Worcestershire County Council

Agenda

Pensions Committee

Tuesday, 28 June 2022, 10.00 am
County Hall, Worcester

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DISCLOSING INTERESTS

There are now 2 types of interests:
<u>'Disclosable pecuniary interests'</u> and <u>'other disclosable interests'</u>

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 <u>spouse/partner</u> as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days <u>and</u>
- **Declare** it where you have a DPI in a matter at a particular meeting
  - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
  You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests OR**
  relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
  - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Pensions Committee
Tuesday, 28 June 2022, 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

Co-opted Members

Jane Evans	Employee Representative
Shane Flynn	Employer side
Cllr Trish Marsh	Herefordshire Council

Agenda

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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: Friday, 17 June 2022

worcestershire county council

PENSIONS COMMITTEE
28 JUNE 2022

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 meetings on 13 and 14 June 2022 and the Pension Board meeting on 7 June 2022.

Supporting Information

Links to the Pensions Investment Sub-Committee and Pension Board Minutes can be found below:
Browse meetings - Pension Investment Sub-Committee - Worcestershire County Council (moderngov.co.uk)
Browse meetings - Pension Board - Worcestershire County Council (moderngov.co.uk)

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
28 JUNE 2022

LOCAL GOVERNMENT PENSION SCHEME (LGPS) CENTRAL UPDATE

Recommendation

1. **The Chief Financial Officer recommends the Pension Committee note the LGPS Central update and the presentation attached as an Appendix.**

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, its Active Corporate Bond Fund into the LGPS Central 'Global active Investment Grade Corporate Bond Fund in March 2020 and more recently in November 2021 a £200m investment into the LGPSC All World Climate Factor Passive Fund.

Transition of existing Assets and investment in LGPSC investment products

4. The Pension Investment Sub-Committee (PISC) have agreed an indicative £30m per annum for the next 2 years into LGPSC Infrastructure strategy subject to due diligence.

5. The fund transitioned £201m on the 3 May 2022 into LGPSC Global Sustainable Active Equity Fund for which LGPSC have appointed 3 managers. Investment Sub Committee on the 24 November 2021 agreed to invest with 2 out of the 3 managers being Liontrust (£121.0m) and Baillie Gifford (80.0m).

6. The estimated cost of the transition was £1.069m and the final transition costs were £0.972m equating to 0.483% (48.3 basis points).

7. Four Partner Funds including this Fund have transitioned assets into the Fund totalling £1.009bn.

February Company Follow on meeting 4 April 2022

8. As reported to the last Board, the company meeting was held on the 22 February 2022 and the proposed shareholder resolutions covered the following and all were agreed apart from resolutions 4 to 6. Some shareholders wanted more clarity on the remuneration and benefits policy, and it was agreed that further dialogue would take place to look to reach agreement.

1	**Approval of the Appointment of an External Auditor**
2	**Approval of the Board development plan and the succession of Non-Executive Directors**
3	**Approval of the Strategic Plan (which includes a proposed budget) and Regulatory Capital Statement for the period 1 April 2022 to 31 March 2023**
4	**Approval of the Executive Directors Remuneration and Benefits Policy**
5	**Approval of the Non-Executive Directors Remuneration and Benefits Policy**
6	**Approval of the individual remuneration packages for the Chair and Directors.**
7	**Articles of Association**

9. A further company meeting was held on the 4 April 2022 with shareholders which agreed the resolutions 4 to 6 after the following changes were made to the 'Remuneration and Benefits Principles'

Culture & Purpose

LGPS Central Limited is a local authority owned company whilst also being a regulated entity and is committed to maintaining a strong public sector ethos. Care is always taken to ensure value for money in the use of all public expenditure. This is balanced by the need to attract and retain high quality staff in an investment management company requiring many of the skills which are in great demand in private sector financial services and investment management companies. The company occupies a unique hybrid position, and a balance needs to be struck between the different approaches to pay and remuneration

Long-term attraction, retention and motivation of staff

Remuneration and benefits are considered and reviewed by reference to a peer group, that includes amongst others; other LGPS pooling companies, publicly owned financial services/pensions companies e.g., NS&I/NEST, local authority and chief officer pay and annual pay awards, private sector investment management companies, and pension funds.

Staffing

10. The recruitment market continues to be very competitive at the moment. LGPSC have managed to recruit a Chief Legal Compliance & Risk Officer Struan Fairbairn who will be starting mid-September which is a key post for the company. However, over the last few months LGPSC has seen a number of posts hand in their notice whilst at the same time have been successful in recruiting to a number of posts. This shows that the continuing turbulent nature of the recruitment market at the moment.

LGPSC Presentation
11. LGPSC have provided a presentation attached as an Appendix and covers the following areas:-

- Company Update
- Non-Executive Directors Process
- Staffing & Recruitment
- Investment Funds
- Russian Situation
- Looking Forward
- Summary

Office Accommodation
12. The company have now moved into the new I9 building in Wolverhampton.

Practitioner Advisory Forum (PAF) Working Groups
13. 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 (meeting monthly and chaired by Worcestershire)
- Investment Working Group (IWG) (Meet Monthly)
- Responsible Investment Working Group (Now part of IWG and discussed quarterly)
- Finance Working Group. (Meetings as and when required)

14. The Partner Funds have also established an Internal Audit working group which provides a co-ordinated approach to enable the Joint Committee (next meeting the 23rd June 2022), 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 (Led by Leicestershire) and the other on governance (led by Worcestershire).

Investment Working Group
15. 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 & Responsible Investment.
- Month 2 (Feb, May, Aug, Nov) – Policy & Performance Monitoring
- Month 3 (Mar, Jun, Sep, Dec) – Strategy and New Products

16. 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 May 2022)
Private Equity (2021 Vintage)	*Launched*
Direct Property	*Launched*
Global Sustainable Active Equities	*Launched*
Private Debt	*Launched*
Targeted Return	*Launched*
Indirect Property	*Product Development focussing on residential property in first tranche*

17. The products to be developed in 2022/23 were collectively agreed by Partner Funds at the Strategic Asset Allocation 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.

Supporting information
Appendix – LGPS Central presentation

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:

- LGPSC Budget and strategic business plan Pension Committee 2 February 2022
- LGPS Central business case submission to government 15 July 2016.

