Worcestershire County Council

Agenda

Pensions Committee

Wednesday, 8 December 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 3rd 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.

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Pensions Committee
Wednesday, 8 December 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
Shane Flynn	Employer side
Cllr Trish Marsh	Herefordshire Council

Agenda

Item No	Subject	Page No
1	**Named Substitutes**	
2	**Apologies/Declarations of Interest**	
3	**Public Participation** *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 December 2021). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.*	
4	**Confirmation of Minutes** To confirm the Minutes of the meeting held on 8 October 2021 (previously circulated)	
5	**Pension Board and Pension Investment Sub-Committee Minutes**	1 - 2
6	**Pension Administration Resourcing**	3 - 16
7	**Local Government Pension Scheme (LGPS) Central Update**	17 - 20
8	**Pension Investment Update**	21 - 66
9	**Pension Fund Annual Report for the year ended 31 March 2021**	67 - 258
10	**Business Plan**	259 - 286

Agenda produced and published by Abraham Ezekiel, Assistant Director for Legal and Governance County Hall, Spetchley Road, Worcester WR5 2NP

To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

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

Date of Issue: Monday, 29 November 2021

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PENSIONS COMMITTEE
8 DECEMBER 2021

PENSION BOARD AND PENSION INVESTMENT SUB-COMMITTEE MINUTES

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 meeting on 24 November 2021 and the Pension Board meeting on 17 November 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
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Pensions Investment, Treasury Management & Capital strategy manager
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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
8 DECEMBER 2021

PENSION ADMINISTRATION RESOURCING

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1. **The Chief Financial Officer recommends that:**

   a) the Pensions Committee consider and comment on the proposals to develop the Pension Administration function; and

   b) an increase to the Pension Fund Administration Budget of £0.2 million be approved.

Background

2. The Pension's Administration Team were transferred into Finance from HR in the autumn of 2020. At the end of December 2020 and the end of March 2021 respectively the Head of Administration and Administration Manager retired. The service has been led across the three Pension Managers under the review and advice from an Interim Pension Administration Manager. A review of the service, future need, changes in regulations and resource requirements has been undertaken over the last six months to assess and draw up a future fit for purpose structure and resource. This report updates Members on the findings of that review and proposed next steps.

Detail

3. The Service manages the administration of over 64,000 active, deferred and retired members of the Worcestershire Pension Fund, with 185 employers. This work includes:

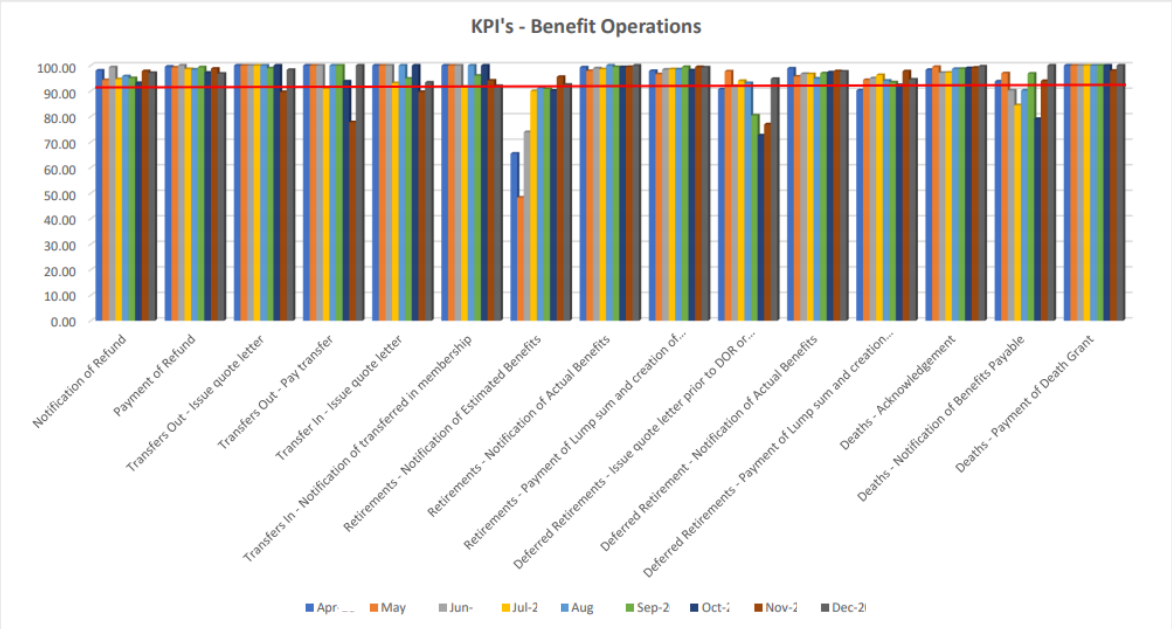
- managing an internal payroll for nearly 19,000 retired members
- processing changes in circumstances, from starters to deferrals and maternity leave to deaths
- managing admission agreements
- maintaining the website and communications with employers and members
- dispute resolutions
- issuing Annual Benefit Statements.

4. The current service structure is set out at Appendix 1 and has a pay and administration cost of £1.5m per annum, which is a cost of £23.60 per member. That is 25 staff and 21.3 full time equivalents at a pay bill of £0.6 million. The Fund therefore has a ratio of 1 FTE member of staff for every 3,041 members. Comparative data identifies that this is a low to middle range figure – 37th out of all 83 funds.

5. A further analysis shown at Appendix 2 identifies that the level of pay across various grades identifies a lower pay range than other comparator funds. This increases the risk of retention and recruitment, especially given the increased flexible and home working capability within the sector / profession.

6. Further analysis of the number of FTE in administration teams across the country, as well as level of qualified staff identifies further areas were Worcestershire lags behind other areas. Detail can be found in Appendices 3 and 4, which show that Worcestershire has slightly less staff than other similar sized funds and with just 1 out of 25 staff qualified.

7. However, the performance of the team when compared to other funds is remarkable. The following chart shows that for nearly all indicators across 2021 the performance has exceeded targets:



8. When compared to other funds Worcestershire's performance the administration of the Fund is performing in the top quartile

9. Looking at the state of the current market within the Local Government Pensions Schemes there are two emerging factors. Firstly, the scale of pay is increasing and secondly there is less need for staff to live and work in the same location with significant opportunities to work from home for Funds 100s of miles away. A few examples of current adverts are shown at Appendix 5.

10. When looking then at the age and time served profile of the WPF team it is clear to see that Worcestershire has above average staff who have worked for the Fund for more than 15 years with a number approaching retirement age. This has the advantage that it provides us with excellent knowledge, understanding and skills that enable the work to be performed at such a consistent and high level. However, without a sufficient and well-planned workforce strategy the Fund faces a significant risk of loss of key personnel and the impacts this will bring to the Fund along with the risk of not meeting Regulatory requirements. This risk is identified as a key and high risk on the Fund's current risk register.

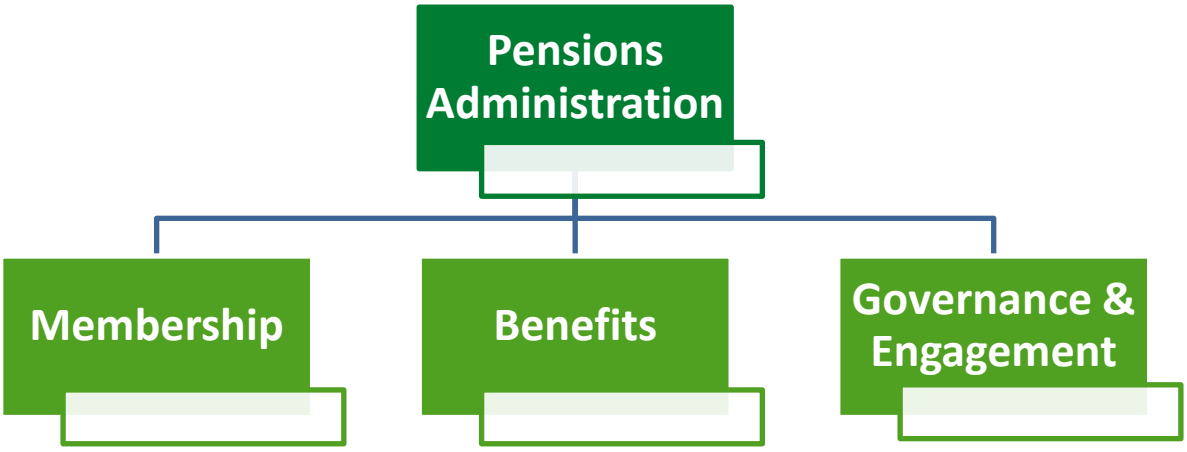
11. A further factor to consider is the expected additional complexity of the LGPS and regulations, as well as governance measures being introduced. That is on top of the continued work on matters such as McCloud, Guaranteed Minimum Pension together with the increasing workload related to the increasing membership and admitted bodies.

12. As such a review of the options available to address this risk has been undertaken including looking at the option to outsource the function. Discussions have been held with a number of other funds to explore the advantages and disadvantages of outsourcing. This identified no cost savings and in one case significant reduction in performance. It did however allow for staffing vacancies to be covered. However, after consideration it is not felt to be the appropriate option at this time and that the risk can be better mitigated by better workforce planning to invest in the team and to recruit and develop staff within WPF.

13. As such the review has focused on a number of principles we feel will drive a continual successful pension administration team:

- Creating a structure and culture that enables higher success in any necessary recruitments, securing the best candidates and retaining staff we have.
- Developing and supporting our people, to enable them to learn, building expertise & confidence
- Growing from within; developing our team will make our service and management even stronger
- Making sure we support our team, properly, as we all take ownership of what we do, to deliver a great service
- Sharing the knowledge across all aspects of the Administration team to break down any silos across Fund and enable great change to develop

14. Based on the evidence gained from looking at other funds and the principles above a revised structure, additional resource and investment in developing staff is now proposed. However, the basic structure of the team works and it is proposed that this will be retained:



15. However, the grading of the team will be higher, there will be seven new FTE posts and three new entrant apprentice roles, with further internal apprenticeships for staff in particularly around management and professional qualifications. There will also be fewer more standardised job descriptions. There will be a new job description and single Head of Pension Administration role replacing the two posts that were vacated in the last 12 months due to retirements.

16. Overall, this will add £0.2 million to the current pay budget at the top of scale, however this will still mean the average pay is expected to be at or just below the average for the LGPS, especially given the levels of pay identified currently for advert at Appendix 5.

Contact Points

Specific Contact Points for this report
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Supporting Information

Appendices

Appendix 1 – Current Structure Chart

Appendix 2 – Pay Comparator Analysis

Appendix 3 – Staffing Resource Comparison for sample of funds

Appendix 4 – Comparison of qualified staff

Appendix 5 – Examples of current / recent LGPS senior adverts

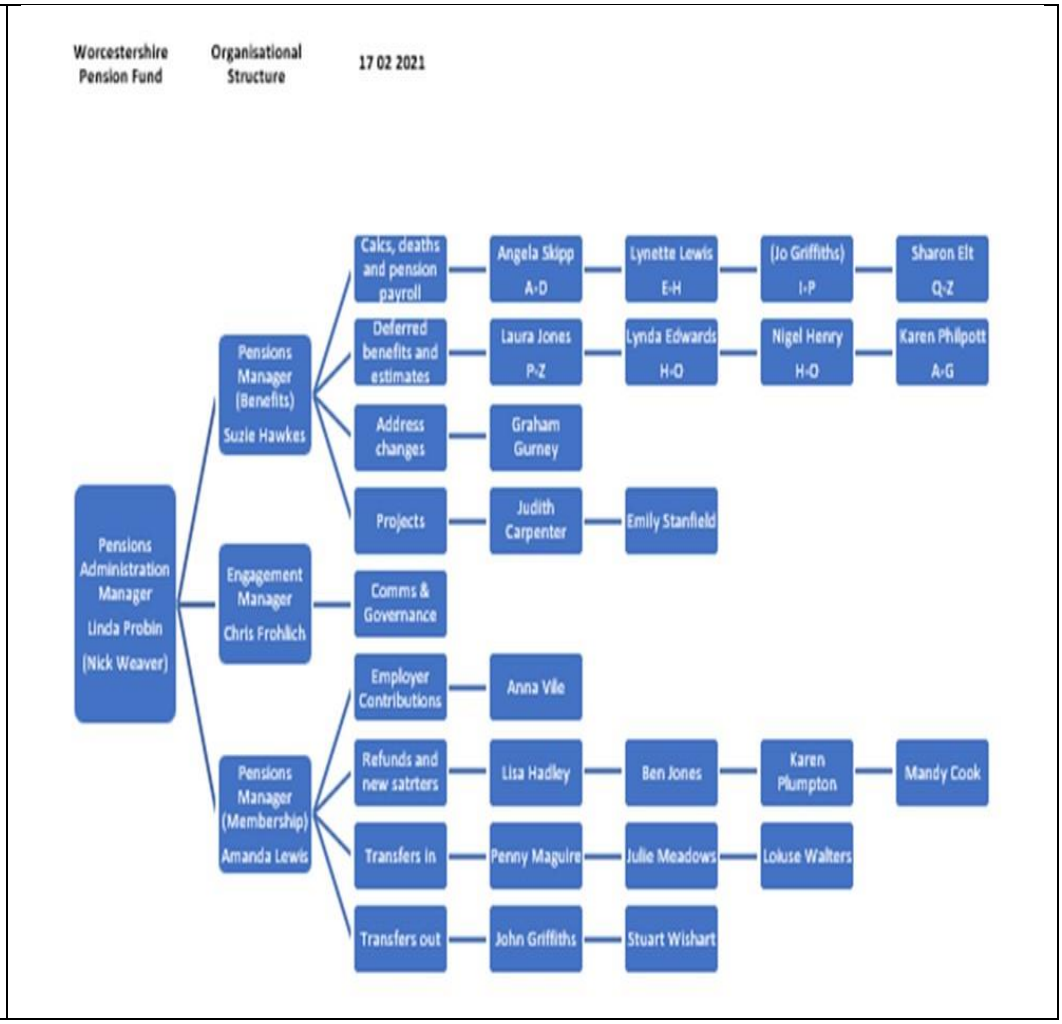
Appendix 6 – Comparison of years' service

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.

Appendix 1

Current Structure Chart

Scale	Now
1	5
2	
3	7
4	7
5	
6	2
SO1	
SO2	
PO1	
PO2	3
PO3	1
PO4	
PO5	
PO6	
Total	25



Appendix 2

Pay comparator analysis

CIPFA PENSIONS	STAFFING - PAY-BAND							
	31/03/2020	31/03/2020	31/03/2020	31/03/2020	31/03/2020	31/03/2020	31/03/2020	31/03/2020
	Under £20k	£20-25k	£25-30k	£30-40k	£40-50k	£50-75k	Over £75k	Total
Local Authority	FTE %	FTE %	FTE %	FTE %	FTE %	FTE %	FTE %	FTE
Tameside	13%	39%	19%	16%	2%	7%	4%	168.9
West Midlands	17%	30%	26%	15%	7%	3%	2%	143.4
Glasgow	36%	7%	24%	14%	13%	4%	2%	85.0
Essex	0%	12%	34%	32%	16%	5%	2%	57.9
Kent	25%	18%	35%	20%	0%	2%	0%	49.5
Nottinghamshire	32%	36%	15%	6%	10%	0%	0%	25.9
Bath & North East Somerset	11%	33%	23%	13%	15%	4%	1%	52.7
Staffordshire	10%	30%	25%	24%	4%	7%	0%	47.9
East Riding of Yorkshire	38%	33%	15%	8%	6%	0%	0%	52.0
Cheshire	34%	26%	18%	11%	2%	9%	0%	44.7
North Yorkshire	0%	71%	12%	13%	3%	0%	0%	29.8
Cambridgeshire	9%	46%	14%	20%	10%	1%	0%	37.2
Norfolk	9%	31%	29%	12%	5%	12%	2%	40.2
Edinburgh	18%	24%	28%	20%	1%	6%	3%	37.2
Northamptonshire	8%	45%	14%	20%	11%	2%	0%	31.8
Worcestershire	49%	21%	10%	15%	5%	0%	0%	19.7
Cumbria	0%	0%	21%	32%	32%	14%	0%	8.4
Warwickshire	55%	9%	21%	9%	0%	5%	0%	21.3
Shropshire	24%	40%	12%	12%	7%	4%	0%	24.1
Flintshire	14%	50%	19%	13%	3%	0%	0%	30.8
Jersey	0%	0%	0%	66%	25%	8%	0%	11.8

Appendix 3

Staffing Resource Comparison for sample of funds

CIPFA PENSIONS		SERVICE DELIVERY			KEY FINDINGS	KEY FINDINGS	KEY FINDINGS
		2019/20	2019/20	2019/20	as at 31/03/20	2019/20	2019/20
		In House	Outsourced to a Shared Service Arrangement (SSA)	Outsourced to an Exter..l Contractor	LGPS Members Total	Total Staff Working on LGPS Administration	Total LGPS Staff in Pensions Fund
Local Authority	CIPFA Response	%	%	%	Headcount	FTE	FTE
Tameside	1	100.0%	0.0%	0.0%	385,438	127.5	168.9
West Midlands	1	100.0%	0.0%	0.0%	333,934	109.6	143.4
Glasgow	1	100.0%	0.0%	0.0%	251,361	73.2	84.8
Essex	1	100.0%	0.0%	0.0%	177,738	43.5	57.9
Kent	1	100.0%	0.0%	0.0%	161,026	49.5	49.5
Nottinghamshire	1	100.0%	0.0%	0.0%	152,367	25.9	30.7
Bath & North East Somerset	1	100.0%	0.0%	0.0%	121,552	43.2	52.7
Staffordshire	1	100.0%	0.0%	0.0%	120,388	39.6	47.9
East Riding of Yorkshire	1	100.0%	0.0%	0.0%	116,422	47.0	52.0
Cheshire	1	100.0%	0.0%	0.0%	103,486	39.6	44.7
North Yorkshire	1	100.0%	0.0%	0.0%	103,084	30.0	30.0
Cambridgeshire	1	0.0%	100.0%	0.0%	93,405	26.5	37.2
Norfolk	1	100.0%	0.0%	0.0%	92,392	34.9	40.2
Edinburgh	1	100.0%	0.0%	0.0%	92,373	32.4	37.2
Northamptonshire	1	0.0%	100.0%	0.0%	76,296	21.9	31.8
Worcestershire	1	100.0%	0.0%	0.0%	66,682	19.7	19.7
Cumbria	1	10.0%	90.0%	0.0%	58,396	4.2	8.4
Warwickshire	1	100.0%	0.0%	0.0%	53,494	21.1	21.3
Shropshire	1	100.0%	0.0%	0.0%	51,230	20.2	24.1
Flintshire	1	100.0%	0.0%	0.0%	49,561	30.8	30.8
Jersey	1	100.0%	0.0%	0.0%	19,607	9.8	11.8

Appendix 4

Comparison of qualified staff

CIPFA PENSIONS	STAFF QUALIFICATIONS				
	31/03/2020	31/03/2020	31/03/2020	31/03/2020	31/03/2020
	Qualified Staff	Part-Qualified Staff	None	Total	Number in Training
Local Authority	FTE	FTE	FTE	FTE	FTE
Tameside	20%	0%	80%	168.9	0%
West Midlands	37%	19%	44%	143.4	100%
Glasgow	85%	0%	15%	86.0	1%
Essex	0%	0%	0%	57.9	0%
Kent	18%	7%	75%	49.4	2%
Nottinghamshire	26%	0%	74%	30.7	0%
Bath & North East Somerset	60%	6%	34%	52.7	6%
Staffordshire	38%	31%	31%	47.9	2%
East Riding of Yorkshire	5%	33%	62%	52.0	0%
Cheshire	21%	5%	75%	43.6	2%
North Yorkshire	47%	7%	46%	28.8	0%
Cambridgeshire	33%	9%	58%	37.1	10%
Norfolk	15%	12%	73%	40.2	5%
Edinburgh	54%	25%	22%	37.2	25%
Northamptonshire	33%	10%	57%	31.8	10%
Worcestershire	10%	0%	90%	19.7	0%
Cumbria	57%	0%	43%	8.4	0%
Warwickshire	20%	5%	75%	21.3	5%
Shropshire	49%	0%	51%	24.1	0%
Flintshire	26%	16%	58%	30.8	16%
Jersey	0%	8%	92%	11.8	17%

Appendix 5

Examples of current / recent LGPS senior adverts

Senior Leadership Roles- Surrey Pensions

Reference:	orbis/TP/470/18035	**Positions:**	4
Salary:	£61,463- £69,514 per annum	**Category:**	Management
Contract type:	Permanent	**Working hours:**	36
Posted on:	12 October 2021	**Closing date:**	3 November 2021
Directorate:	Resources	**Location:**	Dakota, De Havilland Dr, Weybridge

Description

About the role

This role is open to remote working meaning you aren't required in the office 5 days a week. We're less about you driving to work and more about us collectively driving down our carbon footprint. We care about how you work rather than where you work; the people rather than the postcode. In support of our people and our greener futures strategies, we'd welcome a conversation with the successful candidate on what remote working may look like for you.

The Surrey Pension Team are starting a new chapter with a refreshed vision and mission and ambitious plans for the future.

- Our vision: To provide our customers with a better tomorrow
- Our mission: To responsibly deliver a first-class customer experience

Our newly redesigned workforce is integral to achieving our aims and ambitions for the future and we are looking for experienced leaders to complete our Senior Leadership Team. Your ability to drive our Vision and Mission through a "one pensions team" culture is crucial to our success and applicants who demonstrate this ability will be considered, irrespective of whether they have a background in pensions. If you have these leadership capabilities you will be supported to gain the technical expertise required for these roles.

- **Head of Investment &Stewardship:** You will head up the Investment & Stewardship team managing in excess of £5billion of assets.
- **Head of Accounting & Governance:** You will head up the Accounting & Governance team managing all aspects of financial, risk and governance functions for the Fund.
- **Head of Service Delivery:** You will head up the Service Delivery team managing excellence in outcomes for over 110,000 customers.
- **Head of Change Management:** You will head up the Change Management team managing the delivery of improvement programmes across the service.

About the Role

We are seeking an exceptional candidate to undertake Local Government Pension Scheme (LGPS) processing and checking. Their duties will include:

- calculation of retirement and death benefits
- calculation of transfers in and out
- processing responses to divorce proceedings
- providing responses to questions raised by scheme members and other stakeholders
- checking and sign off of work produced by colleagues

Will consider applications based on full-time remote working and so there is no requirement for you to be locally based.

About Us

The shared pensions administration service for Sutton Council and Kingston Council was formed on 1 April 2016 to provide the administration of LGPS for both Funds. Combined, the Funds have a total membership of circa 30,000 and in excess of 100 scheme employers. There is a team of 15 staff (16 including this post).

About You

It is essential that you have a detailed knowledge and understanding of the LGPS and experience processing retirements and deaths. You must also demonstrate that you have worked with a pensions administration system (Civica UPM or equivalent).

Candidates with a desire for innovation and continuous improvement and a “can do” attitude to work flexibly to ensure the services are delivered are preferred.

Pension Administrator - Grade 8 (£32,418 £34,209)

Croydon, Surrey, United Kingdom

NEW

Finance | Jun 09, 2021 | 210000E1

Apply for Job | Share this Job | Sign Up for Job Alerts

The Croydon Council Pension Fund, part of the Local Government Pension Scheme (LGPS), has a total membership of over 30,000 and over 100 scheme employers. Our aim is to provide members and employers with a professional and member-focused service providing timely and accurate information.

Are you an experienced pensions professional looking to join a supportive and knowledgeable team?

We have an exciting and rewarding permanent opportunity for a pension administrator, to work within our busy in-house team, dealing with day to day administration of the Local Government Pension Scheme (LGPS). The successful candidate will be a key member of the Pension Team which has a pivotal role within the Council.

We are looking for a competent candidate with a background in the LGPS, who will be able to hit the ground running. The successful candidate will have broad and comprehensive experience of administering a final salary pension scheme and a CARE scheme. You will be self-motivated, a clear communicator, with excellent attention to detail and enjoy the challenge of working on the full range of LGPS administration. Above all you will be member focused taking responsibility for providing a high quality and efficient service.

You should possess a good working knowledge of the Local Government Pension Scheme and be proficient in specialist pension administration software specific to the LGPS, as in Altair or equivalent.

In return you will be joining a capable, professional, supportive team, with induction, training and development opportunities. Croydon Council provide excellent benefits for staff, including the brilliant Local Government Pension Scheme, generous leave entitlement and numerous staff benefits.

x2 Senior Pension Officer - Grade 10 (£35,751 £37,722)

Croydon, Surrey, United Kingdom

NEW

Human Resources | Jun 09, 2021 | 210000E0

Apply for Job | Share this Job | Sign Up for Job Alerts

The Croydon Council Pension Fund, part of the Local Government Pension Scheme, has a total membership of over 30,000 and over 100 scheme employers. Our aim is to provide members and employers with a professional and member-focused service providing timely and accurate information.

Are you an experienced pensions professional looking to join a supportive and knowledgeable team?

We have an interesting and rewarding permanent opportunity for a senior pension administrator to work within our busy team dealing with the day to day administration of the Local Government Pension Scheme. The successful candidate will be a key member of the pension team which has a pivotal role within the Council.

We are looking for a competent candidate with a background in Local Government Pensions Scheme administration, who has the technical ability to confidently run and quality check the full range of LGPS benefit calculations. You will be self-motivated with excellent attention to detail, a confident clear communicator with the ability to work in a pressurised busy team whilst maintaining a high quality and efficient service. You must be able to take responsibility and enjoy the challenge of solving a variety of operational queries. You should be proficient in specialist pension administration software specific to the LGPS, as in Altair or equivalent.

In return you will be joining a capable, professional, supportive team, with induction, training and development opportunities. Croydon Council provide excellent benefits for staff, including the brilliant Local Government Pension Scheme, generous leave entitlement and numerous staff benefits.

Senior Pensions Officer

Location: Aylesbury

Overview

This post is based within the Pensions Administration Team which administers the Local Government Pension Scheme (LGPS) on behalf of over 280 scheme employers.

You would be vital in working with other Senior Pensions Officers to ensure the smooth running of the Benefit Administration Team to provide a high level of customer service and to undertake all benefit calculations.

About us

The successful candidate will manage a sub-team of four Pensions Officers, within the Benefit Administration Team. Ensuring compliance with the Local Government Pension Scheme (LGPS) Regulations and associated Pension Fund policies, and ensuring a high level of customer service is delivered to Scheme members.

You would also responsible for checking all benefit calculations to ensure accuracy.

Apply for this job

Salary
£32,394 - £34,056

Reference number
BUC01834

Contract type
Permanent

Working hours
Full Time

Date posted
20 Apr 2021, 11 p.m.

Application deadline
5 May 2021

Interview date
13 May 2021

Appendix 6

Comparison of years' service

CIPFA PENSIONS		STAFFING - PENSIONS EXPERIENCE					
	31/03/2020	31/03/2020	31/03/2020	31/03/2020	31/03/2020	31/03/2020	31/03/2020
	Current Vacancies	Staff Experience < 1 year	Staff Experience 1-5 years	Staff Experience 6-10 years	Staff Experience 11-15 years	Staff Experience > 15 years	Staff Experience Total
Local Authority	FTE %	FTE	FTE	FTE	FTE	FTE	FTE
Tameside	1%	15%	25%	13%	19%	28%	168.9
West Midlands	18%	23%	37%	7%	11%	23%	143.4
Glasgow	0%	6%	20%	9%	5%	60%	85.0
Essex	3%	11%	34%	17%	14%	24%	57.9
Kent	16%	7%	29%	12%	12%	40%	49.4
Nottinghamshire	0%	0%	35%	10%	19%	36%	30.7
Bath & North East Somerset	16%	5%	43%	9%	10%	33%	52.7
Staffordshire	8%	2%	19%	9%	10%	60%	47.9
East Riding of Yorkshire	8%	13%	33%	12%	13%	30%	52.0
Cheshire	0%	9%	42%	15%	15%	20%	44.7
North Yorkshire	0%	0%	46%	9%	15%	29%	29.8
Cambridgeshire	3%	22%	34%	16%	12%	17%	37.2
Norfolk	0%	0%	18%	23%	28%	30%	40.2
Edinburgh	0%	8%	25%	25%	12%	30%	37.2
Northamptonshire	3%	21%	34%	15%	12%	18%	31.7
Worcestershire	0%	10%	19%	15%	10%	46%	19.7
Cumbria	32%	0%	30%	39%	6%	25%	8.4
Warwickshire	9%	26%	35%	8%	9%	22%	21.3
Shropshire	0%	0%	37%	7%	17%	39%	24.1
Flintshire	0%	16%	21%	29%	23%	11%	30.8
Jersey	17%	17%	0%	49%	8%	25%	11.8

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PENSIONS COMMITTEE
8 DECEMBER 2021

LOCAL GOVERNMENT PENSION SCHEME (LGPS) CENTRAL UPDATE

Recommendation

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

Transition of existing Assets and investment in LGPSC investment products

4. Investment Sub Committee on the 20 September agreed an indicative £30m per annum for the next 2 years into LGPSC Infrastructure strategy subject to due diligence and also agreed to come out of our LGIM Passive Low volatility factor fund circa £200m and transition this into the LGPSC All World Climate Factor Passive Fund. This took place on the 24 November 2021.

5. The Fund is presently looking at LGPSC Global Sustainable Active Equity Fund and LGPSC have now appointed 3 managers. Members were invited to hear the presentations from each Fund manager on the 17 November 2021 and was further considered at the Investment Sub Committee on the 24 November 2021. At the time of writing this report a decision for investment had been made subject to further information required on a risk / return analysis provided by LGPSC. An update will be provided to Committee.

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

6. There have been initial discussions with LGPSC on their proposed budget and Strategic Business Plan for 2022/23 and a plan for a series of discussions on their proposals was agreed at PAF in September 2021 and it was hoped that the Budget could 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.

7. Unfortunately, at the time of writing this report there were a number of queries that had been raised by partner funds for which a response had not been received. There is a planned discussion at PAF on the 2 December and a planned meeting the 16 December to help come to an agreement on the proposed budget and business plan.

8. As the need for new products diminishes the company focus will begin to focus more on 'business as usual' operations and looking at new ways to support efficiency, resilience and cost effectiveness.

September Company Meeting 28 September 2021

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

10. 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

11. 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

12. An update was provided to the last Committee on this 'Pooling' progress return submitted to MHCLG as it was known then by the agreed deadline of the 24 September.

13. Whilst cost savings are a key focus area for the Partner Funds and LGPSC 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

14. The submission showed a Like for like increase of assets under LCPSC 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)

15. 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.

Staffing

16. An interim Chief Legal Compliance & Risk Officer has been appointed and the recruitment process is at the first stage of interviews for the permanent appointment to this post and the Chief stakeholder officer. LGPSC have also looking appointed to the Communication Manager role and are in the last stages of interview for the additional posts within the RI&E team being a manager and senior analyst.

17. LGPSC have also taken on 6 graduates which was a successful process for them last time.

Office Accommodation

18. The company have now signed their lease agreement to move into the new I9 building in Wolverhampton and are looking to move during December 2021.

Practitioner Advisory Forum (PAF) Working Groups

19. 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 (next meeting 11 November)
- Investment Working Group (Meet Monthly)
- Responsible Investment Working Group (Next meeting 9 November)
- Finance Working Group. (Meeting 1 November)

20. 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. There will be 2 separate audits taking place, one focusing on investments and the other on governance.

Investment Working Group

21. It is worth just updating the 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

22. 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.

2020/21 and 2021/22 Products	**Next Step (as at October 2021)**
Private Equity (2021 Vintage)	*Launched*
Direct Property	*Manager Procurement pending*
Global Sustainable Active Equities	*Managers Appointed*
Private Debt	*LAUNCHED with first close of low risk sleeve*
Targeted Return	*Procurement process underway*
Indirect Property	*Product Development*

23. 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
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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 countycouncil

PENSIONS COMMITTEE
8 DECEMBER 2021

PENSION INVESTMENT UPDATE

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 be noted;**

   e) **The proposed 6% decrease in the strategic asset allocation to Market Capitalisation Passive indices and the increase of 6% to the Actively Managed Equities to allow for the investment in Sustainable active equities be agreed as set out in the table in paragraph 15 below;**

   f) **The update on Responsible Investment activities, Local Authorities Pension Fund Forum (LAPFF) (Appendix 3) and Stewardship investment pooling be noted; and**

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

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 September 2021 together with the following supporting information.

- Portfolio Evaluation overall Fund Performance Report up to the end of September 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 September 2021 being £819million and the amount that has been drawn, i.e. the capital invested being £424million (59%). 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 Sept 2021	%
Total Commitment Property Investments		220	169*	77%
Total Commitment Infrastructure Investments		599**	355	59%
Total		**819**	**524**	**64%**

** Note that Venn I is coming to an end and capital is currently being recalled.*
*** Includes recent BSIF II, First Sentier EDIF III & Stonepeak Fund IV 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. The Fund has recovered well from the previous significant volatility in the markets due to the effects of the Coronavirus which has since been found to be unprecedented. The Fund has an estimated funding level of 103% as at the end of September 2021 and initial pension 20220 valuation discussions have begun with the actuary . However, it is most likely that the market volatility will continue particularly now with the increase in inflation 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	Sept-21
Assets £'M	1,952	2,795	2,612	**3,367	**3,540
Liabilities £'M	2,606	3,090	*3,243	*3,404	*3,436
Surplus (-) / Deficit	**654**	**295**	**631**	**37**	**(116)**
Estimated Funding Level	**75%**	**90%**	**81%**	**99%**	**103%**

* *Estimated liabilities provided by the actuary and Assets include cash.*
** *Note the Assets include cash of £58m 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 Eurostox50 (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 Eurostox50 and the S&P500 have been restructured at the date detailed in the table below. The FTSE was restructured more recently on the 16th September 2021. The table shows the triggers 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

Mandate & Market	Date from	Initial Market Level	15% restructure trigger consideration on upward market moves	20% restructure trigger consideration on downward market moves	Duration
US - S&P500	20.04.21	4,128	4,747	3,302	12 Months
Europe – ESTOXX50	24.03.21	3,827	4,401	3,061	18 Months
UK – FTSE100	16.09.21	6,933	7,973	5,546	12 Months

Strategic Asset Allocation

11. 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%.

12. 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.

13. 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

Fund as at the 30 September 2021			Strategic Asset Allocation targets	
Asset Class	Portfolio Weight		Asset Class	Portfolio Weight
Actively Managed Equities	**22.7%**		**Actively Managed Equities**	**20.0%**
Far East Developed	11.3%		Far East Developed	10.0%
Emerging Markets	11.4%		Emerging Markets	10.0%
Passively Managed Equities – Market Capitalisation Indices	**32.4%**		**Passively Managed Equities – Market Capitalisation Indices**	**35.0%**
United Kingdom	15.9%		United Kingdom	20.5%
North America	9.9%		North America	8.0%
Europe ex UK	6.6%		Europe ex UK	6.5%
Passively Managed Equities – Alternative Indices	**15.8%**		**Passively Managed Equities – Alternative Indices**	**15.0%**
Global	15.8%		Global	15.0%
Equity Protection	**5.8%**			
Total Equities	**76.7%**		**Total Equities**	**70.0%**
Fixed Interest	**7.9%**		**Fixed Interest**	**10.0%**
Actively Managed Bonds & Corporate Private Debt	6.4% 1.5%		Actively Managed Bonds & Corporate Private Debt	10.0%
Actively managed Alternative Assets	**15.4%**		**Actively managed Alternative Assets**	**20.0%**
Property	4.7%		Property & Infrastructure	20.0%
Infrastructure	10.7%			
TOTAL	**100.0%**		**TOTAL**	**100%**

Proposed Change to Strategic Asset Allocation targets

14. Investment Sub Committee agreed on the 24 November 2021 to invest 15% of its 35% existing passively managed equities target allocation equating to 6% to Sustainable active equities. This is to be invested in Liontrust Asset Management PLC and Baillie Gifford, however at the time of writing the percentage split of investment to each Fund manager was still to be confirmed.

15. Any proposed changes to the Funds strategic target allocation have to be approved by Committee. The table below shows the proposed 6% decrease in the strategic asset allocation to Market Capitalisation Passive indices and the increase of 6% to the Actively Managed Equities to take on board the investment in Sustainable active equities.

Passively Managed Equities – Market Capitalisation Indices	**35.0%**		**Passively Managed Equities – Market Capitalisation Indices**	**29.0%**
United Kingdom	20.5%		United Kingdom	17.0%
North America	8.0%		North America	6.5%
Europe ex UK	6.5%		Europe ex UK	5.5%
Actively Managed Equities	**20.0%**		**Actively Managed Equities**	**26.0%**
Total	**55.0%**		**Actively Managed Equities**	**55.0%**

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 (July to September 2021) Appendix 4 features LAPFF company engagements, including with BHP in the run-up to their AGM and Say on Climate vote. There are also records of their collaborative engagements, community meetings, policy responses, and media coverage. With COP 26 just over two weeks away when it was published, its unsurprising that climate change dominated the agenda, with over 60 engagements relating to the climate crisis.

20. 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

21. As part of LGPS Central we are actively exploring opportunities to enhance our stewardship activities. More information is on the LGPS website LGPSCentral – 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 July to September 2021 Responsible Investment – LGPS Central. This will demonstrate progress on matters of investment stewardship.

22. 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

23. 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

24. 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).

25. 'Donut' charts for how votes have been cast in different markets and regions (Appendices 4 and 5) and a Table of vote-by-vote disclosure for full transparency is available at Appendix 6 for the quarter up to the end of September 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

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

27. 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 been completed for the LGPSC Sustainable active equity Fund managers and LGPSC announced the appointment of 3 Fund Managers on the 14 October LGPSC (one for each strategy). Being:-

- **Mirova US LLC** to manage the Global Sustainable Equity Active Broad Fund.
- **Liontrust Asset Management PLC** to manage the Global Sustainable Equity Active Thematic Fund.
- **Baillie Gifford** to manage the Global Sustainable Equity Active Targeted Fund. (Fund that is on the existing West Midlands Framework);

d) This was discussed further at Investment Sub Committee on the 24th November 2021 and it was agreed to invest 15% of its existing 35% passive market cap target allocation (subject to approval by Pension Committee) to invest in Liontrust and Baillie Gifford.

e) The Fund has completed some restructuring of its Alternative Factor portfolio with LGIM to reduce its carbon footprint whilst protecting investment returns and has also invested in LGPSC passive All World Climate Factor Fund.

Contact Points

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Supporting Information

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

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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MJ HUDSON

REPORT PREPARED FOR

Worcestershire Pension Fund

November 2021

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

24 November 2021

Global overview

The drivers of markets in Q3 included weakening market confidence, due to the Coronavirus Delta variant, supply chain issues, persisting inflation expectations, and the concern that GDP growth rates had peaked. Developed market equity performance was modest, while Emerging Markets performed poorly due primarily to Government actions and high corporate debt in China. Growth orientated stocks modestly outperformed Value stocks (+0.84% against -0.67%). Supply shortages led to sharp price increases across energy commodity markets, whilst metal prices fell. Bond performance was mixed: index-linked gilts performed well on rising inflation expectations, with European and US high yield bonds also positive. Investment grade bonds generally performed weaker, as expectations of rate rises in the US and UK hardened. Credit spreads widened during the first half of the quarter, though much of this was retraced by quarter end.

GDP growth remained positive in Q3 for developed markets; the US posted +0.5% quarterly growth[1], the EU +2.1%, Japan +0.5% and the UK is forecast to be +1.5% (not published at the time of writing). However, growth rates are lower than in Q2 and forecasts suggest that tight labour markets, supply constraints and the withdrawal of Government stimulus will result in more sluggish growth through 2022.

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

Tapering and interest rate increases: It is expected that the Federal Reserve ("Fed") will begin to slow its asset purchases in Q4 2021, with expectations that "tapering" will complete by mid-2022. The most recent Fed guidance is that interest rates will increase to 1.75% by the end of 2024, with the potential for the first rise in 2022. Other central banks have been indicating similar shifts in policy: the Bank of England ("BoE") is expected to end its quantitative easing programme and raise interest rates to 0.75% by end 2022. However, there are some expectations that Chinese monetary and fiscal policy, which has been tightening, could become more supportive of economic growth in Q4, 2021.

Inflation may be looking less transitory: As demand has recovered from mid-pandemic lows, and supply chains remain disrupted, shortages of goods and labour continued into Q3. In particular, energy prices have spiked, and, with climate transition pressures increasing, it is possible that the market remains undersupplied for some time, increasing price volatility. Market implied 20 year inflation has risen by 0.7% YTD, to 3.9%, while the Bank of England is forecasting that CPI will reach over 4% by this year end, before declining to 2-3% in 2022.

[1] Note: US GDP has been de-annualised to be consistent with the other regions.

Investors have become increasingly worried that inflation may last longer than previously thought, and there are some outlier concerns of potential stagflation.

Risk Appetite: While gently rising rates may prove no more than a gentle headwind for risk assets, taking the edge off the forecast economic growth, there is some risk of more rapid rate increases unsettling investors and driving more of a correction. At the same time, rising inflation and negative real rates limit the attraction of bonds, especially Government bonds. In this environment, investors may consider taking some risk off the table, and increasing allocations to more stable, income producing alternative assets (e.g. real estate, private debt, infrastructure).

Value vs Growth: Although the valuation gap between Value style and Growth style narrowed somewhat at the beginning of this year, it is widening again, and remains very high by historical standards. Growth style equities, typically "longer duration" may see their valuations under pressure if interest rates (discount rates) rise, while financial sectors, typically with a more "Value" style signature, usually benefit from steepening yield curves. On the other hand, ongoing disruption of numerous industries, accelerated by the pandemic, is likely to favour new business models, typically found in actively managed "Growth" portfolios. At the same time, the dispersion in valuations between different markets (e.g. US vs UK and Emerging Markets) is also near historic highs. The relative performance of different equity styles and regions looks as if it may be volatile over the next few years, and it would be wise to continue to have an appropriate balance between these styles / geographies.

Summary and Market Background

The value of the Fund in the quarter rose to £3.46bn, an increase of £28m compared to the end June value of £3.43bn. The Fund produced a return of 1.0% over the quarter, which was -0.2% 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, including a negative contribution from Emerging Markets. Property also produced a negative contribution against the new composite benchmark, which has a listed property equity bias. Over a 12-month period the Fund recorded a negative relative return against the benchmark of -2.25% (15.0% v. 17.2%). The Fund has performed ahead of benchmark over the three, 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. It was agreed at the PISC meeting on 21st September to allocate £50m to the First Sentier and £75m to the Stonepeak follow on funds, subject to fee negotiations. A provisional allocation of £30m was also made to the LGPS Central Infrastructure Fund, subject to detailed proposals being approved. Research has been undertaken into a possible investment of £150m with Gresham House Forestry Fund spread over three years, which would be held within the property portfolio. The due diligence included your independent advisor receiving an absolute soaking in the midst of a Scottish forest! At least he caught a haggis that was running in the wrong direction.

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 considering 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 agreed on 21st September to switch the Fundamentally Weighted (Value) element into the LGIM Quality companies portfolio and to transition the Low Volatility element of the LGIM Alternative Factors portfolio to the LGPS Central All World Climate Multi Factor Fund. These elements contained the highest exposures to carbon within the Fund, so this clearly demonstrates that that decisive action is following on from the research and discussions that have taken place over the last two years. 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, an update on progress will be provided at the PISC meeting on 24th November.

Performance during Q3 2021 has again 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 continued to perform well in comparison to other asset classes, the detail within equity allocation has been challenging despite the partial rebalancing of regional weightings. World equity markets had a very mixed performance experience during Q3 as described below, with Emerging Markets as a whole being hit by political control being applied in China, but other EM countries performed well. Our active managers had a lacklustre quarter in relative performance terms with Nomura (Pacific) showing an underperformance of -0.9% in their new guise, LGPS Central (Emerging Markets) just about in positive territory by 0.1% and LGPS Central (Corporate Bonds) also achieving just 0.1% ahead of their benchmark. The total property fund showed an underperformance against our own benchmark of -2.7%, which reflects to some degree the cautious approach to valuations that is still prevalent in the Covid-19 environment.

The passive equities outperformed the alternative passive strategies benchmark by 0.2% (2.3% v. 2.1%). Passive equities outperformed active market equities by 3.2% (2.3% v. -0.9%), which reflects the good performance from the passive index markets in comparison

to Emerging Markets. Out of the passive geographies, Europe lagged this time, up just 0.7% over the quarter, while North America was up 2.6% and the UK up 2.3%.

Equities

Global equities had a mixed Q3, with modest gains across developed markets, excluding the 10bp decline in Europe, while emerging markets suffered. There were underlying concerns around economic growth peaking, but various news stories in China dominated the headlines. There were successive rounds of regulatory crackdown. First, the Chinese Government moved to turn private tutoring companies into non-profit organisations, and this was followed by regulations limiting children's access to online gaming and tighter regulation around technology. Finally, the potential default on the offshore debt of China's second largest property developer Evergrande contributed to market anxiety at the end of the quarter. The VIX index increased substantially by +46.2% over the quarter, from 15.8 to 23.1. Growth continued to outperform Value (+0.84% against -0.67%).

US equities, measured by the S&P 500, posted modest gains over Q3 (+0.6%). Despite the quarter-on-quarter growth, September (-4.65%, total return) was the worst month for US equities since March 2020 (-12.35%), as the market sold off from its previous highs. Fears around financial instability in China along with the Federal Open Market Committee signalling that they could begin tapering as early as November 2021 dragged on returns.

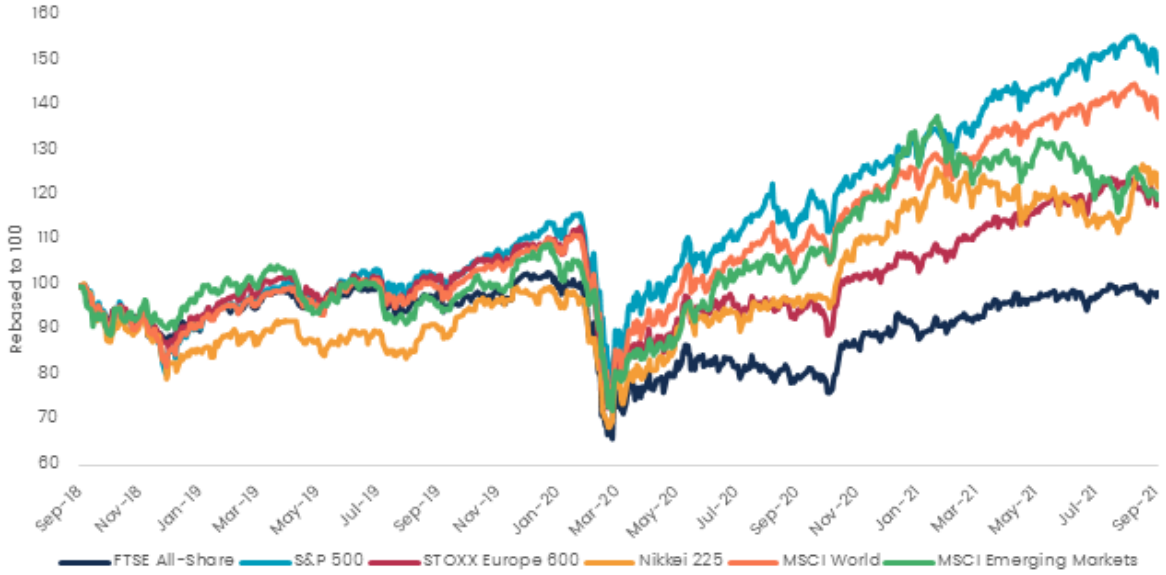
UK equities performed well over Q3, despite continued supply chain disruption and a more hawkish tone from the BOE, with both the FTSE 100 (+1.9%) and FTSE All-share (+2.2%) indices delivering positive returns. Energy producers (accounting for 10.2% of the FTSE 100) have benefitted from the aforementioned increase in commodity prices, along with supermarkets; takeover bids for Morrisons have seen the stock appreciate over 50% on pre offer prices and lifted the wider sector.

The Euro Stoxx 50 declined by -0.1% over Q3. Energy stocks again performed positively alongside technology stocks, particularly those involved in the semiconductor sector. Conversely consumer discretionary stocks performed negatively. Inflation and supply chain disruption continued to be a headwind to growth.

Japanese equities reversed the Q2 underperformance (-1.2%), now outperforming other developed markets in Q3, returning +2.9%. Bucking the wider trend, September was the strongest month in the quarter, despite the sudden resignation of Yoshihide Suga as prime minister on September 3rd; the news had no noticeable negative effect on markets. Optimism over potential future stimulus and economic reopening drove returns.

Emerging market equities suffered a -8.0% contraction, measured by the MSCI Emerging Markets index. China (accounting for 34.0% of the index) suffered heavily due to its government's regulatory crackdown, fears over Evergrande's default, and electricity shortages, while rising inflation and subsequent rate increases in some countries (notably Brazil) also weighed on returns. Despite the overall EM losses, brighter spots were seen in the major energy exporting nations, such as Russia, while India also performed well due to a strong vaccine led recovery and increased IPO activity lifting sentiment.

Global Equity Markets Performance



Fixed Income

Bonds had a mixed quarter, with government bond yields across the US and Europe initially declining, before ending the quarter flat. Gilts experienced rising yields and so falling prices. Yield increases for Treasuries and Gilts followed a hawkish shift among monetary policymakers later in the quarter as inflationary pressures continued. Corporate investment-grade bonds failed to match last quarter's good performance, whilst corporate high-yield bonds outperformed corporate investment grade bonds in the US and Europe.

The 10-year US Treasury yield ended the quarter one basis point higher at 1.49%, with Treasuries as a whole providing a total return of +0.1%. Yields initially fell due to concerns over economic recovery due to the Delta variant and inflation concerns, before returning to original levels as the Federal Reserve struck an increasingly hawkish tone. Jerome Powell (chairman of the Fed) suggested that tapering of asset purchases could commence as early as the next meeting in November, although markets were more surprised by the indication that tapering could finish as soon as mid-2022, which would subsequently pave the way for rate hikes earlier than expected. The median rate expectation moved up to three hikes from two for 2023, with three additional hikes expected in 2024. Fed officials were evenly split 9 against 9 on a potential hike in 2022. Additionally, the impending debt-ceiling showdown prompted fears, albeit extremely unlikely, of a default on national debt, with Treasury Secretary Yellen warning that the US will reach its ceiling by the 18th October. A deal between the democrats and republicans since appears to have been agreed, allowing the debt ceiling to be raised until early December.

10-year UK Gilt yields increased from 0.72% to 1.02% over Q3, with Gilts delivering a total return of -1.9%. The yield move occurred towards quarter-end, as the BoE matched the hawkish tone of the Fed. Inflationary pressures once again surpassed expectations, with August CPI reaching 3.2%. This has contributed to growing concerns that rate rises may be

needed before the end of the year, although current BoE guidance suggests no rise until quantitative easing is wound up in early 2022. Index-linked Gilts had another strong quarter following continued inflation, with the over-5 year and over-15-year index-linked bonds both returning +2.3%.

The strong year-to-date performance of high yield bonds persisted in Q3, as European and US high yield bonds returned 0.6% and 0.9% respectively. UK investment-grade bonds returned -1.0% over the quarter, while performance was flat for the equivalents in Europe and the US.

Currencies

In the third quarter, Sterling weakened against the Dollar (-2.5%) but held steady against the Euro (-0.1%), as the UK faced ongoing supply-side pressures and a worsening growth outlook. The Dollar had a solid quarter (Dollar Index Spot rose +1.9%), with most of the gains coming in the last few weeks of September following expectations of an earlier rate hike after the FOMC meeting. The Euro weakened notably against the Dollar in Q3 (-2.3%), as the market reacted to the uncertainties caused by the energy crisis. The ECB's decision to slightly slow quantitative easing was not equivalent to tapering and had limited impact on the Euro.

COP 26

While COP 26 was still in progress while this report was being written, some clear themes have already emerged. There has been a lot of commentary surrounding these issues from investment management firms, but I am going to draw on a useful piece written by Columbia Threadneedle looking at the **investment implications of COP 26.**

Corporates

A successful COP26 outcome could provide more clarity on the future trajectory of policy and regulation and accelerate opportunities for green investments. Although agreements are high-level sovereign commitments, these have to filter down into policy in order to be achieved.

More ambitious net-zero targets underpinned by tangible measures and plans will help gauge future climate policy and regulation, providing certainty for businesses. Current ambiguity and uncertainty is delaying investment and increasing the risk of stranded assets. Businesses should therefore pay attention to the outcomes of COP26 as they will provide an insight into the conditions in which they will be operating over the next few decades.

Firm agreement around Article 6 could help set a legal framework and scale a voluntary carbon market. Barclays estimates the voluntary carbon market could reach $250 billion a year by 2030 compared to just $500 million today, and $1 trillion a year by 2050. Industries providing nature-based solutions will see growth opportunities, as well as energy, finance, agriculture and agricultural tech, and companies devoted to monitoring and verification processes. However, market awareness around greenwashing for all these options is growing quickly, so these solutions need to be well managed or risk consumer backlash.

We should also expect a wave of firmer announcements from the private sector in the wake of COP26. The summit will bring together a great number of business leaders and corporations and could be a catalyst for them to formulate firmer climate strategies independently or through industry-specific working groups, for example steel, fashion or finance, or to join organisations such as Race to Zero.

