

# **Agenda**

## **Pension Board**

**Friday, 17 September 2021, 10.00 am**  
**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 3<sup>rd</sup> party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

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

### WHAT MUST I DO WITH A DPI?

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

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

### WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

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

### WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

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

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

Not normally. You must withdraw only if it:

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

### DON'T FORGET

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

## Pension Board

**Friday, 17 September 2021, 10.00 am, County Hall, Worcester**

**Membership:** **Employer Representatives**  
Mr R J Phillips (Chairman), Mr A Lovegrove, and Cllr Paul Harrison

**Member Representatives**  
Ms O Fielding, Mr S Howarth, Ms L Whitehead and Ms K Wright

## Agenda

Item No	Subject	Page No
1	<b>Apologies</b>	
2	<b>Declaration of Interests</b>	
3	<b>Confirmation of Minutes</b> To confirm the Minutes of the private meeting held on 16 June 2021 (previously circulated)	
4	<b>Pensions Committee - 29 June 2021</b> To review the Agenda and Minutes of the Pensions Committee meeting held on 29 June 2021: <ul style="list-style-type: none"> <li>• Pension Investment Update</li> <li>• LGPS Central Update</li> <li>• Pension Fund Unaudited Accounts 2020/21</li> <li>• Business Plan</li> <li>• Risk Register</li> <li>• Good Governance Review and Objectives of the Fund's Investment Advisor</li> <li>• Draft Funding Strategy Statement (FSS) Policy Update</li> <li>• Government Actuary Department (GAD) Pension Review Update</li> <li>• UK Stewardship Code 2020</li> <li>• Training Update and the Pension Board's 'Deep Dive' Programme</li> <li>• Internal Audit</li> </ul> The Agenda papers and Minutes have previously been sent to members.	
5	<b>Update on Scheme Advisory Board (SAB)</b> To receive a verbal update.	
6	<b>Good Governance Update</b>	1 - 10

Agenda produced and published by Abraham Ezekiel, Assistant Director for Legal and Governance, 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

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## **PENSION BOARD 17 SEPTEMBER 2021**

### **GOOD GOVERNANCE UPDATE**

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#### **Recommendations**

1. The Chief Financial Officer recommends that the Board comments on this latest update on the LGPS Scheme Advisory Board's (SAB's) Good Governance project and on the Worcestershire Pension Fund Position Statement: Good Governance 31 08 2021 attached as an Appendix.

#### **Background**

2. As detailed in our [rolling Business Plans](#), 3 of the 14 aspirations that underpin the 5 key result areas that we have identified to help us to achieve our goals relate to the good governance of the Fund:

- 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.
- To ***recruit, train, nurture and retain highly motivated staff with the necessary professional, managerial and customer focus skills*** to deliver on the ever-increasing complexities of the LGPS.
- To ***continually review the effectiveness of our committees and advisers*** and our decision-making.

#### **SAB's Good Governance project**

3. SAB's [Good Governance project](#) was established in June 2018 to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance.

4. Following a procurement exercise, SAB appointed Hymans Robertson in January 2019 to do the work culminating in producing the 17 detailed proposals contained in the Appendix to its November 2019 (Phase II) [report](#) and in relation to each of which the Appendix to this update details the Fund's current position and the actions identified.

5. On 8 February 2021 SAB agreed that the [Good Governance – Final \(Phase 3\) Report](#) should be published and that the Chair should submit the [Action Plan](#) to the Local Government Minister for consideration.

6. The Final (Phase 3) Report adds detail (including example organisational structures, governance KPIs and a governance compliance statement) about how to comply with

the 17 detailed proposals agreed in 2019 by incorporating further input from a range of scheme stakeholders.

7. The Action Plan consists of formal requests from SAB to MHCLG and other bodies to implement the recommendations from the project together with actions for the SAB which are either dependent on or regardless of the outcome of those requests.

8. Whilst we (and SAB) are waiting to see how MHCLG responds, **the Appendix to this update has been prepared to not only take account of what we have been doing in response to the Phase II report (our current position) but also TPR's publication of [an interim response to its recent consultation on its new single code of practice](#) adding responsibilities / timelines for the actions identified in our May 2021 position statement and the extra actions that we have identified will likely be needed to demonstrate good governance after analysing the extra detail contained in the Phase 3 Report.**

## Contact Points

### 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 – Worcestershire Pension Fund Position Statement: Good Governance 31 08 2021

## 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 Position Statement: Good Governance 31 08 2021

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 [The Pensions Regulator's plans](#) to combine 10 of its 15 existing codes of practice (including [CoP 14: Governance and administration of public service pension schemes](#)) into a new, single, combined and expanded (to incorporate climate change, cyber security, (ESG) stewardship of investments, administration and remuneration policies) modular document that identifies the legal duties of pension funds, provides advice on how to meet them and incorporates changes introduced by the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 (the governance regulations).

The proposed new governance requirement for private sector pension funds with 100 or more members to conduct an annual 'own risk assessment' (of its risk controls) as a result of having to incorporate new "effective systems of governance" requirements mandated by the European Pensions Directive (Institutions for Occupational Retirement Provision (IORP) II directive) is an example of the increased workload that funds face and is mirrored by section F of the Appendix to Hymans Robertson's Good Governance in the LGPS November 2019 (Phase II) [report](#) to the LGPS SAB.

All in all we expect that delivering on good governance will be a big work-stream in 2022, as TPR expects to lay the new code in Parliament after spring 2022 with it becoming effective after summer 2022.

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
<b>A. General</b>		
A.1 MCHLG will produce statutory guidance to establish new government requirements for funds to effectively implement the proposals below. ("the Guidance")	Awaiting the draft Guidance to review and benchmark	Prepare for the Guidance (MH / TBD)
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	Review the effectiveness of our Risk Register (MH / 17 09 2021)

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS fund as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer	We publish a governance compliance statement as part of <a href="#">our annual reports</a>  The 16 March 2021 Pensions Committee approved our updated <a href="#">Governance Policy Statement</a>	Benchmark our Governance Compliance Statement against Appendix 2 of the Phase 3 Report, and once it is issued against the Guidance and peer funds annually (CF / 17 09 2021)
<b>B. Conflicts of interest</b>		
B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance	Elected members' (not officers') conflicts of interest are declared at the start of each Pensions Committee meeting	Using P10/33 of the Phase 3 Report produce a statement of possible conflicts of interest and ask Board / Committee members and Fund Officers to confirm their compliance before meetings. (CF / 17 09 2021)  Review best practices employed at other funds (including private sector) to help identify possible conflicts and approaches in preparation for producing a policy (SH / TBD) for POG and (RW / 09 09 2021) for LGPSC funds
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 the draft Guidance	Prepare for publicising the Guidance and delivering training on it (MH / TBD)
<b>C. Representation</b>		
C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees,	Information about the Pensions Committee is available <a href="#">via</a> our website	Review whether the current position remains adequate annually using comparator funds' annual reports to benchmark practices

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
explaining its approach to representation and voting rights for each party	<p>The Pension Board's terms of reference are available <a href="#">via</a> our website</p> <p><a href="#">Our annual reports</a>, <a href="#">our Investment Strategy Statement</a> and para K of appendix 1 of <a href="#">the Worcestershire County Council constitution</a> contain information about representation</p>	(CF / 17 11 2021)
<b>D. Knowledge and understanding</b>		
D.1 Introduce a requirement in the Guidance for the key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively	<p>We deliver a one-hour informal welcome to the fund for new members of our Board / Committee covering their role; where to find information; the required time commitment / knowledge expectations; what type of scheme the LGPS is; about our fund; and the range of material from previous training sessions (slides and video recordings) that is available for them to access</p> <p>We deliver a deep dive into an aspect of the LGPS and a training session every couple</p>	<p>Review the current position with the Chairs of the Board / Committee annually (RW / 06 09 2021)</p> <p>Conduct knowledge assessment of key individuals (CF / 17 11 2021 with an interim action being for CF to match our draft officer knowledge assessment v CIPFA member training needs analysis by 06 09 2021)</p>

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
	<p>of months for Board / Committee members and our senior team, agreeing with attendees what the next session will cover at the current session and an update on our training programme is tabled at most Board / Committee meetings</p> <p>Our officers attend various groups comprised of representatives from a number of LGPS funds, receive <a href="#">LGPC bulletins</a> and develop the LGPS knowledge of our employers through <a href="#">monthly employer newsletters</a></p>	
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 our deep dives / training sessions / Committee papers top this strong baseline position up	s151 to complete skills framework and personal competencies assessments and address within his CPD programme (MH / 17 09 2021)
D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements	Our current training policy was tabled at the <a href="#">17th March 2020 Pensions Committee meeting</a>	<p>Review the current position with the Chairs of the Board / Committee annually (RW / 06 09 2021)</p> <p>Note: Reviews should take account of the level and scope of training for officers, the</p>

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
		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	Respond to CIPFA's and CIPP's expected guidance and consider peer / CIPFA / LGA review (MH / TBD)
<b>E. Service delivery for the LGPS function</b>		
E.1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with the descriptions and business processes	<p>The <a href="#">Worcestershire County Council constitution</a> and <a href="#">our annual reports</a> contain information about roles and responsibilities, and we have job descriptions for every officer's role</p> <p>The s151 Officer also delegates to the Head of Finance (Corporate) matters requiring a purely County Council decision affecting the Pension Fund to ensure no conflict of interest arises over other employers</p>	Publish a matrix that meets the requirements and clarifies the role and responsibility of everyone involved in every stage of the processes we carry out during a member's administration lifecycle (MH / 17 11 2021)
E.2 Each authority must publish an administration strategy	<p>We <a href="#">comply</a> with this requirement</p> <p>Prior to making changes to our 17 03 2020 strategy and asking our Committee to</p>	Review our <a href="#">Pensions Administration Strategy</a> annually, consulting our employers and benchmarking our strategy with comparator funds (CF / 28 02 2022)

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
	approve our 2021 strategy, we consulted with our employers from 23 12 2020 to 12 02 2021	
E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of the service	These are included in <a href="#">our annual reports</a> and the quarterly Business Plans tabled at <a href="#">Pensions Committee meetings</a>	Continually work with the Pension Board to check and develop our KPIs and seek out benchmarking, identifying in the first instance what KPIs from Ps 17-18 / 33 of the Phase 3 Report the Fund is able to produce and what would be needed to produce the missing information (CF/ 17 09 2021)
E.4 Each administering authority must ensure their committee is 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	Rolling Business Plans are tabled at <a href="#">Pensions Committee meetings</a>	Review the effectiveness of our rolling Business Plan (MH / 17 11 2021)
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	Bring forward proposals to the 8 December Pensions Committee that seek to improve our service by ensuring that we have the resources in place to deliver the Worcestershire Pension Fund of the future, a fund resourced up for the challenges and projects ahead (MH / 08 12 2021)
<b>F. Compliance and improvement</b>		
F.1 Each administering authority must undergo a biennial Independent Governance Review (IGR) and, if applicable, produce the required improvement plan to address any issues identified	We do not currently do this	Prepare for IGRs. The s151 Officer has raised this at Society of County Treasurers and CIPFA working groups and is keen to explore options early in 2022 (MH / 08 12 2021)

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
IGR reports to be assessed by a SAB panel of experts		
F.2 LGA to consider establishing a peer review process for LGPS funds	We do not currently do this	Prepare for the process and investigate external benchmarking like <a href="#">PASA</a> (MH / 08 12 2021)

Note: in the last column CF = Chris Frohlich; SH = Suzie Hawkes; MH = Michael Hudson; and RW = Rob Wilson

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## **PENSION BOARD**

### **17 SEPTEMBER 2021**

## **BUSINESS PLAN**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that the Board reviews the Worcestershire Pension Fund (WPF) Business Plan as at 8 September 2021.**

### **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 the 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. This includes updates on issuing of annual benefit statements, our latest actuarial position and progress with service improvements.
4. The appendix provides a one-page update on all the one-off (shown as shaded) and annually recurring (shown as unshaded) large pieces of work or projects that we are progressing to achieve our 14 supporting aspirations.
5. The Board's attention is drawn to the introduction of a management summary at the start of the Business Plan and in particular our plans to bring forward resourcing proposals to the 8 December Pensions Committee.
6. A separate paper on Good Governance (its appendix is our updated position statement) is also on the Board's agenda.
7. As detailed in Section 5, in August 2021 we just (at 41 days compared to 40 days) failed to hit our average target turnaround for joiners, with 46% processed within our KPI. On joiners we processed 87% within our KPI for the year 2021 / 2022 (74% for the quarter ending 31 August 2021) and have hit our average target turnaround for joiners for the year 2021 / 2022.
8. In August 2021 we had 30 deaths. We had 32 deaths in July 2021 and the average monthly number of deaths in 21/22 is 32. The average monthly number of deaths in 19/20 was 15 and in 20/21 it was 25.
9. In 2021 / 2022 we have had 0 data breaches, 1 IDRP and 1 complaint (complaints generally do not escalate to IDRPs).

## **Supporting information**

- Appendix - WPF Business Plan 8 September 2021

## **Contact Points**

### Specific Contact Points for this report

Chris Frohlich, Engagement Manager  
Tel: 01905 844004  
Email: [cfrohlich@worcestershire.gov.uk](mailto:cfrohlich@worcestershire.gov.uk)

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

## **Background Papers**

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



# Business Plan

As at 08 09 2021

## MANAGEMENT SUMMARY

This Business Plan is designed to be a one-stop-reference-shop for everything going on at Worcestershire Pension Fund and in the LGPS world.

Committee and Board members' attention is drawn to the following underlying key indicators (about which further detail is provided later in this Plan) of whether all is currently well at the Fund and whether we are delivering on the issues that we are required to do by regulations / that The Pensions Regulator takes a special interest in:

1. We delivered an annual benefit statement to 99.87% of our employee member records and a 2021 deferred annual benefit statement to 99.59% of our not "gone aways" deferred member records. Compared to other funds and prior years, this is deemed good performance and meets with The Pension Regulator's requirements.
2. We have not received any new IDRP's, experienced any data breaches or had to report anything to The Pensions Regulator since the last quarterly, rolling Business Plan.
3. Our latest pensions administration KPIs are reassuring and in line with targets set.
4. Our Fund performance / funding levels are in line with budget.
5. Our projects / budgets are on schedule: we have completed project (1) GMP reconciliation and rectification, and it has accordingly been removed from our list of projects.
6. We are not aware of any matters that we need to escalate and have been seeking reassurances from IT and our pensions administration system supplier over the measures in place to mitigate the risks we face concerning cyber security NB our Risk Register details our rating of the risks we face and what we are doing to mitigate them.
7. We (along with several LGPS funds) have been successful in becoming a signatory to the 2020 Stewardship Code, something which 64 organisations out of 189 organisations (including 147 asset managers, 28 asset owners including pension funds and insurers, and 14 service providers including data and information providers and investment consultants) applying to the Financial Reporting Council did not achieve.

Moving forward we are keen to continue our improvement and workforce planning, including increasing the training / knowledge of our team; making improvements to our processes that we have identified; offering online access to our members' pensions records; providing more detailed management information; and investigating one-off payments. We will be bringing forward proposals to the 8 December Pensions Committee that seek to improve our service by ensuring that we have the resources in place to deliver the Worcestershire Pension Fund of the future, a Fund resourced up for the challenges and projects ahead (see section 2.8 below).

## 1 INTRODUCTION

### 1.1 Our Business Plan:

- a) Outlines our (Worcestershire Pension Fund's) purpose, goals and key result areas / supporting aspirations (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 annual reports](#).

## 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 in England & Wales. Worcestershire County Council is the statutorily appointed Administering Authority.

2.6 We administer the LGPS for our employers who vary considerably in size and type and who have allowed their current and previous employees to become members:

	As at 31 March 2021	As at 30 June 2021
<b>Employers with active members</b>	183	187
<b>Employee member records</b>	23,054	22,509
<b>Pensioner member records</b>	19,533	19,717
<b>Deferred member records</b>	22,167	22,456
<b>Total member records</b>	64,754	64,682

2.7 We manage a **£3,496m** (as at 30 06 2021) pension fund to pay benefits as they are due and as at 30 June 2021 our solvency (the minimum risk funding position is much lower) funding position was 101%.

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) COVID-19: whilst we have successfully moved to home working supported by a small postal / scanning service at County Hall and expect to be able to adapt to the new ways of working that is likely to see staff working from home for 4 days a week, our workload and resources have as yet not been tested by a significant increase in member deaths or in staff absence.
- b) The Pension Regulator (TPR) increasing its requirements re record keeping, data cleansing and covenant reviews.
- c) Adopting the national LGPS Scheme Advisory Board's good governance guidance as best practice.

- d) An ever-changing tax / pensions environment: currently these include: [McCloud](#); [Fair Deal](#); [reforming local government exit pay](#); [tax relief for low earners](#); [increasing the normal minimum pension age](#) and [changes to the valuation cycle](#).
- e) Guaranteed Minimum Pension (GMP) equalisation.
- f) New employers (from outsourcing and academy conversions).
- g) Increasing expectations from stakeholders (like member online access and employer data transmission).
- h) Central government asset pooling requirements (we are a partner fund in LGPS Central Limited, LGPSC).
- i) Re-procurements for services currently delivered by Heywood / Mercer / Scottish Widows / WCC Legal services / Barclays / CFH Docmail / Adare / Pop Creative / Portfolio Evaluation Limited (PEL) / MJ Hudson.

### **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.
- 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 with section 4 (after the pages with a light background colouring that follow this paragraph). 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 budgets for 2021 / 2022 to 2023 / 2024 are detailed in section 6 below. The Budget Report update on the agendas of the 17 September Pension Board and the 8 October Pensions Committee meetings details the reasons for the variances.

We will be bringing forward proposals to the 8 December Pensions Committee to improve our service by ensuring that we have the resources in place to deliver the Worcestershire Pension Fund of the future, a Fund resourced up for the challenges and projects ahead, the administration budgets will be revisited as part of developing those proposals. We will ensure this still demonstrates an efficient and well managed fund that is comparable in cost to other funds.

We are on schedule for all payments (for example to HMRC) and monitoring (for example cashflow) activities.

There are no issues with managing / reconciling the custodian accounts for investments including transactions, tax doc, cash controls, etc.

We have produced our unaudited statement of accounts for 2020 / 2021 and are on schedule to produce our 2021 annual report that will be checked against the Chartered Institute of Public Finance and Accountancy (CIPFA) example accounts and an external audit accounts checklist.

## **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 alphabetical order):

### **Dashboards:**

The Department for Work and Pensions will be launching a consultation on the [pensions dashboards](#) draft regulations, which will include rules on the different stages pension schemes will need to start sharing their data to be included in the project.

### **Data quality:**

We have worked through employers' end of year returns and addressed any contribution / final pay / CARE pay issues resulting from the 31 March 2021 year end contribution posting.

### **Employer changes:**

We are aware of the following employer changes in 2021 / 2022:

- Hill and Moor Parish Council wanting to offer the LGPS to their staff.
- Worcester Community Trust expected to be terminating in 2022.
- Maid Marions joining as a new employer.
- Perdiswell Primary School joining Tudor Grange Academy Trust on 1 April 2021.
- Liberata's Finance and Accounting services and maybe its HR Consulting service to return to WCC on 30 June 2021.
- Sidemore First and Nursery joining Black Pear Trust on 1 April 2021.
- Pencombe joining Hereford Marches Federation of Academies.
- The Orchard School joining Black Pear Trust on 1 April 2021.
- Cater Link Ltd (TG Perdiswell) to be joining.
- Turning Point (services) Limited joining on 1 April 2021.
- Barrs Court School setting up a new MAT called Accordia Academies Trust that will include a new school opening September 2021 called The Beacon College.
- Glen Cleaning joining as a new employer on 12 July 2021.
- Holy Family Catholic MAC merging with Our Lady of Lourdes with effect from 1 Sep 2021 to become Our Lady of the Magnificat MAC.
- Bewdley Museum becoming a new employer on 1 Sep 2021 with staff from Wyre Forest District Council being TUPE transferred from Bewdley Museum to a newly formed Trust.

### **GMP rectification (costs review):**

The paper tabled at the [1 Dec 2017 Pensions Committee](#) expected the cost to be £325,000 to £350,000. The [31 January 2020 Committee](#) authorised a spend of up to £500,000. As reported to the [9 December 2020 Committee](#) the total of historic underpayments was £8,744 for pensioners plus £190 for dependants. Going forward annual pensions are being increased by a total of £1,418 for pensioners plus £32 for dependants. £50,505 in overpayments will not be recovered from pensioners and £22,169 in overpayments will not be recovered from dependants. ITM charged £244,188 for their work. The total cost was therefore £8,744 + £190 + £50,505 + £22,169 + £244,188 = £325,796.

### **KPIs:**

As detailed in Section 5, in August 2021 we just failed to hit our average target turnaround for joiners, with 46% processed within our KPI. On joiners we processed 87% within our KPI for the year 2021 / 2022 (74% for the quarter ending 31 August 2021) and have hit our average target turnaround for joiners for the year 2021 / 2022.

We had 30 deaths in August 2021. We had 32 deaths in July 2021 and the average monthly number of deaths in 2021 / 2022 is 32. The average monthly number of deaths in 2019 / 2020 was 15 and in 2020 / 2021 it was 25.

We introduced the new £100 writing off pensions overpayments policy on 23 Feb 2021. In 2021 /2022 we have written off 4 cases (£194.27 / £1,452.63 / £237.44 and £103.77).

Regarding outstanding payments from employers or debtors for whom we have raised an invoice, we have concerns about being able to collect £160,000 in respect of the funding shortfall on leaving the Fund as an employer that was paid direct to Robert Owen Academy rather than to us by the Department for Education.

#### **McCloud:**

On 11 May the Queen's speech announced there will be a Public Service Pensions and Judicial Offices Bill to ensure equal treatment for all members within each of the main public service pension schemes, following the reforms to change schemes to career average.

This was followed up by a [Ministerial Statement](#) on 13 May.

It is anticipated that regulations will be made after new primary legislation in relation to public service pensions has completed its passage through Parliament and the Government's intention is that regulations will come into force on 1<sup>st</sup> April 2023.

We have been processing the hours changes that we have historically received from our employers and have identified the likely gaps in our member data. These include missing service breaks resulting from authorised absence or unpaid maternity leave not paid back via an APC that could affect the date of meeting the Rule of 85 for members with final pay benefits. We have also been working with Liberata and WCC HR to make sure that we have all of the data that we will need to deliver the McCloud rectification for members associated with our largest employer. We plan to issue guidance to our employers on our requirements once we have identified exactly what we need from them.

#### **Processes**

We are drafting new processes for employers leaving the Fund, for bulk transfers and for reporting non-payment of employer contributions to The Pensions Regulator.

#### **Public sector exit payments:**

We are monitoring the situation and have added text to our redundancy calculations about HM Treasury's statement that it will bring forward proposals at pace to tackle unjustified exit payments. We introduced higher strain costs for all redundancy / efficiency retirement dates after 20 July.

#### **Remedying survivor benefits for opposite-sex widowers and surviving male civil partners:**

The Chief Secretary to the Treasury has made a written [statement](#) on remedying survivor benefits for opposite-sex widowers and surviving male civil partners where male survivors remain entitled to a lower survivor benefit than a comparable same-sex survivor. We have revisited our two male civil partners and are awaiting regulatory guidance on our opposite-sex widowers.

#### **Working From Home:**

We have introduced the facility to send written communications electronically to a distribution house to print / envelope and post.

## **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:**

We despatched 16,081 (including one to Tokyo) 2021 deferred benefit statements / newsletters on Tuesday 15 June. As we include information relating to all of a deferred member's records on the one statement, this actually represented delivering information relating to 18,541 deferred records that are not "gone aways". We also issued 287 catch up statements 'manually' from County Hall to deferred members whose data we had not processed in time for our bulk mailing cut off, meaning that 99.59% of our 22,197 not "gone aways" deferred members as at 31 March 2021 received a statement. This last figure is sourced from our system at the time of running the extract for our deferred statements and is a different number to the 22,167 deferred records that we report in section 2 of this Plan, as that figure was extracted on 6 April i.e. prior to us processing our employers' year end returns.

We despatched 21,612 employee annual benefit statements / newsletters on Friday 20 August. We also issued 26 catch up statements 'manually' from County Hall to members whose data we had not processed in time for our bulk mailing cut off, meaning that 99.87% of our 21,664 employee members as at 31 March 2021 received a statement. This last figure is sourced from our system at the time of running the extract for our annual benefit statements and is a different number to the 23,054 records that we report in section 2 of this Plan, as that figure was extracted on 6 April i.e. prior to us processing our employers' year end returns.

In July 2021 our website had 1,972 visits (63 visits per day) compared to 2,052 visits (66 visits per day) in July 2020 i.e. -4% and there were 1,205 different or unique visitors (86% of the non-unique visits).

Following an assessment of what it would take to implement member online access to pension records (member self-service, MSS), we decided not to start implementing MSS before September 2021 and to do further work on understanding the exact resource requirements.

5 of our employers are on risk for ill health liability insurance, and we are building delivering awareness of the product into our admissions process.

## **KRA: Governance & Staffing**

11. To ensure the ***effective management and governance*** in a way that strives for continuous improvement through improved value for money, the promotion of excellent customer service and compliance with all regulatory / best practice requirements.

12. To ***recruit, train, nurture and retain highly motivated staff with the necessary professional, managerial and customer focus skills*** to deliver on the ever-increasing complexities of the LGPS.

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

Governance & Staffing KRA Commentary:

Whilst we (and SAB) are waiting to see how MHCLG responds, we have prepared an updated position statement on what we have been doing in response to [the SAB Good Governance Project Phase II report](#) (our current position), adding responsibilities / timelines for the actions identified in our May 2021 position statement and the extra actions that we have identified will likely be needed to demonstrate good governance after analysing the extra detail contained in [the SAB Good Governance Project Final Phase 3 Report](#).

