policies, the statutory guidance differentiates between things that an authority must do, should do, and may do. The matters shown below that must be done under statutory guidance represents the minimum statutory requirement that authorities must comply with. Where the statutory guidance points to things that should be done, there is a clear expectation that where appropriate, these ought to be done unless the reasons for not doing so can be objectively justified.

2C - An administering authority must;

- Take proper advice when formulating their investment strategy
- Explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments

- Must give reasons for not adopting a policy of exercising rights, including voting rights, attaching to investments

2D - An administering authority should;

- Explain the extent to which the views of their local pension board and other interested parties whom they consider may have an interest will be taken into account when making an investment decision based on non-financial factors
- Explain their approach to social investments
- Where appropriate, explain their policy on stewardship with reference to the Stewardship Code
- Strongly encourage their fund managers, if any, to vote their company shares in line with their policy under regulation 7(2)(f) (of the 2016 Regulations)
- Publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations

2E -An administering authority may;

- Wish to appoint independently a voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority"

2F Pooling guidance and RI

31. In 'Investment Reform Criteria and Guidance' published by DCLG in November 2015, the section 'strong governance and decision making' (page 6) requires that authorities should;

- Explain how they will act as responsible long term investors through their pool including how the pool will determine and enact stewardship responsibilities

32. The section 'Responsible investment and effective stewardship' (page 17) include provisions that authorities;

- Will want to consider the findings of the Kay review including what governance procedures and mechanisms will be needed to facilitate long term responsible investing and stewardship through the pool
- Will need to determine how their individual investment policies will be reflected in the pool
- Should consider how pooling could facilitate implementation of their ESG policy, for example by sharing best practice, collaborating on social investments to reduce costs or diversify risk, or using scale to improve capability in this area

33. Further guidance on pooling including provisions on responsible investment have been published as a first draft but are subject to further drafting and consultation and therefore have not been included at this time.

Part 3 - Non-statutory duties of investment decision makers

34. Those tasked with making investment decisions on behalf of the administering authority will, in the main, be elected members of that authority. As well as acting within the statutory duties as set out above, decision makers must also act in accordance with a range of non-statutory duties deriving from public law.

35. Unlike private sector trustee who have a clear fiduciary duty to act in the best interests of scheme beneficiaries the position of LGPS investment decision makers is not so easily defined.

3A Duty to local tax payers

36. As set out in CIPFA guidance 'Role of the CFO in the LGPS' there is a fiduciary duty owed by elected members to local tax payers which stems from Roberts v Hopwood (1925). This case upheld sanctions against elected members who had chosen to raise the minimum wage for their lowest paid employees (women) and in doing so had been found to have not taken sufficient account of the interests of local tax payers. In his judgement Lord Atkinson defined the failure of the elected members in their duty as;

'..they put aside all these aids to the ascertainment of what was just and reasonable remuneration to give for the services rendered to them, and allowed themselves to be guided in preference by some eccentric principles of socialistic philanthropy, or by a feminist ambition to secure equality of the sexes in the matter of wages in the world of labour.'

He went on to state that;

'A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than the members of that body, owes a duty to those latter persons to conduct that administration in a fairly businesslike manner with reasonable care, skill and caution, and a due and alert regard to the interests of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of the property of others.'

And that;

Acts done 'in flagrant violation' of the duty should be held to have been done 'contrary to law' within the meaning of the governing statute.

37. Such a duty was also referenced in Bromley v GLC 1981 as the fiduciary duty owed to all rate payers and council tax payers.

38. CIPFA guidance also references a duty to local taxpayers applying to officers and cites Attorney General v De Winton (1906) where it was established that the

Treasurer is not just a servant of the authority but has a fiduciary duty to local taxpayers.

3B Duty to scheme employers and scheme members

39. In his legal opinion for the SAB dated 25 March 2014 Nigel Griffin QC concluded that those making investment decisions on behalf of the administering authority; *'...owe fiduciary duties both to the scheme employers and to the scheme members...' and cites White v Jones 1995 which held that fiduciary duties exits 'where one person administers the ....financial affairs of another'.*

40. However he importantly caveats this statement as follows

'I rather doubt that the existence of fiduciary duties will in this context make very much difference to what the position would be if analysed simply in terms of the obligations imposed upon administering authority as a matter of public law - notably, the normal Wednesbury type obligations'

This view derives from (amongst others) Charles Terence Estates v Cornwall Council 2013 where the court acknowledged that local authorities owe a fiduciary duty but nevertheless treated the content of that duty as indistinguishable from Wednesbury.

41. He goes on to define the Wednesbury obligations and therefore the duty to employers and scheme members as *the requirement 'to exercise discretionary powers rationally, for a proper purpose and by reference only to legally relevant considerations'*

42. There appears to be a clear distinction between the fiduciary duty of private sector pension trustees to always act in the best interests of scheme beneficiaries and the public law duties applying to LGPS investment decision makers to;

'conduct ... administration in a fairly businesslike manner with reasonable care, skill and caution, and a due and alert regard to the interests of those contributors who are not members of the body'

And;

'*exercise discretionary powers rationally, for a proper purpose and by reference only to legally relevant considerations'*

3C – Elected member code of conduct

43. Councillors are required to adhere to their council's agreed code of conduct for elected members. Each council adopts its own code, but it must be based on the Committee on Standards in Public Life's seven principles of public life (see below). These were developed by the Nolan Committee, which looked at how to improve ethical standards in public life, and are often referred to as the 'Nolan principles'. All public office holders are both servants of the public and stewards of public resources.

44. The principles also apply to everyone in other sectors delivering public services. All councils are required to promote and maintain high standards of conduct by

councillors, but individual councillors must also take responsibility. Holders of public office should uphold the following seven principles:

Selflessness

Holders of public office should act solely in terms of the public interest.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family or their friends. They must declare and resolve any interests and relationships.

Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for doing so.

Honesty

Holders of public office should be truthful.

Leadership

Holders of public office should exhibit these principles in their own behaviour.

They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Part 4 – Recent developments in trust based pensions

45. Historically, the LGPS in England and Wales has adopted pension legislation that has been introduced specifically for schemes based on trust law. The following information is provided as a guide to possible developments in LGPS regulation and/or guidance but at the time of publication none of the following applies to the LGPS.

46. To meet the RI challenge, the government has adopted a number of legislative measures but only in relation to those responsible for making investment decisions in trust based schemes (not LGPS). As from October 2019, trustees will be required to include in their Statement of Investment Principles new regulatory requirements including:

- How financially material factors (including, but not limited to, ESG considerations, including climate change, over the time horizon of the scheme, are taken into account in the selection, retention and realisation of investments,
- The extent, if at all, that non-financial factors, for example, members' ethical views, are taken into account, and
- Engagement and voting activities in respect of investments, including stewardship.

47. By October 2020, trustees will be further required to include in their Statement of Investment Principles:

- Their arrangements with asset managers including how they incentivise their appointed investment managers to align investment strategy with their policies and to make investment decisions based on long term performance, and
- A form of implementation statement on their engagement and voting practices

48. Trustees will also be required to publish on a publicly available website both their Statement of Investment Principles and Implementation Statements. To assist trustees comply with the new regulatory requirements, the PLSA has published a made simple guide a copy of which can be found at https://www.plsa.co.uk/Portals/0/Documents/Made-Simple-Guides/2019/ESG-Made-Simple-2019.pdf

Appendix 1 – Example RI issues

NB: this is not intended to be read as an exhaustive list, nor as a prescriptive list.

