

Minutes of the Pensions Committee

County Hall, Worcester

Friday, 8 October 2021, 10.00 am

Present:

Cllr Elizabeth Eyre (Chairman), Cllr Karen Hanks, Cllr Adrian Hardman,
Cllr Scott Richardson Brown 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 29 June 2021 (previously circulated).

325 Named Substitutes (Agenda item 1)

None.

326 Apologies/Declarations of Interest (Agenda item 2)

Apologies were received from Cllr Luke Mallett, Cllr Trish Marsh and Cllr Roger Phillips (as Chairman of the Board).

327 Public Participation (Agenda item 3)

None.

328 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 29 June be confirmed as a correct record and signed by the Chairman.

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

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

330 Local Government Pension Scheme (LGPS) Central Update (Agenda item 6)

The Committee considered the Local Government Pension Scheme (LGPS) Central Update and received a presentation from Joanne Segars, Chair and Mike Weston, Chief Executive of LGPS Central which set out an overview of their work, details of recent activity and a look forward.

In the ensuing debate, the following points were made:

- Had a replacement been recruited yet for the key role of Compliance Officer? Mike Weston recognised the importance of having the right people with the right capabilities in the right roles. An interim Compliance Officer had been appointed and efforts were underway to make a full-time appointment
- In response to a query the decision to relocate the office accommodation within Wolverhampton instead of Birmingham, Joanne Segars commented that suitable accommodation had been sought from across the region. It was found that accommodation in Birmingham was extremely expensive and not of sufficient quality to represent good value for shareholders. The lease on the offices in Matlock had a further two years to run. It cost a small amount and it was a matter for the shareholders to determine whether to continue with that lease
- In response to a query about office working, Mike Weston commented that the balance between office and home working was being looked at. At present, staff were being asked to work in the office four days a week because there were a large number new staff who needed to be integrated on a face-to-face basis. The eventual aim would be a 3:2 office/home ratio model. The introduction of hybrid technology, which had not been possible with the constraints of the old office, would help this process. There was a recruitment issue in terms of staff unwilling to relocate from London which also had implications for the location of the investment team
- Had LGPS Central been losing staff as a result of the move to flexible working? Mike Weston indicated that it had been more an issue in terms of the recruitment of new staff. Joanne Segars added that it was an issue for all businesses as flexible working had become a key staff demand
- In response to a query about graduates, Mike Weston indicated that graduates had been working in all aspects of the LGPS Central business
- Personality profiling was a good mechanism to ensure the right mix of personalities within an organisation. Had LGPS Central adopted this approach in the selection of its graduates? Mike Weston indicated that LGPS Central had introduced a testing regime but this did not include personality profiling
- There was no evidence to support any assertion that working from home improved productivity. Was there an expectation amongst staff that they should work from home? Joanne Segars responded that

during the pandemic, staff had got used to working from home. However, the key issue was to find the right balance for the organisation

- The overhead costs, terms of the lease and room for expansion of the new premises in Wolverhampton were queried. Mike Weston commented that there was a degree of flexibility in the set-up of the new office accommodation in Wolverhampton that would meet the organisation's needs. The lease on the building was for 10 years with a break clause at 5 years. A cap had been put on service charges including energy costs. The building was far more energy efficient than the existing offices. Joanne Segars added that there was no car parking available but the offices were next to the train station and not far from a public car park. It was also intended to introduce a cycle to work scheme
- One of the biggest issues with graduate training was graduates leaving the organisation after the training had been completed. How many graduates had been retained at the end of the training programme? Mike Weston responded that 6 graduates had been retained and had been appointed to formal positions within the organisation. Joanne Segars added that as part of the training, these graduates had rotated through different aspects of the work of the organisation to gain experience
- Given that WPF was a low-cost base fund, the performance of investment managers was a key issue. The poor performance of one of the emerging markets investment managers was a particular concern and it was queried whether LGPS Central should consider terminating their contract
- Philip Hebson added that the poor performance of one particular investment manager had impacted on the overall performance of the Emerging Markets multi-manager fund in total. This seemed to underline the Fund's reservations about the performance of multi-manager funds. WPF had a history of being less risk averse and adopting a conviction investment approach. Bearing this in mind, LGPS Central might wish to consider adopting a more flexible approach to investment management
- In response to a query, Mike Weston indicated that the appointment of the three sustainable investment managers would be announced as soon as the due diligence arrangements had been completed
- Concern was expressed about Government interference in the LGPS, particularly as a source of funding for infrastructure investment. Joanne Segars responded that LGPS Central had made the point to Government and would continue to emphasise that the Fund was there for the benefit of its members.

RESOLVED that the LGPS Central Update and presentation be noted.

331 Pension Investment Update (Agenda item 7)

The Committee considered the Pension Investment Update.