We are also closely monitoring [The Pensions Regulator's plans](#) to combine 10 of its 15 existing codes of practice (including [CoP 14: Governance and administration of public service pension schemes](#)) into a new, single, combined and expanded (to incorporate climate change, cyber security, (ESG) stewardship of investments, administration and remuneration policies) modular document that identifies the legal duties of pension funds, provides advice on how to meet them and incorporates changes introduced by the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 (the governance regulations).

The proposed new governance requirement for private sector pension funds with 100 or more members to conduct an annual 'own risk assessment' (of its risk controls) as a result of having to incorporate new "effective systems of governance" requirements mandated by the European Pensions Directive (Institutions for Occupational Retirement Provision (IORP) II directive) is an example of the increased workload that funds face and is mirrored by section F of the Appendix to Hymans Robertson's Good Governance in the LGPS November 2019 (Phase II) [report](#) to the LGPS SAB.

All in all we expect that delivering on good governance will be a big work-stream in 2022, as TPR expects to lay the new code in Parliament after spring 2022 with it becoming effective after summer 2022.

As our existing pension administration resources do not allow us to do everything that we would like to (like increasing the training / knowledge of our team or making all the improvements to our processes that we have identified or offering online access to our members' pensions records or providing more detailed management information or investigating one-off payments), we cannot become complacent and accordingly we will be bringing forward proposals to the 8 December Pensions Committee that seek to improve our service by ensuring that we have the resources in place to deliver the Worcestershire Pension Fund of the future, a Fund resourced up for the challenges and projects ahead (see section 2.8 below).

We will be recruiting a replacement for the grade 3 full time member of staff who left us on 24 August.

We have been exploring how best to support the personal development of our staff by promoting the formal qualifications offered by the Pensions Management Institute (PMI) and by the Chartered Institute of Payroll Professionals (CIPP).

We organised a meeting with WCC's Enterprise Architect, IT & Digital who took use through the cyber-security measures that we have in place. These include measures to stop malicious emails; measures to remove malicious links in emails; measures to prevent outbound emails being sent to unacceptable recipients; measures to prevent access to fake websites; measures to encrypt our emails; measures to keep our laptops clean; and measures to catch ransom

demands.

We are probing the supplier of our pension administration system about:

- What they have been doing to keep the cloud / our data / our login arrangements Altair / sending (bulk / individual) emails from Altair safe.
- What new threats they have popped mitigations in place for.
- What recent changes or patches have been made to their disaster recovery arrangements.
- Evidencing (perhaps via internal or external audits) the things that they have done recently to keep up to date.
- What ongoing vulnerability scanning they have in place alerting them to new vulnerabilities.

We are addressing the issues raised by Grant Thornton's July 2021 IT audit report by introducing new control measures for removing access to our pension administration system for staff who leave; for password strength; and for reporting on access attempts / amendments to non-member data.

We delivered induction training to the 3 new Pensions Committee members on 3 June 2021.

We delivered training on 'How an LGPS employee member can improve their lot' on 20 July 2021.

The next training session (on investment in infrastructure / property / private debt) is scheduled for 21 September.

We delivered a deep dive to the Pension Board on our annual report on 8 June 2021.

We have reviewed our Statement of policy on our discretions (as an administering authority) and delivered a deep dive to the Pension Board about them on 10 August 2021.

The next deep dive on stewardship is scheduled for 14 October.

We had a meeting on 6 September with the Chairs of our Pensions Committee, Pension Investment Sub Committee and Pension Board to discuss the way forward on training.

The annual review and audit / sign off arrangements for the annual report that includes our Governance Compliance Statement are in place for 2021.

We (along with several LGPS funds) have been successful in becoming a signatory to the 2020 Stewardship Code, something which 64 organisations out of 189 organisations (including 147 asset managers, 28 asset owners including pension funds and insurers, and 14 service providers including data and information providers and investment consultants) applying to the Financial Reporting Council did not achieve.

## **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:**

The Fund’s asset valuation as at 30 June 2021 was £3,496m and its funding level was 101% which has recovered well from the significant impact of COVID 19 in March 2020. However there remains a lot of volatility in the financial markets.

As detailed in the next section (section 4), the Fund has generated an average annual return of 7.6% compared to its benchmark of 7.2% over the 3 years to 30 06 2021.

Over the year to 30 06 2021 the Fund generated a return of 15.0% compared to its benchmark of 17.2%.

97 employers have supplied us with accounting data, so that we can assess their covenants.

Updated versions of our 2021 Investment Strategy Statement (that tidied up the version approved by the Pensions Committee on 16 March), ‘All about Worcestershire Pension Fund investment pots’ and ‘Making a formal representation for an exit credit payment’, along with our June 2021 Funding Strategy Statement are available from the [Funding and investments area](#) of our website.

As part of the response to the ESG Audit recommendations agreed at Pensions Committee on 16 March 2021, the Fund is exploring suitable sustainable active equity and / or passive Climate factor fund investments. We have a Climate Change Risk Strategy in place that will include asking our investment managers to present their TCFD report and to deliver carbon risk metrics on their portfolios.

The PLSA is [consulting](#) on the development of a quality mark for responsible investment.

We continue to investigate making infrastructure, private debt, and sustainable equity investments via LGPSC.

## **4 INVESTMENT TARGETS**

4.1 The 2019 actuarial valuation set the following real annual discount rates:

- a) Past service: Consumer Prices Index + 1.65%.
- b) Future service: Consumer Prices Index + 2.25%.

4.2 The assumed annual Consumer Prices Inflation is +2.4%.

4.3 Therefore our annual return on investment targets are 4.05% (for deficit recovery payments) / 4.65% (for future service contributions).

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 of the table below:

Sector	Benchmark	Average annual Performance over the 3 years to 30 June 2021 v benchmark
Far East Developed	FTSE All World Asia Pacific Index + 1.5%	8.1% (0.8% above benchmark)
Emerging Markets	FTSE All World Emerging Market index +2.0%	Not available as new fund invested from July 2019
United Kingdom	FTSE All Share Index	2.1% (0.1% above benchmark)
North America	FTSE All World North America - Developed Series Index	17.3% (0.1% above benchmark)
Europe ex - UK	FTSE All World Europe ex UK Index - Developed Series Index	10.0% (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	10.9% (0.6% below benchmark)
Fixed Interest	Barclays Global Aggregate Corporate Bond Index – Hedged into GBP	Not available as only invested March 2020
	EQT Corporate Private Debt - Absolute Return 6.5%	Not available as only invested May 2018
Property / Infrastructure	Various absolute benchmarks for different fund managers	Property 2.2% (4.4% below benchmark) Infrastructure 5.7% (3.1% 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.

5.2 A commentary on the tables below is provided earlier in the shaded KRA: Administration section (that follows section 3.7).

Activity / Process	Number processed in Aug 2021	% Processed within KPI in Aug 2021	Av turnaround (working days) in Aug 2021	Target turnaround (working days)	2021/2022 average number processed per month
Joiners notification of date of joining	152	46	41	40	224
Process and pay refund	68	91	5	10	40
Calculate and notify deferred benefits	84	94	9	30	95
Letter notifying actual retirement benefits	53	100	2	15	46
Letter notifying amount of dependant's benefits	10	90	4	10	15
Letter acknowledging death of member	30	80	3	05	32
Letter detailing CETV for divorce	11	100	1	45	14
Letter notifying estimate of retirement benefits	118	99	4	15	137
Letter detailing transfer in quote	32	100	3	10	32
Process and pay lump sum retirement grant	78	100	10	23	80
Letter detailing transfer out quote	33	97	3	10	29
Letter detailing PSO implementation	0	n/a	n/a	15	0

Activity / Process	Number processed for year 2021 / 2022	% Processed within KPI for year 2021 / 2022	Av turnaround (working days) for year 2021 / 2022	Target turnaround (working days)
Joiners notification of date of joining	1122	87	21	40
Process and pay refund	200	97	5	10
Calculate and notify deferred benefits	477	91	10	30
Letter notifying actual retirement benefits	232	100	2	15
Letter notifying amount of dependant's benefits	75	96	3	10
Letter acknowledging death of member	162	80	4	05
Letter detailing CETV for divorce	72	100	2	45
Letter notifying estimate of retirement benefits	687	100	3	15
Letter detailing transfer in quote	162	99	2	10
Process and pay lump sum retirement grant	404	98	13	23
Letter detailing transfer out quote	147	95	3	10
Letter detailing PSO implementation	2	100	5	15

## 6 BUDGET

In addition to the commentary provided earlier in the shaded KRA: Accounting section (that follows section 3.7), detailed reporting of our budget position is provided twice a year to Pensions Committee and included in [our annual reports](#).

### Pension Fund Administration Forecast Outturn 2021/22 & indicative budgets 2022/23 & 2023/24

2021/22 Budget	2021/22 Forecast Outturn	2021/22 Variance	Description	2022/23 Annual Change	2023/24 Annual Change	Comments
£	£		£	£	£	
<b>Fund Investment</b>						
9,702,400	15,757,600	6,055,200	INVESTMENT MANAGEMENT FEES	16,022,500	16,457,800	Includes LGPS central Fees, Equity Protection and increasing commitment to Property & Infrastructure.
148,000	141,526	-6,474	Investment Administration Recharge	151,000	154,000	Increased Investment support
734,500	734,500	0	LGPS Central Governance and Running Costs contribution	756,500	779,200	Was previously shown under Management Fees
100,000	90,000	-10,000	Investment Custodial and related services	102,000	104,000	Reduced Custodial services due to transition of assets to LGPSC
131,500	106,000	-25,500	Investment Professional fees	187,000	112,500	Increased support for ESG Audit in 20.21 & 21.22
28,600	28,400	-200	Performance Measurement	29,200	29,800	CEM Benchmarking and Portfolio Evaluation
<b>1,142,600</b>	<b>1,100,426</b>	<b>-42,174</b>	<b>INVESTMENT ADMINISTRATION COSTS</b>	<b>1,225,700</b>	<b>1,179,500</b>	
<b>Scheme Administration</b>						
1,075,700	1,104,116	28,416	Pension scheme Administration recharge	1,166,400	1,194,500	Increase due to Admin software requirements and additional staff for increased workload
338,000	360,000	22,000	Actuarial services	388,000	338,000	Employer monitoring through Actuary system Pfaroe 20/21 and Triennial valuation allowed for April 2022/23
27,500	34,068	6,568	Audit	34,100	34,100	
33,500	33,816	316	Legal Fees	33,500	33,500	
11,000	11,000	0	Committee and Governance recharge	11,000	11,000	
<b>1,485,700</b>	<b>1,543,000</b>	<b>57,300</b>	<b>SCHEME ADMINISTRATION COSTS</b>	<b>1,633,000</b>	<b>1,611,100</b>	
<b>2,628,300</b>	<b>2,643,426</b>	<b>15,126</b>	<b>GRAND TOTAL (Excluding Investment Mgt Fees)</b>	<b>2,858,700</b>	<b>2,790,600</b>	
<b>12,330,700</b>	<b>18,401,026</b>	<b>6,070,326</b>	<b>GRAND TOTAL (Including Investment Mgt Fees)</b>	<b>18,881,200</b>	<b>19,248,400</b>	

### Appendix 1 – Operational Plan: Projects

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

It uses the following acronyms / abbreviations:

AA	Asset allocation
A/C	Accounting
Ac	Academies
Admin	Pensions Administration
Admiss	Admission
Admit	Admitted
AH	Aquila Heywood
App	Application
BCP	Business Continuity Plan
Bods	Bodies
Calcs	Calculations
CARE	Career average revalued earnings

CB	Corporate bonds
CEM	<a href="#">CEM Benchmarking Inc</a>
Cert	Certificate
CIPFA	<a href="#">Chartered Institute of Public Finance &amp; Accountancy</a>
CMA	<a href="#">Competition and Markets Authority</a>
Coll	Colleges
Config	Configuration
Conts	Contributions
Covs	Covenants
Cttee	Pensions Committee
EM	Emerging markets
Engage	Engagement
Er	Employer
Expend	Expenditure
FI	Fixed interest
FRS	Financial Reporting Standards
FSS	<a href="#">Funding Strategy Statement</a>
GMP	Guaranteed Minimum Pension
Gov	Governance
Inc	Income
Inv	Investments, Funding & Actuarial
ISS	<a href="#">Investment Strategy Statement</a>
KRA	Key result area
LGPS	Local Government Pension Scheme
LGPSC	<a href="#">LGPS Central Limited</a>
Manag	Management
MHCLG	<a href="#">The Ministry of Housing, Communities and Local Government</a>
ONS	<a href="#">Office for National Statistics</a>
Q	Query
Recti	Rectification
RI	Responsible investment
Rtn	Return
SAB	<a href="#">Scheme Advisory Board</a>
Sch	Scheduled bodies
SF	Superannuation Fund
SI	Statutory Instrument
Sub	Pension Investment Sub-Committee
Term	Termination (of an employer's membership of the Fund)
TBD	To be determined
TPR	<a href="#">The Pensions Regulator</a>
TV	Transfer (of member benefits)
Y/End	Year end

~ ENDS ~

Operational Plan: Projects 8 Sep 2021 NOTES: (1) removed as completed	KRA	Aspirat ion	Lead	Started	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun22	Jul 22	Aug 22	Sep 22	Oct 22	Comments
11 LGPS Central budget (various)	A/C	1	RW				Cttee		Cttee			Cttee			Cttee				Cttee	√ to date and scheduled
12 Annual Report & Accounts / associated docs (30 09 21)	A/C	2	RW		signed off	Publish	Cttee								Cttee		signed off	Publish	Cttee	unaudited financial statements prepared
15 ONS Inc / Expend return (quarterly)	A/C	1	RW				¼ rtn			¼ rtn			¼ rtn			¼ rtn			¼ rtn	√ to date and scheduled
16/17 MHCLG SF3 LGPS Funds account (31 08 21)	A/C	1	RW		Annual												Annual			2021 scheduled
18 TPR Occupational Pension Schemes Survey (31 03 22)	A/C	1	NW									Annual								√ 2021 and 2022 scheduled
19 CEM investment benchmarking (31 07 22)	A/C	1	RW													Annual				√ 2021 re data from scheme year 19/20
14 CIPFA benchmarking (31 10 21)	Ad- min	6	NW				Annual		Cttee										Annual	2021 scheduled
2 GMP equalisation (TBD)	Ad- min	7	SH	TBD																awaiting guidance NB non-club TVouts 1990 to 1997 in scope
4 Valuation / FSS / pots / admss + term policies (various)	Ad- min	7	RW				Cttee		Cttee			Cttee			Cttee				Cttee	2021 FSS on website
32 Reprocare pension admin system (30 04 2024)	Ad- min	4	NW	May-20																contract extended for 3 years from 30 April 2021
10 Pension Administration Strategy review (01 04 22)	Ad- min	10	CF								consult	Cttee	publish							√ 2021 and 2022 scheduled
13 Review data quality (various)	Ad- min	4	NW		Aq Hey results				Mercer results								Aq Hey results			√ 2020 Mercer and Heywood
25 Revalue CARE accounts (06 04 2022)	Ad- min	4	SH										System config.							√ 2021 and 2022 scheduled
26 Provide FRS info (various)	Ad- min	7	AL		Ac				admit bods			Sch				Coll	Ac			√ to date and scheduled
3 Branding and digital strategy (TBD)	Eng- age	5	CF	Oct-18																awaiting resource and checking out UPM with Dorset
20 Monitor employer covenants / pots / conts	Eng- age	10	RW				Cttee		Cttee	ask ers		Cttee	reset erconts		Cttee				Cttee	Pfaroe in place and Bond requirements being updated
21 Deferred annual benefit statements (31 08 22)	Eng- age	9	CF												Annual	Q manag				√ 2021 and 2022 scheduled
22 Employee annual benefit statements (31 08 21)	Eng- age	9	CF		Annual	Q manag						Y/End					Annual	Q manag		2021 on schedule and employers briefed
23 Pensioner P60s (29 05 22)	Eng- age	3	SH											Annual	Q manag					√ 2021 and 2022 scheduled
24 Payslips reflecting pension increase (30 04 22)	Eng- age	3	SH										Annual							√ 2021 and 2022 scheduled
27 Pension Savings Statements (06 10 21)	Eng- age	3	NW				Annual												Annual	2021 scheduled
29 Pensioner newsletter / life cert (30 11 21)	Eng- age	9	CF					Annual												2021 scheduled
28 /30 Good Governance incl TPR (TBD)	Gov Staff	11	RW	TBC			Cttee		Cttee	CMA comply		Cttee			Cttee				Cttee	updated policy statement and delivered training / deep dives
33 McCloud: data collection; er rates; and calcs	Ad- min	3	NW	Aug-20			Cttee		Cttee			Cttee			Cttee				Cttee	hour changes being progressed and plans being developed
5/6 Review of Asset Allocation / ISS (31 03 22)	Inv	14	RW			Sub	Cttee	Sub	Cttee			Cttee			Cttee Sub			Sub	Cttee	√ 2021 and 2022 scheduled
9 Increase assets managed by LGPS Central Limited	Inv	14	RW	Feb-19			Cttee		Cttee			Cttee			Cttee Sub				Cttee	looking into infrastructure / private debt / sustainable equity
34 Progress the Fund's RI journey	Inv	14	RW	Jan 20			Cttee		Cttee			Cttee			Cttee				Cttee	√ Climate Change Risk Strategy / Stewardship Code signatory

## **PENSION BOARD**

### **17 SEPTEMBER 2021**

## **RISK REGISTER**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that the Pension Board reviews the 8 September 2021 WPF Risk Register.**

### **Background and update**

2. The Risk Register is kept under regular review and, following the August 2021 review by officers, an updated Register is attached as an Appendix.
3. The review resulted in the removal of risk WPF 32 (GMP rectification not completed in line with the Pensions Regulator's / our members' expectations) as the project has been completed successfully.
4. The review resulted in no residual risk scores being increased or reduced.
5. No new risks were added to the Register
6. Mitigating actions have been updated for:
  - a) **new measures** e.g. bringing forward proposals to the 8 December Pensions Committee that seek to improve our service by ensuring that we have the resources in place to deliver the Worcestershire Pension Fund of the future, a Fund resourced up for the challenges and projects ahead; and increasing our understanding of the cyber risks we face e.g. by probing the supplier of our pension administration system about what they have been doing to keep the cloud / our data / our login arrangements Altair / sending (bulk / individual) emails from Altair safe; and
  - b) **previous measures that have been completed / developed further / have changed timelines** e.g. producing a 2021 FSS; providing and reviewing our training for PB / PC / PISC members; updating our Good Governance position statement; and becoming a signatory to the 2020 UK Stewardship Code.
7. Our staff continue to predominantly work from home to deliver a 'business as usual' service with no loss in productivity.

### **Supporting information**

- Appendix - WPF Risk Register 8 September 2021

## Contact Points

### Specific Contact Points for this report

Chris Frohlich, Engagement Manager  
Tel: 01905 844004  
Email: [cfrohlich@worcestershire.gov.uk](mailto:cfrohlich@worcestershire.gov.uk)

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

### Background Papers

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

# Risk Register

As at 08 09 2021

## About this Risk Register

The following colour coding is used for the 31 residual risk scores:

- Red  $\geq 45$  (03 risks)
- Amber  $\geq 25$  but  $< 45$  (12 risks)
- Green  $< 25$  (16 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 08 06 2021 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 31 risks logged in this register are in highest Residual Risk Score order:

1. WPF 12 Mismatch in asset returns and liability movements.
2. WPF 10 Being reliant on LGPS Central Limited delivering its forecasted cost savings.
3. WPF 20 Staff leaving or going on long term absence.
4. WPF 23 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.
5. WPF 07 Future change to LGPS regulations or other legislation, for example from SAB's governance working groups or from the written statement on remedying survivor benefits for opposite-sex widowers and surviving male civil partners where male survivors remain entitled to a lower survivor benefit than a comparable same-sex survivor or from 'Restricting exit payments in the public sector'.
6. WPF 33 Climate change.
7. WPF 11 Failure to pool assets using LGPS Central Limited.
8. WPF 31 Pandemic affecting our staff / our employers' Payroll or HR staff / staff at payroll providers who provide services to us or our employers.
9. WPF 06 Fair Deal consultation proposals being implemented.
10. WPF 24 Employers having insufficient skilled resources to supply our data requirements.
11. WPF 02 Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.
12. WPF 08 Failure to appoint suitable investment managers and review their performance / markets / contracts.
13. WPF 03 Failure of officers to maintain a sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix.
14. WPF 28 Cyber-attack leading to loss of personal data like bank account details.
15. WPF 30 Failure to maintain the quality of our member data.
16. WPF 09 Being reliant on LGPS Central Limited's investment approach.
17. WPF 19 Failure to procure a pensions admin system for the future.
18. WPF 22 The following key actuarial assumptions set at each actuarial valuation do not match our actual experience between actuarial valuations: the number of ill health retirements; that employer strain costs associated with early / redundancy / flexible retirements are covered by the payments collected from employers; pay / price inflation; and life expectancy.
19. WPF 18 Failure of existing pension admin system to deliver the services contracted.
20. WPF 21 Failure of business continuity planning.
21. WPF 13 Liquidity / cash flow is not managed correctly.
22. WPF 14 Failure to exercise proper stewardship of our assets.
23. WPF 26 Fraud by staff.
24. WPF 15 Failure of the actuary to deliver the services contracted.
25. WPF 01 Failure of governance arrangements to match up to recommended best practice.
26. WPF 17 Failure of custodian to deliver the services contracted.
27. WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy.
28. WPF 16 Failure of investment adviser to deliver the services contracted.
29. WPF 25 Fraud by scheme members.
30. WPF 29 Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.
31. WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

WPF Risk Register 8 Sep 2021 Risk Ref (risk 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	We regularly review our Investment Strategy Statement (the current one that updated the March 2020 one was approved by the Pensions Committee in March 2021), have a diversified portfolio and implement a policy of extended recovery periods to smooth employer contributions. Qualified advisers including an independent investment adviser are contracted and set objectives that are reviewed regularly. Funding position, actuarial valuation assumptions and mortality / morbidity experience are reviewed regularly by the Pensions Committee. Strategic asset allocation is reviewed quarterly by the Pension Investment Sub Committee. We have equity protection arrangements in place up to Feb 2022 for all of our passive market cap equity funds. We continue to liaise with all our investment managers in response to the initial market falls and ongoing market volatility caused by COVID-19, although equity markets have recovered a lot of the initial losses. 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 investment opportunities.	25	2	50
WPF 10 (Chief Financial Officer)	Being reliant on LGPS Central Limited delivering its forecasted cost savings.	Paying too much in fees / investment under-performance.	25	2	50	Whilst the Pension Investment Sub Committee and LGPS Central's Practitioners' Advisory Forum (PAF) monitor the costs of being a partner fund of LGPS Central Limited, there is little they can do about LGPSC admitting that any expected cost savings will not emerge as soon as anticipated. Whilst we have not transferred many assets so far, there are fixed costs of being a partner fund. The Monthly Investment Working Group meetings at which all 8 partner funds are represented review staffing changes at LGPSC and the performance of assets under LGPSC's management.	25	2	50

WPF Risk Register 8 Sep 2021 Risk Ref (risk 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 Pensions Administration Manager )	Having insufficient resources in pensions administration, perhaps as a result of 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	Moving forward we are keen to continue our improvement and workforce planning, including increasing the training / knowledge of our team; making improvements to our processes that we have identified; offering online access to our members' pensions records; providing more detailed management information; and investigating one-off payments. We will be bringing forward proposals to the 8 December Pensions Committee that seek to improve our service by ensuring that we have the resources in place to deliver the Worcestershire Pension Fund of the future, a Fund resourced up for the challenges and projects ahead. We will be recruiting a replacement for the grade 3 full time member of staff who left us on 24 August. We are aware that another LGPS fund has advertised 100% WFH positions that do not require the jobholder to go to the LGPS fund. We have engaged an interim manager as a result of the retirement of our two most senior pension admin officers and are managing the maternity absence of one of our Senior Pensions Assistants. Home working has reduced the risks posed by COVID-19 re illness. Absences are managed in line with Worcestershire County Council's attendance policy. Exit interviews / questionnaires are used to explore the reason for anyone leaving.	25	2	50

WPF Risk Register 8 Sep 2021 Risk Ref (risk 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 after actuarial valuations. The aim is to keep employer contributions as stable and affordable as possible. During the 2019 actuarial valuation we actively engaged with employers by issuing interim results, by offering 1:1s with the actuary and developed an employer contribution election form. At a Fund level employers have confirmed that the LGPS remains affordable, a situation that we are monitoring in the light of COVID-19. We have been able to offer some flexibility in exceptional circumstances: a top 10 employer with financial pressure has been allowed to phase in increased payments, reflecting our 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. We monitor membership profiles and changes, ensure that employers are reminded of their responsibilities where this is appropriate and work with at risk employers. We are currently analysing employers' 2020 financial metrics. We have collected employers' 2021 metrics and set up employer risk monitoring using Mercer's Pfaroe tool to enable us to monitor employer financial and other risks more closely. We have employer grouped investment strategies.	20	2	40