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LGPS Central Limited

Worcestershire Pension Fund

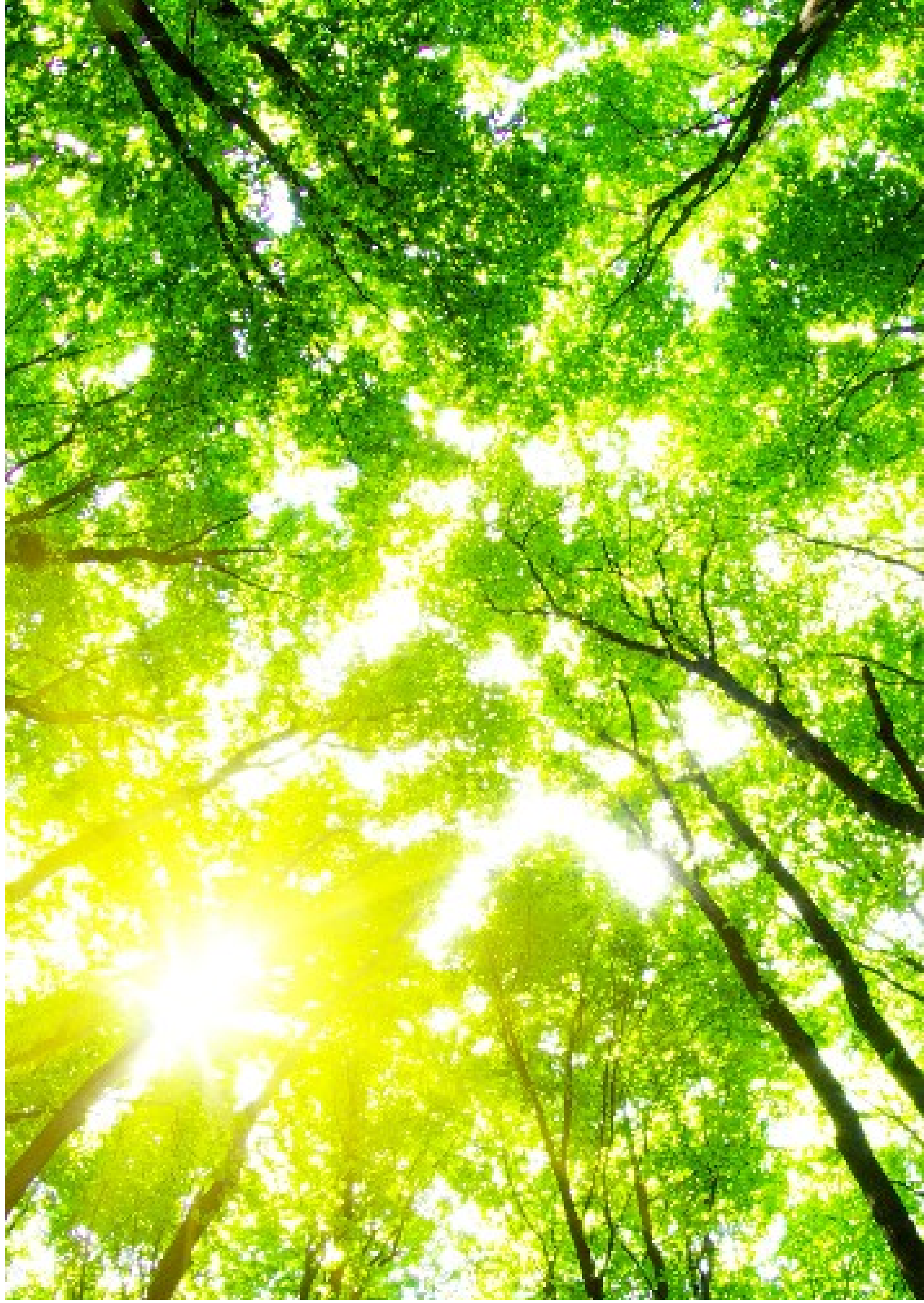
LGPS Central Limited Update

PRESENTED BY

GORDON ROSS
Chief Investment Officer

28th June 2022

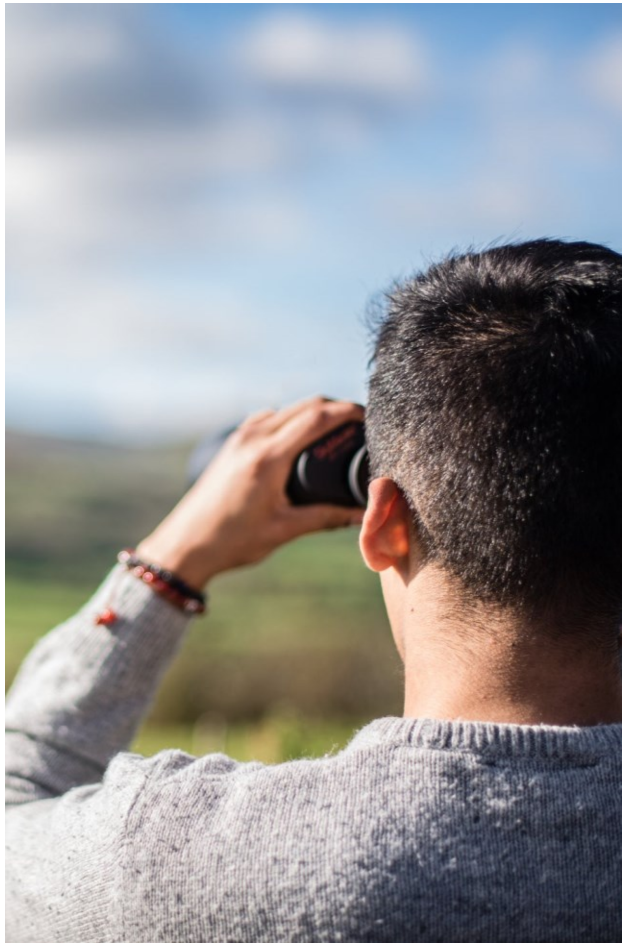
Worcestershire Pension Fund



Agenda:

AREAS FOR DISCUSSION

- Company Update
- NED Process
- Staffing and Recruitment
- Investment Funds
- Russian Situation
- Looking forward
- Summary



LGPS Central Limited

LGPS Central

Company Update

Gordon Ross

LGPS Central Company Update

LGPS Central Limited

OUR FUNDS, PHILOSOPHY & PEOPLE

- Procurement process underway for Responsible Investment and Engagement reporting tool to **enhance client reporting**
- Continued support to Partner Funds with **Climate Stewardship Plans** and **Pool-wide Climate Strategies**
- **Product Development** a priority with a further 4 funds to be launched over 2022:
    - Targeted Return
    - Private Credit
    - Direct Property
    - Indirect Property

- **5/5** passively managed funds **meeting tracking errors**
- **3/5** actively managed funds **ahead of benchmark** since inception
- **c. £28.5bn** assets under stewardship

- Staffing challenges due to **highly competitive recruitment market**
- Working in **partnership with our shareholders** to drive the success of LGPS Central

Source: LGPS Central, all figures as at 31 March 2022

LGPS Central

NED Process

LGPS Central Limited

NED Process

LGPS Central Limited

RECRUITMENT

- RFP deadline has passed
- Special Nomination Committee meeting is being scheduled to select firm and agree terms
- Live search followed by shortlist of candidates
- NomCo interviews and meeting with the Board
- Selection of preferred candidates
- Ongoing discussions with Partner Funds regarding Shareholder engagement in the process
- Targeting three new NEDs by the end of 2022

LGPS Central Limited

Staffing & Recruitment Summary

LGPS Central Limited

POSITIVE INFLUX OF NEW AND REPLACEMENT HIRES BUT RETENTION IS DIFFICULT

- Successful new hires who will join the business over the coming months:
  - Junior RIE Analyst: 20 June 2022
  - Portfolio Manager: 11 July 2022
  - Investment Operations Manager: 15 August 2022
  - Chief Stakeholder Officer 06 September 2022
  - Chief Legal, Compliance & Risk Officer: 15 September 2022
- Recruitment under way for 3rd Graduate cohort to start in September
- Highly competitive recruitment market
  - Staff turnover at highest levels since launch of LGPS Central
  - Exit interview principal concerns around remuneration & benefits package and location & flexible working

LGPS Central Limited

Investment Funds

Update

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LGPS Central Funds Launched:

LGPS Central Limited

TOTAL OF 20 FUNDS LAUNCHED TO 31.03.22

Fund	Launched
UK Equity (Passive)	2018
Global Equity (Passive)	2018
Global Dividend Growth (Passive)	2018
Multi-Factor Fund (Passive)	2021
Climate Fund (Passive)	2019
Global Equity MM Fund (Active)	2019
EM Equity MM Fund (Active)	2019
Corporate Bonds MM Fund (Active)	2020
EM FI MM (Active)	2020
Global MAC MM Fund (Active)	2021
Private Equity - 2018 Primary	2019
Private Equity - 2018 Co-Investment	2019
Private Equity - 2021 Primary	2021
Private Equity - 2021 Co-Investment	2021
Private Inflation Credit Fund	2021
Private Lower Credit Fund	2021
Private Higher Credit Fund	2021
Infrastructure Core Fund	2021
Infrastructure Value Add Fund	2021
Infrastructure JPM Fund	2021

Worcestershire Pension Fund have invested in these Funds

Global Sustainable Equity Active Fund was launched during May 2022, of which WPF is invested

5 Passive funds launched

5 Active funds launched

GSE Fund launched May 2022

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WPF Investments in LGPS Central Funds

LGPS Central Limited

ASSETS UNDER MANAGEMENT 31 MARCH 2022

Asset Class	Fund	WPF's Assets	Total Fund AUM	WPF % of Fund
Passive Global Equity	LGPS Central Limited All World Equity Climate Multi Factor Fund	£207.1m	£4,251.7m	4.9%
Active Global Equity	LGPS Central Limited Emerging Markets Equity Active Multi Manager Fund	£322.6m	£812.0m	39.7%
Active Global Fixed Income	LGPS Central Limited Investment Grade Corporate Bond Multi Manager Fund	£206.3m	£1,608.8m	12.8%

£736m assets invested with LGPSC

Further investment to be considered in range of funds to be launched over 2022/23

Source: LGPS Central / Northern Trust

WPF Investments in LGPS Central Funds

LGPS Central Limited

PERFORMANCE AS AT 31 MARCH 2022

Annualised Performance Since Inception to 31 March 2022	Inception Date	Fund (% p.a.)	B'mark (% p.a.)	Tracking Error
Passive ACS Funds				
LGPS Central Limited All World Equity Climate Multi Factor Fund	Jan 2021	13.72	13.50	

Annualised Performance Since Inception to 31 March 2022	Inception Date	Fund (% p.a.)*	B'mark (% p.a.)	Target (% p.a.)
Active ACS Funds				
LGPS Central Limited Emerging Markets Equity Active Multi Manager Fund	July 2019	**1.17**	3.93	5.93
LGPS Central Limited Global Active Investment Grade Corporate Bond MM Fund	March 2020	**4.43**	3.83	4.63

Source: LGPS Central / Northern Trust

Property

LGPS Central Limited

INDIRECT PROPERTY SUB-FUND

- Meeting held with Partner Funds on 11 May 2022
- Agreement made to proceed with the Residential sleeve and potentially an Overseas sleeve
- Questionnaire sent to Partner Funds on 27 May requesting information that will be used to form the initial draft mandate(s)
- Once the initial mandate is in place, a timeline can be formulated giving indication of ‘Go Live’

Product Development:

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FUTURE FUND LAUNCHES

Private Debt	Investors to send approval for executing the amended Lasting Power of Attorney (LPA) with close expected towards the end of June
Targeted Return	Partner Funds engaged on strategies/managers to be included with launch expected October 2022
Direct Property	Finalising legal documents and FCA application with launch anticipated September 2022
Indirect Property	Agreement made to proceed with the Residential sleeve and potentially an Overseas sleeve

Russian Situation

Update

Russian Situation

LGPS Central Limited

MARKET UPDATE

- Current market
- What it means for market liquidity
- What it means for ACS Sub-Funds
- Potential future developments

Looking Forward

LGPS Central Limited

THE NEXT STEPS FOR LGPS CENTRAL

Our Funds

- Responsibly achieved Investment performance is our top priority
- Continuing growth of Private Markets partnerships to facilitate increasing Partner Fund asset allocations

Our Philosophy

- Maintain 100% RI Integrated Status across all our investment products
- Implementation of Net Zero strategy and carbon analysis of Private Markets

Our People

- Staff retention remains a key challenge and focus for the Board and Senior Management
- Strengthening the Responsible Investment & Engagement team to support increased Partner Fund needs

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Summary

PARTNERSHIP IS KEY TO EVERYTHING WE DO

Strong relationship with WPF

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

RI integration with targeted engagement throughout the life of LGPSC's products

LGPS Central Limited

DISCLAIMER:

LGPS Central Disclaimer

IMPORTANT INFORMATION

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Share Class and Benchmark performance displayed in GBP.

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

All information is prepared as of **13 June 2022**

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

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LGPS Central Limited

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

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PENSIONS COMMITTEE
28 JUNE 2022

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 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).**

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 March 2022 together with the following supporting information.

- Portfolio Evaluation overall Fund Performance Report up to the end of March 2022 (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 March 2022 being £931million and the amount that has been drawn, i.e., the capital invested being £592million (64%). 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 March 2022	%
Total Commitment Property Investments		332	212*	64%
Total Commitment Infrastructure Investments		599**	380	63%
Total		**931**	**592**	**64%**

** Note that Venn I and Walton St I is coming to an end and capital is currently being recalled. Also now includes 2 Forestry allocations of £50k and £75k respectively*
*** Includes recent BSIF II, Igneo (Was First Sentier) EDIF III & Stonepeak Fund IV commitment*

2nd February 2022 Department of Levelling Up, Housing & Communities (DLUHC) publishes Levelling Up whitepaper

5. As reported to the March Committee, the government published the Levelling Up whitepaper which includes references to LGPS funds having plans for up to 5% of assets to be allocated to projects which support local areas. We understand that in this context local refers to UK rather than local to a particular fund and that there will be no mandation beyond the requirement to have a plan. We are still awaiting further details to emerge and will update Committee appropriately.

Estimated Funding Levels

6. 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)

7. 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 100% as at the end of March 2022 and initial pension 2022 valuation discussions have begun with the actuary. The continuing rise in inflation will be a key issue and potentially have a major impact on the Funds liabilities. Also, the ongoing Ukrainian / Russian conflict together with the cost of living increases has bought further significant market volatility and this together with the continuing increases in inflation are most likely to impact on the overall funding levels over the next 3 to 6 months at least.

8. It was noted in the March report that the Fund had 0.1% (around £5M) of its Fund value in Russian holdings and investment Sub Committee on the 3rd March agreed to disinvest in Russian holdings when it was able to do so. This has now been completed and holdings would have been written down to a nil value in most cases.

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	Mar 22
Assets £'M	1,952	2,795	2,612	**3,367	**3,540	**3,585
Liabilities £'M	2,606	3,090	*3,243	*3,404	*3,436	*3,585
Surplus (-) / Deficit	**654**	**295**	**631**	**37**	**(116)**	**(0)**
Estimated Funding Level	**75%**	**90%**	**81%**	**99%**	**103%**	**100%**

* *Estimated liabilities provided by the actuary and Assets include cash.*
** *Note the Assets include cash of £39m which are excluded from the* Portfolio Evaluation overall Fund Performance Report attached at Appendix 2.

Equity Protection (EP) update

9. 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.