Environmental	**Social**	**Governance**	**Other/ sector specific**
• Climate change ○ Fossil fuel exposure ○ Carbon emissions ○ Adaptation risks • Resource & energy management ○ Storage ○ Fuel source ○ Water ○ Waste ○ Mineral use ○ Efficiency • Planning/ permitting/ operational controls	• Human/ labour rights ○ Supply chain (UK Human Slavery Act/ ○ Child labour ○ Human capital management • Employment standards • Employee representation • Health and safety • Community relations	• Alignment (long term) • Board independence • Executive remuneration • Board composition and effectiveness (conduct and culture) • risk management • Tax transparency/ Fair tax • Auditing & accounts (Reliable accounts/ auditor rotation) • Diversity / equality (board, company-wide) • Succession planning • Disclosure/ transparency e.g. Integrated reporting/FSB TFCD • Shareholder protection & rights e.g. say on pay	• Business strategy & risk management • Political change • Operating in controversial or challenging locations • Cyber security • Disruptive technology • Nutrition • Access to products (medicine/ finance) • Bribery & corruption • Site security/ terrorism

Appendix 2: Useful responsible investment sources

Memberships of the following organisations might be considered by an administering authority, as part of the responsible investment strategy.

- British Venture Capital Association (BVCA)
- Focusing Capital on the Long Term (FCLT)
- Global Real Estate Sustainability Benchmark (GRESB)
- International Corporate Governance Network (ICGN)
- Investment Association
- Institutional Investors Group on Climate Change (IIGCC)
- Local Authority Pension Fund Forum (LAPFF)
- Pensions and Lifetime Savings Association (PLSA) (formerly National Association of Pension Funds)
- Principles for Responsible Investment (PRI)
- Transition Pathway Initiative (TPI)
- UK Sustainable Investment Forum (UKSIF)
- CDP (formerly the Carbon Disclosure Project)

Further RI Resources

INTRODUCTORY MATERIAL

- PRI's Building the Capacity of Investment Actors to use Environmental, Social, and Governance (ESG) Information
- PRI: Understanding the impact of your investments
- PRI: How asset owners can drive responsible investment
- PLSA: ESG Made Simple Guide
- RIA: Guide to Responsible Investment
- CERES: Blueprint for Sustainable Investing
- Sustainable Returns for Pensions and Society: Responsible Investment and Ownership
- USSIF: The Impact of Sustainable and Responsible Investment
- Willis Towers Watson: Sustainable investing – we need a bigger boat.
- World Economic Forum: Accelerating the Transition towards Sustainable Investing

- World Economic Forum: Global Risks Report 2015PRI: Investment Practices, Asset Owner Insight
- NAPF: Responsible Investment Guidance for Pension Funds
- EUROSIF: Corporate Pension Fund & Sustainable Investment Study
- EUROSIF: Primer for Responsible Investment Management of Endowments (PRIME Toolkit)
- UN Framework Convention on Climate Change
- UN Guiding Principles on Business and Human Rights
- PLSA Guide to Responsible Investment Reporting in Public Equity

ASSET-CLASS-SPECIFIC GUIDANCE

- PRI: A practical guide to ESG integration for equity investing
- PRI: Integrated analysis: How investors are addressing ESG factors in fundamental equity valuation
- PRI: Fixed income investor guide
- PRI: Corporate bonds: Spotlight on ESG risks
- PRI: Responsible investment and hedge funds
- PRI: Responsible investment in private equity: A guide for limited partners
- PRI: Limited partners' responsible investment due diligence questionnaire
- PRI: Responsible investment in infrastructure
- UNEP FI: Implementing responsible property investment strategies
- INCR, IGCC, IIGCC, PRI, UNEP FIand RICS: Sustainable real estate investment, implementing the Paris Climate Agreement: An action framework

PROCUREMENT FRAMEWORK

- National LGPS Stewardship Services Framework

Appendix 3: Bibliography of regulations and guidance

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479562/draft_LGPS__Investment__Regulations_2016.pdf

Guidance on Preparing and Maintaining an Investment Strategy Statement, July 2017 (Department for Local Government and Communities)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/553342/LGPS_Guidance_on_Preparing_and_Maintaining_an_Investment_Strategy_Statement.pdf

PENSION BOARD
9 MARCH 2020

WORCESTERSHIRE PENSION FUND (WPF) ADMINISTRATION BUDGET 2020/21

Recommendation

1. **The Chief Financial Officer recommends that the Pension Board consider and comment on:**

   a) **the variation to the Pension Fund Administration Budget, including manager fees, for 2019/20 shown in the Appendix totalling £12.752m;**

   b) **the Pension Fund Administration Budget, including manager fees, for 2020/21 shown in the Appendix totalling £13.236m;**

   c) **the indicative budget allocations for 2021/22 and 2022/23;**

   d) **variations against budget will be monitored; and**

   e) **the approval of variations of up to £0.5m being delegated to the Chief Financial Officer to the Pension Fund.**

Purpose of the report

2. This report seeks to inform the Pension Board of the proposed 2020/21 WPF Administration Budget, as shown in the attached Appendix that will be considered by the Pension Committee on the 17 March 2020. 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.

Key features of the proposed 2020/21 budget
8. The budget now proposed for 2020/21 is £13.265m, an increase of £0.636m (+4.8%) 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 £1.883m, which is a reduction of £0.147m (7.8%) 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; and
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, £0.030m has been set aside for potentially implementing the Employer Risk Framework from April 2020

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 £20.04 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 Board 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 0.08% 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
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

Supporting Information

- Appendix detailing the proposed 2019/20 Administration Budget monitoring and 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

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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
			Fund Investment				
10,599,400	**10,752,800**	**153,400**	INVESTMENT MANAGEMENT FEES	**11,382,600**	**12,190,400**	**13,122,600**	*Includes LGPS central Fees, Equity Protection and increasing commitment to Property & Infrastructure. Offset by some savings on asset transition to LGPS Central*
142,300	139,500	-2,800	Investment Administration Recharge	142,300	145,100	148,000	*Increased Investment support*
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	*Increased support in 19.20 for transition of assets advice and Tax advice on Capital gains tax*
15,300	15,200	-100	Performance Measurement	15,500	15,800	16,100	*CEM Benchmarking and Portfolio Evaluation*
602,700	**637,700**	**35,000**	INVESTMENT ADMINISTRATION COSTS	**606,000**	**606,900**	**618,100**	
			Scheme Administration				
1,055,400	989,600	-65,800	Pension scheme Administration recharge	965,300	972,600	995,000	*GMP one off exercise in 18.19 & 19.20, New Altair developments including self service and other website development, changes to team structure. Employer monitoring*
300,000	300,000	0	Actuarial services	240,000	300,000	240,000	*Triennial valuation allowed for April 2019*
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	
1,427,600	**1,361,800**	**-65,800**	SCHEME ADMINISTRATION COSTS	**1,277,300**	**1,344,600**	**1,307,000**	
2,030,300	**1,999,500**	**-30,800**	GRAND TOTAL (Excluding Investment Mgt Fees)	**1,883,300**	**1,951,500**	**1,925,100**	
12,629,700	**12,752,300**	**122,600**	GRAND TOTAL (Including Investment Mgt Fees)	**13,265,900**	**14,141,900**	**15,047,700**	

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worcestershire
countycouncil

AGENDA ITEM 9

PENSION BOARD
9 MARCH 2020

NEW UK STEWARDSHIP CODE

Recommendations

1. **The Chief Financial Officer recommends that the Pension Board considers and advises the Pension Committee:**

   (a) On the new Stewardship Code published by the Financial Reporting Council (FRC) on the 24 October 2019 (Appendix 1); and

   (b) The expected areas to be covered when reporting to comply with the Stewardship Code (Appendix 2)

Background and Purpose

2. The purpose of this report is to update the Pension Board on the new UK Stewardship code that was published by the Financial Reporting Council (FRC) on the 24 October 2019. This provided a substantial and ambitious revision to the UK Stewardship Code (Appendix 1).