WPF Risk Register 8 Sep 2021 Risk Ref (risk 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 government legislation on minimum normal pension age or exit payments.	Increasing administrative complexity or failure to comply with The Pensions Regulator.	25	3	75	We have produced a 2021 FSS. In preparation for delivering the McCloud remedy we have been processing the hours changes that we have historically received and identifying the likely gaps in our data. We welcomed two full-time members of staff to the administration team in January and one in February. We plan to issue guidance to our employers on McCloud once we have identified exactly what we need from them and have consulted with our actuary on the contribution implications for employers who are not making advance financial provision. In Dec 2020 we implemented revised unisex GAD capitalisation factors in response to the £95K exit cap proposals that were disapplied. On 21 July we introduced revised factors that better reflect the funding cost of redundancies and are monitoring the situation, as HM Treasury wants to tackle unjustified exit payments. Officers participate in various scheme and industry groups and fora. The Committee and Board monitor LGPS developments. We are aware that GMP equalisation will affect historic non-club transfers out. We have set up employer risk monitoring using Mercer's Pfaroe tool to enable us to monitor employer financial and other risks more closely. We undertake annual covenant reviews, introduced employer grouped investment strategies on 1 April 2020 and work with at risk employers.	20	2	40
WPF 33 (Chief Financial Officer)	Climate Change	Investment under-performance	20	3	60	A DWP policy consultation response and consultation on regulations entitled Taking action on climate risk: improving governance and reporting by occupational pension schemes was launched on 27 January running until 10 March. The scope of the regulations does not include the LGPS. However, regulations are expected from MHCLG to substantially mirror the requirements set out in this document. We have a Climate Change Risk Strategy in place. We have produced our Climate Related Financial Disclosures. We ask our investment managers to present their TCFD report and to deliver carbon risk metrics on their portfolios.	20	2	40

WPF Risk Register 8 Sep 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
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	We are a working member and shareholder of LGPSC. 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. We will take legal advice before not pooling our assets and monitor the willingness of the pool to invest in the sort of assets that could have a positive impact on future funding levels. The first transfers of our assets (in emerging markets and corporate bonds) were undertaken in July 2019 / Feb 2020. Infrastructure investments and private debt are currently being looked into.	15	2	30
WPF 31 (Pensions Administration Manager)	Pandemic affecting our staff / our employers' Payroll or HR staff / staff at payroll providers who provide services to us or our employers.	Inability to deliver critical functions like paying deaths.	20	2	40	Whilst we have successfully moved to home-working supported by a small postal / scanning service at County Hall and expect to be able to adapt to the new ways of working, our workload and resources have as yet not been tested by a significant increase in member deaths or in staff absence. We are not experiencing problems with suppliers / employers. We continue to be vigilant and to keep our priorities under review by monitoring our KPIs and the guidance from Public Health England / the LGA. In preparation for a future wave, we are planning to introduce the facility to send written communications electronically to a distribution house to print / envelope and post. We have also developed amendments to our normal procedures that would cope with staff, data or systems being unavailable and specifically cope with increased volumes of deaths. We will continue to review capacity v resources and to liaise with other LGPS funds over their proposed ways forward.	15	2	30

WPF Risk Register 8 Sep 2021 Risk Ref (risk 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	Government consultations are being delayed as the government focusses its efforts on COVID-19. When the regulations come out we 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 we ensure that employers are made aware of consequences of their decisions and that they are financially responsible.	15	2	30
WPF 24 (Pensions Administration 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	Following the LGPS producing some guidance for LGPS funds about collecting data from their employers to deliver the remedy, we have been processing the hours changes that we have historically received and identifying the likely gaps in our data. We welcomed two full-time members of staff to the administration team in January and one in February. We plan to issue guidance to our employers on McCloud once we have identified exactly what we need from them and have consulted with our actuary on the contribution implications for employers who are not making advance financial provision. Following our annual employer consultation we updated the Pension Administration Strategy on 1 April 2021. We support employers with monthly newsletters / an area on our website / employer fora (the latest of which was held on 22 April). 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. We have produced a 'Transfers of staff between our employers / academy conversions' guidance note and accompanying Excel spreadsheet and expanded this material by developing information for employers ill health retirements. Checking individual records at points of significant transaction is undertaken.	15	2	30

WPF Risk Register 8 Sep 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
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	We delivered induction training to the 3 new Pensions Committee members on 3 June 2021. We delivered training on 'How an LGPS employee member can improve their lot' on 20 July 2021. The next training session (on investment in infrastructure / property / private debt) is scheduled for 21 September. We delivered a deep dive to the Pension Board on our annual report on 8 June 2021. We have reviewed our Statement of policy on our discretions (as an administering authority) and delivered a deep dive to the Pension Board about them on 10 August 2021. The next deep dive session on 14 Oct is scheduled to cover stewardship. 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. A meeting with the Chairs of Committee / Board / Investment Sub Committee to discuss a paper that summarises our previous training deliverables and the approaches used / available in the market was held on 6 September.	15	2	30
WPF 03 (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 is delivering more effective decision making than its predecessor, the Pension Investment Advisory Panel, that had to have its recommendations approved by the Pensions Committee. It monitors performance of our diverse range of investment managers (including LGPSC), meeting with / placing managers on watch as appropriate. We 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 our Investment Adviser were agreed at the 17 March 2020 Pensions Committee and are reviewed and reported to Committee around every 6 months.	25	1	25

WPF Risk Register 8 Sep 2021 Risk Ref (risk 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 or to act in accordance with our roles and responsibilities matrix.	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. Officers have drafted a staff knowledge assessment to assist in developing its own workforce.	25	1	25
WPF 28 (Pensions Administration Manager )	Cyber attack leading to loss of personal data or ransom or our hardware being disabled.	Data Protection breach / fraud.	25	2	50	We organised a meeting with WCC's Enterprise Architect, IT & Digital who took use through the cyber-security measures that we have in place. These include measures to stop malicious emails; measures to remove malicious links in emails; measures to prevent outbound emails being sent to unacceptable recipients; measures to prevent access to fake websites; measures to encrypt our emails; measures to keep our laptops clean; and measures to catch ransom demands. We are probing the supplier of our pension administration system about what they have been doing to keep the cloud / our data / our login arrangements Altair / sending (bulk / individual) emails from Altair safe; what new threats they have popped mitigations in place for; what recent changes or patches have been made to their disaster recovery arrangements; evidencing (perhaps via internal or external audits) the things that they have done recently to keep up to date; and what ongoing vulnerability scanning they have in place alerting them to new vulnerabilities. We are addressing the issues raised by Grant Thornton's July 2021 IT audit report by introducing new control measures for removing access to our pension administration system for staff who leave; for password strength; and for reporting on access attempts / amendments to non-member data.	25	1	25

WPF Risk Register 8 Sep 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
WPF 30 (Pensions Administration 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	Our annual Mercer, Heywood and GAD data quality reviews shows our data is up with other LGPS funds. We have reviewed the results from our actuary's data quality tool that extends beyond the basic requirements of The Pensions Regulator in relation to 'common data'. The overall conclusion was that the estimated 'whole Fund' liability impact of the data issues flagged has increased slightly from c£15.6m to c£16.4m. As this remains at c0.5% of the Fund's liabilities, it is a comfortable position to be in and does demonstrate the continued excellence in data quality general for the core information used for actuarial calculations on which both operational and strategic decisions are made. However, as it revealed a significant increase in the number of frozen members with missing pensions (from c450 at 2019 to c1,600 at 2020), we tasked Mercer with providing us with a list of the deferreds with no date of leaving and investigated them. We will be using the standard approach re data collection for McCloud.	25	1	25
WPF 09 (Chief Financial Officer)	Being reliant on LGPS Central Limited's investment approach.	Investment underperformance / regulatory non-compliance.	25	2	50	We are challenging LGPSC's infrastructure ideas. The Pension Investment Sub Committee monitors performance of this investment manager. The Pensions Committee and officers carry out a subjective review and objective analysis of asset performance resulting from decisions taken by the Pensions Committee following advice from our investment adviser.	20	1	20
WPF 19 (Pensions Administration 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	We have extended our existing pensions administration system supplier's contract for 3 years from 30 April 2021 that opens the way for us to decide what to do re add-ons like i-Connect (middleware for the transmission of data from employers to us electronically) and Member Self Service (online access for members to their pension record).	15	1	15

WPF Risk Register 8 Sep 2021 Risk Ref (risk 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 following key actuarial assumptions set at each actuarial valuation do not match our actual experience between actuarial valuations: the number of ill health retirements; that employer strain costs associated with early / redundancy / flexible retirements are covered by the payments collected from employers; pay / price inflation; and life expectancy.	Increases required in employer contributions.	20	2	40	To respond to the now disapplied £95K exit cap in Dec 2020 we adopted (and on 21 July implemented revised) unisex GAD capitalisation factors. We have introduced monitoring for all ill health retirements, advising employers of the increase in their liabilities associated with each case. We have made ill health liability insurance available to our employers to mitigate our exposure for those employers who take up the insurance. We check that employers have paid their strain costs for non-ill health cases and ensure that employers are made aware of the financial consequences of the retirements they offer their employees. We have added wording to our redundancy calculations about the government's intention to bring forward proposals to tackle unjustified exit payments. During the 2019 actuarial valuation we highlighted to employers the need to make realistic pay assumptions and required evidence from employers to support any reduced pay inflation allowance within their assumptions. The impact of price inflation is mitigated to some degree as we invest in assets which are sensitive to changes in price inflation e.g. index-linked Government bonds. We intend to develop the investment pots further to provide greater inflation protection. Mortality assumptions are set with some allowance for future increases in life expectancy, and the cost cap should limit the impact of improvements in life expectancy, something that would not be expected in the short term following COVID-19.	15	1	15

WPF Risk Register 8 Sep 2021 Risk Ref (risk 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 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	We are probing the supplier of our pension administration system about what they have been doing to keep the cloud / our data / our login arrangements Altair / sending (bulk / individual) emails from Altair safe; what new threats they have popped mitigations in place for; what recent changes or patches have been made to their disaster recovery arrangements; evidencing (perhaps via internal or external audits) the things that they have done recently to keep up to date; and what ongoing vulnerability scanning they have in place alerting them to new vulnerabilities. We have obtained business continuity assurance from Heywood as part of its COVID-19 response. Contract service is reviewed annually and there are regular meetings with 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. The current pensions administration system's hosting Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood. We have signed up to the national LGPS framework for pension admin systems and as Heywood are an approved supplier we have independent validation of its current arrangements.	15	1	15
WPF 21 (Chief Financial Officer)	Failure of business continuity planning.	Inability to deliver critical functions like paying pensioners.	25	2	50	Our and Worcestershire County Council's (WCC) Business Continuity Plans have passed the tests posed by COVID-19 to date. The current pensions administration system's hosting Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood that means it is more securely backed up. We will review lessons learned from its successful response to COVID-19 as we move out of lockdown. We will ensure that WCC includes delivery of support services to us in its Risk Register. Home working is in place.	15	1	15

WPF Risk Register 8 Sep 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
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	The Finance Manager - Pensions monitors cash flow on a monthly basis. We currently have 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. We monitor contributions payable and paid on a monthly basis and also reconcile to E5 (our accounting system) on a monthly basis.	15	1	15
WPF 14 (Chief Financial Officer)	Failure to exercise proper stewardship of our assets.	Potential erosion of investment returns or reputational damage.	15	2	30	We have been successful in our application to the FRC for signatory status to the UK Stewardship Code 2020. We participate in the Local Authority Pension Fund Forum (LAPFF) and other groups. The Pension Investment Sub Committee monitors Environmental, Social and Governance (ESG) policy regularly. We have conducted an ESG audit and a sustainable development goals (SDGs) mapping exercise which will aid our stewardship and help inform our future investment strategy.	15	1	15
WPF 26 (Pensions Administration Manager)	Fraud by staff.	Financial loss.	15	1	15	Audits of our processes take place on an ongoing basis, checking samples. Changes to Altair leave a footprint that identifies who made the change. Manager checking remains in place, supporting 'business as usual' whilst staff are working from home. Citrix has log-in security. Altair has multiple login protections. National Fraud Initiative information is processed every six months. We have joined Tell Us Once. Month end reconciliations are also carried out.	15	1	15
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	Following a review of their performance we have renewed Mercer's contract to 31 Oct 2023 and require them to maintain a task list of the work they are doing for us.	15	1	15

WPF Risk Register 8 Sep 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
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. Audit criticism or reputational damage.	25	2	50	Following an annual review our 2021 Governance Policy Statement was approved at the 16 March Pensions Committee. The annual review and audit / sign off arrangements for the annual report that includes our Governance Compliance Statement are in place for 2021. The accounts are checked against the Chartered Institute of Public Finance and Accountancy (CIPFA) example accounts and an external audit accounts checklist. We have reviewed our Statement of policy on our discretions (as an administering authority). We have an updated Good Governance position statement. We are also closely monitoring The Pensions Regulator's plans to combine 10 of its 15 existing codes of practice into a new, single, combined and expanded modular document that identifies the legal duties of pension funds and provides advice on how to meet them. All in all we expect that delivering on Good Governance will be a big work-stream in 2022, as TPR expects to lay the new code in Parliament after spring 2022 with it becoming effective after summer 2022.	5	1	5
WPF 17 (Chief Financial Officer)	Failure of custodian to deliver the services contracted.	Loss / inaccessibility of assets / inability to invest.	25	1	25	COVID-19 has not proved a problem for the Finance Manager - Pensions review of managers' SAS70 audit reports. We have 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 2020.	5	1	5
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. Following our annual employer consultation a revised Pension Administration Strategy has been in place since 1 April 2021.	5	1	5

WPF Risk Register 8 Sep 2021 Risk Ref (risk 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 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, objectives are in place and there are regular meetings with the supplier, M J Hudson.	5	1	5
WPF 25 (Pensions Administration Manager )	Fraud by scheme members.	Financial loss.	5	1	5	We are keeping to the same standards following COVID-19 by requiring a member signature as authorisation and not taking instructions over the phone. A signed form or instruction can be scanned and emailed to us. Telephone callers are asked questions to check that they are who they claim to be. We have issued updated guidance to our staff on (operating in) the e world. We carry 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).	5	1	5
WPF 26 (Pensions Administration 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	Following our annual employer consultation a revised Policy Statement on Communications has been in place since 1 April 2021. Employee annual benefit statements that are returned to us are passed on to the member's employer. The 2021 deferred and employee annual benefit statements were / are on schedule to be despatched before 31 Aug along with an accompanying newsletter. In November 2020 we despatched our second annual pensioner newsletter.	5	1	5
WPF 27 (Pensions Administration 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 we have 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. We have developed a revised overpayments write off process and use it to report overpayments to the Pensions Committee. Life Certificates are also used.	5	1	5

WPF Risk Register 8 Sep 2021 Risk Ref (risk 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

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**PENSIONS BOARD  
17 SEPTEMBER 2021****LOCAL GOVERNMENT PENSION SCHEME (LGPS)  
CENTRAL UPDATE**

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**Recommendation**

1. **The Chief Financial Officer recommends that the Board notes the LGPS Central Update.**

**Background**

2. The government set out in 2014 its approach and reasoning (Opportunities for collaboration, cost savings and efficiencies) for asset pooling with responsibility for asset allocation staying with the 90 administering authorities. Worcestershire Pension Fund (WPF) in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) set up a collective investment vehicle called LGPS Central. The Company was authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1 April 2018.

3. LGPS Central has been in operation since the 1 April 2018 and several the local authorities have transitioned some of their existing asset allocations to be managed by the company. WPF transferred its Active Emerging Market funds into the LGPS Central's Global Active Emerging Market managed mandate in July 2019 and its Active Corporate Bond Fund into the LGPS Central 'Global active Investment Grade Corporate Bond Fund in March 2020.

**Transition of existing Assets and investment in LGPSC investment products**

4. There are no further transitions of the Funds existing assets planned at this stage, but the Fund is presently looking at LGPSC Global Sustainable Active Equity Fund and All World Climate Factor Passive Fund as potential future investments. This is following the Funds Environmental, Social & Governance (ESG) audit report to Pensions Committee in March 2021. LGPSC presented their proposals to Investment Sub Committee on the 10 June 2021.

5. The Fund is still looking at potential infrastructure investments with LGPS Central and an update on their strategy and future pipeline for investments is to be presented to the Investment Sub Committee on the 21 September 2021.

**LGPS Central Strategic Business Plan & proposed budget for 2022/23.**

6. There have been initial discussions with LGPSC on their proposed budget and Strategic Business Plan for 2022/23 and a plan for a series of discussions on their proposals was agreed at PAF in September 2021 and it is hoped that the Budget can be initially agreed by partner funds by the end of December to then present the outcome to the Pensions Committee on the 3 February 2022.

### **September Company Meeting 28 September 2021**

7. The meeting is to be held on the 28 September 2021 where the Chair updated the shareholders on the Non-Executive Directors succession planning and Board continuity. her commitment.

8. The Proposed shareholder resolutions cover the following.

#### September annual resolutions

- Adoption of company report and accounts
- Reappointment of auditors
- Auditors remuneration
- Re-election of Directors

#### Technical resolutions

- Replacement of LIBOR
- Pension supplementary agreement

#### Resolutions withdrawn from February 2020 meeting

- Directors remuneration

9. Discussions continue to agree a way forward which clarifies responsibilities for staff benefits framework and the mechanism for delivery of additional budget approval for agreed new fund launch business cases being

- Private Equity
- Global Sustainable Equities
- Target Return
- Responsible Investment & Engagement (RI&E) additional analytical tools

### **Ministry of Health, Communities and Local Government (MHCLG) Return**

10. An update on Pooling progress for the LGPSC has been jointly produced with the Partner Funds and at the time of writing this report it was still to be agreed as the deadline is on the 24<sup>th</sup> September. A verbal update will be provided to the Board at the meeting.

### **Staffing**

11. An interim Chief Legal Compliance & Risk Officer has been appointed and the recruitment process has started for the permanent appointment to this post and the Chief stakeholder officer. LGPSC are also looking still to appoint to the Communication Officer role and the additional posts within the RI&E team being a manager and senior analyst.

### **Practitioner Advisory Forum (PAF) Working Groups**

12. PAF have a number of Work streams which meet regularly and aims to work closely with LGPS Central to ensure that all the funds requirements are met. These are

- Governance Working Group
- Investment Working Group
- Responsible Investment Working Group
- Finance Working Group.

13. The Partner Funds have also established an Internal Audit working group which provides a co-ordinated approach to enable the Joint Committee, individual partner funds, and their respective external auditors to be satisfied on the standards of control operating across the pool.

### ***Investment Working Group***

14. It is worth just updating Board on the focus of the Investment Working Group. The quarterly meeting cycle, with a change in focus each month, continues to work well.

- Month 1 (Jan, Apr, Jul, Oct) – Product Development
- Month 2 (Feb, May, Aug, Nov) – Policy & Performance Monitoring
- Month 3 (Mar, Jun, Sep, Dec) – Strategy and New Products

15. The following table illustrates the new products that are currently in progress and indicates the next step in the process of their development. The areas highlighted are those where we have an interest in potential future investment as they fit into our Strategic Asset Allocation plan.

<b>2020/21 and 2021/22 Products</b>	<b>Next Step (August 2021)</b>
Private Equity (2021 Vintage)	<i>Investment Case Approval</i>
Direct Property	<i>Manager Procurement pending</i>
Global Sustainable Active Equities	<i>Procurement process underway</i>
Private Debt	<i>LAUNCHED with first close of low risk sleeve</i>
Targeted Return	<i>Procurement process underway</i>
Indirect Property	<i>Product Development</i>

16. The products to be developed in 2022/23 will be collectively agreed by Partner Funds at their next SAA Day on the 16<sup>th</sup> September 2021. As most sub-funds, which have targeted the higher levels of assets under management (AUM), have now been launched, the focus will move to sub-funds with a lower potential AUM.

### **Contact Points**

Specific Contact Points for this report

Rob Wilson

Pensions Investment & Treasury Management manager

Tel: 01905 846908

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

### **Background Papers**

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

- LGPS Central business case submission to government 15 July 2016.

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## **PENSIONS BOARD 17 SEPTEMBER 2021**

### **UK STEWARDSHIP CODE 2020**

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#### **Recommendation**

- 1. The Chief Financial Officer recommends the Board review the Funds outcome for the revised UK Stewardship Code 2020 submission and the areas requiring improvement as detailed in the Appendix.**

#### **Background and update**

2. The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council (FRC) strongly encouraged best practice in respect of investor engagement. The expectation was that institutional investors should publish a statement in respect of their adherence to the code. Compliance with the Code was on a voluntary basis.
3. The Fund previously agreed it's Stewardship Compliance Statement at Pensions Committee on the 28 November 2018 and became a signatory to the code.
4. Pensions Board have been informed in previous updates that the UK Stewardship code 2020 had been revised and had twelve principles.

#### **Purpose and Principles of the Code**

5. The UK Stewardship Code 2020 ('the Code') sets high expectations for how investors, and those that support them, invest, and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society.
6. Stewardship is defined by the FRC as follows: *"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."*
7. The new Code took effect on 1 January 2020. The Financial Reporting Council (FRC) accepted applications by the 30 April 2021 for Asset owners wishing to be included on the first list of signatories covering the period 1 January – 31 December 2020. The Fund submitted its application see Appendix 2 and received notification from the FRC see Appendix 1 that it had been successful and will be listed as a signatory to the Code.
8. FRC have provided feedback on our submission quoting that ***"Your report is clear and engaging, and effectively demonstrates application of most of the Principles and reporting expectations of the Code in the reporting period"***.

9. There are a number of areas under each principle (from page 3 onwards) where the FRC require improvement for future submissions to remain a code signatory and the next submission is due on the 30 April 2022.

10. LGPS Central and West Midlands Pension Fund have also been successful code signatories from the Pool. The other Partner Funds are submitting their applications on the 30 April 2022.

## **Contact Points**

### Specific Contact Points for this report

Rob Wilson  
Pensions Investment & Treasury Management Manager  
Tel: 01905 846908  
Email: [RWilson2@worcestershire.gov.uk](mailto:RWilson2@worcestershire.gov.uk)

## **Supporting Information**

Appendix 1 FRC Stewardship report feedback for Worcestershire Pension Fund  
Appendix 2 Funds submission of its Stewardship code 2020 application to FRC.

## **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.

The information in this letter is only for the person or entity to which it is addressed.  
The contents may not be made public by the recipient before the FRC publishes the  
UK Stewardship Code 2020 signatory list on Monday, 6 September 2021.

Mr Robert Wilson  
Worcestershire County Council Pension Fund  
Worcestershire County Council, County Hall  
Spetchley Road  
Worcester  
WR5 2NP

Wednesday, 1 September 2021

## Application Outcome: Successful

Dear Mr Wilson

Thank you for submitting your Stewardship Report for the reporting period 1 April 2020 to 31 March 2021.

We are pleased that Worcestershire County Council Pension Fund has met the expected standard of reporting in 2021 and will be listed as a signatory to the UK Stewardship Code ('the Code').

We will publish the list of signatories and reports on our website on **6 September 2021**. You will then be able to refer to yourself as a signatory to the UK Stewardship Code and use the new UK Stewardship Code logo. Please treat this letter as confidential and refrain from referring to Worcestershire County Council Pension Fund as a signatory to the Code until the FRC has published the list. Once the FRC has published its list of signatories, please also publish your report on your website.

### Your report

We read your report in full and assessed it against the Principles and reporting expectations of the Code in a way that is proportionate to your organisation's size and type. This assessment was then reviewed and discussed with the team to ensure it was fair and appropriate. A sample of reports reflecting a range of applicants was reviewed by our panel of independent advisors to ensure consistency.

Below is written feedback, and a summary of where your reporting met our expectations and where improvement is needed when you submit your next report.

## Next steps

In November, the FRC will publish a Review of the reports submitted in Spring 2021. This will give more detail about our expectations, include examples of effective reporting, and identify where we will expect reporting to improve in 2022. We will email you when this is published. If you then have questions about how to approach your reporting, you may contact us.

This letter sets out our final decision for this assessment period and we do not discuss individual assessments. To remain a signatory, you will need to submit a report by 30 April 2022, or notify [stewardshipcode@frc.org.uk](mailto:stewardshipcode@frc.org.uk) to change your reporting date.

Yours sincerely



David Styles  
Director, Corporate Governance and Stewardship

## FRC Stewardship - Report Feedback

Your report is clear and engaging, and effectively demonstrates application of most of the Principles and reporting expectations of the Code in the reporting period.

Under Principle 2, you should provide an overview of the skills and experience held internally (or externally) and explain how you have encouraged diversity in your organisation.

Under Principle 5, your report should explain why your approach to review and assurance is appropriate and how you have ensured your reporting is fair, balanced and understandable.

Under Principle 6, Your report should better describe the length of the investment time horizon, including the number of years, you have considered appropriate to deliver to the needs of beneficiaries.

Your report should also provide the percentages of your assets under management that have been invested through LGPS Central and external asset managers.

Under Principle 12, you mention examples of votes cast under the reporting period, such as at Ocado and Morrison, but you should better describe their outcomes: your report should not only explain the reasons for voting against (or for) a resolution, but it should also show how an issuer has responded to concerns raised, even if the vote was unsuccessful.

Your reporting could be improved by further disclosure on how Worcestershire County Council Pension Fund exercises rights and responsibilities in asset classes other than listed equity, and how you set expectations for your asset managers to do so. While there was reporting on other asset classes, it could be improved regarding how you exercise rights and responsibilities.

Your Stewardship Report has met the standard to become a signatory this year. Please address the areas identified in this feedback and the following table to remain a signatory in future.

### Principle 1

Evaluation	Reporting Expectation
<b>Meets expectation</b>	Signatories should explain the purpose of the organisation and an outline of its culture, values, business model and strategy
<b>Meets expectation</b>	Signatories should explain their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why
<b>Meets expectation</b>	Signatories should explain what actions they have taken to ensure their investment beliefs, strategy, and culture enable effective stewardship
<b>Meets expectation</b>	Signatories should disclose how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making
<b>Needs improvement</b>	Signatories should disclose an assessment of how effective they have been in serving the best interests of clients and beneficiaries.

