

Worcestershire County Council

# Agenda

## Pensions Committee

**Friday, 8 October 2021, 10.00 am**  
**County Hall, Worcester**

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## 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.

## Pensions Committee

**Friday, 8 October 2021, 10.00 am, County Hall, Worcester**

**Membership:** Cllr Elizabeth Eyre (Chairman), Cllr Karen Hanks,  
Cllr Adrian Hardman, Cllr Luke Mallett and  
Cllr Scott Richardson Brown

### Coopted Members

Jane Evans	Employee Representative
Cllr Trish Marsh	Herefordshire Council
Tracey Southall	Employer representative

## Agenda

Item No	Subject	Page No
1	<b>Named Substitutes</b>	
2	<b>Apologies/Declarations of Interest</b>	
3	<b>Public Participation</b> <i>Members of the public wishing to take part should notify the Assistant Director for Legal and Governance in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 7 October). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	<b>Confirmation of Minutes</b> To confirm the Minutes of the meeting held on 29 June 2021 (previously circulated)	
5	<b>Pension Board and Pension Investment Sub-Committee Minutes</b>	1 - 2
6	<b>Local Government Pension Scheme (LGPS) Central Update</b>	3 - 30
7	<b>Pension Investment Update</b>	31 - 84
8	<b>Business Plan</b>	85 - 102
9	<b>Risk Register</b>	103 - 122
10	<b>Pension Fund Audited Accounts 2020/21 Update</b>	123 - 124

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

Date of Issue: Wednesday, 29 September 2021

<b>Item No</b>	<b>Subject</b>	<b>Page No</b>
11	<b>Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2021/22 and updated Indicative Budget 2022/23 and 2023/24</b>	125 - 130
12	<b>Training and 'Deep Dive' Programme Update</b>	131 - 132
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## **PENSIONS COMMITTEE**

### **8 OCTOBER 2021**

## **PENSION BOARD AND PENSION INVESTMENT SUB-COMMITTEE MINUTES**

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### **Recommendation**

- 1. The Committee is asked to note the Minutes of the Pension Investment Sub-Committee and Pension Board.**
2. As set out in the Terms of Reference of the Pension Investment Sub Committee, all decisions taken and recommendations will be reported back to the next available ordinary meeting of the Pensions Committee in the form of the minutes of the PISC. A link to its Minutes on the Council's web site is set out below.
3. The Pensions Board has requested that their deliberations be reported to the Committee and a link to its Minutes on the Council's web site is also set out below.
4. The relevant Minute for this meeting relates to the Pensions Investment Sub-Committee meetings on 29 June, 20 September and 21 September 2021 and the Pension Board meeting on 17 September 2021.

### **Supporting Information**

Links to the Pensions Investment Sub-Committee and Pension Board Minutes can be found below:

<http://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=532&Year=0>  
<https://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=395&Year=0>

### **Contact Points**

#### Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

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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 COMMITTEE**  
**8 OCTOBER 2021****LOCAL GOVERNMENT PENSION SCHEME (LGPS)**  
**CENTRAL UPDATE**

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**Recommendation**

1. **The Chief Financial Officer recommends the LGPS Central Update and presentation as an Appendix be noted.**

**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 (LGPSC) 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.

**LGPSC Worcestershire Pension Fund update on Pooling**

4. Attached as an Appendix is a presentation update by LGPSC on pooling and our Fund investments with the pool. This will be presented by Joanne Segars the LGPSC Board Chair and Mike Weston, the Chief Executive Officer.

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

5. 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 Pension Investment Sub Committee on the 10 June 2021.

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

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

7. 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**

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

9. The Proposed shareholder resolutions covered the following and were agreed?

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

10. 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**

11. An update on Pooling progress for the LGPS Central 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 September. A verbal update will be provided to the Committee.

12. Whilst cost savings are a key focus area for the Partner Funds and LGPS Central Ltd, and they can be clearly evidenced as this return demonstrates, there remains a strong emphasis amongst all pool members on overall investment performance; ultimately it is the delivery of investment returns that will aid in stabilising employer contributions and ensuring that pensions can be paid to members as and when they fall due

13. The attached submission shows a Like for like increase of assets under LCPS Central Ltd management/stewardship to £22.2bn at 31 March 2021 from £17.3bn at 31 March 2020 (July 2021: £24.1bn, July 2020: 19.5bn) (this includes assets invested

directly in LPGSC Ltd products, as well as those under discretionary and advisory agreements)

14. It should be noted that this is a snapshot at a point in time based on indicative future investment requirements and asset allocation plans. Both Partner Fund requirements, and Pool collaboration, investment services and sub-funds, will continue to evolve, which may impact both the timing and amount of assets transferring to LGPSC Ltd management/stewardship and therefore the potential cost savings.

15. The LGPS Central Pool will continue to adapt to the changing requirements of Funds but the focus remains on delivery of agreed levels of investment performance and developing the right products at the right time to meet the long-term strategic requirements of Partner Funds.

### **Staffing**

16. An interim Chief Legal Compliance and 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**

17. 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.

18. 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**

19. It is worth just updating Committee 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

20. 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>

21. The products to be developed in 2022/23 were collectively agreed by Partner Funds at their next SAA Day on the 16 September 2021. As most sub-funds, which have targeted the higher levels of assets under management (AUM), have now been launched or in progress, the focus will ensure that these are delivered.

### **Contact Points**

#### Specific Contact Points for this report

Rob Wilson

Pensions Investment & Treasury Management manager

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

### **Supporting Information**

- LGPSC Pooling presentation - Appendix

### **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.





# Worcestershire Pension Fund

*LGPS CENTRAL LIMITED UPDATE ON POOLING*

PRESENTED BY



**JOANNE SEGARS**  
CHAIR



**MIKE WESTON**  
CEO



**CARA FORREST**  
CLIENT RELATIONSHIP  
MANAGER

**8<sup>th</sup> October 2021**



# Agenda

## AREAS FOR DISCUSSION

- LGPS Central Overview
- LGPS Central Recent Activity
- Looking Forward
- Summary





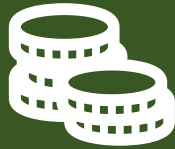
# LGPS Central Overview

Joanne Segars



# LGPS Central Update: 31 July 2021

Assets Under Management



c.£25bn

Investment Vehicles



14

Number of Staff



66

Cost Savings



c.£270m

Net by 2033/34

Responsible Investment



100%

RI Integrated Status and Signatory to 2020 Stewardship Code

Compliance



100%

Unqualified AAF Report

# LGPS Central Product Overview:



Annualised Performance Since Inception to 31 August 2021	Inception Date	Fund (% p.a.)	B'mark (% p.a.)	Target (% p.a.)
<b>Passive Funds</b>				
LGPS Central Limited UK Passive Equity Fund	April 2018	5.34	5.54	-
LGPS Central Limited Global Ex-UK Passive Equity Fund	April 2018	13.00	13.23	-
LGPS Central Limited Global Equity Dividend Growth Factor Fund	April 2018	12.07	12.32	-
LGPS Central Limited All World Equity Climate Multi Factor Fund	October 2019	17.53	17.33	-
LGPS Central Limited Global Multi Factor Fund	January 2021	12.16	12.28	-
<b>Active Funds</b>				
LGPS Central Limited Global Equity Active Multi Manager Fund	March 2019	18.39	17.42	18.92
LGPS Central Limited Emerging Markets Equity Active MM Fund	July 2019	7.39	7.67	9.67
LGPS Central Limited Global Active Investment Grade Corporate Bond MM Fund	March 2020	12.92	11.73	12.53
LGPS Central Limited Global Active Emerging Market Bond MM Fund	December 2020	1.54	0.98	1.68
LGPS Central Limited Global Active Multi Asset Credit MM Fund	April 2021	1.72	0.02	1.51
<b>Scottish Limited Partnerships</b>				
LGPS Central PE Primary Partnership 2018 LP	January 2019	25.8	30.4	34.4
LGPS Central PE Co-Investment Partnership 2018 LP	January 2019	48.5	26.0	30.0
LGPS Central Infrastructure Partnership – Core / Core Plus	April 2021	-	-	-
LGPS Central Infrastructure Partnership – Value Add / Opportunistic	April 2021	-	-	-

5 Passive Funds launched

5 Active Funds launched

4 Private Market Strategies Launched

Source: LGPS Central  
Where inception dates are less than one-year, absolute performance shown.  
Performance of Scottish Limited Partnerships shown to 31 March 2021.  
Due to the nature of private markets, performance reports lag by one quarter.





# LGPS Central: Recent Activity

**Mike Weston**



# September Company Meeting



## UPDATE

- Virtual meeting on 28 September 2021
- Chair delivered her commitment to update shareholders on NED succession and Board continuity
- Shareholder resolutions circulated and voted on



# LGPS Central Data Pool Submission 2021



- LGPS Central completed the Department for Levelling Up, Housing and Communities (formerly known as Ministry of Housing, Communities & Local Government) annual data submission on 24 September 2021.
- The headlines from our response, completed in conjunction with our Partner Funds, were as follows:

1. Total forecast cumulative net savings to 2034 of £127.4m on investment products that were live at the time of submitting this return (including life funds and sustainable equity framework savings).
2. Total forecast cumulative net savings to 2034 of £325.1m across all products (including life funds and sustainable equity framework savings).
3. Significant savings continue to be realised on external manager fees, with savings of 40-60% on products launched within the last year.
4. The pool continues to develop and launch new products, with actual AUM in pooled products standing at 25% of total partner funds' AUM as at March 2021, projected to rise to 47% as at March 2024.



# Staffing & Recruitment Summary



DELIVERING THE “PEOPLE” OBJECTIVES INCLUDED IN THE 2021/22 BUSINESS PLAN

- Recruitment efforts are focussed on
  - Delivering the new 2021/22 roles
  - Replacing departures
  - Implementation of internal restructuring
- 2021/22 individual training plans in place across the Company
  - Candidates sitting IMC and CFA exams
- 2021 Graduate program underway
  - Offers made and accepted by six candidates with anticipated start date mid-October



# Office Accommodation

## STEADY PROGRESS

- The lease for i9 was officially signed on 15 September 2021
- Fit-out supplier and lay-out approved by Exco and its work is expected to commence on 29 September 2021
- Occupation of i9 expected c.12 weeks from the signing of the lease (around mid-December – mid January).
- Monthly saving on delay to occupancy equates to £6k
- Approved permanent budget variance remains at £98k p.a.
- Additional set-up costs of £14k p.a. and absorbed within the base budget





# Quarterly Financial Report: Quarter One 2021/22



## HIGHLIGHTS

- The projected expenditure for LGPS Central Limited for 2021/22 is £11.220 million, giving rise to a favourable variance of £243,000 against the approved budget.
- This is primarily driven by temporary savings against the staffing budget and other one-off items that are not expected to recur in 2022/23.



# Key Performance Indicators (KPIs)



FALLING PROPORTION OF “RED” KPIs FOR BOTH CLIENTS AND SHAREHOLDERS

KPI STATUS AT 30 JUNE 2021*	CLIENT FOCUSED		SHAREHOLDER FOCUSED	
	NUMBER	%	NUMBER	%
Green	9	75.0%	12	75.0%
Amber	2	16.7%	2	12.5%
Red	1	8.3%	2	12.5%

Red KPIs relate to minor process errors and the number of staff compared to budget targets

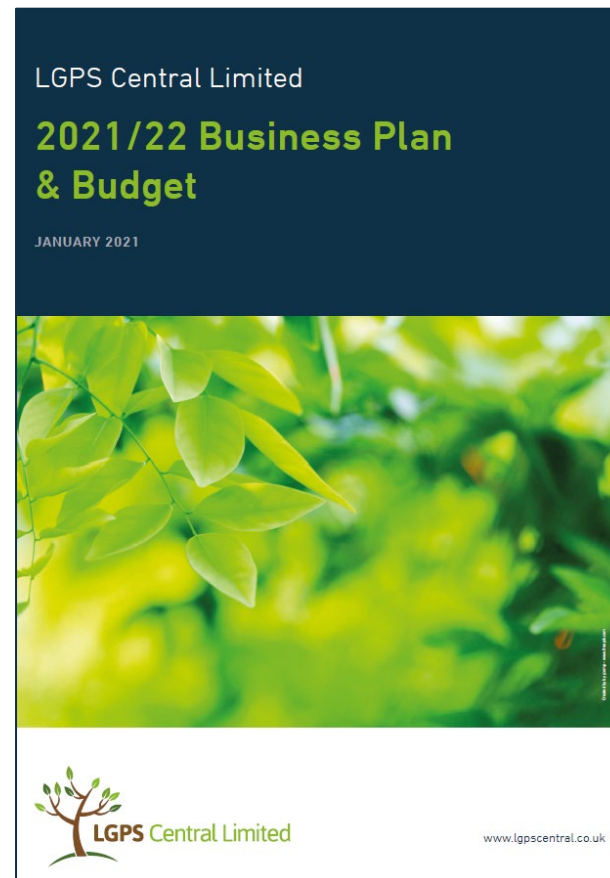
\*In addition to the above there are three KPIs with data not yet available as at 30 June 2021. These will be measured throughout the course of 2021 / 22 as soon as possible.

# 2022/23 Business Plan & Budget



## INITIAL UPDATE ON APPROACH AND TIMING FOR THIS YEAR'S DEVELOPMENT PROCESS

- Adopting a similar approach to the successful discussions for 2021/22
  - Agreement of priority themes and deliverables
  - Budget based on inflation adjusted current year budget plus/minus any permanent variations
- Agreement to accelerate the process for completion pre-Christmas 2021
- Initial discussions within the Company have been conducted over the summer

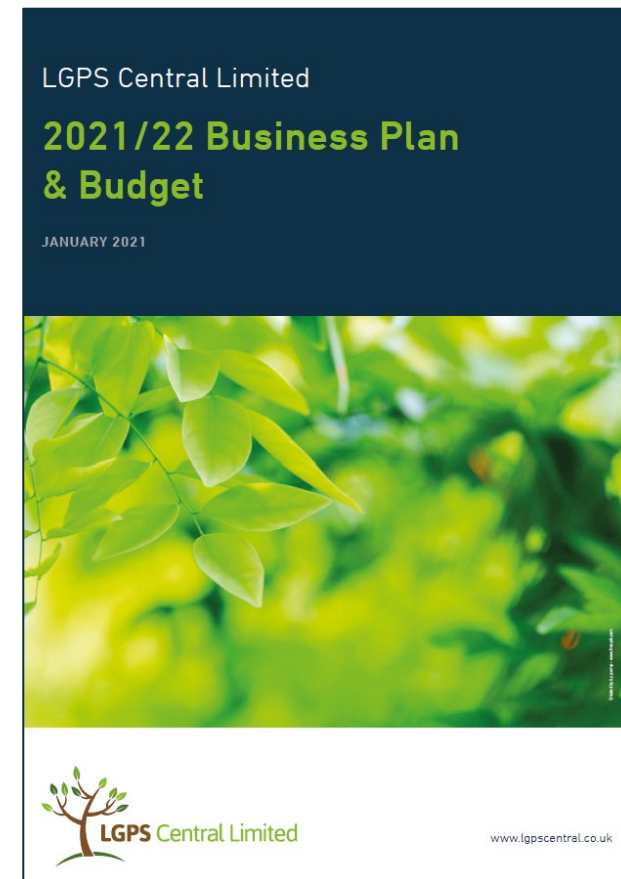


# 2022/23 Business Plan & Budget



## ESSENTIAL NEXT STEPS TO ACHIEVE A PRE-CHRISTMAS COMPLETION DATE

Date	Deliverable
16 Sept 2021	Partner Fund SAA Day
22 Oct 2021	Circulation of draft plan/budget ahead of Nov PAF and APM1
8 Nov	All Parties Meeting #1
Nov-Dec	Draft revisions and review
Mid Dec	All Parties Meeting #2
6 Jan 2022	Agreed final draft presented to PAF
11 Jan 2022	Final LGPS Central Ltd Board sign off
2 Feb 2022	Circulation of papers to Shareholders





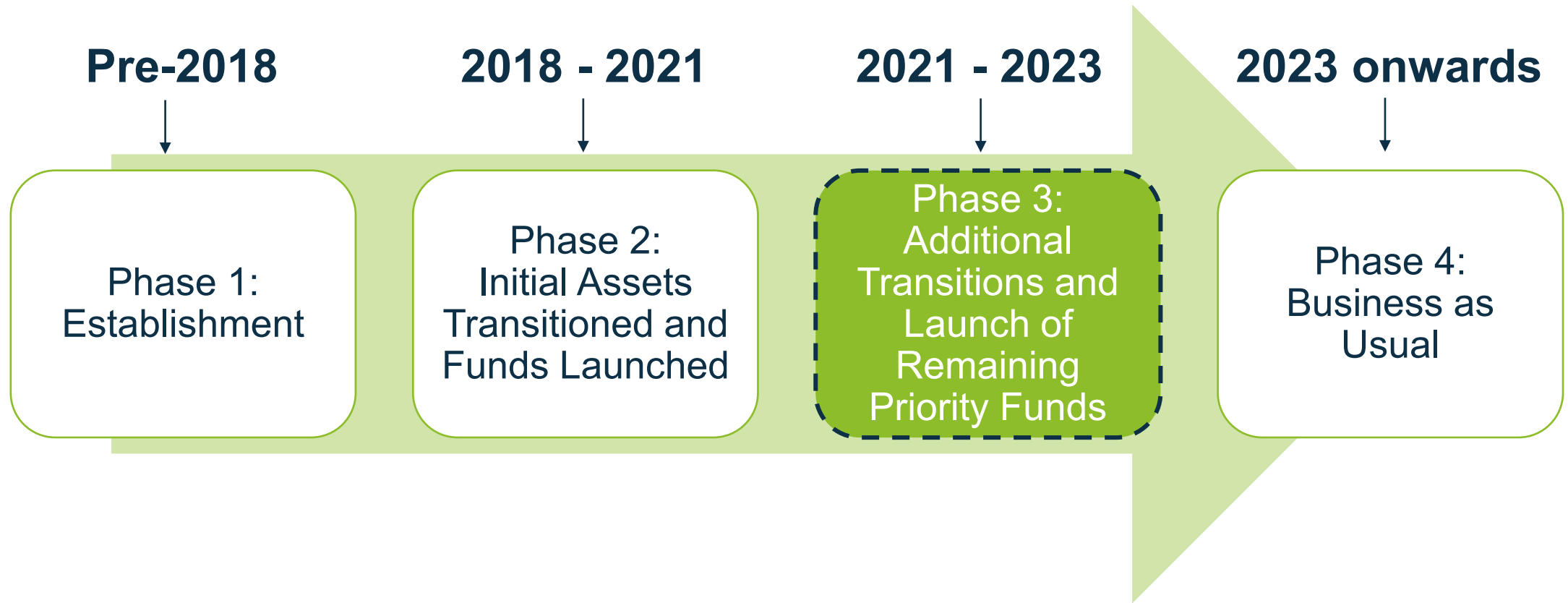
# Looking Forward

**Mike Weston**

# LGPS Central: Timeline



MOVING OUT OF START UP TOWARDS MATURITY



Significant level of work and input by Partner Funds to ensure success of LGPS Central to date

# Product Development



## MULTIPLE PRODUCT DEVELOPMENT



### Private Debt

First Close completed in June 2021, with further two closes expected over the course of 2021



### Private Equity

Targeting end July / early August for first close



### Sustainable Equity

Procurement is underway to appoint external managers to run our upcoming c.£1bn Global Sustainable Equities Fund. The Fund is expected to be launched over H2 2021.



### Targeted Return

Procurement is underway to appoint external managers run our upcoming c.£700m Targeted Return Fund. The Fund is expected to be launched in early 2022.



### Property

Work continues with the Partner Funds to design the product with launch expected for the latter half of H2 2021.

# Product Development: WPF Focus



## Infrastructure Update:

- Two investment vehicles available depending on risk/ return requirements; core / core plus and value add / opportunistic
- Total commitments across the two vehicles currently at £297m
- First investment into core / core plus sleeve of £85m to KKR (open ended fund)
- First investment made in the value add / opportunistic sleeve of £25m to Copenhagen Infrastructure Partners
- Further investments expected to be made over the investment period
- WPF confirmed commitment of £30m over 2021 and 2022 respectively, subject to final due diligence

## Active Sustainable Equity Update:

- Three investment vehicles available depending on risk / return and impact requirements
- Manager procurement for the three funds underway, with final managers expected to be selected over the coming weeks
- WPF played an active role in the construction of the fund profiles and attended manager due diligence meetings as an official observer to the process
- Final fund expected to be launched over the coming months with an AUM of c. £1bn

## Passive All World Equity Climate Multi Factor Fund

- WPF agreed, in principle, to invest c.£200m in the LGPSC All World Equity Climate Multi Factor Fund

## 2022 Focus:

- Final launch of agreed investment products within 2021 / 22 business plan (Targeted Return and Property)
- Continued development of private market funds and follow-up vintages
- Focus on LGPSC products launched to date with emphasis on performance and the composition of the multi-manager funds
- ESG integration and Responsible Investment high priority with further development of LGPSC's existing products in this area



# Summary

Joanne Segars

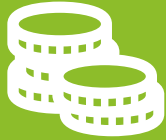


# Next Steps LGPS Central



## A CLEAR ORGANISATIONAL FOCUS LOOKING FORWARD

### Our Funds



- Transitioning away from multiple new product launches to continuing to **deliver efficient portfolio management and investment performance**

### Our Philosophy



- Achieving our fiduciary objectives without compromising societal responsibilities – focussing on engagement rather than divestment
- Maintain **100% RI Integrated Status** across all our investment products and extending our support for **Net Zero alignments, off-setting and carbon pricing**

### Our People



- Continued **investment in our people** to ensure we have **the right people with the right capabilities in the right roles.**
- Strengthening the **Responsible Investment & Engagement team** to support increased Partner Fund needs – **one of the main advantages of pooling**

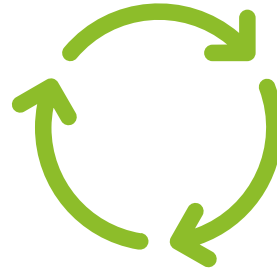
# Summary



PARTNERSHIP IS THE FOUNDATION FOR EVERYTHING WE DO



Strong relationship with WPF



Continue to develop LGPS Central's Products to meet WPF's needs



Focus on the ongoing performance and structure of existing LGPSC products as we move into 2022

# DISCLAIMER:



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Share Class and Benchmark performance displayed in GBP.