10. It was agreed to continue the Equity Protection and have a more active strategy on the S&P500 (our US Passive equity Fund) and the FTSE100 (our UK Passive equity Fund) for a rolling 12 months and 18 months for the Eurostox50 (our European Passive equity Fund) by the Pensions Investment Sub Committee on the 17 September 2020.

11. 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 (now taken over by Schroders) since September 2020.

12. The Eurostox50 was restructured at the date detailed in the table below. The Eurostox was restructured on the 5th April 2022, the FTSE on the 6th April 2022 and more recently, the S&P500 on the 16th May 2022 which benefited the Fund by $19.1m. 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. The ongoing requirement for the EP strategy will be considered as part of the strategic asset allocation review during 2022.

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	16.05.22	4,019	4,622	3,216	12 Months
Europe – ESTOXX50	05.04.22	3,910	4,496	3,128	18 Months
UK – FTSE100	06.04.22	7,592	8,731	6,074	12 Months

Strategic Asset Allocation

13. Table 3 below shows the asset allocations against the Strategic Asset Allocation targets (over next 3 to 5 years) agreed by Committee in June 2020. This highlights that our overall investment in equities is still high being over 74.4% (76.5% as at December 2021) (including the equity protection) compared to the revised strategic asset allocation target of 70%.

14. This is mainly due to being overweight on the passive equity portfolio, underweight on Fixed income and the increase in Property and Infrastructure investments target to 20% (currently 18.1%) which will take time to implement. The impact of inflation and the Ukraine / Russia conflict has also seen a lot of market volatility which has seen market valuations decrease recently compared to the existing Property and Infrastructure investments.

15. At the last Pensions Committee, the strategic asset allocation of 6% to Sustainable active equities was approved reducing the passive Market Capital Funds. £200m has been invested in Liontrust Asset Management PLC £121m and Baillie Gifford £80m and the transition was completed early May. Therefore, the table below does not reflect this.

Table 3 Strategic Asset Allocation targets

Actual Fund as at the 31 March 2022		**Strategic Asset Allocation targets**	
Asset Class	Portfolio Weight	Asset Class	Portfolio Weight
Actively Managed Equities	**19.8%**	**Actively Managed Equities**	**20.0%**
Far East Developed	10.6%	Far East Developed	10.0%
Emerging Markets	9.2%	Emerging Markets	10.0%
Passively Managed Equities – Market Capitalisation Indices	**38.6**	**Passively Managed Equities – Market Capitalisation Indices**	**35.0%**
United Kingdom	19.1%	United Kingdom	20.5%
North America	12.2%	North America	8.0%
Europe ex UK	7.3%	Europe ex UK	6.5%
Passively Managed Equities – Alternative Indices	**16.0%**	**Passively Managed Equities – Alternative Indices**	**15.0%**
Global	16.0%	Global	15.0%
Equity Protection (See note below)			
Total Equities	**74.4%**	**Total Equities**	**70.0%**
Fixed Interest	**7.5%**	**Fixed Interest**	**10.0%**
Actively Managed Bonds & Corporate Private Debt	5.9% 1.6%	Actively Managed Bonds & Corporate Private Debt	10.0%
Actively managed Alternative Assets	**18.1%**	**Actively managed Alternative Assets**	**20.0%**
Property	5.8%	Property & Infrastructure	20.0%
Infrastructure	12.3%		
TOTAL	**100.0%**	**TOTAL**	**100%**

Note Equity Protection is 6.4% of the Market Cap Funds and has been pro-rated over the Market Cap Funds to aid comparison to the strategic target

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 81 public sector pension funds and five pools in the UK with combined assets of over £300 billion.

19. The attached quarterly engagement report (January to March 2022) Appendix 3 features LAPFF company engagements and their records of their collaborative engagements, community meetings, policy responses, and media coverage. There are also features on Ukraine, Human rights and Mining and an update on the engagement data.

20. The issues are set out in the Quarterly Engagement Report which is attached at Appendix 3 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 January to March 2022 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. The continued agreed stewardship themes comprise 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 the engagement statistics (Appx 4) and Voting statistics (Appx 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 March 2022.

Contact Points

Specific Contact Points for this report
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Supporting Information

- Independent Financial Adviser summary report (Appendix 1)
- Portfolio Evaluation Overall Fund Performance Report (Appendix 2)
- LAPFF Quarterly Engagement Report January to March 2022 (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.

REPORT PREPARED FOR

Worcestershire Pension Fund

June 2022

Philip Hebson
MJ Hudson

philip.hebson@mjhudson.com

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

13 & 14 June 2022

Global overview

The Fund faced a challenging Q1: rising inflation pressures were exacerbated by Russia's invasion of Ukraine, while central banks' increasingly tough rhetoric led to increased fears that tighter monetary policy may lead to recession. In addition, China faced a new wave of COVID infections, and implemented severe lockdowns in major cities, impacting growth in March. As a result, global equities fell -5.0% over the quarter, with only UK equities bucking the trend (up +2.9%); European and Emerging markets equities suffered most (down -8.9% and -7.0% respectively). Value-oriented stocks experienced more muted declines than growth stocks (-1.2% for the MSCI World Value Index vs -9.8% for the MSCI World Growth Index). Corporate and government bond indices also declined (for the UK indices, by -6.5% and -7.2% respectively), while the hard currency emerging market bond index fell -10.0%, posing a significant challenge to "traditionally diversified" portfolios. Real assets (commodities, real estate) fared better, and the USD strengthened against most currencies.

GDP growth: While growth generally remained positive in Q1 for developed markets, the growth rates are already well below Q4 comparatives, and face further headwinds from Russia's invasion of Ukraine. The US posted a -0.4% quarterly decline[1], the Eurozone +0.3% and the UK saw growth of 0.8%. In China, the Chinese Communist Party is continuing to stick to a zero-Covid policy, which has led to widescale lockdowns, including in the financial hub of Shanghai; this has cast doubt on the viability of the +5.5% official target growth over 2022. The World Bank has revised its expected global GDP growth for 2022 from +4.1 to +3.2%. Over the last year, strong corporate earnings have provided significant momentum to global equity markets, however, there are now increased fears that Q1 earnings could disappoint investors as firms face challenges on two fronts with pricing pressures affecting both margins and curtailing consumer demand.

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

Inflation: Inflationary expectations are now reasonably well discounted by markets (US inflation is expected to average some 4% in 2022, falling to between 2.5 and 3% in 2023), and it is possible that year-on-year inflation is close to reaching its peak, but there are clearly risks to this. The inflationary aspect of Russia's invasion of Ukraine has so far been most acutely felt through the pricing in energy markets, with consumers facing rising fuel and heating costs. This could be further exacerbated by calls for European nations to boycott Russian energy imports, which provide the Kremlin with approximately $400 million

[1] Note: US GDP has been restated to be consistent with the calculation method in other regions.

per day. Furthermore, the increasing focus on energy security is likely to cause sustained upward pressure on consumers' energy bills. Food costs, particularly wheat, have also increased due to the war given that Russia and Ukraine are among the world's largest exporters. Nonetheless, wage growth has so far lagged behind inflation, despite a tight labour market. If this were to change it is likely to keep inflation above the policy target rate for longer.

Monetary policy is tightening, and interest rates are increasing, but rates remain negative in real terms: The Federal Reserve increased interest rates by 25bps on 16th March, their first increase since 2018, with the expectation that US rates may peak around 3% in 2023. In addition, the Fed is expected to start briskly reducing its holdings of high-quality bonds ("quantitative tightening"), which could put more upward pressure on long term rates and tighten credit conditions. The Bank of England also increased the base rate by 25bps in both February and March (to 0.75%) while more hawkish members of the ECB have called for the next rate hike as early as the summer.