3. Worcestershire Pension Fund (WPF) is a current signatory of the existing Stewardship Code. The new Code substantially raises expectations for how money is invested on behalf of UK savers and pensioners. The new Code establishes a clear benchmark for stewardship as 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. Key changes include: -

- Focus on activities & outcomes, not policy: currently Code signatories publish a policy statement on their approach to stewardship. Under the 2020 Code, no policy statement is required. Signatories will be required to report on stewardship activities & outcomes instead

- More ambitious, more detailed: the previous Code had seven ‘comply or explain’ principles. The new Code has 12 ‘apply and explain’ principles, with 16 pages of Reporting Expectations. It’s more thoughtful as well, for example asset owners are required to explain how stewardship activities are consistent with liabilities (i.e. long term)

- All asset classes included: the 2012 version focussed on engaging and voting at UK equities, whereas the scope of the 2020 Code includes bonds and alternatives too

- Capital allocation, not just post-investment activity: the 2012 Code focussed on what happens after you’ve invested. For example, there were two principles just on shareholder voting. The new Code re-defines ‘stewardship’ to include the capital allocation decision too.

Actions required for Code signatories:

4. Signatories to the 2012 Code will have their status frozen between 1 January and 31 March 2021. After that, the 2012 Code signatories list will be removed from the FRC website.

5. Those intending to remain or become Code signatories need to report on stewardship outcomes in Q1 2021 at the earliest. (Owing to lags in data availability, we know that some LGPS funds and pools will be unlikely to report until Q2 (April to June) 2021. Thereafter, Code signatories must report annually. The FRC will not consider quarterly reporting.

6. Following the publication of our stewardship report which will need to cover the areas detailed in appendix 2, the FRC will assess its adequacy and will publish WPF having become a Code signatory.

7. During 2020, it is recommended that Code signatories align their Responsible Investment strategies to prepare for the more detailed reporting required under the 2020 Code.

Support from LGPS Central

8. The new Code takes effect from the 1 January 2020 and we will be working alongside LGPS Central who are providing support to all the pooling partner funds to help them update their respective Stewardship Code statements.

9. We will report back to the Board on the progress and the final updates to the Stewardship Code.

Contact Points

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

Specific Contact Points for this report
Michael Hudson
Worcestershire Pension Fund Chief Finance Officer
Tel: 01905 846908
Email: MHudson@worcestershire.gov.uk

Supporting Information

- Appendix 1 - New UK Stewardship Code
- Appendix 2 - Expected areas to be covered when reporting to comply with the code.

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:

December 2019 Pensions Committee paper on the changes to the Stewardship code included in the Pension Investment update report.

Financial Reporting Council

THE UK STEWARDSHIP CODE 2020

PRINCIPLES AT A GLANCE

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS
Purpose and governance
1. Purpose, strategy and culture
2. Governance, resources and incentives
3. Conflicts of interest
4. Promoting well-functioning markets
5. Review and assurance
Investment approach
6. Client and beneficiary needs
7. Stewardship, investment and ESG integration
8. Monitoring managers and service providers
Engagement
9. Engagement
10. Collaboration
11. Escalation
Exercising rights and responsibilities
12. Exercising rights and responsibilities

PRINCIPLES FOR SERVICE PROVIDERS
1. Purpose, strategy and culture
2. Governance, resources and incentives
3. Conflicts of interest
4. Promoting well-functioning markets
5. Supporting client's stewardship
6. Review and assurance

CONTENTS

The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

INTRODUCTION

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.

The UK Stewardship Code 2020 (the Code) sets high stewardship standards for asset owners and asset managers, and for service providers that support them.

The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

The investment market has changed significantly since the publication of the first UK Stewardship Code. There has been significant growth in investment in assets other than listed equity, such as fixed income bonds, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities and signatories will need to consider how to exercise stewardship effectively in these circumstances.

Environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship. The Code also recognises that asset owners and asset managers play an important role as guardians of market integrity and in working to minimise systemic risks as well as being stewards of the investments in their portfolios.

HOW TO REPORT

All Principles are supported by reporting expectations. These indicate the information that organisations should include in their Stewardship Report and will form the basis of assessment of reporting quality.

When applying the Principles, signatories should consider the following, among other issues:

- the effective application of the UK Corporate Governance Code and other governance codes;
- directors' duties, particularly those matters to which they should have regard under section 172 of the Companies Act 2006;
- capital structure, risk, strategy and performance;
- diversity, remuneration and workforce interests;
- audit quality;
- environmental and social issues, including climate change; and
- compliance with covenants and contracts.

Each Principle has reporting expectations under the headings Activity and Outcome. Some Principles also include reporting expectations under the heading Context, which require disclosure of background information or policies that are necessary in order to understand and assess the approach taken to stewardship.

Some reporting expectations will be more relevant for asset managers or those investing directly, while others will be more relevant to asset owners or those using intermediaries. Organisations must determine which reporting expectations are relevant and appropriate to their business or role in the investment community.

In Principle 6, for example, "signatories should disclose an approximate breakdown of: the size and profile of their membership, including number of members in the scheme and the average age of members; OR their client base, for example, institutional versus retail, and geographic distribution".

The Code contains more detailed reporting expectations for listed equity assets. This reflects the relative maturity of stewardship for listed equity assets. However, signatories should use the resources, rights and influence available to them to exercise stewardship, however capital is invested.

Reports should be engaging, succinct and in plain English. They should be as specific and as transparent as possible without compromising effective stewardship.

The Report should be a single document structured to give a clear picture of how the organisation has applied the Code. Relevant data, diagrams, tables, examples and case studies should be used appropriately. It should focus on activities and outcomes and provide enough information to enable the reader to have a good understanding of the application of the Code without having to refer to information elsewhere. However, the Report may link to more detailed policies and disclosures, including against other reporting requirements. Any additional information should be clear and accessible.

Reports should be fair, balanced and understandable. For example, reporting should acknowledge setbacks experienced and lessons learned, as well as successes. Activities to achieve desired outcomes may take more than a year and may not be completed within an organisation's reporting period. Where this is the case, this should be indicated and progress reported.

The Code recognises that signatories differ by size, type, business model and investment approach, and do not exercise stewardship in an identical way. The reporting expectations do not require disclosure of stewardship activities on a fund-by-fund basis or for each investment strategy. However, the information provided should give a clear indication of how stewardship activities differ across funds, asset classes and geographies proportionately to their operations.

Reports must be reviewed and approved by the applicant's governing body, and signed by the chair, chief executive or chief investment officer.

Once the applicant has been accepted as a Code signatory and the Report is approved by the FRC, the Report will be a public document and must be made available on the signatory's website or, if they do not have a website, in another accessible form.

