

Minutes of the Pensions Committee

County Hall, Worcester

Tuesday, 28 June 2022, 10.00 am

Present:

Cllr Elizabeth Eyre (Chairman), Cllr Karen Hanks Cllr Trish Marsh, and
Cllr Scott Richardson Brown

Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 23 March 2022 (previously circulated).

376 Apologies/Named Substitutes (Agenda item 1)

Apologies were received from Cllr Adrian Hardman, Cllr Luke Mallett, Shane Flynn and Cllr Roger Philips (Chairman of the Pension Board).

377 Declarations of Interest (Agenda item 2)

Cllr Trish Marsh declared interests as a member of the Pension Scheme and in her role as a member of Herefordshire Council in driving carbon reductions.

378 Public Participation (Agenda item 3)

None.

379 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 23 March 2022 be confirmed as a correct record and signed by the Chairman.

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

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

381 LGPS Central Update (Agenda item 6)

The Committee considered the LGPS Central (LGPSC) Update and a presentation by Gordon Ross of LGPS Central.

In the ensuing debate, the following points were made:

- In response to a query, Gordon Ross confirmed that John Nestor and Eithne McManus had left their roles as Non-Executive Directors with LGPSC
- The recent recruitment by LGPSC of a Chief Legal, Compliance and Risk Officer was welcomed
- In response to a query, Gordon Ross indicated that LGPSC had been recruiting staff at graduate level. As part of the recruitment process, candidates were required to undertake psychometric tests. New recruits received a two year training programme which included rotation between different elements of the work of the pool
- What reasons and been provided by staff for leaving the pool and what measures had LGPSC undertaken to prevent further departures? Gordon Ross explained that some staff had left for better paid opportunities elsewhere. To try and retain staff, LGPSC provided each member of staff with a career path within the pool. Staff were paid as well as possible and were offered the opportunity to join an attractive pension scheme. The tuition provided to new recruits was more focused and provided a greater range of learning than other companies could offer. Recruitment had been particularly impacted by remote working as staff were able to take higher paid jobs without having to move location. LGPSC had decided not to require staff to stay with the pool for a certain length of time after joining
- In response to a query relating to the Global active emerging markets fund Worcestershire were invested in, Gordon Ross commented that a three year review process was in place to ensure its funding arrangements were fit-for-purpose and was likely to be concluded in September 2022
- This Fund's investment philosophy had generally been a preference for a conviction investment approach and therefore over-diversification of managers was not considered suitable. Would LGPSC be taking on board this Fund's views in relation to the emerging markets review? Gordon Ross responded that all partner views would be taken into account as part of the 3 year investment review
- In relation to a query about benchmarking, Gordon Ross explained that LGPSC used benchmarks that reflected the relevant markets
- Was LGPSC confident that despite the recent poor performance in the emerging markets that circumstances would improve. Gordon Ross stated that the performance in the emerging markets had been greatly impacted by the Russian situation. In addition, because performance was measured against traditional market benchmarks, there had been a

degree of lag. He was confident that over the longer term, performance would improve

- Were there any lessons to learn from the Russian situation? Gordon Ross responded that there was a need to delve deeper into companies within the emerging markets and to gain a greater understanding of how markets reacted to world events
- Did LGPSC analyse the approaches taken by partner funds to see if they did anything differently? Gordon Ross commented that in order to develop appropriate products, it was important that LGPSC had an understanding of the needs and workings of partner funds
- Philip Hebson commented that emerging markets had had a particularly difficult recent period, not just because of the Russian situation but also as a result of the response to the recent Covid outbreak in China. As the Fund worked through the strategic asset allocation review, thought needed to be given to the investment approach taken in emerging markets. The attitude of China to human rights issues was also a major cause of concern. It would be helpful for the Fund to have input in these issues but the question was where the line should be drawn in relation to these types of investment issues and the risk appetite for investments on an ethical basis rather than just on a sustainable basis. Gordon Ross added that ESG was an integral part of LGPSC's investment strategy however he acknowledged that this approach differed in the emerging markets. China had its own economic issues which made it less of a financial draw than before
- In response to a query, Philip Hebson commented that LGPSC had been more responsive to the views of partner funds in relation to the situation in Russia than a number of other pools. In relation to emerging markets, LGPSC were looking to address existing performance issues to an extent by adding a value manager to the portfolio but it was felt that adding another investment manager was not the answer. This Fund needed to consider an alternative approach if LGPSC continued with that approach and failed to meet targets
- It was queried why LGPSC had located in Wolverhampton. Philip Hebson responded that there were financial benefits in comparison to Birmingham. However, LGPSC insisted that staff attended their offices at least two days a week and homeworking had had an impact on their ability to recruit
- It was commented that homeworking had a negative impact on staff performance.

RESOLVED that the LGPS Central update and presentation be noted.

382 Pension Investment Update (Agenda item 7)

The Committee considered the Pension Investment Update.