Race to Zero is a UN-backed global campaign aimed at encouraging non-state actors – including companies, cities, regions and financial and educational institutions – to take rigorous and immediate action to halve global emissions by 2030 and deliver a healthier, fairer zero-carbon world. The campaign is seeking to align net-zero targets among industries and set minimum standards of what a net-zero target should incorporate.

The financial sector

The financial sector in particular is in the spotlight at COP26. The Glasgow Financial Alliance for Net Zero brings together existing and new net-zero finance initiatives in a sector-wide coalition which aims to accelerate the transition to net-zero emissions through the alignment of lending and investment portfolios, as well as other areas of the financial system. These commitments will have implications for the broader economy as they will favour capital availability for those companies in decarbonisation mode and could begin to restrict it to those that are not aligning with net zero.

Investors should therefore be mindful about different sectors' decarbonisation strategies as they could provide guidelines on how competition will play out, how finance will be geared and which decarbonisation solutions will be implemented, which could allow early identification of winners and losers. COP26 is also relevant for investors that are members of the Net Zero Asset Managers Initiative, which consists of 128 signatories representing $43 trillion of assets under management, as they have committed to aligning their portfolios with net-zero emissions by 2050. Signatories need to announce 2030 portfolio emission targets, and for those members who joined at launch this needs to be done by COP26.

Non-financial sectors

The transportation sector is expected to be a focus at COP26 with the UK, the host nation, setting an ambitious 2030 target for ending the sale of internal combustion engine vehicles. Prime Minister Boris Johnson has said his focus is on "coal, cars, cash and trees" and announced £1 billion of additional electric vehicle incentives in the two-week run up to the start of the conference in order to appeal to other world leaders to make "bigger commitments". As yet it is unclear what the announcements might be during the summit.

Another area of attention going into the summit was methane. In August 2021 the Intergovernmental Panel on Climate Change (IPCC), the world's leading group of climate scientists, released an updated report on the physical basis of climate change. This is the first update since 2013 and outlined some concerning developments around methane. The report found that methane emissions over the last reporting period were tracking the high emission scenario published in the previous release. Although methane doesn't remain in the atmosphere for as long as carbon dioxide does, it is a much more potent greenhouse

gas: 84 times worse than carbon dioxide on a 20-year timeframe and 28 times worse on a 100-year timeframe. High levels of methane pose a real risk to reaching 2050 net-zero emissions targets, and in some estimates the gas accounts for just under a quarter of the climate change (officially called radiative forcing) observed to-date.

All of this is relevant to the private sector because the oil and gas and agricultural industries are the biggest drivers of methane emissions. Although methane is seen as a transition fuel because it has roughly half the emissions intensity of coal when burnt, any leakage in the exploration and production of the gas quickly diminishes this benefit – again, because of the global warming potential versus carbon dioxide.

Conclusion

This climate conference is the most widely anticipated since Paris in 2015, so the stakes are high. However, signs in the lead up to it have been mixed at best. An unsuccessful summit would mean more uncertainty which would delay progress on the energy transition and the mobilisation of finance towards green investments. It could also impact progress on climate policies at national level, for example any signs of failure at COP26 could diminish President Biden's efforts to implement his climate goals and pass climate legislation in the US.

And finally, another asset manager posed the question, "What can investors expect after COP 26?". Presumably that will be COP 27.

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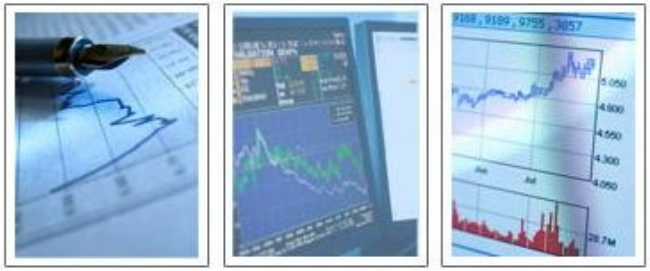

Specialists in Investment Risk and Return Evaluation

Quarterly Risk and Return Analysis
Total Fund

Worcestershire County Council Pension Fund

Period ending 30th September 2021

Specialists in Investment Risk and Return Evaluation

PORTFOLIO EVALUATION LIMITED

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Worcestershire County Council Pension Fund Total Fund

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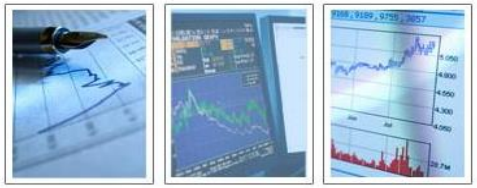
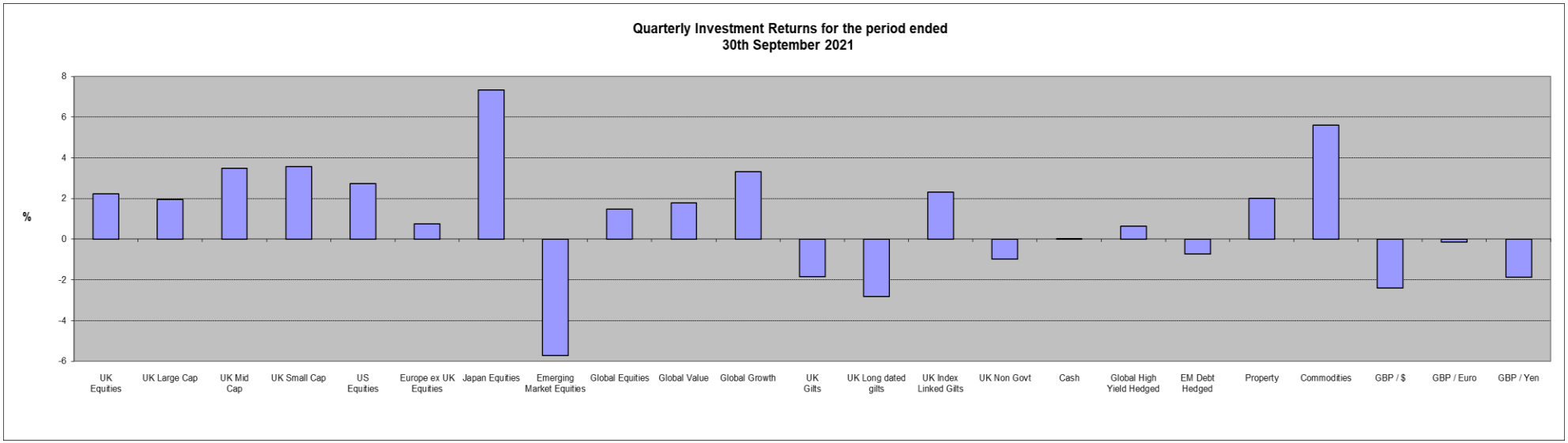


Portfolio Evaluation Ltd Market Commentary Q3 2021 (Sterling)

Quarter 3 has witnessed markets continuing to perform positively; in fact, excluding Emerging Market Equities, all equity asset classes have had positive returns. Bonds have had a negative return due to rising yields. Looking at the year results we can also see strong market returns with the exception of bonds that, on the whole, have had low positive returns. Small cap equities and commodities have had very strong returns over the year reflecting global economic recovery.

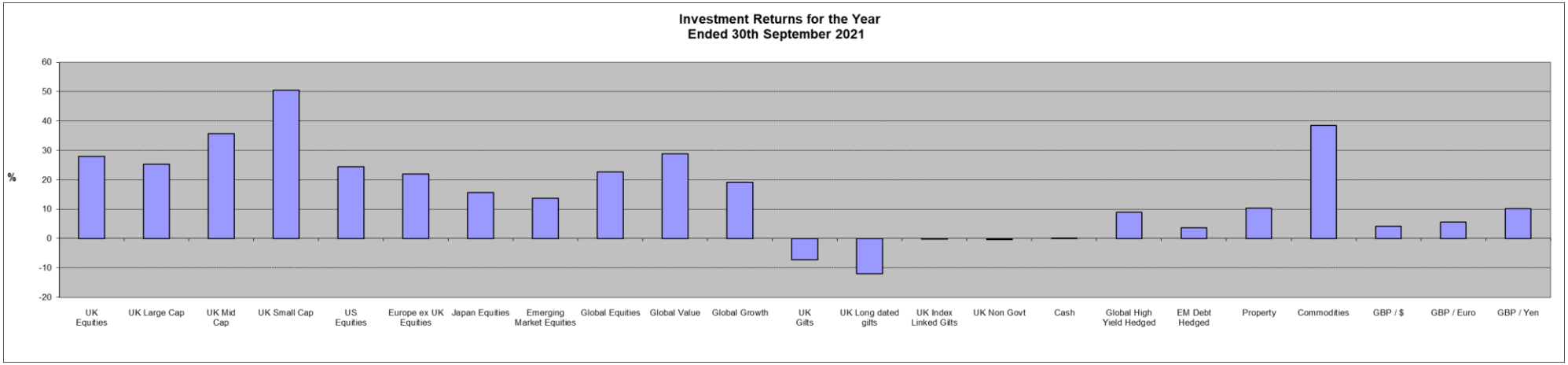


It should be noted that the returns this quarter are flattering in the context of looking forwards as most markets had negative returns in September, a trend that has continued into October. Following the decline in global economic activity in 2020 (itself unprecedented) we have witnessed a level of unprecedented global economic expansion as businesses and consumers recovered rapidly. This demand was driven significantly by large levels of monetary and fiscal support from governments and central banks. The results of this is that much of the developed world economy will be back to levels of activity that are similar to pre Covid times. This demand has led to significant supply chain problems with a lack of raw materials and inventories coupled with energy, distribution and labour problems (such as lorry drivers and hospitality staff), leading to significant inflationary pressures for suppliers and consumers. Whilst many commentators see this as short lived some are not sure as whilst inflation in the UK is currently about 3.1% this does not include factory gate and material inflation that are currently running at 6.7% and 11% respectively. It is also fairly obvious that if employers pay higher salaries then inflation will increase. Apart from the cost of resources part of this is due to Brexit as the lack of free labour movement and border controls will magnify problems within the UK that when coupled with a lack of inventories and trained staff could lead to higher inflation and continued supply chain issues. This is all happening at a time when central banks are considering reining in loose monetary policy. Many market commentators expect central

banks to resist interest rate rises until after they see the results of these inflationary pressures as raising rates may dampen growth. Because of all these issues many commentators have revised downwards their growth expectations for the rest of 2021 and 2022.

There are also additional risks. 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. Finally 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 UNCCC (COP 26) to be held in Glasgow in 2021 hopes to establish a global road map towards being carbon neutral. Obviously agreements on this (or non-agreements) will lead to significant winners and losers in terms of the global environment and investment opportunities. Despite the optimism of many developed economies given the publicly stated policies and planning status of many states perhaps we should not expect too much.



Risk within asset classes and multi asset class portfolios has decreased significantly over the year. Correlations between asset classes decreased up to September 2021 resulting in lower risk for multi asset class funds. This trend is not unusual in these types of circumstances as the stockmarket crash of 2020 washes out of the numbers. The outlook for market risk is that the recent volatility due to investor uncertainty will result in higher numbers towards the end of 2021.

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 (e-mail: nick.kent@portfolioevaluation.net) or visit our website at 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 30th September 2021

QUARTERLY SUMMARY: **Worcestershire County Council Pension Fund Return: 1.0%** **Benchmark Return: 1.2%** **Excess Return: -0.2%**

- The Fund and its benchmark have both generated positive returns, but the Fund has underperformed its benchmark by -0.2% excess. The EPO has had minimal influence on the excess return and the Total Fund return. However the Fund has been impacted negatively by being underweight UK equities as this has provided the collateral for the EPO strategy (this is held in short dated bonds). In effect, the Fund is underperforming due to benchmark mismatch as the benchmark has not been adjusted to reflect the collateral programme. Additionally the Fund has been negatively impacted by Property as this has 'lagged' the primarily listed equity benchmark.

- Bridgepoint and Infrastructure assets were the highest returning generators over the quarter. Equity assets excluding and including the overlay followed and generated a return of 0.7%. Within equities the active equities generated negative returns of -0.9% due to the LGPSC EMM portfolio which had a large negative return of -4.2%. The index funds and alternatives had returns of 2.3% and 2.1% respectively. The LGPSC Corporate Bond fund also had a negative return at -0.4%. Bond assets were the lowest returning asset class over the period.

- 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 is lagged by three months and was for periods ending June 2021.

YEAR SUMMARY: **Worcestershire County Council Pension Fund Return: 14.8%** **Benchmark Return: 17.2%** **Excess Return: -2.4%**

- The Fund and its benchmark have both generated high positive returns, but the Fund has underperformed its benchmark by -2.4% excess. The underperformance has been primarily generated by equity assets and partly by the performance of the property assets which significantly underperformed their benchmark (please note that the equity benchmark is based upon listed equity indices which have had strong performance over the last twelve months).

- 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 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 18.8%. Within equities the active equity pool had a return of 16.2% underperforming their benchmark by -0.7%; Nomura Fund had a return of 19.1% and the LGPSC EMM Fund had a return of 13.2%, both underperformed their benchmarks. Relative to their respective benchmarks the passive portfolios generated 25.7% return and relative to their respective benchmarks all performed as expected. The Alternative Equity pool was also a strong performer achieving a return of 19.4%

- Within bonds, the LGPS Central Corporate Bond Fund generated a positive return of 1.4% outperforming its benchmark by 0.6%. However, the Mid-Market Credit Fund generated a return of 6.2% and has underperformed its benchmark by -0.3% excess (there is an element of short term benchmark mismatch). Property generated a return of 1.0% and has underperformed by -10.1% excess. Infrastructure had a return of 7.0% and underperformed by -2.0%.

THREE YEAR SUMMARY: **Worcestershire County Council Pension Fund** **Return: 7.2% p.a.** **Benchmark Return: 6.8% p.a.** **Excess Return: 0.4% p.a.**

- Over the three-year period, the Fund has generated a positive return of 7.2% and has outperformed the benchmark by 0.4%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 increased the Fund return over the three year period by 0.3% per annum; given the volatility and variation in returns in markets this is liable to easily fluctuate (relative to benchmark). However 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.

Client: Worcestershire County Council Pension Fund
Manager: Multi-manager
Mandate: Total Fund
Asset Class: Combined Assets
Benchmark: Worcestershire Total Fund Index
Inception: 31-Mar-1987
Mkt Val: £3.5bn

Total Fund Overview
Worcestershire CC Pension Fund
Report Period: Quarter Ending September 2021

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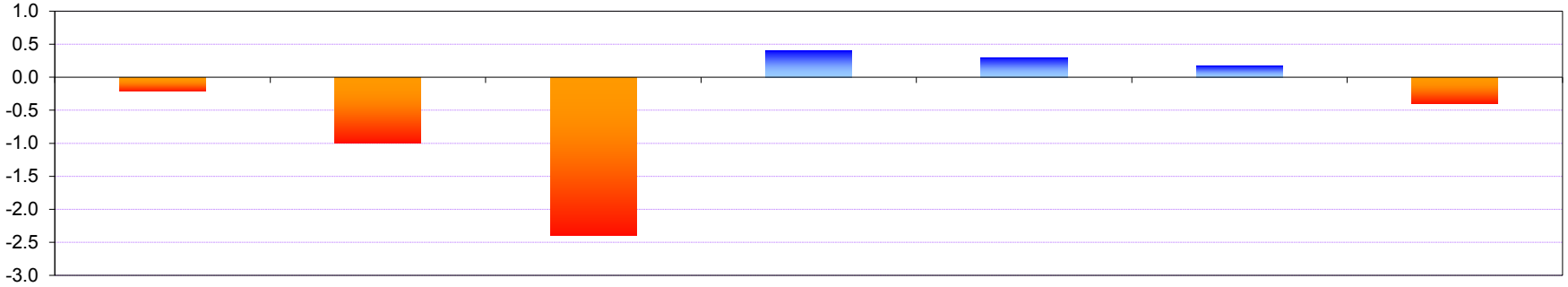
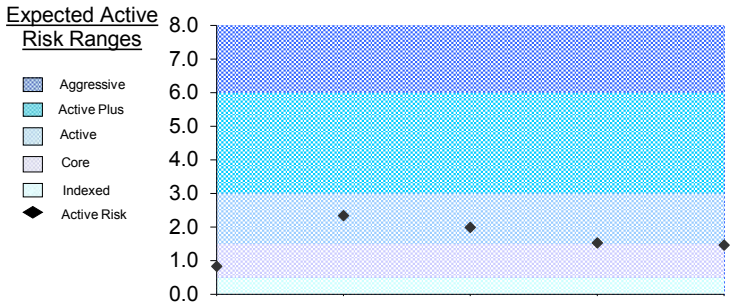
Excess Return Analysis (%)



	QTR	Fin YTD	1 Yr	3 Yr	5 Yr	10Yr	Since Mar 87 (p.a.)
Excess Return	-0.2	-1.0	-2.4	0.4	0.3	0.2	-0.4
Portfolio Return	1.0	5.3	14.8	7.2	8.3	10.1	8.1
Benchmark Return	1.2	6.3	17.2	6.8	8.0	10.0	8.5

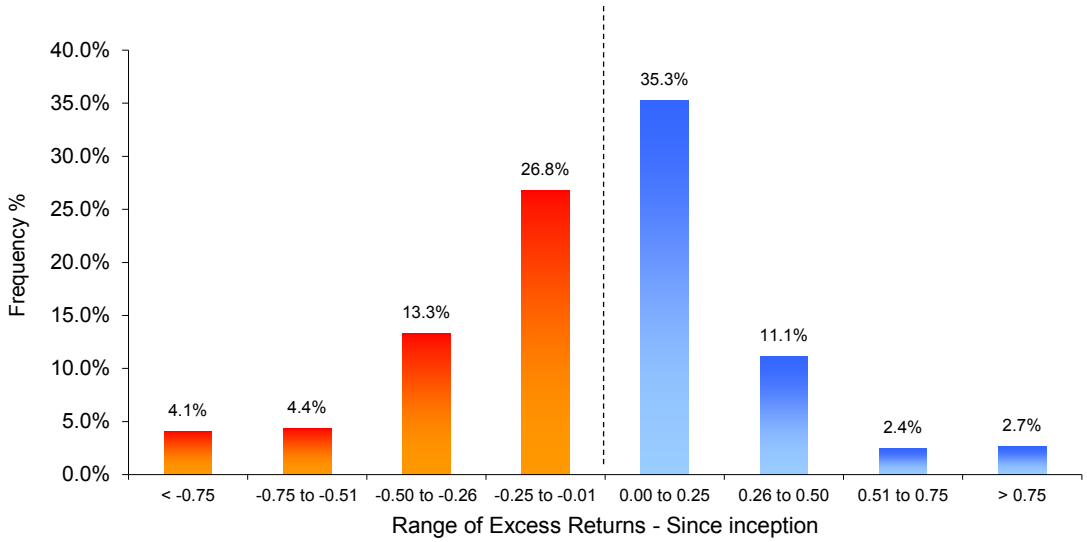
All returns for periods in excess of 1 year are annualised. The portfolio return is net.

Ex-Post Active Risk Analysis (%)



	1 Yr	3 Yr	5 Yr	10 Yr	Mar 87
Active Risk	0.8	2.3	2.0	1.5	1.5
Portfolio Risk	7.3	8.6	7.8	8.6	12.4
Benchmark Risk	7.7	10.4	9.0	9.1	12.3

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.

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

Market Value: £3.5bn

	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*	RAFI Fdmntl Dev (inc Korea) Red Carbon Pathway Index Fund - L&G	MSCI Wld Min Vol - L&G	MSCI Wld 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
Returns Summary (%)																						
Excess Return	-0.2	-0.3	-0.3	-0.3	0.2	0.0	0.1	0.3	0.0	0.0	0.0	0.0	0.1	0.0	0.0	-3.2	-3.3	0.1	1.5	0.0	-2.7	0.4
Portfolio Return	1.0	1.0	0.7	0.7	-0.9	2.2	-4.2	2.3	2.3	2.6	0.7	2.1	1.4	2.0	2.6	-3.2	-3.3	-0.4	3.1	0.0	0.9	3.5
Benchmark Return	1.2	1.3	1.0	1.1	-1.1	2.2	-4.3	2.0	2.2	2.6	0.7	2.1	1.3	2.0	2.6	0.0	0.0	-0.6	1.6	0.0	3.5	3.1
Asset Allocation Summary (%)																						
Portfolio Start	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
Portfolio End	100.0	99.7	76.7	76.4	22.7	11.2	11.5	32.3	15.8	9.9	6.6	15.8	3.5	5.9	6.4	5.8	5.5	6.4	1.5	0.0	4.7	10.7
Benchmark Start	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
Benchmark End	100.0	100.0	74.7	74.7	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	8.1	1.9	0.0	4.7	10.7
Attribution to Excess Return (%)																						
Excess Return	-0.2	-0.3	-0.2	-0.3	0.0	0.0	0.0	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	-0.2	-0.3	0.1	0.0	0.0	-0.1	0.0
Asset Allocation	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Stock Selection	-0.1	-0.2	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	0.0	0.0	0.0	-0.1	0.0

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 September 2021

Market Value: £3.5bn

PORTFOLIO EVALUATION LIMITED

	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*	RAFI Fdmntl Dev (inc Korea) Red Carbon Pathway Index Fund - L&G	MSCI Wld Min Vol - L&G	MSCI Wld 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
Returns Summary (%)																						
Excess Return	-2.4	-2.9	-3.3	-3.5	-0.7	-0.5	-0.8	-0.1	0.1	0.0	-0.3	-1.3	0.0	0.1	0.0	-10.9	-3.5	0.6	-0.3	0.0	-10.1	-2.0
Portfolio Return	14.8	15.3	17.9	18.8	16.2	19.1	13.2	25.7	28.0	25.0	21.7	19.4	34.0	10.3	21.1	-10.9	-3.5	1.4	6.2	0.0	1.0	7.0
Benchmark Return	17.2	18.2	21.2	22.3	16.9	19.6	14.0	25.7	27.9	25.0	22.0	20.7	34.0	10.2	21.1	0.0	0.0	0.8	6.5	0.0	11.2	9.0
Asset Allocation Summary (%)																						
Portfolio Start	100.0	99.7	76.6	76.3	24.8	13.1	11.7	29.7	11.2	12.2	6.3	15.3	5.1	4.4	5.8	6.9	6.6	5.3	1.5	0.0	5.3	11.2
Portfolio End	100.0	99.7	76.7	76.4	22.7	11.2	11.5	32.3	15.8	9.9	6.6	15.8	3.5	5.9	6.4	5.8	5.5	6.4	1.5	0.0	4.7	10.7
Benchmark Start	100.0	100.0	73.5	73.5	24.0	12.0	12.0	39.5	19.0	11.0	9.5	10.0	3.3	3.3	3.3	0.0	0.0	7.8	2.2	0.0	5.3	11.2
Benchmark End	100.0	100.0	74.7	74.7	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	8.1	1.9	0.0	4.7	10.7
Attribution to Excess Return (%)																						
Excess Return	-2.4	-2.9	-2.1	-2.5	-0.3	-0.1	-0.2	-0.9	-0.8	0.2	-0.2	0.0	0.1	-0.2	0.1	-0.9	-1.4	0.5	-0.1	0.0	-0.5	-0.2
Asset Allocation	-1.3	-1.6	-1.8	-2.1	-0.1	-0.1	0.0	-0.9	-0.8	0.2	-0.2	0.0	0.1	-0.2	0.1	-0.8	-1.1	0.5	0.1	0.0	0.0	0.0
Stock Selection	-1.1	-1.3	-0.3	-0.4	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	0.0	-0.1	0.0	-0.5	-0.2

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

PORTFOLIO EVALUATION LIMITED

Market Value: £3.5bn

	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*	RAFI Fdmntl Dev (inc Korea) Red Carbon Pathway Index Fund - L&G	MSCI Wld Min Vol - L&G	MSCI Wld 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
Returns Summary (%)																									
Excess Return	0.4	-0.9	1.1	-0.5	-0.3	0.8	-0.5	-1.6	0.3	1.2	0.1	0.0	-0.2	-0.6	0.0	0.1	-0.1	-0.6	-1.6	1.3	0.4	3.7	0.0	-6.2	-2.4
Portfolio Return	7.2	6.9	7.9	7.7	7.5	7.7	6.1	6.1	8.0	9.0	3.2	15.1	9.1	9.4	7.8	6.3	16.5	-0.6	-1.6	10.9	8.1	10.2	0.0	2.1	6.8
Benchmark Return	6.8	7.8	6.8	8.2	7.8	6.9	6.6	7.7	7.7	7.8	3.1	15.1	9.3	10.0	7.8	6.2	16.6	0.0	0.0	9.6	7.7	6.5	0.0	8.3	9.2
Asset Allocation Summary (%)																									
Portfolio Start	100.0	100.0	85.9	85.9	28.2	15.8	0.0	5.8	6.6	34.4	15.0	12.2	7.2	15.4	6.1	4.5	4.9	7.8	8.1	0.0	5.0	0.2	0.0	4.7	4.2
Portfolio End	100.0	99.7	76.7	76.4	22.7	11.2	11.5	0.0	0.0	32.3	15.8	9.9	6.6	15.8	3.5	5.9	6.4	5.8	5.5	6.4	0.0	1.5	0.0	4.7	10.7
Benchmark Start	100.0	100.0	81.0	81.0	24.0	12.0	0.0	6.0	6.0	47.0	26.5	11.0	9.5	10.0	3.3	3.3	3.3	0.0	0.0	0.0	9.6	0.4	0.0	4.7	4.2
Benchmark End	100.0	100.0	74.7	74.7	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	8.1	0.0	1.9	0.0	4.7	10.7
Attribution to Excess Return (%)																									
Excess Return	0.4	-0.9	0.9	-0.4	-0.1	0.0	-0.1	0.0	0.0	0.3	0.3	0.1	-0.1	0.1	-0.1	0.0	0.2	0.7	-0.6	0.2	-0.1	0.0	0.0	-0.3	-0.2
Asset Allocation	-0.3	-0.3	-0.4	-0.3	-0.2	-0.1	-0.1	0.0	0.0	0.2	0.3	0.1	-0.1	0.1	-0.1	0.0	0.2	-0.5	-0.5	0.2	-0.1	0.0	0.0	0.0	0.0
Stock Selection	0.7	-0.6	1.3	0.0	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	1.2	-0.1	0.0	0.0	0.0	0.0	-0.3	-0.2

Manager Return Analysis
Worcestershire County Council Pension Fund
for Period Ended 30th September 2021

PORTFOLIO EVALUATION LIMITED

Market Value: £3.5bn

	Benchmark	Incep Date	Market Value (£m)	Weight	QTR			Year To Date			1 Year			3 Year			5 Year			10 Year			Since Inception		
					PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER
Total Equity Fund	**Client Specific Weighted Index**	**Mar-16**	**2,651.7**	**76.7**	**0.7**	**1.0**	**-0.3**	**5.8**	**7.0**	**-1.2**	**17.9**	**21.2**	**-3.3**	**7.9**	**6.8**	**1.1**	**9.1**	**8.7**	**0.5**				**11.5**	**10.9**	**0.6**
Total Equity Fund ex Overlay	**Client Specific Weighted Index**	**Mar-16**	**2,641.3**	**76.4**	**0.7**	**1.1**	**-0.3**	**5.8**	**7.1**	**-1.4**	**18.8**	**22.3**	**-3.5**	**7.7**	**8.2**	**-0.5**	**9.1**	**9.5**	**-0.4**				**11.5**	**11.7**	**-0.2**
Total Active Equity Fund	Client Specific Weighted Index	Mar-16	785.8	22.7	-0.9	-1.1	0.2	0.6	2.3	-1.8	16.2	16.9	-0.7	7.5	7.8	-0.3	9.2	8.9	0.3				12.6	12.0	0.6
Far East Developed Fund - Nomura	Client Specific Weighted Index	Feb-03	387.7	11.2	2.2	2.2	0.0	2.1	4.0	-1.9	19.1	19.6	-0.5	7.7	6.9	0.8	9.6	8.8	0.8	10.5	9.9	0.5	10.5	10.3	0.2
Emerging Markets Fund - LGPSC	FTSE All World Emerging Market Index	Jul-19	398.2	11.5	-4.2	-4.3	0.1	-1.0	0.6	-1.6	13.2	14.0	-0.8										6.2	6.7	-0.5
Total Passive Equity Fund	Client Specific Weighted Index	Mar-16	1,117.5	32.3	2.3	2.0	0.3	9.8	9.2	0.6	25.7	25.7	-0.1	9.0	7.8	1.2	10.1	9.3	0.9				12.0	11.1	0.9
UK Equity Fund - L&G	FTSE All Share Index	Dec-15	547.5	15.8	2.3	2.2	0.0	8.0	8.0	0.1	28.0	27.9	0.1	3.2	3.1	0.1	5.5	5.4	0.2				7.5	7.4	0.2
North American Equity Fund- L&G	FTSE All World North American Index	Dec-15	341.5	9.9	2.6	2.6	0.0	11.5	11.5	0.0	25.0	25.0	0.0	15.1	15.1	0.0	16.1	16.1	0.1				18.3	18.3	0.0
Europe ex UK Equity Fund- L&G	FTSE Developed Europe Ex. UK Index	Dec-15	228.5	6.6	0.7	0.7	0.0	8.8	9.0	-0.2	21.7	22.0	-0.3	9.1	9.3	-0.2	10.2	10.4	-0.2				11.8	12.0	-0.2
Total Alternatives Fund	20% RAFI/40% MSCI WL Min/40% MSCI WL Qual	Mar-16	546.5	15.8	2.1	2.1	0.0	9.9	10.0	-0.1	19.4	20.7	-1.3	9.4	10.0	-0.6	10.9	11.4	-0.5				12.9	13.4	-0.5
RAFI Fundamental Dev (inc Korea) Reduced Carbon Pathway Index Fund - L&G	RAFI Fundamental Dev Custom Reduced Carbon Pathway 3% Index	Dec-15	121.0	3.5	1.4	1.3	0.1	7.0	6.9	0.0	34.0	34.0	0.0	7.8	7.8	0.0	10.2	10.2	0.0				12.8	12.9	0.0
MSCI World Min Vol TR Fund - L&G	MSCI World Minimum Volatility Net Index	Dec-15	203.9	5.9	2.0	2.0	0.0	7.9	7.9	0.0	10.3	10.2	0.1	6.3	6.2	0.1	7.5	7.5	0.1				11.4	11.3	0.1
MSCI World Quality TR Fund - L&G	MSCI World Quality Total Return Net Index	Dec-15	221.6	6.4	2.6	2.6	0.0	13.5	13.6	0.0	21.1	21.1	0.0	16.5	16.6	-0.1	16.7	16.8	-0.1				18.5	18.6	-0.1
Equity Protection - River & Mercantile		Jan-18	201.8	5.8	-3.2	0.0	-3.2	-1.3	0.0	-1.3	-10.9	0.0	-10.9	-0.6	0.0	-0.6							-1.7	0.0	-1.7
Equity Protection - River & Mercantile ex Overlay		Jan-18	191.4	5.5	-3.3	0.0	-3.3	-2.8	0.0	-2.8	-3.5	0.0	-3.5	-1.6	0.0	-1.6							-3.5	0.0	-3.5
LGPS Central Corporate Bond Fund	**LGPS Corporate Bond Index**	**Mar-20**	**221.4**	**6.4**	-0.4	-0.6	0.1	1.8	1.7	0.1	**1.4**	**0.8**	**0.6**										**11.4**	**10.0**	**1.4**
Bridgepoint Direct Lending II GBP	**Absolute Return + 6.5%**	**May-18**	**52.6**	**1.5**	**3.1**	**1.6**	**1.5**	**2.9**	**3.2**	**-0.3**	**6.2**	**6.5**	**-0.3**	**10.2**	**6.5**	**3.7**							**11.3**	**6.6**	**4.7**
Bridgepoint Direct Lending II EURO	*Absolute Return + 6.5%*	*May-18*	*N.A.*	*N/A*	*2.3*	*1.6*	*0.8*	*7.1*	*3.2*	*3.9*	*12.2*	*6.5*	*5.7*	*11.1*	*6.5*	*4.6*							*11.6*	*6.6*	*5.0*
Bridgepoint Direct Lending III GBP	**Absolute Return +6%**	**May-21**	**N.A.**																						
Bridgepoint Direct Lending III EURO	*Absolute Return +6%*	*May-21*	*N.A.*																						
Total Property Fund	**60% MSCI UK & 40% Abs Ret +7.5%**	**Mar-16**	**162.0**	**4.7**	**0.9**	**3.5**	**-2.7**	**3.3**	**6.7**	**-3.4**	**1.0**	**11.2**	**-10.1**	**2.1**	**8.3**	**-6.2**	**4.4**	**7.8**	**-3.4**				**5.5**	**7.7**	**-2.3**
Total UK Property Fund	Absolute Return +9%	Jul-18	55.1	1.6	1.2	2.2	-1.0	1.6	4.4	-2.8	4.8	9.0	-4.2	5.2	9.0	-3.8							5.2	9.0	-3.8
UK Property Fund - Invesco	Absolute Return +9%	Oct-18	41.8	1.2	0.5	2.2	-1.7	0.6	4.4	-3.8	2.4	9.0	-6.6	-0.2	9.0	-9.2							-0.2	9.0	-9.2
UK Property Fund - VENN	Absolute Return +9%	Jul-15	13.3	0.4	3.7	2.2	1.5	4.7	4.4	0.2	7.8	9.0	-1.2	8.3	9.0	-0.7	10.9	9.0	1.9				11.1	9.1	2.0
US Property Fund- Walton Street GBP	Absolute Return +6.5%	Feb-16	4.1	0.1	1.4	1.6	-0.2	2.0	3.2	-1.2	-5.9	6.5	-12.4	1.0	6.5	-5.5	3.5	6.5	-3.0				9.0	6.3	2.7
US Property Fund- Walton Street USD	*Absolute Return +6.5%*	*Feb-16*	*N.A.*	*N/A*	*1.6*	*1.6*	*0.0*	*3.1*	*3.2*	*-0.1*	*5.1*	*6.5*	*-1.4*	*2.5*	*6.5*	*-4.0*	*4.2*	*6.5*	*-2.3*				*7.3*	*6.3*	*1.0*
US Property Fund- Walton Street II GBP	Absolute Return +7%	Jun-19	8.8	0.3	1.7	1.7	0.0	2.4	3.4	-1.0	-3.8	7.0	-10.8										3.7	7.0	-3.3
US Property Fund- Walton Street II USD	*Absolute Return +7%*	*Jun-19*	*N.A.*	*N/A*	*2.0*	*1.7*	*0.3*	*3.5*	*3.4*	*0.0*	*7.3*	*7.0*	*0.3*										*6.3*	*7.0*	*-0.7*
Euro Property Fund- Invesco GBP	Absolute Return +6.5%	Feb-16	64.8	1.9	2.3	1.6	0.8	4.8	3.2	1.6	-1.8	6.5	-8.3	-0.3	6.5	-6.8	2.5	6.5	-4.0				4.5	6.4	-1.8
Euro Property Fund- Invesco EURO	*Absolute Return +6.5%*	*Feb-16*	*N.A.*	*N/A*	*2.2*	*1.6*	*0.6*	*3.8*	*3.2*	*0.6*	*3.6*	*6.5*	*-2.9*	*1.1*	*6.5*	*-5.4*	*2.8*	*6.5*	*-3.7*				*3.1*	*6.4*	*-3.3*
Euro Property Fund-Venn Propert Debt Fund II GBP	Absolute Return +6%	Aug-20	9.5	0.3	1.9	1.5	0.4	-1.2	3.0	-4.2															
Euro Property Fund-Venn Prop Debt Fund II EUR	*Absolute Return +6%*	*Aug-20*	*N.A.*	*N/A*	*1.1*	*1.5*	*-0.4*	*2.9*	*3.0*	*-0.1*															
Property Fund- AEW	UK RPI +4%	Oct-17	19.7	0.6	3.1	2.5	0.6	5.4	5.8	-0.4	6.9	8.9	-2.0	2.9	6.8	-3.9							3.7	6.9	-3.2
Total Infrastructure Fund	**70% UK CPI +5.5% & 30% Abs Return +10%**	**Mar-16**	**368.1**	**10.7**	**3.5**	**3.1**	**0.4**	**4.6**	**5.7**	**-1.1**	**7.0**	**9.0**	**-2.0**	**6.8**	**9.2**	**-2.4**	**7.0**	**8.7**	**-1.7**				**6.8**	**8.6**	**-1.8**
UK Infrastructure Fund - Green	Absolute Return +7.6%	Apr-15	42.0	1.2	1.0	1.8	-0.9	5.6	3.7	1.9	8.0	7.6	0.4	3.8	7.6	-3.8							4.6	7.6	-3.0
BSIF Housing and Infrastructure	Absolute Return +8%	May-20	25.7	0.7	37.2	1.9	35.2	-15.3	3.9	-19.2	-11.6	8.0	-19.6										-0.9	8.0	-8.9
BSIF II Infrastructure Fund	Absolute Return +9%	Sep-21																							
UK Infrastructure Core Fund - Hermes	Absolute Return +8.4%	May-15	53.0	1.5	-0.8	2.0	-2.8	-2.9	4.1	-7.0	2.2	8.4	-6.2	2.5	8.4	-5.9	4.1	8.4	-4.3				5.0	8.4	-3.4
UK Infrastructure Fund - Hermes II	Absolute Return +8.5%	Jun-18	46.7	1.4	-1.4	2.1	-3.5	-1.4	4.2	-5.6	-1.4	8.5	-9.9	-1.9	8.5	-10.4							-2.7	8.6	-11.3
Infrastructure Core Fund - Stonepeak GBP	Absolute Return +12%	Jan-18	93.8	2.7	4.7	2.9	1.9	13.0	5.8	7.1	13.8	12.0	1.8	28.2	12.0	16.2							15.0	12.0	3.0
Infrastructure Core Fund - Stonepeak USD	*Absolute Return +12%*	*Jan-18*	*N.A.*	*N/A*	*5.0*	*2.9*	*2.1*	*14.1*	*5.8*	*8.3*	*27.1*	*12.0*	*15.2*	*30.6*	*12.0*	*18.6*							*16.2*	*12.0*	*4.2*
First Sentier EDIF Fund GBP	Absolute Return +9%	Jun-18	107.0	3.1	3.5	2.2	1.3	5.5	4.4	1.1	8.5	9.0	-0.5	6.4	9.0	-2.6							6.8	9.1	-2.3
First Sentier EDIF Fund EURO	*Absolute Return +9%*	*Jun-18*	*N.A.*	*N/A*	*3.3*	*2.2*	*1.1*	*4.6*	*4.4*	*0.2*	*14.2*	*9.0*	*5.2*	*7.5*	*9.0*	*-1.5*							*7.1*	*9.1*	*-2.0*
Worcestershire CC Total Fund ex Overlay		**Mar-87**	**3,445.4**	**99.7**	**1.0**	**1.3**	**-0.3**	**5.3**	**6.5**	**-1.2**	**15.3**	**18.2**	**-2.9**	**6.9**	**7.8**	**-0.9**	**8.3**	**8.7**	**-0.4**	**10.1**	**10.3**	**-0.2**	**8.1**	**8.6**	**-0.5**
Worcestershire CC Total Fund		**Mar-87**	**3,455.8**	**100.0**	**1.0**	**1.2**	**-0.2**	**5.3**	**6.3**	**-1.0**	**14.8**	**17.2**	**-2.4**	**7.2**	**6.8**	**0.4**	**8.3**	**8.0**	**0.3**	**10.1**	**10.0**	**0.2**	**8.1**	**8.5**	**-0.4**

PF = Portfolio Return BM = Benchmark Return ER = Excess Return

Total Fund Benchmark

CLIENT SPECIFIC BENCHMARK:

25.5% FTSE All Share - % Dependant upon actual drawdowns of Infra & Prop

9.5% FTSE Developed Europe Ex UK

12% FTSE All World Emerging Markets

10% 2% RAFI Fundamental Developed Custom Reduced Carbon Pathway 3% Index & 4% MSCI World Minimum Vol Total Return NET & 4% MSCI World Quality Total Return NET

11% FTSE All World North America

12% 6.6% FTSE All World Asia Pacific ex Japan & 5.4% FTSE All World Japan

Corp Bonds: LGPS Central Specific Index

Infrastructure: 70% UK CPI +5.5%, 30% Absolute Return 10%

Property: 60% MSCI UK Monthly Property Index, 40% Absolute Return +7.5%

Notes:

Q3 2021: Investment into BSIF II Infrastructure Fund on 7th September 2021 which will be lagged by 3 months going forwards. Benchmark change for Nomura Far East Developed Equity Fund from 2nd August 2021 moving from FTSE Developed Asia Pacific Index to a weighted index of 55% FTSE All World Asia Pacific Ex. Japan Index and 45% FTSE All World Japan Index. This change is also reflected in the Total Fund Benchmark, Total Active Equity Fund Benchmark, Total Equity Fund Benchmark and Total Equity Fund ex Overlay Benchmark.
Q2 2021: Investment into Bridgepoint Direct Lending III during the quarter which will be lagged by 3 months going forward.
Q1 2021: Update to weights of the Total Alternatives index - also incorporated within the Total Fund index.
Q4 2020: Investment into Venn Property Debt Fund II during the quarter which will be lagged by 3 months going forward. Benchmarks for underlying property and infrastructure portfolios amended back to those previously.
Q3 2020: Benchmarks updated for Total Fund, Infrastructure Fund and all underlying portfolios. Benchmark updated for Total Property Fund and underlying portfolios
Q2 2020: The Total Equity and Total Fund benchmark are adjusted quarterly to reflect the equity overlay hedge programme (this results in a percentage being allocated to cash).
Q1 2020: Disinvested from JPM Corporate Bond Fund 12.02.20. Moved into a Transition Account up to 22.03.20. Invested in LGPS Central Corporate Bond Fund 23.03.20.

Fees/fund charges have been taken into account for the Total Fund return. Fees were found within the data for Hermes in July and L&G for August. The fees applied may not be final or all of the fees for Worcestershire CC Total Fund Portfolio.
Historic data up to and including 31.03.2016 has been provided by the WM Co and L&G.

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

Market Value: £3.5bn

PORTFOLIO EVALUATION LIMITED

	30th June 2021		Net	Total	Total	30th September 2021	
	Market Val (£000s)	Exposure (%)	Investment (£000s)	Income (£000s)	Gain/Loss (£000s)	Market Val (£000s)	Exposure (%)
Total Equity Fund	**2,706,920**	**79.0**	**-71,584**	**0**	**16,335**	**2,651,670**	**76.7**
Total Equity Fund ex Overlay	**2,699,804**	**78.8**	**-75,000**	**0**	**16,452**	**2,641,256**	**76.4**
Total Active Equity Fund	873,487	25.5	-75,000	0	-12,671	785,816	22.7
Far East Developed Fund - Nomura	457,788	13.4	-75,000	0	4,867	387,655	11.2
Emerging Markets Fund - LGPSC	415,699	12.1	0	0	-17,538	398,161	11.5
Total Passive Equity Fund	1,093,119	31.9	0	0	24,356	1,117,476	32.3
UK Equity Fund - L&G	419,502	12.2	120,000	0	7,971	547,473	15.8
North American Equity Fund- L&G	446,642	13.0	-120,000	0	14,886	341,528	9.9
Europe ex UK Equity Fund- L&G	226,975	6.6	0	0	1,500	228,475	6.6
Total Alternatives Fund	535,261	15.6	0	0	11,274	546,536	15.8
RAFI Fundamental Dev (inc Korea) Reduced Carbon Pathway Index Fund - L&G	119,355	3.5	0	0	1,650	121,004	3.5
MSCI World Min Vol TR Fund - L&G	199,829	5.8	0	0	4,056	203,885	5.9
MSCI World Quality TR Fund - L&G	216,078	6.3	0	0	5,569	221,647	6.4
Equity Protection - River & Mercantile	205,052	6.0	3,416	0	-6,625	201,843	5.8
Equity Protection - River & Mercantile ex Overlay	197,936	5.8	0	0	-6,507	191,429	5.5
LGPS Central Corporate Bond Fund	**163,236**	**4.8**	**59,868**	**0**	**-1,689**	**221,415**	**6.4**
Bridgepoint Direct Lending II	**44,692**	**1.3**	**7,682**	**1,143**	**257**	**52,631**	**1.5**
Bridgepoint Direct Lending III	**0**	**0.0**	**0**	**0**	**0**	**0**	**0.0**
Total Property Fund	**160,245**	**4.7**	**969**	**648**	**762**	**161,976**	**4.7**
Total UK Property Fund	54,466	1.6	0	0	667	55,133	1.6
UK Property Fund - Invesco	41,600	1.2	0	0	189	41,789	1.2
UK Property Fund - VENN	12,866	0.4	0	0	478	13,344	0.4
US Property Fund- Walton Street	4,511	0.1	-499	0	61	4,073	0.1
US Property Fund- Walton Street II	5,103	0.1	3,573	0	103	8,780	0.3
Euro Property Fund- Invesco	65,451	1.9	0	431	-668	64,784	1.9
Euro Property Fund-Venn Propert Debt Fund II	11,395	0.3	-2,105	0	216	9,505	0.3
Property Fund- AEW	19,318	0.6	0	217	382	19,700	0.6
Total Infrastructure Fund	**352,882**	**10.3**	**4,169**	**1,237**	**11,026**	**368,077**	**10.7**
UK Infrastructure Fund - Green	42,119	1.2	-532	0	412	42,000	1.2
BSIF Housing and Infrastrucure	13,894	0.4	6,595	0	5,166	25,656	0.7
BSIF II Infrastructure Fund	0	0.0	0	0	0	0	0.0
UK Infrastructure Core Fund - Hermes	57,144	1.7	-3,711	0	-461	52,972	1.5
UK Infrastructure Fund - Hermes II	46,800	1.4	512	0	-659	46,653	1.3
Infrastructure Core Fund - Stonepeak	88,333	2.6	1,304	0	4,194	93,831	2.7
First Sentier Fund	104,593	3.1	0	1,237	2,374	106,967	3.1
Cash Fund	**0**	**0.0**	**0**	**0**	**0**	**0**	**0.0**
Worcestershire CC Total Fund ex Overlay	**3,420,860**	**99.8**	**-2,312**	**3,028**	**26,808**	**3,445,355**	**99.7**
Worcestershire CC Total Fund	**3,427,975**	**100.0**	**1,104**	**3,028**	**26,691**	**3,455,770**	**100.0**

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

Quarterly Engagement Report

July-September 2021

Shell, Rio Tinto, ArcelorMittal, National Grid, SSE, Anglo American

Local Authority Pension Fund Forum

CLIMATE EMERGENCY

LAPFF Chair Visits Tailings Dam in Devon

Objective: Although LAPFF's plans to visit Brazilian communities affected by tailings dams have been postponed due to Covid, LAPFF's work with the communities has continued apace over the last year and a half. As part of building an understanding of how tailings dams function, LAPFF Chair, Cllr Doug McMurdo, visited a mine in Devon that has a tailings dam (pictured above and on cover).

Achieved: Cllr McMurdo visited the tungsten mine at the beginning of July. He was shown round the various mining functions by the mine's CEO and other staff, and part of this tour included the tailings dam. The Devon tailings dam was of a downstream construction. When asked about the construction type, the mine staff explained that they would not use an upstream dam because this type of construction is too dangerous. One of the big problems faced by communities affected by tailings dams globally is that they are potentially in the path of run off from upstream dams.

In Progress: LAPFF is continuing to engage with companies, communities, and other stakeholders, as well as undertaking research to prepare for its visit to Brazil, whenever that might be.

Shell

Objective: LAPFF had some serious concerns about the out-going Shell Chair's statement that oil and gas would be needed as part of the company's portfolio for the foreseeable future. Various conversations and interactions with the CEO had also raised concerns about the company's trajectory, both from a carbon perspective and from a business perspective. Consequently, LAPFF was keen to meet the new Shell Chair, Andrew Mackenzie, formerly CEO of BHP and no relation to current BHP Chair, Ken MacKenzie.

Achieved: The meeting took place in early September, with the conversation focused primarily on Shell's financial performance and how the company's approach to fossil fuels would impact on that performance. LAPFF Chair, Cllr Doug McMurdo, noted that compared to BHP's total shareholder returns over the last ten years, Shell had performed poorly and that net zero objectives would not enable the company to achieve Paris-aligned climate targets. While LAPFF was grateful to Sir Andrew for his engagement and welcomed his willingness to take suggestions, significant inconsistencies in Shell's business strategy, business model, and climate strategy appear to persist.

CLIMATE EMERGENCY

In Progress: LAPFF will continue to engage with Shell to work toward a truly Paris-aligned climate and business plan for the company.

Rio Tinto

Objective: This year, LAPFF attended Rio Tinto's AGM to push the company on recognising the financial impacts of its social challenges. Therefore, Cllr McMurdo was pleased to meet Rio Tinto's Chief Financial Officer, Peter Cunningham, to discuss this issue further. Mr. Cunningham took over as interim CFO when Jakob Stausholm became CEO but has been made permanent recently.

Achieved: It appears that Mr Cunningham understands and agrees with the proposition that social impacts affect financial materiality at companies. However, everyone LAPFF has spoken to at Rio Tinto acknowledges that despite progress since Juukan Gorge, the company has some way to go to regain investor and affected community trust in its operations.

One area where Rio Tinto has improved substantially is in its willingness to engage with LAPFF. After the destruction of the Juukan Gorge rock shelters, LAPFF tried in vain to obtain meetings with the Chair to discuss what had happened but did not manage to do so for over six months after the shelters were destroyed. This year, LAPFF has met not only with Peter Cunningham but also with Mr. Stausholm and Chair Simon Thompson. The company continues to offer meetings with various specialist staff and affected community members with which the company engages.

LAPFF recognises that engagement is not progress. It also recognises that the staff and community members put forward by Rio Tinto probably have a particular bias or perspective on Rio Tinto's activities, especially since LAPFF continues to hear contradictory information from affected community representatives. However, engagement with all affected parties is useful for LAPFF to understand what questions to ask the various parties involved.

In Progress: Therefore, LAPFF is continuing to liaise with other interested investors, Rio Tinto, and affected communities and their representatives in Australia, the US, Papua New Guinea, and elsewhere. This triangulated communication helps to paint a more complete picture for LAPFF of Rio Tinto's progress from an environmental, social, and financial perspective.

As a follow-up, the LAPFF Chair also met with Rio Tinto staff to discuss the forthcoming 'say on climate' vote at the 2022 AGM. The challenge as ever is addressing Scope 3 emissions, which comprise 95% of total emissions. In doing so, the pace of roll-out of zero-carbon technologies by the company's steel customers was noted.

Anglo American

Objective: LAPFF has been concerned that Anglo American's board and management have not been sufficiently engaged with community members affected by the company's operations. However, LAPFF learned at the Anglo American AGM that the company's CEO, Mark Cutifani, had visited the company's controversial Colombian joint venture with Glencore and BHP, Cerrejon. Therefore, Cllr McMurdo met with Mr. Cutifani to hear about the CEO's experience of visiting the project.

Achieved: LAPFF appreciated Mr. Cutifani's openness in discussing the political, cultural, and environmental challenges surrounding Cerrejon. The project is a thermal coal mine, and just days after speaking to both Mr. Cutifani and BHP Chair, Ken MacKenzie, LAPFF received news that both Anglo American and BHP were pulling out of the joint venture to leave Glencore as the sole mining giant involved with the project. Subsequently, LAPFF representatives also met with Anglo American to discuss the company's next 'say on climate' resolution.

Anglo American has developed a detailed community engagement approach as part of its Social Way programme. However, the fact remains that all three companies have been investors in Cerrejon during a time when there have been allegations of severe human rights and environmental violations. All three companies have been named in a complaint filed with a number of OECD National Contact Points on these grounds.

In Progress: LAPFF will continue to engage with Anglo American on its community engagement approach and its climate approach.

BHP Voting Alert

LAPFF issued a voting alert to oppose BHP's climate plan. While LAPFF commended BHP for putting its plan to a vote, the plan is not aligned with the goals of the Paris Agreement. BHP has undoubtedly made progress on climate, but given the pressing nature of the climate crisis, LAPFF expects all climate plans to be Paris-aligned at this stage. As the alert stated, climate change is not a negotiation.

BHP

Objective: There is a debate raging in Western Australia about a proposed cultural heritage law to increase protections for Indigenous communities in the area. LAPFF had spoken to Rio Tinto about the law, and the company had not seen the final draft. However, affected communities are apparently not pleased with either the process or the content of the law. As BHP is another company affected by the law, LAPFF had a meeting with the company's Indigenous Affairs representative to find out more about the law. LAPFF is also seeking a meeting with the affected Indigenous communities.

Achieved: LAPFF was able to understand from the discussion with BHP that the main point of contention appears to be the level of say affected communities have over whether projects move forward, a so-called 'right of veto'. While there are apparently improvements from the last piece of legislation, the question is whether sufficient positive change will be made to the new legislation to protect affected communities from another Juukan Gorge.

In Progress: LAPFF will continue to engage with BHP, Rio Tinto, and affected community members to see if there is a role for LAPFF to play in promoting a positive outcome to this debate and the eventual legislation.

COMPANY ENGAGEMENT

ArcelorMittal

Objective: After the long-awaited issuing of the company's second Group Climate Action report, a meeting was held with company representatives and other CA100+ investors to discuss company progress.