Increasing risk of recession: With many of the inflationary pressures being "supply-side", the ability of the central banks to rein in price rises without causing a recession is coming under increased scrutiny. The recent inversion of the US yield curve (with 10-year yields falling below 2-year yields, implying expectations of weakening growth) added to concerns. Market expectations still do not have a recession as the "base case" - employment remains high, consumers well financed and post-COVID recovery momentum continues – but it is no longer a "tail risk". Europe looks more exposed that the US, due to its greater exposure to Russian energy and emerging market exports.

Summary and Market Background

The value of the Fund in the quarter fell slightly to £3.5bn, a decrease of £79m compared to the end December value of £3.58bn. The Fund produced a return of -2.9%% over the quarter, which was -0.9% behind the benchmark. The main reason for the underperformance was due to both of the active equity mandates performing poorly against benchmark along with the property and fixed income investments. The equity protection strategy has made a positive contribution to performance. Over a 12-month period the Fund recorded a negative relative return against the benchmark of -1.6% (6.7% v. 8.3%). The Fund has performed inline or 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 dynamic 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. This has now been finalised. A provisional allocation of £30m was also made to the LGPS Central Infrastructure Fund, subject to detailed proposals being approved. Progress has continued with an investment of a minimum of £150m into Gresham House Forestry Funds, spread over three years, which will be held within the property portfolio. The first tranche of £50m committed and already substantially drawn down is into the Gresham House Forestry Growth & Sustainability Fund, with a further £65m committed to the Gresham House Forest Fund VI, with a large draw down due in April. Consideration will now be given to the options available for the final tranche within this current allocation.

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 seeking to maintain or enhance returns in a risk-controlled manner. Following the PISC approval 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 transitions took place in October and November respectively. These elements contained the highest exposures to carbon within the Fund, so this clearly demonstrates that decisive action has followed on from the research and discussions that have taken place over the last two years. Following due consideration at the PISC meeting on 24th November, it was agreed that 15% of the value of the passive market capitalisation portfolio would be transitioned to the LGPSC Global Sustainable Investment Fund, allocated to Liontrust (60%) and Baillie Gifford (40%). Post the period end, £200m was duly transitioned to this Fund. Now it is time to pause, while the Triennial valuation is undertaken and the outcomes from that are considered in the Strategic Asset Allocation Review later in the year.

Performance during Q1 2022 has again been a bit of a mixed bag, although on this occasion we have succeeded in being in some of the right places, like UK equities. The sad events in Ukraine understandably unsettled markets, although from the Fund perspective valuations held relatively steady at the quarter end. It is going to take some time for all the implications to work through, both at the economic level but also on the global political level. Clearly there are some major inflationary issues to consider around commodities, not just energy related but food and materials as well. 15% of UK timber supply is from Russia, so that will need to be re-sourced! With the notable exception of the UK, most equity and bond markets had a challenging quarter, with a not surprising increase in volatility. Our active equity managers certainly struggled, but to be fair to them this was to be expected. Our managers are unlikely to have an exposure to Saudi oil stocks for example, which rose 50%! These are unusual times in which usual disciplines will be challenged. In performance terms Nomura (Pacific) showed an underperformance of -2.8%, with China being the most problematic element. LGPS Central (Emerging Markets) really had a torrid quarter, underperforming by -6.8%, with all three managers contributing their own woes to that. LGPS Central (Corporate Bonds) were -0.3% behind their benchmark. The total property fund showed an underperformance against our own benchmark of -2.8%, but is showing an improving trend. The result is probably not helped by the lagged reports that some of the managers have, so showing December numbers against a March benchmark position. Infrastructure performed well, which given our heavier weighting versus property enhanced the total alternatives performance.

The passive equities outperformed the alternative passive strategies by 3.3% (-1.8% v. -5.1%). Passive equities outperformed active market equities by 3.1% (-1.8% v. -6.7%), which reflects the average better performance from the passive index markets in comparison to the Far East and Emerging Markets portfolios. Out of the passive geographies, the UK won this time, up 0.6% over the quarter, while North America was down -2.0% and Europe down -7.2%.

Equities

Global equities had a challenging Q1. All tracked indexes, except for UK equities, suffered significant declines but followed differing paths. In March, most of the developed markets had regained some lost ground as the stalling Russian invasion eased fears of the conflict extending beyond Ukraine's borders. Unsurprisingly, the VIX increased by 19.4% in Q1, from 17.2 to 20.6.

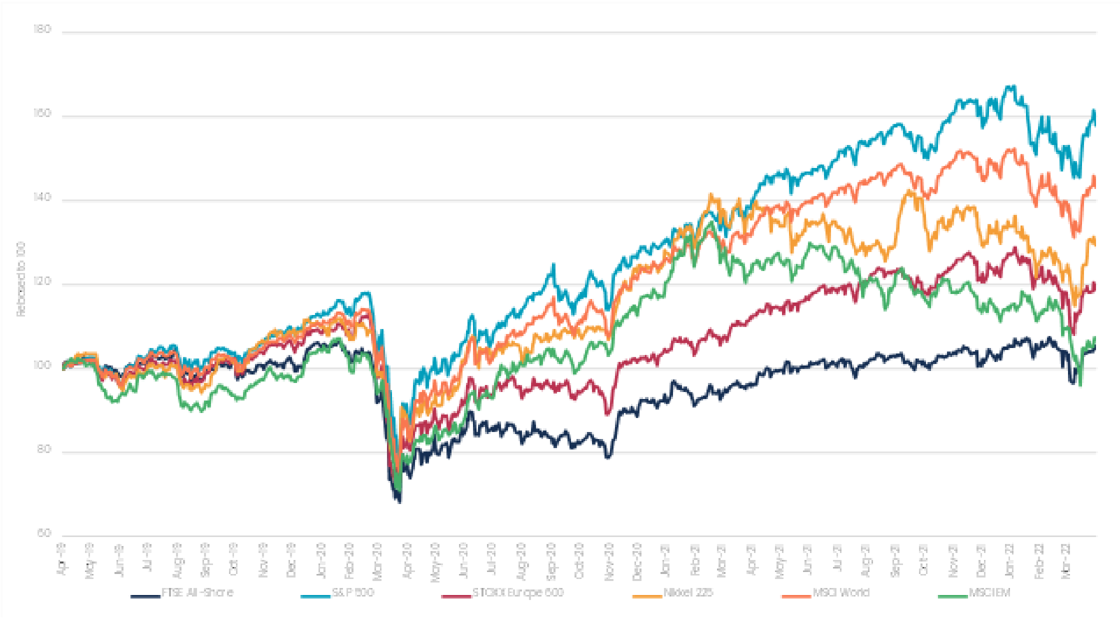
US equities, measured by the S&P 500, posted large losses over Q1 with the S&P 500 falling -5.2% and the tech-heavy NASDAQ falling by -8.9%. The communication services, technology, and consumer discretionary sectors all declined while energy and utility companies were positive, and defence stocks enjoyed double-digit growth over the quarter.

