

Pensions Committee

Tuesday, 16 March 2021, Online - 10.00 am

		Minutes
Present:		Mr P Middlebrough (Chairman), Mr R W Banks, Mr G R Brookes, Ms T Fagan, Mr A I Hardman and Mr R C Lunn
Available papers		The members had before them: A. The Agenda papers (previously circulated); and B. The Minutes of the meeting held on 28 January 2021 (previously circulated).
290	Named Substitutes (Agenda item 1)	Mr G R Brookes for Mr P A Tuthill.
291	Apologies/ Declarations of Interest (Agenda item 2)	Apologies were received from Ms D Morris, Mr R J Phillips (as Chairman of the Pension Board), Ms T Southall and Mr P A Tuthill.
292	Public Participation (Agenda item 3)	None.
293	Confirmation of Minutes (Agenda item 4)	RESOLVED that the Minutes of the meeting held on 28 January 2021 be confirmed as a correct record and signed by the Chairman.
294	Pension Board and Pension Investment Sub-Committee Minutes (Agenda item 5)	The Committee considered the Pension Board and Pension Investment Sub-Committee Minutes. RESOLVED that the Minutes of Pension Board and Pension Investment Sub-Committee be noted.
295	Outcome of Environmental, Social and Governance	The Committee considered the outcome of Environmental, Social and Governance (ESG) Audit and Climate Risk Review. In the ensuing debate, the following points were made:

(ESG) Audit and Climate Risk Review (Agenda item 6)

- The Chairman thanked Mr P A Tuthill and Ms T Fagan for their work on the ESG working group, Philip Hebson and Karen Shackleton for their independent advice and support to the working group, Minerva for their input and to members of this Committee, the Pension Board and the Pensions Investment Sub-Committee for their attendance at seminars during the year. The approach to ESG had now shifted from anecdotal to a more structured approach. It was important to keep this approach under review within the context of this Committee's fiduciary responsibility as trustees for the performance of the Fund. In addition, the Fund could look for support from LGPS Central in this respect and vice versa
- The report highlighted the difficulty in finding suitable data in relation to ESG as well as unpicking the basis and nature of this country's energy supply which underpinned the financial systems. The TCFD would help the Fund to identify where there were issues
- It was queried whether the Fund would continue to use the expert knowledge of Karen Shackleton and Pensions for Purpose in support of its ESG work. Rob Wilson, the Finance Manager – Pensions and Treasury Management, Finance advised that although this phase of work had concluded, work would start on the next phase to deliver the actions. It was intended to continue to seek advice and training from Karen Shackleton to support this work. Philip Hebson, the Independent Advisor to the Fund reminded members that Karen Shackleton also acted as his deputy. Her advice would be valuable as the Committee sought to reform the working group going forward. The key aspect was establishing meaningful outcomes that could enhance the returns for the Fund as well as enhancing its status
- It was important to be able to identify those organisations that were not following the Fund's ESG priorities and have the option to disinvest if necessary. It was hoped that this approach combined with those organisations who were already taking a positive approach to ESG would change the overall pattern of behaviour of companies
- There was a risk associated with disinvestment, particularly for certain companies that had a greater role in the switch to zero-carbon. For certain companies, better outcomes could be

achieved by working collaboratively with them to achieve ESG goals. The Fund's investment managers had resorted to divestment when the need arose. The proposed approach to ESG was welcomed as long as the Fund recognised its fiduciary responsibilities to its members

- It might be more appropriate to wait a further year before relaunching the working group rather than directly after the elections. The Chairman responded that the working group would have a different membership and role. It was clear that any review of the process would need to be undertaken before January 2022. The cost of the work associated with ESG was not cheap whether directly undertaken by the Fund or indirectly through LGPS Central. However, it was unavoidable and would need to be carefully monitored.

RESOLVED that:

- Worcestershire Pension Fund (the Fund) ESG Audit and Sustainable Development Goals (SDGs) Mapping Exercise project report from Minerva be noted and approved;**
- The 'Task Force on Climate related Financial Disclosures' (TCFD) Report be approved; and**
- The outcome of the ESG audit, SDG Mapping and Climate Risk review be noted, and the recommendations set out at paragraphs 20 to 24 of the report be approved, namely:**
 - **Monitoring of Fund Managers**
 - **New guidelines for future Fund Manager selection**
 - **Working with LGPS Central**
 - **Considerations for the future investment strategy**
 - **SDG & Climate Reporting, and metrics.**

296 Investment Strategy Statement Update (Agenda item 11)

The Committee considered the Investment Strategy Statement Update.