Achieved: ArcelorMittal now has a group-wide emission intensity reduction target for 2030 of 25%, and 35% for Europe. The LAPFF Vice-Chair, Cllr Chapman commended the strengthening of targets and announcements of zero carbon steel plants in Spain and Canada. On request, the report also included a mapping of the company progress against the CA100+ benchmark. This mapping will be used by many investors to inform AGM voting. Also raised were Paris-aligned accounts, climate considerations in remuneration, consulting shareholders on a transition plan vote at the 2022 AGM and requesting that the company run the 2022 AGM as openly as it did the 2021 AGM when the meeting was run on a virtual platform.

In Progress: Given the strengthened decarbonization targets and 'real world' impact of the new zero carbon steel plants, this engagement was considered to have shown substantial progress.

National Grid

Objective: LAPFF has had long-term ongoing engagement with National Grid, most recently as joint-lead investor in the Climate Action 100+ (CA100+) engagement. This engagement culminated in the board putting a 'say on climate' resolution to the AGM, which asked shareholders, from 2022, to approve annual reporting on the company's net zero strategy, 2030 action plan, and progress against emission reduction targets. Cllr Rob Chapman, the LAPFF Vice-Chair, met with the new chair, Paul Rasput Reynolds, and attended the AGM to encourage robust decarbonization plans.

Achieved: A voting alert recommended that members support the board's accountability for annual approval of a transition plan as well as article amendments supporting provisions for holding 'hybrid' annual meetings. The latter provides greater opportunities for shareowners to participate and ask questions of board members. At the meeting with the chair, LAPFF questions focused on seeking more ambition due to the new International Energy Agency Net Zero pathway, on phasing out gas, on setting short term targets up to 2025, and on looking for changes in planned capex to allow for a larger take up of electrification for heating. At the AGM the following week, LAPFF posed questions; the questions and responses from the board can be viewed here. Ms. Reynolds noted there would be a board meeting following the AGM to consider how the UK and US transition plans are implemented and remain fit for purpose.

In Progress: It was considered the outcome of the meeting was 'change in progress'.

SSE

Objective: Cllr Rob Chapman also met with SSE to discuss the company's 'say on climate' resolution ahead of SSE's AGM in July. LAPFF and SSE have a long-standing dialogue on environmental, social, and governance issues, including a just transition. The Forum is keen to continue this dialogue as SSE has been particularly constructive in its discussions with LAPFF over the years and has undertaken some innovative work in both the social and the environmental areas, not least a just transition to a zero-carbon economy.

Achieved: Acknowledging that SSE is ahead of the game on much of its transition planning, LAPFF raised some concerns in particular around Scope 3 emissions measurement and targets. A number of just transition challenges for the company were also discussed, along with a further discussion on the relevance of and uses for carbon capture and storage (CCS).

After the engagement meeting, Cllr Chapman also attended SSE's AGM by virtual means to ask questions around CCS and grid structure in relation to SSE's climate goals.

In Progress: LAPFF and SSE have agreed to continue dialogue and speak as necessary, but in particular prior to SSE's next 'say on climate' resolution.

HSBC

Objectives: The LAPFF chair met with HSBC representatives to ascertain how HSBC will be assisting its clients to set and implement coal phase-out plans in line with the bank's own commitment and timeline. Clarity was also sought on how the company is progressing on pulling out of coal-intensive industries.

Achieved: Representatives noted that the International Energy Agency scenario 'net zero by 2050' will be used to benchmark progress. The company has undertaken new analysis, with more data to be considered. The company joined the net zero banking alliance in April to help understand the transition journeys clients are on, and how the bank can have impact. On retreating from coal-intensive industries, it was noted that coal exposure represents 0.2% of wholesale loans and advances as measured under the Taskforce on Climate-related Financial Disclosure metrics in 2020. However, it was recognised this still represents investments of £1.2 billion, but as existing, not new, commitments.

In Progress: Representatives noted that they are developing the methodology for a transition risk questionnaire for clients and that commitments would be made in 2021. A further request was made to disclose fossil fuel investments in the annual report. This disclosure is done at 'top level' but would not separate out renewables investments made by such companies. At this stage, the outcome was considered 'change in progress'.

Standard Chartered

Objectives: The LAPFF chair met with the Standard Chartered chair, José Viñals, to ascertain how the company is progressing working with clients on climate change to reduce emissions and align with the bank's net zero by 2050 policy.

Achieved: Of concern has been the bank's funding of Adaro, a major coal supplier which Standard Chartered's own analysis shows to be aligned with an increase of 5-6°C in global warming. Standard Chartered will be issuing a roadmap setting out its route to net zero in October 2021, and the board is putting a 'say on climate' resolution to the 2022 AGM.

COMPANY ENGAGEMENT

In Progress: It appears that an NGO is considering filing a resolution to the Standard Chartered AGM asking for commitments not yet evident in the company's current transition plans. LAPFF met with this NGO to hear more of its concerns.

Mitsubishi Financial

Objective: Cllr Glyn Caron, of the LAPFF Executive, joined a collaborative investor call organised by Asia Research and Engagement with Mitsubishi UFJ Financial (MUFJ). The meeting sought to cover constituent details of a plan which would align financing to the goals of the Paris agreement and the setting of a net zero financed emissions target. This call followed LAPFF correspondence with the company on the issuing of a voting alert for the company's June AGM supporting the company issuing a plan to align financing with the Paris Agreement. The engagement was followed by media coverage on concerns over the bank's provision of finance to fossil fuel expansion and deforestation.

Achieved: In May, MUFJ made a net zero declaration, and as part of this commitment joined the Net Zero Banking Alliance. The company is committed to developing a plan but has only just started addressing policy formulation and implementation. This initial activity has been through setting up working groups to see if improvement can be made on the current investment threshold of 50% coal, which is 50% of 'total capacity'. The company representative noted this standard would be revised and a goal set, which will be shown in due course. On physical risk, currently only flooding impact is mapped.

In Progress: It was agreed further correspondence would follow, including sharing examples of good practice from other financial institutions and benchmarking of these companies on coal policies. It was noted further physical risks could be considered going forward. Overall, the outcome from the meeting illustrated there was a 'change in process'.

Sainsbury

Objective: LAPFF attended Sainsbury's 'Plan for Better' event and posed questions, both at this event and at the AGM, on the company's packaging practices, electric vehicles, supply chains, climate change and 'say on climate'.

Achieved: Sainsbury's 'Plan for Better' ESG event covered a broad range of ESG topics, noting targets and progress against them. In 2020, Sainsbury announced its climate target to be net zero by 2040 and has this year announced Scope 3 emissions target, which followed with a key theme of this year's ESG event being that the company was engraining ESG at the core of its business strategy. It is taking a number of steps in stores to tackle plastic packaging, opting for loose veg as opposed to prepacked. These steps have led Sainsbury to be recognised by Greenpeace as the retailer with the second highest proportion of loose fruit and vegetables in the market.

A large part of Sainsbury's strategy with plastic packaging is attempting to enable a circular economy, having launched an initiative in June, offering customers the opportunity to bring back any flexible plastic packaging to front of store collection points in 520 supermarkets for recycling. LAPFF has also co-led an engagement with Sainsbury in a coalition led by First Sentier Investors, pushing for suppliers and distributors of domestic and commercial washing machines to fit, as a standard procedure, filters to their products to prevent plastic microfibres entering the world's ecosystems. Sainsbury responded that they had engaged with white goods suppliers and were looking at viable options.

In Progress: LAPFF will be meeting with Sainsbury for a more in-depth conversation on the company's approach to a zero-carbon transition and will be querying the company further on a 'say on climate' vote.

COMPANY ENGAGEMENT

Persimmon

Objective: LAPFF has been engaging with Persimmon over a number of years following serious concerns about excessive executive pay, customer care and build quality. The Forum has also identified housebuilders as an important sector for climate change engagements, given the level of emissions from residential property. The Forum therefore sought to meet with the Chair of Persimmon, Roger Devlin, to discuss improvements in customer care and executive pay alongside how it was seeking to move to a net zero business model.

Achieved: It was noted how the company had made changes to its approach to customer care following a review by Stephanie Barwise QC. The meeting covered inspections of properties following historic build quality concerns and the company's improved customer ratings. The issue of executive pay was covered, including resolving issues that led to the high pay award of the former chief executive.

On climate change, Persimmon's targets to reach net zero were discussed. Persimmon has made a commitment that all new homes will be net-zero by 2030 and for the company, including its operations, to be net zero by 2040. Gas boilers are being banned in new homes from 2025 and the discussion focused on how Persimmon was seeking to get ready for this change.

In progress: The company has made improvements to customer care but there is scope for further improvements. While emission targets have been set it will be important to monitor their progress towards net zero.

OCCUPIED PALESTINIAN TERRITORIES (OPT) ENGAGEMENTS

Objective: There are short-term and long-term objectives with this engagement. The short-term objective is to have the LAPFF target companies operating in this area engage meaningfully with LAPFF on their human rights practices in the OPT. The long-term objective is to have these companies produce credible, robust, independent human rights impact assessments of their practices in the OPT so that LAPFF members can assess whether the companies' human rights practices meet international human rights and humanitarian law standards.

Achieved: In line with the UN Guiding Principles on Business and Human Rights, LAPFF has been working for some months with a business and human rights expert to help with this engagement. This expert has joined LAPFF engagements with Altice and Booking Holdings this quarter, providing invaluable contributions to the engagements and ideas for how to proceed with the engagement. Both companies provided insights into their human rights due diligence processes and Booking Holdings has publicly announced that it is in the process of drafting its Human Rights Statement.

In Progress: LAPFF sent a follow up meeting request to the target companies and was able to schedule a few more meetings this time round. It will continue to approach companies for engagement and to request meaningful responses to information requests. Specifically, LAPFF is not content with the explanation that companies are abiding by the relevant law in the way they conduct business in the OPT. In all of LAPFF's work globally, this response is a red flag to LAPFF that companies are treading a thin line between legality and illegality in their conduct. This margin is not acceptable to LAPFF.

COMPANY ENGAGEMENT

PHARMACEUTICAL COMPANY ENGAGEMENTS

Objective: Some of LAPFF's largest holdings are in pharmaceutical companies. Many of these companies have been contributing to the development of Covid vaccines and have faced significant challenges over the last couple of years. LAPFF is interested in finding out how the Covid pandemic has affected these companies.

Achieved: LAPFF has written to five of the companies in which members hold a large number of shares in aggregate to find out whether the Covid pandemic has had an impact on their business strategies or business models. The companies of interest are AstraZeneca, GlaxoSmithKline, Novartis, Roche Holding, and Sanofi.

In Progress: LAPFF is in the process of arranging meetings with these companies, most of whom have responded that they are willing to meet and discuss this issue.

COLLABORATIVE ENGAGEMENTS

Chair's Quote: "The speed with which the 'say on climate' initiative has taken root is indicative of its importance. I am heartened to see the number of companies putting their climate plans to a vote. However, the number of plans that fail to meet the goals of the Paris Agreement is alarming. I have always shared the view that Covid is a dress rehearsal for climate change; we must learn and take meaningful action much more quickly on both fronts."

The Institutional Investor Group on Climate Change has published a guide on Investor Expectations of Companies on Physical Climate Risks and Opportunities. LAPFF has co-signed letters to 50 companies in sectors highly exposed to physical climate risk asking them to adopt the expectations set out in the guide. These expectations very broadly are to establish a climate governance framework, to undertake physical climate risk and opportunity assessment, to develop and implement a strategy for building climate resilience, and to identify and report against metrics to demonstrate progress over time.

COLLABORATIVE INVESTOR MEETINGS

LAPFF continued to engage with other investors in the 30% Club, the Investors for Opioid and Pharmaceutical Accountability (IOPA) and the 'Financing a Just Transition Alliance'. It is also continuing to work with CA100+ on carbon reduction at widely held companies, and with Sarasin on Paris-aligned auditing of accounts. LAPFF continues to participate in investor collaborations to combat modern slavery too and is considering how best to expand engagement on this topic.

COLLABORATIVE COMMUNITY MEETINGS

LAPFF was pleased to learn that JGP Credito, a Brazilian investor with which LAPFF has been liaising in relation to the Samarco and Brumadinho tailings dam collapses in Brazil, visited communities affected by those disasters at the end of August. One of the main asks from the communities was that LAPFF get Brazilian investors involved to help highlight the communities' struggles in the wake of the dam collapses. JGP has been an excellent partner in this regard, but it has been a struggle for LAPFF to engage other Brazilian investors. In any case, LAPFF is planning to continue its quarterly meetings with affected community members to monitor their experiences and to see what LAPFF can do to help meet their needs.

POLICY ENGAGEMENT

Further to the setting up of the UK Accounting Standards Endorsement Board, which has taken over from the EU Commission in endorsing international accounting standards for use in the UK, the Chair of LAPFF has written to the Chair of the Board, Pauline Wallace. The letter requests production of the guidance used by the UKEB in endorsing standards in respect of 'true and fair view'. This request comes after the former CEO of the FRC told Parliament that government lawyers had "concluded that they agreed" with "legal advice from Martin Moore QC who [had] concluded almost exactly the opposite of what [George Bompas, QC for the Local Authorities Pension Fund Forum (LAPFF)] had concluded." However, a Freedom of Information request revealed the government position: "We have never said that the views [of the LAPFF] are incorrect and may be disregarded. ... Ultimately, whether the views of the LAPFF are incorrect would be a matter for the courts".

In September, LAPFF – as part of a 587 investors strong group representing over USD $46 trillion in assets – participated in sending the 2021 Global Investor Statement to Governments on the Climate Crisis. Considered the 'strongest ever call by global investors for governments to raise their climate ambition and implement meaningful policies to support investment in solutions to the climate crisis' the statement calls on all governments to undertake five priority actions in 2021. For further information on this statement, please access here.

CONSULTATION RESPONSES

There has been a series of consultations by the government relating to the UK's commitments on carbon reductions, including the interim goal of reducing emissions by 78% by 2035 over 1990 levels.

Transport, is the sector with the fastest growing source of carbon emissions and LAPFF has provided three related responses to relevant government consultations. In its response to the Department of Transport's 'Jet Zero' consultation on the strategy for net zero aviation, LAPFF considers that the government should take the opportunity to support the development of UK leadership in electric flight. In the response to the DWP consultation on ending the sale of new non-zero emission heavy goods vehicles, LAPFF supports a clearly identified legislative framework for carbon reductions, so companies can make the necessary decisions and financial commitments to provide the crucial short and long-term solutions to decarbonising the economy. Responding to the Department for Transport Consultation on a new CO_2

ENGAGEMENT

emissions regulatory framework, LAPFF supports deploying the zero-emission vehicle mandate. To maximise zero emission capability, the government should ensure there is a focus on electric drive-train technology for all road vehicles. For cars or vans, the Department for Business, Energy and Industrial Strategy has already recognised that this approach is the lowest cost route to zero emissions. All responses can be viewed here.

MEDIA COVERAGE

Investors with $4 trln assets aim to tackle Asian firms on climate change goals https://www.reuters.com/article/marketsNews/idUSL8N2QU68V?il=0 https://finance.yahoo.com/news/investors-4-trln-assets-aim-013000164.html https://www.dealstreetasia.com/stories/investors-asian-firms-climate-change-262764/ https://www.straitstimes.com/business/economy/investors-handling-54-trillion-throw-weight-behind-new-platform-pushing-for-green

LGPS – Making Net Zero Add up To Something Real https://www.room151.co.uk/blogs/lgps-making-net-zero-add-up-to-something-real/

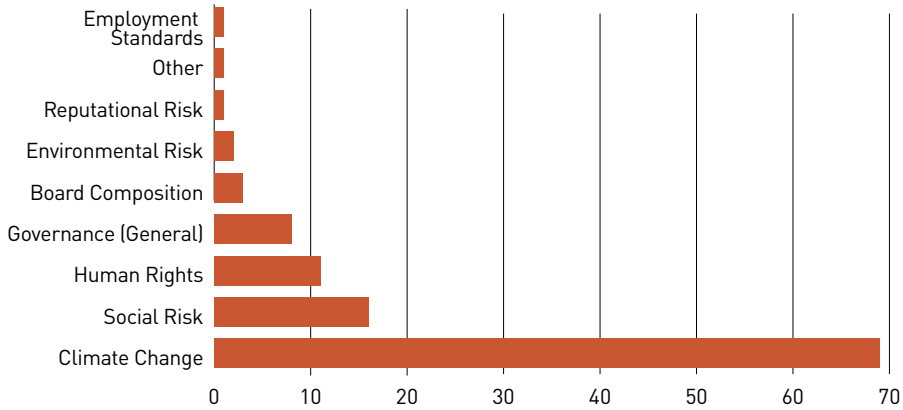
Legal Experts Warn on Issues with ICAEW Dividends guidance https://www.ipe.com/news/legal-experts-warn-on-issues-with-icaew-dividends-guidance/10055010.article

Phil Triggs: LGPS needs fine judgement on climate change and pooling https://www.lgcplus.com/investment/phil-triggs-lgps-needs-fine-judgement-on-climate-change-and-pooling-08-09-2021/

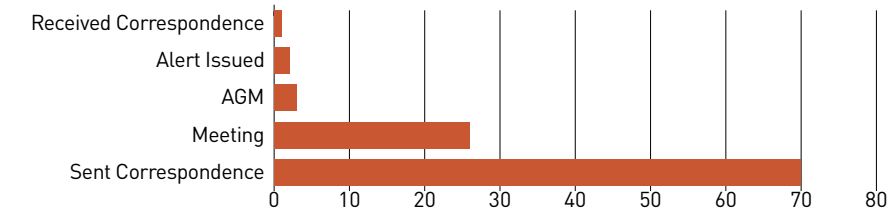
Sharp drop in LGPS fund and Pool signatories of stewardship code https://www.lgcplus.com/investment/sharp-drop-in-lgps-fund-and-pool-signatories-of-stewardship-code-06-09-2021/

ENGAGEMENT DATA

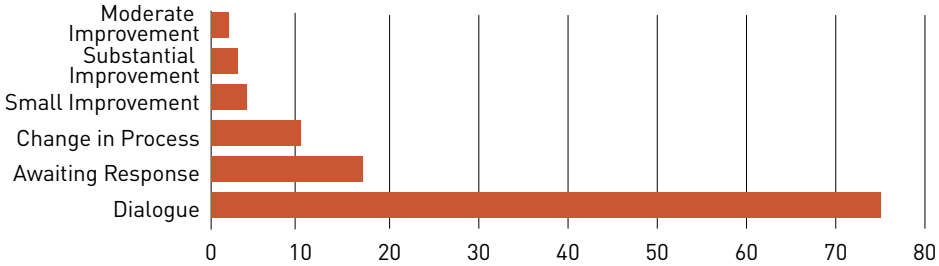
ENGAGEMENT TOPICS



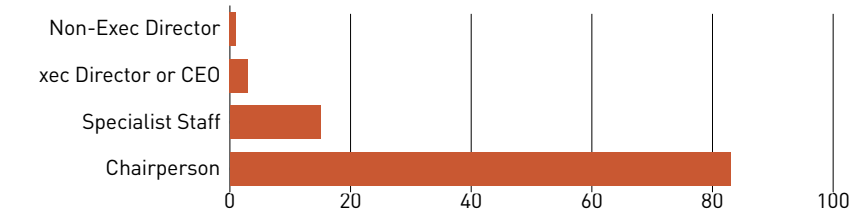
ACTIVITY



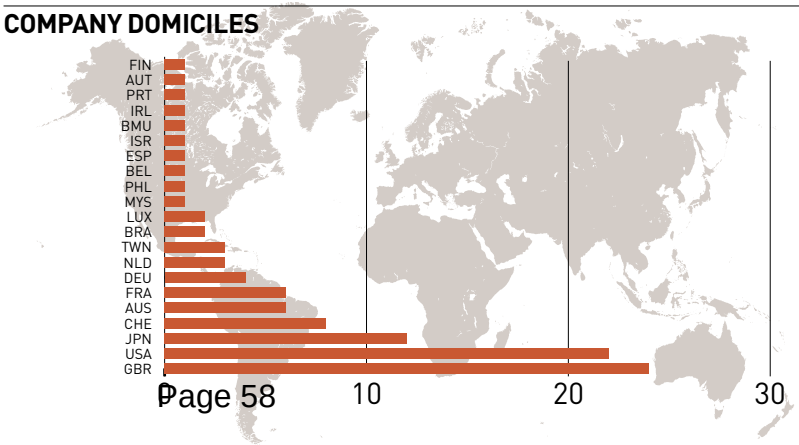
MEETING ENGAGEMENT OUTCOMES



POSITION ENGAGED



COMPANY DOMICILES



COMPANY PROGRESS REPORT

82 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
A G BARR PLC	Meeting	Other	Small Improvement
ABOITIZ EQUITY VENTURES INC	Sent Correspondence	Climate Change	Dialogue
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Dialogue
AJINOMOTO CO INC	Sent Correspondence	Climate Change	Dialogue
ALLERGAN PLC	Sent Correspondence	Climate Change	Dialogue
ALSTOM SA	Meeting	Human Rights	Small Improvement
AMS AG	Sent Correspondence	Climate Change	Dialogue
ANGLO AMERICAN PLC	Meeting	Climate Change	Change in Process
ARCELORMITTAL SA	Meeting	Climate Change	Substantial Improvement
ARKEMA	Sent Correspondence	Climate Change	Dialogue
ASTRAZENECA PLC	Sent Correspondence	Governance (General)	Dialogue
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response
BHP GROUP LIMITED (AUS)	Alert Issued	Climate Change	Dialogue
BOOKING HOLDINGS INC.	Meeting	Human Rights	Small Improvement
CAMPBELL SOUP COMPANY	Sent Correspondence	Climate Change	Dialogue
CENTRICA PLC	Sent Correspondence	Climate Change	Dialogue
COCA COLA BEVERAGES PLC	Sent Correspondence	Social Risk	Awaiting Response
CONAGRA BRANDS INC.	Meeting	Social Risk	Awaiting Response
COVESTRO AG	Sent Correspondence	Climate Change	Dialogue
CSX CORPORATION	Sent Correspondence	Climate Change	Dialogue
DANONE	Sent Correspondence	Social Risk	Dialogue
DELTA AIR LINES INC	Sent Correspondence	Climate Change	Dialogue
DIALOG SEMICONDUCTOR PLC	Sent Correspondence	Climate Change	Dialogue
DOMINION ENERGY INC	Sent Correspondence	Climate Change	Dialogue
ENDO INTERNATIONAL PLC	Sent Correspondence	Climate Change	Dialogue
FIRSTGROUP PLC	Sent Correspondence	Climate Change	Dialogue
FORMOSA PLASTICS CORP	Sent Correspondence	Climate Change	Dialogue
GALP ENERGIA SGPS SA	Sent Correspondence	Climate Change	Dialogue
GENERAL MILLS INC	Sent Correspondence	Social Risk	Awaiting Response
GLAXOSMITHKLINE PLC	Sent Correspondence	Governance (General)	Dialogue
GRIFOLS SA	Sent Correspondence	Climate Change	Dialogue
HSBC HOLDINGS PLC	Meeting	Climate Change	Change in Process
INFINEON TECHNOLOGIES AG	Sent Correspondence	Climate Change	Dialogue
JABIL CIRCUIT INC	Sent Correspondence	Climate Change	Dialogue
KELLOGG COMPANY	Meeting	Social Risk	Awaiting Response
KERRY GROUP PLC	Sent Correspondence	Climate Change	Dialogue
KEURIG DR PEPPER	Sent Correspondence	Social Risk	Awaiting Response
LANXESS AG	Sent Correspondence	Climate Change	Dialogue
LITEON TECHNOLOGY CORP	Sent Correspondence	Climate Change	Dialogue
LOGITECH INTERNATIONAL S.A.	Sent Correspondence	Climate Change	Dialogue
LONZA GROUP AG	Sent Correspondence	Climate Change	Dialogue
LYONDELLBASELL INDUSTRIES N.V.	Sent Correspondence	Climate Change	Dialogue
MARVELL TECHNOLOGY GROUP LTD	Sent Correspondence	Climate Change	Dialogue
MEDTRONIC PLC	Sent Correspondence	Climate Change	Dialogue
MEIJI HOLDINGS CO LTD	Sent Correspondence	Social Risk	Awaiting Response
MISC BERHAD	Sent Correspondence	Climate Change	Dialogue
MITSUBISHI UFJ FINANCIAL GRP	Meeting	Climate Change	Change in Process
MONDELEZ INTERNATIONAL INC	Sent Correspondence	Social Risk	Awaiting Response
NAN YA PLASTICS CORP	Sent Correspondence	Climate Change	Dialogue
NATIONAL GRID PLC	AGM	Climate Change	Change in Process
NESTLE SA	Sent Correspondence	Climate Change	Dialogue
NEXTERA ENERGY INC	Received Correspondence	Climate Change	Substantial Improvement
NIPPON EXPRESS CO LTD	Sent Correspondence	Climate Change	Dialogue
NISSIN FOOD HLDGS CO LTD	Sent Correspondence	Climate Change	Dialogue
NOKIA OYJ	Sent Correspondence	Climate Change	Dialogue

COMPANY PROGRESS REPORT

82 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

NORFOLK SOUTHERN CORPORATION	Sent Correspondence	Climate Change	Dialogue
NOVARTIS AG	Sent Correspondence	Governance (General)	Dialogue
PANALPINA WELTTRANSPORT AG	Sent Correspondence	Climate Change	Dialogue
PEPSICO INC.	Sent Correspondence	Social Risk	Awaiting Response
PERSIMMON PLC	Meeting	Climate Change	Moderate Improvement
PUBLIC SERVICE ENTERPRISE GROUP INC	Sent Correspondence	Climate Change	Dialogue
RENESAS ELECTRONICS CORP	Sent Correspondence	Climate Change	Dialogue
RIO TINTO GROUP (AUS)	Meeting	Governance (General)	Dialogue
RIO TINTO PLC	Meeting	Climate Change	Change in Process
ROCHE HOLDING AG	Sent Correspondence	Climate Change	Dialogue
ROHM CO LTD	Sent Correspondence	Climate Change	Dialogue
ROYAL DUTCH SHELL PLC	Meeting	Governance (General)	Dialogue
SAINSBURY (J) PLC	AGM	Environmental Risk	Dialogue
SANOFI	Sent Correspondence	Climate Change	Dialogue
SANWA HOLDINGS CORP	Sent Correspondence	Board Composition	Dialogue
SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY	Sent Correspondence	Climate Change	Dialogue
SOLVAY SA	Sent Correspondence	Climate Change	Dialogue
SSE PLC	Meeting	Climate Change	Change in Process
STANDARD CHARTERED PLC	Meeting	Climate Change	Dialogue
STMICROELECTRONICS NV	Sent Correspondence	Climate Change	Dialogue
SUMITOMO MITSUI FINANCIAL GROUP	Meeting	Board Composition	Moderate Improvement
SUNTORY BEVERAGE & FOOD LTD	Sent Correspondence	Social Risk	Awaiting Response
SWATCH GROUP AG	Sent Correspondence	Climate Change	Dialogue
THE CLOROX COMPANY	Sent Correspondence	Climate Change	Dialogue
THE KRAFT HEINZ COMPANY	Sent Correspondence	Social Risk	Awaiting Response
UNILEVER PLC	Sent Correspondence	Social Risk	Awaiting Response
VALE SA	Meeting	Human Rights	Dialogue

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Berkshire Pension Fund
Bexley (London Borough of)
Bromley Pension Fund
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Essex Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hounslow Pension Fund
Islington Pension Fund
Kingston upon Thames Pension Fund
Kensington and Chelsea (Royal Borough of)
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
Lincolnshire Pension Fund
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northamptonshire Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

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

LGPS Central Limited

Federated Hermes EOS

Engagement Report, Q3 2021

Worcestershire Pension Fund

EOS at Federated Hermes

Engagement by region

Over the last quarter we engaged with **33** companies held in the Worcestershire Pension Fund portfolios on a range of **92** environmental, social and governance issues and objectives.

Global

We engaged with **33** companies over the last quarter.

- Environmental **30.4%**
- Social and Ethical **21.7%**
- Governance **31.5%**
- Strategy, Risk and Communication **16.3%**

Australia & New Zealand

We engaged with **one** company over the last quarter.

- Environmental **40.0%**
- Governance **20.0%**
- Strategy, Risk and Communication **40.0%**

Developed Asia

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

- Environmental **35.3%**
- Social and Ethical **35.3%**
- Governance **29.4%**

Emerging & Developing Markets

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

- Environmental **25.0%**
- Social and Ethical **18.8%**
- Governance **37.5%**
- Strategy, Risk and Communication **18.8%**

Europe

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

- Environmental **16.7%**
- Governance **50.0%**
- Strategy, Risk and Communication **33.3%**

North America

We engaged with **11** companies over the last quarter.

- Environmental **28.2%**
- Social and Ethical **25.6%**
- Governance **25.6%**
- Strategy, Risk and Communication **20.5%**

United Kingdom

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

- Environmental **44.4%**
- Social and Ethical **11.1%**
- Governance **44.4%**

Engagement by theme

Over the last quarter we engaged with 33 companies held in the Worcestershire Pension Fund portfolios on a range of 92 environmental, social and governance issues and objectives.

Environmental

Environmental topics featured in 30.4% of our engagements over the last quarter.

- Climate Change 89.3%
- Forestry and Land Use 3.6%
- Pollution and Waste Management 7.1%

Social and Ethical

Social and Ethical topics featured in 21.7% of our engagements over the last quarter.

- Conduct and Culture 5.0%
- Diversity 5.0%
- Human Capital Management 20.0%
- Human Rights 65.0%
- Labour Rights 5.0%

Governance

Governance topics featured in 31.5% of our engagements over the last quarter.

- Board Diversity, Skills and Experience 20.7%
- Board Independence 17.2%
- Executive Remuneration 34.5%
- Shareholder Protection and Rights 17.2%
- Succession Planning 10.3%

Strategy, Risk and Communication

Strategy, Risk and Communication topics featured in 16.3% of our engagements over the last quarter.

- Audit and Accounting 13.3%
- Business Strategy 33.3%
- Cyber Security 6.7%
- Integrated Reporting and Other Disclosure 13.3%
- Risk Management 33.3%

LGPS Central Limited

Federated Hermes EOS

Voting Report, Q3 2021

Worcestershire Pension Fund

EOS at Federated Hermes

Over the last quarter we made voting recommendations at **51** meetings (**318** resolutions). At **18** meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at **one** meeting We supported management on all resolutions at the remaining **32** meetings.

Global

We made voting recommendations at **51** meetings (**318** resolutions) over the last quarter.

- Total meetings in favour **62.7%**
- Meetings against (or against AND abstain) **35.3%**
- Meetings with management by exception **2.0%**

Australia and New Zealand

We made voting recommendations at **two** meetings (**12** resolutions) over the last quarter.

- Total meetings in favour **50%**
- Meetings against (or against AND abstain) **50%**

Developed Asia

We made voting recommendations at **four** meetings (**36** resolutions) over the last quarter.

- Total meetings in favour **50%**
- Meetings against (or against AND abstain) **50%**

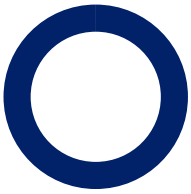
Emerging and Frontier Markets

We made voting recommendations at **44** meetings (**244** resolutions) over the last quarter.

- Total meetings in favour **65.9%**
- Meetings against (or against AND abstain) **31.8%**
- Meetings with management by exception **2.3%**

United Kingdom

We made voting recommendations at **one** meeting (**26** resolutions) over the last quarter.



- Meetings against (or against AND abstain) **100%**

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

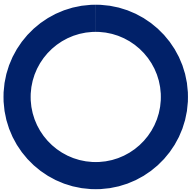
Global

We recommended voting against or abstaining on **50** resolutions over the last quarter.

- Board structure **44%**
- Remuneration **32%**
- Capital structure and dividends **18%**
- Amend articles **4%**
- Audit and accounts **2%**

Australia and New Zealand

We recommended voting against or abstaining on **one** resolution over the last quarter.



- Capital structure and dividends **100%**

Developed Asia

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

- Board structure **71.4%**
- Capital structure and dividends **28.6%**

Emerging and Frontier Markets

We recommended voting against or abstaining on **36** resolutions over the last quarter.

- Board structure **38.9%**
- Remuneration **36.1%**
- Capital structure and dividends **16.7%**
- Amend articles **5.6%**
- Audit and accounts **2.8%**

United Kingdom

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

- Board structure **50%**
- Remuneration **50%**

Worcestershire Pension Fund

LGPS Central Limited

Federated Hermes

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
23/08/2021	Vitasoy International Holdings Limited	Annual	Against	3A1 5A 5C 3A2 3A3	Concerns related to approach to board gender diversity and concerns related to inappropriate membership of committees Insufficient/poor disclosure Issue of equity raises concerns about excessive dilution of existing shareholders Lack of independence on board Overboarded/Too many other time commitments
22/07/2021	SATS Ltd.	Annual	All For		
16/09/2021	SK Innovation Co., Ltd.	Special	All For		
08/07/2021	Accton Technology Corp.	Annual	Against	3.1,3.6	
29/07/2021	Macquarie Group Limited	Annual	Against	6	Concerns to protect shareholder value
12/08/2021	Xero Limited	Annual	All For		
24/08/2021	Geely Automobile Holdings Limited	Extraordinary Shareholders	All For		
01/09/2021	Bilibili, Inc.	Extraordinary Shareholders	All For		
01/09/2021	Bilibili, Inc.	Special	All For		
08/09/2021	Zhongsheng Group Holdings Ltd.	Extraordinary Shareholders	All For		
17/09/2021	Alibaba Group Holding Ltd.	Annual	Against	1.1	Concerns related to inappropriate membership of committees
17/09/2021	Alibaba Group Holding Ltd.	Annual	Against	1.1	Concerns related to inappropriate membership of committees
12/07/2021	Huaxin Cement Co., Ltd.	Special	All For		
05/08/2021	Ping An Bank Co., Ltd.	Special	All For		
09/08/2021	Hangzhou Tigermed Consulting Co., Ltd.	Extraordinary Shareholders	All For		
11/08/2021	LONGi Green Energy Technology Co., Ltd.	Special	All For		
20/08/2021	Gree Electric Appliances, Inc. of Zhuhai	Special	All For		
20/08/2021	Jiangsu Hengrui Pharmaceuticals Co., Ltd.	Special	All For		
20/08/2021	LB Group Co., Ltd.	Special	Against	3	Concerns related to shareholder rights
23/08/2021	Huaxin Cement Co., Ltd.	Special	All For		
30/08/2021	LB Group Co., Ltd.	Special	All For		
06/09/2021	Shenzhen Desay Battery Technology Co., Ltd.	Special	All For		
10/09/2021	Focus Media Information Technology Co., Ltd.	Special	All For		
13/09/2021	Huaxin Cement Co., Ltd.	Special	All For		
13/09/2021	Zhejiang Supor Co., Ltd.	Special	All For		
14/09/2021	China Tourism Group Duty Free Corp. Ltd.	Special	All For		
15/09/2021	Haier Smart Home Co., Ltd.	Extraordinary Shareholders	All For		
15/09/2021	Haier Smart Home Co., Ltd.	Special	All For		
16/09/2021	Will Semiconductor Co., Ltd. Shanghai	Special	Against	1,2,3	Apparent failure to link pay and appropriate performance
17/09/2021	Midea Group Co. Ltd.	Special	All For		
22/09/2021	Beijing Sinnet Technology Co., Ltd.	Special	All For		
24/09/2021	Kweichow Moutai Co., Ltd.	Special	Against	1 2 7	Concerns related to board gender diversity Concerns related to shareholder rights Concerns to protect shareholder value
27/09/2021	Hangzhou Tigermed Consulting Co., Ltd.	Extraordinary Shareholders	All For		
27/09/2021	Hangzhou Tigermed Consulting Co., Ltd.	Special	All For		
27/09/2021	Will Semiconductor Co., Ltd. Shanghai	Special	Against	1	Concerns related to board gender diversity
17/07/2021	HDFC Bank Limited	Annual	All For		
20/07/2021	Housing Development Finance Corporation Limited	Annual	All For		
23/07/2021	Biocon Limited	Annual	Against	5	Concerns to protect shareholder value
27/07/2021	Torrent Pharmaceuticals Ltd.	Annual	Against	8,9	Apparent failure to link pay and appropriate performance
29/07/2021	Colgate-Palmolive (India) Limited	Annual	Against	2	Lack of independence on board
30/07/2021	Axis Bank Limited	Annual	All For		
30/07/2021	Tech Mahindra Limited	Annual	All For		
06/08/2021	Bandhan Bank Ltd.	Annual	Against	5	Concerns related to approach to board gender diversity
17/08/2021	Eicher Motors Limited	Annual	Against	5,6	Apparent failure to link pay and appropriate performance
30/08/2021	Marico Limited	Annual	Against	5 2	Apparent failure to link pay and appropriate performance Lack of independence on board
28/09/2021	Mahanagar Gas Ltd.	Annual	Against	7 9	Concerns related to approach to board diversity Concerns related to succession planning
22/09/2021	PT Bank Jago Tbk	Extraordinary Shareholders	All For		
23/09/2021	PT Bank Central Asia Tbk	Extraordinary Shareholders	All For		
30/09/2021	ALROSA PJSC	Special	All For		

Meeting Date	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
25/08/2021	Naspers Ltd.	Annual	Against	7,8 5.1,5.2,5.3,5.4,5.5 6.3 1.1,1.2,2,5,6 9 10	Apparent failure to link pay & appropriate performance Concerns about overall performance Concerns related to inappropriate membership of committees Concerns to protect shareholder value Issue of capital raises concerns about excessive dilution of existing shareholders Multiple voting rights
27/07/2021	Wizz Air Holdings Plc	Annual	Against	2,3,5 6 8,9	Apparent failure to link pay & appropriate performance Concerns related to board gender diversity 2- Concerns related to succession planning Overboarded/Too many other time commitments

worcestershire countycouncil

PENSION COMMITTEE
8 DECEMBER 2021

PENSION FUND ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2021

Recommendation

1. **The Chief Financial Officer recommends that the Pension Fund Annual Report for the year ended the 31 March 2021 as set out in the attached Appendix be approved.**

Background

2. The Council and Pension Fund are required to prepare annual Statement of Accounts and to arrange for them to be audited and reported in accordance with the Accounts and Audit Regulations 2015 (as amended), and the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts presents the overall financial position of the Pension Fund, reflecting the Pension Fund net asset position

3. In response to COVID-19, the requirement to prepare draft accounts by 31 May was extended to the 31 July and the requirement for the public inspection period was amended to commence on or before the first working day of August 2021. The Accounts and Audit (Amendment) Regulations 2021 extend the statutory audit deadlines for 2020/21 and 2021/22 for all local authorities and Pension Funds.

4. The Committee received an update at the September meeting detailing that the accounts had been audited and were amended for a few minor points around presentation and went to the Audit & Governance Committee on the 24 September as part of Worcestershire County Council Accounts for approval. These were approved but the County is still awaiting auditor sign off at the time of writing this report.

Annual Report

5. The annual report is a key communications channel between the fund and a wide variety of stakeholders. The report contains information relating to the Pension funds audited annual accounts including the fund investments, administration, governance, valuations, accounts and membership. This is the final proposed annual report verified by External Audit and is seeking approval by the Pensions Committee.

6. The Chair's Foreword on page 4 of the annual report provides the most totable achievements during the 2020/21 financial year and some are listed below:

- Coping with COVID: we maintained a business as usual service despite having to work from home.

- Completing the first Environmental, Social and Governance (ESG) audit of the Fund which provided important baseline information to inform its future investment strategy. This resulted in the development of the Fund's first Climate Change Risk Strategy, Task Force for Climate Related Disclosures (TCFD) report and a key update to its Investment Strategy Statement regarding responsible investment.
- Assets under management totalling £3 billion for the first time. Investment returns for the year of 22.1% which resulted in the Fund recovering well from the impact of COVID on last year's market valuations, but was 1.5% below the benchmark return of 23.6%. However, the Fund has a track record of out-performance over 5 and 10-year time periods.

7. This also includes highlights of what was agreed by Committee during the year and Pension Committee are asked to review, comment and approve the attached 2020/21 annual report as an Appendix.

Contact Points

Specific Contact Points for this report
Rob Wilson
Pensions, Investment, Treasury Management and capital strategy Manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Supporting Information

- Appendix – Annual Report 2020/21

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

Annual Report and Financial Statements

for the year ending 31 March 2021

Find out more online:
www.worcestershirepensionfund.org.uk

Contents

1. Chair's Foreword

1. Chair's Foreword

Welcome to the annual report for the Worcestershire Pension Fund ('the Fund') for the year ending 31 March 2021.

On behalf of the Pensions Committee, I am pleased to introduce an annual report which looks back on a scheme year of significant activity, continuing growth and considerable achievement. The most notable achievements were:

- Coping with COVID: we maintained a business as usual service despite having to work from home.
- Completing the first Environmental, Social and Governance (ESG) audit of the Fund which provided important baseline information to inform its future investment strategy. This resulted in the development of the Fund's first Climate Change Risk Strategy, Task Force for Climate Related Disclosures (TCFD) report and a key update to its Investment Strategy Statement regarding responsible investment.
- Assets under management totalling £3 billion for the first time. Investment returns for the year of 22.1% which resulted in the Fund recovering well from the impact of COVID on last year's market valuations, but was 1.5% below the benchmark return of 23.6%. However, the Fund has a track record of out-performance over 5 and 10-year time periods.
- Continued management of risk through our equity protection strategy which provided downside risk coverage whilst maintaining as much upside as possible.
- Expanding our responsible investment activities.
- Strengthening our management of and working with individual employers, for example by the introduction of new training and development material.
- Completing Guaranteed Member Protection (GMP) rectification.

In the course of the year, the highlights of what was agreed by the Committee were:

- An LGPS Central Limited (LGPSC) infrastructure investment product proposal.
- A restructure of the Fund's equity protection strategy.
- Extending our actuary's, Mercer's, contract until 31 Oct 2023.
- An additional £120m investment in Bridgepoint Direct Lending Fund III.
- An updated Funding Strategy Statement to include changes to the Termination policy for Deferred Debt Agreements and deficit spreading arrangements and a new contributions flexibility policy.
- An updated Governance Policy Statement.
- A position statement on the Scheme Advisory Board (SAB) Good Governance recommendations.
- The LGPS Central Strategic Business Plan & Budget for 2021/22.
- Minerva's Sustainable Development Goal (SDG) mapping across all of the Fund's investments against agreed objectives and a framework by which future progress to achieve the Fund's aspirations can be measured.

- LGPS Central's Climate Change Risk review of the Fund's equity investments that found that the Fund has a much lower carbon exposure than the benchmark position due to our regional allocation mix and the stock selection profile of our active managers.
- To investigate possible alternatives to the current passive equity mandates that would incorporate a greater focus on ESG considerations, while maintaining or enhancing returns in a risk-controlled manner.

Scheme membership has also continued to grow and is now 64,770.

As readers will be aware, the Fund primarily exists to pay pensions. This core activity of pension scheme administration was again delivered successfully throughout the year. From a Fund management perspective, it is worth noting that the increase in pensioners since 2009 reflects the fact that people are living longer these days. This in turn means that the Fund needs to have more money available for longer to meet the 'guaranteed pension for life' promises made to its pensioners compared to what was needed in the past.

The year saw the total employers who were contributing to the Fund decrease from 202 to 183 which was mainly due to a number of schools merging together as multi academy trusts, thus being treated as one employer, rather than as individual school employers as they were previously as well as a reduction in outsourcing arrangements.

Whilst this annual report by its nature looks back on 2020/2021, our rolling Business Plan is provided at each Pensions Committee meeting. It reviews our ongoing progress in our key target areas and towards achieving our aspirations. It details our latest investment performance v benchmark and our latest performance against our target turnarounds for our key pension administration processes.

I'd like to finish my foreword by thanking all new and continuing members of the Committee, the Chair and members of the Pension Board, our advisers, staff at the Fund and our employers for all their continuing hard work for the Fund and its members.

Councillor Paul Middlebrough
Chair
Worcestershire Pension Fund Pensions Committee

2. Management & Financial Performance

2. Management & Financial Performance

Scheme Management and Advisors (as at 31 March 2021)

Administering Authority: Worcestershire County Council
Address: County Hall, Spetchley Road, Worcester WR5 2NP
Scheme Manager: Michael Hudson LLB (Hons), LLM, CPFA Chief Financial Officer

Pensions Committee as at 31 March 2021

Representative	Meetings attended					Training received								
	26/06	09/10	09/12	28/01	16/03	22/05	30/06	04/09	18/09	10/11	05/01	18/01	05/02	22/03
Cllr B Banks*		✔			✔	✔					✔		✔	
Cllr R Lunn*	✔	✔	✔	✔	✔	✔					✔		✔	
Cllr P Middlebrough (Chair) *	✔	✔	✔	✔	✔	✔	✔		✔		✔	✔	✔	✔
Cllr A Hardman	✔		✔	✔	✔	✔					✔	✔	✔	
Cllr P Tuthill*		✔	✔	✔	✔	✔					✔	✔	✔	
Cllr T Fagan	✔		✔	✔	✔	✔	✔		✔		✔		✔	✔
D Morris – Unison (Employee Representative)			✔											
T Southall (Employer Representative)	✔	✔	✔	✔		✔		✔	✔	✔	✔	✔	✔	✔

* Not return to post after May 2021.

Pension Board as at 31 March 2021

Representative	Meetings attended			Training received								
	18/09	13/11	26/02	22/05	30/06	04/09	18/09	10/11	05/01	18/01	05/02	22/03
Roger Phillips (Chair)	✔	✔	✔					✔	✔	✔	✔	
Lucy Whitehead	✔	✔	✔	✔			✔	✔	✔	✔	✔	
Kim Wright	✔	✔		✔	✔		✔	✔	✔	✔	✔	✔
Phil Grove	✔	✔										
Andrew Lovegrove	✔	✔	✔						✔		✔	✔
Pat Agar	✔	✔	✔					✔	✔		✔	
Steven Howarth	✔	✔	✔					✔	✔		✔	
Odette Fielding	✔	✔	✔			✔		✔	✔		✔	✔

Notes:

(1) The training on 22 May was on formulating investment beliefs for a sustainable investment approach.

(2) The training on 30 June and 4 September was induction training.

(3) The 18 September training was on the year end / CARE revaluation / annual benefit statements / Pension Savings Statements.

(4) The training on 10 November covered current issues and paying pensions.

(5) The training on 5 January was a workshop on the ESG Audit and the United Nations Sustainable Development Goals (SDGs) mapping project.

(6) The training on 18 January covered risk considerations in an investment strategy.

(7) The training on 5 February was a workshop on the outcome on the ESG Audit and UN SDG's mapping and the possible next steps for the Fund.

(8) The training on the 22 March was on admissions / bulk transfers.

Pension Investment Sub-Committee as at 31 March 2021

Councillor A I Hardman (Chair)
Councillor R W Banks
Councillor M Jenkins
Councillor L Mallet
Councillor P Middlebrough
Mrs D Duggan – Unison
Cllr T Fagan
Michael Hudson LLB (Hons), LLM, CPFA Chief Financial Officer
Rob Wilson, Pensions and Treasury Management Manager

LGPS Central Limited Shareholder Representative

Councillor P Middlebrough

Investment Managers as at 31 March 2021

AEW
Bridgepoint (was EQT)
First Sentier Investments
Gresham House Alternative Asset Management & Investment
Hermes Investment Management
Invesco Real Estate
Legal & General Investment Management
LGPS Central Ltd
Macquarie Group Ltd (was UK Green Investment Bank)
Nomura Asset Management UK Ltd
River & Mercantile
Stonepeak Infrastructure partners
Venn Partners
Walton Street Capital, LLC

Global Custodian (2020/2021)

BNY Mellon (Northern Trust for assets managed by LGPSC)

Independent Investment Adviser (2020/2021)
M J Hudson

Actuary
Mercer Human Resource Consulting

Environmental Social Governance (ESG) Adviser
LGPS Central Limited

Bankers
Barclays

Auditors to the Fund
Grant Thornton UK LLP

Legal Adviser
Worcestershire County Council

In-house AVC Provider
Scottish Widows and Utmost Life

LGPS Central Ltd
Mike Weston Chief Executive

Pension Administration Advisory Forum
All employers were invited to the 8 October 2020 forum.

3. Risk Management

3. Risk Management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods for controlling or responding to them.

The Fund has a dedicated Risk Register that is regularly reviewed by the leadership team and updated quarterly. The Pensions Committee receives regular updates on the key risks facing the Fund and the latest Risk Register is reported to each regular Committee meeting.

Each risk is initially assigned a score designed to reflect the likelihood of it occurring and impacts faced by the Fund if it were to occur.

Risks are then categorised against a series of mitigations designed to reduce the likelihood and/or impact.

Risks are colour coded and assigned a red, amber or green status according to the degree of risk posed.

As at 31 March 2021 the Fund's most significant risks were after taking into account mitigating actions and controls:

- Mismatch in asset returns and liability movements, leading to exposure to risk or missing investment opportunities or increasing employer contributions.
- Being reliant on LGPS Central delivering its forecasted cost savings, leading to paying too much in fees / investment under performance.
- 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, leading to increase in liabilities.
- Future change to LGPS regulations or other legislation, leading to increase in administrative complexity or failure to comply with The Pensions Regulator.

A new risk relating to the potential impact of climate change that could lead to investment under performance has been added to the Risk Register and reported to the June 2021 Committee.

The nature and extent of risks arising from financial instruments are detailed in note 16 of the accounts further on in this document.

LGPS Central

There is a separate risk register relating to investment pooling which the Practitioner Advisory Forum, the main Partner Fund working group, maintains. The LGPS Central Joint Committee oversees the risk register to ensure risks are logged and mitigating actions put in place. LGPS Central Ltd, the pooling delivery company, maintains its own risk register, which is overseen by the company board.

Systems of Internal Control

The Fund's Statement of Accounts and Annual Report are subject to an external audit by Grant Thornton that provides a separate opinion for both the accounts and the annual report. Grant Thornton also conducts a number of interim audits throughout the year to test the design effectiveness of the Fund's internal controls.

In addition to external audit, the Fund receives regular reviews from the Council's internal audit department who test the internal control systems and processes employed. Internal audit obtain assurance on the internal control environment through a series of audits of key areas. During 2020/21 internal audit conducted two audits which covered the transition of assets into the LGPS Central pool and the Fund's Pension Administration review. Both received substantial assurance ratings.

4. Financial Performance

4. Financial Performance

Triennial Valuation

Every three years the Fund commissions a formal valuation from the Fund's actuary which produces two key outputs.

Firstly, it quantifies the funding level, i.e. the level to which the Fund's pension liabilities for the accrued benefits of current employees, deferred pensioners and pensions in payment are matched by the market value of the Fund's assets. A funding level of less than 100% implies that there is a deficit between the Fund's assets and liabilities at that date.

Secondly, it also sets the rate at which employers should contribute to the Fund for the following three years along with any deficit recovery payments.

The table summarises the funding position as at the 31 March 2019 compared to the funding position of the last formal valuation as at the 31 March 2016.

Summary Valuation Results

£m	31 March 2016	31 March 2019
Total past service liability	2,606	3,090
Fund assets	1,952	2,795
Surplus / (deficit)	(654)	(295)
Funding Level	**75%**	**90%**

As at 31 March 2021 we estimate that the Fund was 99% funded.

To meet the requirements of the regulations, we have set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

In tandem with the actuarial valuation the actuary helps us to produce a Funding Strategy Statement that is available from our website. This focuses on the pace at which future benefits will be funded and on practical measures to ensure that employers pay for their own liabilities.

Contribution Rates

Members' contributions are set at a rate which covers only part of the cost of accruing benefits after the valuation date. Employers pay the balance of the cost of delivering future benefits to members.

At the 2019 actuarial valuation a common rate of contribution of 17.5% of pensionable pay per annum was set for employers from 1 April 2020. However, these range over individual employers from 13.6% to 26.8%.

As the actuary assessed the particular circumstances of each employer, including the strength of its covenant and its individual membership experience within the Fund, the actuary applied individual adjustments to each employer to reflect these circumstances.

This resulted in a higher contribution rate than the baseline percentage and/or an annual cash contribution at a fixed amount being set for many employers.

The next actuarial valuation and review of the Funding Strategy Statement will be carried out as at 31 March 2022, with any changes to employers' contribution rates being implemented with effect from 1 April 2023. Our Funding Strategy Statement is available in Appendix A and the 2019 Actuarial Valuation Report is on our website.

Analytical Review of Fund Account and Net Assets Movement

The following table provides a brief overview of the major movements in the Fund account and net assets statement for the financial year 2020/2021. The full statement of accounts is included from page 55 of this report.

Fund Account	2019/20 £'M	2020/21 £'M	Notes
Net Contributions	(38.7)	87.9	Mainly due to key Fund employers paying their contributions for 20/21 to 22/23 up front
Return on Investments	(111.2)	631.5	Mainly due to the market rally following the significant impact on market valuations in March 2020.
Net Increase in the Fund	**(149.9)**	**719.4**	

Operational expenses – comparison of 2020/21 forecast to actual

	2020/21 Budget £'000	2020/21 Actual £'000	2020/21 Variance £'000
Administration / Oversight & Governance			
Employees	702	677	(25)
Supplies & Services	40	121	81
Actuarial Fees*	400	511	111
Investment Advisor expenses	93	84	(9)
IT Costs**	366	457	91
External Audit Fees	28	34	6
LGPS Central Governance & Running costs and figures	740	742	2
Other expenses ***	0	297	297
Legal Fees	34	34	0
Total	**2,403**	**2,957**	**554**
Investment Management			
External Fund Managers	9,931	12,530	2,599
Transaction Costs	1,200	4,674	3,474
Custodian	367	87	(280)
Total	**11,498**	**17,291**	**5,793**

The main reason for the overspend on external Fund Managers is due mainly to diversifying asset allocation into property and infrastructure assets where management fees tend to be higher in line with the Investment Strategy Statement. The transaction costs increase was mainly due to the restructure of the Equity Protection Strategy relating to out passive market cap investments. This is not only aiming to manage the risk and protecting returns in times of significant downturn in valuations, but also seeking to capture as much upside as possible.