UK equities performed well over Q1, with both the FTSE 100 (+2.9%) and FTSE All-Share (+0.5%) indices delivering positive returns. Defence stocks along with the oil, mining, healthcare, and banking sectors all provided tailwinds for UK large caps. The consumer-focused constituents of the small and mid-cap sectors contributed to their underperformance

The Euro Stoxx 50 declined by -8.9% over Q1. Having started the quarter suffering more muted losses than other markets, the geopolitical impact of Russia's invasion caused significant pain across European markets. While sanctions have an obvious adverse effect on trade and capital flows, Russia's position as one of Europe's foremost energy suppliers reflects both further inflationary pressure and concerns around energy security. As such the energy sector was the only source of positive returns while consumer discretionary and information technology were hit hardest.

Emerging market equities fell over the quarter (-7.0%). The Moscow based MOEX Index declined around -30%, suffering widespread disruption and suspension of normal trading. This was followed by the removal of Russia from the MSCI Emerging Markets Index on 9th March. Chinese stocks also declined as China's zero-Covid policy faltered with surging cases and tens of millions of citizens placed under lockdown. The continued disruption was caused by the de-listing of some Chinese stocks from foreign exchanges. Brazilian markets continued to perform strongly with other net commodity exporters in the Gulf states and South Africa enjoying quarterly gains.

Global Equity Markets Performance



Source: Bloomberg. All in local currency.
FTSE All- Share Index (Ticker: ASX Index)   S&P 500 Index (Ticker: SPX Index)   STOXX Europe 600 (Ticker: SXXP Index)
Nikkei 225 Index (Ticker: NKY Index)   MSCI World Index (Ticker: MXWO Index)   MSCI Emerging Markets (Ticker: MXEF Index)

Fixed Income

Global bonds were unusually volatile given the geopolitical situation and the macro-economic backdrop of accelerating inflation and interest rate hikes which underpinned the rise in bond yields. Investors rotated toward safe-haven assets as the war began in February but soon appeared to change stance. Government bond yields rose sharply (prices fell) in Europe, the UK, and the US due to monetary normalisation. Corporate bonds also saw significant negative returns and performed broadly in line with government bonds over the quarter.

The 10-year US Treasury Bond yield ended the quarter 83 basis points higher at 2.34%, with Treasuries as a whole providing a total return of -5.6%, with the 2-year yield rising from 0.73% to 2.34%. The 2-year and 10-year portion of the US Treasury yield curve flattened, briefly inverting in March for the first time since 2019 which sent a potential warning sign of a coming recession within a one-to-two-year window. To combat the 40-year high US inflation, which reached 8.5% in March, the US Federal Reserve raised interest rates to a target range of 0.25% to 0.5%, which was the first increase since 2018. The unemployment rate edged down to 3.6% and stood at its lowest level since before the pandemic, bolstering the case for the Fed to speed up the tightening of monetary policy in the fight against inflation.

The 10-year Gilt yield increased from 0.97% to 1.61%, with Gilts delivering a total return of -7.2%. Given the UK CPI jumped to a 30-year high of 7.0% in March 2022, the Bank of England raised rates twice in Q1, reaching 0.75% from 0.25% in December 2021. This was done despite concerns around the UK economic outlook and particularly the cost-of-living pressures on households, causing a significant purchasing power squeeze due to higher energy bills. Index-linked Gilts had returned -5.5% as the positive effect of higher inflation expectations were more than offset by the impact of increased interest rates.

European government bonds provided a total return of -5.3%. The ECB pivoted towards a more hawkish stance in February and outlined a plan to end bond purchases. The ECB further indicated that a first interest rate rise could potentially come in 2022. The annual Eurozone inflation rate surged to a record high of 7.5% in March, the highest since the introduction of the euro in 1992. The euro area unemployment rate dropped to 6.8% in February, the lowest level on record.

US high-yield bonds aligned with the global bonds market, returning -4.8%, with -4.1% performance for European high-yield bonds. Investment-grade bonds returned -6.5% in the UK, -5.3% in Europe and -7.7% in the US.

Currencies

In the first quarter of 2022, Sterling weakened against the Dollar (-0.3%) and the Euro (-2.9%), with rising living costs, weakening consumer sentiment, and greater uncertainty over inflation all undermining confidence in the UK's economic outlook. The Dollar had a strong quarter (Dollar Index +2.8%). The Euro weakened notably against the Dollar (-2.5%) as investors favoured the US over Europe amid heightened uncertainty. The Russian rouble experienced a sharp devaluation, with the decision to invade Ukraine being met by powerful economic retaliation from the West, severely threatening financial stability in Russia.

Commodities

Energy prices soared in the first quarter of 2022 with the Russian-Ukraine conflict putting further pressure on already rising prices. The situation exacerbated the effect of rising energy demand and ongoing supply constraints, which had already put upward pressure on energy prices in January. Precious metals also surged, with investors moving into traditional safe-haven assets following the Russian invasion.

Natural gas prices spiked to $5.64/MMBtu (+51.3%) in the US and to $39.22/MMBtu (+70.0%) in Europe. Russian gas is still flowing through to Europe in large quantities, but investors fear that these supplies could be disrupted by Western sanctions, or even cut off completely as fighting in Ukraine intensifies. Europe currently receives around 40% of its gas supplies from Russia, so is more reluctant to impose sanctions than the US, which has already banned Russian gas imports, and the UK, which will phase out imports by the end of the year. Nonetheless, Germany suspended certification of the Russian Nord Stream 2 pipeline.

Brent crude oil also experienced soaring prices in Q1 (+38.7%) and reached an intra quarter high of $128 a barrel, reflecting uncertainties about disruptions to supply and further sanctions related to Russia's invasion. The US was able to ban imports of oil from Russia due to its relatively low dependence on Russian supply.

Wheat recorded sharp price gains (CBOT Wheat +30.5%) on supply fears, with Russia and Ukraine together accounting for around 30% of global wheat exports. Wheat is a staple food upon which the most vulnerable depend on, so this disruption could have far-reaching consequences for global food security, with Egypt imposing price caps on bread.

Gold and Silver prices rose +6.6% and +7.6% respectively in Q1 as investors sought haven assets.

Nickel prices rose 54.7% over the month to $32,107/t. Trading of the metal on the London Metal Exchange was suspended in mid-March following a short squeeze, with prices doubling to a new record high during a single morning. The LME scrapped $3.9bn of trades prior to closing the market, stating that prices no longer reflected the underlying physical market.