Performance is shown on a Net Asset Value (NAV) basis, with gross income reinvested where applicable.

All information is prepared as of **22 September 2021**

This document is intended for **PROFESSIONAL CLIENTS** only.



“One Central team, working in partnership to invest with purpose and deliver superior returns”



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**PENSIONS COMMITTEE**  
**8 OCTOBER 2021****PENSION INVESTMENT UPDATE**

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**Recommendation**

1. **The Chief Financial Officer recommends that:**
  - a) **The Independent Financial 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).**

**Background**

2. The Committee will receive regular updates on Fund performance. The Fund's Independent Financial Adviser has provided a Fund performance summary and a brief market background update at Appendix 1 up to the end of June 2021 together with the following supporting information.

- Portfolio Evaluation overall Fund Performance Report up to the end of June 2021 (Appendix 2)

The market background update is provided to add context to the relative performance and returns achieved by the Fund's investment managers.

3. The Committee also receives regular updates regarding 'on watch' managers and will receive recommendations in relation to manager termination in the event of a loss of confidence in managers by the Pension Investment Sub Committee (Appendix 1).

**Property and Infrastructure Commitments**

4. The table below highlights the total commitments to the end of June 2021 being £694million and the amount that has been drawn, i.e. the capital invested being £494million (71%). These types of investments can take several years to be fully committed.



Table 1: Property and Infrastructure Commitments

Property & Infrastructure Commitments	Commitment £'m	Amount Drawn June 2021	%
Total Commitment Property Investments	220	171*	78%
Total Commitment Infrastructure Investments	474**	323	68%
<b>Total</b>	<b>694</b>	<b>494</b>	<b>71%</b>

\* Note that Venn I is coming to an end and capital is currently being recalled.

\*\* Includes recent BSIF II commitment

### **Estimated Funding Levels**

5. Table 2 shows the overall Funding level of the Fund. It should be noted that this is a weighted average across all the employers that are part of the Fund The range of funding levels across the employers is circa 20% to 144% (based on 2019 valuation)

6. The last actuarial valuation was undertaken as at the 31 March 2019 showed the funding levels were 90% with a deficit of £295m. At the last Committee it was highlighted that there had been some significant volatility in the markets due mainly to the effects of the Coronavirus which has since been found to be unprecedented. This had a significant impact on our March 2020 estimated funding levels, with a recovery by September 2020 and has continued to recover up to June 2021 as shown in the table below with an estimated funding level of 101%. However, it is most likely that the market volatility will continue which may impact on the overall funding levels.

**Table 2: Estimated Pension Fund Funding levels based on a like for like comparison to the actuarial valuations.**

	Mar-16	Mar-19	Mar-20	Mar-21	June-21
Assets £'M	1,952	2,795	2,612	**3,367	**3,496
Liabilities £'M	2,606	3,090	*3,243	*3,404	*3,446
<b>Surplus (-) / Deficit</b>	<b>654</b>	<b>295</b>	<b>631</b>	<b>37</b>	<b>(50)</b>
<b>Estimated Funding Level</b>	<b>75%</b>	<b>90%</b>	<b>81%</b>	<b>99%</b>	<b>101%</b>

\* Estimated liabilities provided by the actuary and Assets include cash.

\*\* Note the Assets include cash of £68m which are excluded from the Portfolio Evaluation overall Fund Performance Report attached at Appendix 2.

### **Equity Protection (EP) update**

7. Just to recap this only covers our passive portfolio of approximately £1.1bn (including the Equity Protection valuation). It was also agreed as part of the 2019 strategic asset allocation review to use Equity Protection as a tool to manage risk within the portfolio and the Fund will have seen the benefits of having this in place since February 2018.

8. It was agreed to continue the Equity Protection for a further 12 months on the S&P500 (for our US Passive equity Fund) and the FTSE100 (for our UK Passive equity Fund) and 18 months for the Eurostoxx50 (for our European Passive equity Fund) and this was presented to the Pensions Investment Sub Committee on the 17 September 2020.



9. It was noted that the revised strategy is more fluid and is aimed at capturing as much market upside as possible as well as protecting from significant downside market movements. Increased active management is required for these strategies and fortnightly monitoring meetings have taken place with River and Mercantile since September 2020.

10. Both the Eurostoxx50 and the S&P500 have been restructured at the date detailed in the table below. The FTSE was restructured more recently on the 21st September 2021 after the 6 month trigger point and a verbal update will be provided at Committee. The table shows the triggers (FTSE to be updated) that have been implemented to consider restructuring the EP Strategy for both upward and downward market moves. The level of protection still remains at 20% for any Market downfall from the point at which the strategy is revised.

### **Revised Equity Protection levels implemented**

<b>Mandate &amp; Market</b>	<b>Date from</b>	<b>Initial Market Level</b>	<b>15% restructure trigger consideration on upward market moves</b>	<b>20% restructure trigger consideration on downward market moves</b>	<b>Duration</b>
<b>US - S&amp;P500</b>	20.04.21	4,128	4,747	3,302	12 Months
<b>Europe – ESTOXX50</b>	24.03.21	3,827	4,401	3,061	18 Months
<b>UK – FTSE100</b>	10.02.21	6,500	7,475	5,200	12 Months

11. We asked River & Mercantile to provide the historical performance of the EP strategy since inception. The tables below demonstrate that the Funds structured equity has outperformed both the UK and Europe equity markets and underperformed against the US equity market which will largely be due to the sterling market performance over this period. However overall, the aggregated performance has been broadly neutral since inception.

12. This proves to date that the revised strategy has worked for the Fund particularly as this is a risk mitigation strategy and is aimed chiefly at protecting the Fund's assets from a significant downfall in valuation. Appendix 3 provides this detail in a series of charts and highlights the points at which the decisions were made to restructure the strategy.

### **Equity Protection Strategy performance since inception**

<b>UK: Performance at end of July 21</b>	<b>Equity</b>	<b>Structured Equity</b>
since inception	11.43%	13.99%
over the last 12 months	23.21%	15.99%
over the last 3 months	1.55%	0.13%

<b>Europe: Performance at end of July 21</b>	<b>Equity</b>	<b>Structured Equity</b>
since inception	30.00%	34.27%
over the last 12 months	31.23%	33.45%
over the last 3 months	3.74%	3.15%

<b>US: Performance at end of July 21</b>	<b>Equity</b>	<b>Structured Equity</b>
since inception	68.98%	60.61%
over the last 12 months	35.82%	35.11%
over the last 3 months	5.38%	4.72%

<b>Aggregated Performance at end of July 21</b>	<b>Equity</b>	<b>Structured Equity</b>
since inception	35.68%	35.42%
over the last 12 months	30.10%	27.45%
over the last 3 months	3.61%	2.68%

### **Strategic Asset Allocation**

13. Table 3 below shows the asset allocations against the Strategic Asset Allocation targets (over next 3 to 5 years) agreed by Committee in June 2020. This highlights that our overall investment in equities is still high being over 79.0% (78.5% as at March 2021) (including the equity protection) compared to the revised strategic asset allocation target of 70%.

14. This is mainly due to being overweight on the active equity portfolio, underweight on Fixed income and the increase in Property and Infrastructure investments target to 20% (currently 15.0%) will take time to implement. Also, the equity rally has seen the market valuations increase compared to the existing Property and Infrastructure investments which are likely to take longer to recover from the current market environment.

15. Since this report, the Fund has taken action to rebalance the developed Asia active equities mandate with Nomura to be nearer its target allocation of 10% and reinvested this into the actively managed bonds. Also rebalancing of the overweight on the passive US Market cap allocation has been undertaken by moving this to the underweight on the UK Market cap.

**Table 3 Strategic Asset Allocation targets**

<b>Fund as at the 30th June 2021</b>		<b>Strategic Asset Allocation targets</b>	
<b>Asset Class</b>	<b>Portfolio Weight</b>	<b>Asset Class</b>	<b>Portfolio Weight</b>
<b>Actively Managed Equities</b>	<b>25.5%</b>	<b>Actively Managed Equities</b>	<b>20.0%</b>
Far East Developed	13.4%	Far East Developed	10.0%
Emerging Markets	12.1%	Emerging Markets	10.0%
<b>Passively Managed Equities – Market Capitalisation Indices</b>	<b>31.9%</b>	<b>Passively Managed Equities – Market Capitalisation Indices</b>	<b>35.0%</b>
United Kingdom	12.3%	United Kingdom	20.5%
North America	13.0%	North America	8.0%
Europe ex UK	6.6%	Europe ex UK	6.5%
<b>Passively Managed Equities – Alternative Indices</b>	<b>15.6%</b>	<b>Passively Managed Equities – Alternative Indices</b>	<b>15.0%</b>
Global	15.6%	Global	15.0%
<b>Equity Protection</b>	<b>6.0%</b>		

Fund as at the 30th June 2021		Strategic Asset Allocation targets	
<b>Total Equities</b>	<b>79.0%</b>	<b>Total Equities</b>	<b>70.0%</b>
<b>Fixed Interest</b>	<b>6.0%</b>	<b>Fixed Interest</b>	<b>10.0%</b>
Actively Managed Bonds & Corporate Private Debt	4.7% 1.3%	Actively Managed Bonds & Corporate Private Debt	10.0%
<b>Actively managed Alternative Assets</b>	<b>15.0%</b>	<b>Actively managed Alternative Assets</b>	<b>20.0%</b>
Property	4.7%	Property & Infrastructure	20.0%
Infrastructure	10.3%		
<b>TOTAL</b>	<b>100.0%</b>	<b>TOTAL</b>	<b>100%</b>

### Responsible Investment (RI) Activities

16. The term 'responsible investment' refers to the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes. It has relevance before and after the investment decision and it is a core part of our fiduciary duty. It is distinct from 'ethical investment' which is an approach in which moral persuasions of an organisation take primacy over its investment considerations

17. The Fund adopts a policy of risk monitoring and engagement with companies with sub-optimal governance of financially material Responsible Investment (RI) issues, to positively influence company behaviour and enhance shareholder value; influence that would be lost through a divestment approach. The Fund extends this principle of "engagement for positive change" to the due diligence, appointment and monitoring of external fund managers.

### Local Authority Pension Fund Forum (LAPFF)

18. LAPFF exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 79 public sector pension funds and five pools in the UK with combined assets of over £230 billion.

19. The attached quarterly engagement report (April to June 2021) Appendix 4 detailed a number of headlines around Climate Emergency and Company engagements over the period,

20. Some of the highlights of the report include:

- LAPFF's engagement with Shell, pushing for a clearer transition path towards net zero by 2050.
- Continued engagement with National Grid, which has now set a Scope 3 target to reduce carbon emissions 37.5% below the 1990 baseline by 2034.
- 'Say on Climate' ramps up, with a number of resolutions being put forward to company AGMs this year.

- Mining and Human Rights engagement continues with LAPFF attending a number of notable AGMs to ask questions and holding a number of meetings with high level executives from Rio Tinto, Anglo American, Glencore and BHP.
- Community engagement around these issues has also continued, particularly where community members were affected by the Mariana and Brumadinho dam collapses.
- Engagement with companies identified last year as operating in the Occupied Palestinian Territories has been pursued.
- LAPFF's continued engagement on diversity with Cllr John Gray, LAPFF Vice Chair, joining the City of London's Taskforce on Socio Economic Diversity.

21. The issues are set out in the Quarterly Engagement Report which is attached at Appendix 4 and is also available on LAPFF's website together with the previous quarterly engagement reports. [LAPFF quarterly engagement reports](#)

### **Stewardship in Investment Pooling**

22. As part of LGPS Central we are actively exploring opportunities to enhance our stewardship activities. More information is on the LGPS website [LGPS Central – Responsible Investment](#). One of the principal benefits, achieved through scale and resources arising from pooling are the improved implementation of responsible investment and stewardship. Through its *Responsible Investment & Engagement Framework* and its Statement of Compliance with the UK Stewardship Code, LGPS Central is able to help implement the Fund's own *Responsible Investment Framework*. LGPS Central published their Quarterly Stewardship Report covering April to June 2021 [Responsible Investment – LGPS Central](#). This will demonstrate progress on matters of investment stewardship.

23. Also on this website details of LGPSC Task Force on Climate-Related Financial Disclosures (TCFD) can be found together with their successful stewardship code 2020 application.

### *Stewardship Themes*

24. Each of the partner funds were invited to take part in a short survey, to gauge interest in a list of potential stewardship themes. The outcome was an agreed shortlist of four (proposed at a recent Responsible Investment Working Group RIWG), which comprised of climate change, single-use plastic, technology & disruptive industries, and tax transparency. Further details of these 4 themes and the progress against these themes are included in the quarterly Stewardship Report above.

### **Voting Decisions**

25. LGPS Central compile and vote the shares for Worcestershire Pension Fund voting records (via LGPS Central contract with Hermes EOS and executed in line with LGPS Central's Voting Principles).

26. 'Donut' charts for how votes have been cast in different markets and regions (Appendices 5 and 6) and a Table of vote-by-vote disclosure for full transparency is available at Appendix 7 for the quarter up to the end of June 2021.

## **Outcome and Recommendations of the Environmental Social & Governance (ESG) and Sustainable development Goals (SDG) mapping Audit report from Minerva & the Climare Risk report by LGPS Central**

27. The outcome and recommendations of these reports were provided to the last Pensions Committee in March as a separate report.

28. Progress to date against some of the recommendations are as follows:-

- a) Engagement with all the Infrastructure, Property and Private Debt Fund Managers has taken place to ask them a number of questions on their ESG processes and practices and their ability in the future to map / report against the United Nations sustainable Development Goals and in particular those SDGs we wish to target as a Fund. An update has been provided to the Pension Investment Sub Committee;
- b) 3 informal Investment Sub Committee meetings were held from August to early September 2021 to explore the potential investment in sustainable equities and Climate Factor Funds and presentations have been received from Fund managers currently on the West Midlands Frame work and from LGPSC on their Fund offerings;
- c) Due Diligence has now been undertaken for the LGPSC Sustainable active equity Fund managers and a decision should be made by the end of September and a verbal update provided to Committee; and
- d) Pension Investment Sub Committee agreed their commitment to future investment in suitable sustainable equities and Climate / ESG Funds with further options to be explored and bought back to the September meeting for a decision on future investment.

### **Contact Points**

#### **Specific Contact Points for this report**

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### **Supporting Information**

- Independent Financial Adviser summary report (Appendix 1)
- Portfolio Evaluation Overall Fund Performance Report (Appendix 2)
- Equity Protection historical performance Appendix 3
- LAPFF Quarterly Engagement Report April to June 2021 (Appendix 4)
- 'Donut' charts for how votes have been cast in different markets and regions (Appendices 5 and 6 and a Table of vote-by-vote disclosure (Appendix 7))

### **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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REPORT PREPARED FOR  
**Worcestershire Pension Fund**

September 2021

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## Independent Investment Advisor's report for the Pension Investment Sub Committee meetings

20 & 21 September 2021

### Global overview

Markets continued in a positive trend in Q2. Major equity regions produced returns of between +5.1% (MSCI Emerging Markets) and +8.5% (US S&P 500) with only Japan lagging at -1.2%. Growth style regained the lead over Value style, as rates fell, but commodities continued to be strong, with oil up over 18%. Bonds also produced positive returns, as the first quarter's inflation-inspired rise in yields reversed somewhat: UK Gilts produced returns of +1.8%, reducing their losses for the year, while long-dated index-linked bonds bounced 4.7%. Credit spreads narrowed marginally over the quarter, as the economic recovery continued.

GDP growth for Q2 is positive across the board; the US has followed a positive Q1 with +1.6% quarterly growth<sup>1</sup>. The UK (+4.8%), EU (+1.9%) and Japan (+0.3%) have returned to growth, having contracted in Q1. This large uptick is due to the re-opening of the global economy with pent-up demand from deferred purchases combined with continued government fiscal stimulus and expansionary monetary policy. Despite the unequal access to vaccines, the World Bank now predicts global growth to reach +5.6% in 2021, its fastest pace in 80 years. However, many are now fearing that increasing inflation, and the risk of subsequent increases in interest rates to tackle it, now pose the greatest threat to a sustainable recovery.

Labour force dislocation: As economies have reopened, and service industries look to hire, strains have emerged in many labour markets. Though unemployment rates remain elevated (estimated to be 6.6% for the OECD)<sup>2</sup>, employers have reported difficulty in filling vacancies. Potential reasons range from a lack of workers, ongoing COVID relief, childcare difficulties created by at-home schooling, and workers having changed industry.

It is worth highlighting the following themes, impacting investment markets:

**Expectations on monetary policy have started to shift:** Central banks gave divergent policy signals in Q2. Despite markets coming to broadly accept the Federal Reserve's argument of transitory inflation (US bond yields actually fell slightly over Q2), Federal Open Market Committee members signalled potential for earlier than previously expected interest rate rises (two rate rises are now expected in 2023, up from zero). Outside of the US, the Bank of Japan reduced the scale of its ETF and REIT purchases, however the Bank of England and the European Central Bank did not signal similar changes, although improving expectations of

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<sup>1</sup> Note: US GDP has been de-annualised to be consistent with the other regions.

<sup>2</sup> OECD, "Labour: Labour market statistics", July 2021.



near-term growth in Europe led to rising European government bond yields, and a strengthening Euro. In contrast, Gilt and Treasury yields fell, whilst the performance of the Dollar and Sterling was weaker than in Q1.

**Inflation continues to be a concern:** As the recovery, driven by expansionary monetary and fiscal policy, combined with pent-up demand and increased savings rates, lifts both output and markets and drives down unemployment across much of the world, focus has now shifted from growth to inflation. The dislocation of supply chains and pent-up demand has pushed inflation indicators to heights not seen since the run-up to Global Financial Crisis of 2008. With commodity prices near highs, disrupted semiconductor supplies causing shortages ranging from games consoles to cars, and low but volatile bond yields, investors are asking two questions: is inflation transitory or structural, and where are bond yields going to go from here?

While the strong recovery in demand post pandemic is likely to be transitory, the effects on supply (e.g., reduced labour force participation) may be longer lasting. And underlying this, long term demographic trends (reducing global working age population) and the maturing of the Chinese economy (the shift from investment to consumption, reducing the growth rate in aggregate supply) are likely to add longer term upward pressure to global inflation. Forecasters expect inflation of 3+% in US and 2+% in UK by the end of the year. While consensus has been that this is transitory, the path inflation takes is likely to continue to be a key driver of markets.

The consensus expects a 0.5% rise in US interest rates next year (less in UK and Europe), but there is increased uncertainty, and risk that short term complacency could result in sharper interest rate rises later.

While both equities and real estate typically provide some insulation against inflation over the longer term (5-10 years), both may suffer if inflationary expectations and interest rates rise sharply. For bonds and cash, of course, even modest inflation is pernicious: 5 years of 2.5% inflation represents a 13.1% erosion of purchasing power, while 10 years represents a 28% erosion!

## Summary and Market Background

The value of the Fund in the quarter rose to £3.43bn, an increase of £150m compared to the end March value of £3.28bn. The Fund produced a return of 1.7% over the quarter, which was -0.7% behind the benchmark. The main reason for the underperformance was due to asset allocation within the total equity portfolio, in particular the significantly underweight UK equity position and the relatively low returning actively managed equity assets. Property and infrastructure also produced a negative contribution against the new composite benchmark. Over a 12-month period the Fund recorded a negative relative return against the benchmark of -1.5% (22.1% v. 23.6%). The Fund has performed in line with the benchmark over the three-year period and ahead of benchmark over the five and ten year periods, details of which can be found in Portfolio Evaluation Limited's report.

The equity protection strategy mandate with River & Mercantile has been *implemented to secure some protection to the funding level* against a relatively significant fall in equity values. One of the key decisions within the asset allocation review was to continue with a relatively high percentage of the Fund's assets (70%) being invested in equities. It was decided that an equity protection overlay will form part of the overall risk management strategy, with the objective of continuing to provide some protection to the funding level in the event of future significant falls in equity markets (as seen in Q1 2020). With the benefit of experience gained from the earlier stages of the equity protection strategy, the positioning of the strategy will be monitored more closely going forwards, looking in particular at the movements of the three individual regional markets covered by the strategy (US, Europe and UK).

Work has continued towards increasing the allocation to the alternatives portfolio (up to 20% from 15%) in a cost effective manner. The Fund has been working with LGPS Central to identify what part they could play in this process and how that would work alongside the existing investments, ensuring that a suitable diversification of investments is maintained and as appropriate, enhanced. LGPS Central will be providing an update on their infrastructure investment plans at the PISC meeting on 21 September. In the meantime, an allocation of £75m to BSIF II (infrastructure) has been approved by the PISC as a follow on to our existing investment. Consideration is also being given to the First Sentier and Stonepeak follow on funds, who will be presenting their proposals to the PISC meeting on 21<sup>st</sup> September. Research is also being undertaken into a possible investment with Gresham House Forestry Fund, which would be held within the property portfolio.