* Increased work on employer termination, bulk transfers and account requirements.

** Increased in IT Costs due to provider now hosting the pension payment services and improving back up facilities

*** Write of of an historic employer cost that had to be written back to the Admin Fund.

Administration and Management costs per member past 5 years

Process	2016/17	2017/18	2018/19	2019/20	2020/21
Investment Management Expenses					
Total cost (£'M)	7.1	8.9	11.9	14.4	17.3
Total membership (Nos)	59,196	60,336	62,254	63,635	64,770
Cost per member (£)	**120**	**148**	**191**	**226**	**267**
Administration Costs					
Total cost (£'M)	1	0.8	1.1	1.5	2.0
Total membership (Nos)	59,196	60,336	62,254	63,635	64,770
Cost per member (£)	**17**	**13**	**18**	**24**	**31**
Oversight and Governance Costs					
Total cost (£'M)	0.1	0.1	0.1	0.1	0.9
Total membership (Nos)	59,196	60,336	62,254	63,635	64,770
Cost per member (£)	**1.7**	**1.7**	**1.6**	**1.6**	**13.9**
Total cost per member (£)	**138.7**	**162.7**	**210.6**	**251.6**	**311.9**

The increase in oversight and governance is due to allocating the LGPS Central Pool Governance and running costs which were previously included as part of the investment management expenses. Without this the costs are as in previous years, but this is due to payback by 2034.

The published comparative data for 2019.20 for total administration, governance & oversight costs are on average £35.70 per member compared to Worcestershire £25.60 per member (6th lowest out of the 86 pension funds in England & Wales). For investment management the average is £209.70 compared to Worcestershire £226 per member (44th out of the 86 pension funds in England & Wales).

The table below outlines the Fund's performance for key financial variables for the past 5 years

	2016/17	2017/18	2018/19	2019/20	2020/21
	£'M	£'M	£'M	£'M	£'M
Contributions and Benefits					
Contributions receivable*	107.8	185.2	81.8	87.5	201.2
Individual Transfers**	8.0	10.4	12.9	12.9	29.0
Total contributions & transfers in	**115.8**	**195.6**	**94.7**	**100.4**	**230.2**
Benefits Payable	-95.5	-98.0	-106.3	-111.9	-112.6
Payments to and on account of leavers	-7.0	-8.8	-8.7	-11.2	-9.5
Total Benefits paid and transfers out	**-102.5**	**-106.8**	**-115.0**	**-123.1**	**-122.1**
Management & Admin expenses	**-8.2**	**-9.8**	**-13.1**	**-16.0**	**-20.2**
Sub Total	**5.1**	**79.0**	**-33.4**	**-38.7**	**87.9**
Return on Investments					
Investment income	29.4	35.8	50.2	47.9	28.7
Change in market value of investments	494.1	105.3	77.5	(159.1)	602.8
Net return on investments	**523.5**	**141.1**	**127.7**	**-111.2**	**631.5**
Net increase in the Fund during the year	**528.6**	**220.1**	**94.3**	**-149.9**	**719.4**

* The contributions receivable are higher in 2020/21 due to some larger employers paying their contributions 3 years in advance.

** The increase in transfers was due to a large employer transfering into the Fund.

3 year forecast management expenses 2021/22 to 2023/24

	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000
Administration / Oversight & Governance			
Pension scheme administration recharge	1,076	1,166	1,194
Actuarial services*	338	388	338
Audit	27	34	34
Legal fees	33	34	34
Committee and governance recharge	11	11	11
Total	**1,485**	**1,633**	**1,611**
Investment Administration Costs			
Investment administration recharge	148	151	154
LGPS central governance & running costs	734	757	779
Investment custodial and related services	100	102	104
Investment professional fees	132	187	112
Performance measurement	29	29	30
Total	**1,143**	**1,226**	**1,179**
Investment Management			
External fund managers**	14,258	14,522	14,958
Transaction costs	1,500	1,500	1,500
Total	**15,758**	**16,022**	**16,458**
Overall Total	**18,386**	**18,881**	**19,248**

* Actuarial Fees are higher in 2022/23 due to this being a valuation year

** External Managers fees are subject to market valuations

5. Administration Report 2020/21

5. Administration Report 2020/21

As usual, paying pensions, processing retirements, processing deaths, processing refunds, delivering our year end and issuing annual benefit statements were our major administration deliverables. New employers, employer restructures and delivering training for Pensions Committee and Pension Board members also required significant resource.

We deliver our service using:

- The Altair pensions administration system.
- Our stand-alone website that had 25,400 visits in 2020/2021.
- Dedicated resource for each member requirement.
- An Engagement Manager to support employer relationships including monthly employer newsletters and online training.
- Computer hardware, software and the Council's computer network.

We have arrangements in place to ensure the accuracy and confidentiality of personal data. The Fund conforms with Worcestershire County Council's (WCC) breach notification process and WCC's data policy, for example through the use of data encryption and password protection. Systems are reviewed by internal and external audit and set up in line with data protection regulations. A complete address update is done regularly by employers. Mitigating processes include the Business Continuity Plan (BCP), data breach, addresses being checked by a dedicated checker and communication taking place with member/ employer before a payment is made.

The major one-off and annually recurring administration large pieces of work or projects that we undertook during the year included:

- The annual employer covenant assessment.
- Guaranteed Minimum Pension (GMP) rectification.
- Providing data for The Pensions Regulator (TPR) / the LGPS Scheme Advisory Board / for the Occupational Pension Schemes survey.
- Annual benefit statements for employee and deferred members.
- Pensioner P60s and pay slips.
- Financial Reporting Standard (FRS) information to employers.
- Pension Savings Statements.
- Improving the quality of data held and actions required to improve it.
- Newsletters for employee, deferred and pensioner members.

Internal Disputes Resolution Procedure (IDRP)

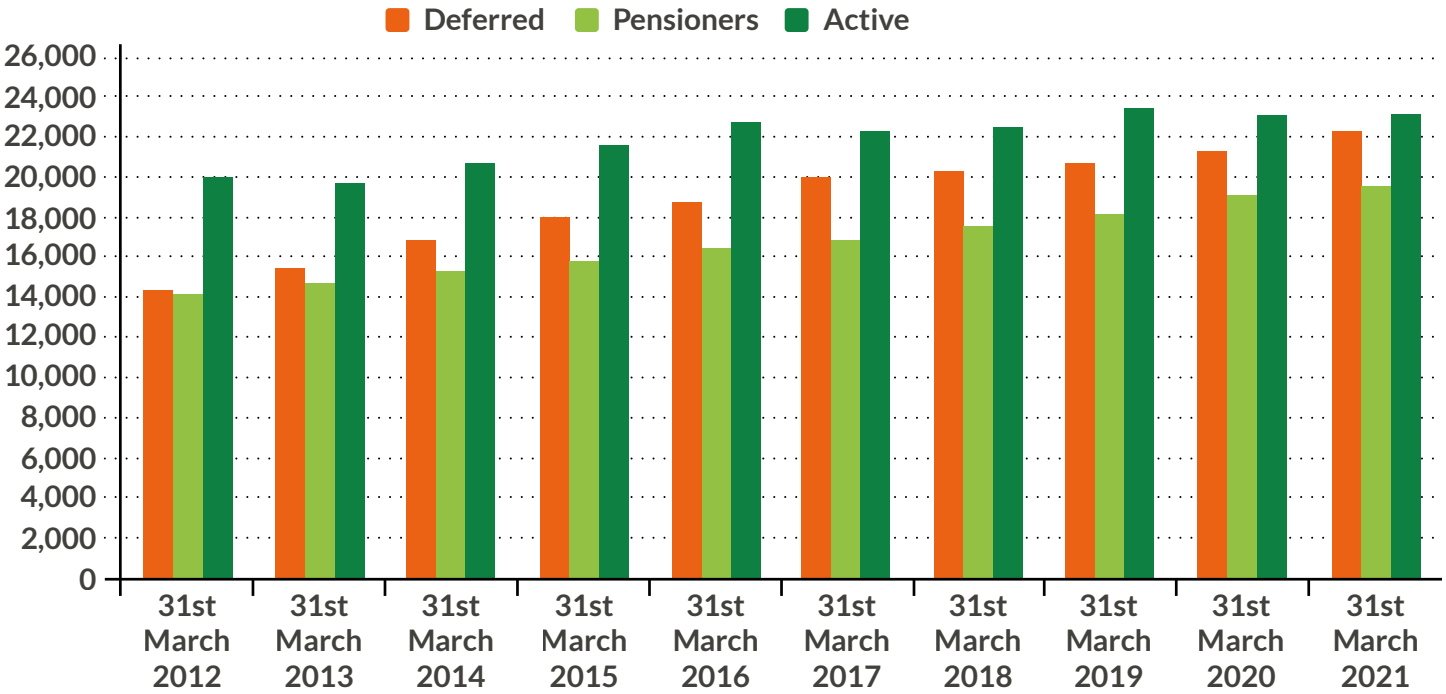
There are times when members, employers and the Fund may find themselves in disagreement about a pensions issue. The first approach in these situations is for those involved to talk to each other to reach resolution. However, should this not prove possible, the Fund has an IDRP. Our appeals procedure is detailed on our **website**.

Policy Statement on Communications

The Statement provides an overview of how the Fund will communicate with its stakeholders. An effective communications strategy is vital for the Fund to meet its objective of providing a high quality and consistent service. Scheme communications are a critical activity; they are the external face of the Fund and provide a key link with its stakeholders. The Fund continuously looks at ways to enhance its communication offering to the various audiences and the Policy Statement is reviewed annually with a revised version will be published following any material change. Our Policy Statement on Communication is at Appendix B below.

Membership and Employer Movement and Scheme complexity

The Fund continues to experience a year on year increase in the number of members across all categories (Active, Deferred and Pensioners).



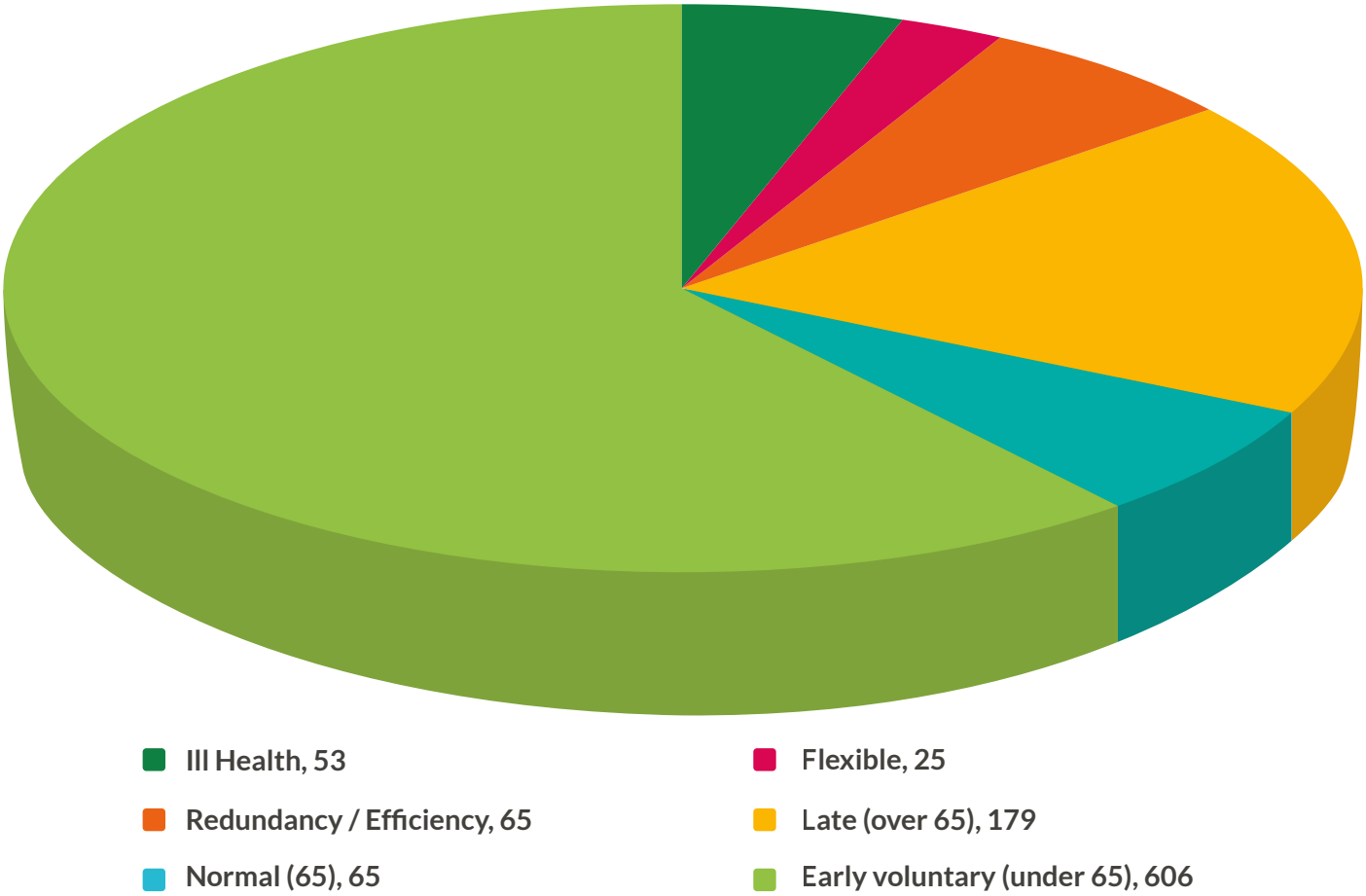
The table below summarises the age ranges of the membership over the three categories of Active, Deferred and Pensioner as at 31 March 2021:

Age Group	Active	Pensioner*	Deferred	Total	%
0-15	0	57	0	57	0.09
16-20	188	44	7	239	0.37
21-25	1,067	10	199	1,276	1.97
26-30	1,432	1	942	2,375	3.67
31-35	1,968	4	1,936	3,908	6.03
36-40	2,347	13	2,403	4,763	7.35
41-45	2,723	29	2,749	5,501	8.49
46-50	3,593	54	3,808	7,456	11.51
51-55	4,067	185	4,706	8,958	13.83
56-60	3,309	1,040	3,955	8,304	12.82
61-65	1,917	3,370	1,288	6,575	10.15
66-70	378	4,533	139	5,050	7.80
71-75	81	4,229	33	4,343	6.70
76-80		2,721	2	2,723	4.20
81-85		1,779		1,779	2.75
86-90		995		995	1.54
91-95		374		374	0.58
96-100		92		92	0.14
101+		3		3	0.00
Total	**23,070**	**19,533**	**22,167**	**64,770**	**100.00**

* Pensioner column includes dependants

Retirements during 2020/21

There were 993 retirements during 2020/21 as summarised in the chart below:



The Fund has 183 contributing employers whose employees are members of the LGPS:

	Active as at the 31/03/2021
Scheduled bodies	109
Designated bodies	23
Admitted bodies	51
Total	**183**

Notes:

- Scheduled (in the regulations) bodies are organisations whose employees qualify to become members of the LGPS by right. These include county councils, district councils, foundation schools/ colleges and academies.
- Designated bodies are organisations that have passed resolutions with town or parish councils to offer the LGPS to their employees.
- Admitted bodies are organisations that fall into none of the previous 2 categories. Admitted bodies are voluntary/charitable bodies and other organisations to whom local government employees have been transferred under the outsourcing of local government services whose staff can, at the discretion of their employer, become members of the LGPS.

Our performance

The Fund benchmarks its performance on administration casework using the CIPFA benchmarks as outlined in the table below. The Fund achieved 100% compliance. We measure how we perform against our target turnarounds for our key processes:

Activity / Process	Average Turnaround Achieved (working days) 2020/2021	Average turnaround achieved (working days) 2019/20	Target turnaround (working days)
Joiners notification of date of joining	25	10	40
Process and pay refund	**4**	**2**	**10**
Calculate and notify deferred benefits	13	26	30
Letter notifying actual retirement benefits	**4**	**3**	**15**
Letter notifying amount of dependant's benefits	3	3	10
Letter acknowledging death of member	**3**	**3**	**5**
Letter detailing Cash Equivalent Transfer Value (CETV) for divorce	2	2	45
Letter notifying estimate of retirement benefits	**4**	**4**	**15**
Letter detailing transfer in quote	3	3	10
Process and pay lump sum retirement grant	**15**	**15**	**23**
Letter detailing transfer out quote	3	3	10
Letter detailing PSO implementation	**n/a**	**n/a**	**15**

We continue to monitor this and improve our data capturing of the information against the CIPFA benchmarks.

Detailed below are the number of each case type processed in the year and the percentage achieved within the KPI.

Activity / Process	Number processed 2020 / 2021	% Processed within KPI 2020 / 2021
Joiners notification of date of joining	2023	75
Process and pay refund	229	100
Calculate and notify deferred benefits	728	92
Letter notifying actual retirement benefits	576	99
Letter notifying amount of dependant's benefits	132	99

Activity / Process	Number processed 2020 / 2021	% Processed within KPI 2020 / 2021
Letter acknowledging death of member	310	86
Letter detailing cash equivalent transfer value (CETV) for divorce	80	100
Letter notifying estimate of retirement benefits	1217	98
Letter detailing transfer in quote	243	98
Process and pay lump sum retirement grant	889	100
Letter detailing transfer out quote	256	96
Letter detailing Pension Sharing Order (PSO) implementation	1	100

The administration team comprises of 21.3 full time equivalent (FTE) staff. The Fund therefore has a ratio of one full time equivalent member of the team for every 3,041 Fund members.

In 2020/2021 we had 3 data breaches, 5 Internal Dispute Resolution Procedure (IDRP) which were resolved and 0 complaints.

Value for Money

At £2.0m our administration costs for 20/21 were £0.5m more than the previous year due mainly to some one off costs, otherwise would have been at the same level as 2019/20. Based on published comparative data available for 2019/20 our cost per member is £23.60 (ranked 37th out of 86 Pension Funds in England & Wales).

In 2020/21 our administration team of 21.3 FTE achieved the average CIPFA benchmark turnaround target for all 12 standard processes.

Following The Pension Regulator (TPR) guidance to do this annually, we measured the quality of our data on 22 July 2020.

The percentage (2019 previous year in brackets) of our member records without a single 'common data' failure was 92.2% (92.1%).

In the core list of TPR 'common data' tests our pass rates were: National Insurance Number 100% (100%); Name 100% (100%); Sex and Date of Birth 100% (100%); Date Commenced and Normal Retirement Date 99.9% (99.9%); Status 100% (100%); and Address 94.8% (95.1%). Our lowest score in the core list of TPR 'common data' tests of 94.8% related to Address, and we recognise that there is some work required to bring this data quality category up to scratch. We had 366 members who had no address, and 2,908 members recorded as "gone away". In addition, we had members with no postcode or with an address record with a blank first line.

The percentage of our member records without a single 'scheme-specific data' failure was 86.3% (86.6%).

In the core list of TPR 'scheme-specific data' tests our pass rates were: Member Benefits 99.9% (99.9%); Member Details 99.9% (99.9%); CARE benefits 94.0% (98.4%); HMRC 99.9% (99.6%); and Contracted Out 90.8% (90.6%).

Looking ahead, we are committed to delivering an even more modern and efficient value for money service.

6. Investment Policy & Performance

6. Investment Policy & Performance

Investment Management

Subject to the LGPS regulations on allowable investments, the Fund may invest in a wide range of assets including quoted equity, government bonds, corporate bonds, money markets, traded options, financial futures/derivatives and alternative strategies including infrastructure/property pooled funds.

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. Our Investment Strategy Statement is available at Appendix C.

The Pensions Committee has responsibility for the investment strategy of the Fund but has established a Pension Investment Sub-Committee and delegated oversight of its implementation to the Chief Financial Officer. The Committee regularly reviews the Fund's investment management arrangements. In broad terms at 31 March 2021 the Fund's strategic allocation was to be invested 70% in equities, 10% in fixed income and 20% in property/alternatives. The Fund's assets are managed day to day by the Fund's appointed specialist, external investment managers.

Strategic Asset Allocation

The table below shows the actual distribution of assets across the main asset categories which change year on year as a result of the strategic asset allocation, the performance of the underlying asset classes, managers' performance, rebalancing across managers and asset classes.

Strategic Actual and Target Asset Allocations

Asset Class	Actual Portfolio Weight	Actual Portfolio Weight	Target Portfolio Weight
	31.03.20	31.03.21	31.03.21
Total Equities	**75.7%**	**78.5%**	**70.0%**
Total Actively Managed Equities	**23.4%**	**26.3%**	**20.0%**
Far East Developed	12.5%	14.0%	10.0%
Emerging Markets	10.9%	12.3%	10.0%
Total Passively Managed Equities – Market Capitalisation Indices	**28.0%**	**31.0%**	**35.0%**
United Kingdom	11.0%	12.1%	20.5%
North America	11.0%	12.5%	8.0%

Asset Class	Actual Portfolio Weight	Actual Portfolio Weight	Target Portfolio Weight
	31.03.20	31.03.21	31.03.21
Europe ex UK	6.0%	6.4%	6.5%
Passively Managed Equities – Alternative Indices	**14.9%**	**15.2%**	**15.0%**
Equity Protection	**9.4%**	**6.0%**	
Total Fixed Interest	**6.5%**	**6.2%**	**10.0%**
Actively Managed Bonds & Corporate Private Debt	6.5%	6.2%	10.0%
Total Actively managed Alternative Assets	**17.8%**	**15.3%**	**20.0%**
Property	6.4%	4.7%	20.0%
Infrastructure	11.4%	10.6%	
TOTAL	**100.0%**	**100.0%**	**100.0%**

The equity protection strategy applies to the passively managed equities – market capitalisation indices

There are still a number of undrawn capital commitments related to property and infrastructure. These take a number of years and are being funded from disinvestments in the equity portfolio to meet the strategic target allocations.

Details of the Largest Equity investments as at the 31 March 2021

Top 10 Direct Equity Investments	Market Value of holding as at the 31st March 2021 (£)	Percentage of Total Fund Assets
Apple	33,209,001	1.02%
Taiwan Semicon Man TWD10	**32,755,360**	**1.00%**
Microsoft	30,897,079	0.95%
Tencent Holdings	28,972,800	0.89%
Unilever	**17,874,745**	**0.55%**
AstraZeneca	**16,683,095**	**0.51%**
Samsung Electronics	16,296,948	0.50%
Amazon	**14,793,504**	**0.45%**
Sony Corporation	14,774,027	0.45%
HDFC Bank	**14,727,840**	**0.45%**

Global Overview from the Fund's Investment Advisor

What a year that was

Looking back over the last year (which for the purposes of this report was 1st April 2020 until 31st March 2021) it is quite difficult to balance the human burden that Covid-19 has created with the financial well-being of Worcestershire Pension Fund (WPF). In last year's report I had stated that the Fund had taken quite a sharp financial hit in the early stages of the pandemic but had enjoyed a partial recovery before the year end at 31st March. Back then it was hard to imagine that world markets would not only fully recover, but then move forwards to achieve new highs. Initially this was fuelled by an unprecedented amount of fiscal stimulus but as the year went by hopes for effective vaccines to combat the virus becoming available turned into reality.

This move to new highs is well illustrated by the comparison of year-end values. The total value of the Worcestershire Pension Fund at 31 March 2021 was £3,283m, compared to £2,612m at the end of March 2020, an increase of over 25%. As a reminder the Fund value had reached about £3,000m by mid-February 2020, before concerns about what was then called coronavirus really set in. As a consequence, the short term dip in the funding level was rapidly reversed, such that as at the year end the estimated level was 99% of assets covering liabilities, so virtually fully funded.

The Fund underperformed its bespoke benchmark performance target over the last year by -1.5%. While at face value this is slightly disappointing, in general terms the Fund has performed well, as evidenced by the increase in value and by comparison with other LGPS Funds (PEL universe). The Fund performance was in line with the benchmark over 3 years, over 5 years it outperformed by 0.8% and the ten-year performance figure was positive by 0.2%.

The main contributor to the increase in Fund value has been the equity allocation, rising by 28%. All world markets enjoyed a buoyant year, with North America and Emerging Markets performing particularly well. The UK lagged behind, not helped by ongoing trade negotiations with Europe and the continued impact of repeat waves of high Covid-19 infection rates on people and the economy. The main areas of concern within the Fund investments were the Property and Infrastructure sectors, which performed relatively poorly. Regular meetings were initiated with all the managers, so that a clear understanding of issues relating to Covid-19 and energy pricing could be gained and monitored accordingly. It became clear that we had some managers with exposure to the most impacted sectors, such as retail and hospitality in the property sector and energy and transportation in the infrastructure sector, who had to deal with some significant challenges, whereas others derived some benefit from an increase in demand for their services, such as IT and telecoms. While some of the challenges proved to be short lived, such as poor energy pricing, some areas will remain challenged until restrictions are eased, such as hospitality and transport. What shape the recovery takes remained to be seen, but the situation will continue to be monitored closely. Over time focus will return to more mundane matters, such as the health of the world economy and political tensions globally. At home building new trade relationships in the post Brexit environment will be critical to the ultimate success of UK plc standing alone again.

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. Alongside this, additional follow on investments with existing managers will be considered.

Further work was also being undertaken to seek appropriate means to bring the actual allocation to fixed income closer to the strategic allocation (10%), again working with LGPS Central. Regrettably it transpired that some of the sub fund proposals being put forward by LGPS Central did not match up with our asset allocation requirements in an appropriate manner. Consequently, an allocation of £120m was made to the Bridgepoint (formerly EQT) private debt follow on fund to the existing investment with them.

In furtherance of the work commissioned by the Pensions Committee to manage Environmental, Social and Governance (ESG) and Climate Change issues in a more proactive manner across all of the Fund investments, Minerva were appointed to undertake the work to map the Fund's existing investments against the agreed objectives and to provide a framework by which future progress to achieve the Fund's aspirations can be measured. The objectives were agreed by key stakeholders who following appropriate training helped to shape the scope of the review, which was based on some of the UN Sustainable Investment Goals (SDG's) and wider ESG issues.

As a separate but timely exercise, LGPS Central completed a Climate Change Risk review of the Fund's equity investments. In summary this was very encouraging in terms of the Fund's investments having a much lower carbon exposure than the benchmark position, partially aided by our regional allocation mix and also from the stock selection profile of our active managers.

The findings of both reviews were presented to the Pension Investment Sub Committee and next steps were considered by the Pensions Committee. It was agreed to investigate 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. In practical terms this includes considering what options are available with the existing manager, Legal & General Investment Management, alongside those from LGPS Central and other managers. Full details of the work undertaken to date can be found on the Fund's website.

At the operational and governance level Covid-19 could have presented a considerable challenge to the Fund. As it turned out all those involved in the management of the Fund adapted very rapidly to the changed working environment, namely working at home. The availability of appropriate video conference technology, such as Teams and Zoom, enabled the conduct of business to continue very much as normal. That probably understates the considerable achievement of all concerned to enable that to happen, particularly given the rules and regulations that govern Local Authorities in general and LGPS funds in particular. High standards of training have been maintained throughout, with the emphasis on more regular but shorter sessions, acknowledging the limitations of remote learning. Following the restructuring of the Local Pension Board in the previous year, they have prioritised some detailed work to gain a greater understanding of a select number of areas of the Fund's administration. In a time of even greater scrutiny from external regulatory organisations, this work has enabled the Fund to not only keep abreast of current issues, but to also identify areas that may require further attention in due course.

As a reminder, the Fund is a member of LGPS Central, which will ultimately be responsible for managing most investments for Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire Pension Fund. During the last financial year, the management of the Fund's Corporate Bond portfolio was transitioned to LGPS Central. For the time being the Fund retains the responsibility for monitoring their other existing managers and making short term changes to the management arrangements as necessary. Worcestershire Pension Fund will retain responsibility for asset allocation decisions, which research shows forms the major part of the contribution to Fund performance over time. Crucially the Fund will also still be responsible for meeting the liabilities to our members, namely paying their pensions.

Philip Hebson
Independent Investment Advisor June 2021

Investment monitoring and Performance

The Pension Investment Sub-Committee monitors external managers' performance and makes investment manager and asset allocation recommendations. The Fund does not automatically rebalance mandates in line with the long-term investment policy as set out in the Investment Strategy Statement. Therefore, portfolio weights may vary compared to their long-term strategic total Fund weight. The Fund's actual asset valuations across UK, Non-UK and Global as at 31 March 2021 are shown below.

	UK £m	Non-UK £m	Global £m	Total £m
Equities	401.1	1,471.7	497.1	2,369.9
Bonds	192.7	0	159.7	352.4
Pooled property investments	87.6	73.1	0	160.7
Pooled infrastructure investments	332.6	0	0	332.6
Pooled Debt Investments	0	42.2	0	42.2
Cash and cash equivalents	18.9	0	0	18.9
Other	4.2	0	0	4.2
Total	**1,037.1**	**1,587.0**	**656.8**	**3,280.9**

The Fund's investment performance is measured quarterly by Portfolio Evaluation Ltd. against a number of benchmarks. The table below details the Fund's performance against these benchmarks for 1 year, 3 years and 5 years to 31 March 2021.

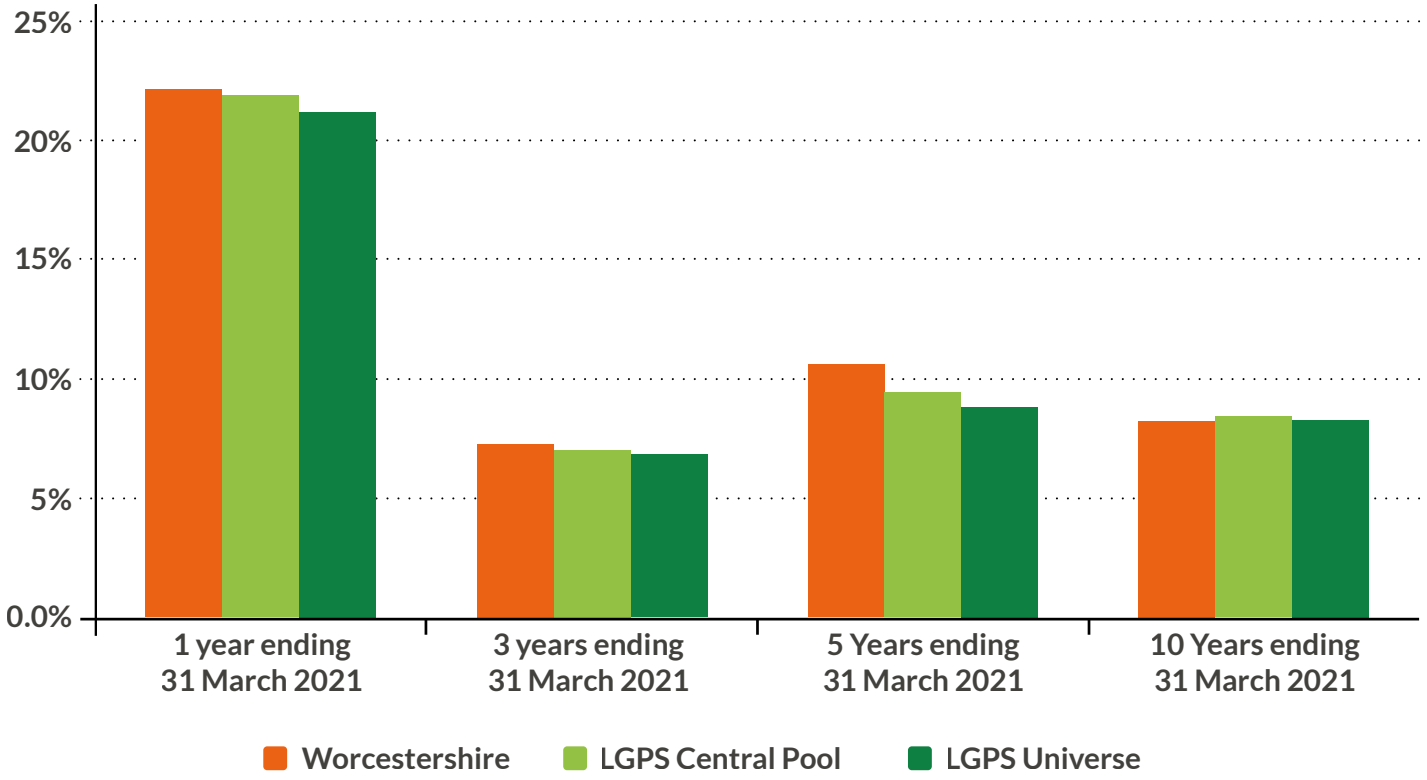
Fund performance by Asset Class

Asset Class	1 Year Actual	1 year Benchmark Return	3 Year Actual	3 Year Benchmark	5 Year Actual	5 Year Benchmark
	Return	Return	Return	Return	Return	Return
	%	%	% p.a.	% p.a.	% p.a.	% p.a.
Active Equities	41.0	38.4	7.7	7.9	13.8	12.7
Passive Equities	34.7	33.2	9.6	8.2	11.2	10.3
Alternative passive equities	27.7	28.7	10.8	11.4	12.2	12.7
Bonds	11.2	9.2	N/A	N/A	N/A	N/A
Pooled Private Debt	0.4	6.5	N/A	N/A	N/A	N/A
Pooled Property	-2.2	7.1	2.4	7.2	5.3	7.1
Pooled Infrastructure	4.6	8.2	5.1	8.6	6.6	8.3
TOTAL FUND	**22.1**	**23.6**	**7.1**	**7.1**	**10.4**	**9.7**

The Fund produced a return of 22.1% for the year, which gave an underperformance against the benchmark of 1.5%. The Fund's performance continued to be strong over the 5-year period compared to the benchmark.

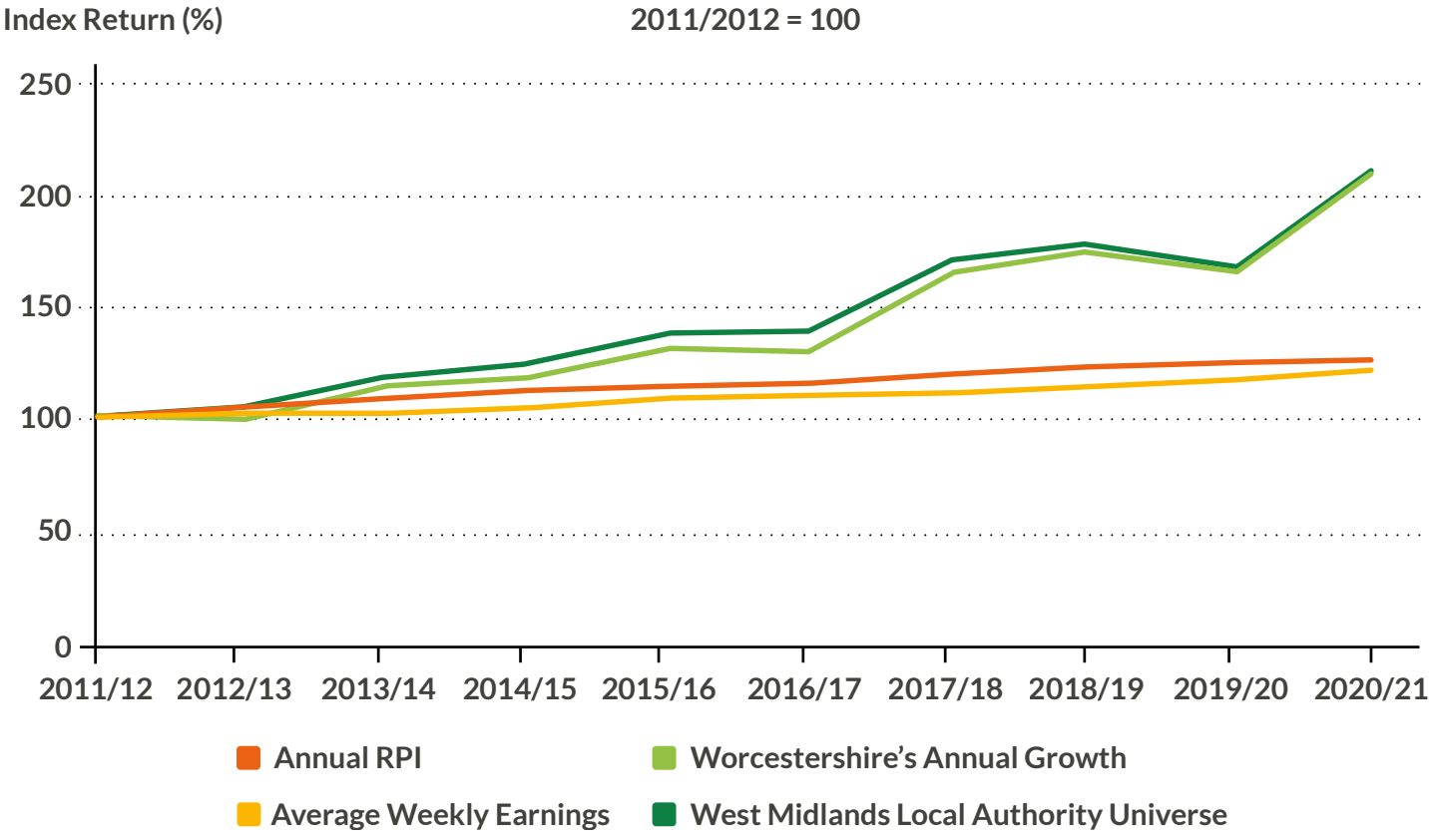
The following chart shows the performance of the Fund relative to the LGPS Universe and LGPS Central Limited pool partners. The performance was better than the LGPS Universe and LGPS Central Limited pool partners this year. The Fund has outperformed both the LGPS Universe over 3, 5 and 10-year periods and LGPS Central apart from over the 10-year period.

Comparison of average annual performance of the Fund with the LGPS Central Authorities median return and the LGPS universe



The following chart tracks the cumulative impact of long-term Fund performance since 2011/12 relative to the following key measures, the LGPS Central partners, the Retail Prices Index (RPI) and annual average weekly earnings.

Fund's



Investment Fees

The Fund generally has an ad-valorem fee scale applied in respect of the investment management services it receives. This is generally accepted practice for passive tracking mandates and is easily understood.

A performance related fee basis is sometimes set if it is believed to be in the overall financial interests of the Fund, particularly for active mandates where higher fees are paid for more consistent outperformance of market indices. The approach taken varies depending on the type of investment and the target being set.

The Fund is required to report in line with the CIPFA requirements under the Transparency Code and requires its investment managers to provide sufficient information to fulfil this requirement. The table below shows the fees paid to managers in each asset class as at the 31st March 2021.

	Management Fees £'000	Performance & Other Fees £'000	Total Fees £'000
Fixed interest securities	400	2,500	2,900
Equities	1,700	300	2,000
Pooled Property investments	1,400	0	1,400
Pooled Infrastructure Investments	6,600	0	6,600
Private Debt	700	0	700
Pool Company	1,500	1,900	3,400
Other	200	0	200
TOTAL FUND	**12,500**	**4,700**	**17,200**

Custodial arrangements

Custody of the Fund's assets is provided by the Global Custodian, BNY Mellon Asset Servicing, or for assets managed by LGPSC Northern Trust.

In addition to the custodian's role in the safe-keeping of the Fund's total assets, the custodian also provides services in relation to settlement and income collection, the exercise of voting rights and the execution of corporate actions in conjunction with the investment managers. The appointment of a global custodian also secures an independent confirmation of the Fund's assets and their value.

Asset Pooling

The Fund is a partner Fund of LGPS Central Limited (LGPSC) pool and costs were incurred by all the partner funds under a cost sharing agreement with our contribution being as follows:

	At 1 April 2020 £000	Recharges in year £000	Settled in year £000	At 31 March 2021 £000
Governance costs	39	231	(230)	40
Operator costs	123	337	(399)	61
IMMC	0	53	(45)	8
Product development costs	32	97	(107)	22
Sub total	**194**	**718**	**(781)**	**131**

The LGPSC Set up costs incurred are detailed below. As the pool only launched in 2018, the information provided reflects the start-up nature of LGPS Central; the level and complexity of the disclosures will increase in later years.

LGPSC Set-Up Costs

£000	2018/19 Direct	2018/19 Indirect	2018/19 Total	Cumulative 2014/15 to 2018/19 Total
Set Up Costs				
Recruitment	-	-	-	27
Procurement	-	-	-	2
Professional Fees	-	-	-	187
IT	-	-	-	97
Staff Costs	-	-	-	142
Other Costs (provide details)				
Premises	-	-	-	49
Staffing-Related Costs	-	-	-	5
Travel and Expenses	-	-	-	1
Training and Events	-	-	-	1

£000	2018/19 Direct	2018/19 Indirect	2018/19 Total	Cumulative 2014/15 to 2018/19 Total
FCA Fees	-	-	-	1
General Admin Costs	-	-	-	2
Set-Up Costs Before Funding	**-**	**-**	**-**	**514**
Share Capital	-	-	-	1,315
Debt	-	-	-	685
Other Costs	-	-	-	-
Set-Up Costs After Funding	**-**	**-**	**-**	**2,514**
Transition fees				
Taxation (seeding relief)				
Other transition costs				
Transition Costs				

Although guidance from CIPFA has not provided a set definition of Indirect Costs, it is likely that the set-up costs captured to date relate to Direct Costs (i.e. either incurred directly by LGPS Central or recharged by Partner Funds to LGPS Central).

£000	2014/15	2015/16	2016/17	2017/18	2018/19	Cumulative Total
Set-Up Costs Before Funding	**-**	**-**	**95**	**419**	**-**	**514**
Set-Up Costs After Funding	**-**	**-**	**95**	**2,419**	**-**	**2,514**
Transition Costs						

LGPSC Investment Management Expenses Charged to Partner Funds

	£000	Direct	Indirect	Total	Bps Charge
1	Ad Valorem	1,541		1,541	29.41
2	Performance	-		-	-
3	Research	-		-	-
4	PRIIPS Compliance	-		-	-
5	Other (provide details)	-		-	-
	Management Fees	**1,541**	**-**	**1,541**	**29.41**
6	Commissions	174		174	3.32
7	Acquisition/issue costs	-		-	-
8	Disposal costs	-		-	-
9	Registration/filling fees	-		-	-
10	Taxes and Stamp Duty	206		206	3.93
11	Other (provide details)	-		-	-
	Implicit Costs	1,318		1,318	25.15
	Transaction Costs	**1,698**	**-**	**1,698**	**32.40**
					-
12	**Custody/Depositary**	**49**		**49**	**0.94**
13	**Other (provide details)**				**-**
	Fund Accounting	24		24	0.46
	Transfer Agent	4		4	0.08
	External Audit	6		6	0.11
	Performance Reporting	8		8	0.15
	Transaction Charges	5		5	0.10
	MACS Fees	-		-	-
	Total Costs	**3,335**		**3,335**	**63.65**

Statement of Responsible Investment

The Fund is a long-term investor aiming to deliver a sustainable pension fund for all stakeholders.

Worcestershire County Council as the administering authority has a fiduciary duty to act in the best long-term interests of the Fund's employers and scheme members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

Responsible investment is a fundamental part of the Fund's overarching investment strategy as set out in the Investment Strategy Statement.

The Fund is committed to ensuring that the companies in which it invests have good corporate governance, adopt a responsible attitude towards the environment and adopt high ethical standards. The Fund has recently been successful in becoming a signatory to the Financial Reporting Council (FRC) 2020 Stewardship Code.

Policies adopted

The Fund adopts a positive engagement approach with the companies in which it invests in order to promote high standards of corporate governance. It believes that this will help to raise standards across all markets and that this is in the long-term interests of the Fund and its stakeholders.

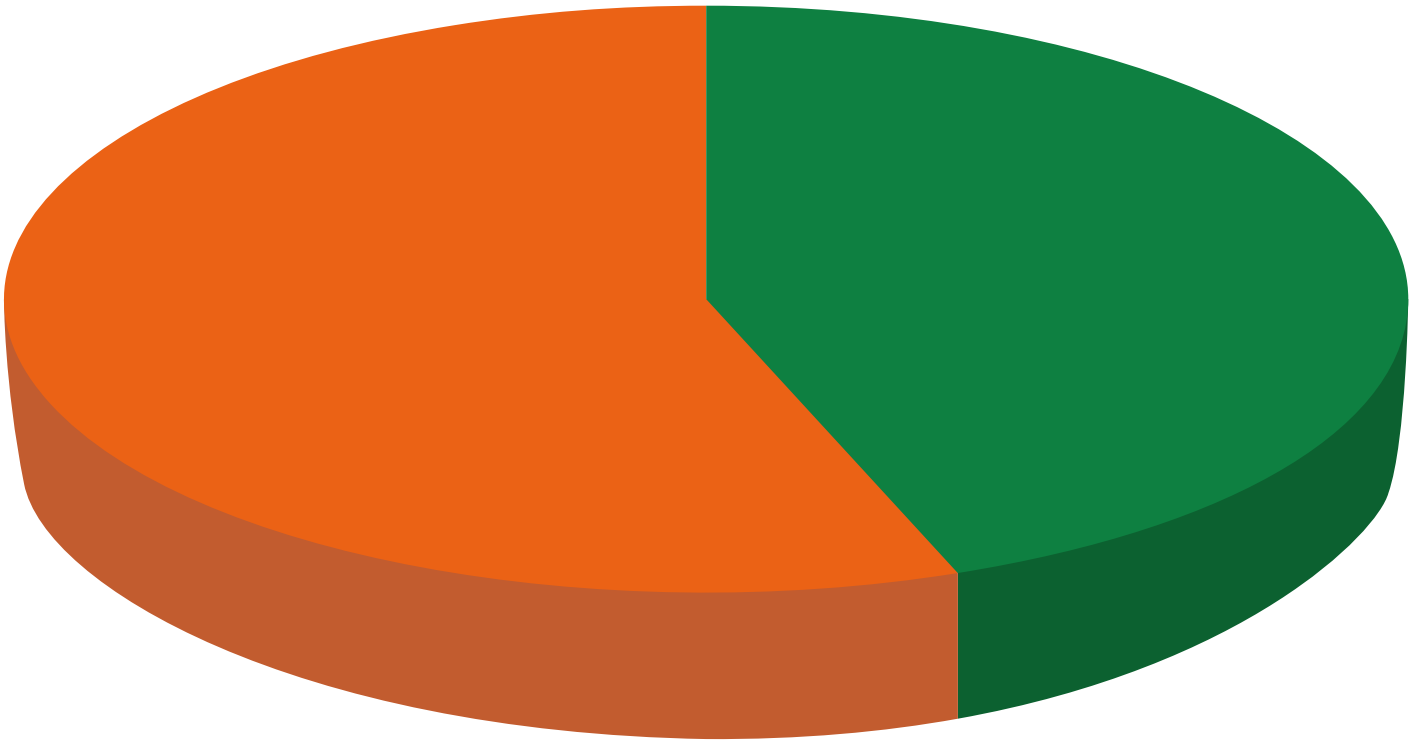
Investment performance is monitored on a quarterly basis and the Fund expects investment managers to engage with companies to address concerns affecting performance.

The Fund believes that the greatest impact on behaviour can be achieved when working together with others. It is a member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act collectively with other local authorities on corporate governance issues. The Forum currently has over 70 member funds representing assets of more than £200 billion. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

The Fund continues to exercise its ownership rights by adopting a policy of voting stocks it holds. The Fund believes that it is beneficial to take the voting decisions away from our active fund managers and have the votes executed in line with LGPS Central Limited's voting principles which are in line with our own. This enables improved monitoring and reporting to the Pensions Committee. Wherever practicable votes must be in accordance with industry best practice as set out in the combined code of corporate governance with a clear focus on enhancing long-term shareholders value.

In order to ensure that the governance practices employed by the Fund's investment managers are aligned to that of the Fund, investment managers' quarterly performance reports are required to include specific briefing in corporate governance detailing all votes cast on the Fund's behalf as detailed in the charts below.

Meeting where Resolutions made



For, 128

Against and / or abstain, 161

Engagement with 272 Companies

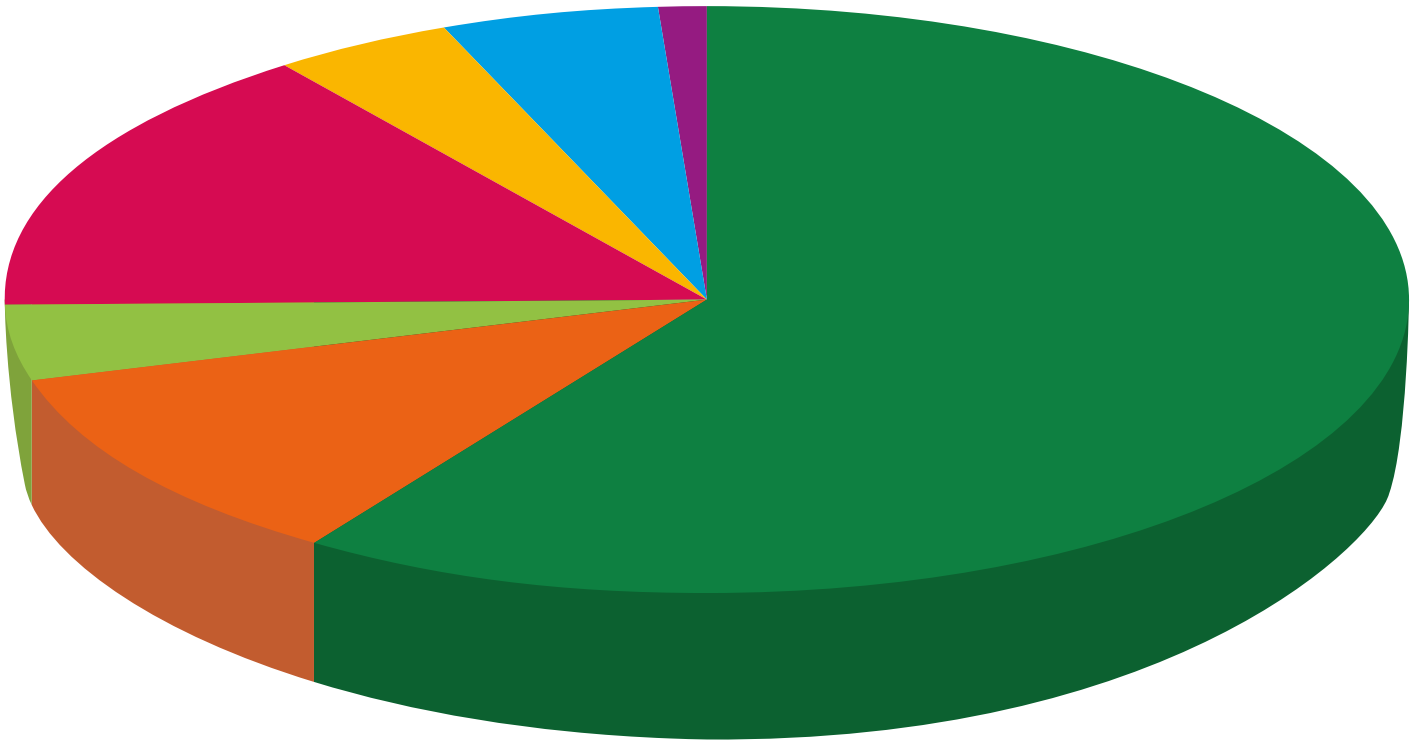
Environmental, 29%

Social and Ethical, 22%

Governance, 32%

Strategy, Risk and Comms, 17%

Issues on which we recommended voting against or abstaining on resolutions



OUTCOME OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) AUDIT, UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs) MAPPING AND CLIMATE RISK REVIEW

The Fund provided a number of focussed training and workshops during the year on responsible investment. This covered sustainable / impact & ethical investment as well as debating the Fund's investment beliefs for a sustainable approach to investing. The fund looked at the 17 United Nations SDG's and members agreed to prioritise the following SDGs that they considered are likely to have the biggest investment impact which were as follows and added later SD3 Health & Wellbeing

- SDG 9. Industry, Innovation & Infrastructure (covers off 11 sustainable cities)
- SDG 7. Clean Energy (covers off 6 clean water and sanitation)
- SDG 8. Decent Work & Economic Growth
- SDG 13. Climate Action

In September 2020 Minerva were appointed to conduct an Environment Social and Governance (ESG) audit of the Fund and be able to map all the Funds' investments to the United Nations Sustainable Development Goals (SDGs). This was to establish a baseline for the Fund as to where we are and help formulate future strategic actions required for the Fund's investment approach.