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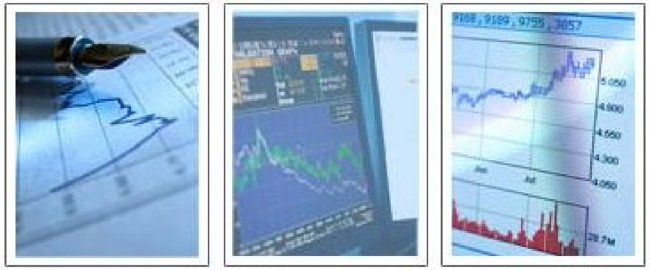
PORTFOLIO
EVALUATION
LIMITED



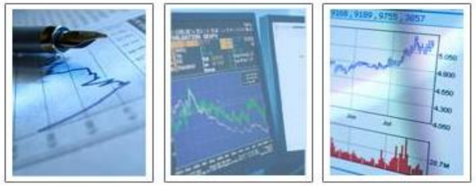
Specialists in Investment Risk and Return Evaluation

Quarterly Risk and Return Analysis
Total Fund

Worcestershire County Council Pension Fund

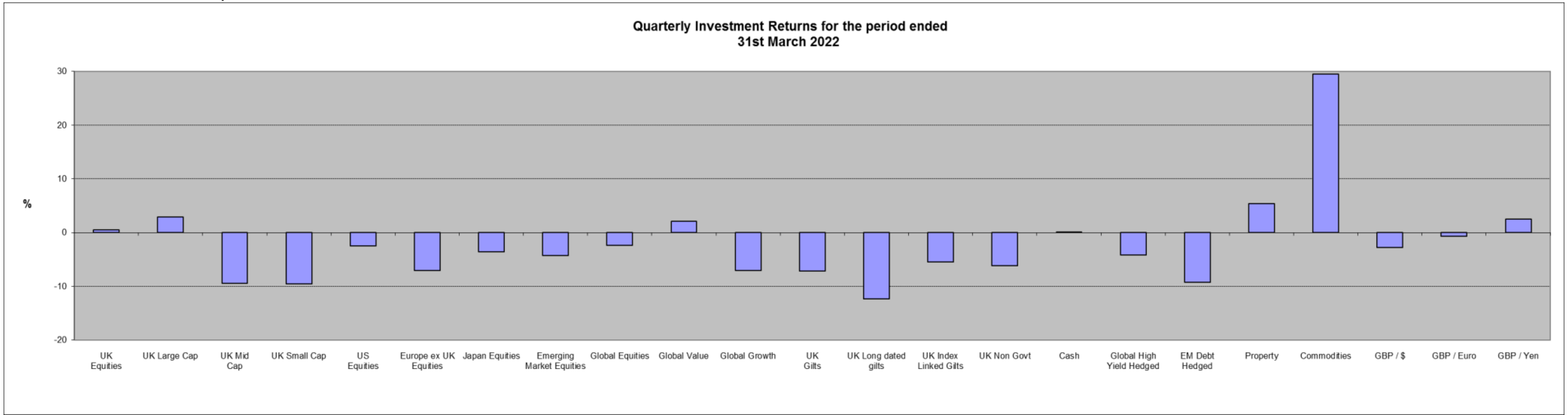
Period ending 31st March 2022

Contents



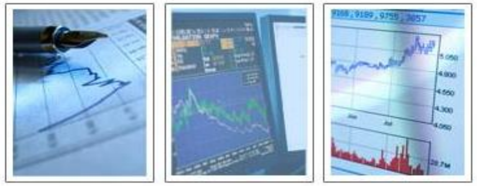
Portfolio Evaluation Ltd Market Commentary Q1 2022 (Sterling)

Quarter one has witnessed markets performing negatively for the first time in a while; in fact, excluding global value, property and commodities, all primary listed asset classes have had negative returns. Looking at the year results, equity markets are still largely positive (except for Japan and Emerging Markets). Bonds, except for inflation linked, have had negative returns for the year. Within global sectors, the majority have had positive returns with notable high returns from Energy, Materials, Commodities, Financials, and Healthcare. The most notable negative returns over the year have been from China, Germany, Utilities, and Consumer Discretionary.

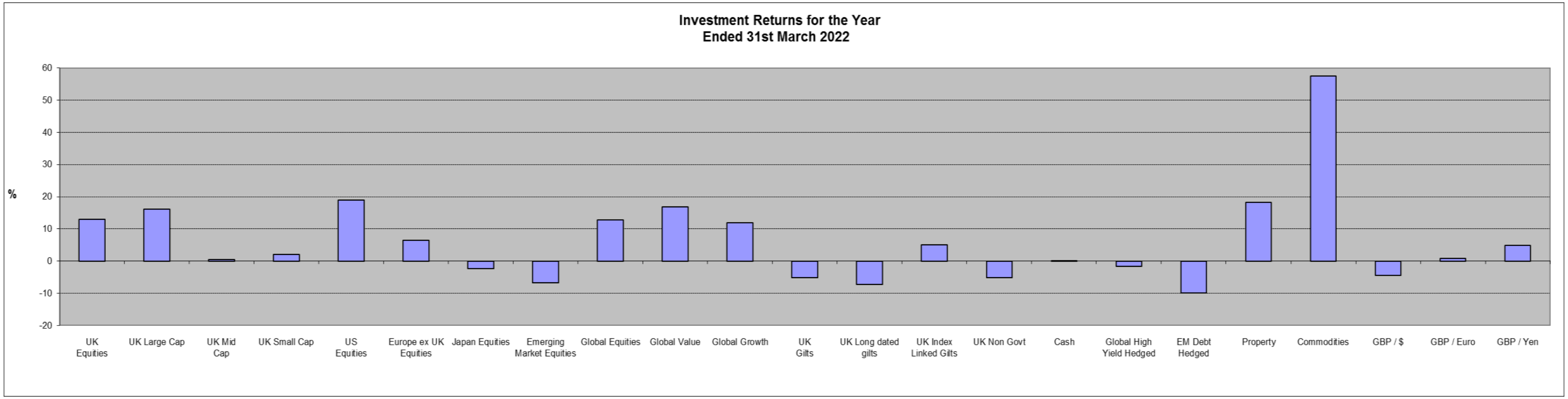


Going into 2022, many economic commentators expect global economic growth to continue, albeit at a lower rate than 2021, partly due to potential consumption growth due to rising income and partly to a continued recovery post COVID. This was derailed this quarter as we are witnessing the first large scale war in Europe since the second world war as Russia invaded Ukraine. It should be noted that prior to the war we were already seeing increasing inflation (and subsequent interest rate rises), energy supply shortages and general supply problems; the war has exacerbated many of these problems. Many market commentators, whilst remaining overweight equities, commodities, and alternative investments and remaining cautious about government bonds and corporate bonds, have gone quiet as they digest the impact of what appears to be a potential long-term war. There are several factors generating market uncertainty that will influence markets including:

- The war is the biggest unknown, how long will it continue? Will it spread? How deeply will it affect global supply?
- Inflation – this is increasing throughout the world and whilst it may be persistent (particularly in those sectors that have already witnessed high inflation) most commentators now expect this to persist until at least 2023.



- Supply chain issues – these are expected to persist as, due to the war, energy prices continue to increase, indeed in the UK it is expected that a large number of households will be subject to 'fuel poverty'. Additionally, food prices are also continued to increase further, increasing poverty.
- Energy prices – a large issue particularly in Europe and the UK. High increases in costs are expected and could dampen consumer demand unless well managed by governments. Given the lack of coherent energy policies in the UK for the last ten years this situation will worsen. Europe will be impacted by weaning itself off Russian energy.
- We must also be aware of the impact and need to address moving to a carbon neutral world. In 2022 we have already witnessed an increase in natural problems, be they drought, high temperatures, flooding or fires etc., causing problems on a global scale. The UNCCC (COP 26) held in Glasgow in 2021 had hoped to establish a global road map towards being carbon neutral. The lack of concrete plans and the 'kicking the can down the road' approach of many key countries has resulted in it being a 'cop out'. This topic is now on the back burner as we deal with the energy crisis etc.
- Whilst the US will face supply issues, Europe potentially faces stagflation as it is more directly impacted by the war than the US.



Risk within asset classes and correlations has increased over the year. The outlook for market risk is uncertain .