With the excellent performance seen from our equity investments over the last few years, some rebalancing between portfolios has become desirable, with positions now outside of the ranges contained in the strategic asset allocation. The reorganisation of the Nomura

portfolio provided an appropriate opportunity to release £75m, of which £60m has been added to the LGPS Central Corporate Bond Fund investment. The balance has been retained to meet near term drawdowns from our alternatives managers and the Bridgepoint debt Fund. Within the LGIM passive equity portfolios, £120m has been switched from North America to the UK.

The work commissioned by the Pensions Committee to manage Environmental, Social and Governance (ESG) and Climate issues in a more proactive manner across all of the Fund investments has continued, by investigating possible alternatives to the current passive mandates that would incorporate a greater focus on ESG considerations, while maintaining or enhancing returns in a risk-controlled manner. The PISC have had several sessions to explore some of the options, particularly focusing on those currently available, or in development, from LGPS Central and LGIM. Consideration is also being given to some active Sustainable Investment management options, both with LGPS Central and through the West Midlands Sustainable Equities framework of managers.

Performance during Q2 2021 has clearly been a bit of a mixed bag, as demonstrated by the underperformance against the total Fund bespoke benchmark. While the Fund's relatively high allocation to equities has done well in comparison to other asset classes, the detail within equity allocation has been challenging. World equity markets had a good performance experience again during Q2, but the Far East and Emerging Markets were relatively subdued. Our active managers had a poor quarter in relative performance terms with Nomura (Pacific) showing an underperformance of -1.9%, LGPS Central (Emerging Markets) underperforming by -1.8% and LGPS Central (Corporate Bonds) just about in line with benchmark. The total property fund showed an underperformance against our own benchmark of -0.7%, which reflects to a large degree the cautious approach to valuations that is still prevalent in the Covid-19 environment.

The alternative passive strategies outperformed the passive equities benchmark by 0.2% (7.6% v. 7.4%). Passive equities outperformed active market equities by 5.9% (7.4% v. 1.5%), which reflects the good performance from the passive index markets in comparison to the Far East and Emerging Markets, and to some extent the poor performance of the active managers. Out of the passive geographies, the UK lagged this time, up 5.6% over the quarter, while the overweight position in North America will have enhanced performance, given the return of 8.7%.

### [Equities](#)

Global equities had a very strong Q2 overall, with gains higher than those observed over Q1. Equities were supported by an accelerating vaccine rollout and strong economic data, with strong purchasing managers index ("PMI") measures across the UK, US, and Europe. Most

regions delivered good returns over Q2, with the MSCI World up +7.9%. Volatility, measured by the VIX index, fell -18.4% over the quarter, from 19.4 to 15.8.

US equities, measured by the S&P 500, performed strongest over Q2, gaining +8.5%. The S&P 500 continued its trend of reaching new all-time highs in late June, driven by strong economic data and the prospect of more fiscal stimulus. In particular, the technology giants made strong gains, driving the rebound of growth stocks, though most sectors gained.

Growth stocks outperformed value in Q2, a reversal in trend from what was seen previously, with undervalued discounts largely disappearing. Sector-level performance was also a big factor in the outperformance of growth stocks, with technology leading the way, in addition to communication services and healthcare. The MSCI World Growth index gained +11.0% over the quarter, compared to +4.9% for the MSCI World Value index.

UK equities performed well over Q2, with both the FTSE 100 (+5.6%) and FTSE All-share (+5.6%) indices delivering positive returns. Over April and May, value stocks continued to perform well, alongside small and mid-caps. However, concerns over the COVID-19 delta variant led to a fall to these equities that had experienced strong gains, leading, at the end of the quarter, to a rotation towards defensive large-cap stocks – which increased as Sterling fell against the Dollar in June.

The Euro Stoxx 50 gained +5.2% over Q2, supported by an increase in vaccine rollouts, loosening of restrictions, and a strong corporate earnings season from strong global goods demand. Rotations between growth and value stocks led to a mixed group of sectors outperforming including consumer staples, and information technology. Meanwhile, the utilities and energy sectors lagged.

Japanese equities underperformed other developed markets in Q2, having the weakest quarter overall, returning -1.2%. This is a reversal from the previous quarter, due to the slow vaccination campaign and a state of emergency that lasted much of the quarter.

Emerging market equities returned a solid +5.1%, measured by the MSCI Emerging Markets index, but performance between regions was mixed. Despite a sell-off in May resulting from US inflation concerns, as the outlook for economic recovery improved, regions such as Poland, Hungary and Czech Republic outperformed. Surging oil prices, and commodity prices in general, helped Russia and Saudi Arabia as large exporters, but hindered others. Regulatory concerns in China began to extend outside of the technology sector, which impacted China's performance, and Asia's as a whole.

## Global Equity Markets Performance



## Fixed Income

Bonds, in general, had a good quarter, reversing some of the losses in Q1 as yields fell and bond prices increased. Despite the sharp rise in inflation indicators, we did not see an accompanying sell-off in the bond market that would be expected if moving to a high inflation regime, implying markets expect the inflation to be transitory. In a reversal of last quarter, US investment grade bonds outperformed US high yield. In terms of regions, the US outperformed both UK and the Eurozone.

10-year US Treasury yields fell from +1.74% to +1.47% over the quarter, delivering a return of +1.7%. In addition, the 2- to 10-year curve flattened, with the spread decreasing by 36 bps. The closely watched Federal Reserve meeting in June kept short-term borrowing costs at near-zero levels and agreed to continue the same rate of bond purchases. While recognising that inflation has risen, they attributed this mainly to "transitory factors". However, the Committee surprised the market with an updated "dot plot" showing that their median expected pace of interest rate rises had increased, with two increases expected in 2023, up from zero, and an acceleration of expectations by one year.

10-year UK Gilt yields fell from +0.85% to +0.72% over Q2 with the curve flattening, a departure from the pronounced rise in Q1, providing a total return of +1.8%. In June the Bank of England's nine monetary policymakers again voted 8 to 1 in favour of keeping stimulus at full throttle and hold steady the government bond-buying programme at £875 billion pounds. Rising inflation concerns led to strong index-linked gilt returns (+4.7% for over 15-year index-linked bonds, and +3.9% for over 5-year), though performance is still negative year-to-date.

High yield bonds continued to perform strongly while investment grade bonds eroded Q1 losses. European high yield bonds returned +1.4%, and US high yield bonds returned +2.7%

in Q2. European investment grade bonds returned +0.5%, while the US and UK equivalents returned +3.5% and +1.9% respectively.

### Currencies

In contrast to previous quarters, Sterling weakened against the Euro (-0.8%) but held steady against the dollar (+0.0%), as the UK vaccine rollout was already priced in. The Dollar had a weak quarter, with the Dollar Index Spot falling -0.9%, as markets reacted to heightened inflation measures in April and May, though a shift in interest rate guidance in June caused the dollar to gain back some of its losses. The Euro performed strongly in April and May, due to an accelerating vaccine rollout pushing growth expectations higher, catching up with the US and UK.

### Holiday reflections

As Covid-19 restrictions eased, as a family we took full advantage of my son finishing his GCSE assessments by the end of May. This enabled us to do some detailed research into what is loosely called the “hospitality industry” around the UK. What we discovered is a virtual perfect storm created by the impacts of Covid-19, Brexit and increasingly supply issues. We started our travels in mid-June, heading down into the West Country. The area was already very busy, much more so than would normally be the case. At that time some Covid-19 restrictions were still in place, limiting the capacity at some tourist attractions (but not all; Longleat Safari Park has a natural separation!) and at pubs and restaurants. Some had not reopened, citing lack of space to economically operate along with labour shortages. In the South, this labour shortage is in part due to the lack of Europeans being available to supplement locals, but as we realised later this isn’t the only issue. Certainly my daughter was offered a job on a number of occasions! Prices being charged ranged from steep to eye-watering, which to be fair is a function of supply and demand, but also reflected the limited capacity at many venues.

Just before the school holidays started in July we had a short trip to Coniston in the Lake District. Again, it was very busy, but apparently nothing like the real hot spots, like Bowness, Ambleside and Grasmere. However it was clear that there was simply not enough pub and restaurant capacity to match demand, again with many operators juggling how to manage with a limited number of staff. Those we spoke to were not looking forward to the following week, with the start of school holidays quite a number of “pop up” camp sites would be opening, thereby increasing the pressure on already stretched services. There was already some talk of supply issues surfacing, with quite restricted menus as a consequence.

To me the real thought provoking wrap up on this came from the trip we made to South West Scotland (near Stranraer) in late August. Here we stayed at a hotel/pub in a small town. The restaurant was closed on Sundays and Mondays due to a lack of a chef, other places had similar evenings with no food service. This is not a usual mass tourism area, which has seen a large influx of visitors and they are struggling to cope. The hotel is



operating with half their “usual” staff level yet are constantly fully booked. The nearest available room the weekend before we were there, according to Booking.com, was at Inverness. The manager explained to me that they don’t normally have staff from outside of the area, and seasonal cover is usually supplied by students at home for the vacation. However students are now tending to stay in their University accommodation more, as off campus rentals are now generally annual, so they lacked that resource. More telling was that when they shut down last year, many of their staff got work elsewhere, such as van driving, and have not been inclined to return to the sometimes hard world of the hospitality industry (long hours, low pay, stroppy customers). They were turning away casual diners, so as to ease the pressure on their few remaining staff. While the manager appreciated having a full hotel, he knew that without more staff he was ultimately likely to lose more staff due to the relentless pressure. The developing situation was supply problems. He was already struggling with intermittent beer and wine supplies, but said that some food items and housekeeping materials would now be missing from deliveries.

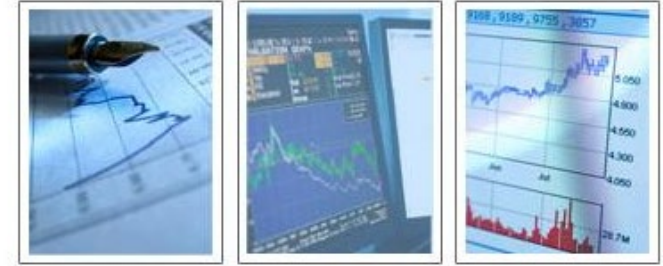
There are some fundamental issues here that need to be fixed before the hospitality industry can return to anything like normal. There is a similarity between this and what we were hearing from some of infrastructure managers concerning renewable energy. Prices and demand may have recovered, but without wind and without sunshine, they cannot benefit. Similarly for the hospitality industry demand is there and people will reluctantly pay the price, but at the moment they can’t take advantage of that. Until they can, this area of the economy will see a stunted recovery at best.

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P O R T F O L I O  
E V A L U A T I O N  
L I M I T E D

Quarterly Risk and Return Analysis  
Total Fund

Worcestershire County Council Pension Fund



Specialists in Investment Risk and Return Evaluation

Period ending 30<sup>th</sup> June 2021



Specialists in Investment Risk and Return Evaluation

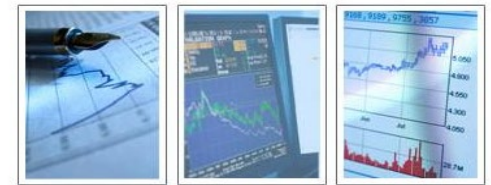


## Contents

### **Worcestershire County Council Pension Fund Total Fund**

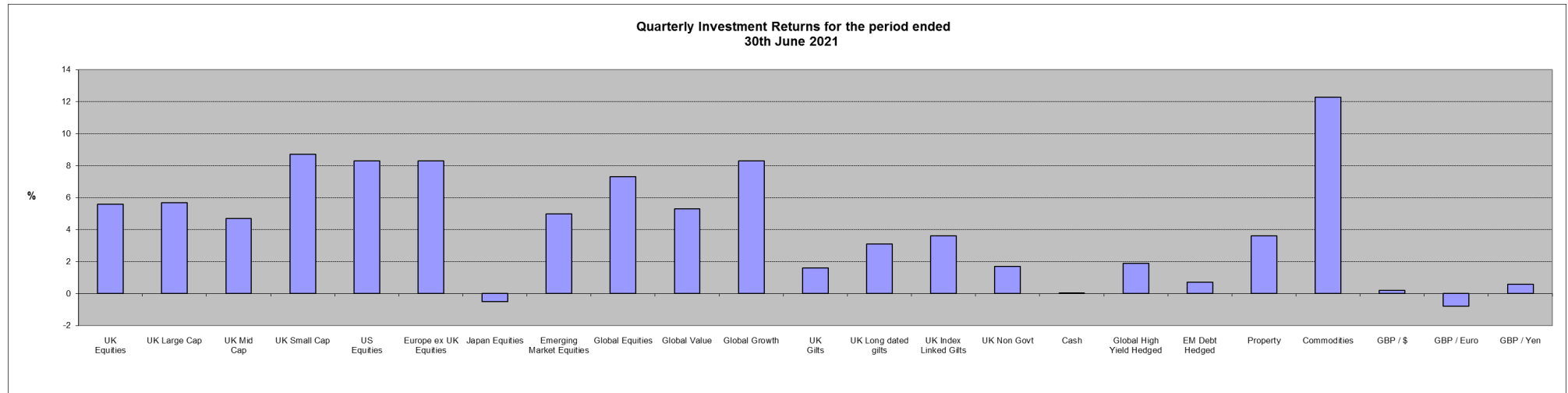
- Portfolio Evaluation Market Commentary 01
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## Portfolio Evaluation Ltd Market Commentary Q2 2021 (Sterling)

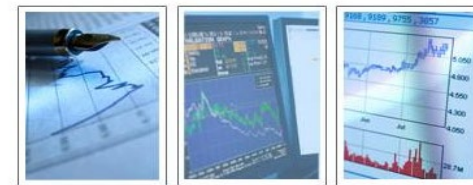
Quarter 2 has witnessed markets continuing to perform strongly; in fact excluding Japanese equities all asset classes have had positive returns. Looking at the year results we can also see strong market returns with the exception of UK government bonds.



Much of the rise in markets can be attributed towards relief that the problems caused by COVID-19 have receded. This has been largely due to the rollout of vaccines, large scale fiscal and central bank responses that have led many companies and individuals to have had limited impact on finances, and that the role of government and politicians has altered as they have become more led by interventionist demand management. The global economy is now witnessing a broad based economic recovery with many commentators now expecting a stronger recovery than initially forecast. Both people and companies have adapted to new circumstances; in fact many economic sectors have already rebounded strongly. Among the largest economies China, the US, Canada have been the quickest to recover, this is a reflection of the amount and speed of economic support. Global growth is now occurring in Europe as monetary support policies are confirmed and extended. Going forwards markets remain optimistic as vaccine rollouts ease worries, economies are reopening coupled with significant demand from people and companies, saving buffers are high and people want to spend money, we are also continuing to see supportive monetary and fiscal policy. High levels of global growth are expected to continue into 2022 after which growth should normalise. This has led market commentators to expect that many will remain over weight equities in 2021.

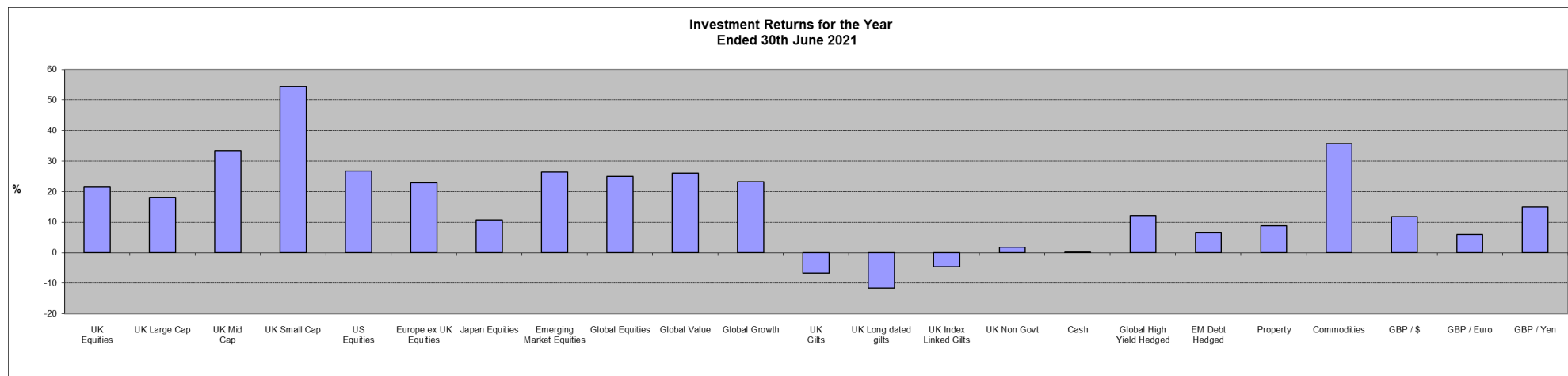
As always there are risks to the upside. These include a number of themes. In respect of COVID-19, the impact of variants, and vaccine efficacy, the lack of vaccine rollout in many emerging markets and the resistance of some demographic groups to vaccine uptake. Also at some time we must all start paying for government largesse in





respect of COVID-19, this will probably be achieved by higher levels of taxation. Higher Inflation which although viewed as under control and the increase viewed as temporary, does remain a potential problem as monetary policy is expected to remain loose for the foreseeable future. Additionally geo political risk is larger now than in recent previous years. The 'imperfections' in the Brexit deal still need to be addressed.

Finally last but not least we are approaching a tipping point in respect of global warming, the increase in natural problems be they drought, high temperatures, flooding or fires etc. is causing problems on a global scale. The lack of solutions is worrying and apart from the big polluters not having a clear path to clean energy the lack of agreement between world leaders is concerning. After the fiasco of not keeping to the UNFCC agreements made at the 2015 Paris (COP 21) conference we can only hope that the UNCCC (COP 26) to be held in Glasgow in 2021 will be more successful. Given the publicly stated policies and planning status of many states perhaps we should not expect too much. As always it may well come down to tax, for example both Europe and the US are contemplating carbon taxes on imports.



Risk within asset classes and multi asset class portfolios has increased significantly over the year. Correlations between asset classes increased up to June 2020 resulting in additional increases in risk for multi asset class funds but reduced a little in the autumn but increased again towards the end of the year and have remained stable in 2021 so far. This is not unusual in these types of circumstances. However we would expect a decrease in volatility and correlations later in 2021 as the markets and the world stabilise but they will remain higher than the levels seen in 2019.

**For further information** If you would like further information about the topics contained in this newsletter or would like to discuss your investment performance requirements please contact Nick Kent or Deborah Barlow Tel: +44 (0)1937 841434 (e-mail: [nick.kent@portfolioevaluation.net](mailto:nick.kent@portfolioevaluation.net)) or visit our website at [www.portfolioevaluation.net](http://www.portfolioevaluation.net). Please note that all numbers, comments and ideas contained in this document are for information purposes only and as such are not investment advice in any form. Please remember that past performance is not a guide to future performance.

## Worcestershire County Council Pension Fund - Commentary

### Period ending 30<sup>th</sup> June 2021

**QUARTERLY SUMMARY:**      **Worcestershire County Council Pension Fund**    **Return: 4.4%**                      **Benchmark Return: 5.1%**                      **Excess Return: -0.6%**

- The Fund and its benchmark have both generated positive returns, but the Fund has underperformed its benchmark by -0.6% excess. The underperformance has been generated by asset allocation, namely from the Fund being significantly underweight the high returning L&G UK equity assets (part of the assets allocated to this pool are used for the collateral of the EPO strategy and are currently held in bonds). The options overlay programme has lowered the Fund return over the quarter slightly; the EPO exposure to equities is high at the moment resulting in the non-hedged returns and hedged returns being similar (it has performed as expected). In terms of Total Fund performance the underperforming Active equity pool was also a drag on excess performance.
- Equity assets were the highest return generators over the quarter and excluding the overlay generated a return of 5.0%. Within equities the active equities were the lowest return generators; the Nomura Fund was the lowest at -0.1% whilst the LGPSC EMM Fund had a return of 3.3%, both underperformed their benchmarks. Relative to their respective benchmarks the passive portfolios generated 7.4% return and relative to their respective benchmarks all performed as expected. The Alternative equity pool was the strongest performer due to the return of 10.7% from The MSCI Quality portfolio.
- Within bonds, the LGPS Central Corporate Bond Fund generated a positive return of 2.2 % performing broadly in line with its benchmark. However, the Mid-Market Credit Fund generated a negative return of -0.2% and has underperformed its positive returning benchmark by -1.8% excess. Property generated a positive return of 2.4% over the quarter but has underperformed by -0.7% excess. Infrastructure had a return of 2.7% and outperformed by 0.1%.
- The latest valuation data supplied by VENN, EQT, Walton Street I, Walton Street II, Green- UK Infrastructure Fund, Invesco- UK Property Fund, Stonepeak-Infrastructure Core Fund, and BSIF Housing and Infrastructure was for period ending March 2021.

**YEAR SUMMARY:**      **Worcestershire County Council Pension Fund**    **Return: 15.0%**                      **Benchmark Return: 17.2%**                      **Excess Return: -2.3%**

- The Fund and its benchmark have both generated high positive returns, but the Fund has underperformed its benchmark by -2.3% excess. The underperformance has been partly generated by equity assets and partly by the performance of the property and infrastructure assets that significantly underperformed their benchmarks (please note that these assets together with the EQT Mid-Market credit Fund, which also underperformed, have benchmarks that are structured towards long term returns but that will generate significant out / underperformance results over the short term). It should also be noted that the Fund has started funding a number of alternative asset funds in recent years and as such would not expect to be generating significant return gains yet.