RESOLVED that:

- The Fund's 2021 Investment Strategy Statement (ISS) set out at Appendix 1 in the**

<p>297 Worcestershire Pension Fund Governance Policy Review (Agenda item 7)</p>	<p>report be agreed; and</p> <p>b) The Climate Risk Strategy set out at Appendix 2 in the report be agreed.</p> <p>The Committee considered the Worcestershire Pension Fund Governance Policy Review.</p> <p>RESOLVED that:</p> <p>a) The Committee recommends to Council that the draft Terms of Reference for the Pension Committee as set out in Appendix 1 in the report be agreed; and</p> <p>b) The revised and updated Governance Policy Statement attached as set out in Appendix 2 in the report be approved.</p>
<p>298 UK Stewardship Code 2020 (Agenda item 8)</p>	<p>The Committee considered the UK Stewardship Code 2020.</p> <p>RESOLVED that:</p> <p>a) The requirements for the revised UK Stewardship code and the project plan provided by LGPS Central be noted; and</p> <p>b) The Chief Financial Officer be granted delegated authority in consultation with the Chairman and Vice-Chairman of the Committee to submit the Stewardship Code application to the Financial Reporting Council by the deadline of 30 April 2021 and provide an update to the Committee meeting on 29 June 2021.</p>
<p>299 Pension Investment Update (Agenda item 9)</p>	<p>The Committee considered the Pension Investment Update.</p> <p>Philip Hebson, the independent advisor to the Fund introduced the report and made the following points:</p> <ul style="list-style-type: none"> • At the end of December 2020, the value of the Fund was £3.2bn with a funding level of 97%. Over the last 12-month period, the Fund had increased in value by 6.9%. Over a 5 year period, it had increased on an annualised basis by 10.4% and over 10 years on an annualised basis by 8%. The increase in value was significantly in excess

of the actuary's requirement for growth against their discount rate (rate of investment return). Considering the difficulties during the last year, the Fund was in good financial health

- There was a slight underperformance against the Fund's benchmark during the last quarter. Although the Fund had performed well against longer performance targets, it may be worth considering whether the Fund's benchmark was fit-for-purpose
- Work continued on a number of levels to look at increasing the Fund's Property and Infrastructure investment allocation with a particular focus on Infrastructure investment which represented better value for money at present
- The revised Equity Protection Strategy had established a more dynamic approach to the risk management of the Fund's equity exposure to protect it from downside risk
- Strategic Asset Allocation (SAA) – The Fund's equity allocation (78%) was still high which reflected the strong performance of the equity markets over the last 12 months. It was anticipated that this would reduce over time as the Fund invests further in in property or infrastructure whether through LGPS Central or the Fund's managers. The Fund was also looking at increased investment in private debt through the investment management team at Bridgepoint. The Fund was still not aligned to its SAA targets but these were being managed
- It was clear that LAPFF had undertaken a lot of good engagement work holding companies to account. However, the Fund should look to press LAPFF to record significant outcomes from this engagement work.

In the ensuing debate, the following points were made:

- In response to a query about the Fund's lack of investment in Index-linked Gilts, Philip Hebson advised that such investments represented very poor value at present and the Fund covered its inflation risks in other ways. Government Bonds also represented extremely poor value. The Fund had an underweight allocation to Fixed Income and it was intended to close the gap to the SAA target
- At some point in the near future the Fund would need to review the Equity Protection Strategy because it was never intended to be a long-term

approach. The Pensions Investment Sub-Committee should examine the cost of the Strategy to establish whether it represented value for money. However, with the markets entering a period of volatility, it would not be appropriate to remove it at present. Philip Hebson commented that as the Fund had a high exposure to risk, the Strategy had managed that risk and PEL had referenced the success of the Strategy during difficult financial circumstances. However, such strategies were relevant to a particular set of circumstances and should not be retained for evermore

- There had not been an appropriate time to consider investment in the bond market, however if there was an inflation rise then it might be a consideration.

RESOLVED that:

- a) The Independent Adviser's fund performance summary and market background be noted;**
- b) The update on the Investment Managers placed 'on watch' by the Pension Investment Sub Committee be noted;**
- c) The funding position compared to the investment performance be noted;**
- d) The update on the Equity Protection current static strategy be noted;**
- e) The update on Responsible Investment activities and Stewardship investment pooling and the Stewardship Code be noted; and**
- f) The update on the LGPS Central report on the voting undertaken on the Funds behalf be noted.**

300 LGPS Central update (Agenda item 10)

The Committee considered the LGPS Central update.

In the ensuing debate, the Chairman reported that he had attended the LGPS Central Shareholders AGM. At that meeting, the Business Plan and the budget were supported. The items relating to executive pay and non-executive staffing arrangements and pay were withdrawn for consideration later in the year. On an individual basis, he had raised particular queries with the Chairman of the Forum about the effectiveness of the cost-sharing

301 Draft Funding Strategy Statement Policy Update (Agenda item 12)

arrangements.

RESOLVED that the LGPS Central Update be noted.

The Committee considered the draft Funding Strategy Statement Policy Update.