Philip Hebson, the Fund's Independent Investment Advisor introduced the report and made the following points:

- The Fund had a total commitment of £150m to the Gresham House Forestry Fund VI of which £50m had been committed to stage one. The

commitment to stage two of the Fund had already been increased to £75m but an opportunity had arisen to accelerate that investment with an option to invest a further £10m to stage two. This investment would be in forestry located in Wales and would not only provide diversification from a geographical perspective but also in terms of species of tree and therefore lessen the risk of disease. The overall committed investment in the Fund would remain unchanged. This investment was not part of the LGPSC portfolio of investments with partner funds

- The Fund had been speaking to investment managers and LGPSC to get an understanding of the social investment opportunities (other than social housing) that would satisfy the requirements of the Government's Levelling Up agenda. It should be noted that the Fund already had a social element within its portfolio. The outcome of this fact-finding exercise would be reported back to this Committee
- The funding level was estimated to be 100% in March 2022 but markets had been volatile since then. Despite this volatility, the Fund remained at a healthy funding level due the impact of the diversification of assets and the Equity Protection Strategy. Mercer, the Fund's actuary had taken a more pragmatic approach than expected and recognised the long-term nature of investment
- The Equity Protection Strategy had been effective in protecting the Fund from the market falls. However, the point was approaching when a decision would need to be made whether to continue with the Strategy should the market drop to such a low level that the benefits to the Fund were negligible

In the ensuing debate, the following points were made:

- In response to query on Forestry, Philip Hebson explained that different timber was used for different businesses therefore it was important to have a diversification in the type of trees grown. This would ensure long-term income generation for the forestry investment and mitigate the impact of disease. This was important because the forestry industry could insure against any circumstances apart from the impact of disease. The forestry industry was able to mitigate the risk of fires with appropriate planning, diversification of tree species and fire breaks
- The proposed increase in the commitment to the Gresham House Forestry Fund VI from £75m to £85m was supported.

RESOLVED 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 strategy be noted.
- e) The update on Responsible Investment activities, Local Authorities Pension Fund Forum (LAPFF) (Appendix 3) and Stewardship investment pooling be noted; and
- f) The update on the LGPS Central report on the voting undertaken on the Funds behalf be noted (Appendices 4 to 6); and
- g) The Fund's commitment to the Gresham House Forestry Fund VI be increased from £75m to £85m.

383 Pension Fund Unaudited Annual Accounts 2021/22 (Agenda item 8)

The Committee considered the Pension Fund Unaudited Annual Accounts 2021/22.

In the ensuing debate, the following points were made:

- In response to a query, Rob Wilson confirmed that the estimated overall McCloud liability for the Fund was in the region of £29m
- The value of property and infrastructure was difficult to determine. Was there a process in place for checking property valuations? Rob Wilson explained that the Fund Managers used a professional independent valuer to value the assets every 6 months for assurance purposes
- Did the Fund consult expert forestry valuers to ensure that the value of its investments was accurate? Philip Hebson advised that the Fund did not have the necessary expertise to undertake such valuations in such a specialist area. However, as part of the due diligence when investing in the Fund, assurance was gained that expert valuers in this field were used to place an annual valuation . The value of forestry land had increased in recent times which had benefited the Fund.

RESOLVED that:

- a) The unaudited Pension Fund Annual Accounts 2021/22 (Appendix 1) be approved;
- b) The process on how level 3 investments are shown at fair value in the final accounts be noted;
- c) The level 3 investments reflected a fair assessment of value at the time the draft accounts were provided to the auditors be agreed; and
- d) The differences in valuation of level 3 investments reflected in Appendix 2 be noted acknowledging that these are below the materiality levels of the Fund.

384 Business Plan (Agenda item 9)

The Committee considered the Business Plan.

In the ensuing debate, Rob Wilson indicated that Richard Sultana had been appointed the Head of Pensions Administration for the Fund and would be taking up his post in two months.

RESOLVED that the Worcestershire Pension Fund (WPF) Business Plan as at 25 May 2022 be noted.

385 Risk Register (Agenda item 10)

The Committee considered the Risk Register.

In the ensuing debate, the following points were made:

- In response to a query, Rob Wilson undertook to consider whether it would be appropriate to include an additional risk on the Register associated with geographical impact of investments
- It was not clear whether some risks had been impacted by the mitigation measures. Michael Hudson undertook to provide an indication of the direction of travel against each risk in the Register in future
- In response to a query about the inclusion of a risk associated with the impact of inflation, Michael Hudson explained the contributions of employers were fixed so that there would be no impact.

RESOLVED that the 25 May 2022 Worcestershire Pension Fund Risk Register be noted.

386 Governance Update (Agenda item 11)

The Committee considered the Governance update.

In the ensuing debate, the following points were made:

- It was requested that the updated pension administration structure be included in a future governance report
- Concern was expressed that the wording in the Policy on Representation was contradictory in relation to political balance and political representation. It was therefore agreed that this wording would be reviewed by officers and amended as appropriate
- Concern was expressed about the wording in the Policy on Conflicts of Interest in relation to the examples of potential conflicts of interest. It was therefore agreed that this wording would be reviewed by officers and amended as appropriate
- In response to a query, Rob Wilson confirmed that the Fund was able to transfer carbon credits for the Forestry Fund, but the value and mechanism for doing this was relatively early in the market place.

RESOLVED that:

- a) The Governance Update be noted;
- b) The proposed Policy on Representation (Appendix 1); and Policy on Conflicts of Interest (Appendix 2) be approved; and
- c) The updated pension administration structure be included in a future Committee report.

387 UK Stewardship Code (Agenda item 12)

The Committee considered the UK Stewardship Code.

In the ensuing debate, the following points were made:

- Officers were thanked for their work in producing the latest version of the UK Stewardship Code which had been submitted to the Financial Reporting Council (FRC)
- Concern was expressed about the lack of clarity within some of the Stewardship report examples in understanding how voting outcomes were assessed.

RESOLVED that the 2021 Stewardship Code application for the Fund submitted on the 30 April 2022 be noted.

388 Training Update (Agenda item 13)

The Committee considered the Training Update.

In the ensuing debate, it was agreed that members would be provided with a clearer steer as to which future training events would be provided in-house and the benefits to members of attending individual sessions.

RESOLVED that the training update be noted.

389 Forward Plan (Agenda item 14)

The Committee considered the Forward Plan.

In the ensuing debate it was requested that more future Committee dates be included in the Forward Plan.

RESOLVED that the Forward Plan be noted.

The meeting ended at 12.18pm.

Chairman