Principle 2	
Evaluation	Reporting Expectation
<b>Meets expectation</b>	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.
<b>Meets expectation</b>	Signatories should explain how they have appropriately resourced stewardship activities, including their chosen organisational and workforce structures
<b>Needs improvement</b>	Signatories should explain how they have appropriately resourced stewardship activities, including their seniority, experience, qualifications, training and diversity
<b>Meets expectation</b>	Signatories should explain how they have appropriately resourced stewardship activities, including their investment in systems, processes, research and analysis
<b>Meets expectation</b>	Signatories should explain how they have appropriately resourced stewardship activities, including the extent to which service providers were used and the services they provided
<b>Needs improvement</b>	Signatories should explain how any performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision-making
<b>Meets expectation</b>	Signatories should disclose how effective their chosen governance structures and processes have been in supporting stewardship; and Signatories should disclose how they may be improved
Principle 3	
Evaluation	Reporting Expectation
<b>Meets expectation</b>	Signatories should disclose their conflicts policy and how this has been applied to stewardship
<b>Meets expectation</b>	Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.
<b>Needs improvement</b>	Signatories should disclose examples of how they have addressed actual or potential conflicts

Principle 4	
Evaluation	Reporting Expectation
<b>Needs improvement</b>	Signatories should explain how they have identified and responded to market-wide and systemic risk(s), as appropriate.
<b>Meets expectation</b>	Signatories should explain how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets.
<b>Meets expectation</b>	Signatories should explain 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.
<b>Meets expectation</b>	Signatories should explain how they have aligned their investments accordingly.
<b>Meets expectation</b>	Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.
Principle 5	
Evaluation	Reporting Expectation
<b>Meets expectation</b>	Signatories should explain how they have reviewed their policies to ensure they enable effective stewardship
<b>Needs improvement</b>	Signatories should explain 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
<b>Needs improvement</b>	Signatories should explain how they have ensured their stewardship reporting is fair, balanced and understandable
<b>Meets expectation</b>	Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes

Principle 6	
Evaluation	Reporting Expectation
<b>Meets expectation</b>	Signatories should disclose the approximate breakdown of the scheme(s) structure i.e. whether the scheme is a master trust, occupational pension fund, defined benefit or defined contribution etc.
<b>Meets expectation</b>	Signatories should disclose the approximate breakdown of the size and profile of their membership, including number of members in the scheme and the average age of members
<b>Meets expectation</b>	Signatories should disclose the approximate breakdown of assets under management across asset classes and geographies
<b>Needs improvement</b>	Signatories should disclose the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why
<b>Needs improvement</b>	Signatories should explain how they have sought beneficiaries' views (where they have done so) and the reason for their chosen approach
<b>Needs improvement</b>	Signatories should explain how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon
<b>Meets expectation</b>	Signatories should explain 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
<b>Needs improvement</b>	Signatories should explain how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries
<b>Needs improvement</b>	Signatories should explain how they have taken account of the views of beneficiaries where sought, and what actions they have taken as a result
<b>Meets expectation</b>	Signatories should explain where their managers have not followed their stewardship and investment policies, and the reason for this

Principle 7	
Evaluation	Reporting Expectation
<b>Meets expectation</b>	Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include ESG issues of importance to them.
<b>Needs improvement</b>	Signatories should explain how integration of stewardship and investment has differed for funds, asset classes and geographies
<b>Meets expectation</b>	Signatories should explain how they have ensured tenders have included a requirement to integrate stewardship and investment, including material ESG issues
<b>Meets expectation</b>	Signatories should explain how they have ensured the design and award of mandates included requirements to integrate stewardship and investment to align with the investment time horizons of beneficiaries
<b>Meets expectation</b>	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
Principle 8	
Evaluation	Reporting Expectation
<b>Needs improvement</b>	Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.
<b>Meets expectation</b>	Signatories should explain how the services have been delivered to meet their needs
<b>Meets expectation</b>	Signatories should explain the action they have taken where signatories' expectations of their managers and/or service providers have not been met
Principle 9	
Evaluation	Reporting Expectation
<b>Meets expectation</b>	Signatories should explain the expectations they have set for others that engage on their behalf
<b>Meets expectation</b>	Signatories should explain how they have developed well-informed and precise objectives for engagement with examples
<b>Meets expectation</b>	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.

Principle 10	
Evaluation	Reporting Expectation
<b>Meets expectation</b>	Signatories should disclose what collaborative engagements they have participated in and why, including those undertaken directly or by others on their behalf.
<b>Meets expectation</b>	Signatories should describe the outcomes of collaborative engagement.
Principle 11	
Evaluation	Reporting Expectation
<b>Meets expectation</b>	Signatories should explain the expectations they have set for asset managers that escalate stewardship activities on their behalf
<b>Meets expectation</b>	Signatories should explain when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples
<b>Needs improvement</b>	Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf
Principle 12	
Evaluation	Reporting Expectation
<b>Needs improvement</b>	Signatories should state the expectations they have set for asset managers that exercise rights and responsibilities on their behalf
<b>Meets expectation</b>	For listed equity assets signatories should disclose their voting policy, including any house policies and the extent to which funds set their own policies
<b>Meets expectation</b>	For listed equity assets, signatories should explain their rationale for some or all voting decisions
<b>Meets expectation</b>	For listed equity assets, signatories should explain the extent to which voting decision were executed by another entity, and how they have monitored any voting decisions on their behalf
<b>Needs improvement</b>	For listed equity assets, signatories should explain how they have monitored what shares and voting rights they have
<b>Needs improvement</b>	For fixed income assets, signatories should explain their approach to seeking amendments to terms and conditions in indentures or contracts
<b>Needs improvement</b>	For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months

## **Worcestershire Pension Fund**

### **Application to FRC for signatory status to the UK Stewardship Code 2020**

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## **1. Foreword**

- 1.1 Responsible investment (RI) is a core part of the Fund's fiduciary duty and has been a key part of our Investment Strategy Statement for many years.
- 1.2 The Fund has also complied with and been a signatory to the existing Stewardship Code since 2018.
- 1.3 The Fund believes that, effective management of financially material environmental, social and governance (ESG) risks supports the requirement to protect investment returns over the long term.
- 1.4 ESG is wider than simply climate change, however, the Fund recognises that financial markets will be impacted by climate change and by the response of climate change policy makers. Risks and opportunities related to climate change are likely to be experienced across the whole of the Fund's portfolio. The current understanding of the potential risks posed by climate change, together with the development of climate-related measurements and disclosures, are still at an early stage, and there is considerable variability in the quality and comparability of carbon emission estimates. It is recognised that it will take time for companies to adapt to the changing regulatory and market environment.
- 1.5 The Fund has continually looked to develop and improve its approach to RI and has recently conducted an [ESG Audit](#) which included mapping the Fund's portfolio to the United Nations' sustainable development goals (SDGs).
- 1.6 The Fund also commissioned a climate risk assessment to understand in more detail the Fund's exposure to climate change risk and what action could be taken to reduce that risk. The results of the assessments have been captured in a Climate Risk Report, and an adjacent public-facing [TCFD report](#)
- 1.7 As well as both the audit and the assessments having had positive outcomes from the outset, they have also been critical in establishing and understanding the Fund's baseline position and in helping formulate its future investment approach. For example, the climate risk report has enabled the Fund to develop a targeted stewardship plan for engagement with fund managers and those investee companies who have the most relevance to the Fund's portfolio that are highly exposed to climate change risk. Indeed, they have helped us take some recent significant steps:
  - Producing [our Climate related Financial Disclosures](#) through a TCFD aligned report
  - Agreeing a [Climate Change Risk Strategy](#)

## **2. Purpose and governance (Principles 1 to 5)**

### **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.**

## **Purpose**

- 2.1 Worcestershire County Council is the administering authority for the Fund under the LGPS regulations. Worcestershire County Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Fund has about 200 Employers and 64,000 members of which 19,000 are pensioners, 22,000 are deferred and 23,000 contributing employees.
- 2.2 The primary purposes of the Fund are to:
- Ensure that sufficient assets are available to meet liabilities as they fall due
  - Maximise the return at an acceptable level of risk
- 2.3 The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit. The full funding projection is targeted to be achieved over a 15-year time frame.

## **Strategy**

- 2.4 The Fund takes its responsibilities as a shareholder seriously. Our stewardship responsibilities extend over all assets of the Fund.
- 2.5 The Fund has published policy documents which identify how we meet our Stewardship responsibilities and these include, but are not limited to, our [Investment Strategy Statement \(ISS\)](#) that includes our voting policy and our [Governance Policy Statement](#). These documents cover the following areas:
- Monitoring of manager decisions including ESG integration
  - The exercise of voting rights
  - Risk measurement and management
  - ESG considerations in the tender, selection, retention, and realisation of investments
  - Statement of compliance with the Myners principles
  - Stock lending
- 2.6 In practice the Fund's policy is to apply the UK Stewardship Code 2020 (the Code) through:
- Its contractual arrangements with asset managers
  - Membership of the Local Authority Pension Fund Forum (LAPFF) whose mission is to proudly protect £300bn of local authority pensions by promoting the highest standards of corporate governance and corporate responsibility
  - Being part of the LGPS Central Limited (LGPSC) pool.
- 2.7 At the inception of LGPSC in April 2018, a [Framework for Responsible Investment and Engagement](#) was established which builds directly on the investment beliefs of the company's eight partner funds. It is a shared belief across our pool partners that strong investment stewardship increases our ability to protect and grow shareholder value.
- 2.8 The Fund ensures that LGPSC is delivering the objectives of this RI policy alongside that of the other pool partners by having regular meetings and update reports.

- 2.9 LGPSC has identified four themes that are given particular attention in its ongoing stewardship. The four themes, which will be reviewed on a three-year basis (the current period is 2020-2023) are: climate change; plastics; fair tax payment and tax transparency; and technology and disruptive industries (see further detail below under Principle 4).
- 2.10 The partner funds and LGPSC believe that identifying core themes helps direct engagement and sends a clear signal to companies of the areas that the partner funds and LGPSC are likely to be concerned with during engagement meetings. The Fund monitors closely the effectiveness of LGPSC and their work in this area to support the Fund in its ongoing requirements in the following ways:

1	Regular meeting of the LGPSC RI & Engagement Working Group
2	Quarterly stewardship updates provided to the Fund's Pensions Committee
3	Quarterly voting disclosures provided to the Fund's Pensions Committee
4	Quarterly media monitoring of relevant RI news and LAPFF reports to Committee

- 2.11 LGPSC also supports the Fund through the annual preparation of a Climate Risk Report which assesses (a) what the climate-related risks and opportunities faces by the Fund are and (b) what options are available to manage these risks and opportunities.
- 2.12 During 2020, LGPSC has supported the Fund in the preparation of the Fund's Climate-related Financial Disclosure Report prepared in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). We consider this a critical stepping-stone in the Fund's ongoing management of climate risk and a direct way of translating our investment beliefs on climate change into action.
- 2.13 The Fund's ability to invest in a responsible manner is enhanced through LGPSC due to the inherent benefits of scale, collectivism and innovation that results from being part of the pool.
- 2.14 In order to broaden its stewardship activities, LGPSC appointed EOS at Federated Hermes as its stewardship provider, with the remit of engaging companies on ESG issues, and executing the LGPSC voting principles which are also the principles agreed by the Fund as set out in the ISS – 'shareholder voting' (see also Principle 12 **exercising rights and responsibilities** below).
- 2.15 The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests.
- 2.16 All relevant fund managers are signatories to the United Nations Principles for Responsible Investment (UN PRI) as evidenced on the UN PRI website.

### **Investment beliefs**

- 2.17 The Fund's investment beliefs are included in its ISS and encompass its:
- Financial market beliefs
  - Investment strategy / process beliefs
  - Organisational beliefs
  - RI beliefs

2.18 As emphasised in 1.3 above, RI is a core part of the Fund’s fiduciary duty and we believe that effective management of financially material ESG risks supports the requirement to protect investment returns over the long term. The Fund’s investment team seeks to understand relevant ESG factors alongside conventional financial considerations within the investment process, and the Fund’s external investment managers are expected to do the same. Non-financial factors may be considered to the extent that they are not detrimental to the investment return.

ESG factors include:



2.19 The Fund’s RI Beliefs underpin our RI approach and we take a three pillar approach to the implementation of RI as set out below:



2.20 The Fund intends to realise these aims through actions taken on its three RI pillars, 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 our RI activities, using best practice frameworks where appropriate. Some recent examples of how this has been applied are:

### Selection

- 2.21 The application of these beliefs has been demonstrated by our latest investment of £50m in May 2020 with the British Strategic Investment Fund (BSIF) which is mix of infrastructure and housing assets with a requirement for each investment to deliver a positive environmental or social impact. Also, a key recommendation from the ESG audit which was approved by the Pensions Committee was for the Fund to look at investing in a mix of sustainable equities and low carbon factor funds.

### Stewardship

- 2.22 An example would be the recent ESG audit and Climate Risk review of the Fund to help the Fund establish a baseline position

### Transparency & disclosure

- 2.23 Over the past 18 months the Fund has completed a training programme delivered by 'Pensions for Purpose' on RI, sustainable, impact and ethical investment, and the spectrum of capital for all its Pension Board, Pension Investment Sub Committee (PISC) and Pensions Committee members to enable them to make informed decisions going forward. A workshop was also provided to discuss and debate the Fund's investment beliefs for a sustainable approach to investing. This included an introduction to the 17 United Nations SDG's and elected members agreed to prioritise the following SDGs that they considered as likely to have the biggest investment impact:

- SDG 3 Good Health and Well-being
- SDG 7 Affordable and Clean Energy
- SDG 8 Decent Work and Economic Growth
- SDG 9 Industry, Innovation, and Infrastructure
- SDG 13 Climate Action

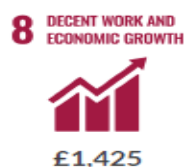
LGPSC also provided a dedicated RI training event on February 2020 where all members were invited

- 2.24 This then led to the recently conducted [ESG audit](#) undertaken by Minerva (started October 2020) on behalf of the Fund and the LGPSC Climate Risk Report (detailed more fully below) which are considered critical stepping-stones in the Fund's ongoing management of its ESG and Climate related risks and a direct way of translating our investment beliefs on climate change into action. These were in direct response to discussions and decisions made by the Pensions Committee on behalf of members. An extract from the report is shown below.

Least SDG Exposure: Worcestershire's initial smallest exposures to the SDGs\* (£ Million)



Prioritised SDG Exposure: Worcestershire's initial exposures to the Fund's prioritised SDGs\*\* (£ Million)



\*as defined by the SDG2000 benchmark.

\*\* as defined by the Pensions Committee in a Pensions for Purpose workshop in May 2020.

- 2.25 The outcome of the reports were reported to the [March 2021 Pensions Committee](#) at which a number of key recommendations and next steps / future plans were agreed which are publicly available for all our members

### **3. Principle 2**

#### **Signatories' governance, resources, and incentives support stewardship**

- 3.1 As detailed in our [Governance Policy Statement](#) accountability for all decisions is delegated to the Pensions Committee to take decisions in regard to the administering authority's responsibility for the management of Worcestershire Pension Fund. This includes the management of the administration of the benefits and strategic management of Fund assets. The Committee comprises of 8 voting members being 6 Councillors, 1 employers representative and an employee / union representative.
- 3.2 The Committee's activities are overseen by the Pension Board which was set up as a result of two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator looking at how to strengthen governance. The Board's role is ensuring the effective and efficient governance and administration of the Fund. This includes securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS. The board is made up of 3 councillors, a senior officer from an employer, an active member (retiree) and two trade union representatives. Our current Chairman is also the Chair of SAB.
- 3.3 The Committee is assisted by strategic investment advice from the PISC who are also responsible for investment performance monitoring and for identifying and approving investment in climate related opportunities. PISC also provide the Pensions Committee with strategic advice concerning the management of the Fund's assets. PISC comprises of 4 voting members being 3 Councillors and an employee representative from a relevant trade union.
- 3.4 The Fund has an appointed investment advisor from MJ Hudson who attends all the Committee meetings, supports the investment performance monitoring of all the Fund's investment managers, advises on RI, supports due diligence requirements on the Fund's investments and provides a quarterly investment update to our PISC. The advisor is independent to the Fund and plays a crucial role in advising the Fund on its investment opportunities.
- 3.5 The Fund's day to day duties are delegated to the County Council's Chief Financial Officer who is supported by a Pensions Administration Team and a Pensions Investment Team who have many years of knowledge and experience in this area.
- 3.6 LGPSC's [Responsible Investment & Engagement \(RI&E\) function](#) supports the Fund's stewardship activities. Their contribution has included work on: ESG integration, engagement, voting, the RI&E framework, the TCFD report and (going in to 2021) guidance on the Fund's reporting against the Stewardship Code 2020

- 3.7 LGPSC's has a dedicated RI&E team that sits within LGPSC's investment team and reports to the CIO. There is close collaboration between the RI&E team and asset class teams on (a) the approach to RI when new funds are conceived and set up, (b) the selection and monitoring of fund managers, (c) engagement and voting, as relevant to the asset class, and (d) RI performance assessment and reporting.
- 3.8 The LGPSC RI&E Team currently consists of an Investment Director, Stewardship Manager and two ICM qualified analysts, both of whom are working toward the CFA certificate in ESG. Team members come from diverse academic backgrounds and specialisms across RI policy development, ESG integration in public and private markets, stewardship and engagement across the value chain, as well as climate expertise. This level of diversity and breadth of perspectives is a strength for the team. The RI&E Team leverages a strong network among peer investors both in the UK and globally, as well as investee companies, industry associations and relevant regulatory bodies.
- 3.9 LGPSC has appointed EOS at Federated Hermes (EOS) as its stewardship provider, with the remit of engaging companies on ESG issues across all relevant asset classes, sectors, and markets, executing the LGPSC voting principles which are also the principles agreed by the Fund. . Following a comprehensive due diligence process by LGPSC, EOS were selected as their beliefs align well with LGPSC's and the Fund's beliefs, namely that dialogue with companies on ESG factors is essential to build a global financial system that delivers improved long-term returns for investors, as well as more sustainable outcomes for society. . The EOS team provides access to companies globally based on a diverse set of skills, experience, languages, connections, and cultural understanding. EOS also engages regulators, industry bodies and other standard setters to help shape capital markets and the environment in which companies and investors can operate more sustainably.
- 3.10 LGPSC provides quarterly reporting for all funds managed by LGPSC detailing how votes have been cast in different markets and a vote by vote disclosure for full transparency. Engagement and voting disclosures are also done specifically for listed securities held across Worcestershire Pension Fund portfolios. Our quarterly engagement, voting reports and policy / strategy statements are all available on the Fund's website in the [Funding and investments area](#) and are a standing item on the Pension Committee agendas.
- 3.11 The Pensions Committee delivers its oversight of stewardship by meeting four times a year, or otherwise as necessary. This is the same for the Pensions Board and Pensions Investment Sub Committee.
- 3.12 To support our initiatives and work on strengthening / improving our investment and RI approach, we commission appropriate, additional expertise as required. For example, over the last 18 months we have tasked:

	Hymans Robertson with conducting a review of the Fund's investment strategy. This was pivotal in assisting with the Fund's strategic asset allocation for the next 3 to 5 years
	Pensions for Purpose with delivering support to our members through RI and impact investment workshops / training. A bespoke workshop discussed and debated the Fund's investment beliefs for a sustainable approach to investing and included an introduction to the 17 United Nations SDGs. As a result, members agreed to prioritise the SDGs detailed in Principle 1, as they considered they are likely to have the biggest sustainable investment impact
	Minerva with conducting an ESG audit and SDG mapping of the portfolio. It identified the holdings of the Fund's relationship (positive/ negative) to the 17 SDGs, highlighted the SDGs the Fund wanted to target and identified the risks and opportunities associated with the analysis.
	LGPSC with completing a climate risk scenario report, climate risk strategy and TCFD report

- 3.13 In order to support good decision-making, the Fund applies the Myners principles. Disclosure against the Myners principles is made annually (see section 12 of the Fund's ISS). These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives, focussing 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.

## 4. **Principle 3**

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

- 4.1 The Fund encourages all its asset managers to have effective policies in place to address potential conflicts of interest.
- 4.2 The need to avoid conflicts of interest is also highlighted in our asset manager mandates and contracts with external parties.
- 4.3 All the Fund's managers have confirmed that they have conflict of interest policies in place and these are subject to regular review. All managers have confirmed that they have a conflict of interests board / separate Committee to monitor and investigate conflicts of interest and have a conflicts of interest register.
- 4.4 A public register of interests is maintained for all Councillors and could be subject to audit inspection at any time. Councillors are responsible for updating their register as and when their interests change. This is overseen by the Monitoring Officer.
- 4.5 Pensions Committee and PISC members are required to make declarations of interest at the start of all meetings. If a member declares that they have an interest at the start of a meeting, then the context would determine the action that would be taken i.e. if they declare that they have an interest that is either personal or financial to an item on the agenda, then they would more than likely be asked to leave the room for that item and would be excluded from any voting activities.

- 4.6 All Fund officers and Committee / PISC members are made aware of and reminded at least annually of Worcestershire County Council's [codes of conduct](#). The Code of Conduct includes a section on conflicts of interest and the expectations placed upon Council employees (the requirement to handle public funds in a responsible and lawful manner for example). Any member of staff found to be in breach of the policy may be the subject of disciplinary action and could be subject to dismissal. This includes staff who administer the investment side of the Fund.
- 4.7 The Council also has a whistleblowing policy to enable staff to raise any concerns that they may have.
- 4.8 **LGPSC's** approach to managing and mitigating risks associated with conflicts of interest is outlined in the LGPSC conflicts of interest policy. This is made available to all staff and clients of LGPSC. While this policy is intended to ensure compliance with FCA rules (SYSC 4 & 10) and regulations around conflicts management and requirements under MIFID II, the policy is also designed to ensure fair outcomes for clients and to ensure that LGPSC fulfils its stewardship responsibilities to its clients in terms of how their assets are managed.
- 4.9 LGPS Central operates a one for eight RI service model. This ensures that LGPSC delivers a consistent level of service to all eight partner funds ensuring that no conflicts arise in terms of the level of support they get from the Responsible Investment Team. As an example, LGPSC provided Climate Risk Reports to all eight Partner Funds in the course of 2020. For the 2021 provision of the same service, LGPSC will follow the same delivery order as last year. This is to ensure consistency and fairness among Partner Funds and to avoid some receiving reports six months apart or others +14 months apart.
- 4.10 The policy was signed off by the LGPSC Investment Committee, Executive Committee and Board when implemented. The policy is reviewed annually and changes to the policy are approved through the same governance process.
- 4.11 LGPSC employees, including senior management and members of the executive committee, are required to complete conflicts management training on an annual basis and confirm their adherence to its standards. This training includes guidance on what constitutes a conflict of interest. The conflicts policy is also contained within the LGPSC Compliance Manual. It is readily available to all staff whether working from home or office based.
- 4.12 When LGPSC appoints external managers, a thorough due diligence process is undertaken. This includes consideration of the external managers process and procedures around the Management of Conflicts of Interest. LGPSC expects their managers to have robust controls and procedures in place around conflict management and to demonstrate commitment to managing conflicts fairly.
- 4.13 LGPSC only manages client assets and all of their active portfolios are managed externally. LGPSC staff are not remunerated through a bonus scheme. These two factors are key mitigants in terms of conflict risk.

#### **Examples of Conflicts of Interest**

##### **Appointment of Transition Manager for the LGPSC Global Active Emerging Markets Equities fund**

- 4.14 All colleagues involved in the appointment process were required to complete a conflicts of interest declaration. The declaration asked colleagues to provide details of any conflicts with any of the potential transition managers for assessment of the compliance team. The approach taken is that conflicts will inevitably arise particularly in the form of existing business relationships and previous periods of employment with the investment managers on the shortlist. As long as these conflicts are declared and recorded, they can be managed.

### **Voting**

- 4.15 Conflicts can arise during the voting season. This can for instance be the case where a proxy voting provider also provides other services to corporates or where they have pension schemes as clients whose sponsor company they engage with and provide voting recommendations on.
- 4.16 LGPSC expects their proxy voting agents to be transparent about conflicts of interest and to implement appropriate measures to ensure conflicts are managed such as Chinese walls, conflicts management policies and conflicts registers. As from Q1 of 2021, EOS at Federated Hermes – LGPSC's external stewardship provider – applies an enhancement to its service to further improve transparency by informing voting clients of potential significant conflicts of interest when EOS provides voting recommendations. One such conflict would be when EOS recommends a vote in relation to clients' sponsor companies, and specific assurance of EOS' independence in assessing this stock is needed.
- 4.17 EOS has a publicly available [Stewardship conflicts of interest policy](#). EOS conflicts are maintained in a group conflicts of interest policy and conflicts of interest register. As part of the policy, staff report any potential conflicts to the compliance team to be assessed and, when necessary, the register is updated. The conflicts of interest register is reviewed by senior management on a regular basis.

## **5. Principle 4**

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

- 5.1 We manage risk by setting investment beliefs, funding, and investment objectives that are incorporated into our strategic investment allocation benchmark (SIAB) bands and benchmarks.
- 5.2 To mitigate risk, we regularly review our ISS, monitor the investment performance of our appointed managers, have a diversified portfolio, and review our qualified advisors' objectives regularly. Strategic asset allocation is reviewed quarterly by the Pension Investment Sub Committee. We have equity protection arrangements in place up to July 2021 for all our passive market cap equity funds which provides protection against a fall of up to 20% in market valuations whilst capturing as much of the upside as possible.
- 5.3 Risk taken against benchmarks is monitored using a [Risk Register](#) (reported quarterly and reviewed monthly).