Further information on how to submit the Report and the assessment process can be found on the FRC website.

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS

Asset owners and asset managers cannot delegate their responsibility and are accountable for effective stewardship. Stewardship activities include investment decision-making, monitoring assets and service providers, engaging with issuers and holding them to account on material issues, collaborating with others, and exercising rights and responsibilities.

Capital is invested in a range of asset classes over which investors have different terms and investment periods, rights and levels of influence. Signatories should use the resources, rights and influence available to them to exercise stewardship, no matter how capital is invested.

PURPOSE AND GOVERNANCE

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

REPORTING EXPECTATIONS

Context

Signatories should explain:

- the purpose of the organisation and an outline of its culture, values, business model and strategy; and
- their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why.

Activity

Signatories should explain what actions they have taken to ensure their investment beliefs, strategy and culture enable effective stewardship.

Outcome

Signatories should disclose:

- how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making; and
- an assessment of how effective they have been in serving the best interests of clients and beneficiaries.

PURPOSE AND GOVERNANCE

Principle 2

Signatories' governance, resources and incentives support stewardship.

REPORTING EXPECTATIONS

Activity

Signatories should explain how:

- their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach;
- they have appropriately resourced stewardship activities, including:
  - their chosen organisational and workforce structures;
  - their seniority, experience, qualifications, training and diversity;
  - their investment in systems, processes, research and analysis;
  - the extent to which service providers were used and the services they provided; and
- performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision-making.

Outcome

Signatories should disclose:

- how effective their chosen governance structures and processes have been in supporting stewardship; and
- how they may be improved.

PURPOSE AND GOVERNANCE

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

REPORTING EXPECTATIONS

Context

Signatories should disclose their conflicts policy and how this has been applied to stewardship.

Activity

Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.

Outcome

Signatories should disclose examples of how they have addressed actual or potential conflicts.

Conflicts may arise as a result of:

- ownership structure;
- business relationships between asset owners and asset managers, and/or the assets they manage;
- differences between the stewardship policies of managers and their clients;
- cross-directorships;
- bond and equity managers' objectives; and
- client or beneficiary interests diverging from each other.

PURPOSE AND GOVERNANCE

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- how they have identified and responded to market-wide and systemic risk(s), as appropriate;
- how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets;
- the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples; and
- how they have aligned their investments accordingly.

Outcome

Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.

Market-wide risks are those that lead to financial loss or affect overall performance of the entire market and include but are not limited to:

- changes in interest rates;
- geopolitical issues; and
- currency rates.

Systemic risks are those that may lead to the collapse of an industry, financial market or economy and include but are not limited to:

- climate change; and
- the failure of a business or group of businesses.

Stakeholders may include investors, issuers, service providers, policymakers, audit firms, not-for-profits, regulators, associations and academics.

PURPOSE AND GOVERNANCE

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- how they have reviewed their policies to ensure they enable effective stewardship;
- what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach; and
- how they have ensured their stewardship reporting is fair, balanced and understandable.

Outcome

Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes.

Internal assurance may be by given by senior staff, a designated body, board, committee, or internal audit and external assurance by an independent third party.

INVESTMENT APPROACH

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

REPORTING EXPECTATIONS

Context

Signatories should disclose:

- the approximate breakdown of:
  - the scheme(s) structure, for example, whether the scheme is a master trust, occupational pension fund, defined benefit or defined contribution, etc;
  - the size and profile of their membership, including number of members in the scheme and the average age of members;

  OR

  - their client base, for example, institutional versus retail, and geographic distribution;
  - assets under management across asset classes and geographies;
- the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why.

Activity

Signatories should explain:

- how they have sought beneficiaries' views (where they have done so) and the reason for their chosen approach;

OR

- how they have sought and received clients' views and the reason for their chosen approach;

- how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon;

OR

- how assets have been managed in alignment with clients' stewardship and investment policies;

- what they have communicated to beneficiaries about their stewardship and investment activities and outcomes to meet beneficiary needs, including the type of information provided, methods and frequency of communication;

OR

- what they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided, methods and frequency of communication to enable them to fulfil their stewardship reporting requirements.

Outcome

Signatories should explain:

- how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries;

- how they have taken account of the views of beneficiaries where sought, and what actions they have taken as a result;

OR

- how they have taken account of the views of clients and what actions they have taken as a result;

- where their managers have not followed their stewardship and investment policies, and the reason for this;

OR

- where they have not managed assets in alignment with their clients' stewardship and investment policies, and the reason for this.

INVESTMENT APPROACH

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

REPORTING EXPECTATIONS

Context

Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them.

Activity

Signatories should explain:

- how integration of stewardship and investment has differed for funds, asset classes and geographies;
- how they have ensured:
  - tenders have included a requirement to integrate stewardship and investment, including material ESG issues; and
  - the design and award of mandates include requirements to integrate stewardship and investment to align with the investment time horizons of clients and beneficiaries;

  OR
- the processes they have used to:
  - integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries; and
  - ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues.

Outcome

Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries.

INVESTMENT APPROACH

Principle 8

Signatories monitor and hold to account managers and/or service providers.

REPORTING EXPECTATIONS

Activity

Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.

Outcome

Signatories should explain:

- how the services have been delivered to meet their needs;

OR

- the action they have taken where signatories' expectations of their managers and/or service providers have not been met.

For example:

- asset owners monitoring asset managers and investment consultants to ensure that assets have been managed in alignment with their investment and stewardship strategy and policies; or
- asset managers monitoring proxy advisors to ensure, as far as can reasonably be achieved, that voting has been executed according with the manager's policies; and
- asset managers monitoring data and research providers to ensure the quality and accuracy of their products and services.

ENGAGEMENT

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- the expectations they have set for others that engage on their behalf and how;

OR

- how they have selected and prioritised engagement (for example, key issues and/or size of holding);
- how they have developed well-informed and precise objectives for engagement with examples;
- what methods of engagement and the extent to which they have been used;
- the reasons for their chosen approach, with reference to their disclosure under Context for Principle 1 and 6; and
- how engagement has differed for funds, assets or geographies.

Examples of engagement methods include but are not limited to:

- meeting the chair or other board members;
- holding meetings with management;
- writing letters to a company to raise concerns; and
- raising key issues through a company's advisers.

Outcome

Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.

For example:

- how engagement has been used to monitor the company;
- any action or change(s) made by the issuer(s);
- how outcomes of engagement have informed investment decisions (buy, sell, hold); and
- how outcomes of engagement have informed escalation.

Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.

ENGAGEMENT

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

REPORTING EXPECTATIONS

Activity

Signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf.

For example:

- collaborating with other investors to engage an issuer to achieve a specific change; or
- working as part of a coalition of wider stakeholders to engage on a thematic issue.

Signatories should provide examples, including

- the issue(s) covered;
- the method or forum;
- their role and contribution.

Outcome

Signatories should describe the outcomes of collaborative engagement.

For example:

- any action or change(s) made by the issuer(s);
- how outcomes of engagement have informed investment decisions (buy, sell, hold); and
- whether their stated objectives have been met.

Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.

ENGAGEMENT

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- the expectations they have set for asset managers that escalate stewardship activities on their behalf;

OR

- how they have selected and prioritised issues, and developed well-informed objectives for escalation;
- when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples; and
- how escalation has differed for funds, assets or geographies.

Outcome

Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf.