- The underperformance has been partly generated by the EPO strategy, this is partly due to the Fund being significantly underweight the high returning L&G UK equity assets; part of the assets allocated to this pool are used for the collateral of the EPO strategy and are currently held in bonds (and assist the EPO as they allow for the leverage provided by the derivatives and therefore should be considered as part of the EPO strategy). The options overlay programme has lowered the Fund return over the year but has performed as expected (i.e. when equity markets rise as they have done over the current quarter, it reduces return whilst in negative markets it preserves return – this reduces the volatility of the Fund). It should be noted that the bond collateral part of the strategy did perform in line with a short dated bond index; however within the structure of the Fund no benchmark is assigned to these assets. There has been discussion about altering the equity asset allocation and place the bond collateral fund outside of the equity weighting with the relevant change in UK equities; if this had happened this year the benchmark return would have been lower.
- Equity assets were the highest return generators over the year and excluding the overlay generated a return of nearly 20%. Within equities the active equity pool had a return of 20.8% underperforming their benchmark by -1.2%; Nomura Fund had a return of 24.1% and the LGPSC EMM Fund had a return of 23.3%, both underperformed their benchmarks. Relative to their respective benchmarks the passive portfolios generated 24.1% return and relative to their respective benchmarks all performed as expected. The Alternative Equity pool was also a strong performer achieving a return of 18.5%
- Within bonds, the LGPS Central Corporate Bond Fund generated a positive return of 3.5% outperforming its benchmark by 0.6%. However, the Mid-Market Credit Fund generated a return of 5.9% and has underperformed its positive returning benchmark by -0.6% excess (there is an element of short term benchmark mismatch). Property generated a negative return of -0.2% and has underperformed by -8.6% excess. Infrastructure had a return of 5% and underperformed by -3.6%.

**THREE YEAR SUMMARY: Worcestershire County Council Pension Fund    Return: 7.6% p.a.    Benchmark Return: 7.2% p.a.    Excess Return: 0.5% p.a.**

- Over the three-year period, the Fund has generated a positive return of 7.6% and has outperformed the benchmark by 0.5%p.a. It should be noted that there has been a significant number of new mandates established in that timeline especially in the property, infrastructure and bond asset classes and the EMM equity portfolio has been restructured.
- The equity protection overlay program has reduced the Fund return over the three year period by 0.3% per annum; however given the increase in equity markets this is not surprising over this time period. It should also be noted that the EPO strategy has lowered the volatility of the Fund.
- Equities (excl the EPO) have underperformed their benchmark over the three years partly because of the Active Equity Pool and the Alternative Equity Pool.
- The Total Risk and Active risk are consistent with a typical multi asset class fund that uses both passive and active strategies.

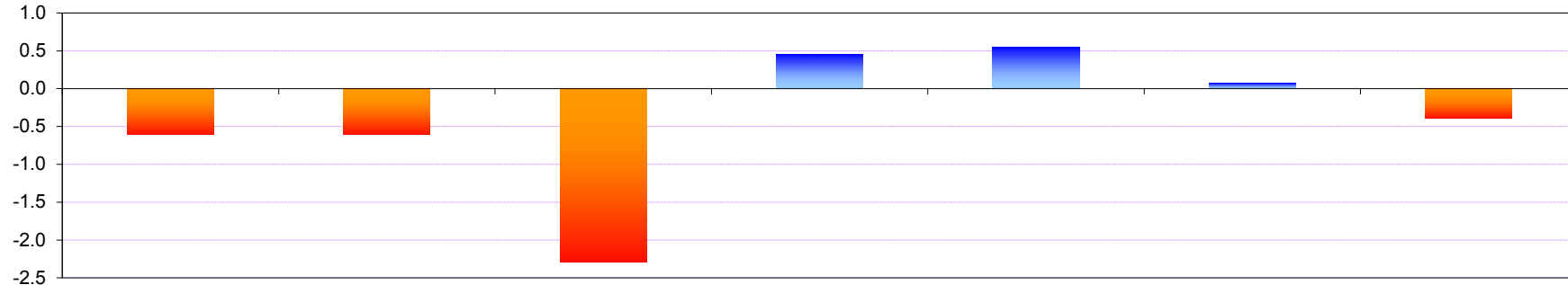
## Total Fund Overview

### Worcestershire CC Pension Fund

Report Period: Quarter Ending June 2021



#### Excess Return Analysis (%)

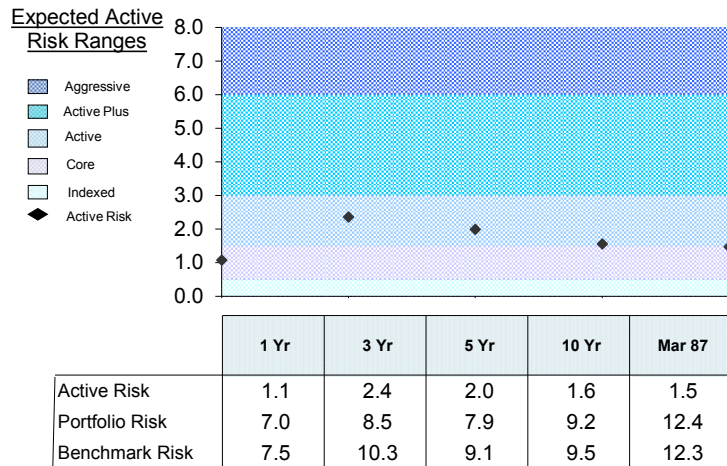


	QTR	Fin YTD	1 Yr	3 Yr	5 Yr	10Yr	Since Mar 87 (p.a.)
Excess Return	-0.6	-0.6	-2.3	0.5	0.5	0.1	-0.4
Portfolio Return	4.4	4.4	15.0	7.6	9.9	8.4	8.1
Benchmark Return	5.1	5.1	17.2	7.2	9.4	8.3	8.5

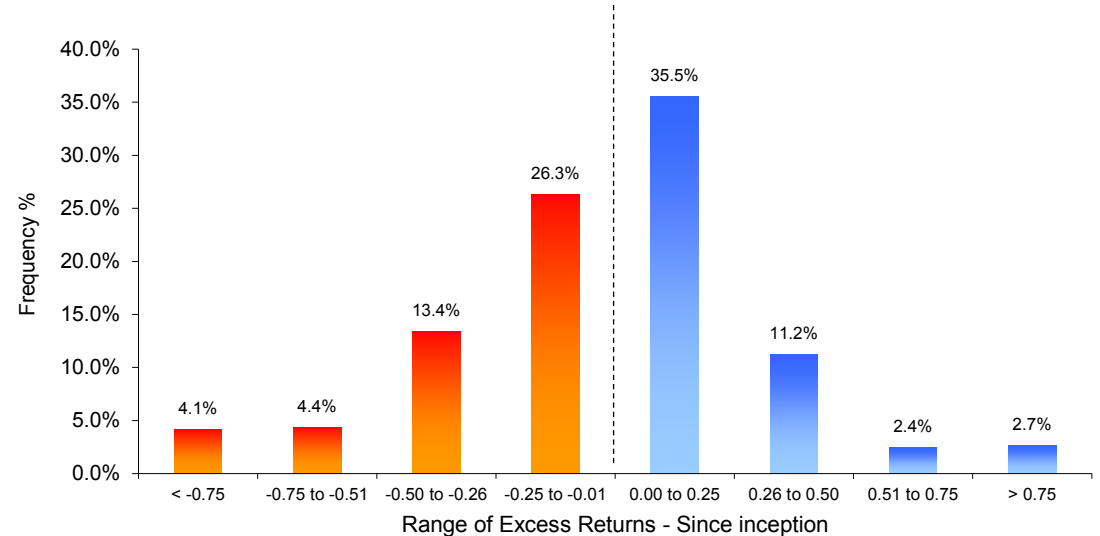
All returns for periods in excess of 1 year are annualised. The portfolio return is net. □

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#### Ex-Post Active Risk Analysis (%)



#### Excess Return Consistency Analysis



**Ex-Post Active Risk** measures the volatility of the actual excess returns achieved by the Portfolio/Fund.

**Excess Return Consistency Analysis** measures the frequency of the Portfolio/Fund's outperformance (Blue) and underperformance (Red) versus its benchmark, calculated using monthly (or quarterly if indicated) returns since inception.

**Attribution to Total Fund Excess Return Analysis  
Worcestershire County Council Pension Fund  
for Quarter Ended 30th June 2021**

Market Value: £3.4bn



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The Returns Summary details the Portfolio, Benchmark and Excess Returns. The Excess Returns are plotted, the Asset Allocation Summary details the weights held by the portfolio and benchmark in each asset class/manager. The green plots are the over/underweight exposures of the Fund (v Fund benchmark) at the beginning and end of the period. The Attribution to Excess Return, identifies how each asset class/manager has contributed to the overall excess return of the Total Fund. It is broken down into Asset Allocation (how successful the decision to over/underweight each asset class was) and then into Stock Selection (how well each manager's decisions have performed). The Asset Allocation plus the Stock Selection excess returns are all additive and equal the Total Excess Return of the Fund.



# Attribution to Total Fund Excess Return Analysis Worcestershire County Council Pension Fund for Year Ended 30th June 2021



Market Value: £3.4bn

	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	Total Active	Far East Dev - Nomura	EMM - LGPSC	Total Passive	UK - L&G	North American - L&G	Europe ex UK - L&G	Total Alts	FTSE RAFI DEV - L&G	MSCI Wid Min Vol - L&G	MSCI Wid Qual - L&G	R&M EPO	R&M EPO ex Overlay	LGPSC Corp Bond	Bridgepoint Direct Lending II	Bridgepoint Direct Lending III	Total Property	Total Infra
<b>Returns Summary (%)</b>																						
Excess Return	-2.3	-2.4	-2.9	-2.8	-1.2	-0.5	-1.2	0.6	0.1	0.0	-0.3	-1.1	-0.1	0.1	-0.1	-13.2	-0.2	0.6	5.4	0.0	-8.6	-3.6
Portfolio Return	15.0	15.9	18.3	19.8	20.8	18.7	23.3	24.1	21.5	27.3	22.7	18.5	31.1	8.0	23.3	-13.2	-0.2	3.5	11.8	0.0	-0.2	5.0
Benchmark Return	17.2	18.4	21.2	22.6	22.0	19.2	24.5	23.5	21.5	27.3	23.0	19.6	31.1	8.0	23.4	0.0	0.0	2.9	6.5	0.0	8.5	8.6
<b>Asset Allocation Summary (%)</b>																						
Portfolio Start	100.0	100.0	77.4	77.3	24.6	13.1	11.5	30.0	11.7	11.9	6.3	15.4	5.3	4.5	5.6	7.4	7.4	5.4	1.2	0.0	5.5	10.5
Portfolio End	100.0	99.8	79.0	78.8	25.5	13.4	12.1	31.9	12.2	13.0	6.6	15.6	3.5	5.8	6.3	6.0	5.8	4.8	1.3	0.0	4.7	10.3
Benchmark Start	100.0	100.0	74.0	74.0	24.0	12.0	12.0	40.0	19.5	11.0	9.5	10.0	3.3	3.3	3.3	0.0	0.0	8.1	1.9	0.0	5.5	10.5
Benchmark End	100.0	100.0	75.0	75.0	24.0	12.0	12.0	41.0	20.5	11.0	9.5	10.0	2.0	4.0	4.0	0.0	0.0	7.9	2.1	0.0	4.7	10.3
<b>Attribution to Excess Return (%)</b>																						
Excess Return	-2.3	-2.4	-1.9	-2.0	-0.3	-0.1	-0.2	-0.5	-0.4	0.1	-0.2	-0.1	0.0	-0.2	0.1	-1.0	-1.2	0.4	0.0	0.0	-0.5	-0.4
Asset Allocation	-1.2	-1.3	-1.6	-1.7	-0.1	0.0	0.0	-0.5	-0.4	0.1	-0.2	-0.1	0.0	-0.2	0.1	-1.0	-1.1	0.4	0.1	0.0	0.0	0.0
Stock Selection	-1.1	-1.1	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-0.4

# Attribution to Total Fund Excess Return Analysis - Annualised Worcestershire County Council Pension Fund for 3 Year Period Ended 30th June 2021

Market Value: £3.4bn

	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	Total Active	Far East Dev - Nomura	EMM - LGPSC	EMM - JPM	EMM - Schroder	Total Passive	UK - L&G	North American - L&G	Europe ex UK - L&G	Total Alts	FTSE RAFI DEV - L&G	MSCI Wid Min Vol - L&G	MSCI Wid Qual - L&G	R&M EPO	R&M EPO ex Overlay	LGPSC Corp Bond	Corp Bond - JPM	Bridgepoint Direct Lending II	Bridgepoint Direct Lending III	Total Property	Total Infra	
<b>Returns Summary (%)</b>																										
Excess Return	0.5	-0.6	1.1	-0.2	-0.5	0.8	-0.7	-2.4	-0.3	1.5	0.1	0.1	-0.2	-0.6	0.0	0.1	-0.1	-1.4	-0.6	1.6	0.5	4.4	0.0	-5.4	-3.1	
Portfolio Return	7.6	7.5	8.5	8.5	8.5	8.1	9.4	5.9	8.0	9.3	2.1	17.3	10.0	10.9	9.1	7.6	18.7	-1.4	-0.6	14.2	7.2	10.9	0.0	2.2	5.7	
Benchmark Return	7.2	8.2	7.4	8.7	8.9	7.3	10.1	8.3	8.3	7.8	2.0	17.2	10.2	11.5	9.1	7.5	18.8	0.0	0.0	12.6	6.7	6.5	0.0	7.7	8.8	
<b>Asset Allocation Summary (%)</b>																										
Portfolio Start	100.0	100.0	85.7	85.7	28.3	15.7	0.0	5.9	6.7	34.1	15.4	11.5	7.1	14.8	5.9	4.3	4.6	8.4	8.4	0.0	5.1	0.2	0.0	4.8	4.3	
Portfolio End	100.0	99.8	79.0	78.8	25.5	13.4	12.1	0.0	0.0	31.9	12.2	13.0	6.6	15.6	3.5	5.8	6.3	6.0	5.8	4.8	0.0	1.3	0.0	4.7	10.3	
Benchmark Start	100.0	100.0	80.9	80.9	24.0	12.0	0.0	6.0	6.0	46.9	26.4	11.0	9.5	10.0	3.3	3.3	3.3	0.0	0.0	0.0	9.7	0.3	0.0	4.8	4.3	
Benchmark End	100.0	100.0	75.0	75.0	24.0	12.0	12.0	0.0	0.0	41.0	20.5	11.0	9.5	10.0	2.0	4.0	4.0	0.0	0.0	7.9	0.0	2.1	0.0	4.7	10.3	
<b>Attribution to Excess Return (%)</b>																										
Excess Return	0.5	-0.6	0.9	-0.2	-0.2	0.1	-0.2	-0.1	0.0	0.4	0.5	0.1	-0.2	0.2	0.0	0.0	0.2	0.5	-0.6	0.2	-0.1	0.0	0.0	-0.4	-0.2	
<b>Asset Allocation</b>																										
Asset Allocation	-0.2	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.4	0.5	0.1	-0.1	0.1	-0.1	0.0	0.2	-0.6	-0.5	0.2	-0.1	0.0	0.0	0.0	0.0	
<b>Stock Selection</b>																										
Stock Selection	0.6	-0.6	1.1	0.0	0.0	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	1.1	-0.1	0.0	0.0	0.0	0.0	-0.4	-0.2	



Total Fund Reconciliation Analysis  
Worcestershire County Council Pension Fund  
for Quarter Ended 30th June 2021



Market Value: £3.4bn

	31st March 2021		Net Investment (£000s)	Total Income (£000s)	Total Gain/Loss (£000s)	30th June 2021	
	Market Val (£000s)	Exposure (%)				Market Val (£000s)	Exposure (%)
<b>Total Equity Fund</b>	<b>2,577,841</b>	<b>78.5</b>	<b>0</b>	<b>0</b>	<b>129,078</b>	<b>2,706,920</b>	<b>79.0</b>
<b>Total Equity Fund ex Overlay</b>	<b>2,573,596</b>	<b>78.3</b>	<b>0</b>	<b>0</b>	<b>126,208</b>	<b>2,699,804</b>	<b>78.8</b>
<i>Total Active Equity Fund</i>	861,202	26.2	0	0	12,285	873,487	25.5
Far East Developed Fund - Nomura	458,821	14.0	0	0	-1,033	457,788	13.4
Emerging Markets Fund - LGPSC	402,381	12.2	0	0	13,318	415,699	12.1
<i>Total Passive Equity Fund</i>	1,018,051	31.0	0	0	75,068	1,093,119	31.9
UK Equity Fund - L&G	397,217	12.1	0	0	22,285	419,502	12.2
North American Equity Fund- L&G	410,931	12.5	0	0	35,711	446,642	13.0
Europe ex UK Equity Fund- L&G	209,904	6.4	0	0	17,072	226,975	6.6
<i>Total Alternatives Fund</i>	497,407	15.1	0	0	37,855	535,261	15.6
FTSE RAFI DEV Fund - L&G	113,135	3.4	0	0	6,219	119,355	3.5
MSCI World Min Vol TR Fund - L&G	188,998	5.8	0	0	10,830	199,829	5.8
MSCI World Quality TR Fund - L&G	195,273	5.9	0	0	20,805	216,078	6.3
<i>Equity Protection - River &amp; Mercantile</i>	201,181	6.1	0	0	3,870	205,052	6.0
<i>Equity Protection - River &amp; Mercantile ex Overlay</i>	196,936	6.0	0	0	1,000	197,936	5.8
<b>LGPS Central Corporate Bond Fund</b>	<b>159,653</b>	<b>4.9</b>	<b>0</b>	<b>0</b>	<b>3,583</b>	<b>163,236</b>	<b>4.8</b>
<b>Bridgepoint Direct Lending II</b>	<b>44,878</b>	<b>1.4</b>	<b>0</b>	<b>0</b>	<b>-186</b>	<b>44,692</b>	<b>1.3</b>
<b>Bridgepoint Direct Lending III</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>
<b>Total Property Fund</b>	<b>154,840</b>	<b>4.7</b>	<b>3,195</b>	<b>669</b>	<b>2,210</b>	<b>160,245</b>	<b>4.7</b>
<i>Total UK Property Fund</i>	55,412	1.7	-1,149	0	202	54,466	1.6
UK Property Fund - Invesco	41,523	1.3	0	0	77	41,600	1.2
UK Property Fund - VENN	13,889	0.4	-1,149	0	126	12,866	0.4
US Property Fund- Walton Street	4,485	0.1	0	0	27	4,511	0.1
US Property Fund- Walton Street II	5,416	0.2	-346	0	33	5,103	0.1
Euro Property Fund- Invesco	62,690	1.9	0	452	2,761	65,451	1.9
Euro Property Fund-Venn Propert Debt Fund II	7,735	0.2	4,690	0	-1,031	11,395	0.3
Property Fund- AEW	19,102	0.6	0	218	216	19,318	0.6
<b>Total Infrastructure Fund</b>	<b>348,150</b>	<b>10.6</b>	<b>-3,460</b>	<b>1,080</b>	<b>8,192</b>	<b>352,882</b>	<b>10.3</b>
UK Infrastructure Fund - Green	42,044	1.3	-1,857	0	1,932	42,119	1.2
BSIF Housing and Infrastrucure	13,872	0.4	0	0	22	13,894	0.4
UK Infrastructure Core Fund - Hermes	58,380	1.8	0	0	-1,235	57,144	1.7
UK Infrastructure Fund - Hermes II	46,800	1.4	0	0	0	46,800	1.4
Infrastructure Core Fund - Stonepeak	83,454	2.5	-1,602	0	6,481	88,333	2.6
First Sentier Fund	103,600	3.2	0	1,080	992	104,593	3.1
<b>Cash Fund</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>
<b>Worcestershire CC Total Fund ex Overlay</b>	<b>3,281,117</b>	<b>99.9</b>	<b>-264</b>	<b>1,749</b>	<b>140,007</b>	<b>3,420,860</b>	<b>99.8</b>
<b>Worcestershire CC Total Fund</b>	<b>3,285,362</b>	<b>100.0</b>	<b>-264</b>	<b>1,749</b>	<b>142,877</b>	<b>3,427,975</b>	<b>100.0</b>

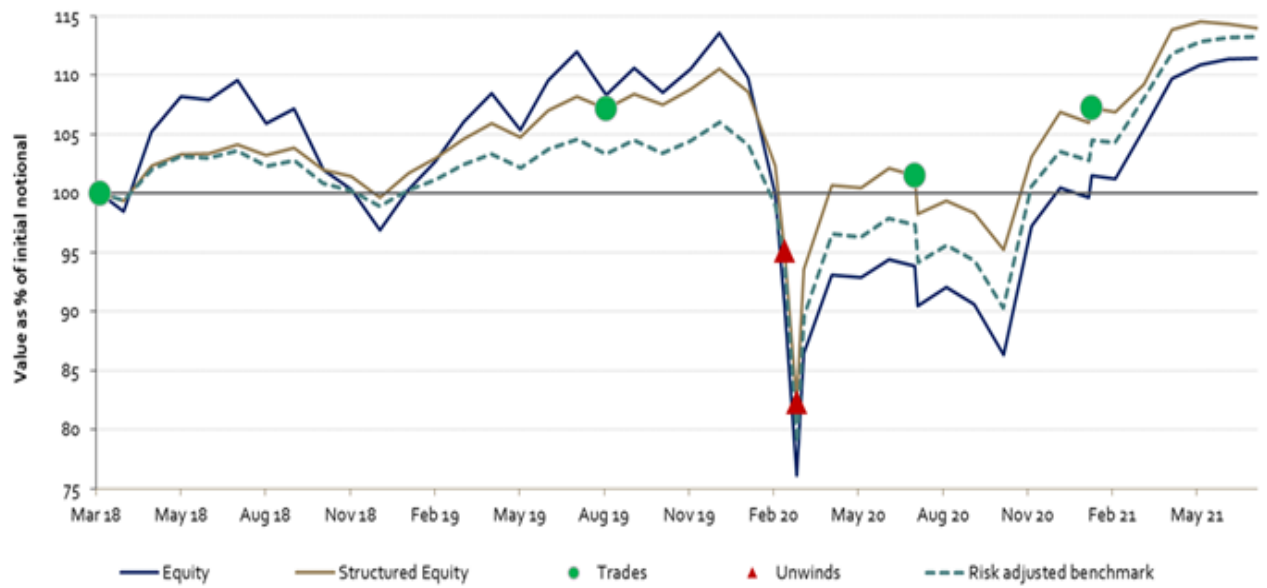
Note: Cashflow into cash reflects sum of portfolio contributions minus net investments. It is assumed that cash for the Fund is held outside of the invested assets and is therefore withdrawn from the Total Fund