The key outcomes from the report were as detailed below and were part of the report to Pensions Committee on the 16th March 2021:

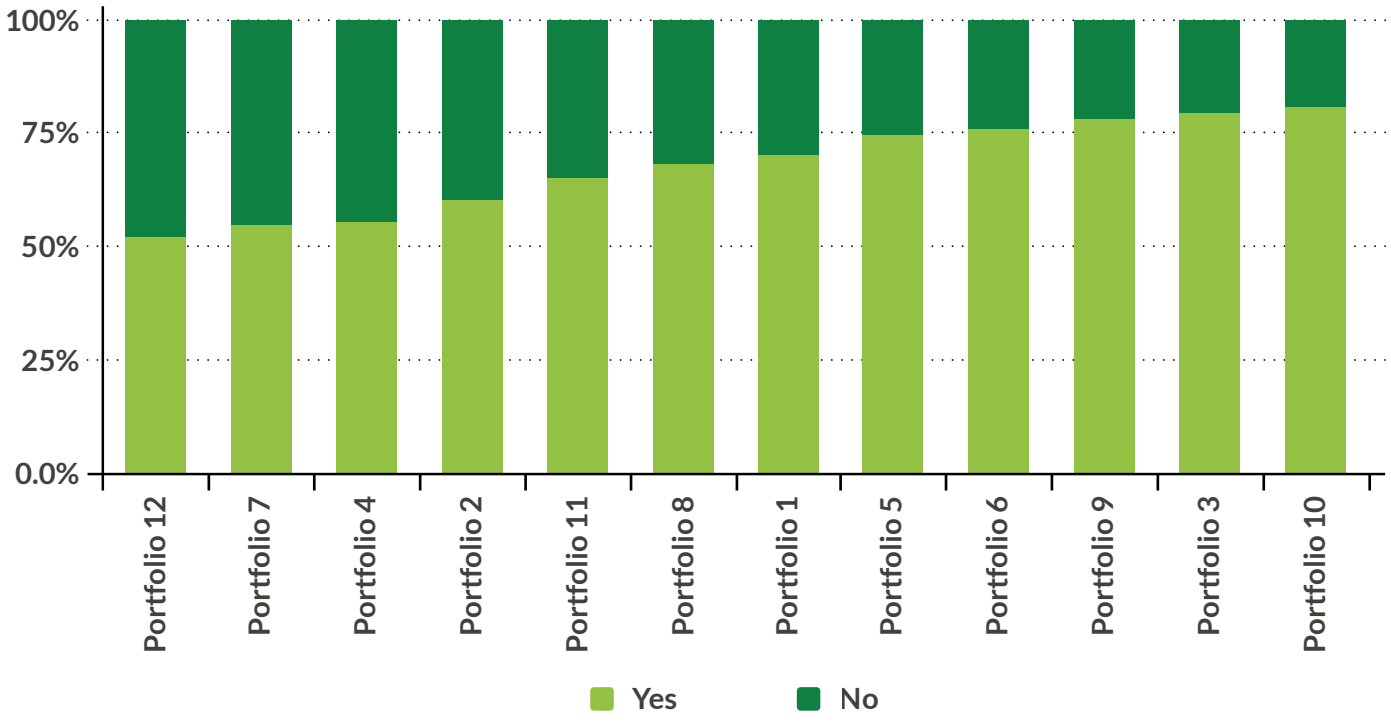
a. The fund is already aligned to its SDG goals to a reasonable level,

b. Within the private assets, 2 Fund managers portfolios are 'Very Strongly Contributing' in SDG terms and 1 Fund Managers portfolio is 'Detracting', given its significant exposure to the Oil and Gas sector

c. Comparing the Fund's listed assets against the SDG2000, there is an overlap of 50.4%. (The Fund's listed assets represent 70% of our portfolio)

d. Although that overlap was unintentional rather than by design.

SDG 2000 Overlap (£ Invested) By Portfolio



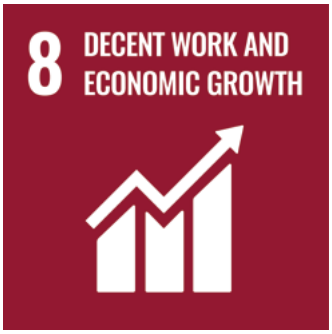
SDG 2000

Minerva used the World Benchmarking Alliance (WBA) SDG2000 to measure the alignment between the Fund's investments and the SDGs. The WBA SDG 2000 measures and ranks 2000 of the world's most influential companies in respect of SDGs. These are seen as global companies that are likely to have the greatest potential to help deliver the SDGs.

The illustration below shows the Funds exposure to the prioritised SDGs.

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

£1,190



£1,425

£945

£1,385

*as defined by the SDG2000 benchmark
**as defined by the Pensions Committee in a Pensions for Pupose workshop in May 2020.

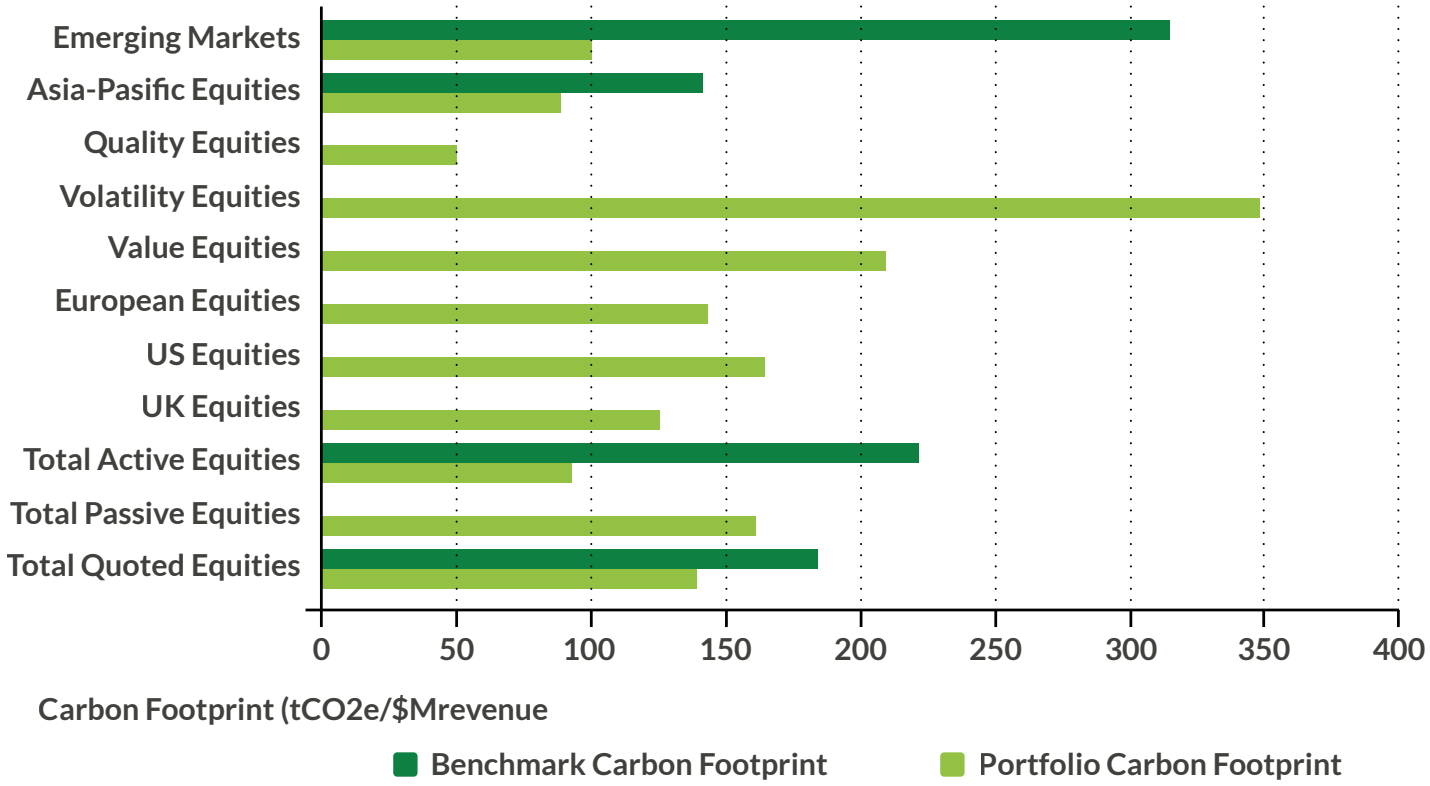
The Fund also received a Fund specific Climate Risk report from LGPS Central which was reviewed alongside the findings from the ESG Audit.

The Fund recognises that Climate related risk is very real and can impact the Fund both negatively and positively, depending on our approach to managing that risk. There is sector and stock specific risk in being invested in those areas that include fossil fuels, as they decline in usage, whereas investing in new more environmentally friendly areas, such as renewable energy, can enhance our investment returns. The warmer the planet becomes, the risks increase much further, which at the simplest levels include substantial flooding of low lying areas globally with all the negative implications that flow from that.

The key highlights / points of the report were and were part of the report to Pensions Committee on the 16th March 2021

- The Total Equities portfolio has a portfolio carbon footprint that is 23.75% lower than the benchmark, with all underlying active strategies significantly lower than their benchmark as demonstrated in the chart below

Portfolio Carbon Footprints in each regional equity portfolio



The Fund's Total Equities portfolio is 23.75% more carbon efficient than the benchmark. This means that, on average, for every $m of economic output companies produce, the Fund's investee companies emit 23.75% fewer greenhouse gas emissions than the companies in the index. The report received from LGPS Central Limited shows that the Total Active Equities portfolio is c.57% more carbon efficient than its benchmark, with each underlying equity strategy in the portfolio having a lower carbon footprint than their benchmark.

- The Total Equities portfolio has less exposure to fossil fuels than the benchmark
- Climate Scenario Analysis suggests a 2°C outcome is the best from a return perspective.
- A hypothetical "Sustainable Asset Allocation" – which adjusts the Strategic Asset Allocation by
  - i. incorporating low carbon and sustainable equities and
  - ii. increasing allocation to sustainable infrastructure – would, according to the model used, perform better than the Strategic Asset Allocation in a 2°C scenario
- The Fund already shows good practice with regard to responsible investment, including Quarterly Stewardship updates and signature to the UK Stewardship Code

Overall Conclusion

The Fund has completed a robust ESG Audit, SDG Mapping and Climate Risk review of its portfolio and on the whole the outcomes have been positive. The key points and suggested recommendations from both the Minerva and LGPSC reports resulted in a number of recommendations under the following areas which can be found in the report and minutes of the 16th March Pensions Committee.

- Monitoring of Fund managers
- New guidelines for future Fund Manager selection
- Working with LGPS Central
- Future investment strategy
- SDG & Climate Reporting and metrics

The Fund agreed an overarching Climate Change Strategy within its Investment Strategy Statement which can be found in Appendix C and also reported on the Task Force on Climate related Financial Disclosures (TCFD) which can be found on the Fund's website.

Statement of Compliance with the UK Stewardship Code for Institutional Investors

The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council strongly encouraged best practice in respect of investor engagement. The expectation is that institutional investors should publish a statement in respect of their adherence to the Code. Compliance with the Code is currently on a voluntary basis and we have completed our **Statement of Compliance** in line with the UK Stewardship Code for Institutional Investors. All our global equity managers comply fully with the Code.

7. Governance Arrangements

7. Governance Arrangements

Our governance arrangements take account of:

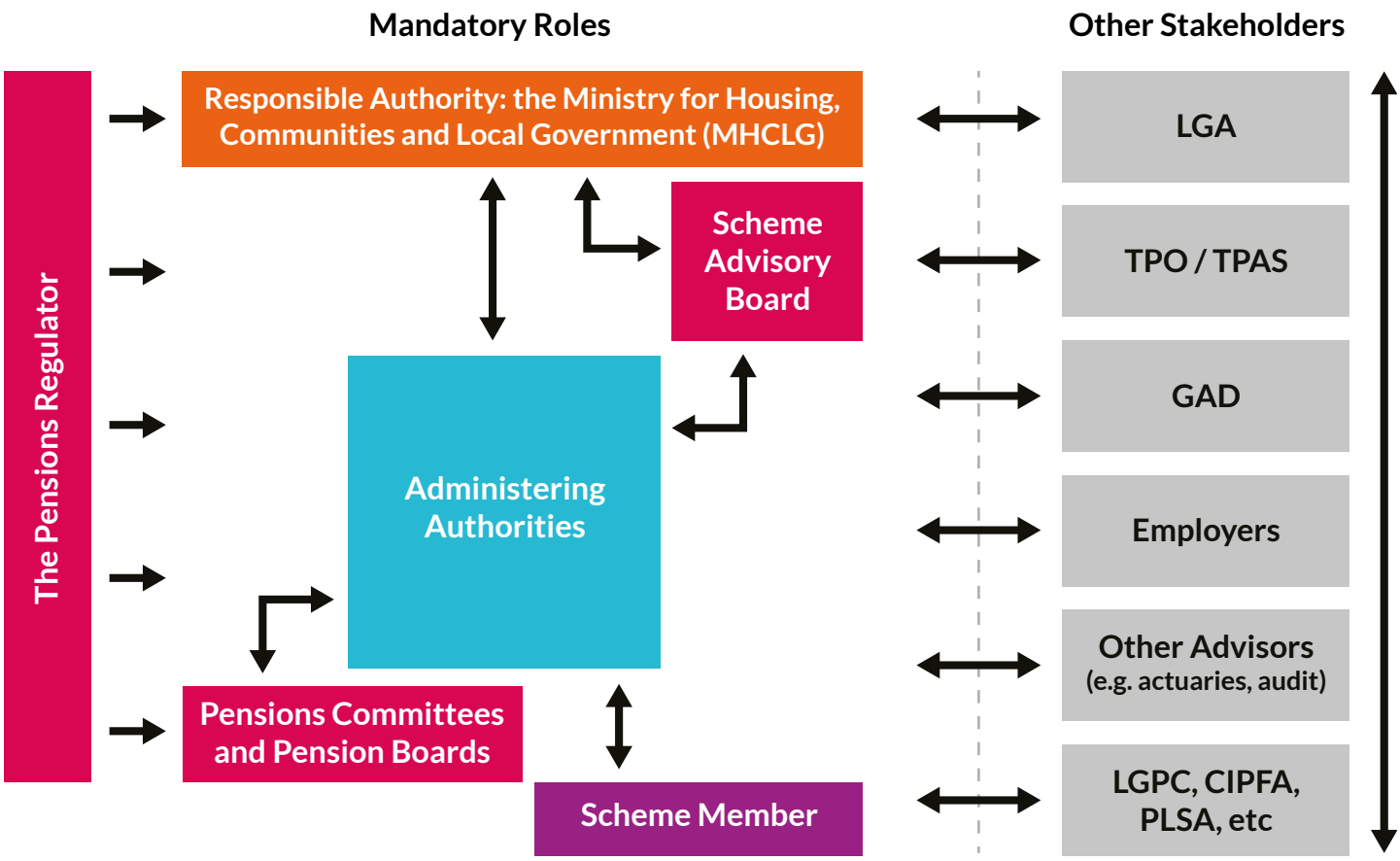
- The way in which the LGPS is governed.
- The governance arrangements of LGPS Central Limited.
- The guidance issued by The Pensions Regulator.

Overall responsibility for managing the Fund lies with the full council of Worcestershire County Council who have delegated the management and administration of the Fund to the Section 151 Officer. The full Council reviews the discharge of its responsibilities through the Council's Audit and Governance Committee. The Pension Board assists the Council to deliver efficient governance and administration of the Fund's responsibilities through the Council's Audit and Governance Committee.

The Section 151 Officer is advised by the Pensions Committee and also takes appropriate advice from the Fund's actuary and the Fund's appointed investment advisor. The Pensions Committee receives recommendations from the Pension Investment Sub-Committee to enable it to discharge its responsibilities effectively.

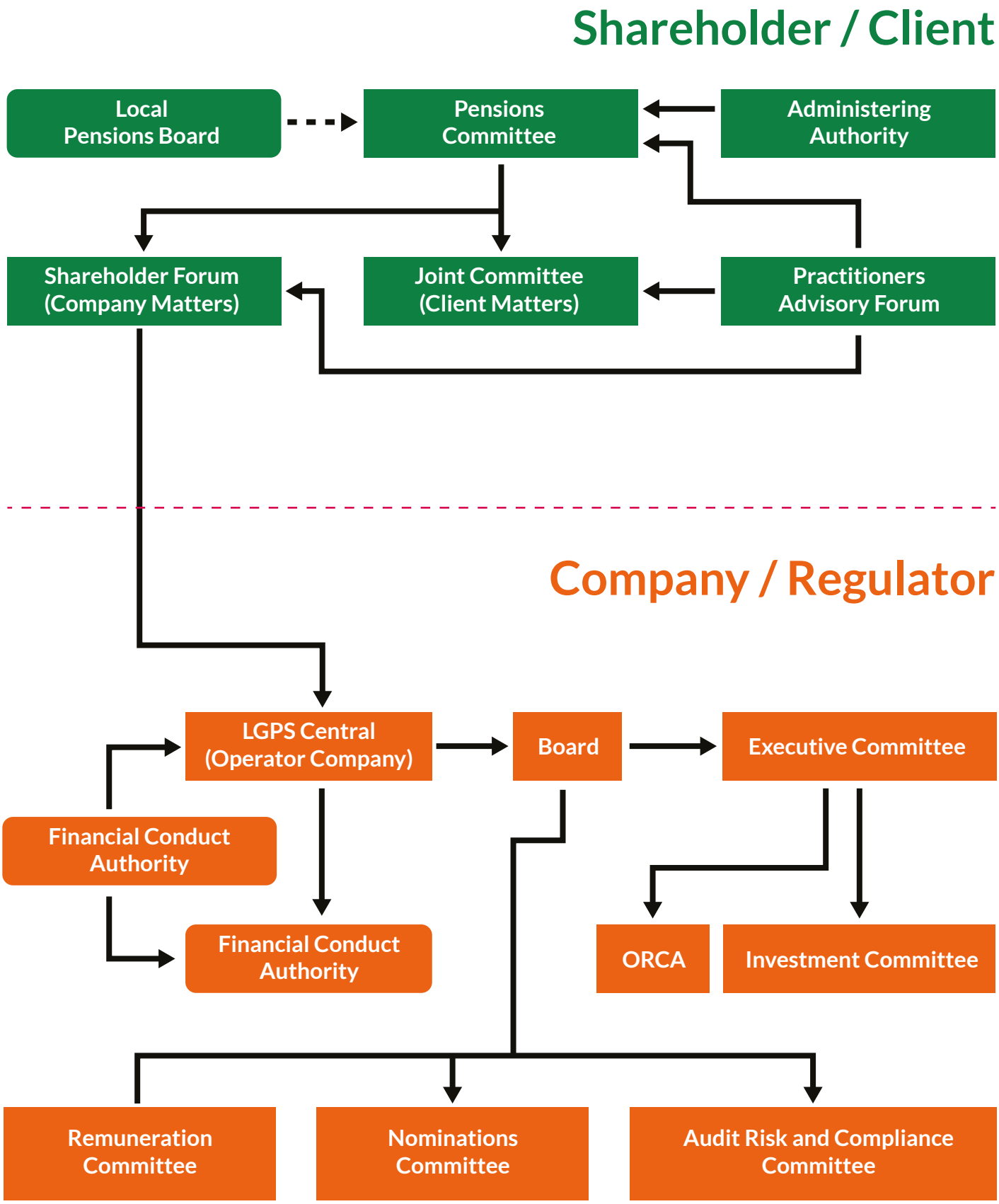
Our current governance arrangements are contained in our **Governance Policy Statement**.

LGPS Governance Model



LGPS Central Limited

In collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire, Nottinghamshire, and West Midlands Integrated Transport Authority) we continue to plan to pool actively managed assets using LGPS Central Limited using the following governance model.



Worcestershire Pension Fund Governance

Council (Administering authority)

Pensions Committee (section 101)

Key duties:

- To take decisions in regard to the administering authority's responsibility for the management of Worcestershire Pension Fund, including the management of the administration of the benefits and strategic management of Fund assets.

Pension Board

Key duties:

- To assist the administering authority in securing compliance with;

  (i) The Principal 2013 Regulations.
  (ii) Any other legislation.
  (iii) Requirements imposed by the Pensions Regulator in relation to the scheme.

- To assist the administering authority in ensuring the effective and efficient governance and administration of the scheme.

Pension Investment Sub Committee

Key duties:

- To provide the Pensions Committee with strategic advice concerning the management of the Fund's assets.

- Monitoring performance of total Fund assets and individual investment managers.

Pension Administration Advisory Forum

Key duties:

- To provide the Pensions Committee with advice concerning the administration of the Fund.

- To bring stakeholders perspective to all aspects of the Fund's business.

8. Governance Compliance Statement

8. Governance Compliance Statement

Ref	Principles	Compliance Status	Evidence of Compliance
A	**Structure**		
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) and its Sub-Groups are set out in the Fund's Governance Policy Statement. The Governance Policy Statement was approved by Full Council.
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Pensions Committee membership includes an employee and employer representative. Full membership details are set out in the Fund's Governance Policy Statement.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Pension Investment Sub Committee provides strategic advice to the Pensions Committee regarding the management of the Fund's assets. The Chairman of the Pensions Committee also sits on the Pension Investment Sub Committee to ensure effective communication. The Pensions Committee receives quarterly investment updates from the Pension Investment Sub Committee. A Pension Administration Advisory Forum has been established. The employer and employee representatives from the Pensions Committee attend the forum and there is a standing invitation for the Pension Board to attend the forum.

Ref	Principles	Compliance Status	Evidence of Compliance
B	**Representation**		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-Scheme employers, e.g., admitted bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis).	Compliant	Membership of the Pensions Committee and Pension Investment Sub Committee include employer and employee representatives and an independent investment adviser. Full membership details are set out in the Fund's Governance Policy Statement. Expert advisors attend the Pensions Committee as required for the nature of the main decisions. For example, the actuary attends when the valuation is being considered, and the main investment advisor attends when a strategic asset allocation decision is being made. The investment advisor regularly attends Pension Investment Sub Committee meetings. All members are treated equally in terms of access to papers and to training that is given as part of the Committee process.
C	**Selection and role of lay members**		
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	The Pensions Committee has noted its terms of reference and the Fund's Governance Policy Statement. Minutes of Pensions Committee meetings are published on the Council's website. A detailed training programme is also provided to Committee members and Pension Investment Sub Committee members.
b.	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all Pensions Committee meetings. The Pensions Committee and Pension Investment Sub Committee are serviced by Legal and Democratic Services who invite members to declare any financial or pecuniary interest related to specific matters on the agenda. Minutes of the Pensions Committee and Pension Investment Sub Committee meetings are published on the Council's website.

Ref	Principles	Compliance Status	Evidence of Compliance
D	**Voting**		
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Voting rights are clearly set out in the Fund's Governance Policy Statement.
E	**Training / facility time / expenses**		
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Compliant	A policy on expenses is set out in the Fund's Governance Policy Statement along with the number of Committee meetings required each year. The Fund has an approved Joint Training Policy for the Pensions Committee, Pension Investment Sub Committee and the Pension Board.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	These polices apply to all committee members and this is clearly set out in the Fund's Governance Policy Statement, Knowledge and Skills Policy Statement & the Joint Training Policy for the Pensions Committee, Pension Investment Sub Committee and the Pension Board.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Compliant	The Fund's Knowledge and Skills Policy Statement sets out the requirement for annual training plans to be developed and maintained for committee members and for a log of all such training undertaken to be maintained. Regular feedback on training events is provided to the Pensions Committee.

Ref	Principles	Compliance Status	Evidence of Compliance
F	**Meetings (frequency / quorum)**		
a.	That an administering authority's main committee or committees meet at least quarterly.	Compliant	The Pensions Committee meets quarterly. This requirement is set out in the Fund's Governance Policy Statement.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	The Pension Investment Sub Committee meets quarterly. These meetings are synchronised with the dates when the Pensions Committee sits. These requirements are set out in the Fund's Governance Policy Statement. The Pension Administration Advisory Forum meets twice a year.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Compliant	The Fund has established a Pension Administration Advisory Panel which meets twice yearly. All Fund employers are invited to attend the Panel meetings. The Panel arrangement and terms of reference are set out in the Fund's Governance Policy Statement.
G	**Access**		
a.	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Compliant	All members of the Pensions Committee, Pension Investment Sub Committee and the Pension Administration Advisory Panel have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee. The Pensions Committee agendas and associated papers are published on the Council's website prior to the committee meeting. Pension Board papers and minutes are equally available to all Board members.

Ref	Principles	Compliance Status	Evidence of Compliance
H	**Scope**		
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pension Administration Advisory Panel is attended by the employer and employee representatives who sit on the Pensions Committee. This ensures flow of information between the wider scheme employers and the main committee. Scheme employers are invited to bring wider scheme issues to the attention of the Pensions Committee through the established communication routes. The Council has included benefits administration, investments and wider governance issues under the remit of the Pensions Committee. All aspects of fund management and performance are also reported to the Pensions Committee.
I	**Publicity**		
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Compliant	The Fund's Governance Policy Statement is published on the Council's website and all scheme employers are invited to attend the Pension Administration Advisory Panel meetings. The Fund ran an open recruitment process for the employer and employee representative appointments to the now established Pension Board. Contact details are provided on the website, so other interested parties can find out more if they wish.

9. Local Pension Board Annual Report

9. Local Pension Board Annual Report

The Public Services Pensions Act 2013 required the administering authority for each Local Government Pension Scheme (LGPS) Fund in England and Wales to establish a Pension Board.

The role of the Pension Board is to assist the administering authority to secure compliance with LGPS regulations and other legislation relating to the governance and administration of the Fund, together with any requirements imposed by the Pensions Regulator. In short, the Board's role is to ensure the effective and efficient governance and administration of the Fund.

The regulations require the membership of the Board to be made up of equal numbers of employer and scheme member representatives with a minimum of four members i.e. at least two employer representatives and two employee representatives. The employee representatives on the Board must be independent of the Fund – that is to say they must have no involvement with the day to day management of the Fund.

The membership of the Pension Board and how often the Board met during 2020/21 is detailed on page 7 of this report.

Worcestershire Pension Fund Local Pension Board Annual Report 2020/21

At the Pensions Committee meeting of 16 October 2019 some changes to the Board were approved and subsequently ratified by Worcestershire County Council on 7 November 2019: the membership was increased; the practice of appointing a non-voting independent Chair was replaced by the Chair being selected from the employer representatives on the Board; and Board meetings were moved to being in advance of Pensions Committee meetings.

Due to COVID, I was not formally elected as Chair until the 18 September 2020 Board meeting, the first meeting of scheme year 2020 / 2021.

In addition to ensuring that at all its meetings the Board reviews the rolling quarterly Business Plan and the latest quarterly Risk Register being tabled at the next Pensions Committee, I requested that Fund officers establish a series of separate 'deep dives' at which the Board looks into a particular aspect of the Fund's operations in more depth:

- The first deep dive session took place on 19 January 2021 on pooling.
- The second deep dive took place on 4 March 2021 on The Pensions Regulator / annual benefit statements.

Board members have participated in a number of joint training sessions with the Pensions Committee:

- On 30 June 2020 an induction / refresher session on about the LGPS / the role of the administering authority and where you fit in (governance) / valuation, funding & investment was delivered.
- On 18 September 2020 training was delivered on the year end / CARE revaluation / annual benefit statements / Pension Savings Statements.
- On 10 November 2020 the training covered current issues / paying pensions.
- The training on 18 January 2021 covered risk considerations in an investment strategy.

- At the joint training session on 18 January 2021 there was also a general discussion on the way forward for future training. It concluded that an appropriate way forward would be, after each training or deep dive session, to arrange just the next one-hour session 6 weeks or so after the current one (with no clear preference on day / time excluding Friday afternoons that should be avoided) on the basis that the session would be recorded / separate to existing meetings.
- The training on 22 March 2021 covered admissions / bulks / terminations.

The standard agenda for Board meetings included (in addition to reviewing the Fund's Business Plan and Risk Register):

- Scheme Advisory Board (SAB) updates
- Review of the previous Pensions Committee meeting
- Feedback from events
- Future work plan

Specific non-standard agenda items in 2020 /2021 included a review of the Fund's:

- Governance Policy Statement
- Pension Administration Strategy including Policy Statement on Communications
- Environmental Social and Governance (ESG) audit, Sustainable Development Goals (SDG) mapping and Climate Risk Review
- Pension administration budget

The papers tabled at Board meetings can be accessed from the Fund's website

On 8 October 2020 I gave a Keynote briefing on the changing role of the Pension Board and the latest at the SAB to the Fund's employers 'attending' the Pension Administration Advisory Forum.

I meet twice yearly with the chairs from the Boards of the LGPS funds within the LGPS Central Limited pool to discuss current issues and to share ideas.

Looking beyond 2020 / 2021, at its meeting on 16 June 2021 the Board:

- Reviewed the Fund's Funding Strategy Statement.
- Considered the Fund's position statement in relation to the proposals contained in SAB's Good Governance Project Phase 2 report
- Reviewed the objectives of the Fund's independent investment advisor.
- Considered the Fund's Unaudited Accounts 2020/21.

The Board specifically intends to look at how the Fund manages cybersecurity risk; to monitor progress in delivering the Fund's Business Plan projects; to check whether the risks identified in the Fund's Risk Register are complete / have sufficient mitigations in place; to keep a close eye on any emerging legislation or guidance from The Pensions Regulator / SAB; and to ensure that the Fund's policies and publications are produced and updated in line with statutory requirements and best practice guidance.

Councillor Roger Phillips
Herefordshire Council
Chair of Worcestershire Pension Fund's Local Pension Board

Worcestershire Pension Fund

Audited Statement of Accounts 2020/21

Find out more online:
www.worcestershirepensionfund.org.uk

Contents

About the Accounts

Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2020 / 2021 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2020/21 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

Explanatory Foreword and Review of the Year 2020/21

Contains a review of the year and other general information about the accounts.

Fund Account

Details the money received and spent within the Pension Fund during 2020/21.

Net Assets Statement

Statement showing the Pension Fund's financial position at 31 March 2021.

Notes to the Accounts

Notes providing additional information for the Fund Account and Net Assets Statement.

Statement of Accounting Policies

These are now shown against the relevant note as opposed to a prescribed list of accounting policies since the 2017/18 accounts.

The accounts have been prepared on a going concern basis.

1. Fund Account (money received and spent during 2020/21)

2019/20			2020/21
£m		Notes	£m
	Dealings with members, employers and others directly involved with the Fund		
87.5	Contributions	4	201.2
12.9	Transfers in from other pension funds	5	29.0
100.4			**230.2**
(111.9)	Benefits	6	(112.6)
(11.2)	Payments to and on account of leavers	7	(9.5)
(123.1)			**(122.1)**
(22.7)	**Net additions / (withdrawals) from dealings with members**		**108.1**
(1.5)	Administrative expenses	8	**(2.0)**
(14.5)	Management expenses	9	**(18.2)**
(38.7)	**Net additions / (withdrawals) including fund management and administrative expenses**		**87.9**
	Returns on investments		
48.6	Investment income	10	29.1
(0.7)	Taxes on income	11	(0.4)
(159.1)	Profit and (losses) on disposal of investments and changes in the market value of investments	12a & 15b	602.8
(111.2)	**Net return / (loss) on investments**		**631.5**
(149.9)	**Net increase / (decrease) in the net assets available for benefits during the year**		**719.4**
2,795.3	**Opening net assets**		**2,645.4**
2,645.4	**Closing net assets**		**3,364.8**

Management expenses have increased mainly due to disinvesting some existing passive equity funds into infrastructure and property funds which by their nature have larger management fees and increased transaction costs due to the restructuring of the equity protection strategy. The increase in market valuations is mainly due to the significant recovery of the financial markets following the impact of COVID 19.

2. Net Assets Statement for the year ended 31 March 2021 (showing the financial position at 31 March 2020 and 2021)

2019/20			2020/21
£m	Total	Notes	£m
1.4	Long term Investment Assets	12	1.4
2,180.1	Investment Assets -Internally Managed	12 &13	2,861.5
428.8	Investment Assets -LGPSC Managed	12 &13	562.1
25.5	Cash Deposits	12	13.6
2,635.8			**3,438.6**
(21.4)	Investment Liabilities	12	(156.3)
35.3	Current Assets	17	86.9
2.0	Non-Current Assets	18	1.6
(6.3)	Current Liabilities	19	(6.0)
2,645.4	**Net assets of the Fund available to fund benefits at the period end**		**3,364.8**

These financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) is disclosed in the Actuarial Statement (note 2 to the Accounts). Note 14 to the Accounts provide details on the fair value of assets.

Financial assets are included in the Net Assets Statement above on a fair value basis as at the reporting date apart from those financial instruments that are held solely for the payments of principal and interest (SPPI) such as cash and debtors which are measured at amortised cost. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account. The values of investments as shown in the Net Assets Statement have been determined as follows:

i. **Market-quoted investments** the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii. **Fixed interest securities** fixed interest securities are recorded at net market value based on their current yields.

iii. **Unquoted investments** the fair value of investments for which market quotations are not readily available is determined as follows:

   a. **Valuations of delisted securities** are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

b. **Securities subject to takeover offer** – the value of the consideration offered under the offer, less estimated realisation costs.

c. **Directly held investments** include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

d. **Investments in unquoted property and infrastructure pooled funds** are valued at the net asset value or a single price advised by the fund manager.

e. **Investments in unquoted listed partnerships** are valued based on the Fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012.

iv. **Limited partnerships** Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v. **Pooled investment vehicles Pooled investment vehicles** are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date apart from those financial instruments that are held solely for the payments of principal and interest (SPPI) such as cash and debtors which are measured at amortised cost. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value or amortised cost of the liability are recognised by the Fund.

3. Notes to the Accounts (providing additional information for the Fund Account and Net Assets Statement)

These comprise of a summary of significant accounting policies against the relevant note as opposed to a prescribed list of accounting policies. Further information and detail of entries in the prime statements and other explanatory information and disclosures are as follows:-

NOTE 1: DESCRIPTION OF FUND

a) General

The Fund is administered by Worcestershire County Council on behalf of their own employees, those of the Herefordshire Council, the District Councils, private sector admitted bodies with staff transferred under TUPE from the administering authority and other bodies in the county of Worcestershire, other than teachers, police officers, and fire fighters.

In matters relating to the management of the Fund's assets the Pensions Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Sub Committee, which includes an independent investment adviser.

The Pensions Committee consists of County Councillors and an Employer and Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually, and pension administration issues are discussed quarterly at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pensions Committee.

The day to day management of the Fund's investments is divided between external investment managers who operate in accordance with mandates set out in the Investment Strategy Statement.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. Organisations participating in the Fund include the following:

- Scheduled bodies which are automatically entitled to be members of the Fund. These include county councils, district councils, foundation schools / colleges and academies.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not for profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.
- Designated bodies which are organisations that have passed resolutions with town or parish councils.

Membership details are set out below:

	31 March 2020	31 March 2021
Number of employers	202	183
Employee Members of the Fund		
County Council	7,653	7,460
Other Employers	15,480	15,610
Total	**23,133**	**23,070**
Pensioner Members of the Fund		
County Council	5,565	5,869
Other Employers	13,352	13,664
Total	**18,917**	**19,533**
Deferred Members of the Fund		
County Council	8,602	8,787
Other Employers	12,983	13,380
Total	**21,585**	**22,167**
Total Number of Members in the Fund	**63,635**	**64,770**

Whilst member numbers have increased the employer numbers have decreased mainly due to a reduction in the designated employers (Parish and Town Councils) and some employer contractual arrangements terminating and being subsumed within the County Council or District Councils.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by employee members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2021. Employee contributions are in addition to employer contributions which are set based on actuarial valuations. The last valuation conducted was at 31 March 2019 which took effect from the 1st April 2020 onwards and currently, employer contribution rates range from 13.6% to 26.5% of pensionable pay. The common 2020/21 employer contribution rate for the Fund is 17.5%.

d) Pension Benefits

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the **LGPS website**.

Actuarial present value of promised retirement benefits

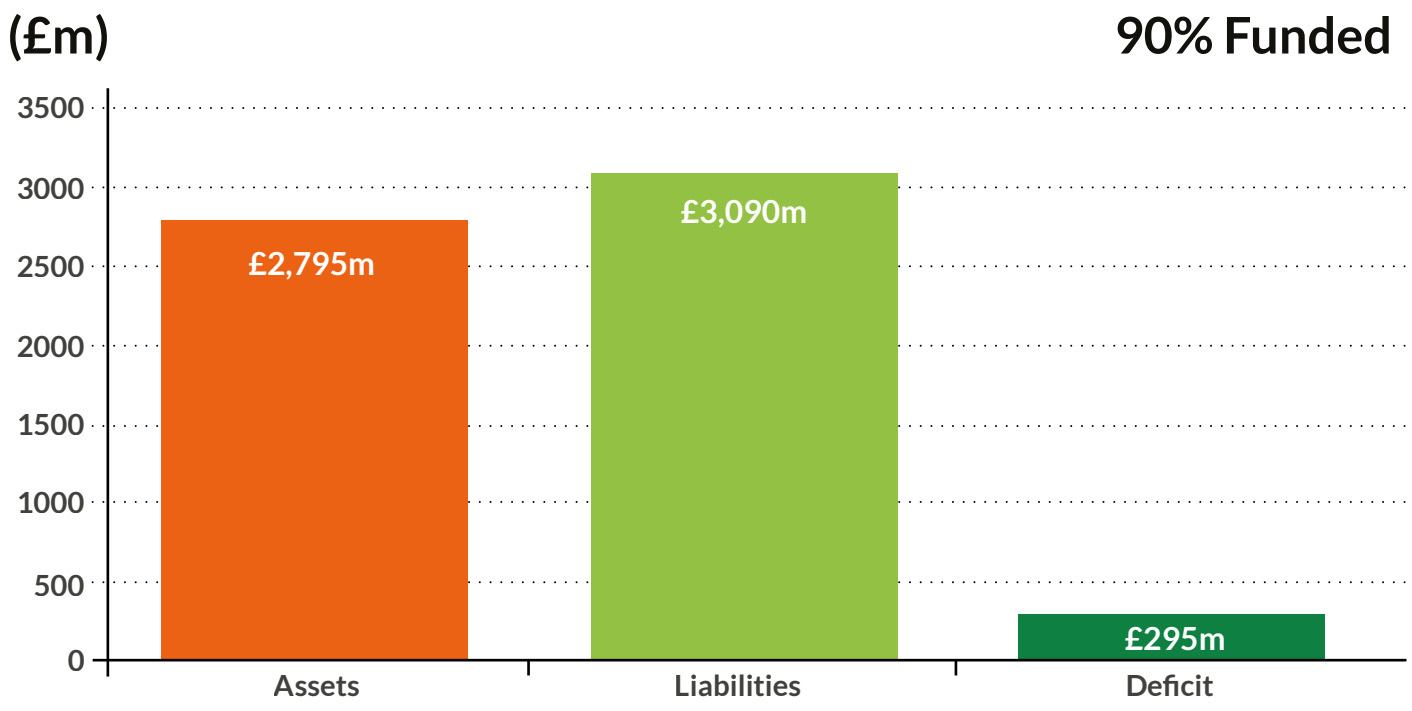
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2 below).

NOTE 2: FUNDING ARRANGEMENTS AND ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Funding Arrangements

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013. An actuarial valuation of the Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £2,795 million represented 90% of the Fund's past service liabilities of £3,090 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £295 million.



The valuation also showed that a Primary contribution rate of 17.5% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation, a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 15 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £29m per annum in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS). Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately, and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.05% per annum	4.65%** per annum
Rate of pay increases (long term)*	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

*Allowance was also made for short-term public sector pay restraint over a 4 year period.

**This is the discount rate for the "growth pot", and applies to the majority of the Fund's assets. Certain employers have a more cautious investment strategy, and so a lower discount rate.

The assets were assessed at market value. The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Case

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014. In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £29 million and an increase in the Primary contribution rate of 0.6% of pensionable pay per annum. Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund secondary rate shown above).

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 and 2021 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited as a general rule but we have consulted on updates to the Funding Strategy Statement which will allow the Fund to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will be kept under review: we will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.7% per annum
Rate of pay increases*	3.6% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.8% per annum

*This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4% p.a.). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7% p.a. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £4,207 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£100 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£63 million (this includes any increase in liabilities arising as a result of early retirements/augmentations). There was also an increase in liabilities of £617 million due to "actuarial losses" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £4,987 million. Therefore, based on the IAS26 assumptions adopted, the IAS26 balance sheet position at the 31st March 2020 and the 31st March 2021 is as follows:

	31 March 2020	31 March 2021
	£m	£m
Present value of promised retirement benefits	4,207	4,987
Fair value of Fund assets	2,635	3,365
Net liability	1,572	1,622

GMP Indexation

Public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Paul Middleman
Mercers Ltd
Fellow of the Institute and Faculty of Actuaries

Laura Evans
Mercers Ltd
Fellow of the Institute and Faculty of Actuaries

Mercer Limited
May 2021

NOTE 3: EVENTS AFTER THE REPORTING DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. Management have reviewed and can confirm that there are no significant events after the reporting period.

The COVID-19 global pandemic caused significant uncertainty with regard to national economic conditions, and, although a significant amount of funding was provided by the government to cope with the pandemic during 2020/21, this is likely to impact on the level of funding that local government bodies may receive in future years which will need to be taken into account for employer's contributions to the Fund.

It is anticipated that the future value of investments may continue to be exposed to increased market volatility as a result of COVID-19 and this may impact on the value of the Fund in the short to medium term; however, it is not possible to reliably estimate the financial impact of this on the position and performance of the Fund in future periods.

The Fund Accounts include more detail regarding the impact of COVID-19 in the accompanying disclosure notes concerning Funding Arrangements and Accounting Assumptions and the Chief Financial Officer's foreword.

NOTE 4: CONTRIBUTIONS RECEIVABLE

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund's actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets. The contributions received are detailed below:

	2019/20	2020/21
By Category	**£m**	**£m**
Employers		
Normal contributions	39.6	119.2
Deficit recovery contributions	19.0	54.0
Augmentation contributions	4.4	2.5
Additional contributions	0.0	0.0
Employees		
Normal contributions	24.0	25.0
Additional contributions	0.5	0.5
	87.5	201.2

	2019/20	2020/21
By authority:	**£m**	**£m**
Worcestershire County Council	10.0	89.2
Scheduled bodies	63.2	99.0
Community admission bodies	5.9	5.2
Transferee admission bodies	7.5	6.9
Designated bodies	0.9	0.9
	87.5	**201.2**

The increase in contributions in 2021/21 was due to a number of major employer paying three years of contributions upfront.

NOTE 5: TRANSFERS IN AND FROM OTHER PENSION FUNDS

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with LGPS regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. Individual transfers in and from other pension funds are as follows:

	2019/20	2020/21
	£m	**£m**
Individual transfers	12.9	12.5
Bulk transfers	0.0	16.5
	12.9	29.0

NOTE 6: BENEFITS PAYABLE

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities. The benefits paid are as follows:

	2019/20	2020/21
By category:	**£m**	**£m**
Pensions	89.1	92.8
Commutations and lump sum retirement benefits	20.7	16.8
Lump sum death benefits	2.1	3.0
	111.9	**112.6**

	2019/20	2020/21
By authority:	**£m**	**£m**
Worcestershire County Council	41.7	41.9
Scheduled bodies	57.7	58.2
Admitted bodies	1.6	1.6
Community admission bodies	7.2	7.0
Transferee admission bodies	3.0	3.1
Designated bodies	0.7	0.8
	111.9	**112.6**

NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2019/20	2020/21
	£m	**£m**
Individual transfers	11.2	9.5
Group transfers	0.0	0.0
	11.2	**9.5**

At year-end there were no potential liabilities in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions.

NOTE 8: ADMINISTRATIVE EXPENSES

All administrative expenses are accounted for on an accruals basis. All staff costs of the Fund's administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2019/20	2020/21
	£m	**£m**
Employee expenses	0.6	0.6
Support services	0.1	0.5
Actuarial services	0.8	0.5
Other expenses	0.0	0.4
	1.5	**2.0**

The audit fee (included in support services above) for work completed by the Fund's external auditors for the year ended 31 March 2021 was £33,743 1.7% of total admin costs (£23,742 for the year ended 31 March 2020 1.6% of total admin costs). In addition, a non audit service fee of £8,500 included in support services above was incurred relating to IAS19 requirements.

NOTE 9: MANAGEMENT EXPENSES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment and administration of the Fund to be charged against the Fund.

The Code of Practice does not require any breakdown of the Fund's administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2019/20	2020/21
	£m	£m
Oversight and Governance	0.1	0.2
LGPSC*	0.0	0.7
Investment Management Expenses		
Administration, management and custody fees*	14.4	17.3
Other expenses	0.0	0.0
	14.5	**18.2**

*The oversight and governance expenses relating to LGPSC were previously included as Administration under Investment Management expenses and were £0.6m in 2019/20

NOTE 9A: INVESTMENT MANAGEMENT EXPENSES

Fixed income and equity investment managers' expenses are charged on a percentage basis of the market value of assets under management and therefore increase or reduce as the value of these investments change. Global custodian fees are agreed in the respective mandate governing their appointment.

The cost of obtaining investment advice from the Fund's independent investment adviser is included in oversight and governance. All investment management expenses are accounted for on an accruals basis. The management costs are as follows:

2020/21	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.1	1.3	0.0	**1.4**
LGPS Central (Emerging Markets)	1.4	0.6	0.0	**2.0**
Nomura Asset Management UK Ltd	1.2	0.3	0.0	**1.5**
Legal & General Asset Management	0.5	0.0	0.0	**0.5**
Green Investment Bank	0.5	0.0	0.0	**0.5**
Hermes	0.5	0.0	0.0	**0.5**
Invesco	0.8	0.0	0.0	**0.8**
VENN	0.4	0.0	0.0	**0.4**
Walton Street	0.1	0.0	0.0	**0.1**
AEW	0.1	0.0	0.0	**0.1**
Stonepeak	2.7	0.0	0.0	**2.7**
First State	0.7	0.0	0.0	**0.7**
Bridgepoint (was EQT)	0.7	0.0	0.0	**0.7**
River and Mercantile	0.4	2.5	0.0	**2.9**
BSIF	2.2	0.0	0.0	**2.2**
Closed Mandates & one off advisory fees	0.2	0.0	0.0	**0.2**
Subtotal	12.5	4.7	0.0	**17.2**
Custody Fees				0.1
Total Fees				**17.3**

2019/20	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.0	0.0	0.0	**0.0**
LGPS Central (Emerging Markets)	0.7	0.1	0.0	**0.8**
Nomura Asset Management UK Ltd	1.1	0.3	0.0	**1.4**
Legal & General Asset Management	0.6	0.0	0.0	**0.6**
Green Investment Bank	0.6	0.0	0.0	**0.6**
Hermes	0.7	0.0	0.0	**0.7**
Invesco	0.6	0.0	0.0	**0.6**
VENN	0.4	0.0	0.0	**0.4**
Walton Street	0.3	0.0	0.0	**0.3**
AEW	0.1	0.0	0.0	**0.1**
Stonepeak	5.4	0.0	0.0	**5.4**
First State	0.6	0.0	0.0	**0.6**
Bridgepoint (was EQT)	0.5	0.0	0.0	**0.5**
River and Mercantile	0.4	0.0	0.0	**0.4**
BSIF	0.0	0.0	0.0	**0.0**
Closed Mandates & one off advisory fees	1.4	0.3	0.0	**1.7**
Subtotal	13.4	0.7	0.0	**14.1**
Custody Fees				0.3
Total Fees				**14.4**

The £17.3m investment management expenses incurred in 2020/21 represent 0.52% or 52 basis points (bps) of the market value of the Fund's assets as at 31st March 2021 (0.55% or 55bps 31 March 2020). The cash for the pooled property investments, pooled infrastructure investment and equity protection strategy drawdowns were transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison.

The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the Fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature.

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £14.4 million to £18.2 million for 2020/21 (£12.8 million to £14.5 million for 2019/20). It is important to note that the application of the guidance does not represent an actual increase in costs, or a decrease in the Fund's resources to pay pension benefits.

NOTE 10: INVESTMENT INCOME

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Income from other investments is accounted for on an accruals basis.

The changes in market value of investments during the year are recognised as income and comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

	2019/20	2020/21
	£m	£m
Fixed interest securities	2.0	3.5
Equity dividends	25.2	9.1
Pooled property investments	10.4	7.4
Pooled infrastructure investments	9.0	8.9
Interest on cash deposits	2.0	0.1
Securities lending	0.0	0.1
	48.6	**29.1**

NOTE 11: TAXES ON INCOME

The Fund is a registered public service scheme under section (1) of schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

	2019/20	2020/21
	£m	£m
Withholding tax – equities	(0.7)	(0.4)
	(0.7)	**(0.4)**

NOTE 12: INVESTMENTS

	Market value 31 March 2020	Market Value 31 March 2021
	£m	£m
Long term Investment Assets		
LGPS Central shares	1.4	1.4
Investment Assets -LGPS Central Managed	285.2	402.4
Equites	143.6	159.7
Fixed Interest Securities		
Investment assets -WPF Managed		
Fixed interest securities	211.2	192.7
Equities	307.9	448.8
Pooled investment vehicles	1,126.0	1,518.7
Pooled property investments	149.8	160.7
Pooled infrastructure investments	299.1	332.6
Pooled debt Assets	38.0	42.2
Derivatives - futures	42.8	160.5
Derivatives - forward FX	0.0	0.0
Cash deposits	25.5	13.6
Investment income due	5.3	5.3
Amounts receivable for sales	0.0	0.0
Total investment assets	2,635.8	3,438.6
Investment liabilities		
Derivatives - futures	(21.4)	(156.3)
Derivatives - forward FX	(0.0)	(0.0)
Amounts payable for purchases	(0.0)	(0.0)
Total investment liabilities	**(21.4)**	**(156.3)**
Net investment assets	**2,614.4**	**3,282.3**

NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2021
	£m	£m	£m	£m	£m
Long term Investment Assets					
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	1.4	**0.0**	**0.0**	**0.0**	**1.4**
Investment Assets -LGPS Central Managed					
Fixed Interest Securities	285.2	0.0	(1.9)	119.1	**402.4**
Equities	143.6	0.0	(1.4)	17.5	**159.7**
	430.2	**0.0**	**(3.3)**	**136.6**	**563.5**
Investment Assets -WPF Managed					
Fixed interest securities	**211.2**	397.2	(412.4)	(3.3)	**192.7**
Equities	**307.9**	123.9	(108.4)	125.4	**448.8**
Pooled investment vehicles	**1,126.0**	91.5	(69.9)	371.1	**1,518.7**
Pooled property investments	**149.8**	20.7	(15.3)	5.5	**160.7**
Pooled infrastructure investments	**299.1**	45.8	(17.4)	5.1	**332.6**
Pooled debt investments	**38.0**	8.9	(4.1)	(0.6)	**42.2**
	2,562.2	**688.0**	**(630.8)**	**639.8**	**3,259.2**
Derivative contracts:					
Futures	**21.4**	367.0	(360.4)	(23.8)	**4.2**
Forward currency contracts	**0.0**	0.0	0.0	0.0	**0.0**
	2,583.6	**1,055.0**	**(991.2)**	**616.0**	**3,263.4**
Other investment balances:					
Cash deposits	25.5			(13.2)	13.6
Investment income due	5.3				5.3
Amount receivable for sales of investments	0.0				0.0
Amounts payable for purchases of investments	0.0				0.0
Net investment assets	**2,614.4**			**602.8**	**3,282.3**

Prior year comparators:

	Market value 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2020
	£m	£m	£m	£m	£m
Long term Investment Assets					
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	1.4	**0.0**	**0.0**	**0.0**	**1.4**
Investment Assets -LGPS Central Managed					
Fixed Interest Securities	**0.0**	345.9	0.0	(60.7)	285.2
Equities	**0.0**	158.6	0.0	(15.0)	143.6
	1.4	**504.5**	**0.0**	**(75.7)**	**430.2**
Investment Assets -WPF Managed					
Fixed interest securities	**361.5**	313.4	(466.1)	2.4	**211.2**
Equities	**715.7**	149.8	(541.6)	(16.0)	**307.9**
Pooled investment vehicles	**1,291.0**	3.8	(65.4)	(103.4)	**1,126.0**
Pooled property investments	**171.8**	12.6	(26.2)	(8.4)	**149.8**
Pooled infrastructure investments	**159.4**	203.0	(78.0)	14.7	**299.1**
Pooled debt investments	**12.4**	25.8	(1.6)	1.4	**38.0**
	2,713.2	**1,212.9**	**(1,178.9)**	**(185.0)**	**2,562.2**
Derivative contracts:					
Futures	**11.3**	74.7	(83.9)	19.3	**21.4**
Forward currency contracts	**(2.7)**	15.0	(14.7)	2.4	**0.0**
	2,721.8	**1,302.6**	**(1,277.5)**	**(163.3)**	**2,583.6**
Other investment balances:					
Cash deposits	32.9			4.2	25.5
Investment income due	7.3				5.3
Amount receivable for sales of investments	1.8				0.0
Amounts payable for purchases of investments	(5.4)				0.0
Net investment assets	**2,758.4**			**(159.1)**	**2,614.4**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. The changes in purchases and sales in derivatives relate to transactions made within the equity protection strategy maintained by River and Mercantile.

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in investment management expenses as per CIPFA guidance. Transaction costs include costs charged directly to the Fund such as fees, commissions, and other fees. Transaction costs incurred during the 2020/2021 year amounted to £4.7 million, (2019/2020 £0.8 million). These transaction costs represent 0.014% or 1.4bps of the market value of the Fund's assets as at 31 March 2021 (3bps at 31 March 2020).

Indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not provided separately to the Fund.