In the ensuing debate, the following points were made:

- In response to a query, Rob Wilson explained that the main issue for the Fund was to ensure that employers were able to meet their liabilities and this Policy would give a degree of flexibility for employers in terms of affordability. The Fund would seek details of the employer's balance sheet and covenant arrangements to ensure they were able to meet any termination costs
- The potential administrative cost to the Fund of the implementation of this Policy across individual schemes needed to be borne in mind
- Chris Frohlich, the Fund's Engagement Manager indicated that the new policy allowed the Fund to get something back from an employer who might be in financial difficulties but also presented an opportunity for an employer to be able to take action in such circumstances. With reference to the Risk Register, there was no record of any employers who were unable to make contributions or deficit recovery payments

RESOLVED that:

- a) The draft termination policy changes for Deferred Debt Agreements and deficit spreading arrangements be approved;**
- b) The draft new policy for Flexibility in Contribution Rates be approved; and**
- c) The Chief Financial Officer be granted delegated authority to make any necessary final changes to the draft policies following the Committee meeting and undertake consultation on the updated Funding Strategy Statement (including the appeals process) with Fund employers, having taken advice from the Fund Actuary.**

302 Risk Register

The Committee considered the Risk Register.

**(Agenda item
13)**

Chris Frohlich introduced the report and made the following points:

- Two experienced senior members of the administration team had left or were about to leave the organisation and this had been reflected in the increased residual risk score of WPF20 (from green to amber). Rather than simply replacing these officers, the opportunity was being taken to review the structure of the administration team to make it more sustainable for the future with a more flexible grading structure
- A pensions administration system had now been procured which provided more stability for the work of the section and reduced the residual risk score of WPF19 (from amber to green).

**RESOLVED that the 15 February 2021
Worcestershire Pension Fund Risk Register be
noted.**

**303 Business Plan
(Agenda item
14)**

The Committee considered the Business Plan.

In the ensuing debate the following points were made:

- Chris Frohlich indicated that reference to ESG work would be included in the next version of the Business Plan and Climate Change would be added to future versions of the Risk Register
- The Chairman acknowledged the work and performance of the administration team during the period of the pandemic
- The impact of the pandemic on the number of member deaths was queried. Chris Frohlich responded that up until now, the figures showed that there had been no impact. However, since the report was written, the figures for February 2021 had shown a significant rise in the number of deaths. It was hoped that as the vaccination programme was rolled out, February's figures would turn out to be an isolated blip
- In response to a query, Chris Frohlich indicated that there had been little impact on cash reserves as a result of the increased number of member deaths in February. The numbers were not significant in cash terms when compared to expected seasonal deaths and the overall total of scheme members
- Despite the Government withdrawing the £95k

cap legislation, had preparations continued in anticipation of its introduced at a later date? Chris Frohlich responded that the reintroduction of the legislation was expected. Additional wording had already been included on the redundancy calculations to warn members of the potential future impact on their calculation. All cases had been paid out to date unrestricted and in full.

RESOLVED that the Worcestershire Pension Fund Business Plan as at 19 February 2021 be noted.

304 Pension Administration Strategy (Agenda item 15)

The Committee considered the Pension Administration Strategy.

RESOLVED that the proposed draft April 2021 Worcestershire Pension Fund (WPF) Pension Administration Strategy including the WPF Policy Statement on Communications be approved.

305 Worcestershire County Council Pension Fund Administration Budget 2021/22 (Agenda item 16)

The Committee considered the Worcestershire County Council Pension Fund Administration Budget 2021/22.

In the ensuing debate, the following points were made:

- In response to a query, Rob Wilson explained that the increase in the administration costs per member of approximately 12% related to the costs of the hosting of the administration system and the increase in associated staffing costs
- Were the administration costs per member shared with partner funds in LGPS Central? Rob Wilson indicated that these costs were not directly shared with partner funds however, each pension fund had to produce an annual submission as well as benchmarking information. A report on comparator administration costs would be brought to a future Committee meeting.

RESOLVED that:

- a) The Pension Fund Administration Budget, including manager fees, for 2021/22 shown in the Appendix totalling £12.331m be approved;**
- b) The indicative budget allocations for 2022/23 and 2023/24 be noted;**
- c) Variations against budget will be monitored be noted; and**

- d) **The Chief Financial Officer be granted delegated authority to approve variations of up to £0.5m.**

**306 Training Update
(Agenda item
17)**

The Committee considered the Training Update.

In the ensuing debate, the following points were made:

- Rob Wilson indicated that an update on training events would be provided at the next Committee meeting
- In response to a query, Chris Frohlich commented that Pension Board members had benefited from a series of hour long training sessions commencing at 11.00am. Deep dive and training sessions were being recorded so that they were available for members who were unable to attend.

RESOLVED that the feedback from the specific training event that has been undertaken since the last Committee meeting as attached as an Appendix to the report be noted.

**307 Forward Plan
(Agenda item
18)**

The Committee considered the Forward Plan.

RESOLVED that the Forward Plan be noted.

The meeting ended at 11.50am.

Chairman