Philip Hebson, the Independent Investment Adviser to the Fund introduced the report and made the following points:

- The Fund was now receiving drawdowns from its property and infrastructure investments and had reached a point where it might be appropriate to implement a redeployment strategy
- Fee negotiations with Stonepeak had progressed satisfactorily and although a reduction in carry had not been possible, it had been possible to agree other areas of fee reduction
- Unfortunately it had not been possible to agree any fee reductions with First Sentier at this stage and therefore the Fund might wish to reconsider its desire to invest in this fund if a satisfactory agreement could not be reached
- Conversations were being held with Gresham Forestry to establish an appropriate core base investment approach. It was important for the Fund to establish investment opportunities whilst being aware of the political aspects relating to forestry
- The Fund was fully funded as at the end of June 2021. However, markets had become increasingly volatile since then and he anticipated a sustained period of market volatility. The next steps that the Fund took to protect its funding level were therefore important. The Fund needed to ensure that it was sufficiently diversified to be able to manage any sudden fluctuations in the market and protect against down-side movement
- Fortnightly meetings were being held with River and Mercantile to ensure that the Equity Protection Strategy was working for the benefit of the Fund. Given the market conditions, it was important to manage this strategy proactively
- The Fund was working with LGPS Central at determining more defined outcomes for Responsible Investment.

In the ensuing debate, the following points were made:

- In response to a concern about the Fund's exposure to the US market, Philip Hebson indicated that the US market was a difficult market to manage in that it contained a number of big companies that were high risk but high reward. These risks needed to be managed appropriately and active managers needed to be able to identify new investment opportunities
- In response to a query, Michael Hudson indicated that Mercers, the Fund's Actuary, did engage with the Fund but he emphasised that the Triennial Review was essentially a number crunching exercise. It was important that the risk pots were developed to align with the risks of the Fund's employers
- There was a massive exposure for district councils especially in circumstances where members left the scheme
- Michael Hudson commented that the funding level would only be a cause for concern if the Fund dropped below a 90% funding level.

RESOLVED that:

- a) **The Independent Investment Adviser's fund performance summary and market background be noted (Appendices 1 and 2);**
- b) **The update on the Investment Managers placed 'on watch' by the Pension Investment Sub Committee be noted;**
- c) **The funding position compared to the investment performance be noted;**
- d) **The update on the Equity Protection current static strategy and the historical performance detailed in Appendix 3 be noted;**
- e) **The update on Responsible Investment activities, Local Authorities Pension Fund Forum (LAPFF) (Appendix 4) 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 5 to 7).**

332 Business Plan (Agenda item 8)

The Committee considered the Business Plan.

In the ensuing debate, the following points were made:

- In response to a query, Michael Hudson indicated that a draft structure for apprenticeships was being developed by HR. Internal apprenticeships were being reviewed as part of that process
- It was important that the quality and performance of apprentices was high as possible. Were candidates with education to degree level sought for apprenticeships? Michael Hudson responded that the apprentices appointed to date had a mixture of knowledge and experience not necessarily with education to degree level.

RESOLVED that the WPF Business Plan as at 8 September 2021 be noted.

333 Risk Register (Agenda item 9)

The Committee considered the Risk Register.

In the ensuing debate, it was queried whether cyber security had proved a greater issue with staff working from home. Chris Frohlich indicated that he had not found it to be a particular issue. IT were still able to capture the vast majority of system cyber security attacks which predominately came through emails.

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

334 Pension Fund Audited Accounts 2020/21 Update (Agenda item 10)

The Committee considered the Pension Fund Audited Accounts 2020/21 Update.

Michael Hudson introduced the report and provided an update on the audit of the Pension Fund Accounts. Although it had not been possible to sign off the Statement of Accounts yet, the external auditor had not identified any material issues with the Pension Fund Accounts. He anticipated that the Accounts would be signed off shortly. The Annual Report would be brought to the next Committee meeting.

RESOLVED that the update on the audited Pension Fund Accounts 2020/21 be noted.

335 Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2021/22 and updated Indicative Budget 2022/23 and 2023/24 (Agenda item 11)

The Committee considered the Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2021/22 and updated Indicative Budget 2022/23 and 2023/24.

In the ensuing debate, the following points were made:

- In response to a query, Michael Hudson explained that although there were not many vacancies in the Pension Fund administration team, there was an issue with lower levels of pay in comparison with neighbouring pension funds. In addition, recruitment was impacted by people being attracted to higher paid opportunities to work in London whilst being able to work from home. Philip Hebson added that LGPS salary levels were an issue across the country
- This Pension Fund had always adopted an aggressive fee negotiating approach with investment managers. It was disappointing that LGPS Central did not seem to take this approach.

RESOLVED that:

- a) The variation to the Pension Fund Administration Budget, including manager fees, for 2021/22 shown in the Appendix totalling £18,401,026 and the indicative budgets for 2022/23 & 2023/24 be noted; and**
- b) The Investment Managers Fees budget be revised to the forecast outturn of £15,757,500 as shown in the Appendix attached to the report. This would result in an overall proposed budget of £18,385,900.**

336 Training and 'Deep Dive' Programme Update (Agenda item 12)

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

RESOLVED that the Chairs of Committee / Board / Investment Sub Committee recommendations from the meeting on 6 September as set out in paragraph 5 of the report be approved.

337 UK Stewardship Code 2020 (Agenda item 13)

The Committee considered the UK Stewardship Code 2020.

RESOLVED that the Fund's outcome for the revised UK Stewardship Code 2020 submission and the areas requiring improvement as detailed in the appendix to the report be noted.

338 Good Governance Update (Agenda item 14)

The Committee considered the Good Governance Update.

RESOLVED that the update on the LGPS Scheme Advisory Board's (SAB's) Good Governance project and the Worcestershire Pension Fund Position Statement: Good Governance 31 08 2021 attached as an Appendix to the report be noted.

339 Forward Plan (Agenda item 15)

RESOLVED that the Forward Plan be noted.

The meeting ended at 12.05pm.

Chairman