For example:

- any action or change(s) made by the issuer(s);
- how outcomes of escalation have informed investment decisions (buy, sell, hold);
- whether their stated objectives have been met; and
- any changes in engagement approach.

Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.

EXERCISING RIGHTS AND RESPONSIBILITIES

Principle 12

Signatories actively exercise their rights and responsibilities.

REPORTING EXPECTATIONS

Reporting expectations for listed equity and fixed income investments are below. In addition, signatories should report on how they have exercised their rights and responsibilities across other asset classes they are invested in, where they have the ability to do so, as disclosed in their reporting against Principle 6.

Context

Signatories should:

- state the expectations they have set for asset managers that exercise rights and responsibilities on their behalf;

OR

- explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies.

In addition, for listed equity assets, signatories should:

- disclose their voting policy, including any house policies and the extent to which funds set their own policies;
- state the extent to which they use default recommendations of proxy advisors;
- report the extent to which clients may override a house policy;
- disclose their policy on allowing clients to direct voting in segregated and pooled accounts; and
- state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate ‘empty voting’.

Activity

For listed equity assets, signatories should:

- disclose the proportion of shares that were voted in the past year and why;
- provide a link to their voting records, including votes withheld if applicable;
- explain their rationale for some or all voting decisions, particularly where:
  - there was a vote against the board;
  - there were votes against shareholder resolutions;
  - a vote was withheld;
  - the vote was not in line with voting policy.
- explain the extent to which voting decisions were executed by another entity, and how they have monitored any voting on their behalf; and
- explain how they have monitored what shares and voting rights they have.

For fixed income assets, signatories should explain their approach to:

- seeking amendments to terms and conditions in indentures or contracts;
- seeking access to information provided in trust deeds;
- impairment rights; and
- reviewing prospectus and transaction documents.

Outcome

For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months.

PRINCIPLES FOR SERVICE PROVIDERS

Service providers play a key role in the investment community as they provide services that support clients to fulfil their stewardship responsibilities. Service providers applying these Principles include, but are not limited to, investment consultants, proxy advisors, and data and research providers.

Activities service providers undertake to support their clients' stewardship may include, but are not limited to, engagement, voting recommendations and execution, data and research provision, advice, and provision of reporting frameworks and standards.

Principle 1

Signatories' purpose, strategy and culture enable them to promote effective stewardship.

REPORTING EXPECTATIONS

Context

Signatories should explain the purpose of the organisation, what services it offers, and an outline of its culture, values, business model and strategy.

Activity

Signatories should explain what actions they have taken to ensure their strategy and culture enable them to promote effective stewardship.

Outcome

Signatories should disclose an assessment of how effective they have been in serving the best interests of clients.

Principle 2

Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

REPORTING EXPECTATIONS

Activity

Signatories should explain how:

- their governance structures and processes have enabled oversight and accountability for promoting effective stewardship and the rationale for their chosen approach;
- the quality and accuracy of their services have promoted effective stewardship;
- they have appropriately resourced stewardship, including:
  - their chosen organisational and workforce structure(s);
  - their seniority, experience, qualification(s), training and diversity;
  - their investment in systems, processes, research and analysis*; and
  - how the workforce is incentivised appropriately to deliver services;
- they have ensured that fees are appropriate for the services provided.

Outcome

Signatories should disclose:

- how effective their chosen governance structures and processes have been in supporting their clients stewardship; and
- how they may be improved.

* see Annex - Regulatory requirements for Proxy advisors

Principle 3

Signatories identify and manage conflicts of interest and put the best interests of clients first.

REPORTING EXPECTATIONS

Context

Signatories should disclose their conflicts policy, which seeks to put the interests of clients first and minimises or avoids conflicts of interest when client interests diverge from each other.

Activity

Signatories should explain how they have identified and managed any instances in which conflicts have arisen as a result of client interests.

Outcome

Signatories should disclose examples of how they have addressed actual or potential conflicts.

Conflicts of interest may arise from, but are not limited to:

- ownership structure;
- business relationships;
- cross-directorships; and
- client interests diverging from each other.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- how they have identified and responded to market-wide and systemic risk(s) as appropriate;
- how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets; and
- the role they played in any relevant industry initiatives they have participated in.

Outcome

Signatories should disclose the extent of their contribution and an assessment of their effectiveness in identifying and responding to systemic risks and promoting well-functioning financial markets.

Market-wide risks are those that lead to financial loss or affect overall performance of the entire market and include but are not limited to:

- changes in interest rates;
- geopolitical issues; and
- currency rates.

Systemic risks are those that may cause the collapse of an industry, financial market or economy, such as climate change.

Stakeholders may include investors, issuers, service providers, policymakers, audit firms, not-for-profits, regulators, associations and academics.

Principle 5

Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

REPORTING EXPECTATIONS

Context

Signatories should disclose client base breakdown, for example, institutional versus retail, and geographic distribution.

Activity

Signatories should explain:

- how their services best support clients' stewardship as appropriate to the nature of service providers' business;
- whether they have sought clients' views and feedback and the rationale for their chosen approach; and
- the methods and frequency of communication with clients.

Outcome

Signatories should explain:

- how they have taken account of clients' views and feedback in the provision of their services; and
- the effectiveness of their chosen methods for communicating with clients and understanding their needs, and how they evaluated their effectiveness.

Principle 6

Signatories review their policies and assure their processes.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- how they have reviewed their policies and activities to ensure they support clients' effective stewardship;
- what internal or external assurance they have received in relation to activities that support their clients' stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach; and
- how they have ensured their stewardship reporting is fair, balanced and understandable.

Outcome

Signatories should explain how the feedback from their review and assurance has led to continuous improvement of stewardship practices.

ANNEX

UK regulatory requirements

The Code is voluntary and sets a standard that is higher than the minimum UK regulatory requirements. Signatories may choose to use their Report to meet the requirements of the Code and disclose information to meet other stewardship-related UK regulatory requirements or international stewardship codes. However, the FRC cannot provide assurance against all other requirements in assessing reporting against the Code.

For asset owners

Occupational pension schemes are required under pension regulations[1] to develop and explain how they have implemented policies for the exercise of the rights and engagement for all investments, including how they monitor investee companies and their voting behaviour. They will also be required to explain how their equity investment strategy is consistent with their liabilities and provide information on their arrangements with asset managers.

Insurers and reinsurers are required under the Senior Management Arrangements, Systems and Controls (SYSC) sourcebook from the Financial Conduct Authority (FCA) to develop and explain how they have implemented an engagement policy for their listed equity investments, including how they monitor investee companies, their voting behaviour and their use of proxy advisors.

They will also be required to provide information on their arrangements with asset managers and explain how their equity investment strategy is consistent with their liabilities. The Pensions Regulator encourages adherence to the Code in its guidance for trustees of defined benefit and defined contribution schemes.

[1] The Department for Work and Pensions (DWP) issues regulations for occupational pension funds and the Ministry of Housing, Communities and Local Government (MHCLG) issues regulations for local government pension schemes. See table in Annex.

Asset managers

Asset managers are required under the FCA Conduct of Business Sourcebook (COBS) to develop and explain how they have implemented an engagement policy for their listed equity investments, including how they monitor investee companies, their voting behaviour and their use of proxy advisors.

Firms are required under the FCA COBS to disclose the nature of their commitment to the Code or, where they do not commit to the Code, their alternative investment strategy (COBS Rule 2.2.3).

