

Minutes of the Pensions Committee

County Hall, Worcester

Tuesday, 29 June 2021, 9.30 am

Present:

Cllr Elizabeth Eyre (Chairman), Cllr Karen Hanks, Cllr Adrian Hardman Cllr Trish Marsh, Cllr Scott Richardson Brown (for items 7-17), and Tracey Southall

Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 16 March 2021 (previously circulated).

308 Named Substitutes (Agenda item 1)

None.

309 Apologies/Declarations of Interest (Agenda item 2)

Apologies were received from Cllr Luke Mallett, Jane Evans and Roger Phillips (as Chairman of the Pension Board).

310 Public Participation (Agenda item 3)

None.

311 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 16 March be confirmed as a correct record and signed by the Chairman.

312 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.

313 Pension Investment Update (Agenda item 6)

The Committee considered the Pension Investment Update.

Philip Hebson, the independent investment advisor to the Fund introduced the report and made the following points:

- The estimated funding level of the Fund had reached 99% as at March 2021 and had risen slightly since then. At present, markets were “treading water” because of concerns about the impact of Covid going forward as well as inflation and higher interest rate risks. However, he considered that at this stage, there was little cause for concern for the funding level
- The Fund continued to have a high equity exposure which emphasised the importance of the Equity Protection Strategy. The Strategy had been revised over the last 12-18 months to create a more proactive and flexible approach to enable the Fund to capture more upside as the markets rose whilst also providing downside protection should the markets fall
- In order to protect the funding level, asset allocation changes were being considered into investment areas with less downside risk, for example possible investment in property and infrastructure or alternatives. It was important for the Fund not to end up with large cash amounts which left it exposed to market risk. The continued strong performance of the equity markets made this decision more difficult
- The economy should be boosted post Covid albeit some sectors might not recover. It was likely that certain restrictions in the labour market would remain post Covid in the short term and some of the changes to working practices could remain into the future.

In the ensuing debate, the following points were raised:

- In response to a query about the number of occasions that the Equity Protection Strategy had been triggered since March 2021, Philip Hebson indicated that all the three strategies (UK, US and Europe) had been reset at some point during this period. The Fund was proactively managing the Strategy and officers were meeting representatives of River and Mercantile on a regular basis
- The Fund’s actuary was particularly supportive of the Equity Protection Strategy as it helped reduce risk and the impact on employer contributions. Philip Hebson added that it was important that the basic working mechanisms of the Strategy were understood and that the resetting of the Strategy was priced appropriately. There had been an element of risk aversion amongst market investors and River and Mercantile had played an important role in securing counter-parties for the Strategy

- In response to a query, Philip Hebson suggested that the key lesson from investment opportunities in recent times was to ensure that the Fund acted swiftly and decisively when an investment opportunity presented itself
- It was queried whether other funds had undertaken similar risk mitigation approaches. Philip Hebson advised that this Fund had a particularly high exposure to the equity markets and was almost fully funded and therefore the Strategy was suitable but other funds were not in such a position and had taken a different approach to balancing risks
- In response to a query about the potential to invest in European bonds, Philip Hebson commented that there was very little value in the bonds market at present and the Fund was looking to invest in private debt instead
- Was it likely that the equity markets would remain high? Philip Hebson commented that he foresaw potential issues facing the equity markets in the future
- From an employer's perspective, there was a degree of anxiety about maintaining high levels of risk in the current market and a desire to move away from equity investment over the next three years. Philip Hebson advised that risk management was a critical part of investment management. There was a good understanding that the Fund needed to maintain a balanced approach to risk in its portfolio
- The role of the LAPFF had gathered momentum in recent times. The Forum was made up of 79 pension funds which exerted influence and included the LGA as a shareholder. Philip Hebson added that the Forum mainly consisted of councillors with a few senior officers from the larger pension fund organisations
- In response to a request, Rob Wilson would establish whether the outcome of the voting undertaken by Hermes for LGPS Central on behalf of the Fund could be shared with the Committee in future reports.

RESOLVED that:

- a) The Independent Financial Adviser's fund performance summary and market background be noted (Appendices 1 and 2 of the report);**
- 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, Local Authorities Pension Fund Forum (LAPFF) (Appendix 3 of the report) and Stewardship investment pooling be noted; and**

- f) **The update on the LGPS Central report on the voting undertaken on the Funds behalf be noted (Appendices 4 to 6 of the report).**

314 Local Government Pension Scheme (LGPS) Central Update (Agenda item 7)

The Committee considered the Local Government Pension Scheme (LGPS) Central Update.