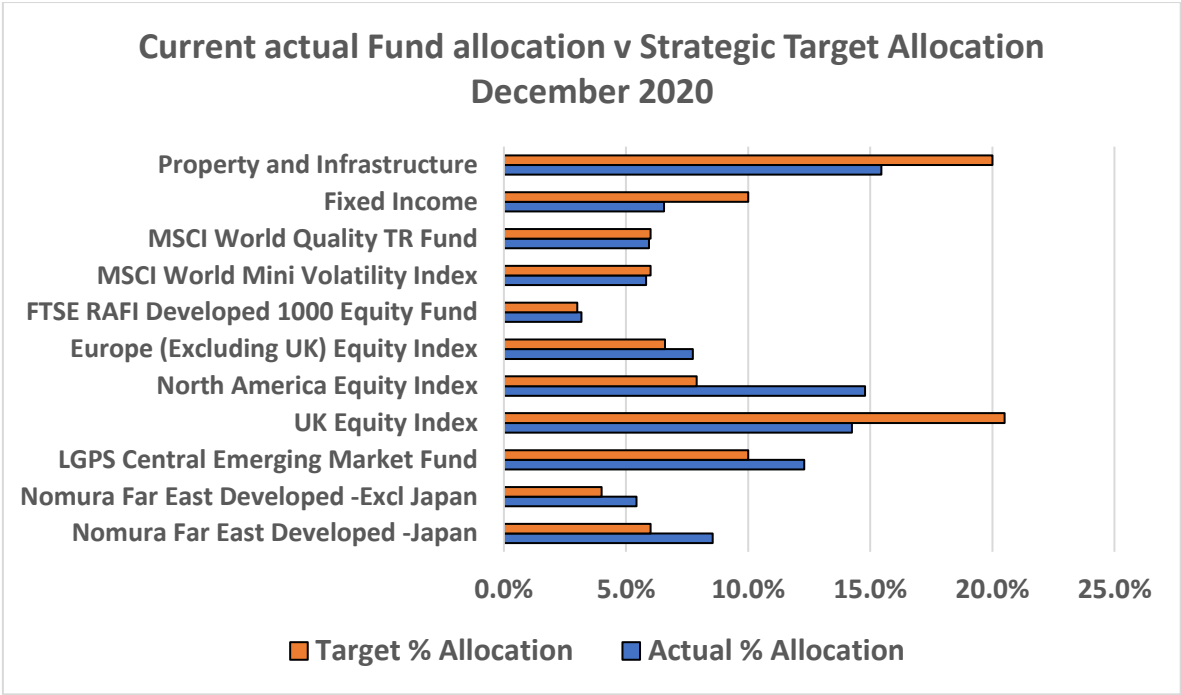
- 5.4 The fund is exposed to Investment, operational, governance and funding risks. These risks are identified, measured, monitored, and then managed. The risk register is reviewed monthly by officers with section responsibility and oversight from the Chief Financial Officer. The risk register is reported and reviewed at every Pensions Committee and by the Pension Board. The risk of a mismatch in asset returns and liability movements has consistently been the risk with the highest residual risk score.
- 5.5 We continue to liaise with all our investment managers in response to the ongoing market volatility caused by COVID-19, although equity markets have recovered a lot of the initial losses. The Fund's diversified portfolio and equity protection policy on some of its assets helped cushion the Fund initially but at its worst COVID still had a significant valuation impact: funding fell down to 80% from 91%. The fact that our funding level is now at 96% (as at the end of February 2021) is testament to the robust portfolio position and strategy that is in place.
- 5.6 **The principal risks affecting the Fund are as follows:**

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

- 5.7 These would cover, the following risks being deterioration in the funding level of the Fund, changing demographics, systemic risk, inflation risk, future investment returns (Discount rate) and currency risk. An example of how we are managing some of these risks is as follows:-

**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 (SAAB) assisted by the Fund's investment advisor. The SAAB 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. The Funds monthly investment performance report is reviewed by the Fund's investment manager and advisor and reported quarterly to the PISC. An annual review of the strategic benchmark is also undertaken and fundamentally reviewed every three years as part of the triennial valuation. The liabilities are reviewed quarterly with the actuary and reported as part of the overall Funding level to Pension Committee. The Fund also reports its actual individual asset class performance against its strategic benchmark on a quarterly basis as detailed in the example below and action taken where necessary.



**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. All Fund managers provide a detailed quarterly investment performance report and quarterly meetings are held with the Fund's investment manager and advisor. Areas of concern will be discussed and if performance does not improve over time will be placed on watch and formally reported to Committee. Ultimate action would see the Fund disinvesting from the portfolio.

**Operational Risk**

5.8 This would cover Transition risk, Risk of a serious operational failure, Custody risk of losing economic rights to Fund assets, Risk of unanticipated events such as a Pandemic, Credit default, cashflow management. Some examples of how we are managing some of these risks are as follows:-

- **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 appoints a specialist transition manager to mitigate this risk when it is cost effective to do so.
- **Risk of a serious operational failure by asset managers and/or LGPS Central.** These risks are managed by having robust governance arrangements with LGPS Central and by quarterly monitoring with asset managers. Monthly meetings are held with LGPSC to ensure that the company is functioning as it should. A number of Key performance indicators and risk register is reviewed at least quarterly

- **Risk of unanticipated events such as a Pandemic on normal operations.** The impact of Covid 19 was unprecedented and although the risk of a pandemic was highlighted on the risk register no one could have foreseen the impact it would have on investment performance and operations. In terms of operations the Fund was already effectively working from home or remotely 2 days a week and has managed to deliver business as usual throughout the Covid pandemic. This is testament to the robust operational procedures that were in place and the effectiveness of the staff in working in this changing environment. This has also helped explore and implement effective and more efficient ways of working whilst being mindful of the wellbeing and mental health of the staff

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


5.9 These would cover, the following risks being concentration risk, illiquidity risk, currency risk, manager underperformance and RI risk. Some examples of how we are managing some of these risks are as follows:-



- **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. This is managed by effective reporting and monitoring as specified in the 'systematic risk' above. It is also managed by constraining how far Fund investments deviate significantly from the SIAB by setting diversification guidelines and the SIAB strategic ranges. Also, the Fund invests 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. These are monitored through the quarterly Fund manager meetings and reports to Committee. The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme Regulations
- **Manager underperformance** when the fund managers fail to achieve the rate of investment return, performance targets, tracking errors, etc assumed in setting their mandates. This is managed by having robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process. Also, in appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.
- **Responsible Investment (RI) risks**, including climate-related risks, that are not given due consideration by the Fund or its investment managers. The Fund actively addresses ESG risks through implementation of its RI beliefs. It also reviews this as part of the quarterly performance meetings with its fund managers and regular dialogue and support through the LGPSC RI and Engagement team. The Fund has recently conducted an ESG audit and Climate Risk assessment which have identified where the existing Fund's portfolio may be detracting from its SDG targets and calculated carbon metrics to enable the Fund to have effective management of climate change risk. Areas of concern will be discussed and if performance does not improve over time will be placed on watch and formally reported to Committee. Ultimate action would see the Fund disinvesting from the portfolio.

### **Stewardship Themes agreed by partner funds as part of LGPSC's stewardship effort**

- 5.10 In close collaboration with the other partner funds of LGPSC we have identified four core stewardship themes that will guide the pool's engagement and voting efforts. These are climate change, plastic pollution, responsible tax behaviour and tech sector risks. These themes have been chosen based on the following parameters:
- Economic relevance
  - Ability to leverage collaboration
  - Stakeholder attention
- 5.11 Identifying core themes that are material to the Fund's investment objectives and time horizon, that are likely to have broader market impact, and that are perceived to be of relevance to stakeholders, helps prioritise and direct engagement. The current themes were identified during summer 2019 and are intended to be kept as core themes until 2023.
- 5.12 We fully acknowledge that the spectrum of ESG risks is broad and constantly evolving. However, and in agreement with our LGPSC Pool Partners we consider it appropriate to pursue these themes over a three-year horizon, as a minimum. This allows us the ability to build strong knowledge on the theme, seek or build collaborations with like-minded investors, identify and express consistent expectations to companies on theme-relevant risks and opportunities, and to measure progress for engagements. Furthermore, we take the view that engagement on a theme needs to happen at several levels in parallel: company-level, industry-level, and policy level.
- 5.13 With our long-term investment horizon, we take a whole-of-market outlook and changing the "rules of the game" through industry and policy dialogue is as important, if not more important, than individual company behaviour. Under Principle 9 below, we give a more detailed overview of engagement objectives, strategy, and measures of success for each stewardship theme.

### **In identifying and managing ESG risks, the Fund's stewardship partners are**

Organisation	Remit
	<p>The Fund is a 1/8<sup>th</sup> owner of LGPSC which has identified four Stewardship Themes that are the primary focus of engagement. These themes are viewed as likely to be material to the Fund's investment objectives and time horizon, likely to have broader market impact, and to be of relevance to stakeholders. See further detail immediately below.</p> <p>During 2020, LGPSC has been actively involved in 24 engagements across these themes. A selection of engagement cases is provided under Principles 9-11 below</p>

Organisation	Remit
	<p>EOS at Federated Hermes is contracted by LGPS Central Ltd to expand the scope of the engagement programme, especially to reach non-UK companies.</p> <p>In 2020, EOS engaged with 845 companies on 3,043 environmental, social, governance, strategy, risk and communication issues and objectives on behalf of LGPSC. EOS takes a holistic approach to engagement and typically engage with companies on more than one topic simultaneously. 1,406 of the issues and objectives engaged in 2020 were linked to one or more of the SDGs.</p>
	<p>The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2020, LAPFF engaged 123 companies through more than 250 meetings across a spectrum of material ESG issues on behalf of its members.</p>

5.14 In terms of attendance and contributions to industry dialogue, partnerships and building of standards, LGPSC is an active participant in the debate on good corporate and investor practice on behalf of the Fund and the other Pool Partners. Collaboration with peer investors and industry initiatives is a critical component to engagement, giving a stronger voice and more leverage. There is a plethora of initiatives that deal with RI and stewardship in some form and LGPSC prioritises those that most directly link into the pool's stewardship themes at any given time.

5.15 It is also a priority to take part in initiatives that are relevant to Local Authority Pension Funds and to discuss and influence developments of practices and legislation that would directly apply to LGPSC partner funds. Industry initiative participation can serve several purposes: access to data, research, and tools available to members; influence further development of these initiatives; encourage market uptake of new standards/benchmarks as appropriate.

5.16 **Appendix 1** provides an overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2020

**Policy engagements and consultation responses:**

5.17 The Pool has always taken an active part in policy dialogue across various themes and regulations including on ethnicity pay reporting, tax transparency, modern slavery, and sustainability reporting requirements.

- 5.18 During Q2 of 2020, LGPSC signed letters to EU and UK leaders calling for a sustainable recovery from the COVID 19 pandemic. From a long-term investment perspective, it is critical that both the EU and UK align their recovery efforts with existing climate goals (EU Green Deal, UK's net zero emissions target by 2050, respectively). It is encouraging that the European Council decided, in July 2020, to ensure that the COVID-19 recovery package and long-term EU budget expenditures must comply with the EU's objective of climate neutrality by 2050 and the 2030 climate targets. 30% of total expenditure is being allocated to climate-related activities.
- 5.19 While many countries are providing various forms of tax relief to businesses during the ongoing health pandemic, LGPS Central takes the view that investor interest and scrutiny on companies' responsible tax behaviour and their willingness to pay their fair share of tax will only increase. As a global community, we are poorly prepared to handle any crisis, including health pandemics and the ongoing climate crisis, without funding through tax. During 2020, LGPS Central contributed to a consultation on Fair Trade Mark's (FTM) report "The Essential Elements of Global Corporate Standards for Responsible Tax Conduct" which seeks to identify common, international norms for responsible tax conduct.
- 5.20 LGPSC's stewardship provider, EOS, regularly engages with a wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs, to identify and respond to market-wide and systemic risks. As an example, EOS co-hosted a thematic workshop on the changing landscape of human rights due diligence and workforce reporting in the context of Covid-19. The co-host was the Workforce Disclosure Initiative (WDI), of which EOS is a signatory. The event allowed companies and investors to learn more about the WDI and speak candidly about the challenges and opportunities faced when conducting human rights due diligence.
- 5.21 EOS engages on market-specific trends and policies and as an example, in 2020 made several recommendations as part of Japan's Corporate Governance Code revision. EOS pressed for improving board effectiveness through the separation of chair and CEO, increased diversity, more stringent criteria for independence, and director training. Although Japan's FSA said concerted government efforts were ongoing for the progression of women, EOS argued that it should consider adding a requirement in the Code for companies to appoint at least one female director, referring to the example of South Korea. EOS also said the Code should require the disclosure of key metrics relating to gender diversity in management and the workforce. Further to this, EOS stressed the importance of investor meetings with non-executive directors and suggested strengthening the wording of the Code to standardise these.

### **COVID 19 pandemic**

- 5.22 The COVID 19 health pandemic has caused radical disruption to markets, companies, and investors alike. While the situation is highly disruptive, our view that engagement is a key tool which helps us enhance the long-term value of our assets has not faltered, rather it has been reinforced. In engaging companies on our behalf (directly, in collaboration and through EOS), LGPS Central is cognisant of the unprecedented challenges that the health pandemic poses to individual companies and to sectors. At the same time, core expectations that we express for management of risks and

opportunities on LGPS Central's four Stewardship Themes (see 5.10 above) are still reasonable and timely to uphold. Companies have largely been receptive and welcoming of engagement, which in some respects has been more efficient when carried out via virtual means. See engagement and voting examples under Principles 9 – 12 below

- 5.23 In April 2020, EOS sent an open letter on behalf of clients (including LGPS Central) to the chairs and CEOs of the companies in its engagement programme, explaining that dialogue during and after the pandemic would focus on business resilience and stakeholders. Most companies had a good narrative for how they were protecting their operations and key stakeholders, including employees, although we challenged one large US retailer over allegations of poor Covid practices in its stores. In contrast, UK supermarket Tesco did well to adapt its operating environment and customer proposition, and EOS completed a long-standing engagement on audit and risk management.
- 5.24 Despite the lockdown restrictions, EOS' engagement activity was higher than in 2019, with similar or higher levels of access to board directors and senior executives due to less travel. These efforts resulted in some positive outcomes, with oil and gas major **BP** announcing a new net-zero strategy with capex and accounting assumptions aligned with the Paris Agreement goals, and similar indications from **Repsol**, **Total** and **Royal Dutch Shell**. There was also significant progress at **Amazon** on net-zero targets, **Lafarge Holcim** on science-based targets, **Rolls-Royce** on net-zero emissions, even as it faced a collapse in air travel, and **Anglo American** on carbon neutral mining.

## 6. Principle 5

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

- 6.1 The Fund reviews its ISS and Governance Policy Statement annually and reviewed by the Pensions Board before submission to the Pensions Committee for formal approval.
- 6.2 The Fund has undertaken a fundamental review over the past 15 months of its RI beliefs and policies to enable effective stewardship. Some of the key parts of this review have been detailed in Principle 2 above and included an ESG audit and an SDG mapping exercise. Pensions for Purpose (PfP), the Fund's independent investment advisor and LGPSC have provided external assurance on the review.
- 6.3 LGPSC, Minerva and PfP have provided external assurance on the Fund's Climate Change Risk Strategy and Climate Related Financial Disclosures. Minerva were asked to provide a 'user friendly' version of the report to aid members understanding. LGPSC provided an executive summary of the Climate Risk Report to assist readers identify the key points.
- 6.4 As detailed in Principle 1 these recent initiatives have provided a baseline for the Fund in understanding how the Fund sits compared to its benchmark in relation to carbon

metrics and SDG alignment mapping to reflect the underlying objective to align/support SDGs through investments.

- 6.5 The Fund reports quarterly to Committee with specific reference on RI and an update on the quarterly LAPFF and LGPSC Stewardship reports. Each of the Fund's managers is required to provide a quarterly update including how the Fund is doing in relation to ESG.
- 6.6 The Fund has a significant passive equity portfolio through LGIM and [LGIM quarterly ESG Report](#) and is available on the Fund's website. LGIM was assessed as part of the ESG audit and found to have relatively good SDG alignment overall, but there were areas where this would need to be improved in the future. The Fund's website also has specific areas dedicated to [responsible investment](#) and climate change.
- 6.7 LGPSC has carried out AAF controls of the investment operations during the reporting year. These controls include testing of the accuracy of RI data and implementation of RI processes in relation to LGPSC's voting policy, voting implementation, and accuracy of voting data. In addition to the AAF controls, LGPSC carries out quarterly internal quality controls of engagement and voting data before this is shared with partner funds through Quarterly Stewardship Reports. At the start of the financial year 2020-21, LGPSC informed Worcestershire Pension Fund and its other partner funds of its plan to make the quarterly stewardship reporting more compact. This was done in part to make the stewardship reporting more accessible and easier to digest, and in part due to the fact that annual stewardship reporting will lessen the need for detail on a regular basis.
- 6.8 In essence we are now in a position to have focussed engagement with those fund managers / holdings that are detracting away from the Fund's carbon metrics / SDG targets. This will help form a Stewardship plan for the Fund. Some of the actions agreed at Pensions Committee were to:

	<b>Actions agreed</b>
	<ul style="list-style-type: none"> <li>Challenge managers on holdings (particularly the top 10 to 20 in terms of value) that detract from the Fund's SDGs or carbon reduction aims, using a manager monitoring template as a method to do this</li> <li>Prioritise the most material / strategic exposure for dialogue on climate risk</li> </ul>
	<ul style="list-style-type: none"> <li>Ask managers to report on the portfolio's alignment to the following SDG goals in future and carbon risk metrics:               <ul style="list-style-type: none"> <li>SDG 3 Good Health and Well-being</li> <li>SDG 7 Affordable and Clean Energy</li> <li>SDG 8 Decent Work and Economic Growth</li> <li>SDG 9 Industry, Innovation, and Infrastructure</li> <li>SDG 13 Climate Action</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>Ask managers to present their TCFD report</li> </ul>
	<ul style="list-style-type: none"> <li>See evidence of a strong investment thesis where the Fund may have concerns</li> </ul>

6.9 Going forward we plan to take our Climate Change Risk Strategy as follows:

	<ul style="list-style-type: none"> <li>• Having an overarching climate statement to include in the ISS</li> </ul>
	<ul style="list-style-type: none"> <li>• Putting a statement or summary of the LGPSC Climate Risk Report in a manner consistent with the TCFD Recommendations into the Fund's annual report.</li> </ul>
	<ul style="list-style-type: none"> <li>• Having a "best endeavours" type statement, with a view to considering setting goals / targets at next year's ISS review, that includes reducing our carbon footprint and measuring against our key SDGs</li> <li>• Having a % of assets invested in low carbon and sustainable investments</li> </ul>
	<ul style="list-style-type: none"> <li>• Repeating carbon metrics analysis annually</li> </ul>
	<ul style="list-style-type: none"> <li>• Repeating climate scenario analysis every 2 to 3 years</li> </ul>
	<ul style="list-style-type: none"> <li>• Reporting progress on climate risk using the TCFD Framework annually</li> </ul>
	<ul style="list-style-type: none"> <li>• Mapping the Fund's portfolio to the UN SDGs every 2 to 3 years</li> </ul>

6.10 The Fund is also looking to invest further in sustainable equities and low carbon factor funds. Agreed recommendations at the March 2021 Pensions Committee were:

	To explore further the examples of potential investments that were presented regarding the passive LGPSC All World equity Climate Multi Factor Fund and the five active sustainable equity funds on the West Midlands Framework
	To also take on board the existing offering of sustainable active equities that were being developed by LGPSC as an alternative to the West Midlands Framework
	To take these suggested examples to the next Pension Investment Sub Committee for further consideration and debate

6.11 Quarterly PAF RI working group meetings allow for information-sharing and debate/checks on LGPSC's provision of RI services.

## **INVESTMENT APPROACH (Principles 6 to 8)**

### **7. Principle 6**

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

7.1 The £3.2bn Fund has been established to pay LGPS defined benefit promises as they become due. There are 183 participating employers. Total membership records of 62,494 are split 23,054 employee / 17,273 pensioner / 22,167 deferred. The average age of members is 51 to 55.

7.2 The Fund is primarily an equity investor, and the covenants of its employers, its net cashflow and the fact that it has a steady stream of new members mean that it can take a long-term investment horizon.

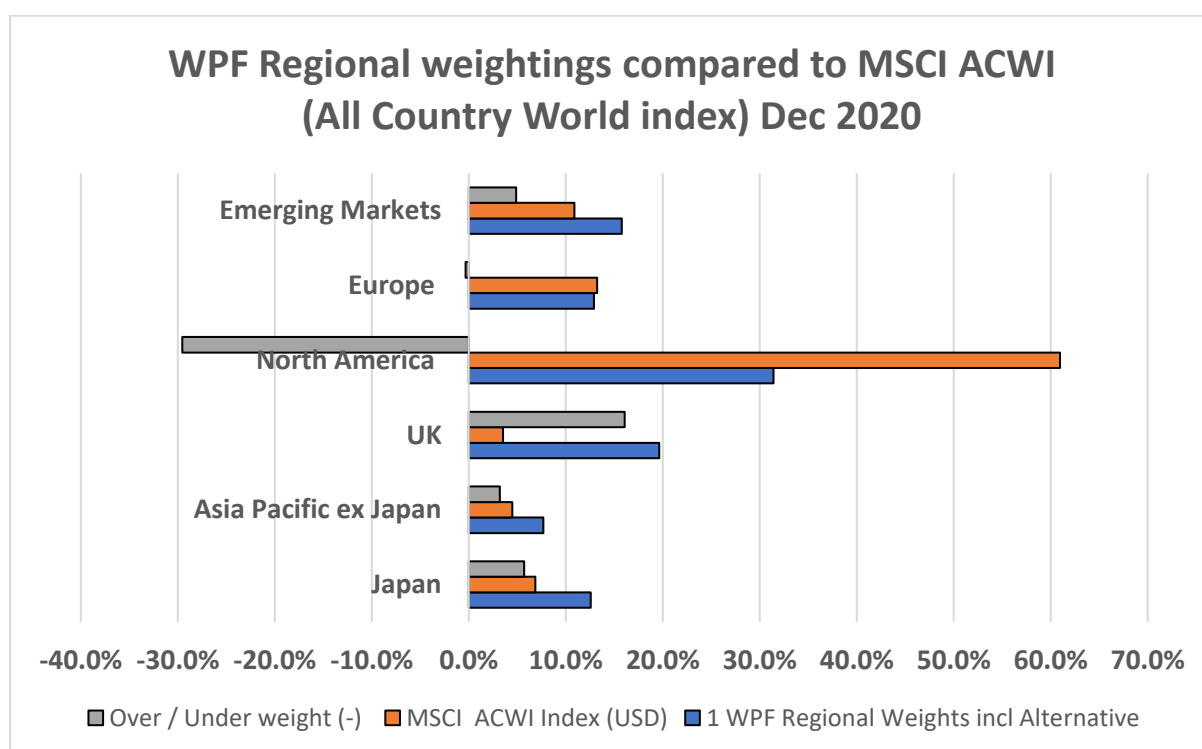
Cashflow Management	2022-23 £'M	2021-22 £'M	2020-21 £'M	2019-20 £'M	2018-19 £'M	2017-18 £'M
Contributions receivable	86.4	83.8	191.2	87.7	81.8	185.2
Benefits Payable	-118.6	-116.3	-114.0	-111.5	-106.3	-98.0
Surplus / Deficit (-)	<b>-32.2</b>	<b>-32.5</b>	<b>77.2</b>	<b>-23.8</b>	<b>-24.5</b>	<b>87.2</b>
Investment income	50.0	50.0	44.0	48.3	51.7	35.8
<b>Net Cashflow</b>	<b>17.8</b>	<b>17.5</b>	<b>121.2</b>	<b>24.5</b>	<b>27.2</b>	<b>123.0</b>

7.3 The Fund's Strategic Allocation Investment Benchmark and Ranges are:

	Growth	Medium	Cautious	
Asset Allocation	%	%	%	Manager, Method & Performance Target
<b>Actively Managed Equities</b>				
Far East Developed	10.0	5.0	0.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	5.0	0.0	LGPSC active global emerging markets equity mandates with BMO, UBS and Vontobel - FTSE - Emerging Market Index +2.0%
<b>Passively Managed Equities - Market Capitalisation Indices</b>				
United Kingdom	20.5	15.5	0.0	Legal and General Asset Management - FTSE All Share Index
North America	8.0	5.5	0.0	Legal and General Asset Management - FTSE All World North America - Developed Series Index
Europe ex - UK	6.5	4.0	0.0	Legal and General Asset Management - FTSE All World Europe ex UK Index - Developed Series Index
<b>Passively Managed Equities – Alternative Indices</b>				
Global	15.0	5.0	0.0	Legal and General Asset Management: - 20% GPAE - FTSE-RAFI Dev. 1000 Equity Fund - 40% GPBK - MSCI World Mini Volatility Index - 40% STAJ - CSUF - STAJ MF36726/36727
<b>Fixed Income</b>				

	Growth	Medium	Cautious	
Asset Allocation	%	%	%	Manager, Method & Performance Target
Fixed Income	10.0	40.0	80.0	- LGPSC Global Active Investment Grade Corporate Bond (Fidelity & Neuberger Berman) - Fund 50% GBP IG Corporate (Ex EM Issues) / 50 % Global IG Corporate ((ex IG Corporate & EM Issues) hedged to GBP +0.80% - EQT Corporate Private Debt
<b>Actively Managed Alternative Assets</b>				
Property & Infrastructure	20.0	20.0	20.0	Through a mix of Green Investment Bank, Invesco, Hermes, Walton Street and Venn Partners, Stonepeak, Firststate, AEW etc
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