Proxy advisors

Proxy advisors are required under the Proxy Advisors (Shareholders' Rights) Regulations 2019 (PA Regulations), supervised by the FCA, to publicly disclose a code of conduct and explain how they have followed it. Proxy advisors may wish to use the Principles for Service Providers as their code of conduct.

They are also required to disclose and implement a conflicts of interest policy and give assurance about the accuracy and reliability of their advice.

Signatory Type	Regulation or rule	Regulator
Asset owners – trustees of occupational pension schemes	**Great Britain** • The Occupational Pension Schemes (Investment) Regulations 2005 • The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 As amended by: • The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 • The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 **Northern Ireland** • The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005 • The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014 As amended by: • The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations (Northern Ireland) 2018 • The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (Northern Ireland) 2019	The Pensions Regulator
Asset owners – trustee boards	• Investment guidance for defined benefit pension schemes • A guide to investment governance (for defined contribution pension schemes)	
Asset owners – insurers and reinsurers	• Senior Management Arrangements, Systems and Controls (SYSC) sourcebook 3.4 SRD Requirements	Financial Conduct Authority
Asset managers	• Conduct of Business Sourcebook (COBS) 2.2B SRD requirements and 2.2.3 Disclosure of commitment to the FRC's Stewardship Code	
Proxy advisors	• The Proxy Advisors (Shareholders' Rights) Regulations 2019 • Decision Procedure and Penalties Manual • Enforcement Guide	

Financial Reporting Council

FINANCIAL REPORTING COUNCIL
8TH FLOOR
125 LONDON WALL
LONDON EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk

Appendix 2

Expected areas to be covered in the UK Stewardship Code 2020 reporting
v1 dated 27 02 2020

1. the purpose of the organisation
2. an outline of its culture, values, business model and strategy
3. its investment beliefs i.e. what factors it considers important for desired investment outcomes and why
4. what actions it has taken to ensure its investment beliefs, strategy and culture enable effective stewardship
5. how its purpose and investment beliefs have guided its stewardship, investment strategy and decision-making
6. an assessment of how effective it has been in serving the best interests of its beneficiaries
7. how its governance structures and processes have enabled oversight and accountability for effective stewardship within the organisation
8. the rationale for its chosen approach to governance
9. whether it has appropriately resourced stewardship activities, including chosen organisational and workforce structures; seniority, experience, qualifications, training and diversity; its investment in systems, processes, research and analysis; and the extent to which service providers were used and the services they provided
10. how performance management or reward programmes have incentivised the integration of stewardship and investment decision making
11. how effective its chosen governance structures and processes have been in supporting stewardship
12. its conflicts policy and how this has been applied to stewardship
13. how it has identified and managed any instances of actual or potential conflicts related to stewardship
14. examples of how it has addressed actual or potential conflicts
15. examples of how it has identified and responded to market-wide and systemic risk(s)
16. how it has worked with other stakeholders to promote continued improvement of the functioning of financial markets
17. the role it played in any relevant industry initiatives in which it has participated, the extent of its contribution and an assessment of their effectiveness, with examples
18. how they it has aligned its investments accordingly
19. an assessment of its effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets
20. how it has reviewed its policies to ensure they enable effective stewardship
21. what internal or external assurance it has received in relation to stewardship (undertaken directly or on its behalf) and the rationale for its chosen approach
22. how it has ensured its stewardship reporting is fair, balanced and understandable
23. how its review and assurance has led to the continuous improvement of stewardship policies and processes
24. the approximate breakdown of the scheme(s) structure, for example, whether the scheme is a public sector defined benefit
25. the size and profile of membership, including number of members in the scheme and the average age of members
26. assets under management across asset classes and geographies;
27. he length of the investment time horizon it has considered appropriate to deliver to the needs of beneficiaries and why

28. how it has sought beneficiaries' views and the reason for its chosen approach
29. how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon
30. how assets have been managed in alignment with stewardship and investment policies
31. what it has communicated to beneficiaries about its stewardship and investment activities and outcomes to meet beneficiary needs, including the type of information provided, methods and frequency of communication
32. how it has evaluated the effectiveness of its chosen methods to understand the needs of beneficiaries
33. how it has taken account of the views of beneficiaries where sought, and what actions it has taken as a result
34. where managers have not followed its stewardship and investment policies, and the reason for this
35. issues prioritised for assessing investments, prior to holding, monitoring through holding and exiting, including the ESG issues of importance to it
36. how integration of stewardship and investment has differed for funds, asset classes and geographies
37. how it has ensured tenders have included a requirement to integrate stewardship and investment, including material ESG issues
38. how it has ensured the design and award of mandates include requirements to integrate stewardship and investment to align with the investment time horizons of beneficiaries
39. the processes it has used to integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of beneficiaries
40. the processes it has used to ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues
41. how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on its behalf, and with reference to how they have best served beneficiaries
42. how it has monitored service providers to ensure services have been delivered to meet its needs
43. how the services have been delivered to meet its needs
44. the action it has taken where expectations of its managers and/or service providers have not been met
45. the expectations it has set for others that engage on its behalf
46. how it has selected and prioritised engagement (for example, key issues and/or size of holding)
47. how they it has developed well-informed and precise objectives for engagement with examples
48. its methods of engagement, the extent to which they have been used and the reasons for their chosen approach
49. how engagement has differed for assets or geographies
50. the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on its behalf
51. what collaborative engagement it has participated in and why, including those undertaken directly or by others on its behalf
52. the outcomes of collaborative engagement
53. the expectations it has set for asset managers that escalate stewardship activities on its behalf
54. how it has selected and prioritised issues, and developed well-informed objectives for escalation

55. when it has chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples and how escalation has differed for assets or geographies
56. the outcomes of escalation either undertaken directly or by others on its behalf
57. how it has exercised its rights and responsibilities across asset classes it is invested in where it can do so
58. the expectations it has set for asset managers that exercise rights and responsibilities on its behalf
59. how it exercises rights and responsibilities, and how its approach has differed for assets or geographies
60. voting policy, including any house policies and the extent to which funds set their own policies
61. the extent to which it uses default recommendations of proxy advisors
62. what approach it has taken to stock lending, recalling lent stock for voting and how it seeks to mitigate 'empty voting'
63. for listed equity assets the proportion of shares that were voted in the past year and why, with a link to their voting records, including votes withheld if applicable, the rationale for some or all voting decisions, particularly where there was a vote against the board / there were votes against shareholder resolutions / a vote was withheld / the vote was not in line with voting policy, the extent to which voting decisions were executed by another entity, and how it has monitored any voting on its behalf / how it has monitored what shares and voting rights it has
64. for fixed income assets, its approach to seeking amendments to terms and conditions in indentures or contracts, seeking access to information provided in trust deeds impairment rights and reviewing prospectus and transaction documents
65. for listed equity assets, examples of the outcomes of resolutions it has voted on over the past 12 months

worcestershire countycouncil

AGENDA ITEM 10

PENSION BOARD
9 MARCH 2020

BUSINESS PLAN

Recommendation

1. **The Assistant Director (HR, OD and Engagement) recommends that the Pension Board considers and advises the Pensions Committee on the Worcestershire Pension Fund (WPF) Business Plan as at 27 February 2020.**

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

Bridget A Clark, HR & OD Service Commissioning Manager
Tel: 01905 766215
Email: bclark@worcestershire.gov.uk

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

Background Papers

In the opinion of the proper officer (in this case the 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 **IDRPs** 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 withthe 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%** GPAE - 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 EQT Corporate Private Debt - Absolute Return 6.5%	4.5% (0.5% above benchmark) 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**.