## Worcestershire Pension Fund Equity Protection Historical Performance since inception February 2018

UK FTSE100 Strategy

UKX

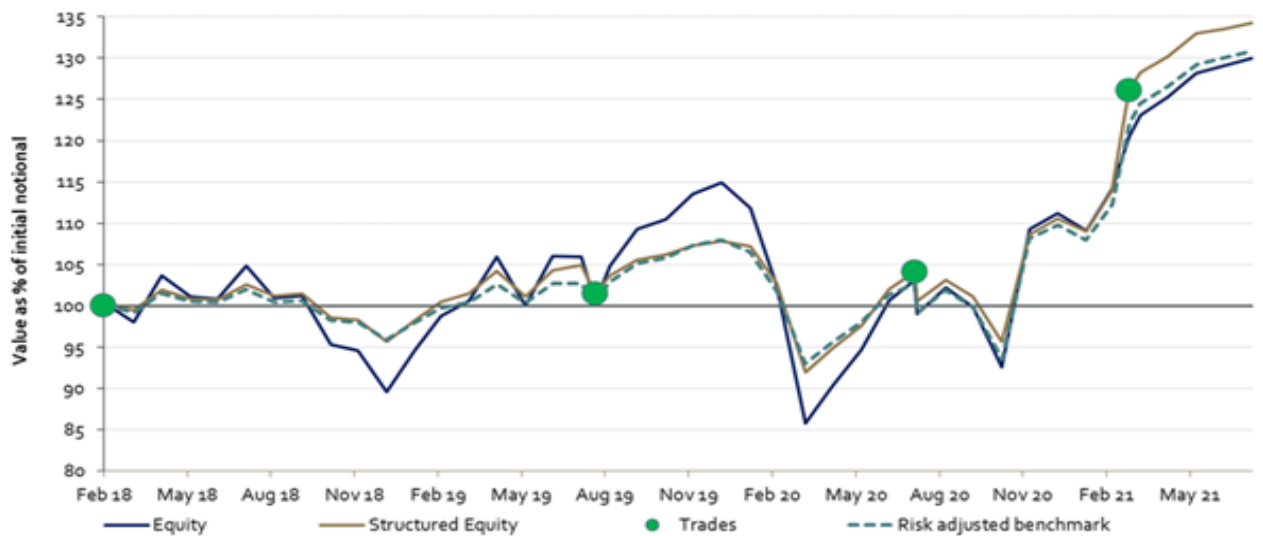
Performance at end of July 21	Equity	Structured Equity
since inception	11.43%	13.99%
over the last 12 months	23.21%	15.99%
over the last 3 months	1.55%	0.13%



Europe Eurostoxx50 Strategy

SXSE

Performance at end of July 21	Equity	Structured Equity
since inception	30.00%	34.27%
over the last 12 months	31.23%	33.45%
over the last 3 months	3.74%	3.15%

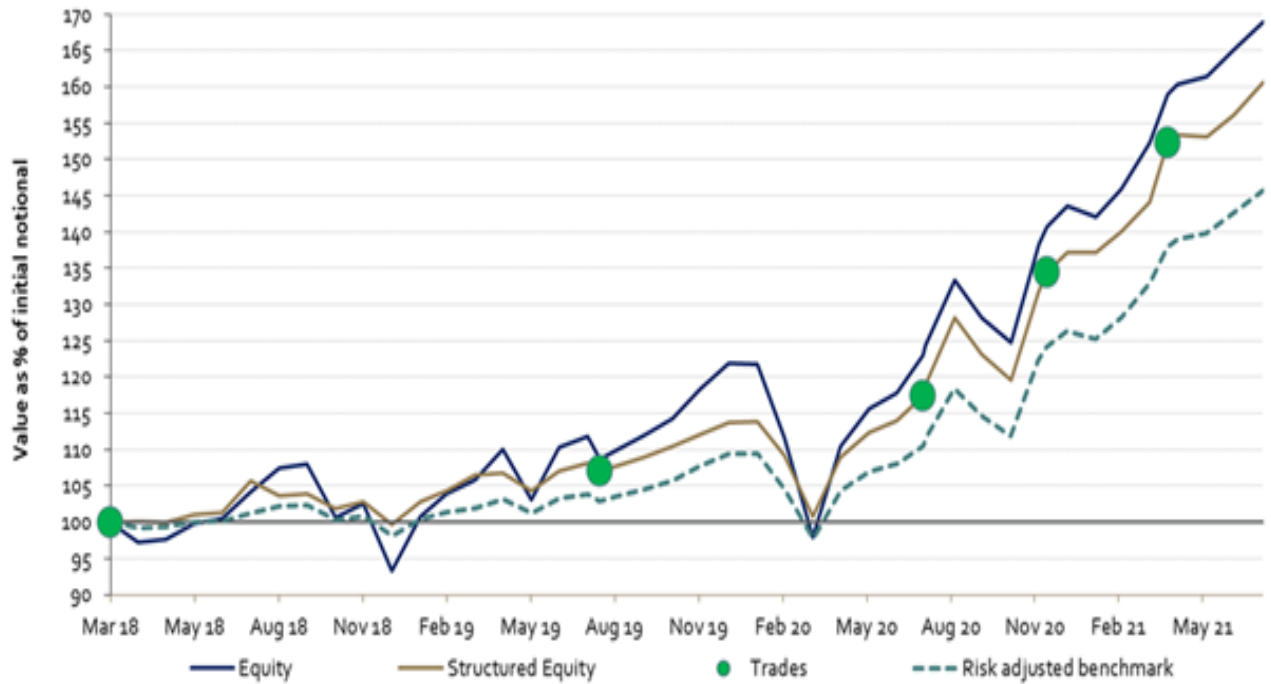




# US S&P500 Strategy

PX

Performance at end of July 21	Equity	Structured Equity
since inception	68.98%	60.61%
over the last 12 months	35.82%	35.11%
over the last 3 months	5.38%	4.72%





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**Quarterly  
Engagement  
Report**

April-June  
2021



**Shell, Exxon,  
ArcelorMittal,  
National Grid,  
Tesco,  
Hanwha**



## CLIMATE EMERGENCY



# Shell Pushed to the Brink on Climate

**Objective:** LAPFF has engaged with Shell for many years, including as a participant in the CA100+ initiative. The objective has been to see a clear and credible business transition path towards net zero by 2050, with appropriate reductions in all emissions prior to 2050 in order to reach that goal.

**Achieved:** LAPFF is a member of CA100+ and the Shell engagement group, and along with several other members was concerned about the commitment Shell had to becoming net zero. The two lead engagers entered into a non-disclosure agreement with the company, therefore privy to Shell's approach whilst unable to inform other members of the group until after the public statements in support were made. Shell's approach was released in February 2021. LAPFF had however analysed what was said perhaps more fully and sceptically than others,

and LAPFF recommended voting against Shell's climate transition resolution and for the resolution of campaign group Follow This.

The Shell resolution at the 18 May AGM passed with 11% opposition, but 30% of voting shareholders voted in favour of the Follow This resolution. However, on 26 May a Dutch Court concluded that Shell's plans were inadequate on each of the points that LAPFF had highlighted. These were:

- that the small print showed the proposal was not incorporated into operating plans or budgets and that these things would only occur when Shell's customers had made adjustments;
- that the proposals for Carbon Capture and Storage and Nature Based solutions were ill-defined (as well as not in budgets or operating plans);

- that emissions were based on discredited "intensity" measures rather than absolute emissions; and
- that there were no targets for emissions reduction by 2030.

In consequence the Court has required that Shell reduce its global absolute emissions by 45% by 2030 with reference to 2019 emissions in order to begin to meet Paris goals.

**In Progress:** The company has indicated it intends to appeal the judgment. The current plan from LAPFF is to engage with the incoming chair, Sir Andrew Mackenzie. A key issue for discussion is why LAPFF and the Courts were able to draw the same conclusion despite a considerable public relations effort to push the opposite. The key lesson from Shell is that LAPFF engages as part owners of the company, not default supporters of incumbent management.



# CLIMATE EMERGENCY

**Media coverage** - [LAPFF urges member funds to oppose Shell climate strategy - Pensions Age Magazine](#)  
[UK public pension forum recommends vote against Shell on climate - News, IPE Pension Forum LAPFF Recommends Members Vote Against Shell Climate Plan - ESG Today](#)

**UPDATE 2-Shell climate plan should be opposed at AGM -funds group - Reuters**  
[UK pensions group recommends members oppose Shell's climate strategy at AGM - Nasdaq](#)  
[Shell climate plan should be opposed at AGM - funds group - Euronews](#)  
[Shell Climate Plan Should Be Opposed At AGM Says Funds Group - Checkout](#)

## Exxon Board Overhauled

**Objective:** Exxon has for years been a poster child for climate change denial, despite evidence that extensive Exxon research had identified the harmful effects of climate change decades ago. Consequently, investors – including LAPFF – have voted for a number of years now to overhaul the Exxon board.

**Achieved:** The requests from LAPFF to meet with members of the Exxon board were consistently fobbed off, including as recently as the spring of this year. In light of these refusals, it was not a difficult decision to issue advice to back a slate of four directors proposed by hedge fund Engine No.1 and vote against the election of other members.

The first signs that things were not going the way the company would like was an unscheduled one and a half hour gap in the company's AGM on 26 May. At the time of writing, the votes have still not been fully counted and announced. However, Exxon has stated that three of the Engine No. 1 candidates have been elected to the board and three of the board nominated candidates were not.

**In Progress:** In light of this tremendous result of shareholder activism, LAPFF hopes to be able to engage with new board members.

## Say on Climate Ramps Up

**Objective:** LAPFF has been speaking with Sir Chris Hohn, of The Children's Investment Fund Management, who came up with an idea to press companies to put their climate plans and strategies to vote



Sir Chris Hohn, of The Children's Investment Fund Management,

at AGMs in much the way that say on pay votes take place currently. The goal of this initiative is to allow shareholders the opportunity to hold all companies more accountable for their carbon management activities, not just those with high carbon emissions.

**Achieved:** While there have been mixed views on this initiative, there have been a number of positive outcomes from these votes. For example, LAPFF was able to use Shell's say on climate resolution to express significant concerns about the company's climate plans. It is also putting pressure on companies that did not bring such resolutions to their AGMs this year to do so next year. Anglo American announced at its 2021 AGM that it will bring an advisory resolution on its climate plans to the 2022 AGM, joining a number of other companies making this commitment. Finally, this initiative is driving clarity for investors on how to assess company climate initiatives. Several organisations have come together to rate company plans on a number of factors, such as targets and strategy, in particular the Climate Action 100+ benchmark. These analyses help investors to understand and evaluate company climate plans in a systematic and strategic manner.

**In Progress:** Some commentators have expressed concern that the Say on Climate initiative misses the mark and deflects attention from real action, such as voting out board directors. However, we have seen this year with the Exxon board debacle that investors can do both and indeed the Say on Climate initiative emphasizes the fact that 'annual shareholder votes on climate transition action plans are complementary to other votes

on critical climate matters, such as disclosure, audit and other board votes. As this initiative develops and investors gain a better sense of what to ask of companies, it seems likely that say on climate resolutions will be an important tool in the arsenal of responsible investors seeking to press companies in the right direction on climate.

## National Grid

**Objective:** A meeting was held with National Grid representatives as part of the ESG roadshow the company is undertaking prior to the July AGM. LAPFF Vice Chair Cllr Rob Chapman, together with other lead CA100+ investors, met with Steve Thompson, Environmental Sustainability Manager and Nick Ashworth Director of Investor Relations. The primary objective for LAPFF was to assess company progress against the CA100+ benchmark in anticipation of questions to put to the chair prior to the 2021 AGM and the resolution for an advisory vote on the group net zero transition plan, ie. a 'say on climate' vote.

**Achieved:** The company has now set a new Scope 3 target to reduce carbon emissions 37.5% below the 1990 baseline by 2034, up from the previous target of 20% by 2030. This target is aligned with the science-based targets initiative. Scope 3 emissions are by far the largest proportion of the company's emissions, and, having signed up to the science-based targets initiative, it is welcome to see this amended mid-term concrete target. Although National Grid is buying WPD Group, the UK's largest electricity distribution business, it is still devoting attention to including hydrogen in the domestic gas supply. Concerns were raised about this focus and the potential of locking in stranded assets.

**In Progress:** A meeting is scheduled with the new chair, Paula Rasput Reynolds in July, prior to the late July AGM.

## ArcelorMittal

**Objective:** At a meeting in May, Cllr Chapman led a collaborative investor meeting to ascertain if there was an increased focus on hydrogen as opposed to processes reliant on carbon capture

# COMPANY ENGAGEMENT

and storage (CCS) to ensure all procedures were in place to input questions to the AGM, and to ask if the company would consider a 'say on climate' vote at its 2022 AGM.

**Achieved:** Company representatives indicated there had always been an emphasis of hydrogen, even if wasn't reported in that way and the recent

separation of hydrogen and 'smart carbon' in their reporting showed this. However, more information was provided on ArcelorMittal's electrolysis technology, the company's Siderwin project on which it is collaborating with 11 partners, which shows a lot of potential. The company agreed to liaise on AGM arrangements. Subsequent to this, LAPFF received

correspondence indicating that the CA100+ benchmark would be referenced in their next Climate Action report.

**In Progress:** The second group-wide Climate Action report has been much delayed but is due to be published around the end of June, after which a further meeting will be sought.

## Mining and Human Rights

**Objective:** During the quarter, LAPFF aimed to raise the link between human rights and financial performance at mining companies. The impetus for this angle on the engagement has come from speaking with mining companies for whom law suits and fines spanning many years persist and grow while human rights issues remain unresolved.

BHP and Vale are examples of this problem. BHP is facing protracted litigation in the UK over its role in the Samarco dam collapse in Brazil, and both BHP and Vale are facing fines of one million Reais a day for each day they fail to make adequate and complete reparations to the victims of the Samarco dam collapse. Rio Tinto is also facing threats of billions of dollars in losses at its Oyu Tolgoi operation in Mongolia, in part because of poor relations with affected community members. And Anglo American is facing a class action lawsuit for alleged lead poisoning in Zambia that stems back to 1925, as well as continued operational problems at Cerrejon, its joint venture in Colombia with BHP and Glencore. (Just to note, Anglo American and BHP have recently withdrawn from this joint venture).

**Achieved:** Consequently, LAPFF asked a question at the Rio Tinto AGM about whether the company would be willing to quantify the financial cost of its social failures. Noting the complexities in doing so, it would be helpful for investors to understand some of the financial consequences of mining companies' social failings in order to make clear that they are losing money when companies do not respect human rights and broader social issues in their operations.

LAPFF has also raised this issue with BHP and Vale in engagement meetings. For example, LAPFF issued four questions on behalf of affected community members that asked for the financial



**Some of Rio Tinto's problems**

Top: The lead smelting plant at Kabwe, Zambia, one of the ten most polluted places in the world

Right: Affected communities in the Oyu Tolgoi operation in Mongolia

Below: Protests against its joint venture in Colombia with BHP and Glencore



## COMPANY ENGAGEMENT

implications of various actions Vale has had to take in response to the Mariana and Brumadinho dam collapses in Brazil. These financial implications are important not least because the Renova Foundation, the joint venture between BHP and Vale established to make reparations after the Mariana dam collapse, has spent 13.1 billion Reais to date, according to its website, with very little progress on housing by all accounts. A meeting with the Renova CEO in late June suggested that he was optimistic that house building and resettlement would speed up in the coming months.

In June, LAPFF Chair, Cllr Doug McMurdo, met with Rio Tinto's new CEO, Jakob Stausholm, who replaced Jean-Sebastian Jacques after the company's destruction of the caves at Juukan Gorge in Western Australia last year. The discussion covered Mr. Stausholm's vision for company culture at Rio Tinto post-Juukan Gorge. Cllr McMurdo also met with Anglo American CEO, Mark Cutifani, to ask about Mr. Cutifani's visit to Cerrejon, a site that lost 91 production days during 2020 due to a strike. This meeting followed a webinar with workers at Cerrejon who cited deplorable working conditions at the mine and a webinar last quarter with community members affected by the mine who cited a litany of human rights and environmental violations associated with the project. In fact, these groups have filed a complaint with multiple National Contact Points of the OECD to complain about the conditions stemming from the mine's operations.

Glencore and BHP also faced implications from the OECD complaint regarding Cerrejon, but it has been announced that Anglo American and BHP have sold their shares in the joint venture to Glencore. These sales were announced just days after Cllr McMurdo met with both Glencore Chair, Tony Hayward, and BHP Chair, Ken MacKenzie. Glencore's on-going litigation around compliance was discussed, and Cllr McMurdo once again pressed Mr. MacKenzie on the ESG failings of joint ventures, including the financial implications for investors of these failings.

**In Progress:** LAPFF will continue to drive home the link between social and environmental failures by mining companies and poor or reduced long-term financial returns for investors. It is clear that making this link for companies

and investors alike will take some time, especially given that mining companies just announced unprecedented dividends this AGM season in the midst of Covid and serious on-going human rights and environmental problems, but this issue will come home to roost eventually. The clearest link for both companies and investors on this point appears to be the struggles that companies have with joint ventures, so LAPFF is continuing to push on this point whenever possible. LAPFF will also continue to track developments with house building and resettlements following the Samarco dam collapse.

**Media coverage - 'Devastating': Can Rio's local boss rebuild trust after Juukan disaster? - smh.com.au**  
[Rio Tinto suffers huge revolt over pay - Financial Times - ft.com](#)  
[Investors oppose Rio Tinto pay report over rock shelter outrage - Reuters](#)

### LAPFF Posts Monthly Updates on Samarco Dam Collapse

**Objective:** One area where Brazilian community members have asked LAPFF to push in relation to reparations after the Samarco dam collapse in Brazil is on housing. Only ten houses have been rebuilt in over five and a half years in three of the main areas where houses were destroyed by the sludge released from the dam according to affected community members and the companies.

**Achieved:** Consequently, LAPFF has started publishing monthly updates on its website of the number of houses built over five and a half years after the dam collapse. The Forum contacts BHP and Vale, the companies involved, and the Renova Foundation, the joint venture entity responsible for reparations, and the affected communities for updated information. What quickly became clear was that the company data did not match the community data by a long way, so LAPFF has had to publish each party's data separately.

**In Progress:** LAPFF has now undertaken this exercise for three months, but only three houses have been built in that time according to the companies and the communities. LAPFF will continue to press for these houses to be built well, quickly, and in accordance with the needs and wishes of the affected community members.

### Brazilian Investor and Community Engagements

**Objective:** Another area where community members affected by the Mariana and Brumadinho dam collapses asked LAPFF to help was in connecting them with Brazilian investors who could support their efforts.

**Achieved:** Last year, LAPFF made an initial attempt to reach out to one of the main Brazilian investors in Vale – Previ. However, it came to light that the Vale Chair at the time was also the CEO of Previ, so no progress was made on that front. Subsequently, LAPFF – through Principles for Responsible Investment (PRI) – has connected with JGP Credito, a Brazilian investment firm that has an in-house ESG team. JGP Credito has shown significant interest in engaging with the affected communities. They asked questions from affected community members at Vale's AGM on behalf of LAPFF and joined LAPFF's quarterly meeting with affected community members to get acquainted with community representatives.

LAPFF Chair, Cllr Doug McMurdo, was also invited by PRI to participate in a webinar aimed at Brazilian investors. He was asked to speak on a panel addressing the 'S' in ESG and raised a number of thoughts and issues LAPFF has encountered in its tailings dam engagements in Brazil. A well-known responsible investor in Brazil, Fabio Alperowitch, chaired the panel, and LAPFF has been corresponding with him since. Mr. Alperowitch has met with affected community representatives in Brazil after LAPFF put these two parties in touch and is looking to connect LAPFF with more Brazilian investors who might be interested in this engagement, though he suggests that responsible investors in Brazil are few and far between.

**In Progress:** While affected community members have expressed gratitude for LAPFF's assistance and efforts so far on their behalf, it is clear that local investors engaged on this issue would have better success. This is because they understand not just the local language but the local cultural and political levers to make progress. LAPFF will therefore continue to work on building a coalition of Brazilian investors to help take this engagement forward.



## COMPANY ENGAGEMENT



A “pyramide of shoes” in Paris residents stacked up their old shoes in solidarity with Handicap International’s bid to bring attention for demands on a global ban of anti-personnel mines and cluster bombs.

### Hanwha Drops Cluster Munitions Business

**Objective:** In 2014, LAPFF was approached by some of its members to undertake an engagement with defence companies to ask them to stop producing and selling cluster munitions. This engagement was difficult because these companies were on government defence contracts, so the

prospect of having investors carry the necessary weight to convince them to stop producing and selling cluster munitions seemed slim.

**Achieved:** However, about a year later, Singapore Technologies wrote to LAPFF stating that the company had ceased the production and sale of cluster munitions, in part due to pressure from LAPFF and other investors on this issue. Then, in December 2020, LAPFF began to receive emails from another company with which the Forum had engaged – Hanwha Corporation – stating that company had sold off its cluster munitions business.