7.4 Geographical asset allocation is as follows:



7.5 The Fund provides a hard copy annual newsletter to all its members that includes information about the Fund and its investment / stewardship activities. For example, the 2021 newsletter for deferred members includes the following article:

### **About the Fund**

*We took some significant steps on our responsible investment journey in LGPS scheme year 2020 / 2021, including completing an environmental social governance (ESG) audit, undertaking a sustainable development goals (SDGs) mapping exercise, commissioning a climate risk report and producing our climate change strategy.*

*A headline finding was that our portfolio of equities has a carbon footprint that is 23.75% lower than the benchmark, with the footprint from each of our actively managed investment portfolios being significantly lower than their respective benchmarks.*

*Our member records reached an all-time high of 64,000 on 31 December 2020 when the Fund's value also reached an all-time high of £3,223 million, making the Fund 97% funded with an asset allocation of:*

*26% Actively managed equities*

*30% Passively managed equities*

*15% Alternatives*

*06% Equity protection*

*06% Fixed interest securities, credit and bonds*

*05% Property*

*12% Infrastructure*

***You can find out more about the Fund in the About us area of our website.***

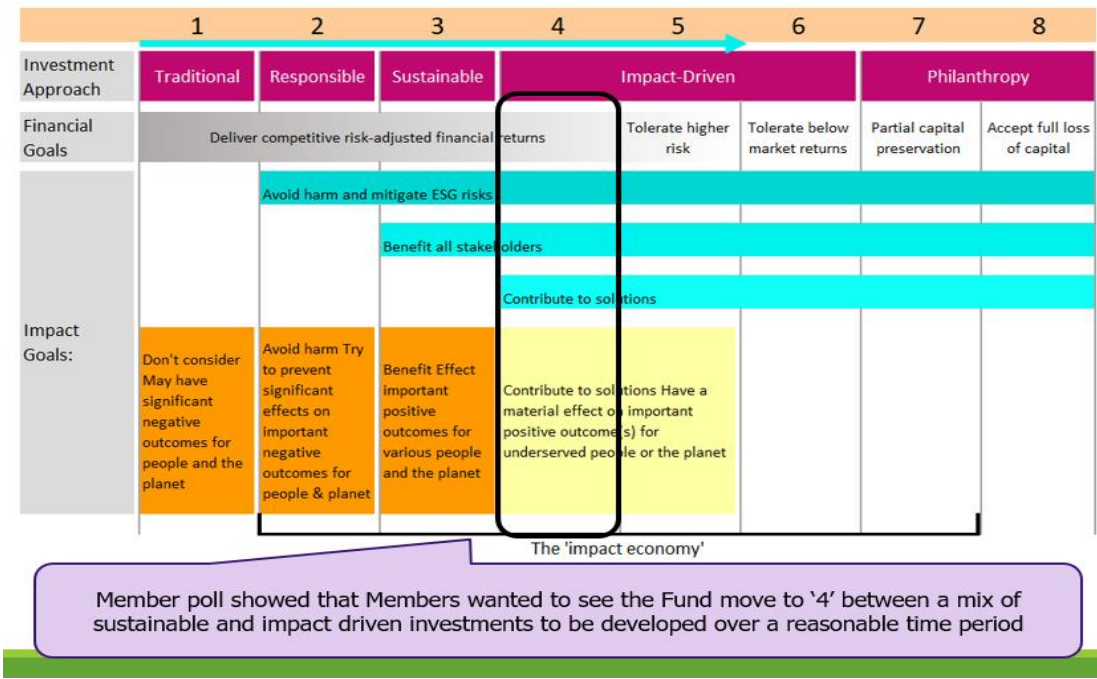
- 7.6 The Fund delivers a monthly newsletter to its employers to keep them abreast of what the Fund is doing, see [Employer publications - Worcestershire Pension Fund](#)
- 7.7 The Fund consults with its employers on its [Funding Strategy Statement](#) as part of each triennial actuarial valuation, taking on board employers' views before agreeing any changes to the strategy at a Pensions Committee. It will also consult on any proposed changes due to legislation or policy in between valuations, for example on new employer flexibilities like deferred debt arrangements.
- 7.8 The Fund's employer and member stakeholders are represented on the Fund's Pensions Committee and Pension Board as detailed in the Fund's [Policy Statement on Communications](#). The membership of the Pensions Committee includes a Herefordshire Councillor who is also a member of the Green Party.
- 7.9 Our training programme for members of our Pensions Committee and Pension Board ensures that members can challenge and contribute meaningfully on stewardship issues and 2.23 above provides further detail. A member led specific ESG Audit working group has also been formed.

- 7.10 Our Annual Report and Financial Statements are available from our website and our website also provides up to date information about our governance, funding, investments, finances, and operations including a bespoke [Funding and investments](#) area.
- 7.11 The Fund also replies to all Freedom of Information requests as and when they arise in line with the statutory deadlines.

8. Principle 7

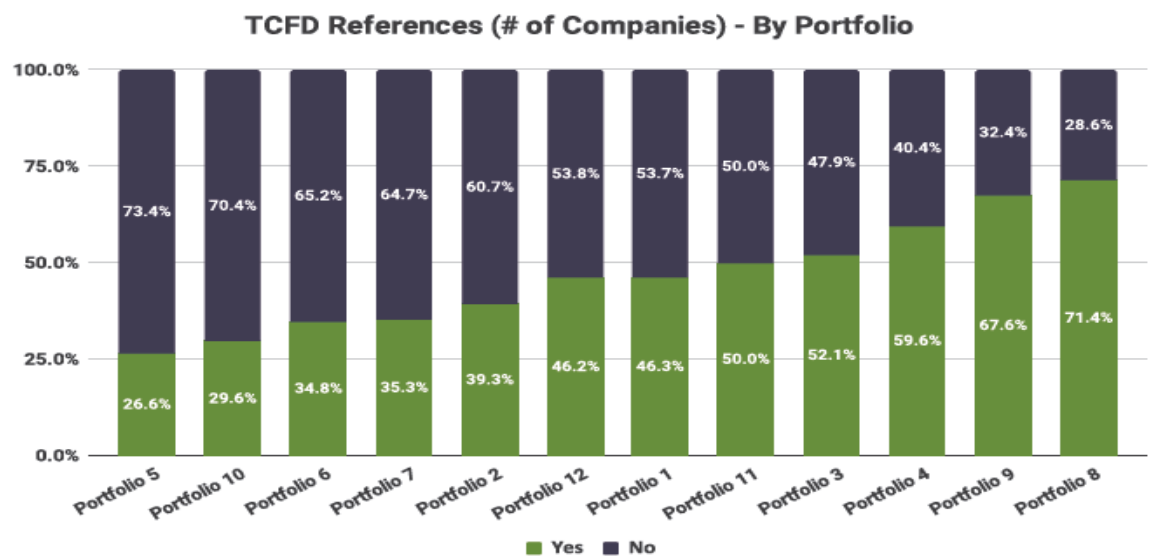
**Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities**

- 8.1 The issues that the Fund prioritises for assessing investments are those matching our desired position on the spectrum of capital and are reflected in our investment manager monitoring / selection processes that include a requirement for managers to present their TCFD report as well as investments that support the SDGs that we have prioritised.



- 8.2 The Fund considers RI to be relevant to the performance of the entire Fund across asset classes and its investment beliefs are described in Principle 1.
- 8.3 The Fund commissioned an ESG audit and a Climate Risk Report to benchmark its position and to further incorporate RI into its investment process.
- 8.4 The Fund believes that *sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term.*
- 8.5 The Fund focusses on the following targeted SDGs:
- SDG 3 Good Health and Well-being
  - SDG 7 Affordable and Clean Energy

- SDG 8 Decent Work and Economic Growth
  - SDG 9 Industry, Innovation, and Infrastructure
  - SDG 13 Climate Action
- 8.6 To ensure service providers have received clear and actionable criteria to support integration of stewardship and investment:
- The Fund sets longer-term performance objectives for its investment managers
  - The Fund ensures that investment managers are aligned with our long-term interests on all issues including ESG considerations
  - Policies relating to ESG are considered as part of the Fund's long-term investment planning process, following a thorough and robust investment appraisal
- 8.7 We 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. For example, the Fund considers:
- The potential financial impact of ESG related issues on an ongoing basis (e.g. climate change or executive remuneration)
  - The potential financial impact of investment opportunities that arise from ESG related factors (e.g. investment in renewable energies or housing infrastructure)
  - The investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e. renewable energy and social impact investments
  - The investment opportunities that have positive impacts against the targeted SDGs agreed by the Fund
- 8.8 The following guidelines were agreed at the March 2021 Pensions Committee in relation to future manager selection:
- To introduce impact criteria into the Fund's manager selection decisions e.g. Does the manager report against the SDGs, or CO2 emissions and do they have a clear investment thesis around climate change, decent work, and innovation
  - To identify whether the manager is TCFD compliant
  - To consider allocating some of the scoring weights in any procurement specifically to ESG e.g. 70% of the score based on investment, 20% on price and 10% on ESG
- 8.9 The Fund seeks managers that invest in companies compliant with TCFD recommendations because it is a good way of identifying the Fund's economic exposure to the companies that do – and do not – seem to have identified climate change as a specific risk to their business model. This will allow us a starting point in order to assess which companies are taking the risk of climate change seriously. The baseline assessment of the Fund in this area conducted by Minerva is detailed below for the Funds listed assets (70% of our portfolio).



- 8.10 The ESG audit was conducted across all the Fund’s asset classes and it identified that the Fund has exposure to four main asset classes in its investment strategy: equities, corporate bonds, infrastructure, and real estate.
- 8.11 Minerva’s approach to the ESG audit and SDG mapping aspects of the project were broadly the same for each asset class, although there was one important difference when it came to SDG mapping. For equities and corporate bonds, information is generally publicly available relating to the Fund’s investee companies, and with the existence of the SDG2000 index providing a good proxy for the SDGs themselves, a quantitative approach was possible.
- 8.12 However, for infrastructure and real estate, publicly available information of sufficient detail and quality is scarcer, due mainly to the nature of the vehicles used by investors to gain access to these assets. As a result, the SDG2000 could not be used to map these assets to the SDGs; instead Minerva used their experience and judgment to look at each portfolio’s underlying assets, to gauge whether they were likely to help or hinder in the delivery of the SDGs.
- 8.13 Accordingly, the Fund will need to constantly review its approach, particularly as there are likely to be significant developments in how performance and metrics are reported in the future before a consistent and robust system is in place.

**LGPSC’s RI Integrated Status tool**

- 8.14 LGPSC has established a system whereby any new fund that is launched and made available to partner funds will have a Responsible Investment Integrated Status (RIIS) throughout the lifespan of the fund. The LGPSC Investment Committee needs to approve a particular product’s (or set of products’) RIIS status(es). The proposal for RIIS within given investment product is communicated via a RIIS Document, which is co-sponsored by the Director of Responsible Investment & Engagement and the relevant Investment Director for the product(s) put to approval.
- 8.15 By requiring co-sponsoring of the RIIS documents, LGPSC ensures that RI&E is an integrated process. The RIIS proposal will be approved by the Investment Committee if and only if the committee is satisfied that the combination of processes, techniques, activities, and reporting achieve, in a manner suitable to the asset class, product, or mandate in question, the Company’s agreed responsible investment aims.

- 8.16 These are: (1) primarily, to support the Company's investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry and raise standards across the marketplace. The RIIS criteria to be met will typically include that:
- Any RI beliefs must be relevant to the asset class or mandate in question
  - Relevant RI related documentation must support the decision to invest, e.g. policies and procedures at external managers or co-investors
  - Fund managers must factor RI and ESG into their selection of portfolio assets
  - RI reviews must be carried out by the fund managers at regular intervals (usually quarterly)
  - Stewardship responsibilities must be carried out thoroughly (engaging with companies, shareholder voting, manager monitoring, industry participation)
  - Fund managers must be transparent in their reporting to clients and the wider public

- 8.17 **LGPSC's monitoring of managers' ESG integration and engagement approach:** The table below from the Minerva ESG audit report describes the process. LGPS Central require external equity and fixed income fund managers to complete a quarterly ESG questionnaire. Some disclosure items are "by exception" (for example changes in ESG process or personnel) and others are mandatory. LGPS Central receives quarterly data from external fund managers on the number of engagements undertaken and the weight in portfolio.

**LGPS Central: Selection, Appointment and Monitoring (SAM) of External Managers**

<b>Selection</b>	All managers are gated for their ESG practices and need to meet a defined Responsible Investment Integrated Status (RIIS) approval status from the pool's Investment Committee.
<b>Appointment</b>	Central discloses that 20% of marks available overall in the RFP process for each manager relate to ESG factors. Central shows a considered approach in the following:  <i>"The RIIS status criteria are bespoke to the product and asset class in question, but will always reflect LGPS Central's RI &amp; Engagement framework and beliefs set forth there (see p3 of RI&amp;E Framework); reference relevant RI/ESG integration documentation that supports the decision to invest, e.g. policies and procedures at external managers or co-investment companies; monitoring structure for assessing external managers' ESG integration and engagement with investee companies/assets; stewardship responsibilities such as engagement and voting; reporting structures that allow appropriate reporting to Partner Funds and the public of processes and outcomes."</i>
<b>Monitoring</b>	<i>"Once managers are appointed, we monitor RI and ESG integration on an ongoing basis through quarterly disclosure questionnaires covering ESG integration, stewardship and climate risk. We are currently initiating a 12-month RI review of managers selected last year for the Global Active Equity Fund and the Emerging Market Active Equity Fund."</i>

- 8.18 **Integration of climate change risk through Climate Risk Monitoring project** During the course of 2020, LGPS Central conducted in-depth climate risk assessments for Worcestershire Pension Fund and the other LGPSC Partner Funds and provided a Climate Risk Report (CRR) bespoke to each of them.

- 8.19 The CRR is designed to allow each Partner Fund a view of the climate risk held through their entire asset portfolio accompanied by proposed actions each could take to manage and reduce that risk. In the analysis, LGPS Central uses two approaches, bottom up & top down analysis. The top-down work is at the asset-allocation level and considers the financial consequences to the individual Partner Fund given plausible climate change scenarios. The bottom-up analysis is at the company/asset level and considers carbon risk metrics such as portfolio carbon foot printing, exposure to fossil fuel reserves, carbon risk management, and investments in clean technology. In each type of analysis, LGPS Central is not addressing the impact of the Partner Fund on the climate, but rather the impact of a changing climate, and changing climate policies, on the fund.
- 8.20 To facilitate TCFD disclosure, the CRR is deliberately structured to align with the four disclosure pillars. Below is a summary of the methods used to assess financially material climate-related risks and opportunities:

Section	Analysis
<b>Governance</b>	The purpose of this section is to identify areas in which the Fund's governance and policies can further embed and normalise the management of climate risk. We provide a review of the Fund's documentation from the perspective of climate strategy setting and issue recommendations on how the Fund could improve its governance of climate-related risk.
<b>Strategy</b>	Using the services of Mercer, LGPS Central assesses the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at fund and asset-class level), and climate stress tests (to explore the potential impact of a sudden climate-related price movement).
<b>Risk Management</b>	Based on the report findings LGPS Central provides a Climate Stewardship Plan which identifies the areas in which stewardship techniques could be leveraged to further understand and manage climate-related risks within the portfolio. The plan includes plans to engage both individual companies and fund managers.
<b>Metrics &amp; Targets</b>	LGPS Central conducts a bottom-up carbon risk metrics analysis at the company and portfolio level. For the most part, four types of carbon risk metric are utilised: portfolio carbon footprint, fossil fuel exposure, weight in clean technology and climate risk management (via the Transition Pathway Initiative).

- 8.21 As per our reporting against Principle 1, we consider this Climate Risk Monitoring project a critical stepping-stone in the Fund's ongoing management of climate risk and a direct way of translating our investment beliefs on climate change into action.
- 8.22 LGPS Central will provide bespoke CRRs to our Fund on an annual basis. Future iterations of the report will show progress against the baseline of data collected in the first year. The upcoming 2021 reports will explore 1) how the results have changed in the past year 2) what recommendations have been achieved and 3) how our Partner Funds can continue to develop in this space. In our reporting against Principle 5 (see p18 above), we detail climate reporting and metrics that are under consideration going forward and will be exploring ways in which climate risk can be analysed in alternative asset classes

## 9. Principle 8

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

- 9.1 The Fund expects its appointed investment managers to ensure that our needs have been met by taking account of financially material social, environmental, and ethical considerations in the selection, retention and realisation of investments and believes that this forms part of the manager's fiduciary duty to protect long term shareholder value.
- 9.2 This reflects the Fund's commitment to ensuring that companies that it invests in adopt a responsible attitude toward the environment, adopt high ethical standards and behave in a socially responsible manner by taking into account the interests of all stakeholders. The Fund seeks to achieve this objective by raising issues with companies in which it invests and to raise standards in a way that is consistent with long term shareholder value and our fiduciary duty.
- 9.3 The Fund understands that regardless of this delegation, we retain overall responsibility for the stewardship and responsible investment of the Fund's assets.
- 9.4 Specifically, managers are tasked with appropriately selecting the companies held in their portfolios, intervening where necessary and reporting back regularly on engagement activities.
- 9.5 The reports from our asset managers detailing engagement activities are a key monitoring tool used by our Pensions Committee on a quarterly basis.
- 9.6 These are reviewed by our independent investment advisor, Philip Hebson of MJ Hudson, who attends all Pension Investment Sub Committee meetings. Our advisor's objectives were reviewed at the [Pensions Committee meeting of March 2020](#) and include assisting the Fund in the monitoring of its managers and producing a Quarterly Performance Update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisor in compliance with CMA regulations and reports this to Committee every 6 months.
- 9.7 Each of the managers meets with Committee once a year and also with officers of the Fund once a year. We have quarterly meetings with our active equity managers. Additional meetings with managers may also be arranged on an ad-hoc basis according to need. Manager performance is also reported annually in the Fund's annual report which is published on the Fund's website and made widely available to stakeholders.
- 9.8 The Fund also engages with its asset managers on a regular basis using a variety of means including phone, email, in person and formal written correspondence. The Fund uses its engagement with managers to monitor performance, evaluate risk, and to become aware of any ESG issues and opportunities.
- 9.9 One of the recommendations from the ESG audit conducted by Minerva in November 2020 was to challenge our fund managers using a specific tool to assess their ESG capabilities across all asset classes: The next steps will be to use this tool to challenge our existing Fund managers as part of our regular performance monitoring meetings.

Table 2: Qualitative Assessment

Manager	Asset Class	A	B	C	D	E	F	G
LGPS Central	Equities/Corp Bonds	76	-	33	-	-	-	89
Manager A	Equities	76	37	41	-	-	-	-
Manager B	Equities	65	57	61	-	-	-	-
Manager C	Infrastructure	85	74	-	75	70	61	-
Manager D	Infrastructure	79	80	-	70	21	72	-
Manager E	Infrastructure	86	78	-	86	90	67	-
Manager F	Infrastructure	13	8	-	18	0	10	-
Manager G	Private Debt	73	58	68	56	-	-	-
Manager H	Real Estate	46	43	-	48	44	36	-
Manager I	Real Estate	61	79	-	59	62	90	-
Manager J	Real Estate	56	65	-	71	70	44	-
Manager K	Real Estate	0	15	15	0	0	-	-
Manager L	Real Estate	0	21	15	5	-	-	-

## Table Key:

- A: Strength of house-level ESG governance and orientation.
- B: Portfolio disposition or potential for high ESG achievement.
- C: Portfolio disposition or potential for contribution to the Fund's chosen SDGs.
- D: Quality of ESG management using best practice in real assets (private debt for Manager G)
- E: Participation in and performance in benchmarking and standards.
- F: A high-level qualitative assessment on individual assets held in infrastructure funds for their potential to contribute to the Fund's chosen SDGs.
- G: Assess the pool's policy on investment manager Selection, Appointment and Monitoring (SAM).

- 9.10 The Fund receives Internal Control Reports from managers and our custodian every year and these are reviewed by officers of the Fund annually. Quarterly performance meetings are also held with our actuary.
- 9.11 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which has enabled us to develop our approach to shareholder engagement and responsible investment. Collective engagement through LAPFF enables us to maximise our influence.
- 9.12 Officers of the Fund regularly attend LAPFF business meetings, which include presentations from expert speakers and detailed updates on engagement and policy work. Furthermore, our membership of LAPFF enables us to benefit from their voting alerts service which highlights companies with material corporate governance failings. Full details of the alerts can be viewed on the LAPFF website in the members' area.
- 9.13 We participate in [LGPS Central Limited](#) for our active mandates. It is our ESG adviser and its approach is detailed in its [Responsible Investment and Engagement Framework](#).
- 9.14 Whilst [LGPS Central Limited](#) does quarterly ESG update reports which can be found on its website, we monitor [our engagement with companies](#) and how the proxy voting of these investments is cast, reporting this to Pensions Committee meetings using [geographical](#), and [company name](#) analyses.
- 9.15 We have appointed Legal & General Investment Management to manage our passive equity mandates. It believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces a [quarterly ESG impact report that includes a regional voting summary](#).
- 9.16 From an asset allocation point of view, it appears to us preferable to think about [ESG impact strategies](#) within the already well-established asset classes rather than as a standalone bucket.

## **Further detail of LGPSC monitoring of managers' ESG integration & stewardship**

- 9.17 LGPS Central has developed a traffic-lights based system of manager monitoring, of which RI&E is a core component. These ratings get updated each quarter based on the discussion at the manager meetings. The traffic light is split into four possible ratings: green (manager shows clear strengths tailored to requirement), amber (manager is fulfilling role but with minor areas of concern), orange (manager warrants closer scrutiny with potential for going on "watch") and red (manager fails to convince, warrants formal review with potential manager exist). LGPSC scores managers on four components of their RI&E approach:
- philosophy, people and process
  - evidence of integration
  - engagement with portfolio companies
  - climate risk management.

*Reflecting its importance, the RI&E component carries 13% of the weight in the overall score*

- 9.18 Managers' report on a regular basis to LGPS Central in respect of how engagement activities have been discharged during the period in review. LGPSC sets expectations regarding the volume and quality of engagement, and assesses climate risk including portfolio carbon footprint, and exposure to oil, gas and coal producers. In order to send a unique voting signal to investee companies LGPS Central votes its shares - whether externally or internally managed - according to one set of Voting Principles. Whilst the ultimate voting decision rests with LGPS Central, we have a procedure through which we capture intelligence and recommendations from external fund managers.
- 9.19 The LGPSC RI&E team attend quarterly monitoring meetings with external managers. The purposes of RI&E monitoring are to analyse the level of ESG risk and climate risk in the portfolio, determine whether the manager is successfully applying the ESG process that was pitched, and assess whether that ESG process is proving successful. Monitoring is achieved through a combination of LGPSC's own internal portfolio analysis, inspection of the manager's responses to quarterly data requests, and via dialogue at the quarterly meetings
- 9.20 In 2020, LGPSC's external managers conducted 203 direct engagements with companies held in the Global Equity Active Multi-Manager Fund and Emerging Equity Market Active Multi-Manager Fund.
- 9.21 In Q4 2020, BMO (part of LGPSC Emerging Market Equity Active Multi-Manager Fund) conducted an engagement with a large multinational consumer goods company on potential forced labour risks in supply chains connected to the Xinjiang Uyghur Autonomous Region. BMO have asked the company to conduct enhanced due diligence for operations in high risk regions where standard auditing procedures may not suffice. The engagement forms the start of a targeted programme by BMO addressing human rights risks in the supply chains of fifteen multinational companies.
- 9.22 On the whole, engagement undertaken by LGPSC's external managers in 2020 has been comprehensive and robust. These managers are all long-term investors with sizeable positions in their highest conviction portfolio holdings, giving them excellent access to company management which they used effectively to drive company change. There were a few occasions where the level of engagement disclosure was unsatisfactory, or where the link between an engagement and subsequent investment decision-making was not clear. In these instances, fund managers were marked down

during LGPSC’s traffic lights rating review and LGPSC discussed its concerns in the quarterly meetings.

- 9.23 An example of this occurred in Q2 2020 when LGPSC downgraded two parts of the traffic light score of one manager from level three (green) to level two (amber). LGPSC asked for assurances regarding the consistency of ESG integration across the portfolio, as the manager appeared confident in pre-prepared examples of ESG analysis, but less so in the companies that LGPSC had selected. It was also unclear how the outcomes of recent engagements had been incorporated back into investment decision-making. Six months later, LGPSC has now reinstated part of this score. After initiating a two-way dialogue LGPSC was able to attain a much better understanding of how the manager’s engagement outcomes feed back into portfolio construction. LGPSC still is not fully comfortable with the explanation of ESG analysis and will continue to press the manager during quarterly discussions. Anything that is not adequately addressed during these quarterly meetings will be scrutinized as part of LGPSC’s in-depth annual manager review.

**ENGAGEMENT (Principles 9 to 11)**

**10. Principle 9**

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

- 10.1 Alongside LGPSC’s direct engagements, we have several partners that engage companies on our behalf: EOS at Federated Hermes (Stewardship provider to LGPSC) and LAPFF. Through these partnerships, our Fund was able to engage more than 1,000 companies on material ESG related issues in the course of 2020. Below we give further detail and examples to some of these engagements.
- Engagements through LGPS Central**
- 10.2 During 2020 LGPS Central has continued engagement on four core Stewardship Themes: climate risk, plastic pollution, responsible tax behaviour and tech sector risks. Given that engagement requires perseverance and patience, we expect to pursue the same themes over a three-year horizon (current period 2020 – 23), and in some cases – like with climate change – a longer time period. LGPS Central also continues to employ a broader stewardship programme, beyond the core themes, covering issues like board diversity, deforestation risks and human rights, to name but a few.