Fund Investment	19/20	20/21	21/22
INVESTMENT MANAGEMENT FEES	**10,599,400**	**11,382,600**	**12,190,400**
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	**602,700**	**606,000**	**606,900**
Scheme Administration			
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	**1,427,600**	**1,277,300**	**1,344,600**
GRAND TOTAL (Excluding Investment Mgt Fees)	**2,030,300**	**1,883,300**	**1,951,500**
GRAND TOTAL (Including Investment Mgt Fees)	**12,629,700**	**13,265,900**	**14,141,900**

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	CEM Benchmarking Inc
CIPFA	Chartered Institute of Public Finance & Accountancy
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	LGPS Central Limited
Manag	Management
MHCLG	The Ministry of Housing, Communities and Local Government
ONS	Office for National Statistics
Q	Query
Rtn	Return
SAB	Scheme Advisory Board
Sch	Scheduled bodies
SF	Superannuation Fund
Sub	Pension Investment Sub-committee
TBD	To be determined
TPR	The Pensions Regulator
Y/End	Year end

~ ENDS ~

Operational Plan: Projects 27 Feb 2020	KRA	Aspiration	Lead	Start	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	Comments
11 LGPS Central budget (various)	A/C	1	RW	Oct-17	Cttee			Cttee						Cttee					√ to date and scheduled
12 Annual Report & Accounts / associated docs (30 09 20)	A/C	2	RW	Jan-20	Cttee		to Audit	Cttee		signed off	Publish	Cttee							2020 scheduled
15 ONS Trans / Bal and Inc / Expend return (quarterly)	A/C	1	RW	Jan-20		¼ rtn			¼ rtn			¼ rtn			¼ rtn			¼ rtn	√ to date and scheduled
16/17 MHCLG SF3 LGPS Funds account (310820)	A/C	1	RW	Jul-20						Annual									2020 scheduled
18 TPR Occupational Pension Schemes Survey (310320)	A/C	1	LP	Mar-20	Annual														scheduled
19 CEM investment benchmarking (310720)	A/C	1	RW	Jun-20					Annual										scheduled for scheme year 18/19
14 CIPFA benchmarking (311020)	Ad-min	6	LP	Jun-20								Annual		Cttee					2020 scheduled
1 GMP reconciliation and rectification (TBD)	Ad-min	7	BC	Apr-18	Cttee														as running later than expected paper tabled at Jan Committee
2 GMP equalisation (TBD)	Ad-min	7	BC	TBD															running later than expected as awaiting guidance
4 Valuation / FSS / pots / admiss + term policies (310320)	Ad-min	7	RW	Apr-19	Cttee													new rates	99 elections received
8 Enveloping procurement (290220)	Ad-min	5	BC	Aug-18															running later than expected but interim solution with Adare live
10 Pension Administration Strategy review (010420)	Ad-min	10	CF	Jan-20	Cttee	publish													employer consultation supports proposed changes
13 Review data quality (TPR) (TBD)	Ad-min	4	LP	Jan-20		get GAD report			Annual			GAD request data							2020 scheduled
25 Revalue CARE accounts (06 04 2020)	Ad-min	4	SH	Mar-20		System config.													2020 scheduled
26 Provide FRS info (various)	Ad-min	7	AL	Jan-20	Sch				Coll	Ac				admit bods					√ to date and scheduled NB McCloud an issue
3 Branding and digital strategy (TBD)	Eng-age	5	CF	Oct-18															Committee training on 4 Feb
20 Monitor employer covenants / pots / conts	Eng-age	10	RW	Jan-20	Cttee			Cttee											62 cov proformas received
21 Deferred annual benefit statements (310820)	Eng-age	9	CF	Jan-20				Annual	Q manag										2020 scheduled
22 Employee annual benefit statements (310820)	Eng-age	9	CF	Jan-20	Y/End					Annual	Q manag								2020 scheduled
23 Pensioner P60s (290520)	Eng-age	3	SH	Jan-20			Annual	Q manag											2020 scheduled
24 Payslips reflecting pension increase (300420)	Eng-age	3	SH	Jan-20		Annual													2020 scheduled
27 Pension Savings Statements (061020)	Eng-age	3	LP	Jan-20								Annual							2020 scheduled
29 Pensioner newsletter / life cert (30 11 20)	Eng-age	9	CF	Jan-20									Annual						all but 6 certs returned and 2020 scheduled
28 Good Governance (TBD)	Gov Staff	11	RW	TBC															Position statement produced and Dec Committee update
30 Review investment adviser's objectives	Gov Staff	13	RW	Jul-19	Cttee														Dec Cttee update
5/6 Review of Asset Allocation / ISS (31 03 20)	Inv	14	RW	Apr-19	Cttee Sub			Cttee Sub			Sub	Cttee	Sub	Cttee					Dec Cttee update
9 Transition assets to LGPS Central Limited (various)	Inv	14	RW	Feb-19	Cttee Sub			Cttee Sub						Cttee					√ for EM and most CB
NOTE: project (5) incl in (6), (7) complete and (29) - (30) added																			

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AGENDA ITEM 11

PENSION BOARD
9 MARCH 2020

PENSION ADMINISTRATION STRATEGY (PAS)

Recommendation

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

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

Bridget A Clark, HR & OD Service Commissioning Manager
Tel: 01905 766215
Email: bclark@worcestershire.gov.uk

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

Background Papers

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

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AGENDA ITEM 12

PENSION BOARD
9 MARCH 2020

RISK REGISTER

Recommendation

1. **The Assistant Director (HR, OD and Engagement) recommends that the Pension Board considers and advises the Pension Committee on the Worcestershire Pension Fund (WPF) Risk Register as at 28 February 2020.**

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
County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Bridget A Clark, HR & OD Service Commissioning Manager
Tel: 01905 766215
Email: bclark@worcestershire.gov.uk

Rob Wilson
Pensions Investment, Treasury Management & Capital Strategy Manager
Tel: 01905 846908

Email: RWilson2@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the 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 > = 45 (01 risks)
- Amber >= 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 Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 12 (Chief Financial Officer)	Mismatch in asset returns and liability movements.	Exposure to risk or missing investment opportunities or increases in employer contributions.	25	3	75	The Fund regularly reviews its Investment Strategy Statement, has a diversified portfolio and implements a policy of extended recovery periods to smooth employer contributions. Qualified advisers including an independent investment adviser are contracted, and the funding position / mortality and morbidity experience is reviewed regularly by the Pensions Committee. 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 RED
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 AMBER

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WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 23 (Chief Financial Officer)	Employers cannot pay their contributions 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 AMBER

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 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 AMBER
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 AMBER

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 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 AMB
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 AMBER

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WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 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 AMBER
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 AMBER

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WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 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 AMB
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 AMBER

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 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 AMB
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 AMB
WPF 28 (HR Service Centre Manager)	Cyber attack leading to loss of personal data like bank account details.	Data Protection breach / fraud.	25	2	50	The Fund conforms with (Worcestershire County Council) WCC's breach notification process and WCC's data policy, for example through the use of data encryption and password protection. 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 AMBER
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 AMB

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 07 (Chief Financial Officer)	Future change to LGPS regulations or other legislation, for example 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 GREEN