The company offered meetings to investors recently, and LAPFF Executive member, Cllr Wilf Flynn, met with Hanwha representatives to discuss the company’s decision to dispose of its cluster munitions business. The possibility of a say on climate resolution to next year’s AGM was also discussed as it transpired that the South Korean government is keen to promote sustainability and green technology.

**In Progress:** LAPFF has sought clarity on whether Hanwha would be willing to put a say on climate resolution to its next AGM.

### Israeli-Palestinian Engagement Continues

**Objective:** LAPFF approached seventeen companies in October 2020 operating in the Occupied Palestinian Territories (the Territories), seeking to raise a number of concerns based on their operations in the Territories. Subsequently, one

meeting was held alongside several email communications.

**Achieved:** LAPFF subsequently wrote in June 2021 to sixteen of the companies initially engaged (Altice Europe N.V. has been taken private since the initial round of engagement) requesting that they undertake human rights impact assessments (HRIAs) related to their operations in the Territories. The hope is that companies operating in the Territories will understand the importance of undertaking these HRIAs, not only to highlight where the companies might be complicit in human rights infringements, but also to provide insight on potential investment risks for shareholders. The Forum also issued voting alerts for Booking Holdings Inc, TripAdvisor Inc and Expedia Group Inc, all of whom have been non-responders thus far in the LAPFF engagement. The voting alerts were issued after LAPFF met with representatives from the UN including the Office of the United Nations High Commissioner for Human Rights (OHCHR) to better understand the methodology used in producing the reports the OHCHR has issued on this issue in previous years. In February 2020, the OHCHR issued a listing of companies that are active in the Territories and that raise human rights concerns. LAPFF has based its company engagement targets on this list.

**In Progress:** The Forum will seek to put pressure on the companies with which it has engaged to undertake these HRIAs and will consider voting alerts on a case-by-case basis.

## AGMs and Voting Alerts

**Objective:** Each year, LAPFF circulates voting alerts and attends AGMs of companies with which the Forum is targeting engagement. Last year and this year have been challenging on one hand and have opened opportunities on the other hand because of Covid. LAPFF has managed to attend several AGMs and to issue a number of voting alerts to date.

**Achieved:** LAPFF has attended AGMs this year for Rio Tinto, Barclays, Anglo American, ArcelorMittal, Shell, and Lyondell Basell so far this year. Here is a taste of a couple:

### AGMS

#### ArcelorMittal

As the company did not have an AGM that was open to shareholders in 2020, LAPFF had pushed for more access this year. The company had put arrangements in place to allow written questions, but in the event, the widespread crash of many internet sites on the day of the AGM meant a hastily arranged zoom session gave far more open and transparent access. Aditya Mittal, the recently appointed chief executive, gave a positive response to providing an accelerated timeline for implementing hydrogen technology, saying that the company

wanted to be a leader and that another announcement on hydrogen developments was imminent. In response to a request for a ‘say on climate’ vote at the 2022 AGM, Bruno LaFont, the lead independent director, noted that they would consult with shareholders on this.

#### Lyondell Basell

The LAPFF chair, Cllr McMurdo, participated in the company AGM, as part of a ‘formal discussion’ scheduled for the AGM by the CA100+ lead investors, which focussed on the company’s performance against the CA100+ benchmark. LAPFF noted the annual forum as the best forum for understanding a broad range

## COMPANY ENGAGEMENT



of shareholder views and asked the company to put its climate strategy to vote at the 2022 AGM and annually at each AGM, in effect for a ‘say on climate’.

### VOTING ALERTS

LAPFF has also issued several voting alerts so far this AGM season. Alerts issued have been for: Rio Tinto, HSBC, Glencore, Barclays, Shell, Facebook, Amazon, Exxon, Expedia, Trip Advisor, Booking Holdings, Mitsubishi UFJ Financial Group, and Delta Airlines. Below is some detail on a few of the alerts:

#### Barclays

LAPFF advised voting in favour of a resolution asking the company to implement a strategy with improved targets to phase out the provision of financial services to fossil fuel projects consistent with the Paris Agreement. A company meeting in April had indicated the criteria for investing in oil sands companies was for these companies to have a less than average carbon emission intensity by 2030, compared to other oil sands companies. The alert flagged up that it would be helpful if Barclay’s next year’s Annual Report disclosed the amount of fossil fuel dependent lending.

#### Mitsubishi UFJ Financial Group

The voting recommendation to members was to vote in favour of a resolution for the company to disclose an annual plan of the business strategy to align financing and investments with the goals of the Paris Agreement. The alert noted that the company continues to provide significant finance to fossil fuel expansion and deforestation, falling far short of Paris alignment.

Media coverage - <https://www.reuters.com/business/sustainable-business/uk-pensions-group-says-backs-climate-resolution-mitsubishi-ufj-2021-06-28/>

#### Delta Airlines

LAPFF advised members to support a resolution for Delta to evaluate and report on how the company’s lobbying activities align with the Paris Agreement and how the company plans to mitigate risks presented by any such misalignment. At the AGM, the resolution passed with a majority vote.

**In Progress:** LAPFF will continue to issue voting alerts and attend AGMs as relevant and possible throughout the year.

### Diversity Engagements and Socio-Economic Task Force

**Objective:** The Hampton-Alexander Review set a target of 33% representation of women on FTSE350 boards and in Executive Committees by the end of 2020. With this target in mind, LAPFF views the financial sector as a laggard in the FTSE100 in terms of gender pay gaps and female representation. LAPFF has also sought to engage on ethnic diversity and approached the City of London Taskforce on Socio Economic Diversity.

**Achieved:** LAPFF approached six companies in the financial services sector in the FTSE100, holding meetings with both Standard Life Aberdeen and Lloyds Banking Group. Both companies provided a detailed insight into the issues they face in championing woman and how they are tackling the gender pay gap. Lloyds Banking Group is one of the first companies in the FTSE100 to post an ethnicity pay gap report and recognises that there is work to be done in this area. With the City of London Taskforce on Socio Economic Diversity in mind, the Forum also asked how social class was taken into account with both companies. Then in May 2021, Cllr John Gray, LAPFF Vice-Chair was appointed to the City of

## ENGAGEMENT

London's Taskforce Advisory Board on Socio-Economic Diversity. The Forum has also continued its participation in the 30% Club Investor Group Meetings which provides a space to discuss best practice among investors in relation to female representation on company boards.

**In Progress:** The Forum will extend its engagement on diversity and pay gaps to the FTSE350, looking to see where companies have not yet met targets of the Hampton-Alexander review, and where wider pay gaps exist. Cllr John Gray will also be involved in the City of London's Taskforce Advisory Board, which will have a series of workstreams seeking to tackle the issue of socio-economic diversity in the financial services sector.

### Worker Safety during the Pandemic

**Objective:** The coronavirus pandemic has highlighted the importance that companies must place on the S in ESG to safeguard workers and protect and enhance shareholder value. The heightened exposure of workers and others to the pandemic in some sectors potentially poses serious investment risks for LAPFF members. It also goes to the heart of LAPFF's objectives of promoting responsible investment and the highest standards of corporate governance. Engagements sought to ensure that proper processes have been in place during the crisis and that boards were providing proper oversight as the crisis has unfolded. These engagements have focused on sectors most at risk including the outsourcing and social care sectors.

**Achieved:** LAPFF met with Capita and Serco. The meeting with Capita covered the safeguarding of staff and the balance of working from home and from call centres. At the meeting with the new chair of Serco, LAPFF discussed how the board managed the pandemic. There was a discussion around PPE and cleaning in hospitals, as well as organising video calls for prisons.

Alongside the outsourcing sector, the care sector has been identified as facing specific risks. The Forum met the chair of Target Healthcare REIT. Although providing the buildings rather than the care, property companies play an important role in ensuring high standards. The need to engage both tenants and landlords was discussed at the meeting. LAPFF,

# WEBINAR



**COLOMBIAN WORKERS AT THE CERREJON MINE**  
 UNI Global worked with LAPFF to set up a webinar with workers at the Cerrejon coal mine in Colombia. They reported horrendous working conditions and threats to their personal safety. Cerrejon is a joint venture between BHP, Anglo American, and Glencore.

**CLIMATE LAW WEBINAR**  
 LAPFF teamed with Hausfeld LLP to run a webinar on developments in climate law. The following week, the Dutch courts handed down a ruling that Shell must cut its global carbon emissions by 45 percent by 2030 based on a 2019 benchmark.

**"I am noticing a worrying trend of asset disposal without consideration for the conduct of the entities to which the disposals are made. This phenomenon cuts across coal businesses sold to small and unaccountable businesses without knowing whether emissions will be cut to cluster munitions businesses sold to entities with no promise of working to cease the production and sale of cluster munitions. Sweeping issues into another room will not solve the world's problems, nor will it create better investment opportunities for investors."**

LAPFF Chair, Cllr Doug McMurdo

alongside a range of other investors, also signed on to an expectations for the nursing home sector statement. The statement, coordinated by UNI Global, calls on providers to improve standards for residents and staff in the wake of the pandemic.

**In Progress:** The Forum will continue to be engaging companies on this agenda and collaboratively with the care sector as part of the UNI Global initiative.

### Electric Vehicles and Climate Change

**Objective:** Car use is a major contributor to global carbon emissions. Carmakers are facing tightening regulatory emission and fuel standards across the globe, which will require them to move to electrify their fleets. LAPFF has sought to engage companies through approaching this challenge and pushing for emission reductions in the short term and longer-term commitments to net zero. The Forum has also been engaging through Climate Action 100+ with US companies.

**Achieved:** After meeting with General Motors in January 2021, LAPFF joined a collaborative call alongside CA100+ this June to further discuss the company's approach to electrifying its product line and its position on climate lobbying. General Motors produces several large sized vehicles including trucks and SUVs. The pivot for these to a 1.5C pathway is necessary for the company to align itself with its competitors in transitioning to a net-zero economy. This was the main topic of discussion at the meeting.

**In Progress:** LAPFF will continue its engagement with vehicle producers around changing regulation and their approach to electrifying product lines. General Motors appears to be lagging behind competitors in this area, and the Forum will continue to push for quicker production of electric vehicles.

### Anglo American on Climate

**Objective:** The mining sector poses considerable climate risks to investors. The sector's operations are often carbon intensive and some minerals extracted, notably coal, are of great harm to the environment. LAPFF, as part of Climate Action 100+, has sought greater disclosure on Scope 3 and emissions data, an emphasis on reducing thermal coal



## ENGAGEMENT

mining, setting Scope 3 goals and targets, and ensuring lobbying aligned with net zero.

**Achieved:** Anglo American has committed to carbon neutrality by 2040 across all assets for Scope 1 and 2 emissions which represents a step forward and is a recognition that 2050 was too far away. The meeting covered how Anglo American is seeking to reduce emissions from mining and included a discussion of capital allocation and mining activities required to support the transition to net zero.

**In Progress:** LAPFF is seeking to engage further with Anglo American on its Scope 3 emissions. There is work to be done on measuring emissions and fully accounting for carbon emissions that are present in the value chain.

### COLLABORATIVE ENGAGEMENTS

#### IOPA engagement meetings

LAPFF has continued to participate in the Investors for Opioid and Pharmaceutical Accountability (IOPA) meetings. The group has run a number of Vote No campaigns, notably at Cardinal and AmerisourceBergen. The group also wrote to the chairs of compensation committees at eleven companies, scrutinising how executive compensation had been handled in light of charges being brought for opioids settlements.

#### Collaborative initiatives on Climate

The SEC was seeking input to proposed climate change disclosure. LAPFF, as a CERES member, co-signed a letter supporting essential principles, including basing disclosure rules on the Taskforce on Climate-related Financial Disclosure (TCFD) guidance, having industry specific metrics, promoting emissions disclosure and the inclusion of material climate disclosures in financial filings.

In April, LAPFF co-signed an investor call for methane and flaring regulations at federal level in the US. The aim is to support and encourage the Biden administration to enforce strong methane regulations for the oil and gas industry. It is considered regulation will be low-cost for industry. Methane emissions are potent greenhouse gases, 84 times more powerful than carbon dioxide in the first two decades after release.

LAPFF, as in previous years, has signed a Global Investor Statement to

Governments on the Climate Crisis in advance of the United Nations Climate Change Conference (COP26) taking place in November this year. There are five main asks, including a request for governments to strengthen their nationally determined contributions (NDCs) for 2030 to limit warming to align with 1.5 degrees Celsius.

### CONSULTATION RESPONSES

#### LAPFF Just Transition Inquiry

The All-Party Parliamentary Group for Local Authority Pension Funds' inquiry into 'Responsible investment for a just transition' continued. The LAPFF-supported APPG inquiry, chaired by Clive Betts MP, held its third evidence session in May. The meeting heard from Colin Baines (Investment Engagement Manager, Friends Provident Foundation); Sarah Teacher (CEO, Impact Investing Institute); Andy Gouldson (Chair of the Leeds Climate Commission) and Peter Brierley (Lead Organiser, Citizens UK). The call for evidence has now closed and the inquiry is reviewing the evidence to be discussed at the next meeting before the final report is published in October ahead of COP 26.

#### DWP Consultation – 'S' in ESG

LAPFF responded to the DWP's consultation on 'consideration of social risks and opportunities by occupational pension schemes'. Although the consultation did not cover LGPS funds, as pension regulation and legislation for the Forum's sector tends in the end to mirror DWP's LAPFF submitted a response. The Forum's response outlined LAPFF's policy approach to social issues and how and what themes we engage companies on. LAPFF's response also stated that social issues are often overlooked and there was a need for much greater company disclosure.

#### Investor Letter to SEC on Proxy Voting Rules

The Biden Administration SEC has signalled that it plans to support investors' ESG aspirations, not least by failing to enforce the Trump era imposition of obstacles to filing shareholder resolutions on ESG. However, US investors remain concerned that the US proxy voting rules will not facilitate ESG-related resolutions and sent a letter to this effect which

LAPFF signed.

#### BEIS White Paper on Audit Reform

In 2018 LAPFF made a submission to the Financial Reporting Council (FRC) dealing with governance of companies which presented serious concerns about the FRC and its own governance. That led to a period of circumspection which then led to the Kingman Review. The Kingman Review concluded that the FRC was not fit for purpose and would be replaced by a new body, the Auditing, Reporting and Governance Authority (ARGA).

This White Paper deals with some of the issues relevant to the transition to ARGA. Some of the issues around accounting and auditing standards have not been addressed. The problem LAPFF identifies in its response is not so much reform of the law, but implementation of existing law. Some parties have argued that the law is different to the position of LAPFF. However, that approach overlooks the fact that what the law states is merely an articulation of economic facts.

Central to the preparation of the accounts is whether they should be prepared on a going concern basis. Several basic principles are relevant to the determination of that. Phantom 'profits' and phantom 'net assets' will create a risk of a phantom 'going concern' and if auditors sign accounts without bottoming these considerations then their opinions will be wrong.

Being able to distinguish between cash or near cash (realised) or non-cash (unrealised) items is essential to determine whether a company is capable of being a going concern or not. A company may not be a going concern if it cannot service debt and cover ordinary costs and – absent additional sources of funds or guarantees – that requires cash flows from profits, not unrealised gains.

The same applies with the matter of effective internal control, including the absence of material fraud.

Unfortunately, both International Accounting Standards (IFRS) and International Auditing Standards (ISA) water down, or even go against, such basic principles. Some other issues are also covered on the LAPFF website.

[Media coverage - LAPFF questions UKEB's approval of accounting standards - Pensions Age Magazine](#)

# ENGAGEMENT

## AFL-CIO and EU Tax Letters

There are continued concerns that country-by-country-reporting laws on tax are not addressing the full scope of the reporting gaps. For example, a recent AFL-CIO letter on this issue to the US Congress called for laws requiring that companies report their taxes for all countries in which they operate, not just a general ‘rest of the world’ category. PRI sent a letter on this issue to the European Union shortly after the AFL-CIO letter was sent in the US. LAPFF signed both letters.

## Facial Recognition Technology Investor Statement

Human rights concerns surrounding facial recognition technology have surfaced in the last few years. LAPFF issued a voting alert to Amazon on this topic both last year and this year and signed an investor statement circulated by Candriam on this issue this quarter.

Media coverage - <https://www.professionalpensions.com/news/3076049/lapff-supports-majority-amazon-shareholder-resolutions>

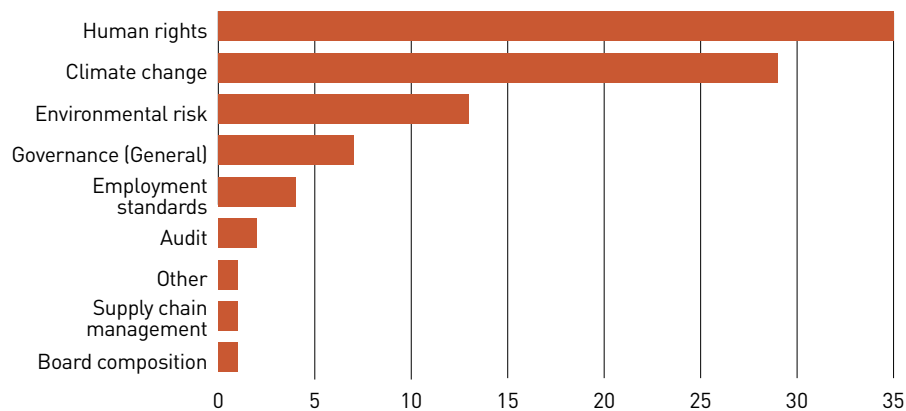
## HM Treasury Consultation on Aviation Tax Reform

In its response to the consultation, LAPFF called on the Treasury to review the current position of air tickets being VAT free and aviation fuel incurring no duty. A price signal of reducing domestic air passenger duty (APD) would likely encourage more flights. This outcome is in stark and direct opposition to the government’s own climate change target to reduce emissions by 78% by 2035 over 1990 levels. LAPFF has long recognised the imperative to address climate change as a systemic investment concern for investors. With aviation expected to grow to be the biggest source of UK emissions by 2050, it is a significant contributor to the material financial risks of climate change with the potential for loss of shareholder value.

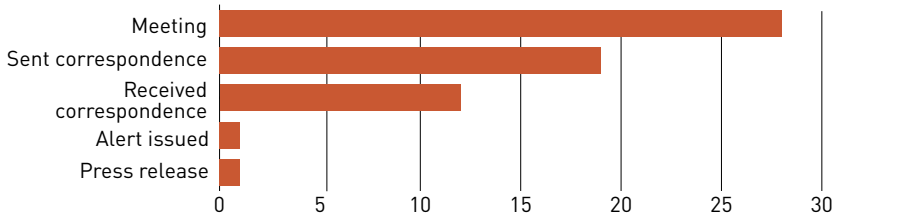
Media coverage - [LAPFF urges Treasury to review position on APD amid ‘contradictory signalling’ - Pensions Age Magazine](#)