**Climate change engagement highlights 2020**

- 10 live climate-related engagements (eight of which are Climate Action 100+ companies)
- Engagement across sectors, both supply and demand for fossil fuels, as well as auditors who audit accounts and banks that provide lending
- Done through key collaborative initiatives including Climate Action 100+, Institutional Investor Group on Climate Change (IIGCC) and the Transition Pathway Initiative (TPI)
- LGPSC’s voting is, whenever possible, engagement-led and reflects the expectation of Paris alignment. Specifically, if a company is assessed by the TPI’s Management Quality Framework to be at a level 2 or below (where 4 is maximum score), LGPSC will consider voting against the company Chair, and other relevant directors or resolutions. Ahead of the 2021 voting season, LGPSC expresses a heightened expectation in that companies should be above a level 3 in TPI’s Management Quality Framework.

- We have seen progress during 2020 through the setting of net-zero by 2050 ambitions and initial steps to set short and medium-term targets aligned with long-term ambition. There is also progress among the majority of these companies in partially or fully including Scope 3 emissions in target-setting.
- Gaps: As evidenced through the CA100+ Benchmark Framework assessments (published in March 2021), most companies are still in the early stages of the shift to a net zero economy. In particular, there are gaps in aligning capital expenditure plans with net-zero ambitions and in linking delivery of climate targets with remuneration. Climate policy lobbying also remains an area of concern, where most companies need to improve processes and transparency around how they ensure alignment with their own climate positions and the advocacy done on their behalf through industry associations.

### **Climate engagement case**

- 10.3 During 2020, LGPS Central continued engagement with audit committees of companies with high exposure to climate change risks. The initiative is a satellite to the CA100+ engagement project and supports the overall goals of CA100+. In November 2019, letters went to three oil and gas majors – BP, Shell and Total – asking for assurances that key financial disclosures to shareholders take due account of all risks, including climate change. If climate risk is not taken into account, the longevity and value of assets held by the company may be over-estimated, which could lead to capital being misdirected.
- 10.4 The investor group, led by Sarasin & Partners, published a statement in June 2020 welcoming a recent announcement by BP that the company will lower long-term oil and gas price assumptions used in financial statements to reflect a decarbonising world. The group commended BP for this move and the statement also positively acknowledges the fact that Shell and Total have similarly lowered their oil and gas price assumptions used in their 2019 audit accounts. The companies in question are willing to engage on the subject and this positive momentum has been harnessed during 2020 through a broader engagement based on a set of [Investor Expectations for Paris-aligned Accounts](#). These expectations were [communicated](#) by letter to 36 energy, material, transportation companies in November of 2020.

### **Plastic pollution engagement highlights 2020**

- Six live engagements
- Focus on packaging companies, which is one of the sectors more exposed to risks and opportunities stemming from plastic transition
- Collaborative engagement through a sub-group of the PRI Plastic Working Group, led by Dutch investors Achmea Investment Management and Actiam
- The objective is to engage and support progress for companies in a 'Plastics transition' - to reduce, re-use and replace fossil-fuel based plastics.
- With increasing attention from governments to the negative impacts of plastic use and consumers calling for less harmful alternatives, investee companies in the plastic value chain are exposed to increasing regulatory risks, environmental risks, reputational risks, and the risk of missing out to market developments
- 1-2 meetings have been held with each of the companies in the course of 2020 with an overall high level of receptiveness to investor concerns
- Direct engagement has been combined with "knowledge sharing" events hosted by PRI Plastic WG where some of the companies have taken part
- Sector-specific expectations have been developed by the broader PRI WG and engagement will continue with the six companies during 2021 based on these.

**Case study**

- 10.5 LGPSC engaged a US-based industrial packaging company which is seeing greater interest from its customer base for sustainability in the last 4-5 years and as a result, is expanding its post-consumer resin (PCR) products, capabilities, and technologies. PCR plastics are recycled materials from existing polyethylene terephthalate (considered safe and is represented on water bottles as a safe option) and other plastics. Demand for PCR is greater among customers in Europe than in North America and the Company is actively educating its customers both on the quality and safety of recycled products and on emissions impacts for specific products. In all these engagements, the investor group would like to see ambitious targets for reduction, re-use and replacement of plastic and clear Key Performance Indicators (KPIs) and timelines for how targets can be achieved.
- 10.6 The aforementioned Company is currently going through a KPI setting procedure and we encouraged them to integrate relevant KPIs on sustainability progress in executive remuneration. The Company seems to welcome further investor input to the KPI setting process, and the group will continue dialogue to discuss the development of targets and what progress is being made against those.

**Responsible tax behaviour engagement highlights 2020**

- Six live engagements
- LGPSC has formed a collaboration with four other European investors, which is a sub-group to a broader Tax Roundtable led by Norges Bank Investment Management and APG
- Group has sought engagement with companies across technology, telecommunications, finance, and mining sectors where a low effective tax rate was an initial concern with several of these
- Engagements have been initiated through letter outreach and subsequent meetings with five out of six companies
- Key asks: Board oversight of tax policy and risk assessment; disclosure of tax strategy and policy; robust management of tax related risks, including preferably a country-by-country tax disclosure; link between company's purpose, sustainability goals and tax strategy; engagement with tax policy makers and other stakeholders
- Alongside direct engagement, the broader Tax Roundtable is developing a set of Tax Transparency expectations that amalgamate expectations set by individual investors
- Engagement will continue with all companies bar one, which is considered a best practitioner, and may be expanded in scope. The general level of tax transparency is low across companies and sectors

**Case study**

- 10.7 In conversation with a US-domiciled software and services company, LGPSC and fellow investors discussed the Company's approach to tax and how it defines and manages tax related risks. The Company established a Global Corporate Income Tax Matter Policy in 2019 and we were told that the Board stays closely involved and asks questions around tax risk through its Audit Committee. The investor group probed the Company on its tax strategy for digital products and the use of foreign jurisdictions with lower tax rates. It is generally concerning if companies appear to utilise aggressive tax planning strategies. While the company we engaged assured investors that it is not seeking tax havens, we would like to see that more clearly articulated in both policy and practice. The Company has a subsidiary incorporated in Ireland, but which is tax resident in another jurisdiction paying zero tax. This raises some 'red flags' from the outset and does not appear to be in line with OECD's Base Erosion and Profit Shifting Framework. The investor group will seek further clarification from the Company on the

underlying realities and whether we might expect a change in tax practices under the newly established tax policy.

#### **Tech sector risks**

- Five live engagements
- LGPSC is part of two collaborative initiatives: one focusing on social media content control, and one addressing human rights more broadly (see further detail on the latter under Principle 10 below)
- Big tech companies have initially been hard to engage due to the strong founder/owner governance structure of most of these companies and a seeming inclination to ignore minority shareholders' voices
- The social media content control engagement project led by the New Zealand Crown-owned investors, has garnered impressive investor support from 102 financial institutions since inception in March 2019 (see further detail in case study below)
- In the face of COVID19 and a highly polarised US presidential election November 2020, the social media content control engagements garnered momentum through pressure from advertisers and other stakeholders (including World Federation of Advertisers) on harmful content including hate speech and aggression

#### **Case study**

10.8 During the latter half of 2019 and all of 2020 LGPSC has taken part in collaborative investor engagement, led by the New Zealand Crown-owned investors, with **Facebook** and **Twitter** to discuss their governance and operations to ensure appropriate social media content control. This big tech engagement project was initiated following the horrific Christchurch attacks in March 2019 which were livestreamed on social media platforms. Both companies are taking encouraging steps to efficiently assess content and to remove objectionable content from their platforms. Technology is developing rapidly and with the help of AI the companies appear more effective at capturing contextual content such as hate speech. Facebook has established an Oversight Board to ensure fair decision-making in situations where free speech is at odds with authenticity, safety, privacy, and dignity, and that will assist in hearing difficult and important content removal decisions. The Board may overrule management and may comment on policies in order to ensure that these are aligned with the company's core values. Rebuilding trust with advertisers and users should be a focus for Facebook going forward.

10.9 We expect them to move the discussion from a focus on risk management and mitigation to prevention. Twitter provides a public biannual transparency report which describes how content is managed in relation to issues like elections integrity, cyber security, data protection and harmful content amongst others. Twitter actively seeks collaboration with peers and other stakeholders in order to discuss the challenges and how they can best be tackled. The investor coalition has signalled to both companies the importance of board oversight and has requested to meet board directors at both companies as engagement continues.

#### **Example of a recent engagement through LAPFF**

10.10 An example of a recent engagement through LAPFF has begun correspondence with companies cited for their involvement in Israel's illegal Israeli settlements, based on stolen Palestinian land. An extract from the LAPFF quarterly engagement report is detailed below:-

- 10.11 **Israeli-Palestinian engagements underway Objective:** A number of LAPFF funds were approached by both pro-Israeli and pro-Palestinian groups about investments in the Israeli-Palestinian territories. Consequently, the Forum cross-referenced the companies of concern with a UN list of companies raising concerns based on their operations in this area to determine a preliminary list of companies with which to engage on this issue.
- 10.12 **Achieved:** The first engagements have taken place with three of the seventeen companies approached on this issue. So far, there has been pushback on two fronts from all three companies. Motorola, which the Forum has approached in the past, merely provided its standard annual report text in response to a meeting request and has not yet granted a meeting of any sort. Altice, a French telecommunications company, and Israeli Discount Bank have both pushed back on LAPFF's request for human rights impact assessments in respect of their operations in the territories on the grounds that the UN list is political, and it would do no good to undertake these assessments because existing legal requirements ensure human rights compliance in any case. Altice did engage through a meeting, though, while Israeli Discount Bank submitted only a written response.
- 10.13 **In progress:** Forum members continue to be approached on this seemingly challenging issue, and LAPFF will continue to engage with the companies approached. Although the Forum is not likely to solve this political problem, it is hoped that the companies engaged will come to understand the importance of conducting human rights impact assessments both for their own operations and in order to provide more helpful investment information to shareholders.

## 11. **Principle 10**

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

- 11.1 We have worked with the following in collaborative engagement to influence issuers in order to maximise the influence that the Fund can have on individual companies:
- 11.2 Working collaboratively with LGPS Central aids the Fund in using our influence as a shareholder to set a high standard for the wider investment community. LGPS Central has taken part in and helped build strong investor collaborations in pursuit of better corporate standards for each of the Stewardship Themes<sup>1</sup> during 2020. The pool has also supported theme-relevant industry standards and benchmarks, which clarify investor expectations of companies and provide a mechanism for measurement of progress. See examples below
- 11.3 Examples of collaborative corporate and industry standard engagement that LGPSC is an active participant in:
- Climate Action 100+**
- 11.4 LGPS Central has since inception been an active member of Climate Action 100+ (CA100+). CA100+ engages 161 companies across the globe that are responsible for 80% of industrial carbon emissions globally. The project is currently being ramped up through a Benchmarking project asking companies to set an explicit target of net-zero

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<sup>1</sup> Confer with response to Principle 4 (p14) above for further detail on LGPS Central Stewardship Themes

emissions by 2050, and to provide verifiable evidence that this will be achieved in the short, medium, and long term.

11.5 LGPS Central is actively involved in leading and/or supporting eight CA100+ engagements across mining, oil & gas, industrial technology, and integrated energy sectors. All companies have set a high-level ambition of being net-zero by 2050, with varying remits in scope. LGPSC is pleased to note that two of the eight companies we engage directly (**Glencore** and **Royal Dutch Shell**) have made a decision to allow shareholders an advisory vote on their respective Climate Transition Plans. While neither company has fully disclosed strategies to achieve Paris goals across all scopes and over relevant time horizons (2025, 2036 and 2050), they have taken key steps that can set each company, respectively, on a Paris trajectory.

11.6 In the case of Glencore, we will particularly encourage clear and ambitious short-term targets that align with their 40% GHG emissions reduction target across all scopes by 2035, and net-zero by 2050. We will also push the company to provide more information on their climate policy lobbying activities, both directly and indirectly through industry associations, giving shareholders assurances that misalignment will be addressed in a robust manner.

#### **Plastic pellet industry standard**

11.7 Plastic pollution is a very serious global issue, with billions of plastic pellets or “nurdles” making their way into the natural environment each year. This poses a serious threat to the ecosystem and is potentially also a health threat to people. LGPSC is collaborating with the Investor Forum, peer investors and other stakeholders including Marine Scotland, the British Plastics Federation, and the British Standards Institute to sponsor and create the first industry specification to prevent plastic pellet pollution.

11.8 The new specification, a so-called Publicly Available Specification (PAS), will set out measures to prevent plastic pellet leakage and help companies demonstrate good practice in pellet loss prevention across their supply chains. The overarching goal of this PAS is to help companies achieve and maintain zero pellet loss across their pellet handling operations. After 9 months of preparation, an expert group proposed a plastic pellet PAS which went out for consultation during Q1 of 2021. Influencing corporate practices on a theme across industries is a powerful engagement tool and we will use the plastic pellet PAS as a direct reference in engagement with relevant industries including plastics manufacturers, transportation, retailing and recycling organisations once it is made public.

#### **Tech sector and human rights standards**

11.9 LGPS Central has taken part in collaborative investor engagement, led by the Council on Ethics to the Swedish National Pension Funds discussing human rights risks with a group of American technology companies. This engagement is part of a broader project to engage technology companies on a wide range of human rights risks including privacy and data protection; freedom of expression; disinformation in public and political discourse; and discrimination and hate speech.

- 11.10 These are complex issues that require solutions both within the companies' own sphere of influence, as well as industry standard and public policy intervention. Through this engagement project, investors are opening a line of dialogue and collaboration to encourage greater transparency, better governance and board oversight and overall alignment with existing human rights standards by technology giants. In partnership with the Danish Institute for Human Rights, the Council on Ethics has identified what are reasonable human rights expectations of companies such as Facebook, Google (Alphabet) and Twitter. [These expectations](#) were shared and discussed with technology companies during Q4 of 2020 and officially published in December 2020. With clearly articulated expectations, investors have a good baseline for ongoing engagement with technology companies and a means for a more constructive and effective dialogue regarding the companies' responsibility for and impacts on human rights.
- 11.11 We view it as critical that big tech firms work strategically on human rights risks and that they are willing to collaborate across their value chain in order to find adequate solutions. Encouragingly, we note that several companies welcome the articulation of comprehensive investor expectations and seem willing to engage on these, and to contribute to the setting of common standards for the industry.

#### **Deforestation**

- 11.12 LGPSC engagement on the long-term investments risks inherent in deforestation continues, both at policy and company levels. The pool company recognises the crucial role that tropical forests play in tackling climate change, protecting biodiversity and ensuring ecosystem services, which again has an impact on economic development and the stability and well-functioning of capital markets. During Q1 of 2021, the Chair of the LGPS Central Board, Joanne Segars, took part in a meeting with the Vice President of Brazil, representing LGPS Central as a member of the investor coalition "Investor Policy Dialogue on Deforestation" (IPDD). This was one of several meetings initiated by IPDD with the highest political levels in Brazil across government, central bank, and the congress<sup>2</sup>.
- 11.13 LGPSC and fellow investors expect Brazilian authorities to halt and reverse deforestation while allowing investors access to data to monitor progress. The Brazilian government acknowledges the urgency in reducing illegal deforestation, however actions taken so far have been inadequate and the rate of deforestation in the Amazon is sadly continuing to increase. We will continue this important engagement, harnessing what appears to be a joint view from both sides that the forest is more valuable standing than destroyed

#### **Other Fund collaboration**

- 11.14 The Fund also works closely with its asset managers, engaging with them on a regular basis and with other organisations, such as the Pensions & Lifetime Savings Association (PLSA). All our managers work closely with other organisations as part of

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<sup>2</sup> IPDD is led by Storebrand (Norway) and BlueBay Asset Management (UK) and LGPS Central is on the IPDD Advisory Committee. IPDD will be a two-year project that also aims to span other regions of the world that face deforestation risk.

their collaborative engagements, advocacy and research activities, details of which are given in their quarterly and annual reports which are reported to Committee.

- 11.15 Each year, various officers and members of the Pension Committee attend LAPFF business meetings which include presentations from expert speakers and detailed updates on engagement and policy work.
- 11.16 Representatives from the Fund regularly attend various other pension forums and conferences in order to stay abreast with the latest developments affecting LGPS pensions and investment markets and to use opportunities to network and collaborate with other.

#### **LAPFF collaborative engagement example**

- 11.17 In addition to the support provided directly via LGPSC there are examples provided through LAPFF of the supported engagement activities undertaken. A recent example would be the pressure from investors on Rio Tinto over Juukan Gorge. An extract from the LAPFF 2020 fourth quarterly report is provided below:
- 11.18 *As LAPFF has been learning more about **Rio Tinto's** involvement in the destruction of the historically significant caves at Juukan Gorge in Western Australia, there have been increasing concerns about the company's corporate governance practices. Consequently, the Forum – along with other investor groups, most prominently the Australasian Centre for Corporate Responsibility (ACCR) – has been pushing the company to review its corporate governance arrangements. One of the main strategies in this engagement has been to issue press releases citing LAPFF's concerns as various details of Rio Tinto's practices were revealed through a range of investigations. There has been an internal investigation led by a non-executive director on Rio Tinto's board, which resulted in the elimination of short-term bonuses for three senior executive members, including the CEO. Subsequently, the CEO and two other senior executives resigned. The Forum received significant press coverage for its support of this measure. LAPFF also issued press releases responding to information issued by Australian Parliamentary inquiries into this matter. There appears to be increasing evidence of corporate governance failures, particularly in relation to engaging properly with indigenous communities, emanating from these inquiries. LAPFF is continuing to ask questions of the Rio Tinto board about its response to the mounting information on corporate governance failures. The Forum currently has requested LAPFF Chair, Cllr Doug McMurdo, meet with the Chair of Rio Tinto, Simon Thompson, about the Juukan Gorge incident. In the meantime, LAPFF is participating in a collaborative investor group led by Adam Matthews at Church of England to discuss a way forward not only for Rio Tinto, but the mining industry more broadly. LAPFF has also engaged with Rio Tinto in relation to the company's progress on scopes 1 and 2 carbon emission targets; progress on partnerships; and review of trade association memberships.*

## **12. Principle 11**

**Signatories, where necessary, escalate stewardship activities to influence Issuers.**

- 12.1 The responsibility for day to day interaction with companies is delegated to fund managers and LGPSC, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statement of adherence to the Stewardship and may include the following activities:
- Additional meetings with management
  - Intervening jointly with other institutions – e.g. fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGMs
  - LGPSC escalation
  - Writing a letter to the board or meeting the board
  - Submitting resolutions at general meetings and actively attending to vote
  - Divestment of shares
- 12.2 Occasionally, the Fund may choose to escalate activity directly, principally through engagement activity by the LAPFF (see escalation example above in Principle 10) or via LGPSC. When this happens the Chairman of the Pensions Committee, in communication with the Vice Chairman and Chief Financial Officer to the Fund will decide whether to participate in the proposed activity.
- 12.3 Any concerns with the managers are added for discussion in the Pension Investment Sub Committee agenda and where there are specific concerns, the relevant managers will be invited to discuss concerns.
- 12.4 The Fund employs the services of an independent investment advisor, who, along with officers of the Fund, closely monitors the performance of the Fund's managers. The Investment advisor will attend Committee meetings and assist the Committee in the questioning of the managers and in the discussions that follow, helping the Committee by providing any guidance they need to help them to make the right decisions for the Funds interests. Further details are contained within the ISS which is available on the Fund's website. Our advisor's objectives were reviewed at the [Pensions Committee meeting of March 2020](#) and include assisting the Fund in the monitoring of its managers and producing a Quarterly Performance Update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisor in compliance of CMA regulations and reports this to Committee every 6 months.
- 12.5 The Fund has only divested from shares in the past on the grounds of investment performance and has principally used engagement to influence companies through fund managers to escalate activity. However, as part of the ESG audit the Fund included the potential to disinvest where appropriate within its agreed ISS. It highlighted that, whilst this was not currently the Fund's policy, it could be considered in the future if a particular manager or company was not making any attempt to comply with our Fund's stated policies.
- 12.6 A large proportion of the Fund's assets are invested in passive pooled products managed by Legal & General Investment Management (LGIM) and are voted according to the voting policies of LGIM. An escalation example is detailed below:-

### **LGIM escalation example**

- 12.7 As part of a group of 100 investors representing over \$4.2 trillion in AUM and driven by the Investor Alliance for Human Rights, LGIM wrote to policymakers around the world calling for the introduction of new requirements to mandate companies to disclose their due diligence on human rights.<sup>15</sup> We believe this type of regulation is: materially good for business, investors, and the economy; (ii) essential in creating uniformity and efficiency as an increasing number of governments are already taking this step; and (iii) a necessary component for investors to fulfil our own responsibility to respect human rights.
- 12.8 On 29 April 2020, EU Commissioner for Justice, Didier Reynders, announced a commitment to introduce EU-wide, mandatory due diligence legislation on human rights in 2021. The consultation process to inform the drafting of the legislation is being developed.
- 12.9 Elsewhere, LGIM worked with Rathbones,<sup>16</sup> alongside other investors managing a total of £3.2 trillion in assets, to challenge FTSE 350 companies that had failed to meet the reporting requirements of Section 54 of the Modern Slavery Act, 2015

### **LGPSC escalation example**

- 12.10 LGPSC alongside 10 other investor institutions and led by Share Action, filed a shareholder proposal at **Barclays Bank** in January 2020. The proposal stipulated that Barclays should disclose targets to phase out the provision of finance to companies in the energy and utility sectors that are not aligned with the Paris climate change goals. In other words, investors asked Barclays **to establish and disclose plans/strategies to align their loan books with the Paris accord.**
- 12.11 Following many meetings and interaction, including directly with the Chair of the company, the outcome was clearly very positive: Barclays – close to the AGM in May 2020 – announced an ambition to become a “net-zero bank” covering emissions across Barclays’ own operations and those of its clients. Barclays have since been working on establishing methodologies to assess specific companies and sectors against Paris. Although we at the time of filing held only a minority share of 0.05% of the company, that shareholding allowed us to take shareholder action.

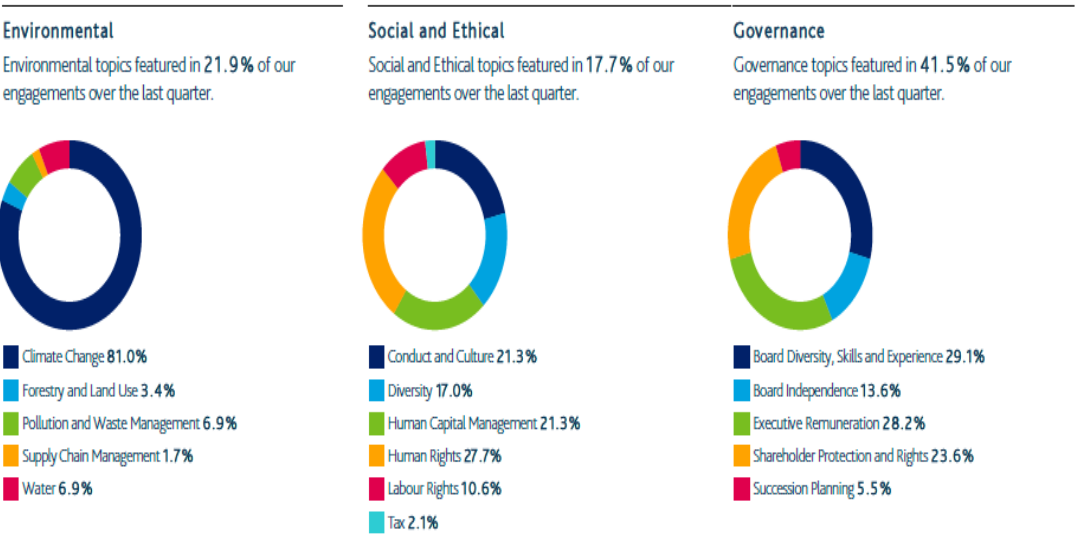
## **13. Principle 12**

### **Signatories actively exercise their rights and responsibilities**

- 13.1 The Pensions Committee has agreed that LGPSC will, via Hermes EOS, vote shares in certain discretionary and all pooled funds on the Fund’s behalf. These votes are executed in line with LGPSC’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. LGPSC also provides regular updates on our targeted stewardship themes: climate change, single-use plastic, technology & disruptive industries, and tax transparency.
- 13.2 As described in Principle 10 we monitor [our engagement with companies](#) and how the proxy voting of these investments is cast, reporting this to Pensions Committee meetings using [geographical](#), and [company name](#) analyses. Over the year EOS recommended voting against 469 resolutions against management or abstaining on resolutions at 283 meetings and engaged on 820 environmental, social and governance issues and objectives with 265 companies. An example of the voting and engagement statistics provided are detailed below for quarter 2 of 2020.

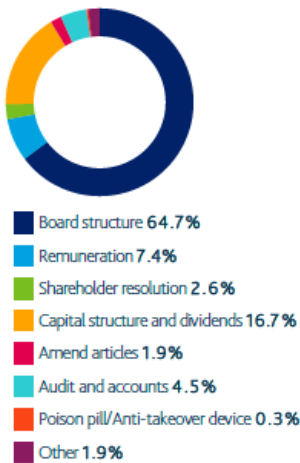
Engagement by theme

Over the last quarter we engaged with 80 companies held in the Worcestershire Pension Fund portfolios on a range of 265 environmental, social and governance issues and objectives.