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 22 (Chief Financial Officer)	The number of early retirements increases to levels in excess of the actuarial assumptions adopted. Pay and consumer price inflation significantly different from actuarial assumptions.	Increases required in employer contributions.	20	2	40	Employers are required to pay lump sums to fund costs for non-ill health cases. The Actuary monitors early retirement (including on the grounds of ill-health) experience being exhibited by the Fund's members and consequently adjusts the actuarial assumptions. The Fund ensures that employers are made aware of consequences of their decisions and that they are financially responsible. At each actuarial valuation an analysis is carried to ensure that the assumptions adopted are appropriate. The Fund holds discussions with employers through the Pension Administration Advisory Forum over the expected progression of pay in the short and long term. This information is then fed back to the Fund's Actuary with medium term financial plan budget evidence provided, if required. The Government's plan to increase pensions by the Consumer Prices Index Housing (CPIH) instead of CPI in future will reduce the Fund's liabilities. The Fund is investigating making ill health liability insurance available to interested employers.	20	1	20 GREEN

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 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 GREE

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 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 GRE
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 GRE
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 GR

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WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 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)	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 GRE
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 GR

WPF Risk Register as at 28 Feb 2020 Risk Reference (owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 04 (Chief Financial Officer)	Not having 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 GRE
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 GRE
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 Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual 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 GREE
WPF 27 (HR Service Centre Manager)	Incorrect calculation of benefits through human error or delayed notification of a death.	Too much being paid out in benefits.	5	1	5	In addition to system testing the Fund has a test system and a test site for Altair (the pension payroll system). Every calculation has independent checking and set procedures. Staff receive training and performance is benchmarked. The Fund has an overpayments process and reports overpayments to the Pensions Committee. Tracing agencies are used for members aged 65+. Life Certificates are also used.	5	1	5 GREEN

worcestershire countycouncil

AGENDA ITEM 13

PENSION BOARD
9 MARCH 2020

PENSION FUND TRAINING PROGRAMME

Recommendation

1. **The Chief Financial Officer recommends that the Pension Board considers and advises the Pensions Committee:**

    a) **On the Training plan (Appendix 1) and any further topics that they feel should be identified for future training events.**

    b) **On the Knowledge and skills questionnaire that has been circulated (Appendix 2) to all members of the Board, Investment Sub Committee and Pension Committee**

Purpose of Report

2. This report addresses the training requirements of the Pension Board, Pensions Committee and Pensions Investment Sub Committee. This is to ensure that an appropriate approach to training is in place that ensures strong governance of the Fund.

Background

3. A report was presented to the Committee on the 5 June 2018 on Training for Pension Committee Members that provided details on the following:

a) The adopted 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;
b) Training Policy;
c) CIPFA Framework;
d) Fund documents and training materials;
e) The Pensions Regulators training toolkit; and
f) Training programme for 2018/19.

4. Following on from this, a proposed training programme has continued to be developed for the Pensions Committee, Pension investment Sub Committee and Board members up to October 2020 and is attached at Appendix 1.

5. The timescales for delivery of the training is proposed to be around the same time as the Committee and the suggested topics have been split between a mix of pensions administration and investment areas

6. Members are asked to comment on the suggested training programme, suggest any other topics for future training and if agreed steps will be taken to formalise the training events.

7. It is noted that there have been several changes at Board and Committee, and subject to any further reviews of governance discussed elsewhere on the same agenda as this paper there may be more. As a result, it is proposed to run several refreshers and catch up training programmes for those members of the Committee and Board. In addition, a Knowledge and Skills questionnaire (Appendix 2) has been recently sent around all members to identify any training requirements and help shape the future training programme

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 manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Supporting Information

- Appendix 1 – Training Programme
- Appendix 2 – Knowledge and Skills Questionnaire

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the background papers relating to the subject matter of this report are detailed in the 'Training for Pensions Committee Members report to the Pensions Committee on the 22 June 2018

Worcestershire Pension Fund **Appendix 1**

Proposed training programme for Pensions Committee, Investment Sub Committee & Pension Board members

Training Topics	**19/06/2019**	**08/07/2019**	**28/11/2019**	**04/02/2020**	**03/04/2020**	**16/06/2020**	**05/10/2020**
Investments							
Investment pooling (including transition of assets)							**Y**
An overview of the main asset classes e.g. equities, bonds, private equity, trade finance, global property, infrastructure						**Y**	
Equities (including sustainable equities)							
Fixed Income (Private Debt, Bonds etc.)		**Y**					
Alternatives (Property & Infrastructure)			**Y**				
Sustainable Investing				**Y**			
Alternative Indexation					**Y**		
China; a new horizon					**Y**		
Financial Markets				**Y**			
De risking of the Investment Strategy			**Y**				
Responsible Investment (ESG)				**Y**			
The Investment Regulations						**Y**	
Performance and risk management of a pension fund (PEL & CEM Benchmarking)	**Y**				**Y**		
Administration and Governance							
Guaranteed Minimum Pension (GMP)							**Y**
The role of the Pensions Regulator					**Y**		
Administrative Authority Lifecycle overview					**Y**	**Y**	
Covenant Monitoring							
Data protection / personal data retention policy				**Y**			
Actuarial valuations, Triennial Review, Funding Strategy Statement and Employer Risk Framework	**Y**						
Administrative processes and Lifecycle (Part one and Two) See below for topics		**Y**			**Y**	**Y**	**Y**
Demonstration of website developments and an introduction to possible future digital developments				**Y**			
knowledge of the duties and responsibilities of committee members & Role of Trustee				**Y**			
Data quality							**Y**
Pension accounting and audit requirements						**Y**	
Corporate Governance and shareholder activism, including the Myners Principles (May be covered via Responsible Investment above)					**Y**		

Worcestershire Pension Fund **Appendix 1**

Proposed training programme for Pensions Committee, Investment Sub Committee & Pension Board members

Training Topics	19/06/2019	08/07/2019	28/11/2019	04/02/2020	03/04/2020	16/06/2020	05/10/2020
Administration Lifecycle		Part Two			Part One	Part Two	
		08/07/2019			03/04/2020	TBC	
• Employers					Y		
• Membership					Y		
• Leavers					Y		
. Transfers in and Out					Y		
Additional Voluntary Contributions (AVC) and Additional Pension Contributions (APC)		Y				Y	
Nominations		Y				Y	
Divorce		Y				Y	
Decisions and Appeals (IDRP) & The Pensions Ombudsman		Y				Y	
The starters process and / or the leavers process						Y	

Appendix 2

2020 Worcestershire Pension Fund Training Needs Questionnaire

Name:

On a scale from1 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

No	Area of knowledge	1 to 5
1.0	**Pensions Legislation**	
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.	
2.0	**Pension Governance**	
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.	

No	Area of knowledge	1 to 5
2.9	Knowledge of consultation, communication and involvement options relevant to the stakeholders.	
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.	
3.0	**Pension Administration**	
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: • Member data maintenance and record-keeping processes • Internal dispute resolution • Contributions collection • Scheme communications and materials	
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.	
4.0	**Pensions Accounting & Auditing standards**	
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.	
5.0	**Pensions services procurement and relationship management**	
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.	

No	Area of knowledge	1 to 5
5.3	Understanding of the nature and scope of risks for the pension 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.	
6.0	**Investment performance and risk management**	
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.	
7.0	**Financial markets and products knowledge**	
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.	
8.0	**Actuarial methods, standards and practices**	
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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