# ENGAGEMENT DATA

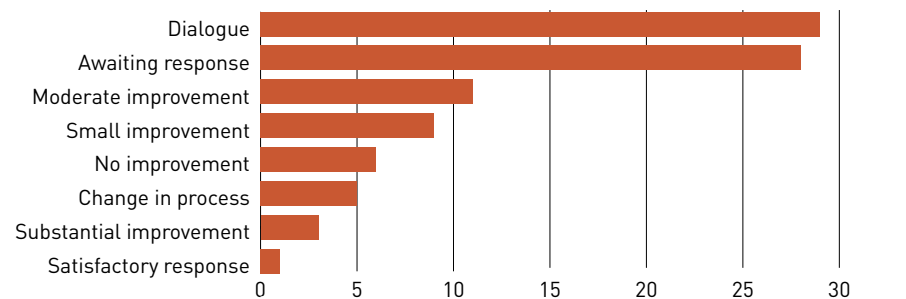
## ENGAGEMENT TOPICS



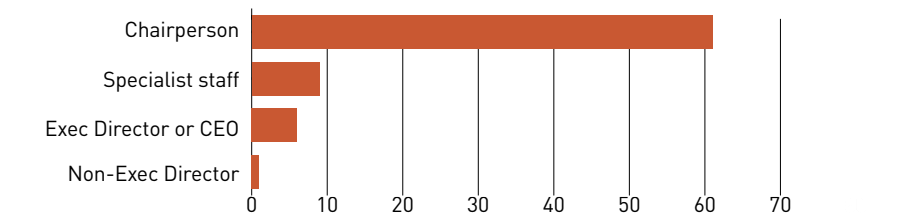
## ACTIVITY



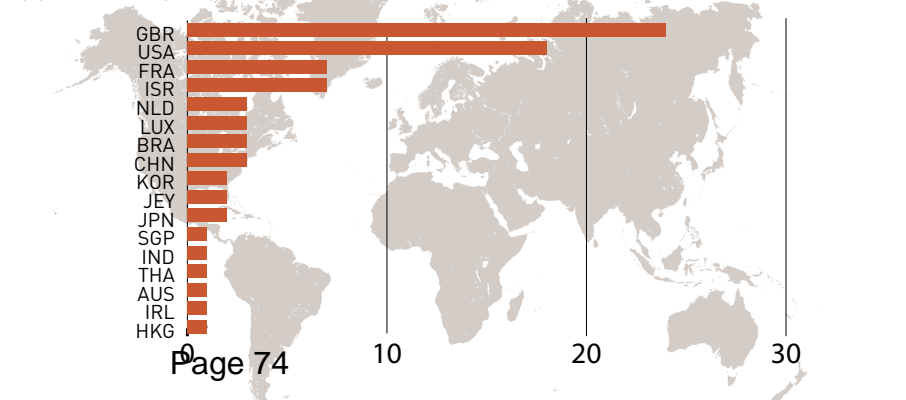
## MEETING ENGAGEMENT OUTCOMES



## POSITION ENGAGED



## COMPANY DOMICILES



# COMPANY PROGRESS REPORT

59 Companies engaged over the quarter

\*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

Company/Index	Activity	Topic	Outcome
ABBOTT LABORATORIES	Sent Correspondence	Environmental Risk	Awaiting Response
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Dialogue
ALSTOM SA	Sent Correspondence	Human Rights	Dialogue
AMAZON.COM INC.	Alert Issued	Human Rights	Dialogue
ANGLO AMERICAN PLC	Meeting	Human Rights	Change in Process
APPLE INC	Sent Correspondence	Environmental Risk	Awaiting Response
ARCELORMITTAL SA	Received Correspondence	Climate Change	Substantial Improvement
BANK HAPOALIM B M	Sent Correspondence	Human Rights	Awaiting Response
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response
BARCLAYS PLC	Meeting	Climate Change	Dialogue
BARRATT DEVELOPMENTS PLC	Sent Correspondence	Climate Change	Awaiting Response
BEZEQ THE ISRAELI TELECOMMUNICATION CORP LTD	Sent Correspondence	Human Rights	Awaiting Response
BHP GROUP PLC	Meeting	Governance (General)	Moderate Improvement
BOOKING HOLDINGS INC.	Alert Issued	Human Rights	No Improvement
BP PLC	Meeting	Environmental Risk	Awaiting Response
CHARTER COMMUNICATIONS INC	Meeting	Environmental Risk	Awaiting Response
COMPAGNIE DES ALPES	Sent Correspondence	Environmental Risk	Awaiting Response
CONSTELLATION BRANDS INC.	Meeting	Environmental Risk	Change in Process
CRH PLC	Received Correspondence	Climate Change	Small Improvement
DBS GROUP HOLDINGS LTD	Sent Correspondence	Climate Change	Dialogue
DELEK GROUP LTD	Sent Correspondence	Human Rights	Awaiting Response
EXPEDIA GROUP INC	Alert Issued	Human Rights	No Improvement
FACEBOOK INC.	Alert Issued	Governance (General)	Moderate Improvement
FREEPORT-MCMORAN INC.	Sent Correspondence	Human Rights	Dialogue
GENERAL MILLS INC	Sent Correspondence	Human Rights	Awaiting Response
GENERAL MOTORS COMPANY	Meeting	Climate Change	Small Improvement
GLENCORE PLC	Meeting	Governance (General)	Moderate Improvement
HANWHA CORP	Meeting	Human Rights	Substantial Improvement
HUADIAN POWER INTL CORP LTD	AGM	Climate Change	Change in Process
HUANENG POWER INTERNATIONAL	AGM	Climate Change	Dialogue
IMPACT HEALTHCARE REIT PLC	Sent Correspondence	Employment Standards	Awaiting Response
INDORAMA VENTURES PCL	Sent Correspondence	Human Rights	Awaiting Response
ISRAEL DISCOUNT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response
LLOYDS BANKING GROUP PLC	Meeting	Governance (General)	Moderate Improvement
MITSUBISHI UFJ FINANCIAL GRP	Sent Correspondence	Climate Change	Dialogue
MIZRAHI TEFAHOT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response
MORRISON PLC	AGM	Other	No Improvement
MOTOROLA SOLUTIONS INC.	Sent Correspondence	Human Rights	Awaiting Response
NATIONAL GRID PLC	Meeting	Climate Change	Substantial Improvement
NEXTERA ENERGY INC	Sent Correspondence	Climate Change	Dialogue
PAZ OIL CO LTD	Sent Correspondence	Human Rights	Awaiting Response
PERSIMMON PLC	Sent Correspondence	Climate Change	Dialogue
RIO TINTO PLC	AGM/MEETING	Human Rights	Change in process
ROYAL DUTCH SHELL PLC	Meeting	Climate Change	Dialogue
SAINSBURY (J) PLC	Meeting	Climate Change	Moderate Improvement
SANOFI	Meeting	Environmental Risk	Awaiting Response
SERCO GROUP PLC	Meeting	Employment Standards	Small Improvement
SHUI ON LAND LTD	Sent Correspondence	Environmental Risk	Awaiting Response
SONIC HEALTHCARE LTD	Sent Correspondence	Climate Change	Awaiting Response
STANDARD LIFE ABERDEEN PLC	Meeting	Board Composition	Moderate Improvement
TARGET HEALTHCARE REIT LTD	Meeting	Employment Standards	Moderate Improvement
TAYLOR WIMPEY PLC	Sent Correspondence	Climate Change	Awaiting Response
TOTALENERGIES SE	Received Correspondence	Climate Change	Moderate Improvement
TOYOTA MOTOR CORP	Sent Correspondence	Environmental Risk	Awaiting Response

# COMPANY PROGRESS REPORT

59 Companies engaged over the quarter

\*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

Transco (National Grid)	Meeting	Climate Change	Small Improvement
TRIPADVISOR INC.	Received Correspondence	Human Rights	Small Improvement
VALE SA	Meeting	Climate Change	Dialogue
YES BANK	Sent Correspondence	Human Rights	Awaiting Response
YUHAN CORP	Sent Correspondence	Environmental Risk	Awaiting Response

## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund  
 Barking and Dagenham (London Borough of)  
 Barnet LB  
 Bedfordshire Pension Fund  
 Bexley (London Borough of)  
 Berkshire Pension Fund  
 Brent (London Borough of)  
 Bromley (London Borough of)  
 Camden (London Borough of)  
 Cardiff and Vale of Glamorgan Pension Fund  
 Cambridgeshire Pension Fund  
 Cheshire Pension Fund  
 City and County of Swansea Pension Fund  
 City of London Corporation  
 Clwyd Pension Fund  
 Cornwall Pension Fund  
 Croydon LB  
 Cumbria Pension Scheme  
 Derbyshire County Council  
 Devon County Council  
 Dorset County Pension Fund  
 Durham Pension Fund

Dyfed Pension Fund  
 Ealing (London Borough of)  
 East Riding of Yorkshire Council  
 East Sussex Pension Fund  
 Enfield (London Borough of)  
 Environment Agency Pension Fund  
 Essex Pension Fund  
 Falkirk Council  
 Gloucestershire Pension Fund  
 Greater Gwent Fund  
 Greater Manchester Pension Fund  
 Greenwich Pension Fund  
 Gwynedd Pension Fund  
 Hackney (London Borough of)  
 Hammersmith and Fulham (London Borough of)  
 Haringey (London Borough of)  
 Harrow (London Borough of)  
 Havering LB  
 Hertfordshire  
 Hounslow (London Borough of)  
 Islington (London Borough of)  
 Kingston upon Thames Pension Fund  
 Lambeth (London Borough of)

Lancashire County Pension Fund  
 Leicestershire  
 Lewisham (London Borough of)  
 Lincolnshire County Council  
 London Pension Fund Authority  
 Lothian Pension Fund  
 Merseyside Pension Fund  
 Merton (London Borough of)  
 Newham (London Borough of)  
 Norfolk Pension Fund  
 North East Scotland Pension Fund  
 North Yorkshire County Council Pension Fund  
 Northamptonshire County Council  
 Nottinghamshire County Council  
 Oxfordshire Pension Fund  
 Powys County Council Pension Fund  
 Redbridge (London Borough of)  
 Rhondda Cynon Taf  
 Shropshire Council  
 Somerset County Council  
 South Yorkshire Pensions Authority  
 Southwark (London Borough of)  
 Staffordshire Pension Fund

Strathclyde Pension Fund  
 Suffolk County Council Pension Fund  
 Surrey County Council  
 Sutton (London Borough of)  
 Teesside Pension Fund  
 Tower Hamlets (London Borough of)  
 Tyne and Wear Pension Fund  
 Waltham Forest (London Borough of)  
 Wandsworth (London Borough of)  
 Warwickshire Pension Fund  
 West Midlands Pension Fund  
 West Yorkshire Pension Fund  
 Westminster CC  
 Wiltshire County Council  
 Worcestershire County Council

**Pool Company Members**  
 Border to Coast Pensions Partnership  
 Brunel Pensions Partnership  
 LGPS Central  
 Local Pensions Partnership  
 London CIV  
 Northern LGPS  
 Wales Pension Partnership

## Worcestershire Pension Fund

### EOS at Federated Hermes

### Engagement by region

Over the last quarter we engaged with **93** companies held in the Worcestershire Pension Fund portfolios on a range of **275** environmental, social and governance issues and objectives.

#### Global

We engaged with **93** companies over the last quarter.



#### Australia & New Zealand

We engaged with **two** companies over the last quarter.



#### Developed Asia

We engaged with **17** companies over the last quarter.



#### Emerging & Developing Markets

We engaged with **22** companies over the last quarter.



#### Europe

We engaged with **ten** companies over the last quarter.



#### North America

We engaged with **37** companies over the last quarter.



#### United Kingdom

We engaged with **five** companies over the last quarter.



## Engagement by theme

Over the last quarter we engaged with **93** companies held in the Worcestershire Pension Fund portfolios on a range of **275** environmental, social and governance issues and objectives.

### Environmental

Environmental topics featured in **27.6%** of our engagements over the last quarter.



- Climate Change **86.8%**
- Forestry and Land Use **3.9%**
- Pollution and Waste Management **6.6%**
- Water **2.6%**

### Social and Ethical

Social and Ethical topics featured in **17.1%** of our engagements over the last quarter.



- Bribery and Corruption **2.1%**
- Conduct and Culture **21.3%**
- Diversity **19.1%**
- Human Capital Management **17.0%**
- Human Rights **40.4%**

### Governance

Governance topics featured in **41.8%** of our engagements over the last quarter.



- Board Diversity, Skills and Experience **25.2%**
- Board Independence **17.4%**
- Executive Remuneration **40.9%**
- Shareholder Protection and Rights **15.7%**
- Succession Planning **0.9%**

### Strategy, Risk and Communication

Strategy, Risk and Communication topics featured in **13.5%** of our engagements over the last quarter.



- Audit and Accounting **8.1%**
- Business Strategy **29.7%**
- Cyber Security **5.4%**
- Integrated Reporting and Other Disclosure **24.3%**
- Risk Management **32.4%**



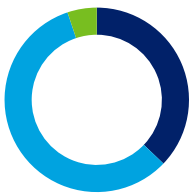
## Worcestershire Pension Fund

## EOS at Federated Hermes

Over the last quarter we made voting recommendations at **175** meetings (**2,072** resolutions). At **101** meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at **nine** meetings. We supported management on all resolutions at the remaining **65** meetings.

### Global

We made voting recommendations at **175** meetings (**2,072** resolutions) over the last quarter.



- Total meetings in favour **37.1%**
- Meetings against (or against AND abstain) **57.7%**
- Meetings with management by exception **5.1%**

### Australia and New Zealand

We made voting recommendations at **two** meetings (**28** resolutions) over the last quarter.



- Meetings against (or against AND abstain) **50%**
- Meetings with management by exception **50%**

### Developed Asia

We made voting recommendations at **76** meetings (**919** resolutions) over the last quarter.



- Total meetings in favour **35.5%**
- Meetings against (or against AND abstain) **57.9%**
- Meetings with management by exception **6.6%**

### Emerging and Frontier Markets

We made voting recommendations at **89** meetings (**1,013** resolutions) over the last quarter.



- Total meetings in favour **38.2%**
- Meetings against (or against AND abstain) **59.6%**
- Meetings with management by exception **2.2%**

### Europe

We made voting recommendations at **three** meetings (**30** resolutions) over the last quarter.



- Total meetings in favour **33.3%**
- Meetings against (or against AND abstain) **66.7%**

### North America

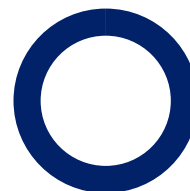
We made voting recommendations at **two** meetings (**18** resolutions) over the last quarter.



- Meetings against (or against AND abstain) **50%**
- Meetings with management by exception **50%**

### United Kingdom

We made voting recommendations at **three** meetings (**64** resolutions) over the last quarter.

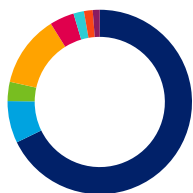


- Total meetings in favour **100%**

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

**Global**

We recommended voting against or abstaining on **326** resolutions over the last quarter.



- Board structure **67.8%**
- Remuneration **7.4%**
- Shareholder resolution **3.4%**
- Capital structure and dividends **12.6%**
- Amend articles **4.3%**
- Audit and accounts **1.8%**
- Investment/M&A **1.5%**
- Other **1.2%**

**Australia and New Zealand**

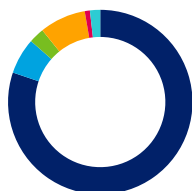
We recommended voting against or abstaining on **six** resolutions over the last quarter.



- Board structure **16.7%**
- Remuneration **66.7%**
- Shareholder resolution **16.7%**

**Developed Asia**

We recommended voting against or abstaining on **111** resolutions over the last quarter.



- Board structure **80.2%**
- Remuneration **6.3%**
- Shareholder resolution **2.7%**
- Capital structure and dividends **8.1%**
- Amend articles **0.9%**
- Audit and accounts **1.8%**

**Emerging and Frontier Markets**

We recommended voting against or abstaining on **199** resolutions over the last quarter.



- Board structure **63.8%**
- Remuneration **5.0%**
- Shareholder resolution **3.5%**
- Capital structure and dividends **14.6%**
- Amend articles **6.5%**
- Audit and accounts **2.0%**
- Investment/M&A **2.5%**
- Other **2.0%**

**Europe**

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



- Board structure **28.6%**
- Remuneration **28.6%**
- Capital structure and dividends **42.9%**

**North America**

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



- Board structure **66.7%**
- Remuneration **33.3%**

Notices:  
The data presented here relate to voting decisions for listed securities held in Worcestershire Pension Fund portfolios.

Meeting Date	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
28/04/2021	Hong Kong Exchanges & Clearing Ltd.	Annual	Against	2c	Overboarded/Too many other time commitments
13/05/2021	Galaxy Entertainment Group Limited	Annual	Against	5 2.1 2.3 4,2,4,3	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity Concerns related to succession planning Issue of equity raises concerns about excessive dilution of existing shareholders
17/05/2021	BOC Hong Kong (Holdings) Limited	Annual	Against	3b 5,7	Concerns related to approach to board gender diversity Issue of equity raises concerns about excessive dilution of existing shareholders
20/05/2021	AIA Group Limited	Annual	Against	4	Concerns related to board gender diversity
21/05/2021	CNOOC Limited	Annual	Against	B2,B3	
22/06/2021	China Overseas Land & Investment Ltd.	Annual	Against	3d,7,8	
13/05/2021	Nitori Holdings Co., Ltd.	Annual	All For		
26/05/2021	Izumi Co., Ltd.	Annual	Against	4 6	Insufficient/poor disclosure Insufficient/poor disclosurePerformance-related pay/awards for non-executives
10/06/2021	Toyota Industries Corp.	Annual	Against	1.1 4	Concerns related to approach to board gender diversity Performance-related pay/awards for non-executives
17/06/2021	Japan Airlines Co., Ltd.	Annual	Against	1.8	Lack of independence on board
17/06/2021	NTT DATA Corp.	Annual	All For		
17/06/2021	Recruit Holdings Co., Ltd.	Annual	Against	3	Apparent failure to link pay and appropriate performance
17/06/2021	Tokyo Electron Ltd.	Annual	Against	1.1,1.11	Lack of independence on board
18/06/2021	ARIAKE JAPAN Co., Ltd.	Annual	Against	2.1 5 3.1	Concerns related to approach to board gender diversityLack of independence on board Insufficient/poor disclosure Lack of independence on boardLack of independent representation at board committees
18/06/2021	Komatsu Ltd.	Annual	Against	2.1,2.5,2.6	Lack of independence on board
18/06/2021	NS Solutions Corp.	Annual	Against	6,7,8	SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes efficient capital structure
21/06/2021	Daiichi Sankyo Co., Ltd.	Annual	All For		
22/06/2021	Denka Co., Ltd.	Annual	Against	2.1,2.5,3.3	Lack of independence on board
22/06/2021	F.C.C. Co., Ltd.	Annual	Against	3.1	Concerns related to approach to board gender diversityLack of independence on board
22/06/2021	LIXIL Corp.	Annual	All For		
22/06/2021	Mitsui O.S.K. Lines, Ltd.	Annual	Against	2.1,2.7	Lack of independence on board
22/06/2021	Shionogi & Co., Ltd.	Annual	Against	2.3	Lack of independence on board
22/06/2021	Sony Group Corp.	Annual	All For		
23/06/2021	Advantest Corp.	Annual	All For		
23/06/2021	Hanwa Co., Ltd.	Annual	Against	2.9	Lack of independence on board
23/06/2021	Honda Motor Co., Ltd.	Annual	All For		
23/06/2021	KDDI Corp.	Annual	Against	2.11 2.1	Concerns related to approach to board gender diversity Concerns related to lack of independence on board
23/06/2021	Sekisui Chemical Co., Ltd.	Annual	All For		
23/06/2021	Sumitomo Mitsui Trust Holdings, Inc.	Annual	Against	2.10,2.11	Lack of independence on board
23/06/2021	TDK Corp.	Annual	All For		
24/06/2021	Cosmo Energy Holdings Co., Ltd.	Annual	Against	3.2	Lack of independence on boardLack of independent representation at board committees
24/06/2021	Marubeni Corp.	Annual	Against	1.1 1.9	Concerns related to approach to board gender diversityInadequate management of climate-related risks Lack of independence on board
24/06/2021	Nichiha Corp.	Annual	Against	2.1	Concerns related to approach to board gender diversity
24/06/2021	Nippon Gas Co., Ltd. (8174)	Annual	Against	2.1 2.5	Concerns related to approach to board gender diversityLack of independence on board Lack of independence on board
24/06/2021	Nippon Telegraph & Telephone Corp.	Annual	All For		
24/06/2021	Yamaha Corp.	Annual	All For		
24/06/2021	Yamato Holdings Co., Ltd.	Annual	All For		
25/06/2021	HIROSE ELECTRIC CO., LTD.	Annual	Against	3.1 3.8,3.10 4.2	Concerns related to approach to board gender diversity Lack of independence on board Lack of independence on boardLack of independent representation at board committees
25/06/2021	Isuzu Motors Ltd.	Annual	Against	3.1 4.3,4.4	Lack of independence on board Lack of independence on boardConcerns about overall board structure
25/06/2021	JEOL Ltd.	Annual	All For		
25/06/2021	Mitsui Chemicals, Inc.	Annual	All For		
25/06/2021	NGK SPARK PLUG CO., LTD.	Annual	Against	1.9	Lack of independence on board
25/06/2021	ORIX Corp.	Annual	All For		
25/06/2021	Penta-Ocean Construction Co., Ltd.	Annual	Against	2.1 2.7,2.8,2.9	Concerns related to approach to board gender diversityLack of independence on board Lack of independence on board
25/06/2021	Shinko Electric Industries Co., Ltd.	Annual	All For		