NOTE 12B: PENSION FUND INVESTMENTS ANALYSED BY FUND MANAGER

The proportion of the market value of investment assets held by external fund managers at the year-end was:

External Fund Manager	2019/20		2020/21	
	£m	%	£m	%
LGPS Central (Bonds)	143.6	6	159.7	5
LGPS Central (Emerging Markets)	285.2	11	402.4	12
JP Morgan Asset Management (Bonds)	0.2	0	0.2	0
JP Morgan Asset Management (Emerging Markets)	1.5	0	1.4	0
Nomura Asset Management UK Ltd	321.1	12	455.0	14
Schroder Investment Management	1.4	0	1.3	0
Legal & General Asset Management	1,118.3	43	1,514.5	47
Green Investment Bank	46.7	2	40.2	1
Hermes (Fund I and II)	97.9	4	104.9	3
Invesco (Euro and a UK Property Fund)	100.5	4	105.1	3
VENN I	21.1	1	12.8	1
VENN II			6.6	0
Walton Street	7.6	0	4.5	0
Walton Street II	3.2	0	5.0	0
AEW	17.4	1	18.8	1
Stonepeak	60.6	2	81.1	2
First State	93.9	4	100.4	3
Bridgepoint (was EQT)	38.0	1	42.2	1
River and Mercantile	245.4	9	200.6	6
WCC Managed Account	4.1	0	5.0	0
Gresham House	0.0	0	13.9	1
	2,607.7	**100**	**3,275.6**	**100**

The above excludes £1.4m (2019/20 £1.4m) Invested in LGPS Central and £5.3m (2019/20 £5.3m) of investment income due.

The following investments represent more than 5% of the net assets of the Fund:

	Market value 31 March 2020	% of total Fund	Market value 31 March 2021	% of total Fund
Security	**£m**	**%**	**£m**	**%**
LGIM – North America Index Pooled Fund	287.7	11.1	410.8	12.6
LGPS Central Emerging Market Equity Pool	285.2	11.0	402.4	12.3
LGIM – UK Equity Index Pooled Fund	285.9	11.0	396.8	12.1
LGIM – Europe (ex-UK) Index Pooled Fund	155.8	6.0	209.8	6.4
LGIM - Client Specific unitied Fund -STAJ	137.4	5.3	195.2	6.0
River and Mercantile UK Gilts	211.2	8.1	192.7	5.9
LGIM - MSCI World Mini Volatility Index	117.6	4.5	188.9	5.8

NOTE 12 C STOCK LENDING

The Fund operates the practice of lending stock to a third party for a financial consideration. Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the Net Assets Statement to reflect the Fund's continuing economic interest of a proprietorial nature in those securities.

The total amount of stock lent at the year-end was £2.8 million (2019/20 £4.6 million). Counterparty risk is managed through holding collateral at the Fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £2.9 million (2019/20 £5.0 million) representing 106.2% of stock lent.

Income received from stock lending activities was £0.1 million for the year ending 31 March 2021 (2019/20 £0.0 million). This is included within the 'Investment Income' figure detailed on the Fund Account.

Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower. There are no liabilities associated with the loaned assets.

NOTE 13A: ANALYSIS OF DERIVATIVES

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

The value of a futures contract is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Objectives and Policies for Holding Derivatives

Most of the holding in derivatives is to hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the Fund and its investment managers.

In 2019/20 the Fund entered into a contract with River and Mercantile, to hedge the gains in equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts and the strategy has been maintained.

a) Futures

The Fund's investment managers hold cash balances in order to ensure efficient and timely trading when opportunities arise. The Fund's management did not want this cash to be 'out of the market' and so enabled a number of investment managers to buy and sell futures contracts which had an underlying economic value broadly equivalent to the cash held. The economic exposure represents the notional value of the stock purchased under futures contracts and is therefore subject to market movements. The portfolio cannot be geared to and must have the liquidity needed to cover open positions. Derivative receipts and payments represent the realised gains and losses on futures contracts.

b) Forward Foreign Currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, the Fund's bond mandate targets outperformance against a global benchmark index. To reduce volatility associated with the fluctuating currency rates, the Fund has enabled the bond mandate investment manager to purchase and sell forward foreign currencies as a hedge.

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Futures

Outstanding exchange traded futures contracts are as follows:

ASSETS		Economic Exposure	Market Value 31 March 2020	Economic Exposure	Market Value 31 March 2021
Type of future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK Gilt exchange traded	Under one year				
UK FTSE exchange traded option	Under one year	0.0	15.9	0.0	64.6
EUROSTOXX exchange traded option	Under one year	0.0	15.2	0.0	33.1
US S+P exchange traded option	Under one year	0.0	11.7	0.0	62.8
Overseas exchanged traded	under one year				
Total assets			**42.8**		**160.5**

LIABILITIES		Economic Exposure Value	Market Value 31 March 2020	Economic Exposure Value	Market Value 31 March 2021
Type of future	Expiration	£m	£m	£m	£m
UK Gilt exchange traded	Under one year				
UK FTSE exchange traded option	Under one year	0.0	(9.5)	0.0	(55.8)
EUROSTOXX exchange traded option	Under one year	0.0	(6.1)	0.0	(34.0)
US S+P 500 exchange traded option	Under one year	0.0	(5.8)	0.0	(66.5)
Overseas exchanged traded	Under one year				
Total liabilities			(21.4)		(156.3)
Net futures			21.4		4.2

OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2021

Settlement	Currency Bought	Local Currency Value	Currency Sold	Local Currency Value	Asset Value	Liability Value
		£m		£m	£m	£m
There were no open contracts as at the 31st of March 2021						
					0.0	(0.0)
Net forward currency contracts at 31 March 2019						(0.0)
Prior year comparative:						
Open forward currency contracts at 31 March 2020					0.0	0.0
Net forward currency contracts at 31 March 2020						0.0

ANALYSIS OF CASH

Cash comprises demand deposits and cash equivalents; these include amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Please see note 16 for further analysis of Cash Instruments.

	2019/20	2020/21
Cash	**£m**	**£m**
Cash deposits	18.6	7.0
Cash instruments	6.9	6.6
	25.5	**13.6**

NOTE 14: FAIR VALUE

NOTE 14 A: BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Fixed Interest Securities	Level 1	Fixed interest securities are valued at net market value based on current yields	Not required	Not required
Pooled Equity Funds	Level 2	Closing bid price where bid and offer prices are published; or the single price, as applicable	Net Asset Value (NAV)-based pricing set on a forward pricing basis and in the case of accumulation funds, reinvested income net of applicable withholding tax.	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Derivatives -Futures	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Property, Infrastructure and Debt Funds	Level 3	Unit or security price as advised by Investment Manager or responsible entity.	Funds share of net assets in limited partnership, using Financial Statements published by the manager as at the final day of the accounting period.	Valuations could be affected by material events occurring between the date of the financial statements provided and the fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Please see paragraphs under the Net Assets Statement for more detail of our basis for measurement for the above Financial Instruments.

NOTE 14 B: FAIR VALUE HIERARCHY

Level 1: Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2: Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3: Financial instruments at Level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the Fund into levels 1 to 3, based on the level at which the fair value is observable:

Values at 31 March 2021	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,208.9	1,679.2	535.5	3,423.6
Total fair value financial assets	**1,208.9**	**1,679.2**	**535.5**	**3,423.6**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss		(156.3)		(156.3)
Total fair value financial liabilities	**0.0**	**(156.3)**	**0.0**	**(156.3)**
Net fair value financial assets	**1,208.9**	**1,522.9**	**535.5**	**3,267.3**

Values at 31 March 2020	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	953.2	1,168.8	486.9	2,608.9
Total fair value financial assets	**953.2**	**1,168.8**	**486.9**	**2,608.9**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss		(21.4)		(21.4)
Total fair value financial liabilities	**0.0**	**(21.4)**	**0.0**	**(21.4)**
Net fair value financial assets	**953.2**	**1,147.4**	**486.9**	**2,587.5**

NOTE 14 C: SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described in Note 14a are likely to be accurate to within the following ranges. This sets out below the consequent potential impact on the closing value of investments held at 31 March 2021.

Sensitivity Analysis	Valuation range	Value as at 31st March 2021	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	3.8%	160.7	166.8	154.6
Pooled Investments - Infrastructure Funds	3.8%	332.6	345.2	320.0
Pooled Investments - Debt Funds	3.8%	42.2	43.8	40.6
Total		**535.5**	**555.8**	**515.2**

The valuation for these asset classes are based on the volatility over three years of monthly investment returns. The return is based upon the market value and income and trades supplied by our underlying managers and grouped accordingly.

Reconciliation of Fair Value Measurements within Level 3

Investment Movement	Pooled Investments – Property Funds	Pooled Investments – Infrastructure Funds	Pooled Investments - Debt Funds	Total
	£m	£m		£m
Market Value 1st April 2020	149.8	299.1	38.0	486.9
Transfers into Level 3	0.0	0.0	0.0	0.0
Transfers out of Level 3	0.0	0.0	0.0	0.0
Purchases and derivative Pymts	20.7	45.8	8.9	75.4
Sales and derivative receipts	(15.3)	(17.4)	(4.1)	(36.8)
Unrealised gains/(losses)	5.4	4.8	(0.8)	9.4
Realised gains/(losses)	0.1	0.3	0.2	0.6
Market value 31st March 2021	**160.7**	**332.6**	**42.2**	**535.5**

NOTE 15: FINANCIAL INSTRUMENTS

NOTE 15 A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

Fair value through profit and loss 2019/20	Financial Instruments at Amortised Cost 2019/20		Fair value through profit and loss 2020/21	Financial Instruments at Amortised Cost 2020/21
£m	£m		£m	
		Financial assets		
	1.4	Other share capital		1.4
428.8		LGPS Central Managed	562.1	
211.1		Fixed interest securities	192.7	
307.9		Equities	448.8	
1,126.0		Pooled investment vehicles	1,518.7	
149.8		Pooled property investments	160.7	
299.1		Pooled Infrastructure investments	332.6	
38.0		Pooled Debt investments	42.2	
42.8		Derivatives - Futures	160.5	
0.0		Derivatives - Forward FX	0.0	
	29.6	Cash		88.1
5.3		Other investment Balances	5.3	
	31.2	Current assets		12.4
	2.0	Non-current assets		1.6
2,608.9	**64.2**		**3,423.6**	**103.5**
		Financial liabilities		
(21.4)		Derivatives - Futures	(156.3)	
(0.0)		Derivatives - Forward FX	(0.0)	
(0.0)		Other investment balances	(0.0)	
	(6.3)	Current liabilities		(6.0)
(21.4)	**(6.3)**		**(156.3)**	**(6.0)**
2,587.5	**57.9**		**3,267.3**	**97.5**

NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2020		31 March 2021
£m		£m
	Financial assets	
(185.0)	Fair value through profit and loss	639.8
4.2	Financial Assets at Amortised Cost	(13.2)
	Financial liabilities	
21.7	Fair value through profit and loss	(23.8)
(159.1)	**Total**	**602.8**

Fair value through profit and loss is the combination of realised and unrealised profit and loss. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

NOTE 16: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

In the course of every day operating, the Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk.

As detailed in the Investment Strategy Statement, the Fund holds equity and bond instruments in order to meet its investment objectives. The Fund's investment objectives and risk management policies are as follows.

1) The investment objective for the Fund is to:
    a. ensure that sufficient assets are available to meet liabilities as they fall due.
    b. maximise the return at an acceptable level of risk.
2) Risk management is mostly concerned with:
    a. aavoiding the possibility of loss, or
    b. limiting a deficiency in the underlying Fund, or
    c. avoiding a contribution rate increase in the future.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. There are three main types of market risk that the Fund is exposed to as at 31 March 2021:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Equity risk refers to the risk arising from the volatility in stock prices; this can be systematic risk, the risk due to general market factors and affects the entire industry, or unsystematic risk, which refers to the risk specific to a company that arises due to the company specific characteristics. Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. Foreign exchange risk arises because of fluctuations in the currency exchange rates.

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1,000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place. An equity protection strategy has also been implemented to protect against significant market falls in its passive equity portfolio.

Interest rate risk has been reduced through the holding of fewer bonds as a percentage of the Fund's total assets.

Foreign Exchange risk exists in relation to the Fund's overseas equity investments. The Fund runs un-hedged equity portfolios and therefore is subject to currency fluctuations. It is the Fund's view that in the long-run currency volatility trends to an average of nil against Sterling and therefore any hedging of currency would just be an additional cost to the Fund.

The Fund contracts Portfolio Evaluation Ltd to measure the Fund's investment returns, absolute and relative risk for each portfolio and for the Fund independently. The Fund receives quarterly reports from Portfolio Evaluation Ltd listing returns and risk. The Fund's independent investment adviser also provides a yearly report to the Pension Investment Sub Committee, providing details of the Fund's risk and comparisons to other LGPS funds.

Equity Risk Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's independent investment adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	5.9%
Global bonds	5.9%
UK equities	16.2%
Overseas equities	13.4%
UK pooled investment vehicles	16.2%
Overseas pooled investment vehicles	14.9%
Global pooled investment vehicles	14.9%
Emerging markets pooled equities	14.9%
Pooled property investments	3.8%
Pooled infrastructure investments	3.8%
Pooled debt investments	3.8%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain the same.

If the market price of the Fund's investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in note 12):

Asset Type	Value as at 31 March 2021	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	13.6	0.0%	13.6	13.6
Investment portfolio assets:				
UK fixed interest securities	192.7	5.9%	204.1	181.3
Overseas fixed interest securities	0.0	5.9%	0.0	0.0
Global bonds	159.7	5.9%	169.1	150.3
UK equities	4.3	16.2%	5.0	3.6
Overseas equities	433.9	13.4%	492.0	375.8
UK pooled investment vehicles	396.8	16.2%	461.1	332.5
Overseas pooled investment vehicles	631.2	14.9%	725.3	537.1
Global pooled investment vehicles	497.1	14.9%	571.2	423.0
Emerging market pooled equities	406.6	14.9%	467.2	346.0
Pooled property investments	160.7	3.8%	166.8	154.6
Pooled infrastructure investments	332.6	3.8%	345.3	319.9
Pooled debt investments	42.2	3.8%	43.8	40.6
Net derivative assets	4.2	0.0%	4.2	4.2
Investment income due	5.3	0.0%	5.3	5.3
Amounts receivable for sales	0.0	0.0%	0.0	0.0
Amount payable for purchases	0.0	0.0%	0.0	0.0
Total	**3,280.9**		**3,674.0**	**2,887.8**

Prior-year comparators

Asset Type	Value as at 31 March 2020	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	25.5	0.0%	25.5	25.5
Investment portfolio assets:				
UK fixed interest securities	211.2	5.7%	223.2	199.2
Overseas fixed interest securities	0.0	5.7%	0.0	0.0
Global bonds	143.6	5.7%	151.8	135.4
UK equities	8.8	14.1%	10.0	7.6
Overseas equities	293.1	11.9%	328.0	258.2
UK pooled investment vehicles	285.9	14.1%	326.2	245.6
Overseas pooled investment vehicles	454.4	12.5%	511.2	397.6
Global pooled investment vehicles	389.0	12.5%	437.6	340.4
Emerging market pooled equities	287.9	12.5%	323.9	251.9
Pooled property investments	149.8	15.0%	172.2	127.4
Pooled infrastructure investments	299.1	6.5%	318.6	279.6
Pooled debt investments	38.0	6.5%	40.5	35.5
Net derivative assets	21.4	0.0%	21.4	21.4
Investment income due	5.3	0.0%	5.3	5.3
Amounts receivable for sales	0.0	0.0%	0.0	0.0
Amount payable for purchases	0.0	0.0%	0.0	0.0
Total	**2,613.0**		**2,895.4**	**2,330.6**

Interest Rate Risk Analysis

The Fund's direct exposure to interest rate movements is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2020	Value as at 31 March 2021
	£m	£m
Cash and cash equivalents	25.5	13.6
Cash balances	4.1	74.5
Fixed interest securities	211.2	192.7
Total	**240.8**	**280.8**

Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Fund's performance reporting advisor, Portfolio Evaluation Limited, has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2021 of a +/- 100 basis points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2021	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	13.6	13.7	13.5
Cash balances	74.5	75.2	73.8
Fixed interest securities	192.7	194.7	190.7
Total change in assets available	**280.8**	**283.6**	**278.0**

Asset Type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	25.5	25.8	25.2
Cash balances	4.1	4.1	4.1
Fixed interest securities	211.2	213.3	209.1
Total change in assets available	**240.8**	**243.2**	**238.4**

A 1% increase in interest rates will not affect the interest received on fixed income but will reduce their fair value and vice versa. Changes in interest rates do not impact the value of cash deposits / cash and cash equivalent balances but they will have a small effect on the interest income received on those balances. Charges to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

The following table summarises the Fund's currency exposure:

Currency exposure - asset type	Asset value as at 31 March 2020	Asset value as at 31 March 2021
	£m	£m
Overseas quoted securities	293.1	433.9
Overseas pooled investment vehicles	454.4	631.2
Global pooled investment vehicles	389.0	497.1
Global bonds and pooled EM equities	431.5	566.3
Overseas pooled property investments	74.6	73.1
Total overseas assets	**1,642.6**	**2,201.6**

Overseas bonds are 100% hedged to GBP at 31 March 2021.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's performance measurement provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 7.4% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 7.4% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2021	Change to net assets available to pay benefits	
		+7.4%	-7.4%
	£m	£m	£m
Overseas quoted securities	433.9	466.0	401.8
Overseas pooled investment vehicles	631.2	677.9	584.5
Global pooled investment vehicles	497.1	533.9	460.3
Global bonds and pooled EM equities	566.3	608.2	524.4
Overseas pooled property investments	73.1	78.5	67.7
Total change in assets available	2,201.6	2,364.5	2,038.7

Currency exposure - asset type	Asset value as at 31 March 2020	Change to net assets available to pay benefits	
		+10.2%	-10.2%
	£m	£m	£m
Overseas quoted securities	293.1	323.0	263.2
Overseas pooled investment vehicles	454.4	500.7	408.1
Global pooled investment vehicles	389.0	428.7	349.3
Global bonds and pooled EM equities	431.5	475.5	387.5
Overseas pooled property investments	74.6	82.2	67.0
Total change in assets available	**1,642.6**	**1,810.1**	**1,475.1**

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives position, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Investment restrictions are listed in the contract held with the manager, which limit the amount of credit risk the manager is allowed to take and also states an average credit rating with regards to bonds held that should be maintained.

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's independent investment adviser also provides a yearly report to the Pension Investment Sub Committee, providing details of the Fund's bond portfolio absolute and relative risk.

Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the Fund invests in Cash Instruments, which facilitate management of assets under custody, All liquidity funds chosen have an 'AAA' rating from a leading rating agency. Swap collateral is held to support our equity protection hedge.

The Fund's cash holding at 31 March 2021 was £88.1 million (31 March 2020: £29.6 million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2020	Balances as at 31 March 2021
		£m	£m
Cash Instruments			
BNY Mellon US Dollar Liquidity Fund	AAA	6.9	6.3
JP Morgan Swap Collateral	A+	0.0	0.3
Bank deposit accounts			
The Bank of New York Mellon	A-1+	18.6	7.0
Bank current accounts			
Barclays Bank PLC	A-1	4.1	74.5
Total		**29.6**	**88.1**

The above assets are held at amortised cost and are either liquid or very short dated securities in high-quality counterparties. Therefore, the expected loss is assessed as a trivial sum and no allowance has been set aside for this.

Liquidity Risk

Market liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or to meet the financial obligations of the Fund as they fall due. The Fund's investment managers purchase quoted and tradable securities. Equities held are listed on major world stock markets and managers employed are highly experienced in equity trading. The liquidity risk relating to the bond holdings is monitored and managed by the bond manager on an on-going basis. The Council also takes steps to ensure that the Fund has adequate cash resources to meet commitments.

NOTE 17: CURRENT ASSETS

	2019/20	2020/21
	£m	£m
Contributions due from employer in respect of:		
Employer	6.9	6.2
Members	1.8	1.8
Cash balances	4.1	74.5
Other Debtors	22.5	4.4
	35.3	**86.9**

The above assets are carried at amortised cost, other than cash balances and other debtors (see below), as the funds are due from Government institutions and therefore no allowance for expected losses has been set aside.

NOTE 18: NON CURRENT ASSETS

	2019/20	2020/21
	£m	£m
*LGPSC capital advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.2	0.3
Contributions from employers	0.1	0.2
Augmentation	1.0	0.4
	2.0	**1.6**

*This was part of the regulatory capital required to set up the company LGPS Central Limited.

**This includes debtor in relation to the lifetime tax allowance limit, as the Fund pays all the tax upfront on behalf of the pensioner and is reimbursed from additional pension deductions over time.

NOTE 19: CURRENT LIABILITIES

	2019/20	2020/21
	£m	£m
Investment management expenses	(0.8)	(1.0)
Payroll and external vendors	(1.0)	(0.8)
Other expenses	(4.5)	(4.2)
	(6.3)	**(6.0)**

NOTE 20: RELATED PARTY TRANSACTIONS

Worcestershire County Council

The Fund is administered by Worcestershire County Council. Consequently, there is a strong relationship between the Council and the Fund.

The Council incurred costs of £1.5 million in 2020/2021 (2019/2020: £1.5 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £89.2 million (90% 3 year prepayment) to the Fund in 2020/2021 (2019/2020: £10.0 million).

LGPSCentral Limited has been established to manage investment assets on behalf of eight LGPS funds across the Midlands. It is jointly owned in equal shares by the eight Funds participating.

The Fund's share of LGPS Central's annual running costs of £0.7 million was charged to the Fund in 2020/21 by LGPS Central (£0.6 million in 2019/20).

Key Management Personnel

The posts of Chief Financial Officer, Senior Finance Manager and HR Service Centre Manager are deemed to be key management personnel. The financial value of their relationship with the Fund (in accordance with IAS24) is set out below:

	2019/20	2020/21
	£000	£000
Short term benefits*	49	61
Long term/ post-retirement benefits**	429	826
	478	**887**

*This is annual salary, benefits in kind and employer contributions.

**This is the accrued pension benefits, expressed as cash equivalent transfer value.

Governance

The Pensions Committee Employer Representative, Employee Representative and Chief Financial Officer are active members of the Fund.

NOTE 21: CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Outstanding capital commitments (investments) at 31 March 2021 totalled £163.7 million (31 March 2020: £147.5 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in pooled property investments, pooled infrastructure investments and pooled debt investments. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of the original commitment.

NOTE 22: CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts.

The Councils below have provided guarantees to a number of organisations that have been admitted to the Fund to fund any potential pension liability. The organisations with a pension liability more than £195,000 (which the Fund considers to be material for these purposes) are:

- HALO Leisure (£1.273milllion), **Herefordshire Council**.
- Wychavon Leisure Community Association (£0.509million), **Wychavon District Council**.
- Bromsgrove District Housing Trust (£0.679 million), **Bromsgrove District Council**.
- Community Housing Group (£5.835 million), **Wyre Forest District Council**.

There are a further 14 organisations with a pension liability less than £195,000. The Fund has considered various factors in determining the potential risk of having to fund any future liability, including risk of

failure of the business and membership profile, and is satisfied that they do not represent a significant potential liability. There are also 10 organisations with a guarantee via pass through arrangements. As new contractors, these employers will all commence fully funded with no initial funding deficit. In line with the 'Initial pension guarantee' employers above, we are assuming that the active members would remain active on termination of the contract and be transferred back to the relevant school/academy or to the new service provider. On this basis, the amount for all these employers is reflected as nil for this year's accounts.

Four admitted body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

Note that the existing bonds and guarantees from the previous financial year have all been discussed with the actuary and updated where necessary.

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund provides an in-house AVC scheme for its members. In 2020/2021 some members of the Fund paid voluntary contributions and transfers to Scottish Widows and Utmost Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Fund Account in accordance with Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed as a note only.

The amounts administered under AVC arrangements are as follows:

	2019/20	2020/21
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	(0.2)	0.4
Retirement benefits paid or transferred	0.2	(0.2)

The combined value of the AVC funds at 31 March 2021 was £3.1 million (31 March 2020 £2.6 million).

NOTE 24: AGENCY SERVICES

The Fund pays discretionary awards to the former employees of Herefordshire County Council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2019/20	2020/21
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	0.1

NOTE 25: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund's liabilities are calculated every three years by the actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 2. This estimate is subject to significant variances based on changes to the underlying assumptions.

There were no significant changes to the CIPFA code of practice on local authority accounting (the code). IFRS 9 requires the investment assets to be accounted for at fair value within the accounts. The adoption of IFRS 9 in 2018 had no impact on the accounts for pension funds as the investment assets were already held at fair value through profit and loss as directed by the code.

The adoption of IFRS 15 revenue from customers with contracts was also introduced from 1 April 2018. This had no impact on the Fund Accounts as the Fund's revenue is primarily investment interest and contributions, both of which are outside the scope of the standard.

NOTE 26: ASSUMPTIONS MADE ABOUT THE FUTURE AND ANY OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made considering historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the notes to the accounts at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Item	Uncertainties	Effect is actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 2)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: ■ a 0.25% real investment return lower than assumed would result in an 4.2% increase in the pension liability, which is equivalent to £131m. ■ a 0.25% increase in assumed earnings inflation would result in a 0.2% increase in the value of liabilities, which is equivalent to £7m. ■ a 0.25% increase in assumed life expectancy would result in a 0.5% increase in the value of liabilities, which is equivalent to £17m.
Property and infrastructure valuations. (Level 3 investments)	The Fund's directly held investment properties are valued at fair value by independent valuers in accordance with RICS valuation professional standards, whilst infrastructure investments are valued at fair value by independent experts. From 2020/21 there has been additional uncertainty regarding the property valuations due to the time that it will take to fully realise the impact of COVID-19 upon illiquid assets such as property. The valuations have been updated based on the information available as at 31 March 2021 and may be subject to variations as further market information becomes available. The Investments are valued each month as per latest quarterly statements available to our custodian, which usually received between 45 and 60 days after quarter end, +/- any activity post statement date.	The total value of indirect property investments in the financial statements is £160.7m (£149.8m in 2019/20). There is a risk that this investment may be under or overstated in the accounts. The total value of direct infrastructure investments in the financial statements is £332.6m (£299.1m in 2019/20). There is a risk that this investment may be under or overstated in the accounts.

VALUATION OF INVESTMENTS LEVEL 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. As well as the details in the table above, further detail is provided in Notes 14a to c above.

Independent Auditor's Report

To be inserted.

Worcestershire Pension Fund

Appendix A

Funding Strategy Statement
June 2021

This Funding Strategy Statement has been prepared to set out the funding strategy for the Worcestershire Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Find out more online:
www.worcestershirepensionfund.org.uk

Contents

Executive Summary

Ensuring that the Worcestershire Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Worcestershire County Council).

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The details contained in this FSS will have a financial and operational impact on all participating employers in the Worcestershire Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in it.

Given this, and in accordance with governing legislation, all interested parties connected with the Fund have been consulted and given opportunity to comment prior to this FSS being finalised and adopted. This FSS takes into consideration all comments and feedback received.

The results of the 2019 valuation show the liabilities to be 90% covered by the current assets using the prudent assumptions set out in Appendix A. The Fund's long term objective is to achieve a 100% solvency level with the funding deficit of 10% being covered by deficit contributions. Deficit recovery periods vary by employer category, with a maximum deficit recovery period of 15 years.

The key financial assumptions used to determine the funding liabilities and the future service ("Primary") contribution rate for each investment pot at the valuation date are:

	Growth pot	Medium pot	Cautious pot
Funding liabilities discount rate:	4.05% p.a.	3.8% p.a.	2.65% p.a.
Future service discount rate:	4.65% p.a.	4.4% p.a.	2.65% p.a.
CPI price inflation	2.4% p.a.	2.4% p.a.	2.4% p.a.

In assessing the value of the Fund's liabilities, allowance has been made for asset out-performance (above CPI inflation) by taking into account the investment strategy adopted by the Fund. If, at the valuation date, the Fund had been invested in a "minimum risk" portfolio, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 54%.

To help maintain stability of contributions in the future, the Fund has implemented a number of strategies to help manage risk:

- Investment pots to offer to employers which exhibit lower investment risk than the current whole fund strategy with effect from 1 April 2020. Further detail regarding the asset strategy for each pot is available in the Fund's Investment Strategy Statement (ISS).
- Equity Protection strategy to protect against potential falls in the equity markets via the use of derivatives.
- Covenant assessment and monitoring for participating employers, as detailed in Appendix E.
- Provided employers with the facility to take out ill-health liability insurance to ensure that the eligible employers are not exposed to potentially large funding strains on the ill health retirement of one or more of their members.

The Fund has a number of key aims and objectives. The key funding objectives are referred to throughout the FSS and are summarised below:

- Achieve and maintain assets equal to 100% of liabilities within a target 15-year average timeframe, whilst remaining within reasonable risk parameters.
- Determine employer contribution requirements to maintain long term cost efficiency, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible.
- Strike the appropriate balance between long-term investment performance and the Fund's funding objectives.
- Ensure net cash outgoings can be met as/when required.
- Minimise unrecoverable debt on employer termination.
- Ensure that the future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.
- To provide more certainty in employer contribution outcomes (within reasonable parameters) by implementing a number of risk management techniques to manage various aspects of the Fund's financial risks, specifically an Equity Protection strategy and Employer Investment Pots.

The FSS has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the Fund and the "long term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as this relates to the Fund.

Key elements of the funding strategy are as follows:

- To include appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency objective.
- Deficit recovery periods are determined by the Fund with the aim of recovering deficits as quickly as participating employers can reasonably afford given other competing cost pressures, taking into account the Fund's view of the employer's covenant and the risk to the Fund.
- The recovery periods will be set by the Administering Authority with a maximum deficit recovery period of 15 years, although employers will be free to select any shorter deficit recovery period if they wish.
- Employers who are expected to have a shorter participation period e.g. closed to new entrants will generally have a shorted recovery period.
- Deficit recovery contributions will be expressed in £s.
- Similar principles are applied to employers who have a surplus of assets over liabilities where the surplus is being run off over the period as an offset to future service contributions.
- It is possible for employers to prepay their contributions for the full 3 years or annually at each April in return for a cash saving.

- The key financial assumption – the discount rate – is derived for each investment pot by considering the prudent long term expected return on the underlying assets over and above assumed future Consumer Prices Index (CPI) inflation.
- The demographic assumptions for the whole Fund have been determined by carrying out a bespoke analysis of the Fund's membership along with a review of other LGPS funds.
- As part of the Fund's risk management framework, employer type, maturity, funding position, status and ongoing covenant strength will be considered by the Fund when allocating an employer to a specific investment pot.

It is strongly recommended that employers also consider and understand the detailed Fund policies in the main body as these impact on your participation in the Fund over the short and long term.

1. Introduction

The Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; "the Regulations") provide the statutory framework from which an Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Fund will prepare and publish their funding strategy;
- In preparing the FSS, the Fund must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

Benefits

referred to above. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The LGPS is a defined benefit arrangement with final pensionable pay related benefits and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the member's retirement benefits and pay 50% of the normal member contribution.

Contributuons

The required levels of employee contributions are specified in the Regulations.

Employer contributions and deficit recovery payments are determined by an actuarial valuation.

Primary Rate

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and the employer's covenant. This includes provision for ancillary death in service and ill health benefits (subject to any external insurance arrangement) and administration costs.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

Secondary Rate

The "Secondary rate" is an adjustment to the Primary rate to address any past service deficit or surplus. In addition, as part of the 2019 actuarial valuation, the Secondary rate will also include any provision made by an employer in respect of the estimated cost of McCloud. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

In addition to paying the Primary rate for future accrual of benefits, employers are required to make any required deficit recovery payments via the Secondary rate.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole Fund payroll in respect of percentage rates and the total amount across all employers in respect of cash adjustments.

2. Purpose of FSS in Policy Terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding should be assessed, implementation of the funding strategy is the responsibility of the Fund, acting on the professional advice provided by the actuary.

The Fund's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this FSS is therefore:

- To establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- To establish contributions at a level to "secure the solvency" of the Fund and the "long term cost efficiency";
- To have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this FSS to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected, including the disparate investment pots, it must remain a single strategy for the Fund to implement and maintain.

3. Aims and Purpose of the Fund

The aims of the fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due.
- Enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining the Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes.
- Maximise the returns from investments within reasonable risk parameters taking into account the above aims.

The purpose of the fund is to:

- Receive monies in respect of contributions, transfer values and investment income, and
- Pay out monies in respect of benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

4. Responsibilities of the Key Parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties are the Administering Authority, the Pensions Committee, the individual employers and the Fund's Actuary and details of their roles are set out below. Other parties required to play their part are bankers, custodians, investment managers, auditors, legal/investment/governance advisors and the Local Pension Board.

Key Parties to the FSS

The **Fund**, in particular the Pensions Committee, should:

- Operate the Fund
- Collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations
- Pay from the Fund the relevant entitlements as stipulated in the Regulations
- Invest surplus monies in accordance with the Regulations
- Ensure that cash is available to meet liabilities as and when they fall due
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default
- Manage the valuation process in consultation with the Fund's actuary
- Prepare and maintain a FSS and an ISS, both after proper consultation with interested parties
- Monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- Effectively manage any potential conflicts of interest arising from it also being a Fund employer, and
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.

In practice the Pensions Committee may delegate responsibility for the implementation of some of the above responsibilities to Fund officers.

The **Individual Employer** should:

- Deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- Pay all contributions, including their own as determined by the actuary, promptly by the due date and ensure that any payroll estimates notified to the Fund (for example as part of any prepayment calculations) are as accurate as possible
- Develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain
- Have regard to The Pensions Regulator's focus on data quality and comply with any requirement set by the Fund in this context
- Notify the Fund promptly of any changes to membership which may affect future funding
- Understand the pensions impacts of any changes to their organisational structure and service delivery model, and
- Understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.

The **Fund Actuary** should:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure the Fund's solvency after agreeing assumptions with the Fund and having regard to their FSS and the Regulations
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs, etc.
- Provide advice and valuations on the termination of admission agreements including in relation to exit credit payments
- Provide advice to the Fund on bonds and other forms of security against the financial effect on the Fund of employer default
- Assist the Fund in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- Advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- Ensure the Fund is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5. Solvency Funding Target

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

Solvency and Long Term Efficiency

Each employer's contribution rates and deficit recovery payments are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

The FSS has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the Fund and "long term cost efficiency" of the LGPS so far as relating to the Fund.

Determination of the Solvency Funding Target and Deficit Recovery Payments

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The assumptions for deficit recovery payments are set out in **Appendix B**.

Underlying these assumptions are:

- That the Fund is expected to continue for the foreseeable future; and
- Favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Fund, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Fund, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

The employer contributions will be expressed and certified as two separate elements:

- the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits, ancillary death in service, ill health benefits / ill health premiums and administration costs.
- the Secondary rate: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit (with the exception of the Town and Parish Council Group where contributions will be certified as a % of pensionable pay).

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to review from 1 April 2023 based on the results of the 2022 valuation.

Employers may also elect to make lump sum prepayments of contributions, which could result in a cash saving over the valuation certificate period.

Deficit Recovery Payments

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Fund's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall deficit contributions payable. The Fund does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength.

The key principles when considering deficit recovery are as follows:

- The Fund will consider whether it is appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain. This will be based on assessment of the employer covenant (including affordability of the existing funding plan) and any other relevant factors.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. This is to maintain (as far as possible) equity between different generations of taxpayers and to protect the Fund against the potential for an unrecoverable deficit. The deficit recovery period will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.
- Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Fund considers this to be warranted (see Deficit Recovery assumptions in Appendix B). The average recovery period adopted by all employers will be set out within the Actuary's report. Employers will be notified of their individual deficit recovery payment amounts as part of the provision of their individual valuation results. Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, at the sole discretion of the Fund the increase (or

decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum of 3 years, depending on affordability of contributions as determined by the administering authority. This will be notified to employers as part of the valuation process. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.

- As part of the process of agreeing funding plans with individual employers, the Fund will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities.
- It is acknowledged by the Fund that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Fund therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.
- For those bodies identified as having a weaker covenant, the Fund will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans.
- Notwithstanding the above principles, the Fund, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

Funding for non-ill health early retirement costs

Employers are required to meet all costs of early retirement strain (i.e. the increase in liability caused by paying a member's benefits early) by immediate capital payments into the Fund.

Funding for ill health early retirement costs

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment.

With the exception of any employers that have elected to take up ill-health liability insurance, the contributions payable over 2020/23 include an allowance for ill-health retirement costs (alongside those for voluntary early retirements). Where an ill-health retirement occurs no additional contributions will be due immediately from the employer although any funding strain or profit will emerge following the subsequent actuarial valuation through increased/reduced deficit, depending on the difference in the funding cost of the ill health retirement (on the actuarial valuation assumptions) and the expected cost built into the contributions payable.

For those employers who have elected to take out ill-health liability insurance, they have the option to reduce their certified primary contribution rate by the ill health allowance included at the actuarial valuation. The employer will pay an additional premium to the insurer. Where an ill-health retirement

occurs no additional contributions will be due immediately from the employer and a payment will be received from the insurer. Any funding strain or profit will emerge following the subsequent actuarial valuation through increased/reduced deficit, depending on the difference in the updated funding cost of the ill health retirement (on the actuarial valuation assumptions) and the payment received from the insurer.

Employers leaving the fund

The policy for employers who have a guarantor participating in the Fund:

Where an employer with a guarantor leaves the Fund, the valuation of the termination payment will be calculated using the funding assumptions for that employer's investment pot. Further details are set out in the Termination Policy in **Appendix D**.

The residual assets and liabilities and hence any surplus or deficit will normally transfer back to the guarantor but in circumstances where an exiting employer is expected to still be responsible for the termination deficit or surplus, an exit payment/exit credit may be payable from/to the exiting employer.

Where a surplus is potentially payable as an exit credit and a risk sharing arrangement is in place this is subject to representation (as required under the Regulations from 20 March 2020) from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor, in particular any 'risk-sharing' agreements that may exist. If representation is not made to the satisfaction of the Fund then the surplus will not be paid directly to the exiting employer following cessation (despite any other agreements that may be in place). A similar approach will be taken where a deficit is payable, where the default would be to collect the deficit in the absence of the representation from the interested parties.

The information that will be required by the Fund from employers to make a determination on whether an exit credit should be paid where a risk sharing arrangement is in place, and a representation has been made, will be supplied to the interested parties at the appropriate time. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

- Details of the employers involved in the process (e.g. the exiting employer and guarantor).
- Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
- The final termination certification of the exit credit by the Actuary.
- The Administering Authority's determination based on the information provided.
- Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority
- Further information on the process for making a formal representation is available in the Fund's "Making a formal representation for an exit credit payment" document.

The policy for employers who do not have a guarantor participating in the Fund:

Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without recourse to that employer, the valuation of the termination payment (or Exit credit) will be calculated using a discount rate based on a minimum risk investment strategy and a more prudent life expectancy assumption. Further details are set out in the Termination Policy in **Appendix D**.

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary). For the avoidance of doubt this will include an appropriate provision for potential costs of the McCloud case remedy as per the approach set out in this FSS.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Fund at their sole discretion) following completion of the termination process
- The Fund can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers.

At the discretion of the Administering Authority, repayment plans over an agreed period or a Deferred Debt Agreement may be agreed subject to the Fund's policy in relation to flexibilities in recovering exit payments.

Further detail is available in the Termination Policy in **Appendix D**.

6. Link to investment policy and the Investment Strategy Statement (ISS)

The results of the 2019 valuation show the liabilities to be 90% covered by the current assets, with the funding deficit of 10% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of negative 0.9% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 54%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The overall strategic asset allocation is set out in the Investment Strategy Statement (ISS).

Based on the investment strategy in the ISS and the Actuary's assessment of the return expectations for each asset class, this leads to an overall best estimate average expected return of 3.0% per annum in excess of CPI inflation as at the valuation date. For the purposes of setting funding strategy however, the Fund believes that it is appropriate to take a margin for prudence on these return expectations (i.e. to use an assumption that has a greater than 50% chance of being achieved) and this is expected under the Regulations and guidance. This margin however, has been adjusted to take account of the risk management strategies implemented to reduce the volatility of returns within the investment strategy. In isolation, this allows a lower margin for prudence to be used than would otherwise be the case if these risk management strategies were not in place.

Risk management

In the context of managing various aspects of the Fund's financial risks, the Fund has implemented a number of risk management techniques. The principal aim of these risk management techniques is to effectively look to provide more certainty of contribution outcomes within reasonable parameters.

In particular:

- Equity Protection - the Fund has implemented protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality). Further information in relation to the equity protection arrangement is available within the Fund's Investment Strategy Statement and Committee papers.
- Investment 'pots' – the Fund has implemented alternative investment strategies with differential levels of investment risk with effect from 1 April 2020. The aim is to provide greater control over employers' exposure to investment risk (see Appendix F for further information). The pot an employer sits in will be reflected in the relevant employer's asset share, funding basis and contribution requirements.

7. Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Fund has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors. The risk mitigations are set out in the Fund's separate risk register which is included in the Committee papers.

Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Protection and risk management fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment fund managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation turning out to be significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle, and
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates or deficit recovery payments (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation (including in each separate investment pot) is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

Demographic

The demographic risks are as follows:-

- Future unanticipated changes in life expectancy (longevity)
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions (or level of ill-health insurance protection, where relevant)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. An external ill health insurance arrangement can also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members.

Whilst regulatory procedures are in place to ensure that ill-health retirements are properly controlled, employing bodies also need to recognise that unforeseen costs for them will arise in the event that the number of ill-health retirements were to exceed the assumptions made. Early retirements for reasons of redundancy and efficiency do not normally affect the solvency of the Fund because they are the subject of a direct charge.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employers should be doing everything in their power to minimise the number of ill-health retirements**.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Fund regularly monitors the its cashflow requirements and considers the impact on the investment strategy.

Regulatory

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer costs.

Governance

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Pensions Committee and Pension Board) to make their views known to the Fund and to participate in the decision-making process. Previous versions of this FSS were consulted on prior to the 29 March 2021 Pensions Committee meeting. This version was finalised following the Pensions Committee meeting on 29 March 2021.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Fund unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Fund not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements, and
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Fund by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

8. Monitoring and review

The Fund has taken advice from the Actuary in preparing this FSS, and has consulted with the employers participating in the Fund.

The Fund will monitor the progress of the funding strategy and, if considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- Has been a significant change in market conditions, and/or deviation in the progress of the funding strategy.
- Have been significant changes to the Fund membership, or LGPS benefits e.g. resolution of the McCloud remedy.
- Have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy.
- Have been any significant special contributions paid into the Fund.
- Has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Fund considers that any action is required, the relevant employers will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

The structure and make-up of the investment pots will also be periodically reviewed between valuations based on the size and maturity of the liabilities within each pot. This will also allow for any movements of employers between the pots due to changes in funding position, covenant and also at the request of an employer.

A full review of this FSS will occur no less frequently than every 3 years, to coincide with completion of a full actuarial valuation.

Review of contributions

In line with the Regulations, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.

The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.

An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them.

Consideration will be given to any risk sharing arrangements (e.g. cap and collar arrangements) when reviewing contribution rates. Further information is set out within the policy in Appendix G.

The McCloud judgment

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/ risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

The Government have confirmed that this judgment will result in a remedy being required for the LGPS. The Scheme Advisory Board issued **guidance** which sets out how the McCloud case should be allowed for within the 2019 valuation.

The Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, it has been assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. Employers were able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they were able to make allowance within their budgets and advised that backdated contributions could be payable if the remedy is known before the next valuation.

The mechanism to achieve this has been set out in the Actuary's certificate.

Appendix A

Actuarial Method and Assumptions

Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

Financial Assumptions - Solvency Funding Target

Investment return (discount rate)

The discount rates for the investment pots have been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). The discount rates include appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below).

These real returns will be reviewed from time to time based on the investment pot strategy, market outlook and the Fund's overall risk metrics. The discount rates will be reviewed as a matter of course at the time of a formal valuation or a formal employer rate review.

Growth investment pot

For employers in the Growth investment pot the discount rate at the valuation has been derived based on an assumed return of 1.65% per annum above CPI inflation i.e. a real return of 1.65% per annum and a total discount rate of 4.05% per annum.

Medium investment pot

For employers in the Medium investment pot the discount rate at the valuation has been derived based on an assumed return of 1.4% per annum above CPI inflation i.e. a real return of 1.4% per annum and a total discount rate of 3.8% per annum.

Cautious investment pot

For employers in the Cautious investment pot the discount rate at the valuation has been derived based on an assumed return of 0.25% per annum above CPI inflation i.e. a real return of 0.25% per annum and a total discount rate of 2.65% per annum.

Inflation

The inflation assumption will be taken to be the investment market's expectation for Retail Prices Index (RPI) inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

1. an allowance for supply/demand distortions in the bond market is incorporated, and
2. an adjustment due to retirement pensions being increased annually by the change in the Consumer Prices Index rather than the Retail Prices Index.

The overall reduction to RPI inflation to arrive at the CPI inflation assumption at the valuation date is 1.0% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take in to account the reform of the calculation methodology for RPI, as announced by the Chancellor of the Exchequer. The change will then be implemented for the policies set out in this statement.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. The assumption used for an employer will be notified to them separately as part of the discussions but typically will be a minimum of 2% per annum until 31 March 2023.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Fund but as a minimum must be reasonable and practical. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

Demographic Assumptions

Mortality/Life Expectancy

The mortality in retirement assumptions are based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting LGPS experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2018 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2018 projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, assumed life expectancies at age 65 are:

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.5	24.9
Actives aged 45 now	24.1	26.9
Deferreds aged 45 now	22.6	25.8

For example, a male pensioner, currently aged 65, would be expected to live to age 88.1. Whereas a male active member aged 45 would be expected to live until age 89.6. This is a reflection of the expected improvement in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation
It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take a 3/80ths cash sum (available as standard under the pre 1 April 2008 benefit structure). The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up regardless of age.

Other Demographics
Following an analysis of Fund experience carried out by the Actuary, the proportions married/civil partnership assumption has been modified from the last valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses
Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits
The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Method and Assumptions used in calculating the cost of future accrual (or primary rate)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (the future accrual cost) as stable as possible so this needs to be taken into account when setting the assumptions.

As future accrual contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. This reflects the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only, and therefore, these contributions will be invested for a longer period.

Financial Assumptions - Future Accrual

The financial assumptions in relation to future accrual of benefits are not specifically linked to investment conditions as at the valuation date itself, and the following overall assumed real discount rates apply for each investment pot:

Growth investment pot
For employers in the Growth investment pot, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2.25% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.65% per annum.

Medium investment pot
For employers in the Medium investment pot, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.4% per annum.

Cautious investment pot
For employers in the Cautious investment pot the discount rate at the valuation has been derived based on an assumed return of 0.25% per annum above CPI inflation i.e. a real return of 0.25% per annum and a total discount rate of 2.65% per annum.

Employer Asset Shares

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the investment pot for each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the pot for the employer unless agreed otherwise between the employer and the Fund at the sole discretion of the Fund.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on which investment pot the employers' assets are in.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

Summary of key whole fund assumptions used for calculating funding target and cost of future accrual (The "Primary Rate") for the 2019 Actarual Valuation

	%
Long-term yields	
Market implied RPI inflation	**3.2% p.a.**
Solvency Funding Target financial assumptions	
Investment return/Discount Rate (Growth pot)	**4.35% p.a.**
Investment return/Discount Rate (Medium pot)	**2.2% p.a.**
Investment return/Discount Rate (Cautious pot)	**3.7% p.a.**
CPI price inflation	**2.2% p.a.**
Long Term Salary increases*	
Pension increases/indexation of CARE benefits	
Future service accrual financial assumptions	
Investment return/Discount Rate (Growth pot)	**4.95% p.a.**
Investment return/Discount Rate (Medium pot)	**2.2% p.a.**

	%
Investment return/Discount Rate (Cautious pot)	**3.7% p.a.**
CPI price inflation	**2.2% p.a.**
Long Term Salary increases	
Pension increases/indexation of CARE benefits	

*Short term salary increases may also apply and each employer will be notified of this separately. Typically this is a total pay increase of 2% p.a. until 31 March 2023.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

		Base Table
Pensioner	Normal health	99% S3PMA_CMI_2018 [1.75%] 91% S3PFA_M_CMI_2018 [1.75%]
	Dependant	131% S3PMA_CMI_2018 [1.75%] 91% S3DFA_CMI_2018 [1.75%]
	Ill Health	118% S3IMA_CMI_2018 [1.75%] 130% S3IFA_CMI_2018 [1.75%]
	Future Dependant	126% S3PMA_CMI_2018 [1.75%] 108% S3DFA_CMI_2018 [1.75%]
Active	Normal health	104% S3PMA_CMI_2018 [1.75%] 92% S3PFA_M_CMI_2018 [1.75%]
	Dependant	120% S3IMA_CMI_2018 [1.75%] 142% S3IFA_CMI_2018 [1.75%]
Deferred	Ill Health	128% S3PMA_CMI_2018 [1.75%] 107% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Future Dependant	133% S3PMA_CMI_2018 [1.75%] 115% S3DFA_CMI_2018 [1.75%]

Other demographic assumptions are set out in the Actuary's formal report.

Appendix B

Employer Deficit Recovery Plans

The Fund's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit payments will be expressed as £s amounts (with the exception of the Town and Parish Council's group where deficit contributions will be paid as a % of pensionable pay), and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Fund's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Default Deficit Recovery Period	Derivation
Fund Employers	15 years	Determined by reducing the period from the preceding valuation by at least 3 years (where appropriate)
Open Admitted Bodies	15 years	Determined by reducing the period from the preceding valuation by at least 3 years
Closed Employers	Lower of 15 years and the future working lifetime of the membership	Determined by reducing the period from the preceding valuation and the membership of the employer
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Fund may take into account some or all of the following factors:

- The size of the funding shortfall,
- The business plans of the employer,
- The assessment of the financial covenant of the Employer, and security of future income streams,
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period).

For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is unwound over a 15 year period for open employers, or the lower of 15 years and the future working lifetime of the membership for closed employers, unless agreed otherwise with the Fund (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

Other Factors Affecting the employer deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Fund will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Fund, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Fund that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Fund therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Fund will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Fund, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

Appendix C

Admission Policy

Introduction

This document details the Fund's policy on the methodology for assessment of ongoing contribution requirements and admissions into the. It supplements the general policy of the Fund as set out in the FSS.

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the Fund is kept as a live document and will be updated by the Fund as bodies are admitted to, or leave the Fund.

Entry to the Fund

Unless agreed otherwise by the Fund, prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Fund. If the risk assessment and/or bond amount is not to the satisfaction of the Fund (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions. Some aspects that the Fund may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

At the discretion of the Fund, where an admission is in respect of 10 or less LGPS posts the Admitted Body will be admitted to the Fund on a 'Pass Through' basis where the Admitted Body's ongoing contribution requirements are agreed between the Letting Employer and the Admitted Body, without an individual contribution assessment being carried out.

Second generation outsourcings for staff not employed by the scheme employer contracting the services to an admitted body

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the main Councils, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a 'Related Employer' for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor.

"Related employer" is defined as "any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)".

LGPS Regulations 2013: Schedule 2 Part 3, Para 8

Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

a. a person who funds the admission body in whole or in part;

b. in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

c. a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

   i. the transfer of the service or assets by means of a contract or other arrangement,

   ii. a direction made under section 15 of the Local Government Act 1999 (115) (Secretary of State's powers),

   iii. directions made under section 497A of the Education Act 1996 (116) ;

d. a person who—

   i. owns, or

   ii. controls the exercise of the functions of, the admission body; or

In accordance with the above Regulations, the Fund requires a guarantee from the related employer. The related employer may seek a bond from the admitted body taking into account the risk assessment carried out by the Fund Actuary.

Admitted bodies providing a service

Generally Admitted Bodies providing a service (including those admitted on a Pass Through basis) will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Fund. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the Fund. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund it must also be satisfied (along with the Fund) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Fund, the level of the bond amount will be subject to review on a regular basis. In the case of an Admission Body admitted on a Pass Through basis, the requirement to carry out an assessment of the level of risk on premature termination of the contract may be waived at the agreement of the Fund and the Letting Employer who act as guarantor to the Admission Body.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer. Please see the Fund's Termination Policy for further details.

An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund the Fund may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions.

Pre-funding for Termination

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions as detailed in the Fund's Termination Policy. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular, the employing body's notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the notional investment returns generated by the investment strategy for the employer's investment pot. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Fund, or depending on any case specific circumstances.

Appendix D

Termination policy, flexibitilites for exit payments and deferred debt agreements

Introduction

This document details the Fund's policy on the methodology for assessment of termination payments in the event of the cessation of an employer's participation in the Fund, repayment plans and Deferred Debt Agreements (DDA). It supplements the general policy of the Fund as set out in the FSS.

Termination of an employer's participation

Unless entering a DDA, an employer ceases to participate within the Fund when the last active member leaves the Fund. This includes where the employer ceases to be eligible for membership e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation.

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Fund.

The employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

When an employer exits the Fund the Regulations give power to the Fund to set a repayment plan to recover the outstanding debt over a period at its sole discretion and this will depend on the affordability of the repayments and financial strength of the exiting employer. Once this repayment plan is set the payments would not be reviewed for changes in the funding position due to market or demographic factors.