In the ensuing debate, the following points were made:

- In response to a query about the Fund's pooling investment levels compared to other partner funds in LGPS Central, Rob Wilson advised that the Fund had a 69% investment level (including the LGIM Passive Equity Fund which is classed as pooled) which represented one of the most pooled amongst partner funds within LGPS Central. Philip Hebson added that there were eight partner funds in the pool with different requirements. The challenge for LGPS Central was to meet those respective competing requirements. LGPS Central were being encouraged to adopt a more flexible investment management approach including consideration of the creation of sub-funds. Chris Frohlich indicated that a co-ordinated approach to the administration of the Fund was also being undertaken within the pool
- Concern was expressed about the impact of the level of staff turnover within LGPS Central on the Fund. Philip Hebson responded that with the emergence of a new organisation such as LGPS Central, it was always anticipated that there would be a high turnover of staff initially. The key aspect during these staffing changes was to ensure that the well-being of the Fund was being addressed by the pool
- Concern was expressed about the risks associated with the lack of an appointment to the position of Chief Compliance and Risk Officer and this concern should be reported to the pool.

RESOLVED that:

- a) The LGPS Central Update be noted; and**
- b) LGPS Central be advised of the Committee's concerns about the risks associated with the lack of an appointment to the position of Chief Compliance and Risk Officer.**

315 Pension Fund Unaudited Accounts 2020/21 (Agenda item 8)

The Committee considered the Pension Fund Unaudited Accounts 2020/21.

In the ensuing debate the following points were raised:

- In response to a query, Philip Hebson commented that there had been a shortfall in dividends as companies had not been paying dividends

when in receipt of Government assistance. He expected that that gap would close during the current year

- Did the Fund valuation give an indication of the risk associated with each sector? Rob Wilson responded that the performance monitoring information provided by PEL set out the risks associated with each sector. A risk profile was provided and set out in Note 16 in the Accounts
- In response to a query, Philip Hebson commented that quarterly meetings were held with property and infrastructure investment managers to monitor investment progress. Of these investment managers, AEW had the highest exposure to the retail sector.

RESOLVED that:

- a) **The unaudited Pension Fund Annual Accounts 2020/21 be noted; and**
- b) **The review of the level 3 Fund investments be noted and approved.**

316 Business Plan (Agenda item 9)

The Committee considered the Business Plan.

In the ensuing debate, the following points were raised:

- Chris Frohlich confirmed that no fines had been received for any of the four cases where a data breach had been found to have occurred
- The receipt of three complaints did not appear to be many, did they relate to a single theme or a number of issues? Chris Frohlich responded that the complaints related to different topics.

RESOLVED that the Worcestershire Pension Fund (WPF) Business Plan as at 8 June 2021 be noted.

317 Risk Register (Agenda item 10)

The Committee considered the Risk Register.

In the ensuing debate, the following points were raised:

- There did not appear to be any reference in the Risk Register to a planned career developmental route for administration staff. Chris Frohlich responded that career development had been included in the workforce plan. Michael Hudson added that two senior officers had left the administration team and it was considered appropriate at this stage to undertake a staffing restructure. The apprenticeship scheme run by the University of Worcester as well as other apprenticeship opportunities were also being considered as staff development tools

- Chris Frohlich indicated that Mercer, the Fund's actuary, had been approached about a recognised qualification for LGPS pension administration staff
- Michael Hudson confirmed that the two key members of staff leaving would be replaced and that the interim manager post had been established on a temporary basis pending the restructure
- The inclusion of cyber-attack as a risk in the Register was welcomed given the increase in opportunist cyber-crime. Chris Frohlich responded that a number of actions had been identified to address this risk including analysing the Fund's exposure to ransomware and risks associated with using the cloud for data storage
- In response to a query about working from home, Chris Frohlich explained that all staff had lap-tops prior to the Covid outbreak and on average staff at that time had worked one day a week from home. He anticipated that in the future, staff would be working 2-3 days from home. It was possible to continue to provide the service with staff working from home albeit there were certain difficulties for example he had not been able to meet any of the new starters in the section yet. Michael Hudson added that new ways of working were being examined with potentially fewer desks and more collaborative working spaces.