Meeting Date	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
25/06/2021	Sumitomo Metal Mining Co., Ltd.	Annual	Against	3.1.3.8	Lack of independence on board
26/06/2021	FANCL Corp.	Annual	All For		
28/06/2021	Sompo Holdings, Inc.	Annual	All For		
29/06/2021	Daikin Industries Ltd.	Annual	Against	3 2.1 2.4	Concerns about overall board structure Concerns related to approach to board gender diversity Lack of independence on board
29/06/2021	Daiwa House Industry Co., Ltd.	Annual	Against	2.1.2.12,2.13	Lack of independence on board
29/06/2021	Fuji Corp. (Machinery)	Annual	All For		
29/06/2021	KOSE Corp.	Annual	All For		
29/06/2021	Kurita Water Industries Ltd.	Annual	All For		
29/06/2021	Matsumotokiyo Holdings Co., Ltd.	Annual	Against	9	Concerns about overall board structure
29/06/2021	Minebea Mitsumi, Inc.	Annual	Against	2.1.2.8,2.12	Lack of independence on board
29/06/2021	Mitsubishi Estate Co., Ltd.	Annual	Against	2.1 2.14	Concerns related to approach to board gender diversity Lack of independence on board
29/06/2021	Mitsui Fudosan Co., Ltd.	Annual	Against	2.1 2.10	Concerns related to approach to board gender diversity Lack of independence on board
29/06/2021	Nippon Express Co., Ltd.	Annual	Against	4.1,4.9	Lack of independence on board
29/06/2021	Nippon Shinyaku Co., Ltd.	Annual	All For		
29/06/2021	NOF Corp.	Annual	Against	3.5	Lack of independence on board
29/06/2021	SMC Corp. (Japan)	Annual	All For		
29/06/2021	Sumitomo Mitsui Financial Group, Inc.	Annual	Against	2.9,2.13	Lack of independence on board
29/06/2021	Taiyo Yuden Co., Ltd.	Annual	Against	2.1,2.7	Lack of independence on board
29/06/2021	Tsubakimoto Chain Co.	Annual	Against	2.6	Lack of independence on board
29/06/2021	ZEON Corp.	Annual	Against	2.1	Concerns related to approach to board gender diversity
15/04/2021	Wilmar International Limited	Annual	Against	10 9 4	Apparent failure to link pay and appropriate performance Issue of equity raises concerns about excessive dilution of existing shareholders Lack of independence on board
23/04/2021	Keppel Corporation Limited	Annual	All For		
30/04/2021	City Developments Limited	Annual	All For		
27/05/2021	Nanya Technology Corp.	Annual	All For		
08/06/2021	Novatek Microelectronics Corp.	Annual	Against	3.6 3.5 3.3,3.4	Concerns related to succession planning Insufficient/poor disclosure Lack of independence on board
08/06/2021	Taiwan Semiconductor Manufacturing Co., Ltd.	Annual	Against	4.5	Lack of independent representation at board committees
08/06/2021	Taiwan Semiconductor Manufacturing Co., Ltd.	Annual	Against	4.5	Lack of independent representation at board committees
10/06/2021	MediaTek, Inc.	Annual	All For		
10/06/2021	Win Semiconductors Corp.	Annual	All For		
11/06/2021	Micro-Star International Co., Ltd.	Annual	Against	4.3,4.4,4.5,4.6,4.7,4.8	Lack of independence on board
22/06/2021	ASE Technology Holding Co., Ltd.	Annual	Against	4 7 6.2,6.3,6.5,6.7,6.8,6.9,6.10	Concerns related to shareholder rights Insufficient/poor disclosure Lack of independence on board
05/05/2021	QBE Insurance Group Limited	Annual	Against	2 4b	Apparent failure to link pay & appropriate performance SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
06/05/2021	Rio Tinto Limited	Annual	Against	2,3,4 12	Concerns about overall performance
21/05/2021	China Resources Gas Group Limited	Annual	Against	3.1,3.3,5A,5C	
14/04/2021	Petroleo Brasileiro SA	Annual	Against	3.3	
14/04/2021	Petroleo Brasileiro SA	Annual	Against	1	
27/04/2021	Suzano SA	Annual	All For		
27/04/2021	Suzano SA	Special	All For		
28/04/2021	YDUQS Participacoes SA	Annual	Abstain Against	8 7	
28/04/2021	YDUQS Participacoes SA	Special	All For		
29/04/2021	B3 SA-Brasil, Bolsa, Balcão	Annual	Abstain Against	6.7,1.7,2.7,3.7,4.7,5.7,6.7,7.7, 7.8,7.9,7.10,7.11,8 5,12	
29/04/2021	BB Seguridade Participacoes SA	Annual	Abstain Against	4.5,1.5,2.5,3.5,4.5,5.5,6.10 3.7 3.2 3.5,3.6 3.1	Lack of independence on board Lack of independence on board Lack of independence on board
29/04/2021	BB Seguridade Participacoes SA	Special	Against	7.8	Concerns related to board gender diversity
30/04/2021	Raia Drogasil SA	Annual	Abstain Against	11 4,7,8,1,8,2,8,3,8,4,8,5,8,6,8, 7,8,8,8,9,8,10,8,11 13 6,12	Cumulative/slate voting in favour of individual candidates/slates Insufficient/poor disclosure Insufficient/poor disclosure
30/04/2021	Raia Drogasil SA	Special	All For		
10/05/2021	B3 SA-Brasil, Bolsa, Balcão	Special	Against	8,9,12	
06/05/2021	Wharf Real Estate Investment Co. Ltd.	Annual	Against	2a,2b,2c,2d 5,6	Concerns related to board gender diversity Issue of capital raises concerns about excessive dilution of existing shareholders
07/05/2021	ANTA Sports Products Ltd.	Annual	Against	5 9,11	Concerns related to approach to board gender diversity Issue of equity raises concerns about excessive dilution of existing shareholders
10/05/2021	ENN Energy Holdings Ltd.	Annual	Against	3a1	Concerns related to approach to board gender diversity

Meeting Date	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
17/05/2021	China Meidong Auto Holdings Ltd.	Annual	Against	2.1a 4.6	Concerns related to approach to board gender diversity Issue of equity raises concerns about excessive dilution of existing shareholders
20/05/2021	Tencent Holdings Ltd.	Annual	Against	3a,5,7	
20/05/2021	Tencent Holdings Ltd.	Special	Against	1	
24/05/2021	Geely Automobile Holdings Limited	Annual	Against	3 5 4	Concerns related to board gender diversity Concerns related to inappropriate membership of committees Lack of independence on board Concerns related to inappropriate membership of committees Lack of independence on board Inadequate management of climate-related risks Lack of independence on board
28/05/2021	Challease Holding Co., Ltd.	Annual	All For		
28/05/2021	Xinyi Glass Holdings Ltd.	Annual	Against	3A4 5B,5C	Concerns related to approach to board gender diversity Issue of equity raises concerns about excessive dilution of existing shareholders
02/06/2021	China Mengniu Dairy Co., Ltd.	Annual	Against	4 3b 3c 6	Concerns related to Non-audit fees Concerns related to board gender diversity Insufficient/poor disclosure
08/06/2021	China Resources Mixc Lifestyle Services Limited	Annual	Against	3.6 6.7	Concerns related to attendance at board or committee meetings Issue of equity raises concerns about excessive dilution of existing shareholders
09/06/2021	China Resources Land Limited	Annual	Against	3.6 6.7 3.5	Concerns related to approach to board gender diversity Issue of equity raises concerns about excessive dilution of existing shareholders Overboarded/Too many other time commitments
18/06/2021	Zhongsheng Group Holdings Ltd.	Annual	Against	5 10,11	Concerns related to approach to board gender diversity Issue of equity raises concerns about excessive dilution of existing shareholders
23/06/2021	JD.com, Inc.	Annual	All For		
23/06/2021	Meituan	Annual	Against	6,8	
23/06/2021	NetEase, Inc.	Annual	Against	1c,1d,1f 1b	Concerns related to succession planning
23/06/2021	NetEase, Inc.	Annual	Against	1c,1d,1f 1b	Concerns related to succession planning Concerns to protect shareholder value
22/04/2021	Zhejiang Supor Co., Ltd.	Annual	Against	8	
27/04/2021	Huaxin Cement Co., Ltd.	Annual	All For		
29/04/2021	Hualan Biological Engineering, Inc.	Annual	Against	6	Concerns to protect shareholder value
06/05/2021	Lomon Billions Group Co., Ltd.	Annual	All For		
07/05/2021	Yantai Jereh Oilfield Services Group Co. Ltd.	Annual	Against	8	Insufficient/poor disclosure
11/05/2021	Jiangsu Hengrui Pharmaceuticals Co., Ltd.	Annual	All For		
12/05/2021	Beijing Sinnet Technology Co., Ltd.	Annual	Against	8.2.8.3.8.4.8.5.8.6.8.7	Insufficient/poor disclosure
12/05/2021	Zhejiang Supor Co., Ltd.	Special	All For		
13/05/2021	Riyue Heavy Industry Co., Ltd.	Annual	All For		
14/05/2021	Focus Media Information Technology Co., Ltd.	Annual	Against	7,8	Concerns to protect shareholder value
14/05/2021	Yantai Jereh Oilfield Services Group Co. Ltd.	Special	All For		
17/05/2021	Lomon Billions Group Co., Ltd.	Special	Against	1,2,3	Concerns to protect shareholder value
18/05/2021	Luxshare Precision Industry Co. Ltd.	Annual	Against	9	Insufficient/poor disclosure
20/05/2021	Inner Mongolia Yili Industrial Group Co., Ltd.	Annual	Against	11 14,15	Concerns related to shareholder rights Insufficient/poor disclosure
21/05/2021	Dian Diagnostics Group Co. Ltd.	Annual	All For		
21/05/2021	Hangzhou Tigermed Consulting Co., Ltd.	Annual	All For		
21/05/2021	Hangzhou Tigermed Consulting Co., Ltd.	Special	All For		
21/05/2021	Midea Group Co. Ltd.	Annual	All For		
25/05/2021	NARI Technology Co., Ltd.	Annual	Against	6	Concerns to protect shareholder value
27/05/2021	Huaxin Cement Co., Ltd.	Special	Against	2	Concerns related to shareholder rights
28/05/2021	Anhui Conch Cement Company Limited	Annual	Against	3 8	Inadequate management of climate-related risks Issue of equity raises concerns about excessive dilution of existing shareholders
31/05/2021	Shenzhen YUTO Packaging Technology Co., Ltd.	Annual	Against	8,9	Insufficient/poor disclosure
01/06/2021	Lomon Billions Group Co., Ltd.	Special	All For		
07/06/2021	LONGi Green Energy Technology Co., Ltd.	Annual	All For		
09/06/2021	Kweichow Moutai Co., Ltd.	Annual	All For		
11/06/2021	Yantai Jereh Oilfield Services Group Co. Ltd.	Special	All For		
17/06/2021	NARI Technology Co., Ltd.	Special	All For		
18/06/2021	Wuliangye Yibin Co., Ltd.	Annual	Against	6,8	
22/06/2021	Shanghai International Airport Co., Ltd.	Annual	All For		
24/06/2021	Lomon Billions Group Co., Ltd.	Special	All For		
25/06/2021	China Merchants Bank Co., Ltd.	Annual	Against	14 8,9	Concerns related to board gender diversity
25/06/2021	Haier Smart Home Co., Ltd.	Annual	Against	11,12,21,25,26	
25/06/2021	Haier Smart Home Co., Ltd.	Special	All For		
25/06/2021	Midea Group Co. Ltd.	Special	All For		
28/06/2021	Inner Mongolia Yili Industrial Group Co., Ltd.	Special	All For		
30/06/2021	Gree Electric Appliances, Inc. of Zhuhai	Annual	Against	8,10,11	
29/04/2021	Hindustan Unilever Limited	Special	Against	2	Apparent failure to link pay and appropriate performance
07/05/2021	Nestle India Ltd.	Annual	All For		
10/06/2021	Tata Consultancy Services Limited	Annual	Against	3	Overboarded/Too many other time commitments
19/06/2021	Infosys Limited	Annual	All For		
19/06/2021	Infosys Limited	Annual	All For		
22/06/2021	Hindustan Unilever Limited	Annual	All For		

Meeting Date	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
24/06/2021	Reliance Industries Ltd.	Annual	Against	5 3,4	Concerns related to board gender diversity Lack of independence on board
22/04/2021	PT Astra Internasional Tbk	Annual	All For		
28/05/2021	PT Telkom Indonesia (Persero) Tbk	Annual	Against	6,8	Insufficient/poor disclosure
23/04/2021	Grupo Financiero Banorte SAB de CV	Annual	Against	4.a1 4.a10.4.a13	Concerns related to board gender diversity Overboarded/Too many other time commitments
23/04/2021	Grupo Financiero Banorte SAB de CV	Special	All For		
30/04/2021	Grupo Mexico S.A.B. de C.V.	Annual	Against	7	Concerns related to board gender diversity 2- Insufficient/poor disclosure 3- Lack of independence on board
22/06/2021	Wal-Mart de Mexico SAB de CV	Extraordinary Shareholders	Against	2	Insufficient/poor disclosure
09/04/2021	Guaranty Trust Bank Plc	Annual	Against	7 3,1	Insufficient/poor disclosure Lack of independence on board
23/04/2021	Sberbank Russia PJSC	Annual	Against	4.3,4.4,4.5,4.6,4.7,4.10,4.11, 4.12,4.13	
23/04/2021	Sberbank Russia PJSC	Annual	Against	4.3,4.4,4.5,4.6,4.7,4.10,4.11, 4.12,4.13	
28/04/2021	Moscow Exchange MICEX-RTS PJSC	Annual	Against	3,8 3,5,3,7,3,10,3,11	Concerns related to approach to board gender diversity Cumulative/slate voting in favour of individual candidates/slates
16/06/2021	ALROSA PJSC	Annual	Against	8,4,8,5,8,6,8,7,8,9,8,10,8,11, 8,13,8,14,8,15 8,2 6,7	Cumulative/slate voting in favour of individual candidates/slates Cumulative/slate voting in favour of individual candidates/slates Performance-related pay/awards for non-executives
24/06/2021	Oil Co. LUKOIL PJSC	Annual	Against	2,1,2,2,2,8,2,9 2,4	Cumulative/slate voting in favour of individual candidates/slates 2- Inadequate management of climate-related risks 3- Concerns related to board gender diversity
24/06/2021	Oil Co. LUKOIL PJSC	Annual	All For		
13/05/2021	Anglo American Platinum Ltd.	Annual	Against	7,2	Apparent failure to link pay and appropriate performance
08/04/2021	Home Product Center Public Co., Ltd.	Annual	All For		
07/06/2021	PTT Global Chemical Plc	Special	Against	2	Insufficient/poor disclosure
12/05/2021	X5 Retail Group NV	Annual	Against	3.A,6 7.A 7.D	Apparent failure to link pay and appropriate performance Inadequate management of climate-related risks Overboarded/Too many other time commitments
28/06/2021	Yandex NV	Annual	Against	9,10,11	Concerns to protect shareholder value
08/04/2021	Jeronimo Martins SGPS SA	Annual	All For		
14/05/2021	The Western Union Company	Annual	Against	2 1e 1f	Apparent failure to link pay & appropriate performance Concerns about reducing shareholder rights 2- Concerns related to board ethnic and/or racial diversity 3- Concerns related to board gender diversity Concerns about remuneration committee performance
08/06/2021	MercadoLibre, Inc.	Annual	All For		
26/04/2021	Polymetal International Plc	Annual	All For		
05/05/2021	Unilever Plc	Annual	All For		
06/05/2021	Mondi Plc	Annual	All For		



## **PENSIONS COMMITTEE**

### **8 OCTOBER 2021**

## **BUSINESS PLAN**

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### **Recommendation**

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

### **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 Committee'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 Committee meeting on 8 December.
6. A separate paper on Good Governance (its appendix is our updated position statement) is also on these agenda papers.
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. In relation to 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 no data breaches, 1 IDRPs 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

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## **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**



# 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 IDRPCs, 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.
- Sidmore 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	Aspiration	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)	Admin	6	NW				Annual		Cttee										Annual	2021 scheduled	
2 GMP equalisation (TBD)	Admin	7	SH	TBD																awaiting guidance NB non-club TVouts 1990 to 1997 in scope	
4 Valuation / FSS / pots / admis + term policies (various)	Admin	7	RW				Cttee		Cttee			Cttee				Cttee				2021 FSS on website	
32 Reprocure pension admin system (30 04 2024)	Admin	4	NW	May-20																contract extended for 3 years from 30 April 2021	
10 Pension Administration Strategy review (01 04 22)	Admin	10	CF								consult	Cttee	publish							√ 2021 and 2022 scheduled	
13 Review data quality (various)	Admin	4	NW		Aq Hey results				Mercer results										Aq Hey results	√ 2020 Mercer and Heywood	
25 Revalue CARE accounts (06 04 2022)	Admin	4	SH										System config.							√ 2021 and 2022 scheduled	
26 Provide FRS info (various)	Admin	7	AL		Ac				admit bods			Sch					Coll	Ac		√ to date and scheduled	
3 Branding and digital strategy (TBD)	Engage	5	CF	Oct-18																awaiting resource and checking out UPM with Dorset	
20 Monitor employer covenants / pots / conts	Engage	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)	Engage	9	CF												Annual	Q manag				√ 2021 and 2022 scheduled	
22 Employee annual benefit statements (31 08 21)	Engage	9	CF		Annual	Q manag						Y/End					Annual	Q manag		2021 on schedule and employers briefed	
23 Pensioner P60s (29 05 22)	Engage	3	SH											Annual	Q manag					√ 2021 and 2022 scheduled	
24 Payslips reflecting pension increase (30 04 22)	Engage	3	SH										Annual							√ 2021 and 2022 scheduled	
27 Pension Savings Statements (06 10 21)	Engage	3	NW				Annual												Annual	2021 scheduled	
29 Pensioner newsletter / life cert (30 11 21)	Engage	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	Admin	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



## **PENSIONS COMMITTEE**

### **8 OCTOBER 2021**

## **RISK REGISTER**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that the 8 September 2021 WPF Risk Register be noted.**

### **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 Committee meeting on 8 December 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

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### **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 Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual 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 Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual 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 Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual 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 Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual 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 Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual 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 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 LGPC 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 Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual 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 Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual 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 Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual 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 Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual 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 Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score
[Redacted Content]									

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## **PENSIONS COMMITTEE**

### **8 OCTOBER 2021**

## **PENSION FUND AUDITED ACCOUNTS 2020/21 UPDATE**

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### **Recommendation**

1. **The Chief Financial Officer recommends that the update on the audited Pension Fund Accounts 2020/21 be noted.**

### **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 Committee 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 were presented 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 Committee at its meeting on the 8 December 2021.

## **Contact Points**

### Specific Contact Points for this report

Rob Wilson

Pensions, Investment & Treasury Management Manager

Tel: 01905 846908

Email: 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 COMMITTEE**  
**8 OCTOBER 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:**

- 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 attached Appendix. This would result in an overall proposed 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 at Appendix 1.

**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 and 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 Committee 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 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 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 & 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	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>	<i>Includes LGPS central investment management Fees, Equity Protection and increasing commitment to Property &amp; Infrastructure.</i>	<b>15,757,600</b>
148,000	141,526	-6,474	Investment Administration Recharge	151,000	154,000	<i>Increased Investment support</i>	148,000
734,500	734,500	0	LGPS Central Governance and Running Costs contribution	756,500	779,200	<i>Was previously shown under Management Fees</i>	734,500
100,000	90,000	-10,000	Investment Custodial and related services	102,000	104,000	<i>Reduced Custodial services due to transition of assets to LGPSC</i>	100,000
131,500	106,000	-25,500	Investment Professional fees	187,000	112,500	<i>Increased support for ESG Audit in 22.23</i>	131,500
28,600	28,400	-200	Performance Measurement	29,200	29,800	<i>CEM Benchmarking and Portfolio Evaluation</i>	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	<i>Increase due to Admin software requirements and additional staff for increased workload</i>	1,075,700
338,000	360,000	22,000	Actuarial services	388,000	338,000	<i>Employer monitoring through Actuary system Pfaroe from 20/21 and Triennial valuation allowed for April 2022/23</i>	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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## **PENSIONS COMMITTEE**

### **8 OCTOBER 2021**

## **TRAINING AND 'DEEP DIVE' PROGRAMME UPDATE**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that the Chairs of Committee / Board / Investment Sub Committee recommendations from the meeting on 6 September as set out in paragraph 5 be approved.**

### **Background**

1. The Committee received an update (Minute no. 322) on these areas at its [meeting of 29 June 2021](#). Since that update officers have delivered training on 'How an LGPS employee member can improve their lot' on 20 July 2021.
2. The next training session (on investment in infrastructure / property / private debt) is scheduled for 21 September 2021.
3. 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. The next deep dive (on stewardship) is scheduled for 14 October.
4. 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**

5. 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.

6. Separately, it was identified at the meeting 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  
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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 COMMITTEE**

### **8 OCTOBER 2021**

## **UK STEWARDSHIP CODE 2020**

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### **Recommendation**

- 1. The Chief Financial Officer recommends the Fund's outcome for the revised UK Stewardship Code 2020 submission and the areas requiring improvement as detailed in the Appendix be reviewed.**

### **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 its Stewardship Compliance Statement at Pensions Committee on the 28 November 2018 and became a signatory to the code.
4. Pensions Committee 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.
8. The Fund submitted its application which was provided at the June Committee and received notification from the FRC see the attached Appendix that 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.



9. 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***”.

10. 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.

11. 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 - FRC Stewardship report feedback for Worcestershire Pension Fund

## **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.

<b>Principle 2</b>	
<b>Evaluation</b>	<b>Reporting Expectation</b>
<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
<b>Principle 3</b>	
<b>Evaluation</b>	<b>Reporting Expectation</b>
<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

<b>Principle 4</b>	
<b>Evaluation</b>	<b>Reporting Expectation</b>
<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.
<b>Principle 5</b>	
<b>Evaluation</b>	<b>Reporting Expectation</b>
<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.

<b>Principle 10</b>	
<b>Evaluation</b>	<b>Reporting Expectation</b>
<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.
<b>Principle 11</b>	
<b>Evaluation</b>	<b>Reporting Expectation</b>
<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
<b>Principle 12</b>	
<b>Evaluation</b>	<b>Reporting Expectation</b>
<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

## **PENSIONS COMMITTEE**

### **8 OCTOBER 2021**

## **GOOD GOVERNANCE UPDATE**

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### **Recommendations**

- 1. The Chief Financial Officer recommends 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 be noted.**

### **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

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## 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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**PENSIONS COMMITTEE**  
**8 OCTOBER 2021****FORWARD PLAN**

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**Recommendation**

1. **The Chief Financial Officer recommends that the Committee comment on and approve the Forward Plan.**
2. The forward plan was presented to the last Committee meeting to highlight the key areas that are anticipated to be reported in the future. The Forward Plan was approved and was to be reviewed at each Committee meeting. This is attached as an Appendix and Committee are asked to comment and approve the plan.

**Supporting Information**

Appendix – Forward Plan

**Contact Points**Specific Contact Points for this report

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**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 Committee Proposed Forward Plan

## Appendix 1

Pension committee Items	08/12/2021	02/02/2022	22/03/2022
LGPS Central Update	Y	Y	Y
LGPS Central Budget and Business Plan		Y	
ESG Audit and Climate Risk Report		Y	
Pension investment Update	Y		Y
Business Plan update (includes Admin) and Monitoring (includes KPI's)	Y		Y
Pension fund Unaudited Annual Accounts			
Pensions Final External Audit Report on Annual Report	Y		
Pension fund admin Budget Approval			Y
Pension Admin Structure Review			
Pension fund Budget Monitoring			Y
Government Actuary Dept review update	Y		
Members Training	Y		Y
Investment Strategy Statement annual review			Y
Asset Allocation Review (Reviewed quarterly at Investment Sub Cttee but outcome of annual review to this Committee)			Y
Equity Protection update			Y
Risk Register	Y		Y
Actuarial Valuation and Funding Strategy Statement			
Annual Agreement Business Plan and Admin Strategy (Admin Strategy includes Communication Policy)			Y
internal Audit Report	Y		
Local pension Board updates including such areas as Regulatory Scheme Advisory Board (SAB) updates	Y		Y
Governance Policy Review			Y
Stewardship Code Compliance Statement			Y
SAB Good Governance review monitoring and CMA objectives for independent Investment Advisor	Y		
Pensions Sub Committee terms of Ref			Y

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