The Fund's policy for termination payment plans is as follows:

1. The default position is for exit payments and exit credits to be paid immediately in full following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary).
2. At the discretion of the Fund, exit payment instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.
3. Any costs associated with the exit valuation will be paid by the employer by either increasing the exit payment or reducing the exit credit by the appropriate amount. In the case of an employer where the exit debt/credit is the responsibility of the original employer through a risk sharing agreement the costs will be charged directly to the employer unless the original employer directs otherwise.

In the event that unfunded liabilities arise that cannot be recovered from the exiting body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

With the exception of grouped employers (see below), the Fund's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees).

Termination Assessments

The policy for employers who have a guarantor participating in the Fund:

If the employing body (including those admitted on a Pass Through basis) has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the Fund's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise.

The residual assets and liabilities, and hence any surplus or deficit will normally transfer back to the guarantor of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body.

In circumstances where an exiting employer is expected to still be responsible for all or part of the termination position, an exit payment/exit credit may be payable from/to the exiting employer. This is subject to representation by all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor, in particular any 'risk-sharing' agreements that may exist. In line with the amending Regulations **(The Local Government Pension Scheme (Amendment) Regulations 2020)** the parties will need to make representation to the Fund if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Fund.

The information required by the Fund from employers to make a determination on whether an exit credit should be paid where a risk sharing arrangement is in place, and a representation has been made, will be supplied to the interested parties at the appropriate time. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

Further information on the process for making a formal representation is available in the Fund's "Making a formal representation for an exit credit payment" document.

Any costs associated with the termination assessment will be payable by the exiting employer and will either be invoiced to the employer by the Fund or included by increasing the exit payment / reducing the exit credit by the appropriate amount. In the case of an employer where the exit debt/credit is the responsibility of the original employer through a risk sharing agreement the costs will be charged directly to the employer unless the original employer directs otherwise.

The policy for employers who do not have a guarantor participating in the Fund:

A termination assessment will be made based on a minimum risk funding basis. This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Fund at their sole discretion) following completion of the termination process.

The Fund can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the actuary.

The Fund currently groups Town and Parish Councils for contribution rate setting purposes. The Fund's policy is that, on termination of participation within the group, the termination assessment will be based on a simplified share of deficit/surplus approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit/surplus share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the body and the group as a whole, and then adjusting to the date of exit. The share of deficit/surplus will be assessed based on the ongoing valuation funding basis for the group as a whole at the last actuarial valuation. The adjustment to the date of exit will normally be made in line with the funding assumptions adopted for the group as at the last actuarial valuation unless the

actuary and Fund consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.

In addition, for some Multi-Academy Trusts (MAT), a grouped approach has been taken with individual academies within a Trust no longer being separately identifiable on the Fund's administration system or for funding or contribution purposes. On termination of participation of one of the academies within such a MAT, the termination assessment will be based on a simplified share of deficit/surplus approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit/surplus share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the employees of the exiting academy and the MAT a whole, and then adjusting to the date of exit. The share of deficit/surplus will be assessed based on the ongoing valuation funding basis for the MAT as a whole at the last actuarial valuation. The adjustment to the date of exit will normally be made in line with the funding assumptions adopted for the MAT as at the last actuarial valuation unless the actuary and Fund consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.

Unless agreed otherwise by the Fund, any unfunded liability that cannot be reclaimed from the outgoing grouped body will be underwritten by the group/MAT and not all employers in the Fund. Following termination, the residual liabilities and assets in respect of that body will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the group/MAT.

Any costs associated with the termination assessment will be payable by the exiting employer and will either be invoiced to the employer by the Fund or included by increasing the exit payment / reducing the exit credit by the appropriate amount.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases no termination assessment is required as there will no longer be any orphan liabilities in the Fund. Therefore, a separate assessment of the assets to be transferred will be required. Any costs associated with the asset transfer will be payable by the exiting employer and will be invoiced to the employer by the Fund.

Allowing for the McCloud Judgment in termination valuations

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not currently known with any certainty although it is expected to be similar to the allowance made in employer rates at the 2019 valuation (where applicable). Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations and the impact will be considered for the subsuming employer at the next contribution rate review. However, if a representation is made to the Administering Authority in relation to an Exit Credit then a reasonable estimate for the potential cost of McCloud will need to be included within the termination assessment.

Where a surplus or deficit isn't being subsumed, McCloud will be allowed for as a matter of policy.

The allowance will be calculated in line with the treatment set out in the Funding Strategy Statement for all members of the outgoing employer using the termination assessment assumptions. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing Regulations and guidance in force at the time.

Policy in relation to the flexibility for exit debt payments and deferred debt payments (DDA)

The Fund's policy for termination payment plans is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.
2. Exit debt payment spreading and DDAs will always be discussed with employers, whether at the employer's request or not. However, at the discretion of the Administering Authority, an instalment plan over an agreed period or a DDA will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a DDA with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable, and whether it is in the interest of the Fund to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be invoiced to the employer by the Fund or included in the contribution plan or exit debt payment (depending on the circumstances).

The following policy and processes will be followed in line with the principles set out in the **statutory guidance** dated 2 March 2021.

Policy for spreading exit payments

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.
3. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to 6 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time.

5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
   a. The spreading period that will be adopted (this will be subject to a maximum of 5 years).
   b. The initial and annual payments due and how these will change over the period
   c. The interest rates applicable and the costs associated with the payment plan devised.
   d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account, etc.
   e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation.
   f. The views of the Actuary, covenant, legal and any other specialists necessary
   g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
   h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances).
6. Note that proposed exit payment spreading will always be discussed with the employer, whether at the employer's request or not. Once the Administering Authority has reached its decision, the arrangement (where applicable) will be documented and any supporting agreements will be included.

Future Terminations

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Fund becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Fund that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. For example, on agreement with the employer, by moving the employer to a lower risk funding basis or a notional minimum risk funding basis. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Fund, or depending on any case specific circumstances.

Minimum risk termination basis

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Minimum risk assumptions	31 March 2019
Discount Rate	1.5% p.a.
CPI inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

These financial assumptions will be reviewed on an ongoing basis to allow for changes in market conditions along with any structural or legislative changes.

In particular, since the valuation date it has been confirmed that RPI inflation will be reformed with effect from 2030 to align the index with the CPIH inflation measure. This therefore needs to be reflected when deriving an updated market estimate of the CPI inflation. For example, when assessing a termination position from 25 November 2020 we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting [0.6%] per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position. This adjustment will be kept under review over time.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2.25% p.a. from 1.75% used in the 2019 valuation for ongoing funding and contribution purposes.

Employers participating with no contributing members

As opposed to paying the exit debt an employer may participate in the Fund with no contributing members and utilise the "Deferred Debt Agreement" (DDA) facility at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority.
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).
3. The initial process to determine whether a DDA should apply may take up to 3 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.
4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a DDA using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:

- What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won't enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery plan and other funding arrangements.
- The investment strategy that would be applied to the employer e.g. the growth, medium or cautious pot strategy which could support the arrangement.
- Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.

- What the updated Secondary rate of contributions would be required up to the next valuation.
- The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
- The advice of the Actuary, covenant, legal and any other specialists necessary.
- The responsibilities that would apply to the employer while they remain in the Fund.
- What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the Secondary contributions (e.g. provision of security).
- The circumstances that would trigger a variation in the length of the DDA (if appropriate), including a cessation of the arrangement e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months. Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
- Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

Note that proposed DDAs will always be discussed with the employer, whether at the employer's request or not. The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a DDA with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the agreed triggers are met.
6. The costs associated with the advice sought and drafting of the DDA will be borne by the employer and will be invoiced to the employer by the Fund or included in the contribution plan (depending on the circumstances).

Appendix E

Covenant assessment and monitoring policy

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

Risk Criteria

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the Fund relative to the size of the employer's operating cashflow
- The relative priority placed on the Fund compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

Assessing employer covenant

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

Frequency of monitoring

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

Covenant risk management

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond.
2. Transfer to a more prudent actuarial basis (e.g. the termination basis).
3. Shortened recovery periods and increased cash contributions.
4. Managed exit strategies.
5. Contingent assets and/or other security such as escrow accounts.

Appendix F

Investment pot risk management policy

In the context of managing aspects of the Fund's financial risks, the Fund has implemented a choice of "investment" pots to offer to employers (with effect from 1 April 2020) which exhibit differential levels of investment risk based on alternative underlying investment strategies. The three available investment pots are called:

- The Growth pot;
- The Medium pot; and
- The Cautious pot

This strategy will be reviewed periodically as part of the governance of the Fund's overall risk management framework. This policy should be considered alongside the Fund's Covenant Assessment and Monitoring Policy.

Investment strategies

The current Fund investment strategy will apply to the "Growth pot". The "Medium pot" and "Cautious pot" will give employers the option to reduce the level of investment risk that they wish to take, particularly for those employers that are considering leaving the Fund.

The strategic allocation for the Fund as a whole and for each of the investment pots is set out in the Investment Strategy Statement.

The investment strategy underlying each investment pot will be reviewed formally at each actuarial valuation along with the overall Fund investment strategy. This will also allow for any movements of employers between the investment pots due to changes in funding position, covenant and also at the request of an employer.

In addition, a high level health check will be performed annually allowing for market changes and outlook as well as underlying changes in the maturity and profile of the liabilities of the employers within each pot. However, a formal review may be undertaken mid-valuation if there is a material shift of employers between pots and/or material shift in the funding position in order to more efficiently manage the overall risk.

The investment pots will be managed within the overall Fund investment strategy as far as possible. If any investment options are unavailable, and are deemed to be desirable, then the Fund will consider obtaining access to these options through the LGPS Central Limited pool or potentially directly.

Employer allocations

The allocations to each investment pot will be reviewed in detail alongside the actuarial valuation every 3 years. The Fund will take into account the following employer factors when considering overall risk and allocating an employer to a specific pot:

- Employer type e.g. tax raising body, academy, admitted body.
- Employer ongoing covenant strength incl. any guarantee or security.
- Employer size, maturity and funding position.
- Employer status e.g. open/closed to new members and objectives.

If, based on a covenant assessment carried out by the Fund, an employer is deemed to have a weaker covenant than other employers in the Fund, or is expected to exit the Fund in the near future, the Fund reserves the right to move an employer (typically following discussions with that employer) into either the Medium or Cautious pot to provide some protection against deterioration in funding position for the employer and the Fund as a whole. Any orphaned liabilities, once an employer exits the Fund, will generally be automatically moved into the Cautious pot as these liabilities have no sponsoring employer and are ultimately underwritten by all employers within the Fund.

As part of a triennial valuation, any employer can elect to move to a lower risk investment strategy to reduce their level of investment risk exposure and the potential volatility in their future funding position.

The choice of investment pot will be reflected in each employer's asset share, funding basis and contribution requirements.

The above employer factors will be monitored regularly between actuarial valuations and the allocation to a specific investment pot may be reviewed between actuarial valuations in the following circumstances:

- Material change in certain types of employers' funding position
- Material change in an employer's status or covenant
- Request from an employer to move investment pots, subject to the agreement of the Fund.

Appendix G

Review of employer contributions between valuations

In line with the Regulations that came into force on 23rd September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of

any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (or changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation. However changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to next actuarial valuation date, unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case by case basis to determine if a contribution review should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

Situations where contributions may be reviewed

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1) **Significant changes in the employer's liabilities**

   This includes but is not limited to the following scenarios:

   a. Significant changes to the employer's membership which will have a material impact on their liabilities, such as:

      i. Restructuring of an employer

      ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)

      iii. A bulk transfer into or out of the employer

      iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not using ill-health liability insurance) or, large numbers of withdrawals

   b. Two or more employers merging including insourcing and transferring of services

   c. The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will normally only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

2. **Significant changes in the employer's covenant**

   This includes but is not limited to the following scenarios:

   a. Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.

   b. Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.

   c. Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements.

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contribution rate would include consideration of the updated funding position both on an ongoing and termination basis and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions (see further comments below):

- The contributions changing or staying the same depending on the conclusion and/or;
- Security to improve the covenant to the Fund and/or;
- If appropriate, a change in the investment strategy via the employer investment pot.

Process and potential outcomes of a contribution review

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intention to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and/or administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in membership data is expected to have a material impact on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (e.g. the Growth pot, Medium pot or Cautious pot) in line with the Funding Strategy Statement.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change.
- Whether the Secondary contribution rate should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. The remaining recovery period from the last valuation would be the maximum period adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Actuary).

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

Appendix H

Glossary

50/50 Scheme:
In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

Actuarial valuation:
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Fund to fund the cost of new benefits and make good any existing deficits as set out in the separate FSS. The asset value is based on market values at the valuation date.

Administering Authority:
The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies:
A specific type of employer under the "LGPS" who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark:
A measure against which fund performance is to be judged.

Best estimate assumption:
An assumption where the outcome has a 50/50 chance of being achieved.

Bonds:
Loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career average revalued earnings scheme (CARE):
With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Cautious investment strategy:
An investment strategy linked to income generating assets which target a minimum yield above CPI inflation allowing for default, reinvestment risk and any other reasonable margins of prudence deemed appropriate.

Contingent assets:
Assets held by employers in the Fund that can be called upon by the fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

Covenant:
The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI:
Acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS have been linked to the annual change in CPI since April 2011.

CPIH:
An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

Deferred Debt Agreement (DDA):
An written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA

Deficit:
The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period:
The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount rate:
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's future accrual rate:
The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employing bodies:
Any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities:
Shares in a company which are bought and sold on a stock exchange.

Equity protection:
An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit credit:
The amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Fund / Scheme employers:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency level:
The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement (FSS):
This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD):
The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Growth investment strategy:
A predominantly growth asset biased investment strategy targeting long term additional outperformance above CPI inflation. Further information is available in the Investment Strategy Statement.

Guarantee / guarantor:
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment pot:
This describes a bespoke notional investment strategy which applies to one or more employers and is dependent on the liability and risk profile. Dictates the financial assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is determined based on the notional investment strategy for the relevant investment pot's investment strategy. This is expressed as an expected return over CPI.

Investment strategy:
The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer:
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities:
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS:
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Lower risk funding basis:
An approach where the discount rate used to assess the liabilities is determined based on the expected long term return achieved on the Fund's lower risk investment strategy. This is usually adopted for employers who are deemed to have a weaker covenant than others in the Fund, who are planning to exit the Fund or who would like to target a lower risk strategy. This basis is adopted for ongoing contribution rate purposes as the employers' asset share is invested in the lower risk investment strategy.

Mandatory scheme employers:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers. For example, these include councils, colleges, universities and academies.

Maturity:
A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Medium investment strategy:
An alternate investment strategy available to employers who wish to reduce investment risk to some extent compared to the Growth investment strategy but still target long term additional outperformance above CPI inflation. Further information is available in the Investment Strategy Statement.

Members:
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis:
An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities:
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Pass through:
Arrangement whereby the risks of participating in the LGPS are retained by the Letting Employer with the Admission Body's contributions being a reflection of the rate of the Letting Employer (subject to any specific adjustment required under the separate contractual arrangement).

Percentiles:
Relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions:
When there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling:
Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment:
The payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present value:
The value of projected benefit payments, discounted back to the valuation date.

Primary rate:
The contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

Profile:
The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent assumption:
An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate:
A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real return or real discount rate:
A rate of return or discount rate net of (CPI) inflation.

Recovery plan:
A strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the FSS.

Scheduled bodies:
Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary rate:
The adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund, plus any provision made by an employer in respect of the estimated cost of McCloud.

Section 13 Valuation:
In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency funding target:
An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis:
The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

Worcestershire Pension Fund

Appendix B

Worcestershire Pension Fund Pension Administration Strategy

Contents

Preface

This Pension Administration Strategy has been produced to:

- Set out the Local Government Pension Scheme (LGPS) roles and responsibilities of Worcestershire Pension Fund and our employers.
- Establish the levels of performance we and our participating employers are expected to achieve in carrying out their responsibilities.

Help us to help you: to administer the LGPS on behalf of our employers, we as the scheme administrator need our employers (in a manner that is data secure) to do a number of things including:

1. Provide us with **one named lead contact / account manager** who will liaise with us on behalf of their organisation, co-ordinating delivery of all LGPS requirements across their whole organisation (i.e. Finance Manager, Human Resources representative, Business Manager, Chief Executive, Payroll representative, etc.).
2. Maintain and supply us with an **Employer's contacts at my organisation Excel spreadsheet**.
3. **Calculate, notify and deduct employee contributions** for each employee in the LGPS (using a unique pensions identifier number for each employment) in accordance with the LGPS HR Guide (see: **http://www.lgpsregs.org/resources/guidesetc.php**) and the annual update issued by the LGA every March (see **http://www.lgpsregs.org/bulletinsetc/bulletins.php**).
4. By the 19th of the month following the month of deduction **remit to us all contributions**, including employer contributions) at the appropriate rate for the LGPS scheme year in question.
5. **Remit to us any additional pension contributions (APCs)** relating to their employees.
6. **Remit to Scottish Widows any additional voluntary contributions (AVCs)**.
7. **Allocate trained resources** to supply us within the required timescales with:
   a. The various pension administration forms and spreadsheets that we require for each life event that affects their employees.
   b. The various regular and ad hoc pay, service, contributions and personal information that we require for their employees, for example past hours changes and service breaks to deliver the McCloud remedy.
8. **Publish and forward to us an up to date employer policy statement** for all employer **discretions** under the LGPS regulations.
9. Appoint an adjudicator to **handle appeals** in accordance with the LGPS regulations.
10. **Keep abreast of** the range of material we make available.

1. Our Responsibilities to our employers and members

Our general responsibilities:

1. To comply with all relevant legislation and guidance (for example from **The Pensions Regulator**).
2. To apply **the LGPS regulations** in line with our **Policy Statement on our LGPS discretions**. NB we can recover costs from an employer where costs have been incurred because of that employer's level of performance in carrying out its functions, for example arising from members appealing their level of benefits after an employer has provided insufficient / incorrect data for us to apply the McCloud remedy.
3. To accurately record and update member records on the pension administration system.
4. To maintain a compliant **website** that provides stakeholders with a first port of call for all of their pensions information needs, so that they can make informed decisions. NB we will make it clear that we are not able to provide financial advice.
5. To invest in digitisation to maximise self-service for our members and employers.
6. To maintain an appropriate range of up to date forms and guides.
7. To produce newsletters for all members at least annually.
8. To provide guidance on the secure submission of data.
9. To chase up information that we have asked for.
10. To agree timescales for dealing with bulk work / queries.
11. To appoint and manage appropriate specialist professional services organisations.
12. To review the Pension Administration Strategy annually in consultation with employers.

Governance – our responsibilities:

1. To operate with a **Pensions Committee** and a **Pension Board** including employer and employee representatives.
2. To deliver appropriate training for the members of the Pensions Committee and Pension Board.
3. To maintain a **Risk Register**.
4. To produce, operate according to and maintain a **Governance Policy Statement**.
5. To report any failures to **The Pensions Regulator** / **Scheme Advisory Board**.
6. To deliver complaints and **Internal Dispute Resolution Procedures (IDRP) appeal procedures**.
7. To comply with any audit requirements / recommendations.

Funding and investments – our responsibilities:

1. To set out a clear and transparent **Funding Strategy Statement** and consult with employers on this.
2. To manage employers' annual covenant reviews to help us to manage risk.
3. To produce and maintain an **Investment Strategy Statement**.
4. To appoint and manage LGPS Central Limited, and the Fund's other investment managers.
5. To monitor the performance of the Fund's assets.
6. To produce a **Statement on Compliance with the UK Stewardship Code for Institutional Investors**.

7. To produce **responsible investment** information to include information about climate change / climate risk monitoring and our Environmental, Social and Governance (ESG) audits.
8. To consult and inform employers which **investment pot** they have been allocated to and how this will be monitored / managed in future

Financial and data obligations – our responsibilities:

1. To allocate the contributions received correctly to each employee record.
2. To keep a log of contributions received from each employer.
3. To retain the right to charge interest at 7% for persistent and ongoing late payment in the following circumstances:
   a. If employer contributions (including deficit recovery payments) are overdue (if they are not received a month later than the due date specified).
   b. If any other payments are overdue (if they are not received by the due date specified).
4. To pass on any fines levied by third parties or additional costs for example arising from members appealing their level of benefits after an employer has provided insufficient / incorrect data for us to apply the McCloud remedy arising from employer performance.
5. To inform each employer of any new contribution bandings table in place from each April.
6. To inform employers of any rechargeable items e.g. actuarial fees as they become due / at the end of financial year.
7. To produce an **Annual Report and Financial Statements**.
8. To manage admission agreements / the processes for admitting new employers.
9. To manage the delivery of Financial Reporting Standards (FRS) / International Accounting Standards (IAS) information to employers.
10. To take account of covenant reviews in setting employer contribution rates.
11. To advise employers when strain costs / compensatory added years payments are due.

Annual return, actuarial valuations when being undertaken and annual benefit statements – our responsibilities:

1. To process employer year end contribution returns within 1 month of receipt i.e. 31 May.
2. To produce annual benefit statements (ABS) for all employee and deferred members by 31 August.
3. To highlight annually if a member has exceeded their annual allowance and issue a Pension Savings Statement by 6 October.
4. To provide data to the Fund Actuary and Governments Actuary's Department to enable employer contribution rates to be accurately determined.
5. To provide an electronic copy of the **actuarial valuation report** and contributions certificate to each employer.

New starts – our responsibilities:

1. To accurately create member records on the pension administration system within 40 working days of notification from an employer of a new entrant to the LGPS.

Changes in circumstances for employee members – our responsibilities:

1. To accurately record and update member records on the pensions administration systems within 10 working days of completed notification.

Employee members – our responsibilities:

1. To update employee members' career average revalued earnings (CARE) accounts for the annual revaluation on 1 April.

Transfer in / out estimates – our responsibilities:

1. To provide transfer in information to the member within 10 working days of all information required being received.
2. To provide transfer out information within 10 working days of all information required being received.

Divorce estimates – our responsibilities:

1. Where a request for divorce information including a cash equivalent transfer value (CETV) is received from the member, or the Court, we will provide the member with a schedule of our charges and then issue the estimate within 45 working days of the receipt of the signed request from the member / receipt of the Court order.

Outsourcing estimates – our responsibilities:

1. To provide guidance to and the estimated fees (these are likely to be at least £5,000) that will be incurred by current employers participating in the LGPS who are considering outsourcing.

Actual retirements – our responsibilities:

1. To issue individual quotations / information within 15 working days after all information required to process a quotation has been received.
2. To issue employee members with a letter notifying them of their actual retirement benefits within 15 working days following receipt of the completed **Leavers Form**.
3. To issue deferred members with a letter notifying them of their actual retirement benefits within 15 working days following receipt of all documentation from the member.

Ill health retirements – our responsibilities:

1. To calculate and pay the benefits within 15 working days following receipt of all documentation.
2. To assist employers in discharging their responsibility to review Tier 3 ill health cases at 18 months.
3. To assist employers to select an Independent Registered Medical Practitioner (IRMP).
4. To provide information on the options for members who are terminally ill.

Members leaving employment before retirement – our responsibilities:

1. To provide members with **Opt Out forms** and information about going 50/50 / refunds / becoming deferred / transfers out.
2. To provide members becoming deferred with the options available to them within 30 working days of receipt of all the correct information from the employer via the **Leavers Form**.
3. To process and pay a refund within 10 working days to an eligible member following receipt of all relevant documentation.

Deferred members – our responsibilities:

1. To updated deferred members' benefits for the annual pensions increase award / annual CARE revaluation as appropriate.
2. To provide estimates of benefits that may be payable and any resulting employer costs within 15

working days of request.

3. To select an Independent Registered Medical Practitioner (IRMP).

Death in service – our responsibilities:

1. To provide an initial letter of acknowledgement to the next of kin / informant within 5 working days following a notification of death.
2. To provide a letter notifying dependents of benefits within 10 working days following receipt of identification / certificates and relevant documentation.
3. To expedite the payment of any benefits in an appropriate and caring manner.

Additional voluntary contributions (AVCs), Additional Pension Contributions (APCs) and shared cost APCs (SCAPCs) – our responsibilities:

1. To appoint and manage an in-house AVC provider.
2. To direct members / employers to **information on these options** as requested.

Pensioners – our responsibilities:

1. To make payment of any lump sum within 23 working days of receipt of all relevant fully completed retirement forms and certificates from the member, or retirement date if later.
2. To pay pension payments on the last working day of each month following retirement, unless this falls on a weekend or bank holiday when the payment will be made on the last working day before.
3. To pay LGPS benefits to their qualifying dependents.
4. To obtain annual life certificates from certain members e.g. those either resident overseas or with ongoing power of attorneys.
5. To pay Her Majesty's Revenue & Customs.
6. To increase pensions annually if appropriate.
7. To provide payslips / P60s.

Complaints / adjudication of disagreements – our responsibilities:

1. To appoint an adjudicator to deal with disagreements and in accordance with the regulations reply within 2 months or any extension provided by the regulations.
2. To acknowledge complaints within 10 working days of receipt of the completed documentation.
3. To review and provide updates to the member in a timely manner.
4. To notify the employer of decisions and / or appeals as requested.
5. To listen sympathetically to complaints and respond to them within 10 days.

Performance monitoring and reporting – our responsibilities:

1. We will report on our key performance indicators (KPIs) to the Pensions Committee and the Pension Board. This will provide a mechanism for service level review and recognition of best practice.
2. We will seek to work closely with employers to:

- Identify areas of poor performance.
- Provide the necessary training and development.
- To put in place appropriate processes to improve the level of service in the future.

Reporting breaches – our responsibilities:

1. To have procedures to be followed in relation to reporting breaches of the law to The Pensions Regulator.
2. To report data breaches to the Information Commissioner's Office (ICO).
3. To report all breaches to the **Pensions Committee** and the **Pension Board**.

2. Employers' Responsibilities

Employers' general responsibilities:

1. To support us in engaging with our members and prospective members, making it clear that Worcestershire Pension Fund is not able to provide financial advice.
2. To be familiar with the HR and Payroll guides available at **http://www.lgpsregs.org/resources/guidesetc.php**
3. To provide us with up to date and correct information e.g. re an employer's covenant as and when requested in accordance with our timescales and data protection / pensions regulations, retaining information about employees in line with our **Personal Data Retention Guidance for Employers** and our guidance (for example in our September 2020 employer newsletter) about the McCloud remedy where if no data is available assumptions that employees could challenge would have to be made.
4. For larger bulk estimates, to make requests via the spreadsheet template provided by us and to give us as much notice in advance, for example when any redundancy exercises are planned.
5. To operate controlled, authorised processes and procedures.
6. To familiarise themselves with our:
   a. **Policy Statement on Communications**.
   b. **Funding Strategy Statement** that includes investment pots.
   c. **Governance Policy Statement**.
   d. **Investment Strategy Statement**.
7. To comply with **the Pensions Regulator's** requirements of employers offering pensions to their employees, including automatic enrolment and data quality.
8. To publish and forward to us an up to date employer policy statement for all **employer discretions under the LGPS regulations**.

Financial and data obligations - employer responsibilities:

1. To calculate, collect and pay us no later than the 19th day of the month following the period of deductions:

- All employee contributions deducted from payroll (excluding AVCs).
- Employer contributions.
- Any deficit lump sum payments due on a monthly basis.

2. To accompany each payment with the **Payover Form PCF1**.
3. To pay all rechargeable items to the Fund on receipt of the invoice within the timescales specified.

4. To provide us with accurate member data, using the **monthly CARE spreadsheet**.
5. To provide us with the annual Covenant data we require.

Annual return, actuarial valuations when being undertaken and annual benefit statements - employer responsibilities:

1. To ensure we receive accurate year end information to 31 March through the **Year End Spreadsheet** by 30 April.
2. To submit accompanying paperwork detailing this together with payment or a formal request for a refund should there be any under / over payment discovered whilst reconciling.
3. To provide any additional information that may be requested to produce annual benefit statements for service up until 31 March in each particular year by the 30 April each year.
4. To ensure that all errors highlighted from the annual contribution and pensionable pay posting exercise are responded to and corrective action taken promptly.

New starts - employer responsibilities:

1. To ensure that pension information is included as part of any new employment induction process, in contracts of employment and appointment letters.
2. To ensure that all employees subject to contractual admissions are bought into the LGPS from their relevant start date.
3. To provide us with accurate new member data, using the **New Starter Form** / interface within 4 weeks or at the members' start date or within 14 days of the first time the new employee is included on the employer's payroll run.
4. To provide each new employee with a link to our **Guide to the LGPS** and a **New Starter Form** with their contract of employment.
5. To determine the appropriate contribution rate (whether individually or by an automated process on payroll) and as soon as is reasonably practicable, notify the employee of the contribution rate which is to be deducted from the employee's pensionable pay and the date from which the rate will become payable. It is for the employer to determine the method by which the notification is given to the employee, but the notification must contain a statement giving the address from which further information about the decision may be obtained. The notification must also notify the employee of the right to appeal, including the process and timescales involved. Furthermore, the correct employee contribution rate should be applied and (if appropriate) adjusted throughout the year according to the employer's Policy Statement on discretions.

Important note: Where there is more than one contract of employment with the same employer, each membership shall be maintained separately and notified to us as above.

Changes in circumstances for employee members - employer responsibilities:

1. To ensure that we are informed of any changes in the circumstances of employees, by completing the **Employer Notification of Changes relating to Pensionable Employment Form / Leavers Form / Ill Health Form / 50:50 cancel form / 50:50 Option Form / etc**. within 4 weeks of the change. Changes include:
    a. Name.
    b. Marital status.
    c. NI number.
    d. Contractual hours.

e. Any remuneration changes due to promotion and down grading.

f. Full time equivalent pensionable pay according to the pre 2014 definition.

g. Actual pensionable pay (including overtime/additional hours) in 100/100 and 50/50 according to the post 2014 definition (CARE).

h. Employee contribution rate.

i. Employee number and / or post number.

j. Date joined LGPS (if adjusted).

k. Confirmation of 50/50 or 100/100 entry.

l. Additional Voluntary Contributions (AVC) contributions.

m. Additional Pension Contributions (APC).

n. Notification of Flexible Retirement.

2. To apply assumed pensionable pay (APP) for pension purposes during periods of reduced or nil pay as a result of sickness, injury or relevant child related leave (i.e. ordinary maternity, paternity or adoption leave or paid shared parental leave and any paid additional maternity or adoption leave). Important note: If the employee receives no pay, employer contributions should still be paid.

3. To calculate and provide to the member the APP amount should an employee wish to purchase an Additional Pension Contributions (APC) or a Shared Cost Additional Pension Contribution (SCAPC) contract to buy back the pension 'lost' during the absence, Important note: before a period of absence employers must bring to the attention of the employee that they can buy back the 'lost' pension and also direct employees to the APC calculator at: **https://www.lgpsmember.org/more/apc/index.php**

Retirement estimates - employer responsibilities:

1. To submit a request using the **Request for Estimate Form**. Each form must be signed by an authorising officer.

2. To provide pay and other relevant information such as details of the maximum strain the employer can pay given other exit payments and whether the exit cap is applicable requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests by an agreed timescale with us.

Transfer in / out estimates - employer responsibilities:

1. To submit a request.

2. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests by an agreed timescale with us.

Divorce estimates - employer responsibilities:

1. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests, by an agreed timescale with us.

Outsourcing estimates - employer responsibilities:

1. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests, by an agreed timescale with us.

2. Re staff transfers e.g. outsourcings, in line with our **guidance notes on transfers of staff between our employers including academy conversions** to ensure early notification / liaison with us when considering an outsourcing exercise which affects members / eligible members of the LGPS.

Actual retirements - employer responsibilities:

1. To submit the appropriate **Leavers Form** and details such as the maximum strain the employer can pay given other exit payments and whether the exit cap is applicable to us as soon as the information is available. N.B. The Leavers Form must be completed fully and be signed by an authorising officer, as it confirms the information required to enable the benefits to be calculated and the employer's decision as to the type of benefit that is to be paid to the member.
2. To include a reference in the retirement letter to remind employees to advise us directly if they subsequently move house so that we can maintain contact with the retired member.

Ill health retirements - employer responsibilities:

1. To determine whether an ill health benefit award is to be made, based on medical evidence and the criteria set in the LGPS regulations.
2. After obtaining an opinion from an approved Independent Registered Medical Practitioner (IRMP) on the appropriate **Medical Certificate**, determine which tier (1, 2, or 3) is to be awarded.
3. Submit the completed **Medical Certificate and Leavers Form** to us with all related paperwork and a copy of the notice letter issued to the member (which must confirm the level of ill health benefits awarded and the appeal information).
4. To keep a record of and at 18 months review all Tier 3 ill health retirements, arranging as appropriate a further **medical certificate**.
5. To notify us to recover any overpayment of benefits following a discovery of gainful employment.
6. To include a reference in the dismissal letter to remind employees to advise us directly if they subsequently move house, so that we can maintain contact with the retired member.

Members leaving employment before retirement - employer responsibilities:

1. To notify us using the **Leavers Form**, ensuring all relevant information is included on the form, within a reasonable time of the members leave date.
2. To include a reference in the acknowledgement letter to remind employees to advise us directly if they subsequently move address so that we can maintain our contact with the retired member.
3. To send us notification of any eligible employees subject to automatic enrolment, who opt out of the LGPS within 6 weeks of joining.
4. To check the date on all **Opt out forms** is not earlier than the end of the current pay period.

Deferred members - employer responsibilities:

1. To keep adequate records of the following for members who leave the LGPS with deferred benefits, as early payment of benefits may be required:
    a. Name.
    b. Last known address.
    c. NI Number.
    d. Payroll number.
    e. Date of birth.
    f. Last job information including job description.
    g. Salary details.
    h. Date and reason for leaving.

2. To determine, following an application from the former employee to have their deferred benefits paid early, whether or not they are eligible for early payment on ill health grounds in line with the criteria set in the relevant (NB these depend on date of leaving) regulations and after seeking suitable medical opinion from an IRMP.
3. To determine whether any actuarial reduction can be waived on compassionate grounds in accordance with the employers **Policy Statement on discretions**.

Death in service - employer responsibilities:

1. To inform us immediately of an employee who has died – this can initially by telephone or email to enable us to calculate or cease benefits.
2. Any notification of death in service should be followed with the receipt of a completed **Leavers Form**.

Death of pensioner / deferred member - employer responsibilities:

1. Although employers have no responsibilities on the death of these members, it would be helpful if they could help when a dependent contacts them by advising the dependent to contact us.

Additional voluntary contributions (AVCs), Additional Pension Contributions (APCs) and shared cost APCs (SCAPCs) - employer responsibilities:

1. To communicate to employees the option of SCAPCs to cover periods of 'lost pensions' and the timeframe they must elect to purchase a SCAPC. Important note: Members must elect to make APCs within 30 days of returning to work following the absence, but employers have the discretion to extend this period. This should be laid out in the employer's Policy Statement on discretions.

Adjudication of disagreements – employer responsibilities

1. Under regulation 72 of the **LGPS 2013 Regulations**, any decisions made by an employer affecting an employee's rights to membership, or entitlement to benefits must be made as soon as is reasonably practicable and notified to the employee in writing including a reference to their right to appeal in line with regulation 73 of the LGPS regulations.
2. An employer must notify us of a decision made under Regulation 72. Every notification must:

- Specify the rights under Stage 1 and Stage 2 of the appeals procedure quoting the appropriate regulations.
- Specify the time limits within the appeal, under either stage, which apply.
- Specify to whom an application for appeal must be made to. For first stage appeals this must be the nominated person of the employer who made the decision. For second stage appeals this will be the appointed person at the Administering Authority.

3. Employers must notify us of any first stage appeals they receive.
4. Each employer is required to nominate and name the person to whom applications under stage 1 of the Appeals Procedure should be made.

3. Further Information

We administer the LGPS and manage £3,000 million of worldwide assets on behalf of about 200 employers and 63,000 members.

As at the 31 March 2019 actuarial valuation we were 90% funded.

We have a budget of £1.3m for pensions administration and have 24 staff in our pension administration department. We work with the following:

- AEW
- Barclays
- BNY Mellon
- Bridgepoint
- BSIF Housing and Infrastructure
- EQT
- First Sentier
- Grant Thornton UK LLP
- Hermes Investment Management
- Invesco Real Estate
- Legal & General Investment Management
- LGPS Central Limited
- Mercer
- MJ Hudson Allenbridge
- Nomura Asset Management UK Ltd
- River & Mercantile
- Scottish Widows
- Stonepeak Infrastructure partners
- UK Green Investment Bank
- Venn Partners
- Walton Street Capital, LLC

This Pension Administration Strategy has been prepared in accordance with LGPS regulations, see (reg 59): **http://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php**

Audit

We are subject to audit of our processes and internal controls. Employers are expected to fully comply with any requests for information from both internal and approved external auditors. Any subsequent recommendations will be considered and where appropriate implemented with employer cooperation.

Benchmarking

We will regularly monitor our costs and service performance by benchmarking with other administering authorities. Details of the costs of administration, quality measures and standards of performance will be

published in our **Annual Report and Financial Statements**.

Data Protection Act 2018

We are a Data Controller as part of the Data Protection Act 2018 which incorporates the General Data Protection Regulation (GDPR). This means we store, hold and manage personal data in line with statutory requirements to enable us to provide pension administration services. To enable us to carry out our statutory duty, we are required to share information with certain bodies, but will only do so in limited circumstances. More information about how we hold data and who we share it with can be found in our Privacy Notice at **www.worcestershirepensionfund.org.uk**.

Secure Data Transfer

We will follow Worcestershire County Council's (the Fund's Administering Authority) data security guidelines when sending any personal data, including its published data sharing policy. This means that member's personal data will only be transferred from one party to the other via an acceptable method specified by the Administering Authority which may include any of the following:

- Secure email.
- Paper forms signed by an authorising officer from the employer.
- Password protected Excel spreadsheets.
- Password protected portal.

FOR OFFICE USE ONLY:

Worcestershire Pension Fund Pension Administration Strategy
Version: draft following the second annual review for approval
Author: Chris Frohlich, Engagement Manager
Dated: April 2021
Signed Off: Pensions Committee 16/03/2021

Policy Statement on Communications

1. Introduction

We aim to produce clear communications in a plain English style that provide everyone with any interest in the Fund with ready access to all the information they need to make informed decisions.

We may make our communications available in languages other than English or in Braille or in other formats upon request to suit those with special needs.

We can be contacted in person, by letter, by phone or by email.

We aim to respond to all requests in a timely manner and by meeting the enquirer's information objectives.

We will collaborate with other Funds throughout the year to produce communications that benefit from shared expertise and cost saving.

We aim to continually develop our communications / the resource we devote to engagement.

Our flagship communications offering is our website at:
www.worcestershirepensionfund.org.uk

We aim to maintain a compliant website that provides stakeholders with a first port of call for all of their pension information needs, so that they can make informed decisions. NB we are not able to provide financial advice.

We aim to invest in digitisation to maximise self-service for our members and employers.

2. Communicating with employers

We will engage with our prospective and actual employers to:

- Explain our requirements of them.
- Define their information needs and expectations of us.
- Identify and deliver their training needs.

We will maintain an up to date **Pension Administration Strategy**.

We will maintain an **Employers area** on our website to provide regularly updated guidance / forms including monthly employer newsletters.

We will deliver a bi-annual employer forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters.

Of the 5 members of our **Pension Board** chaired by Cllr Roger Phillips there are 2 employer representatives who scrutinise all **Pensions Committee** decisions and can take items for discussion to our Pensions Committee on behalf of employer.

The Pensions Committee of 8 chaired by Paul Middlebrough has 2 employer representatives.

3. Communicating with members

We will make available a range of publications / forms for prospective and actual scheme members including a **Guide to the LGPS**.

We will provide an annual benefit statement to our employee members and our deferred members by 31 August.

We will provide an **annual newsletter to our employee members** and an **annual newsletter to our deferred members**.

We will provide an **annual newsletter**, an annual payslip and a P60 to our pensioner members. We will also provide them with a pension payslip when there is a change of more than £1 per month net of tax in their pension.

Of the 8 members of our **Pension Board** there are 3 member / trade union representatives who scrutinise all **Pensions Committee** decisions and can take items for discussion to our Pensions Committee on behalf of members.

The Pensions Committee of 8 has 1 member / trade union representative.

4. Communications with other stakeholders

Our **Annual Report and Financial Statements** are available from our website.

Our website will also provide up to date information about our governance, funding, investments, finances and operations.

We will deliver appropriate communications to comply with and apply all relevant legislation / guidance (for example from The Pensions Regulator, The Local Government Association, Her Majesty's Revenue & Customs, The Local Government Pension Scheme Advisory Board, etc.).

We will deliver a training programme for members of our Pensions Committee and Pension Board.

FOR OFFICE USE ONLY:

Worcestershire Pension Fund Policy Statement on Communications
Version: draft following the second annual review for approval
Author: Chris Frohlich, Engagement Manager
Dated: April 2021
Signed Off: Pensions Committee 16/03/2021

Worcestershire Pension Fund

Appendix C

Investment Strategy Statement 2021

Find out more online:
www.worcestershirepensionfund.org.uk

Contents

1. Introduction

This is the Investment Strategy Statement (the 'Statement') of the Worcestershire Pension Fund (the Fund) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations"). In preparing this Statement, the Pensions Committee has consulted with such persons as it considered appropriate.

Fund Governance

Worcestershire County Council is the administering authority for the Fund under the regulations. Worcestershire County Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's assets and comprises of elected members and one employee representative and two employer representatives. In addition, the Fund has a Pension Board whose role is to assist with good governance by ensuring compliance with statutory and regulatory duty. Finally, the Pension Investment Sub Committee advises the Pensions Committee on investment issues relating to the Fund. The Pension Board has no decision-making powers whereas the Pension Investment Sub Committee does.

The Fund's Strategic asset allocation benchmarks and ranges are shown in Appendix A.

The Statement is subject to review at least annually and from time to time on any material changes to any aspects of the Fund, its liabilities, finances, and its attitude to risk which is judged to have a bearing on the stated investment policy. In preparing this statement, the Committee has considered advice from the Funds independent investment adviser.

The responsibilities of relevant parties are set out in the **Governance Policy Statement**.

The Funds List of Advisers are set out at Appendix B

The Fund's Statement of Investment Beliefs are set out in Appendix C.

The following are publicly available on the Fund's website:

- Funding Strategy Statement
- Governance Policy
- Policy Statement on Communications

2. The Fund's Objectives

The primary objectives of the Fund are to:

a. Ensure that sufficient assets are available to meet liabilities as they fall due.

b. Maximise returns at an acceptable level of risk.

The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit. The full funding projection is achieved over a 15-year time frame.

In addition, the Fund has the following objectives:

- To be a leading performer in the LGPS sector
- To provide excellent customer service

Funding Strategy Statement

The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The FSS can be viewed on the website.

All Local Government Pension Scheme (LGPS) funds must produce, consult on, and publish a document called a "Funding Strategy Statement" (FSS). The purpose of the FSS is:

a. To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward.

b. to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and

c. to take a prudent longer-term view of funding those liabilities.

However, there will be conflicting objectives which need to be balanced and reconciled. For example, for most employer's objective a) implies low contribution rates, because they would see pension liabilities being "best met" by gaining as much help as possible from the investment strategy over the long term, which would lead you towards an equity-biased investment strategy. By contrast, objectives b) and c) imply stability and prudence of employer contribution rates, which would lead you towards a bond biased investment strategy.

Therefore, the best that can be achieved is a sensible balance between these different objectives.

3. Risk

The risk tolerance of the Fund is determined through working with the Pensions Committee, investment managers, officers, and independent advisers to set investment beliefs, funding, and investment objectives. This is incorporated into the Strategic Investment Allocation Benchmark (SIAB), benchmarks and ranges. Risk is monitored by the Pensions Committee using a risk register and risk management tools as advised by the Fund's fund managers, investment advisers and the actuary.

The Fund is exposed to Investment, operational, governance and funding risks. These risks are identified, measured, monitored, and then managed. This is carried out using risk registers with section responsibility and oversight from the Chief Financial Officer.

The principal risks affecting the Fund are as follows:

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

a. **The risk of deterioration in the funding level of the Fund**. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark assisted by the Fund's investment advisor. The strategic asset allocation benchmark seeks to achieve the appropriate balance between generating the required long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

b. **The risk of changing demographics** such as improvement in longevity and other demographic factors, increasing the cost of benefits.

The Fund monitors this by reviewing mortality and other demographic experience and assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

c. **Systemic risk**, i.e., the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund mitigates systemic risk through having a diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles.

d. **Inflation risk** The Fund mitigates inflation risk through holding a portfolio of growth and inflation linked assets. Inflation risk is considered at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

e. **Future Investment Returns (Discount rate) risk** The Fund's funding and investment strategies are inter-linked and discount rate risk is mitigated by reviewing them at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

f. **Currency risk that the currency of the Fund's SIAB underperforms relative to sterling (the currency of the liabilities)**. The currency risk of the benchmark is considered at least triennially in the setting of the SIAB. Recommended changes will be expressed through changes in the benchmark and implemented by the investment managers.

Asset Risks (the portfolio versus the SIAB)

a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

b) Illiquidity risk i.e., that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

c) Currency risk i.e., that the currency of the Fund's assets underperforms relative to the SIAB.

d) Manager underperformance, i.e. when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

e) Responsible Investment (RI) risks, i.e. including climate-related risks, that are not given due consideration by the Fund or its investment managers.

The Fund manages these asset risks by: -

- Constraining how far Fund investments deviate significantly from the SIAB by setting diversification guidelines and the SIAB strategic ranges.
- Investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
- Investing across a range of liquid assets, including quoted equities and bonds; the Fund has recognised the need for some access to liquidity in the short term.
- Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process.
- Appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.
- Actively addressing environmental, social and governance (ESG) risks through implementation of its Responsible Investment (RI) beliefs.

The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, the Pensions Committee is comfortable taking this risk in general but may act to mitigate potentially significant risks as and when they are identified.

The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme Regulations.

Operational Risk

a. Transition risk of incurring unexpected costs in relation to the transition of assets amongst managers.

When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers to mitigate this risk when it is cost effective to do so.

b. Risk of a serious operational failure by asset managers and/or LGPSC

These risks are managed by having robust governance arrangements with LGPSC and by quarterly monitoring with asset managers

c. Custody risk of losing economic rights to Fund assets, when held in custody or when being traded.

These risks are managed by:

- The use of a global custodians for the custody of assets.
- The use of formal contractual arrangements for all investments.

When the Fund's investments are pooled in LGPSC, the asset servicer contract includes depositary protection over investment vehicles.

d. Risk of unanticipated events such as a Pandemic on normal operations

These risks are managed by back up arrangements for computer operations, including the ability to work remotely.

e. Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:

- Maintaining a comprehensive risk register with regular reviews.
- In-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny/oversight and reporting of KPIs of its service providers and audit of the operations they conduct for the Fund.

f. Cashflow management risks)

The Fund is becoming more mature and although its cashflow has been positive after taking investment income, the table below shows that net cashflow in 2021/22 will reduce mainly due to the impact of several employers who paid their contributions 3 years in advance in 2020/21. Therefore, managing cashflow will become an increasingly important consideration in setting the investment strategy. Mitigating actions are already being taken to manage the cashflow shortfall by investing in assets that produce cashflows such as Property, Infrastructure and fixed income that can be used to meet these payments.

The table below sets out the cashflow position of the Fund over the last six fiscal years and is continually monitored.

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

4. Investment Strategy

Funding Policy

The objectives of the funding policy are expressed in its FSS. The Fund has a strong employer covenant, being funded largely by tax-raising local authorities. Therefore, the Committee can adopt a long-term view, without concern about the ability of its sponsors to meet their liabilities.

Given the on-going restructuring of public bodies the Fund is now maturing increasingly faster. Positive cashflow are declining (although investment income is available if the Fund does go Cashflow negative) and this position is being closely monitored. However, at this time it is not felt necessary to change the investment strategy of the Fund.

As the Fund has a deficit of assets against liabilities (91% funded at the 2019 Triennial Valuation), the Committee wishes to achieve the maximum assistance from investments in reducing this shortfall. This would suggest a higher risk strategy to generate returns, but this is moderated by the realisation that such a strategy can also lose significant amounts of money in the short-medium term.

It is the Fund's employers who would feel the result of unstable employer rates, and for the precepting authorities, ultimately the local taxpayer either through Council Tax or through service levels. Therefore, another very important consideration is the need for relative stability of investment returns, given that employee rates are fixed by statute and the tools available in the actuarial valuation process for smoothing of returns are limited. This can be achieved by investments that are inherently more stable, such as bonds. However, it is also aided by diversification (so that the ups and downs on particular investments do not arise together), and by seeking returns from both markets ("beta") and investment managers ("alpha") whose returns are skill based and relatively independent of the market.

Consequently, the Committee has set an overall investment goal that reflects these four factors.

Investment Strategies / Pots

In order that the Fund delivers on its key objectives (ensuring that each employer takes the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost), the Fund has introduced three distinct investment strategies (Growth, Medium and Cautious risk). These are detailed in Appendix A

Each investment strategy has its own strategic asset allocation benchmark. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating the required long-term returns, whilst taking account of market volatility, risk, and the nature of the Fund's liabilities.

The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. The Fund undertakes a fundamental review of the strategic asset allocation every three years following actuarial valuations. The Fund also monitors compliance with this statement at least quarterly and monitors progress towards the long-term funding objective for relevant groups of employers on a regular basis.

In addition to the fundamental review of the strategic asset allocation undertaken every three years, the Fund monitors the progress of employers within the Growth and Medium Strategies on a regular basis. This gives the Fund the opportunity to adjust the strategic asset allocation in the event that a group of employers are ahead or behind their funding plan.

This is an important mechanism used by the Fund to ensure that each employer continues to take the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost. The progress of employers in Cautious Risk Strategy will be monitored every year as these employers are already invested in their "target funding plan".

A full explanation of the process undertaken to assess employer funding progress is provided in the Fund's Investment Risk Management: All about Worcestershire Pension Fund's (the Fund's) Investment Pots which is published on the website

Investment Goal

The Fund's investment objective is to achieve a relatively stable "real" 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 into the Fund by employer bodies in respect of both past and future service liabilities.

Process for ensuring suitability of investments

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund (see Appendix A) considering both the liability structure and the objectives set out above. The Fund's benchmarks are consistent with the Pensions Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The Investment beliefs in appendix C also assist in formulating the investment strategy.

The Pensions Committee monitors investment strategy relative to the agreed asset allocation benchmarks and strategic ranges. If ranges are breached, then appropriate action is taken by the Chief Financial Officer. In addition to ongoing monitoring the investment strategy is formally reviewed annually by Pensions Committee. Furthermore, specific consideration is given to the investment strategy in the light of information arising from each triennial actuarial valuation. The Pension Investment Sub Committee monitors the asset allocation on a quarterly basis.

5. Diversification

The Fund is diversified across multiple asset classes with different risk return expectations and correlations to deliver the targeted return of the Fund. Appendix A shows the Strategic Investment Allocation Benchmark (SIAB) and strategic ranges.

6. Day-to-Day Management of the Assets

Investment management structure

The Pensions Committee retains responsibility for the investment strategy of the Fund but has delegated oversight of its implementation to the Chief Financial Officer. The day to day management of the Funds' investments is delegated to the Fund's external investment managers.

External Investment Managers

The Fund has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The investment managers are required to comply with LGPS investment regulations.

Suitable Investments

Subject to the LGPS regulations on allowable investments the Fund may invest in a wide range of assets and strategies including quoted equity, Government and Non-Government bonds, money markets, traded options, financial futures and derivatives, alternative strategies including infrastructure and property pooled funds. The Fund uses external managers to carry out stock lending ensuring suitable controls/risk parameters are put in place to prevent losses. Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it will not be held.

When new asset classes are considered and are not listed above then approval will be sought from the Pensions Committee after receiving advice on its suitability and diversification benefits.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation benchmarks for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

Expected Return on the Investments

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation (the discount rate). The individual mandates are expected to match or exceed the specific targets set for each portfolio over time.

Investment Restrictions

The investment management arrangements prohibit the holding of investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Operating within the investment regulations, the Fund determines investments that are acceptable and approved as such by the Pensions Committee.

Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Scottish Widows and Utmost Life.

The Fund monitors, from time to time, the suitability and performance of these vehicles.

Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's liquidity characteristics are monitored on a regular basis and the majority of the Fund's investments may be realised quickly if required. A number of the Fund's alternative investments in pooled infrastructure and property funds, may be difficult to realise quickly in certain circumstances. The Fund will ensure that the liquidity of the investments is suitable to meet future cash flow requirements.

Monitoring the Performance of Fund Investments

The performance of the external investments is independently measured. In addition, officers of the Fund meet external investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance. The Pensions Committee meets at least quarterly to review markets, asset classes and funds.

7. Day-to-Day Custody of the Assets

The Fund has appointed a global custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

8. Stock Lending

Stock lending is undertaken in respect of the Fund's quoted equities holdings through the custodian / asset servicer. There is a formal stock lending agreement and approved collateral. Stock lending may also take place in pooled investment vehicles held by the Fund.

For the assets managed by LGPSC on the Funds behalf, LGPSC has an active securities lending programme. To ensure that LGPSC can vote its shares at important meetings, it has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. LGPSC monitors the meetings and proportion of the securities on loan, and will restrict and/ or recall lent stock in select circumstances, with due consideration to the advantages of voting the shares versus the cost implications of recalling or restricting the loan of the stock

9. Approach to Pooling

The Fund has joined the LGPSC Limited pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to more uncorrelated asset classes. Becoming an FCA registered investment manager will lead to improved governance, transparency and reporting giving the Fund assurance that its investments are being carried out effectively.