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

**Global**  
We recommended voting against or abstaining on 312 resolutions over the last quarter.



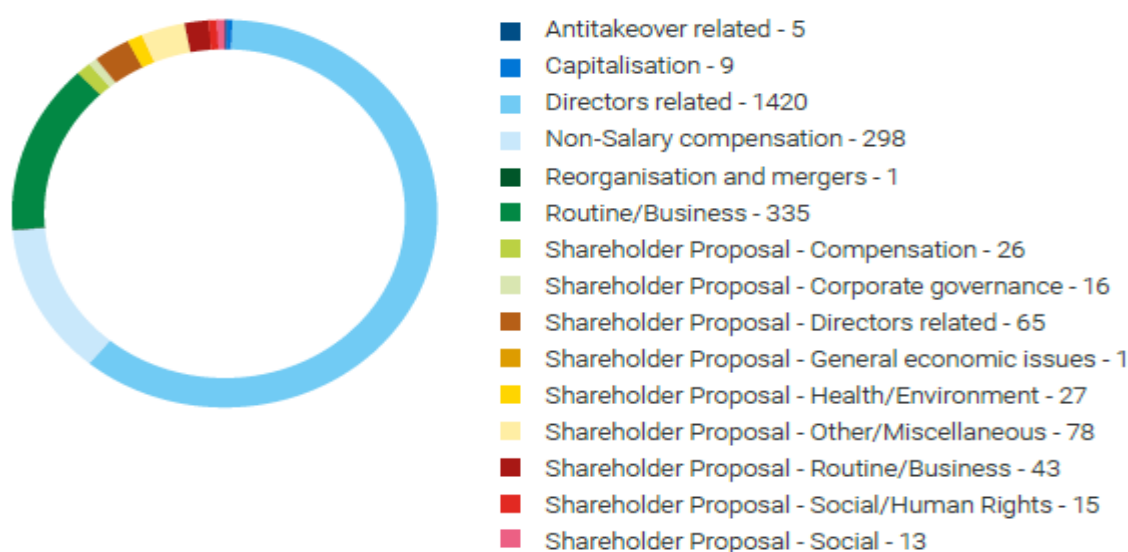
13.3 The 2020 voting season saw many companies in the US and Europe opt for virtual shareholder meetings against the backdrop of COVID 19. While the virtual format posed fresh challenges for companies and investors alike, it is clear that the attention to material ESG issues remains high on investors’ agenda and many ESG-related shareholder proposals got very strong or even majority support. The majority of shareholder proposals that we voted for (against managements’ recommendation) were on environmental and social & ethical issues. At the start of voting season 2020, LGPS Central provided its Partner Funds with a briefing on its application of LGPS Central’s Voting Principles in light of the health pandemic disruptions. Below is an overview of elements where flexibility was applied with examples:

COVID 19 voting approach	Examples
<ul style="list-style-type: none"> <li>An intention to be supportive of <b>hybrid AGMs</b> and of companies that facilitate additional shareholder events with the board of directors</li> </ul>	<p>On our behalf, LGPS attended and asked questions at three virtual shareholder meetings; <b>Honeywell Inc, Citigroup Inc</b> and <b>Glencore</b>.</p> <p>EOS attended and asked questions at 24 virtual shareholder meetings, including <b>Deutsche Bank, BP, Google owner Alphabet, Novartis, Amazon, and Facebook</b>, up from nine in 2019. EOS made statements for nine companies and asked live questions at six meetings, submitting questions in advance for others</p>
<ul style="list-style-type: none"> <li><b>Director elections</b> – we will consider voting “For, by exception” directors that we might otherwise have opposed for reasons of poor corporate governance (tenure, diversity, over-boarding, etc)</li> </ul>	<p>In some circumstances LGPSC was more supportive of the re-election of those directors who we believed were critical to short-term crisis management, while continuing to communicate our longer-term governance concerns. For example, at <b>Morrison’s</b> and <b>UniQure</b>, we supported re-election of Board directors by exception, while communicating concerns about persistent poor board gender diversity. At <b>Ocado Group</b> we also voted for by exception while emphasising our concern around board independence and potential conflicts of interest arising from the company secretary also being an executive director, an unusual arrangement for a FTSE 100 company.</p>
<ul style="list-style-type: none"> <li><b>Remuneration</b> – we welcome announcements already made by companies making downward adjustments to executive pay and will keep a close eye on pay awards especially at companies expecting the brunt of the crisis to be borne by shareholder capital or by the company’s own human capital</li> </ul>	<p>LGPSC opposed pay proposals where we did not believe appropriate adjustments had already been made in terms of “sharing the pain” felt by stakeholders, including employees, customers, suppliers, and the public – such as at <b>JPMorgan Chase &amp; Co, Disney</b> and <b>Delta Airlines</b>.</p> <p>Overall, LGPS Central voted, on our behalf, against 35% of pay proposals, compared with 37% in 2019 across investee companies</p>
<ul style="list-style-type: none"> <li><b>Engagement priorities</b> including climate-relating voting – where there are no indications of imminent financial distress, we will continue to vote against companies performing poorly on climate risk, notably those companies in our engagement set; we will consider voting “For, by exception” at companies currently performing poorly but where there is a</li> </ul>	<p>LGPS Central Voting Principles reference the Transition Pathway Initiative (TPI) management scoring pathway as a benchmark against which management of climate change risks and opportunities for larger and more exposed companies are assessed.</p> <p>We voted against management during 2020 voting season where we remained concerned about the low level of climate ambition following engagement, such as at <b>Yanzhou Coal Mining, Apache, and China Shenhua Energy</b></p> <p>For companies with indications of imminent and severe financial distress (such as in the airline and shipping</p>

COVID 19 voting approach	Examples
reasonable prospect of positive engagement over the longer term	sectors), or where we believed there was a reasonable prospect of positive engagement on climate change over the longer term, we voted For, by exception. We took this approach at <b>Ovintiv, Diamondback Energy, Berkshire Hathaway, Ameren Corp, and Lufthansa</b> , amongst others.

- 13.4 As detailed in 12.6 above our passive pooled products managed by LGIM are voted according to the voting policies of LGIM. LGIM believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces a [quarterly ESG impact report that includes a regional voting summary](#). The Pensions Committee is satisfied that LGIM's approach to shareholder voting is sufficiently robust and aids in the delivery of the Fund's RI objectives. LGIM's voting policy is based on a set of corporate governance principles. Previous engagement with an investee company also determines the manner in which voting decisions are made and cast. Voting activity is combined with direct engagement with the investee company to ensure that the investee company fully understands any issues and concerns that LGIM may have and to encourage improvement. LGIM utilises the voting information services of ISS and Institutional Voting Information Services (IVIS) to conduct thorough analysis and research on investee companies. An example of the voting undertaken by LGIM from their 2020 annual report 'Active ownership – global engagement to deliver positive change is detailed below

### Votes against management in 2020 (including abstentions)



**We opposed 629 companies in North America in 2020, compared to 608 in 2019.**

- 13.5 During 2020, LAPFF provided its members 27 Voting Recommendations for a selection of companies on themes such as remuneration, board composition, climate change, human rights and other issues that were perceived as contentious/critical to a company's good ESG management. LGPS Central provided Partner Funds with its view of resolutions up for vote that were covered by LAPFF's recommendations. In the majority of cases (80%), LPGSC took a similar view to LAPFF. Any difference in view was explained to the Fund and other Partner Funds, with the opportunity for Partner Funds to seek further clarifications on LPGSC's voting intention. An example of a difference in opinion was LPGSC's decision to vote against a shareholder resolution at Shell's AGM put forward by Follow This<sup>3</sup>. Extract from LPGSC's briefing:
- 13.6 *We note that both LAPFF and our Stewardship Provider has recommended a vote for the resolution. Both argue that Shell should articulate its net-zero by 2050 ambition more clearly as a target and are concerned, as they are with energy companies in general, that Shell's operating plans and budgets do not reflect the company's net-zero ambitions. We fully agree that Shell's operating plans and budgets should reflect the net-zero ambition, and we expect to engage the company on this when they update investors further on the detail of their climate ambition during autumn. We are particularly encouraged by Shell's plan to work with their customers, coalitions of businesses, governments, and other parties to identify and enable decarbonisation pathways. This could potentially lead to breakthroughs in energy transition across sectors, something we want to support.*
- 13.7 *Shell has carved out a viable route to get to net-zero and though further detail is needed, we consider on balance, that support of the company's climate-related efforts is the best way of leveraging ongoing CA100+ engagement with the company. Shell is showing leadership and we view it as important to show support of best practices even as they evolve.*

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<sup>3</sup> Follow This is a Netherlands-based group of over 4,000 small shareholders who together own small percentages in different companies' share capital

## Appendix 1

**Principle 4: Overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2020**

<b>Organisation/Initiative Name</b>	<b>About the organisation / initiative</b>	<b>Efficiency and outcomes</b>
PRI	Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement. During 2020, LGPSC Director of RI&E was on the Listed Equity Committee and the Stewardship Manager was a member of the PRI Plastics Working Group	PRI continues as a bearer of good practice for responsible investment. LGPSC has been a member of PRI since inception of the pool. We view LGPSC's active participation in PRI through submission of an annual report and through membership of PRI WGs as clearly value-adding to ongoing RI development and pursuit of Stewardship Theme engagements.
IIGCC (Institutional Investor Group on Climate Change)	Influential asset owner and asset manager group. Useful for climate change research and policy influence. During 2020, LGPSC Director of RI&E was on the Shareholder Resolutions Committee and the LGPSC Stewardship Manager was appointed to the Corporate Programme Advisory Group.	IIGCC's corporate engagement and policy engagement programmes are both highly value-adding to LGPSC's work on climate change on behalf of all Partner Funds. It has a clear purpose and seems attentive to member needs and input. IIGCC engages broadly with stakeholders, for example the IEA in regard to the Net Zero Scenario and the need for that to include price projections to at least 2040
Cross-Pool RI Group within LGPS	Collaboration group across the LGPS pools (and Scotland recently). Includes funds and pool operators. Stewardship Manager is Vice Chair of the group.	This is a good forum to allow discussion between like-minded investors, who operate in the same regulatory environment and with similar expectations from Clients and beneficiaries, on RI topics of interest and/or urgency (e.g. MHCLG's work to introduce TFCF aligned reporting across LGPS Pools and Funds).
FRC Investor Advisory Group (Financial Reporting Council)	Influence new policies and standards, on governance, stewardship, reporting and audit matters. Director of RI&E was a member of the Investor Advisory Group.	This has been a useful opportunity for LGPSC to discuss and provide input to the FRC, in particular in the development and lead up to implementation of the Stewardship Code 2020

<b>Organisation/Initiative Name</b>	<b>About the organisation / initiative</b>	<b>Efficiency and outcomes</b>
Transition Pathway Initiative (TPI)	Analysis of listed equities in terms of carbon risk vs a benchmark. Industry influence and access to high profile company engagements. Stewardship Manager has been on the TPI Steering Committee during 2020.	TPI is a highly useful tool that LGPSC uses directly to inform engagement and voting on behalf of Partner Funds. We view very positively TPI's close collaboration with CA100+ during 2020 in the roll-out of the Benchmark Framework which will allow evaluation of company progress against Paris alignment on key parameters (targets, actions, disclosures).
30% Club Investor Group	Investor group engaging both UK listed equities and increasingly companies abroad, on gender diversity.	This forum has a clear target and allows for discussion, learning and direct engagement with like-minded peers on an ongoing critical governance issue. During 2020, a sub-set of 30% Club Investor Group members, including LGPSC, has engaged in the Japanese market.
BVCA British Private Equity and Venture Capital Association	UK trade body for private equity. Director of RI&E was on the RI Advisory Group during 2020.	This forum is very useful for deal flow information. It also runs discounted training courses which helps build knowledge.
LAPFF Local Authority Pension Fund Forum	Engagement with companies in the UK and abroad, assisting LGPS funds with ethical investment challenges.	LAPFF has conducted engagements that is complimentary to LGPSC's stewardship theme engagement effort, for instance in reaching out to companies during 2020 on human rights risks that stem from operating in conflict zones such as Palestinian/Israeli territories.
Climate Action 100+	Mega collaboration of investors, Chaired by Calpers, with aggregate AUM equal to 33% of total global assets. Engaging 161 companies on climate risk. Stewardship Manager is on the Mining and Metals Sector Group and on the Shareholder resolutions group	This is a robust, targeted, and strong investor collaboration which LGPSC views as highly value adding relative to climate change risk management. The 2020 CA100+ Benchmark Framework embeds structure and rigour to assessments of companies against a Paris trajectory

<b><i>Organisation/Initiative Name</i></b>	<b><i>About the organisation / initiative</i></b>	<b><i>Efficiency and outcomes</i></b>
New Standard for Plastic Pellet Pollution (Investor Forum coordinated)	Objective: Creation of the first industry specification to prevent plastic pellet pollution (which poses serious threat to the ecosystem and potentially also a health threat to people)	Project formally launched in June 2020 with LGPSC as co-sponsor At the start of 2021, an expert group had drafted an industry standard specification which has been out for consultation. The overarching goal of this project is to help companies achieve and maintain zero pellet loss across their pellet handling operations.

**PENSIONS BOARD  
17 SEPTEMBER 2021****WORCESTERSHIRE COUNTY COUNCIL PENSION FUND  
ADMINISTRATION BUDGET FORECAST OUTTURN 2021/22  
AND UPDATED INDICATIVE BUDGET 2022/23 & 2023/24**

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**Recommendation**

1. The Chief Financial Officer recommends that the Board review:
  - a) the variations to the Pension Fund Administration Budget, including manager fees, for 2021/22 shown in the Appendix totalling £18,401,026; and
  - b) the proposed Investment Managers Fees budget forecast outturn of £15,757,500 as shown in the Appendix. This would result in an overall proposed 2021/22 budget of £18,385,900.

**Purpose of the report**

2. This report provides Members' an update to the budget and Forecast Outturn for 2021/22 and the updated indicative budgets for 2022/23 and 2023/24 in the Appendix.

**Background**

3. 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.
4. 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 2021/22**

5. The attached Appendix shows the forecast outturn estimated to be £18,401m compared to a budget of £12.331m, a difference of £6.070m and is mainly due to a forecast overspend against the Investment Management fees budget of £6.055m. This is the largest proportion of the budget and largely depend on the value of assets being managed, investment return performance which depends on market conditions and transaction costs such as commission, tax and other expenses incurred.
6. This includes the management fees for the Equity Protection strategy, whilst the contribution towards the Governance & operational costs relating to LGPS central is now shown under investment administration costs. The main reasons for the variance are due to:

- Additional recent commitments to Infrastructure and Private Debt not being included in previous estimate.
- Increase in forecast expense and equity contributions on some Infrastructure investments due to increase in valuations and some drawn downs being earlier than anticipated based on last year's actual outturn.
- An increase in transaction costs such as tax, commission and trades particularly in relation to our Equity Protection Strategy and active Corporate Bonds mandate. However, the £2.5m transactions costs for Equity Protection were offset from the additional £12m additional investment returns achieved.
- An increase based on the forward projection of anticipated future investments in Property & Infrastructure compared to what was originally forecast.

7. The Fund's "controllable" budget (i.e. excluding investment management fees) is £2.628m and is showing a forecast overspend of £0.015m. The main reasons are some forecast increased actuary costs and pensions administration due to workload, offset by some anticipated underspend in our custodian fees and investment advisory fees.

### **Summary**

8. 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.

9. In terms of investment costs, the forecast outturn indicates spend of 48p per £1,000 (0.48% of market value as at June 2021) on managing its assets for 2021/22, including all pooled mandate costs

### *Comparative data to other LGPS Funds for controllable costs*

10. The budgeted Worcestershire Pension Fund administration costs are currently £22.97 per member for 2021/22. When comparing this to the last published Local Government Pension Scheme Fund Account 2019/20 statistics (2020/21 submitted August 2021) this equated to £23.60 per member and ranked 37<sup>th</sup> out of 89 LGPS Funds.

### **Risk Assessment**

11. 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.

12. 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.

13. In line with good governance practice, officers are bringing budget monitoring reports back to the Pensions 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**

#### Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager  
Tel: 01905 846908  
Email: [RWilson2@worcestershire.gov.uk](mailto:RWilson2@worcestershire.gov.uk)

### **Supporting Information**

- Appendix detailing the proposed 2021/22 Administration Budget monitoring and indicative budgets 2022/23 to 2023/24

### **Background Papers**

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

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## Pension Fund Administration Forecast Outturn 2021/22 &amp; indicative budgets 2022/23 &amp; 2023/24

2021/22 Budget	2021/22 Forecast Outturn	2021/22 Variance	Description	2022/23 Annual Change	2023/24 Annual Change	Comments	2021/22 Proposed Revised Budget
£	£		£	£	£		£
<b>Fund Investment</b>							
<b>9,702,400</b>	<b>15,757,600</b>	<b>6,055,200</b>	INVESTMENT MANAGEMENT FEES	<b>16,022,500</b>	<b>16,457,800</b>	Includes LGPS central investment management Fees, Equity Protection and increasing commitment to Property & Infrastructure.	<b>15,757,600</b>
148,000	141,526	-6,474	Investment Administration Recharge	151,000	154,000	Increased Investment support	148,000
734,500	734,500	0	LGPS Central Governance and Running Costs contribution	756,500	779,200	Was previously shown under Management Fees	734,500
100,000	90,000	-10,000	Investment Custodial and related services	102,000	104,000	Reduced Custodial services due to transition of assets to LGPSC	100,000
131,500	106,000	-25,500	Investment Professional fees	187,000	112,500	Increased support for ESG Audit in 22.23	131,500
28,600	28,400	-200	Performance Measurement	29,200	29,800	CEM Benchmarking and Portfolio Evaluation	28,600
<b>1,142,600</b>	<b>1,100,426</b>	<b>-42,174</b>	INVESTMENT ADMINISTRATION COSTS	<b>1,225,700</b>	<b>1,179,500</b>		<b>1,142,600</b>
<b>Scheme Administration</b>							
1,075,700	1,104,116	28,416	Pension scheme Administration recharge	1,166,400	1,194,500	Increase due to Admin software requirements and additional staff for increased workload	1,075,700
338,000	360,000	22,000	Actuarial services	388,000	338,000	Employer monitoring through Actuary system Pfaroe from 20/21 and Triennial valuation allowed for April 2022/23	338,000
27,500	34,068	6,568	Audit	34,100	34,100		27,500
33,500	33,816	316	Legal Fees	33,500	33,500		33,500
11,000	11,000	0	Committee and Governance recharge	11,000	11,000		11,000
<b>1,485,700</b>	<b>1,543,000</b>	<b>57,300</b>	SCHEME ADMINISTRATION COSTS	<b>1,633,000</b>	<b>1,611,100</b>		<b>1,485,700</b>
<b>2,628,300</b>	<b>2,643,426</b>	<b>15,126</b>	GRAND TOTAL (Excluding Investment Mgt Fees)	<b>2,858,700</b>	<b>2,790,600</b>		<b>2,628,300</b>
<b>12,330,700</b>	<b>18,401,026</b>	<b>6,070,326</b>	GRAND TOTAL (Including Investment Mgt Fees)	<b>18,881,200</b>	<b>19,248,400</b>		<b>18,385,900</b>

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**PENSION BOARD  
17 SEPTEMBER 2021****TRAINING AND 'DEEP DIVE' PROGRAMME UPDATE**

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**Recommendation**

1. **The Chief Financial Officer recommends that the Board comments on the recommendations coming out of the 6 September meeting with the Chairs of Committee / Board / Investment Sub Committee.**

**Background**

2. The Pensions Committee received an update (item 322) on these areas at their [meeting of 29 June 2021](#).
3. Since that update officers have delivered training on 'How an LGPS employee member can improve their lot' on 20 July 2021.
4. The next training session (on investment in infrastructure / property / private debt) is scheduled for 21 September 2021.
5. Officers delivered a deep dive to the Pension Board about our Statement of policy on our discretions (as an administering authority) on 10 August 2021.
6. The next deep dive (on stewardship) is scheduled for 14 October.
7. A meeting with the Chairs of Committee / Board / Investment Sub Committee was held on 6 September to discuss a paper that summarised our previous training deliverables; our existing training policy; a draft officer knowledge assessment; our existing elected member training needs questionnaire; our Good Governance position statement on 'knowledge and understanding'; and the approaches used / available in the market.

**The 6 September meeting's recommendations**

8. That meeting supported the following way forward:
  - a) Not to introduce Hymans Robertson's (or another supplier's) [online training platform](#);
  - b) Continuing the existing approach that was agreed at the training session on 18 January 2021 of separate (to meetings), recorded, online, one-hour, preceded by pre-dive information in the case of deep dives, regular training sessions / deep dives that are arranged one at a time following a discussion at the preceding event to identify the preferred topic for the next event;
  - c) Conducting a fresh training needs assessment of members of Committee / Board / Investment Sub Committee;
  - d) Undertaking a knowledge assessment of Fund officers; and

- e) Reviewing the Fund's training policy in the light of the results from carrying out recommendations (c) and (d) above to include the production of a master list of topics that officers would aim to cover over a training cycle.
9. Separately, that meeting identified that to promote membership of Committee / Board / Investment Sub Committee:
- a) The 'new County Councillor induction' for Worcestershire and Herefordshire should include a summary of the pension fund's activities and what potential members would need to know / ideally know / what previous experience would make an ideal member; and
  - b) District Councils should be approached about promoting membership to their Councillors.

## **Contact Points**

### Specific Contact Points for this report

Chris Frohlich, Engagement Manager  
Tel: 01905 844004  
Email: [cfrohlich@worcestershire.gov.uk](mailto:cfrohlich@worcestershire.gov.uk)

Rob Wilson  
Pensions Investment & Treasury Management Manager  
Tel: 01905 846908  
Email: [RWilson2@worcestershire.gov.uk](mailto:RWilson2@worcestershire.gov.uk)

## **Background Papers**

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

**PENSIONS BOARD  
17 SEPTEMBER 2021****PENSION FUND UNAUDITED ANNUAL REPORT AND  
ACCOUNTS 2020/21**

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**Recommendation**

1. **The Chief Financial Officer recommends that the Board note the update on the unaudited Pension Fund Accounts 2020/21.**

**Background**

2. The annual report is a key communications channel between the fund and a wide variety of stakeholders and will be available at the next Board. The report contains an update relating to the Pension funds unaudited annual accounts (which are part of the Annual Report) including the fund investments, administration, governance, valuations, accounts and membership.

**Legislative Requirements and Guidance**

3. The requirement for and content requirements of LGPS pension fund annual reports in England and Wales was initially introduced under Regulation 34 of the LGPS (Administration) Regulations 2008. For reporting periods beginning 1 April 2014 and beyond, the statutory requirement in England and Wales can be found in Regulation 57 of The Local Government Pension Scheme Regulations 2013.
4. CIPFA published updated guidance in January 2021 that represents a general framework for pension fund administering authorities to meet their statutory obligation to prepare and publish an annual report for the pension fund. The Department for Communities and Local Government has adopted this guidance as statutory guidance for the purposes of regulation 57(3) in the 2013 Regulations.
5. The CIPFA guidance included the requirement for specific information to be published to assist the production of the scheme annual report compiled by the LGPS scheme advisory board.

**Some Key Highlights are as follows:-**

6. The Board were provided with the unaudited accounts at their June meeting which highlighted some key points.
7. The accounts have been audited and have been amended for a few minor points around presentation mainly and are due to go to the [Audit & Governance Committee](#) on the 24 September as part of Worcestershire County Council Accounts for approval.
8. The annual report will be available to the Board at its meeting on the 17 November 2021.

## **Contact Points**

### Specific Contact Points for this report

Rob Wilson

Pensions, Investment & Treasury Management Manager

Tel: 01905 846908

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

## **Background Papers**

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

Pension Fund unaudited accounts 16 June 2021 presented to Pension Board

## **PENSIONS BOARD 17 SEPTEMBER 2021**

### **FORWARD PLAN**

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#### **Recommendation**

1. **The Chief Financial Officer recommends that the Board comment and approve the Forward Plan.**
2. The forward plan highlights the key areas that are anticipated to be reported in the future. This is attached as an Appendix and the Pension Board are asked to comment and approve the plan.

#### **Supporting Information**

Appendix – Forward Plan

#### **Contact Points**

##### Specific Contact Points for this report

Rob Wilson

Pensions Investment &, Treasury Management manager

Tel: 01905 846908

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

#### **Background Papers**

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

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## **Pensions Board Proposed Forward Plan**

## **Appendix 1**

<b>Pension Board Items</b>	<b>17/11/2021</b>	<b>04/03/2022</b>	<b>07/06/2022</b>	<b>16/09/2022</b>	<b>22/11/2022</b>
LGPS Central Update	Y	Y	Y	Y	Y
Pensions Final External Audit Report on Annual Report	Y				
Government Actuary Dept review update	Y				
SAB Good Governance Principles (Including TPR Findings)		Y		Y	
CMA Investment Advisor Objectives		Y		Y	
SAB Responsible Investment Consultation Feedback					
Stewardship Code		Y			
Business Plan Progress update (to include Administration and Investment areas)	Y	Y	Y	Y	Y
Annual Business Plan		Y			
Annual Admin Strategy		Y			
Annual investment Strategy Statement		Y			
Training Requirements	Y	Y	Y	Y	Y
Pension fund admin Budget Approval		Y		Y	
Update on Pooling (including any feedback on MCHLG Investment Pooling consultation	Y	Y	Y	Y	Y
internal Audit Report			Y		
Risk Register	Y	Y	Y	Y	Y
Regulatory Updates including Scheme Advisory Updates	Y	Y	Y	Y	Y
Outcome / update from Task and Finish Groups Topics for Further Exploration	Y	Y	Y	Y	Y

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