RESOLVED that the 8 June 2021 WPF Risk Register be noted.

318 Good Governance Review and Objectives of the Fund's Investment Advisor (Agenda item 11)

The Committee considered the Good Governance Review and Objectives of the Fund's investment advisor.

In the ensuing debate, it was queried whether the position statement could include the identification of time lines for action as well as the responsible person for that action. Rob Wilson responded that the time frame for many of the action were dependent on the Government but he would include additional columns in the next report.

RESOLVED that:

- a) The latest update on the Scheme Advisory Board (SAB) 'Good Governance' review and Worcestershire Pension Fund 'Good Governance' position statement attached as Appendix 1 to the report be noted; and
- b) The update against the objectives for the Fund's Investment Advisor as detailed in Appendix 2 to the report be noted.

319 Draft Funding Strategy Statement (FSS) Policy Update (Agenda item 12)

The Committee considered the Draft Funding Strategy Statement (FSS) Policy Update.

In the ensuing debate, the following points were made:

- Wyre Forest District Council were concerned about the impact of the changes to the Strategy as it acted as the guarantor for Community Housing Group. Were the Housing Group's arrangements unique? Rob Wilson advised that the Strategy applied to all employers and the circumstances of each employer would be robustly analysed
- In response to a query, Rob Wilson confirmed that annual reviews were built into the termination processes and associated parties would be informed so they could respond to queries raised by the actuary.

RESOLVED that:

- a) **The consultation that was sent to employers on proposed changes to the Funding Strategy Statement (FSS) (Appendix 1 to the report) and the feedback from the consultation on the proposed changes to the termination policy changes for Deferred Debt Agreements and the deficit spreading arrangements set out in paragraph 7 of the report be noted; and**
- b) **The revised FSS taking on board the changes in the consultation (Appendix 2 to the report) be approved.**

320 Government Actuary Department (GAD) Pension Review update (Agenda item 13)

The Committee considered the Government Actuary Department (GAD) Pension Review update.

In the ensuing debate, it was commented that the Fund's ranking of 36 out of 87 pension funds in relation to its period of deficit recovery was pleasing. Michael Hudson commented that this ranking was a significant improvement on the ranking two years ago.

RESOLVED that the Government Actuary Department (GAD) Pension Review update be noted.

321 UK Stewardship Code 2020 (Agenda item 14)

The Committee considered the UK Stewardship Code 2020.

In the ensuing debate, it was queried why the Government was intent on tightening the rules and controls associated with investor engagement. Rob Wilson responded that the Government was seeking to ensure that pension funds were actually doing what they were claiming and had therefore requested evidence to support those claims. The code was a lot more outcome focused.

RESOLVED that the requirements for the revised UK Stewardship Code and Worcestershire Pension Fund's submission be noted.

322 Training Update and the Pension Board's 'Deep Dive' Programme (Agenda item 15)

The Committee considered the Training Update and the Pension Board's 'Deep Dive' Programme.

In the ensuing debate, the following points were made:

- It was important that members of the Committee understood the aims of the Fund in terms of how they fit in with the overall investment landscape and the long-term nature of its investments
- Was the Pension Fund actively looking to attract new members? Chris Frohlich commented that employers could be encouraged to promote the scheme but there was a cost associated with that. A number of employees were not joining the scheme because they did not have available cash. Michael Hudson added that he was keen to attract younger apprentices to the scheme but the younger generation did not tend to remain in the same job for long. In addition, the introduction of the career average pension had made joining the Fund a less attractive proposition
- Additional training should be arranged in respect of investing in property and infrastructure and debt.

RESOLVED that:

- a) **The Training update and the Pension Board's 'deep dive' programme be noted; and**
- b) **Additional training be arranged in respect of investing in property and infrastructure and debt.**

323 Internal Audit Plan (Agenda item 16)

The Committee considered the Internal Audit Plan.

RESOLVED that the Internal Audit Plan (Appendix to the report) be noted.

324 Forward Plan (Agenda item 17)

The Committee considered the Forward Plan.

RESOLVED that the Forward Plan be noted.

The meeting ended at 11.50am.

Chairman