LGPSC has been set up as an arms-length company, accredited by the Financial Conduct Authority, to manage the pooled investment assets of eight LGPS funds across the centre of England. The Fund is one of the eight partner funds, all of whom hold equal shares in the company. LGPSC started trading on 3rd April 2018 and all partner funds are starting to migrate assets to LGPSC.

The Fund is participating in the pool with the belief that the Fund will benefit from lower investments costs achieved through the aggregation of assets. In addition, the Fund will have greater access to a broader range of investable asset classes, including new and innovative products and services. LGPSC and the partner funds have put in place a robust governance framework to ensure the company operates effectively and delivers timely and transparent reporting to shareholders and client funds.

The Fund will retain full responsibility and control over its strategic investment allocation policy with LGPSC being responsible for implementing the strategy via the engagement and dismissal of managers and the day to day monitoring of manager investment performance. Subject to satisfactory due diligence and value for money considerations being satisfied, the Fund intends to continue to invest its assets with LGPSC. Investment strategy will be determined by the Fund with advice from fund managers, operators, and the independent investment adviser.

10. Responsible Investment (RI) and Stewardship

What do we mean?

Responsible investment is an approach to investment that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns. It has relevance both during the selection of an investment and after an investment decision has been made, through on-going stewardship activity which covers considered voting and engagement with investee companies.

Responsible investment is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach to selecting investments on the basis of ethical beliefs (beliefs about what is morally right and wrong).

Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term. The Fund's investment team seeks to understand relevant ESG factors alongside conventional financial considerations within the investment process, and the Fund's external investment managers are expected to do the same. Non-financial factors may be considered to the extent that they are not detrimental to the investment return

ESG factors include:

Environmental

- Climate risk
- Carbon emissions
- Energy usage
- Raw material sourcing
- Supply chain management
- Waste & recycling
- Water management

Social

- Community relations
- Employee relations
- Health & safety
- Human rights
- Product responsibility
- Workforce diversity

Governance

- Board structure
- Executive remuneration
- Bribery and corruption
- CEO/Chair duality
- Shareholder rights
- Vision & business strategy
- Voting procedures

Stewardship

We define the concept of stewardship in the same way as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code which was updated in 2020:

"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"

Responsible Investment and LGPSC

From 1 April 2018 the implementation of parts of the Fund's investment strategy has been undertaken by LGPSC, an investment management company set up by 8 Local Authorities (including Worcestershire County Council) in line with the latest scheme regulations. The Fund will seek to ensure that LGPSC is set up to deliver the objectives of its RI policy alongside that of the other funds involved.

LGPSC Limited has developed a Responsible Investment & Engagement Framework (LGPSC Framework) incorporating the investment beliefs and responsible investment beliefs of the eight funds within the LGPSC Limited pool which will be applied to both internally and externally managed investment mandates. The Fund's investment beliefs can be found in Appendix C.

In collaboration with the eight partner funds, LGPSC has identified four themes that will be given particular attention in its ongoing stewardship efforts. The four themes, which will be reviewed after three years, are: climate change; single-use plastics; fair tax payment and tax transparency; and technology and disruptive industries. The partner funds and LGPSC believe that identifying core themes helps direct engagement and sends a clear signal to companies of the areas that the partner funds and LGPSC are likely to be concerned with during engagement meetings. The Fund will monitor closely the effectiveness of LGPSC and their work in this area to support the Fund in its ongoing requirements.

LGPSC also supports the Fund through the annual preparation of a Climate Risk Report which supports the Fund in the preparation of the Fund's Climate-related Financial Disclosure Report prepared in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

It is expected that the Fund's ability to invest in a responsible way will be enhanced through LGPSC due to the inherent benefits of scale, collectivism and innovation that will result from being part of the pool. In order to broaden its stewardship activities, LGPSC appointed EOS at Federated Hermes as its stewardship provider, with the remit of engaging companies on ESG issues, and executing the LGPSC Voting Principles which are also the principles agreed by the Fund (see **shareholder voting** below).

RI Beliefs and Guiding Principles (See Appendix C)

The Fund's RI Beliefs (see Appendix C) underpin its RI approach. Taking these beliefs as foundational, the Fund has adopted two RI aims: (1) primarily, to support the Fund's investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry and raise standards across the marketplace.

The Fund intends to realise these aims through actions taken both before the investment decision (which we refer to as the **Selection** of investments) and after the investment decision (the **Stewardship** of investments). Actions will be taken with reference to an evidence base, using the best available objective data sets. We aim to be **Transparent** to all stakeholders and accountable to our clients through regular **Disclosure** of RI activities, using best practice frameworks where appropriate. These ambitions yield the Fund's three RI pillars: Selection, Stewardship and Transparency & Disclosure.

Climate Change

The Committee recognises that financial markets will be impacted by climate change and by the response of climate change policy makers. Risks and opportunities related to climate change are likely to be experienced across the whole of the Fund's portfolio. The current understanding of the potential risks posed by climate change, together with the development of climate-related measurements and disclosures, are still at an early stage, and there is considerable variability in the quality and comparability of carbon emission estimates. It is recognised that it will take time for companies to adapt to the changing regulatory and market positions.

Reflecting the potential material effect of climate change, and the global response to climate change on the assets and liabilities of the Fund, a separate Climate Risk Strategy has been developed, a copy of which can be found on the Fund's website

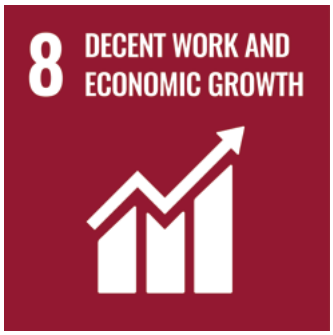
Selection

The Fund believes that effective management of financially material RI risks should support the Fund's requirement to protect returns over the long term. Investment managers will seek to incorporate RI into their investment process. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them. The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund believes that Sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term.' The Fund believes that this can be achieved by focussing on the specific United Nations Sustainable Development Goals (SDGs) that the Fund wants to target from an investment perspective. The SDGs are a global footprint for achieving a more sustainable future for everyone. Developed by the United Nations they recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth. For further information see: **THE 17 GOALS | Sustainable Development (un.org)**. The targeted SDGs are as follows:-

Economic Goals



Climate Goals

Health Goal

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

- The Fund will set longer-term performance objectives for its investment managers.
- The Fund will seek to ensure that its long-term interests are aligned with that of its investment managers on all issues including on ESG considerations.
- Policies relating to ESG will be considered as part of the Fund's long-term investment planning process, following a thorough and robust investment appraisal.

We will use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of RI principles across our investment strategy to make better more informed investment decisions and encourage / influence better corporate practices that lead to value creation and good risk management and:

- The Fund will consider the potential financial impact of ESG related issues on an ongoing basis (e.g. climate change or executive remuneration).
- The Fund will consider the potential financial impact of investment opportunities that arise from ESG related factors (e.g. investment in renewable energies or housing infrastructure).
- The Fund will consider investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e. renewable energy and social impact investments
- The fund will consider investment opportunities that have positive impacts against the targeted SDGs agreed by the Fund

Stewardship

Company Engagement and Engagement through Partnership

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. The Fund adopts a policy of risk monitoring and engagement with companies on financially material RI issues, in order 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.

As part of the external Fund manager monitoring the Fund will request a report on the portfolio's alignment to the Funds targeted Sustainable Development Goals (SDGs) detailed above in the 'Selection' part above and Carbon Risk metrics on an annual basis.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. To this end, the Fund uses its membership of the Local Authority Pension Fund Forum (LAPFF) and being a partner to the LGPSC pool to assist it in pursing engagement activities.

The Fund will engage investee companies on issues, including ESG issues that are material to long term value creation and robust risk management in order to safeguard and grow the Fund

- The Fund is committed to compliance with the UK Stewardship Code and working within the spirit of the Principles of Responsible Investment ("PRI").
- We will hold our investment managers to account to ensure compliance with this policy
- The Fund is committed to collective engagement through its membership of the Local Authority Pension Fund Forum (LAPFF), the LGPSC pool and other opportunities that arise from time to time.
- The Fund will exercise its voting rights in all markets where practicable

It should be noted that although disinvestment is not currently the Fund's policy, it could be considered in the future if a particular manager or company was not making any attempt to comply with our Fund's stated policies.

Shareholder Voting

On the 21st June 2019 the Pensions Committee agreed that LGPSC would via EOS vote shares in certain discretionary and pooled funds on the Fund's behalf. These votes will be executed in line with LGPSC's published **Voting Principles**. The Fund believes that the advantage of a consistent signal and working collectively through the pool will have a positive influence on company behaviour.

Shares held in passively managed portfolios will be voted according to the voting policies of the Fund's appointed fund manager, Legal & General Investment Management (LGIM). The Pensions Committee is satisfied that LGIM's approach to shareholder voting is sufficiently robust and aids in the delivery of the Fund's RI objectives.

Transparency & Disclosure

The Fund is committed to the UK Stewardship Code and has provided a statement of compliance which has been approved by the Financial Reporting Council (FRC): **Stewardship Compliance Statement**.

The 2020 version of the UK Stewardship Code was published in November 2019 and is "effective" from January 2020. The Fund intends to align its disclosure so as to achieve compliance with the 2020 version of the Stewardship Code.

LGPSC provides quarterly reporting for all funds managed by LGPSC detailing how votes have been cast in different markets and a vote by vote disclosure for full transparency. Engagement and voting disclosure is also done specifically for listed securities held across the Fund's portfolios

How Will We Monitor our Performance on Responsible Investment?

The Fund will ultimately be **transparent and accountable** in terms of its performance on Responsible Investment. This will be achieved through the following approach:

- The Fund will publish its Investment Strategy Statement and its Climate Risk Strategy on its website in line with the scheme regulations.
- Decisions relating to the setting of investment policy will be explained.
- The Fund will monitor closely its appointed investment managers whom the Fund rely on to implement its RI policy.
- The Fund will undertake an annual review of corporate governance, voting and engagement activity undertaken by the Fund and its underlying managers.
- The Fund will publish an annual summary of voting and engagement activity
- The Fund will ensure that its decision makers are properly trained and kept abreast of ESG issues to make informed decisions.
- The Fund will include ESG as standing item on Pension Investment Sub Committee (or equivalent) agendas (with a view to reporting on manager performance in relation to ESG investing and noting any hot topics / issues arising).
- The Fund will undertake a fundamental review of any specific ESG issues that are considered by the Pension Investment Sub Committee to be of potentially material financial impact.
- The Fund will consider and respond to feedback from stakeholders in relation to issues of concern.
- Reporting annually using the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)
- The Fund will request External Fund managers to report on their portfolio's alignment to the Funds targeted Sustainable Development Goals (SDGs) detailed above under 'Selection' and Carbon Risk metrics on an annual basis.

11. Compliance with This Statement

The Fund will monitor compliance with this statement. It will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement, so far as is reasonably practicable.

12. Compliance with Myners

Following from the Myners' report of 2000 into institutional investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations identifying investment principles to apply to pension schemes.

These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives with a focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

The Myners' principles have since been updated, and the Fund continues to support and comply with them. Details of compliance are set out in the Fund's Governance Compliance Statement within the Fund's Annual Report, which can be found on the Fund's website.

List of Appendices

Appendix A – Strategic Allocation Investment Benchmark (SIAB) and Ranges.

Appendix B – List of Advisers

Appendix C – Statement of Investment Beliefs

Appendix A – Strategic Allocation Investment Benchmark and Ranges

	Growth	Medium	Cautious	
Asset Allocation	**%**	**%**	**%**	**Manager, Method & Performance Target**
Actively Managed Equities				
Far East Developed	10.0	5.0	0.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	5.0	0.0	LGPSC active global emerging markets equity mandates with BMO, UBS and Vontobel - FTSE - Emerging Market Index +2.0%
Passively Managed Equities - Market Capitalisation Indices				
United Kingdom	20.5	15.5	0.0	Legal & General Investment Management - FTSE All Share Index
North America	8.0	5.5	0.0	Legal & General Investment Management - FTSE All World North America - Developed Series Index
Europe ex - UK	6.5	4.0	0.0	Legal & General Investment Management - FTSE All World Europe ex UK Index - Developed Series Index
Passively Managed Equities – Alternative Indices				
Global	15.0	5.0	0.0	Legal & General Investment Management: • 20% GPAE - FTSE-RAFI Dev. 1000 Equity Fund • 40% GPBK - MSCI World Mini Volatility Index • 40% STAJ - CSUF - STAJ MF36726/36727
Fixed Income				
Fixed Income	10.0	40.0	80.0	• LGPSC Global Active Investment Grade Corporate Bond (Fidelity & Neuberger Berman) - Fund 50% GBP IG Corporate (Ex EM Issues) / 50 % Global IG Corporate ((ex IG Corporate & EM Issues) hedged to GBP +0.80% • EQT Corporate Private Debt
Actively Managed Alternative Assets				
Property & Infrastructure	20.0	20.0	20.0	Through a mix of Green Investment Bank, Invesco, Hermes, Walton Street and Venn Partners, Stonepeak, Firststate, AEW etc
TOTAL	**100.0**	**100.0**	**100.0**	

Tolerance Ranges

Asset Type	Growth	Medium & Cautious	Role (s) within the Strategy
Equities	+/- 5%	+/-2.5%	Deliver long term growth above inflation and generate investment income i.e. dividends.
Growth Fixed Income	+/- 5%	+/-2.5%	Provide protection from changes in real yields both in terms of capital value and income
Property	+/- 5%	+/-2.5%	Diversification; generate investment income; provide some inflation-sensitive exposure; illiquidity premium
Infrastructure			Provides the Fund with access to a diversified (but long term, illiquid) return and a stream of inflation related income
Index Linked Gilts	+/- 5%	+/-2.5%	Provide protection from changes in real yields both in terms of capital value and income
Diversified Growth / Multi Asset	+/- 5%	+/-2.5%	Diversification and dynamic asset allocation

Appendix B - Advisers as at March 2021

MJ Hudson – Philip Hebson

Investment policy, general investment matters.

Mercer

Actuarial matters

Local Authority Pension Fund Forum (LAPFF)

Company governance issues.

BNY Mellon

Custodian, Stock lending.

Appendix C - Statement of Investment Beliefs

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

Financial Market Beliefs

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for skilled active managers.
- In making investments in illiquid assets, a return premium should be sought.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.
- The Fund believes that investing for the long term can add value, as it allows the fund manager to focus on long term value and use short term volatility to establish favourable investments.
- Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it should not be held.

Investment Strategy/Process Beliefs

Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.

Risk should be viewed both qualitatively and quantitatively. Focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Listed equities are expected to generate superior long-term returns relative to Government bonds and our beliefs in this listed equities are expanded below: _.

a. Passively managed market cap-based investment has a balancing role to play in most pension schemes' equity allocations, bringing liquidity, transparency and reducing average fee levels.

b. Market cap weighted indices have their drawbacks; adding carefully selected systematic, factor tilted equity strategies can improve risk-adjusted returns, benefiting from disciplined rebalancing (the "rebalancing premium").

   i. Exposure to "valuation factors" can improve risk adjusted returns over time. Even if outweighed by technical factors in the short-term, diversified exposure to valuation-based factor tilts can add excess return per unit of risk over a reasonable timeframe.

   ii. Exposure to the "low volatility factor" can reduce absolute equity volatility and improve risk-adjusted returns. Strategies can be implemented which manage downside risk while achieving market returns over time.

iii. Exposure to the "small size factor" can improve risk-adjusted returns. A diversified tilt towards medium and smaller sized businesses is generally rewarded over time.

iv. Carefully selected exposure to actively managed growth strategies can improve the balance of overall equity exposure and improve risk adjusted returns.

c. Exposure to emerging markets provides diversification and the opportunity for higher returns due to the higher risk premium typically earned for investing in these markets.

d. With sufficient research and governance, active equity management can be incorporated to add value relative to market cap weighted indices; overall active equity exposure should be focused predominantly on stock-specific risk.

e. Currency exposure associated with investing in equities can add volatility. Whilst it can be desirable to retain exposure to some currencies, hedging a proportion of non-domestic currency exposure can reduce the volatility of equity investing.

- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time, but it is not guaranteed and can be hard to access managers who consistently out-perform the relevant benchmark. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty, conflicts of interest and reputational risk need assessment and management, in addition to investment risk.
- Concentrated portfolios (smaller numbers of holdings or less external managers) allow for greater investment focus, lower investment costs, and enable more focused engagement with responsible investment.
- Managing fees and costs matter especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

Organisational Beliefs

- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- When outperformance of a desired benchmark is not possible the fund will use index funds, financial instruments, or proxies (investments that share similar characteristics) to gain exposure to the asset class in the most cost-effective way.
- Investment costs are necessary to generate outperformance in asset classes where outperformance is achievable. Investment costs are a certain cost that should be fully transparent and managed by the operator in the best interests of the Fund.

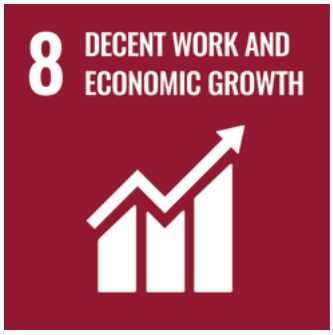
Responsible Investment Beliefs

- **Long termism:**

  A long-term approach to investment will deliver better returns and the long-term nature of the Fund's liabilities allows for a long-term investment horizon.

  The Fund believes that Sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term.' The Fund believes that this can be achieved by focussing on the specific United Nations Sustainable Development Goals (SDGs) as follows:-

  Economic Goals



  Climate Goals

  Health Goal

- **Responsible investment:**

  Responsible investment is supportive of risk adjusted returns over the long term, across all asset classes. Responsible investment should be integrated into the investment processes of the Fund and its investment managers.

- **Diversification, risk management and stewardship:**

  Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well diversified portfolios face systematic risk. Systematic risk can be mitigated over the long-term through widespread stewardship and industry participation.

- **Corporate governance and cognitive diversity:**

  Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision making, and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.

- **Fees and remuneration:**

  The management fees of investment managers and the remuneration policies of investee companies are of significance for the Fund, particularly in a low return environment. Fees and remuneration should be aligned with our long-term interests, and value for money is more important than the simple minimisation of costs.

- **Risk and opportunity:**

  Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with the Fund's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.

- **Climate change[1]:**

  Financial markets could be materially impacted by climate change and by the response of climate policymakers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of likeminded investors where feasible. See also the Fund's separate Climate Risk Strategy.

1 By highlighting climate change, rather than other RI risk factors, we are not asserting that climate risk has, for all assets, greater economic significance than other factors. Our motivation for referring specifically to climate change risk derives from our recognition that it is a risk factor of particular importance to several stakeholders, and we have communicated our investment beliefs about climate change for reasons of transparency.

Contacts and Further Information

For more information about the
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by phone: Find out who to contact

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Find out more online:
www.worcestershire.gov.uk/pensions

Worcestershire Pension Fund

worcestershire county council

worcestershire countycouncil

PENSIONS COMMITTEE
8 DECEMBER 2021

BUSINESS PLAN

Recommendation

1. The Chief Financial Officer recommends that the Worcestershire Pension Fund (WPF) Business Plan as at 1 November 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.
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 service improvements and good governance.

4. The appendix provides a one-page update on all the one-off (shown as shaded) and annually recurring (shown as unshaded) large pieces of work or projects that we are progressing to achieve our 14 supporting aspirations.

5. The Board's attention is drawn to the introduction of a management summary at the start of the Business Plan and the Good Governance updated position statement (Appendix 2 of the Business Plan) where benchmarking of Governance Compliance Statements and Policies on Representation has been completed.

6. As detailed in Section 5, in October 2021 and for the seven months to 31 October, we met our average target turnaround for all 12 of our key measured processes.

7. In October 2021 we had 46 deaths 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.

8. In 2021 / 2022 we have had 0 data breaches, 1 IDRP and 1 complaint (complaints generally do not escalate to IDRPs).

Supporting information

- Appendix - WPF Business Plan 1 November 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 01 11 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 are bringing forward proposals that are the subject of a separate paper 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).
2. We have not received any new IDRPs, 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 and members' attention is drawn to:
    a. Appendix 2 to this plan that provides a Good Governance updated position statement.
    b. Appendix 3 to this plan that provides a Good Governance update on reviewing the objectives for / performance of the Fund's independent investment adviser.
    c. The end of the Governance & Staffing KRA Commentary section of the plan that covers off the latest on training with no separate papers being tabled on training requirements or on training policy update.
6. We are not aware of any matters that we need to escalate.
7. As we have established that our pensions administration system supplier is not meeting the requirements of Cyber Essentials, we have asked for our security assessment form to be completed and for a list of their backlog of critical and high (not medium) risks awaiting remediation and their planned programme to resolve them to include when detected / when hoped to be resolved.

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 85 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 30 June 2021	**As at 30 Sep 2021**
Employers with active members	187	190
Employee member records	22,509	21,910
Pensioner member records	19,717	19,945
Deferred member records	22,456	22,575
Total member records	64,682	64,430

2.7 We manage a **£3,540m** (as at 30 09 2021) pension fund to pay benefits as they are due and as at 30 September 2021 our solvency (the minimum risk funding position is much lower) funding position was 103%.

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. Budget Report updates on the agendas of Pension Board and Pensions Committee meetings detail the

reasons for any variances.

The proposals 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, would increase the administration budget and are the subject of a separate paper.

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 audited statement of accounts for 2020 / 2021.

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 in the 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:
An extract of data on 5 October has revealed that the quality of our data has improved.

The percentage of member records passing ALL tests required by The Pensions Regulator was:

- Common data 95% (our 2020 score was 94.7%)
- Scheme-specific data 98.7% (our 2020 score was 93.6%)

The percentage (2020 previous year in brackets) of our member records without a single

‘common data’ failure was 92.4% (92.2%)

In the core list of TPR ‘common data’ tests our pass rates were: National Insurance Number 100% (100%); Name 100% (100%); Sex and Date of Birth 100% (100%); Date Commenced and Normal Retirement Date 99.9% (99.9%); Status 100% (100%); and Address 95.1% (94.8%).

The percentage of our member records without a single ‘scheme-specific data’ failure was 91.2% (86.3%).

In the core list of TPR ‘scheme-specific data’ tests our pass rates were: Member Benefits 99.9% (99.9%); Member Details 99.9% (99.9%); CARE benefits 98.0% (94.0%); HMRC 100% (99.9%); and Contracted Out 98.5% (90.8%).

We will be developing a data correction plan to resolve the issues identified. Specifically, we have started to look into how best to trace members for whom we have no address (“gone-aways”) and which categories of gone-away to prioritise.

As we are experiencing problems with Liberata delivering data timely, we have escalated their performance with WCC HR OD & Engagement who manage the relationship.

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

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

FRS:
We have delivered pensions information for the accounts of employers with 31 July and 31 August year ends.

KPIs:
As detailed in Section 5, in October 2021 and for the seven months to 31 October, we met our average target turnaround for all 12 of our key measured processes.

We had 46 deaths in October 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 5 cases (£194.27 / £1,452.63 / £237.44 / £103.77 and £249.78).

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:
The **Public Service Pensions and Judicial Offices Bill** received its second reading on 7 September and now moves to committee stage from 11 October where it is expected that government amendments will provide more detail on the application of the McCloud remedy to the LGPS.

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.

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 sorted our two male civil partners and are awaiting regulatory guidance on our opposite-sex widowers.

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 are on schedule to deliver a 2021 newsletter to our pensioners in early November. Their 2022 pension increase will be based on 3.1%, the September 2021 CPI figure.

We delivered a Q and A employer forum via Microsoft Teams on 19 October.

We have arranged for a pensions taxation workshop to be delivered by Aon on 4 November and invited members earning £80,000+ or those who breached their annual allowance for 20 /21 to attend.

Our website's page views were 5,112 in Oct 21 (5,819 in Oct 20).

5 of our employers are on risk for ill health liability insurance.

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:

We have (see Appendix 2) updated our position statement on what we have been doing as a result of the SAB Good Governance project with progress on the actions that we have identified will likely be needed to demonstrate good governance.

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 are 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 appointed an internal candidate as a replacement for the grade 3 member of staff who left us on 24 August but are finding it difficult to recruit a replacement for the member of staff who received a promotion to the grade 3 post.

Our recruitment activities are we feel being inappropriately constrained by having to follow WCC policies re where we can advertise and re which agencies we can use. This is likely to impact on our ability to fill positions within any new structure in a market where other LGPS funds are advertising 100% WFH positions that do not require the jobholder to go to the LGPS fund and may even cause us to lose staff.

As we have established that our pensions administration system supplier is not meeting the requirements of Cyber Essentials, we have asked for our security assessment form to be completed and for a list of their backlog of critical and high (not medium) risks awaiting

remediation and their planned programme to resolve them to include when detected / when hoped to be resolved.

Training update:

We have issued a training needs analysis (TNA) to members of the Pensions Committee, Pension Investment Sub Committee and Pension Board.

As we need more time to analyse the returned TNAs; take account of CIPFA issuing its '2021 Knowledge and skills framework for LGPS committee members and LGPS officers' in developing a revised training policy; and review the future of Pension Board deep dives, this section of the plan summarises the latest on training, with no separate papers being tabled on training requirements or on training policy update for this Board / Committee cycle. We plan to table a separate paper on training as part of the March 2022 Board / Committee cycle.

We delivered a training session on investment in infrastructure / property / private debt on 21 September that 8 members attended.

The next training session (on being an LGPS employer) is scheduled for 2 December.

We delivered a deep dive to the Pension Board on stewardship on 14 October.

A responsible investment summit was provided by LGPSC on 13 October.

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 September 2021 was £3,540m and its funding level was 103% 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 7.2% compared to its benchmark of 6.8% over the 3 years to 30 09 2021.

Over the year to 30 09 2021 the Fund generated a return of 15.0% compared to its benchmark of 17.2%.

We continue to investigate making infrastructure, private debt, passive climate factor fund investments and sustainable active equity investments.

A letter has been sent to the DLUHC Minister confirming the SAB's agreement that no recommendations are being made to bring the LGPS's cost of 19.4% to the scheme's target cost of 19.5%.

The letter also included representations about the inclusion of McCloud remedy costs in the Board's cost management arrangement.

Reference was also made to the Board's intention to seek several scheme changes outside of the cost management arrangement on third tier ill-health retirement and the contribution rate for scheme members on low pay who do not benefit from tax relief on their contributions.

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 Sep 2021 v benchmark
Far East Developed	FTSE All World Asia Pacific Index + 1.5%	7.7% (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	3.2% (0.1% above benchmark)
North America	FTSE All World North America - Developed Series Index	15.1% (= benchmark)
Europe ex - UK	FTSE All World Europe ex UK Index - Developed Series Index	9.1% (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	9.4% (0.6% below benchmark)
Fixed Interest	Barclays Global Aggregate Corporate Bond Index – Hedged into GBP EQT Corporate Private Debt - Absolute Return 6.5%	Not available as only invested March 2020 Not available as only invested May 2018
Property / Infrastructure	Various absolute benchmarks for different fund managers	Property 2.1% (6.2% below benchmark) Infrastructure 7.4% (1.8% 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 Oct 2021	% Processed within KPI in Oct 2021	Av turnaround (working days) in Oct 2021	Target turnaround (working days)	2021/2022 average number processed per month
Joiners notification of date of joining	390	83	23	40	283
Process and pay refund	34	100	3	10	40
Calculate and notify deferred benefits	179	96	8	30	100
Letter notifying actual retirement benefits	42	100	2	15	46
Letter notifying amount of dependant's benefits	20	100	2	10	15
Letter acknowledging death of member	46	67	4	05	32
Letter detailing CETV for divorce	6	100	2	45	12
Letter notifying estimate of retirement benefits	109	100	3	15	131
Letter detailing transfer in quote	56	100	2	10	39
Process and pay lump sum retirement grant	80	100	9	23	86
Letter detailing transfer out quote	46	100	2	10	33
Letter detailing PSO	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	1983	78	25	40
Process and pay refund	286	98	4	10
Calculate and notify deferred benefits	701	92	8	30
Letter notifying actual retirement benefits	326	99	2	15
Letter notifying amount of dependant's benefits	107	96	3	10
Letter acknowledging death of member	230	77	3	05
Letter detailing CETV for divorce	87	100	2	45
Letter notifying estimate of retirement benefits	919	100	2	15
Letter detailing transfer in quote	274	100	2	10
Process and pay lump sum retirement grant	604	98	11	23
Letter detailing transfer out quote	231	96	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**.

The table below does not reflect the proposals to increase pensions administration resources.

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
£	£		£	£	£	
			Fund Investment			
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*
1,142,600	**1,100,426**	**-42,174**	INVESTMENT ADMINISTRATION COSTS	**1,225,700**	**1,179,500**	
			Scheme Administration			
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	
1,485,700	**1,543,000**	**57,300**	SCHEME ADMINISTRATION COSTS	**1,633,000**	**1,611,100**	
2,628,300	**2,643,426**	**15,126**	GRAND TOTAL (Excluding Investment Mgt Fees)	**2,858,700**	**2,790,600**	
12,330,700	**18,401,026**	**6,070,326**	GRAND TOTAL (Including Investment Mgt Fees)	**18,881,200**	**19,248,400**	

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	CEM Benchmarking Inc
Cert	Certificate
CIPFA	Chartered Institute of Public Finance & Accountancy
CMA	Competition and Markets Authority
Coll	Colleges
Config	Configuration
Conts	Contributions
Covs	Covenants
Cttee	Pensions Committee
DLUHC	Department for Levelling Up, Housing and Communities
EM	Emerging markets
Engage	Engagement
Er	Employer
Expend	Expenditure
FI	Fixed interest
FRS	Financial Reporting Standards
FSS	Funding Strategy Statement
GMP	Guaranteed Minimum Pension
Gov	Governance
Inc	Income
Inv	Investments, Funding & Actuarial
ISS	Investment Strategy Statement
KRA	Key result area
LGPS	Local Government Pension Scheme
LGPSC	LGPS Central Limited
Manag	Management
ONS	Office for National Statistics
Q	Query
Recti	Rectification
RI	Responsible investment
Rtn	Return
SAB	Scheme Advisory Board
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	The Pensions Regulator
TV	Transfer (of member benefits)
Y/End	Year end

Appendix 2 – Good Governance updated position statement

Appendix 3 – Good Governance update on reviewing the objectives for / performance of the Fund's independent investment adviser

~ ENDS ~

Operational Plan: Projects 1 Nov 2021 NOTES:	KRA	Aspiration	Lead	Started	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	Nov 22	Comments
11 LGPS Central budget	A/C	1	RW		Cttee		Cttee			Cttee			Cttee				Cttee		√ to date and scheduled
12 Annual Report & Accounts / associated docs (30 09 22)	A/C	2	RW		Cttee	Publish							Cttee		signed off	Publish	Cttee		accounts audited and presented to A&G Cttee
15 ONS Inc / Expend return	A/C	1	RW		¼ rtn			¼ rtn			¼ rtn			¼ rtn			¼ rtn		√ to date and scheduled
16/17 DLUHC SF3 LGPS Funds account (31 08 22)	A/C	1	RW												Annual				√2021 & non stat GAD request for transactional data scheduled
18 TPR Annual return /survey	A/C	1	NW			Annual				Survey								Annual	√ 2021 and 2022 scheduled
19 CEM investment benchmarking (31 07 22)	A/C	1	RW											Annual					√ 2021 re data from scheme year 19/20
14 CIPFA benchmarking (31 10 21)	Ad-min	6	NW		Annual		Cttee										Annual		discussing whether to stop participating given do SF3
2 GMP equalisation	Ad-min	7	SH	TBD															awaiting guidance NB non-club TVouts 1990 to 1997 in scope
4 Valuation / FSS / pots / admiss term etc policies	Ad-min	7	RW		Cttee		Cttee			Cttee			Cttee				Cttee		initial preps for 2022 valuation made
32 Reprocure pension admin system (30 04 2024)	Ad-min	4	NW	May-20															contract extended for 3 years from 30 April 2021
10 Pension Administration Strategy review (01 04 22)	Ad-min	10	CF						consult	Cttee	publish								√ 2021 and 2022 scheduled
13 Review data quality	Ad-min	4	NW		Aq Hey results		Mercer results										Aq Hey results		√ 2021 Heywood
25 Revalue CARE accounts (06 04 2022)	Ad-min	4	SH								System config.								√ 2021 and 2022 scheduled
26 Provide FRS info	Ad-min	7	AL				admit bods			Sch				Coll	Ac				√ to date and scheduled
3 Branding and digital strategy	Eng-age	5	CF	Oct-18															awaiting resource NB check out UPM with Dorset
20 Monitor employer covenants / pots / conts	Eng-age	10	RW		Cttee		Cttee	ask ers		Cttee	reset erconts		Cttee				Cttee		Pfaroe in place and Bond requirements being updated
21 Deferred annual benefit statements (31 08 22)	Eng-age	9	CF										Annual	Q manag					√ 2021 and 2022 scheduled
22 Employee annual benefit statements (31 08 22)	Eng-age	9	CF							Y/End					Annual	Q manag			√ 2021 and 2022 scheduled
23 Pensioner P60s (29 05 22)	Eng-age	3	SH									Annual	Q manag						√ 2021 and 2022 scheduled
24 Payslips reflecting pension increase (30 04 22)	Eng-age	3	SH								Annual								√ 2021 and 2022 scheduled
27 Pension Savings Statements (06 10 22)	Eng-age	3	NW		Annual												Annual		√2021 and 2022 scheduled
29 Pensioner newsletter / life cert (30 11 21)	Eng-age	9	CF			Annual												Annual	2021 on schedule
28 /30 Good Governance incl TPR	Gov Staff	11	RW	TBC	Cttee		Cttee	CMA comply		Cttee			Cttee				Cttee		updated policy statement and delivered training / deep dives
33 McCloud: data collection; er rates; and calcs	Ad-min	3	NW	Aug-20	Cttee		Cttee			Cttee			Cttee				Cttee		hour changes being progressed and plans being developed
5/6 Review of Asset Allocation / ISS (31 03 22)	Inv	14	RW		Cttee	Sub	Cttee			Cttee			Cttee Sub			Sub	Cttee	Sub	√ 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

Business Plan 01 November 2021 Appendix 2
Worcestershire Pension Fund Updated Position Statement: Good Governance 01 11 2021

This position statement has been prepared to summarise progress on 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). 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 #)
A. General		
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) plan to review before Dec Cttee
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 our annual reports The 16 March 2021 Pensions Committee approved our updated Governance Policy Statement	Benchmark our Governance Compliance Statement against Appendix 2 of the Phase 3 Report, (CF / 17 09 2021) ✓ and once it is issued against the Guidance and peer funds annually

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
		(CF / TBD) ✓ 2021: benchmarked against 2021 annual reports / latest versions on website
B. Conflicts of interest		
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) ✓ form drafted 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 / 11 11 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)
C. Representation		
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 via 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	The Pension Board's terms of reference are available via our website Our annual reports, our Investment Strategy Statement and para K of appendix 1 of the Worcestershire County Council constitution contain information about representation	(CF / 17 11 2021) ✓ benchmarked against 2021 annual reports
D. Knowledge and understanding		
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	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 We deliver a deep dive into an aspect of the LGPS and a training session every couple	Review the current position with the Chairs of the Board / Committee annually (RW / 06 09 2021) ✓ Conduct knowledge assessment of key individuals (CF / 17 11 2021 TNA completed by 11 Board / Committee members and awaiting new structure for pensions administration being in place for staff KA with an interim action being for CF to match our draft officer knowledge assessment v CIPFA member training needs analysis by 06 09 2021) ✓

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
	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 Our officers attend various groups comprised of representatives from a number of LGPS funds, receive LGPC bulletins and develop the LGPS knowledge of our employers through monthly employer newsletters	
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) as need to update questionnaire in line with the just issued CIPFA revised knowledge and skills framework, plan to complete by Mar Cttee
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 17th March 2020 Pensions Committee meeting	Review the current position with the Chairs of the Board / Committee annually (RW / 06 09 2021) ✓ 2021

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
		Note: Reviews should take account of the level and scope of training for officers, the 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)
E. Service delivery for the LGPS function		
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	The Worcestershire County Council constitution and our annual reports contain information about roles and responsibilities, and we have job descriptions for every officer's role 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	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) awaiting finalisation of the new structure for pensions administration
E.2 Each authority must publish an administration strategy	We comply with this requirement	Review our Pensions Administration Strategy annually, consulting our employers and benchmarking our strategy with comparator funds

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
	Prior to making changes to our 17 03 2020 strategy and asking our Committee to approve our 2021 strategy, we consulted with our employers from 23 12 2020 to 12 02 2021	(CF / 28 02 2022) scheduled
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 our annual reports and the quarterly Business Plans tabled at Pensions Committee meetings	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) ✓ identification
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 Pensions Committee meetings	Review the effectiveness of our rolling Business Plan (MH / 17 11 2021) plan to review before Dec Cttee
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) paper on schedule for Dec Cttee

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
F. Compliance and improvement		
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 IGR reports to be assessed by a SAB panel of experts	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) awaiting more info
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 PASA (MH / 08 12 2021) awaiting more info

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

Appendix 3 to the Business Plan 01 November 2021: Update on reviewing the objectives for and performance of the Fund's independent investment adviser

Task	Current Position as at end of October 2021	KPI / Outcome
A. Provide qualitative general advice to the Fund on markets, responsible investment, risk and strategies that have no direct monetary decisions but shape the Fund's thinking at relevant Pensions Committee, Pension Investment Sub Committee, local Pension Board (as required) and meetings with Officers.	• Detailed investment updates are provided for each Pension Investment Sub Committee with a shorter more summarised version to the Pensions Committee. • The investment advisor has attended all the Pension Investment Sub Committee and Pensions Committee meetings. • The investment advisor has provided strategic advice on risk and responsible investment relating to a number of passive climate funds and sustainable active equity investments.	• Attend all Pensions Committee and Pension Investment Sub-Committee meetings unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication. • Provide quarterly written reports to Committees in line with Committee timescales and reporting requirements, which include questions for Officers and Councillors to use at meetings with investment managers, and a yearly review for publication in the Fund's annual report, highlighting areas upon which members' attention should be focused. • Attend all quarterly review meetings with 'active' investment managers unless for unforeseen unavoidable circumstances and meeting attendance being agreed in
B. Monitoring the Fund's portfolios and considering and providing general advice on the desirability of retaining particular classes of assets or of changing them.	• Regular performance review meetings have been taken with all our investment managers at least half yearly and quarterly for our active investment managers and property and infrastructure managers. • The investment advisor has been integral to these meetings	

Task	Current Position as at end of October 2021	KPI / Outcome
	and has provided appropriate challenge where needed as well as highlighting poor performance to the Committee and put managers 'on watch' where required. • The investment advisor helped to develop and shape the 2020 strategic asset allocation (SSA) review which sets the Fund's asset allocation direction for the next 3 to 5 years and was agreed by Pensions Committee in December 2019. The advisor supports the SAA quarterly update to Committee. • The investment advisor has recently provided advice on infrastructure, equity, property (including forestry) and private debt investments.	advance of Committee timetable publication. • Any areas of poor performance highlighted, challenged and solutions identified. • The Pensions and Pension Investment Sub Committees were satisfied with the value for money represented by the services.
C. Support the Fund with achieving timely and cost-effective implementation of the Fund's investment decisions, where appropriate considering the evolution of the LGPS Central Limited (LGPSC) pool.	• The investment advisor has attended meetings and provided guidance where the Fund is seeking to transition investments to the pool. • He has also signposted to additional technical advice required for the actual transition process.	• Ensure a focus on key risk / return priorities. • Any areas of misalignment with the Fund's objectives and / or poor performance highlighted, challenged and solutions identified.

Task	Current Position as at end of October 2021	KPI / Outcome
	• Also, regular performance meetings have been held with LGPSC and appropriate challenge made where under-performance is happening.	
D. Provide other ad-hoc support and advice as required by either the Pensions and Pension Investment Sub Committee or the Fund's other service providers.	• Advice and support have been provided for an ESG audit and a climate risk scenario report besides the regular support described above. The advisor has also been part of the working group which helped shape the recommendations to Pensions Committee in March and signposted additional technical support from Pensions for Purpose. • Advice and support have also been provided on the equity protection strategy.	• Any ad hoc support and advice provided in line with agreed service specifications and on a timely basis. • Advisor's fee shared and updated at year end with open report of any additional fees earnt through advice. • Conflicts register updated at least half yearly, and upon any changes to the investment advisor as soon as they are known to that person.
E. Oversight of the relationship between the Fund and the pool, ensuring that what the pool offers complies with strong transition, sound governance and the requirements of the Fund.	• Regular performance meetings have been held with LGPSC and appropriate challenge made where under-performance is happening. • Ad hoc discussions are also held with the chief executive of LGPSC and his lead officers where necessary.	• Attend all quarterly performance review meetings with LGPSC where the Fund has invested unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication.

Task	Current Position as at end of October 2021	KPI / Outcome
		• Any areas of poor performance highlighted, challenged and solutions identified.
F. Support the fund in training through transparent general advice.	• The investment advisor has provided training and helped source a number of training events. • Also advised on support and workshop arrangements for the continued training on responsible investment.	• Pensions, Pension Investment Sub Committee and Pension Board satisfied with the quality and content of any training requested.
G. Ensure the Fund complies with relevant investment pensions regulations, legislation and supporting guidance, and reflects the policies approved by the Pensions Committee.	• There have been no instances of non-compliance with relevant regulations or policies.	• No instances of non-compliance with relevant regulations or policies.

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worcestershire countycouncil

PENSIONS COMMITTEE
8 DECEMBER 2021

RISK REGISTER

Recommendation

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

Background and update

2. The Risk Register is kept under regular review and, following the October 2021 review by officers, an updated Register is attached as an Appendix.

3. The review resulted in the addition of risk WPF 34 (Inflation) as a separate (it was previously included in WPF 22, key actuarial assumptions) risk.

4. The review resulted in 2 residual risk scores being increased and 1 reduced:

   a) WPF 31 (Pandemic) was increased from 30 to 40;
   b) WPF 24 (Employer resources) was increased from 30 to 40; and
   c) WPF 30 (Data quality) was reduced from 25 to 15.

5. Mitigating actions have been updated for:

   a) **new measures** e.g. recruitment of staff; and raising our problems with Liberata with WCC HR; and
   b) **previous measures that have been completed / developed further / have changed timelines** e.g. additional investment in infrastructure; investing in a passive climate factor fund / sustainable active equities; our training for PB / PC / PISC members; probing our pension administration system supplier about cyber security; our recent data quality extract; and updating our Good Governance position statement.

6. 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 1 November 2021

Contact Points

<u>Specific Contact Points for this report</u>

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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

Risk Register

As at 01 11 2021

About this Risk Register

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

- Red > = 45 (03 risks)
- Amber >= 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 09 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 32 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 Having insufficient resources in pensions administration, perhaps as a result of 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 government legislation on minimum normal pension age or exit payments.
6. WPF 33 Climate change.
7. WPF 31 Pandemic affecting our staff / our employers' Payroll or HR staff / staff at payroll providers who provide services to us or our employers.
8. WPF 24 Employers having insufficient skilled resources to supply our data requirements.
9. WPF 11 Failure to pool assets using LGPS Central Limited.
10. WPF 06 Fair Deal consultation proposals being implemented.
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 or ransom or our hardware being disabled.
15. WPF 34 Inflation.
16. WPF 09 Being reliant on LGPS Central Limited's investment approach.
17. WPF 30 Failure to maintain the quality of our member data.
18. WPF 19 Failure to procure a pensions admin system for the future.
19. 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; and life expectancy.
20. WPF 18 Failure of existing pension admin system to deliver the services contracted.
21. WPF 21 Failure of business continuity planning.
22. WPF 13 Liquidity / cash flow is not managed correctly.
23. WPF 14 Failure to exercise proper stewardship of our assets.
24. WPF 26 Fraud by staff.
25. WPF 15 Failure of the actuary to deliver the services contracted.
26. WPF 01 Failure of governance arrangements to match up to recommended best practice.
27. WPF 17 Failure of custodian to deliver the services contracted.
28. WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy.
29. WPF 16 Failure of investment adviser to deliver the services contracted.
30. WPF 25 Fraud by scheme members.
31. WPF 29 Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.
32. WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

WPF Risk Register Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
WPF 12 (Chief Financial Officer)	Mismatch in asset returns and liability movements.	Exposure to risk or missing investment opportunities or increases in employer contributions.	25	3	75	We regularly review our Investment Strategy Statement (the current one that updated the March 2020 one was approved by the Pensions Committee in March 2021), have a diversified portfolio and implement a policy of extended recovery periods to smooth employer contributions. Qualified advisers including an independent investment adviser are contracted and set objectives that are reviewed regularly. Funding position, actuarial valuation assumptions and mortality / morbidity experience are reviewed regularly by the Pensions Committee. Strategic asset allocation is reviewed quarterly by the Pension Investment Sub Committee. We have equity protection arrangements in place up to April 2022 for all of our passive market cap equity funds. We continue to liaise with all our investment managers in response to the ongoing market volatility caused by COVID-19. 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, the cost savings from pooling, and the performance of assets (that we have advised LGPSC is of most importance to us, as this will far outweigh the perceived cost savings from pooling) under LGPSC's management.	25	2	50

WPF Risk Register Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
WPF 20 (Chief Financial Officer and Pensions Administration Manager)	Having insufficient resources in pensions administration, perhaps as a result of staff leaving or going on long term absence.	Insufficient staff resource or remaining staff not having the skills to do their areas of work.	25	2	50	We are 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 have internally promoted to replace the grade 3 full time member of staff who left us on 24 August but are finding it difficult to recruit to the lower grade, vacated post. Our recruitment activities are we feel being inappropriately constrained by having to follow WCC policies re where we can advertise and re which agencies we can use. This is likely to impact on our ability to fill positions within any new structure in a market where other LGPS funds are advertising 100% WFH positions that do not require the jobholder to go to the LGPS fund and may even cause us to lose staff. 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 Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
WPF 23 (Chief Financial Officer)	Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure.	Increase in liabilities.	20	3	60	Risk profile analysis is performed to understand the strength of an employer's covenant when setting the terms of admission agreements (that may require bonds) and in setting the term of deficit recovery periods after actuarial valuations. The aim is to keep employer contributions as stable and affordable as possible. During the 2019 actuarial valuation we actively engaged with employers by issuing interim results, by offering 1:1s with the actuary and developed an employer contribution election form. At a Fund level employers have confirmed that the LGPS remains affordable, a situation that we are monitoring in the light of COVID-19. We have been able to offer some flexibility in exceptional circumstances: a top 10 employer with financial pressure has been allowed to phase in increased payments, reflecting our policy of positive engagement with a view to strengthening employer covenants wherever possible. Contribution increases are phased over a three year period for most employers and allowances are provided for short term pay restraint where evidence is provided. We monitor membership profiles and changes, ensure that employers are reminded of their responsibilities where this is appropriate and work with at risk employers. We are currently analysing employers' 2020 financial metrics. We have collected employers' 2021 metrics and set up employer risk monitoring using Mercer's Pfaroe tool to enable us to monitor employer financial and other risks more closely. We have employer grouped investment strategies.	20	2	40

WPF Risk Register Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
WPF 07 (Chief Financial Officer)	Future change to LGPS regulations or other legislation, for example from government legislation on minimum normal pension age or exit payments.	Increasing administrative complexity or failure to comply with The Pensions Regulator.	25	3	75	We have produced a 2021 FSS. In preparation for delivering the McCloud remedy we have been processing the hours changes that we have historically received and identifying the likely gaps in our data. We 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	We continue to engage with funds and associated companies which have a high carbon footprint to see what measure they are taking to reduce their carbon output. We are looking to disinvest from some of our high carbon funds and reinvest this into passive climate factor funds and also sustainable active equities which should enhance returns in the future. LGPSC also provide an annual climate risk report which is used to target managers where required. 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 Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
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	3	60	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. As we are experiencing problems with Liberata delivering data timely, we have escalated their performance with WCC HR OD & Engagement who manage the relationship. 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.	20	2	40

WPF Risk Register Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
WPF 24 (Pensions Administration Manager)	Employers having insufficient skilled resources to supply our data requirements.	Missing, incomplete and incorrect records on pensions administration system that undermines service delivery and causes difficulties in establishing correct benefits at individual level / liabilities at employer and whole of Fund level. Potential issues with The Pensions Regulator.	20	3	60	As we are experiencing problems with Liberata delivering data timely, we have escalated their performance with WCC HR OD & Engagement who manage the relationship. 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 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 19 October). 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.	20	2	40

WPF Risk Register Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual 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. Committee approved an indicative investment in infrastructure investments and agreed to invest in the passive climate factor fund in Nov 2021. Also the Fund is considering investment in the sustainable active equities.	15	2	30
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 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 a training session on investment in infrastructure / property / private debt on 21 September. The next training session (on being an LGPS employer) is scheduled for 2 December. We delivered a deep dive to the Pension Board on stewardship on 14 October. We have issued a training needs analysis (TNA) to members of the Pensions Committee, Pension Investment Sub Committee and Pension Board. 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. We will be reviewing our training policy once we have analysed the TNA.	15	2	30

WPF Risk Register Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
WPF 08 (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 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 Risk Register Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
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	Although moving to the Cloud and training our staff on the risks have mitigated this risk, we have established that our pensions administration system supplier is not meeting the requirements of Cyber Essentials, we have asked for our security assessment form to be completed, for a list of their backlog of critical and high (not medium) risks awaiting remediation and their planned programme to resolve them to include when detected / when hoped to be resolved. Measures that are updated constantly are in place to stop malicious emails; to remove malicious links in emails; to prevent outbound emails being sent to unacceptable recipients; to prevent access to fake websites; to encrypt our emails; to keep our laptops clean; and to catch ransom demands. We have addressed 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 34 (Chief Financial Officer)	Inflation	Higher employer pay settlements leading to increases in liabilities. Lower real investment returns requiring increases in employer conts and leading to weaker employer covenants. Increased pension payments putting pressure on	25	2	50	Intervaluation monitoring gives us our up to date funding position. The impact of inflation is mitigated to some degree, as we invest in (1) equities that via dividends have historically maintained real rates of return and in (2) assets which are sensitive to changes in inflation e.g. infrastructure / real estate / index-linked Government bonds. Higher short term inflation will increase liabilities. We are investigating liability driven investments as a potential option to aid further protection against higher inflation. Preliminary discussions have been held with the actuary on inflation assumptions and the affect on liabilities. We intend to develop the investment pots further to provide greater inflation protection.	25	1	25

WPF Risk Register Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
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. The Partner Fund Investment Working Group meet monthly with LGPSC to discuss and monitor performance as well as strategy to ensure the company are delivering in line with the business plan and strategy agreed by shareholders.	20	1	20
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	We undertake regular data quality reviews. An extract of data on 5 October has revealed that the quality of our data has improved. The percentage of member records passing ALL tests required by The Pensions Regulator was: Common data 95% (our 2020 score was 94.7%) and Scheme-specific data 98.7% (our 2020 score was 93.6%). We will be developing a data correction plan to resolve the issues identified. Specifically, we have started to look into how best to trace members for whom we have no address (“gone-aways”) and which categories of gone-away to prioritise. We will be using the standard approach re data collection for McCloud.	15	1	15
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 Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
WPF 22 (Chief Financial Officer)	The following key actuarial assumptions set at each actuarial valuation do not match our actual experience between actuarial valuations: the number of ill health retirements; that employer strain costs associated with early / redundancy / flexible retirements are covered by the payments collected from employers; and	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. 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 Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
WPF 18 (Chief Financial Officer)	Failure of existing pension admin system to deliver the services contracted.	Inability to pay pensions / reputational or financial loss / staff downtime / loss of service delivery / data loss.	25	2	50	We are probing the supplier of our pension administration system about what they have been doing to keep the cloud / our data / our login arrangements Altair / sending (bulk / individual) emails from Altair safe; what new threats they have popped mitigations in place for; what recent changes or patches have been made to their disaster recovery arrangements; evidencing (perhaps via internal or external audits) the things that they have done recently to keep up to date; and what ongoing vulnerability scanning they have in place alerting them to new vulnerabilities. We have obtained business continuity assurance from Heywood as part of its COVID-19 response. Contract service is reviewed annually and there are regular meetings with Aquila Heywood. Robust system maintenance routines. Internal and external systems support. Back-up procedures. Business Continuity Plan. The Pension Administration Strategy reminds employers of their responsibility to provide accurate and timely information on pay. The current pensions administration system's hosting Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood. We have signed up to the national LGPS framework for pension admin systems and as Heywood are an approved supplier we have independent validation of its current arrangements.	15	1	15
WPF 21 (Chief Financial Officer)	Failure of business continuity planning.	Inability to deliver critical functions like paying pensioners.	25	2	50	Our and Worcestershire County Council's (WCC) Business Continuity Plans have passed the tests posed by COVID-19 to date. The current pensions administration system's hosting Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood that means it is more securely backed up. We will ensure that WCC includes delivery of support services to us in its Risk Register.	15	1	15

WPF Risk Register Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual 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 and received guidance on areas we should improve. 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 Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual 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. 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 / audits of the suppliers, BNY Mellon and Northern Trust.	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

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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 29 (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 despatched before 31 Aug along with an accompanying newsletter. In November 2021 we will despatch our third 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 Nov 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-abilit	Resi-dual Risk Score
[redacted]									

worcestershire countycouncil

PENSIONS COMMITTEE
8 DECEMBER 2021

FORWARD PLAN

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

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