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 31st March 2022

QUARTERLY SUMMARY: **Worcestershire County Council Pension Fund Return: -2.9%** **Benchmark Return: -2.0%** **Excess Return: -0.9%**

- The Fund has had some of its new alternative asset portfolios starting drawdowns recently. Additionally the Total Fund benchmark has been restructured to accommodate the Total Fixed Income asset group.

- The Fund and its benchmark have both generated negative returns, and the Fund has underperformed its benchmark by -0.9% excess. The EPO over this period has had a positive influence on the excess return and the Total Fund return. Other areas of positive excess have been generated via the outperforming Infrastructure assets. along with both active equity portfolios. The primary areas of underperformance have been generated by Active Equities (both the Nomura Far East portfolio and the LGPSC EMM equity portfolio); additionally property and Fixed Income assets have underperformed.

- Within the primary asset classes, infrastructure assets were the highest returning generators over the quarter at 3.0% outperforming their respective benchmark of 2.5%. Equity assets (inc EPO) generated a return of -3.6% whilst equities ex EPO the return was a lower -3.8% (i.e. the EPO has added value this quarter). Within equities, the alternative pool was the lowest return generator at -6.7% whilst the total active portfolios were both generators of negative returns Property generated a return of 1.2% whilst bonds had a return of -6.5% underperforming their benchmark by 3.0%. Index Funds have performed, as expected, in line with the benchmark.

- The Fund continues to be impacted negatively by being underweight UK equities as this has provided the collateral for the EPO strategy (this is held in short dated bonds) therefore reducing the exposure to this asset group. In effect, the Fund may appear to have a negative excess return contribution due to benchmark mismatch as the benchmark has not been adjusted to reflect the collateral programme. However please note that the structure and objective of the EPO (including the collateral) is expected to counterbalance this underweight UK position and return expectations; it has generally achieved this.

- The Fund has been negatively impacted by Property as this has 'lagged' the primarily listed equity benchmark. The recently established Total Fixed Income asset class has underperformed and is underweight its strategic asset allocation.

- The latest valuation data supplied by Bridgepoint, Green Investment Bank, Gresham House, Hermes, Invesco – UK Property Fund, Stonepeak Partners, VENN and Walton Street is lagged by three months and was for periods ending March 2022.

YEAR SUMMARY: **Worcestershire County Council Pension Fund Return: 6.7%** **Benchmark Return: 8.3%** **Excess Return: -1.6%**

- The Fund and its benchmark have both generated positive returns, but the Fund has underperformed its benchmark by -1.6% 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 relatively strong performance over the last twelve months). With the exception of the infrastructure pool and total passive equities all other primary asset classes have underperformed. It should be noted that many of the Alternative asset pools are investing in new portfolios; these types of portfolios often underperform initially due to the expenses of these funds 'investing' and that it takes time for many of these vehicles to generate positive significant returns.

- 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) therefore reducing the exposure to this asset group. In effect, the Fund may appear to have a negative excess return contribution due to benchmark mismatch as the benchmark has not been adjusted to reflect the collateral programme. However please note that the structure and objective of the EPO (including the collateral) is expected to counterbalance this underweight UK position and return expectations; it has generally achieved this. The options overlay programme has increased the Fund return over the year and has performed as expected (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.

- Infrastructure assets generating a return of 14.7%. Equity assets were the next highest return generators over the year and excluding the overlay generated a return of 5.7%. Within equities the passive pool was the highest return generator closely followed by the alternatives generating similar returns of 14.3% and 11.7% respectively. The active equity pool were low returning assets at -6.8% and underperformed their respective benchmark by -4.5% excess. Nomura generated a return of -2.9% underperforming their benchmark by -1.4% whilst the LGPSC Emerging portfolio generated a negative -10.9% return versus its -3.3% returning benchmark.

- Within bonds, the LGPS Central Corporate Bond Fund generated a negative return of -5.2% underperforming its benchmark by 0.3% whilst corporate debt generated a negative return of -0.7% and underperformed the return of its benchmark. Property generated a return of 5.9% and has underperformed by -11% excess. Infrastructure had a return of 14.7% and outperformed by 3.4%.

<u>THREE YEAR SUMMARY:</u> Worcestershire County Council Pension Fund Return: 7.9% p.a. Benchmark Return: 7.6% p.a. Excess Return: 0.2% p.a.

- Over the three-year period, the Fund has generated a positive return of 10.6% and has performed the benchmark by 0.2%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 and given the volatility and variation in returns in markets this is liable to easily fluctuate (relative to benchmark). This is to be expected as equity markets have been largely positive. However, it should also be noted that the EPO strategy has lowered the volatility of the Fund as expected.

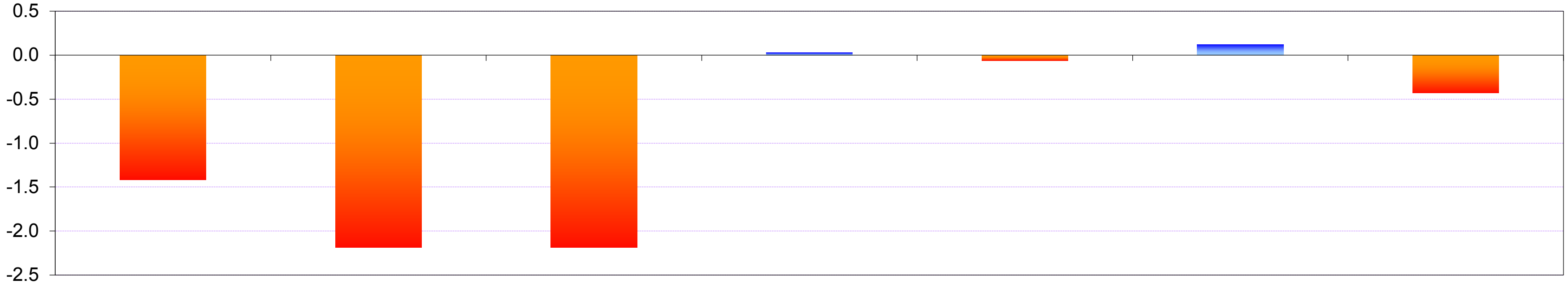
- The Total Risk and Active risk are consistent with a typical multi asset class fund that uses both passive and active strategies.

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 March 2022

PORTFOLIO EVALUATION LIMITED

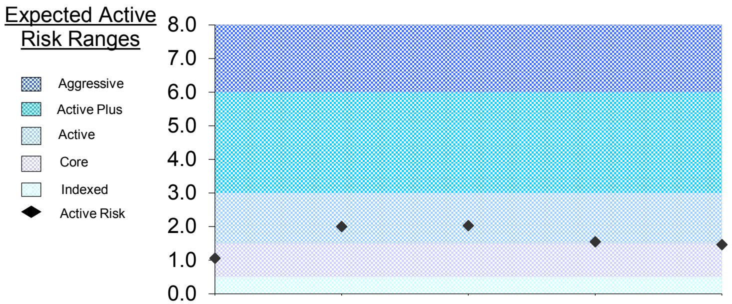
Excess Return Analysis (%)



	QTR	Fin YTD	1 Yr	3 Yr	5 Yr	10Yr	Since Mar 87 (p.a.)
Excess Return	-1.4	-2.2	-2.2	0.0	-0.1	0.1	-0.4
Portfolio Return	-2.9	6.7	6.7	7.9	6.7	8.9	8.0
Benchmark Return	-1.4	8.9	8.9	7.8	6.7	8.7	8.4

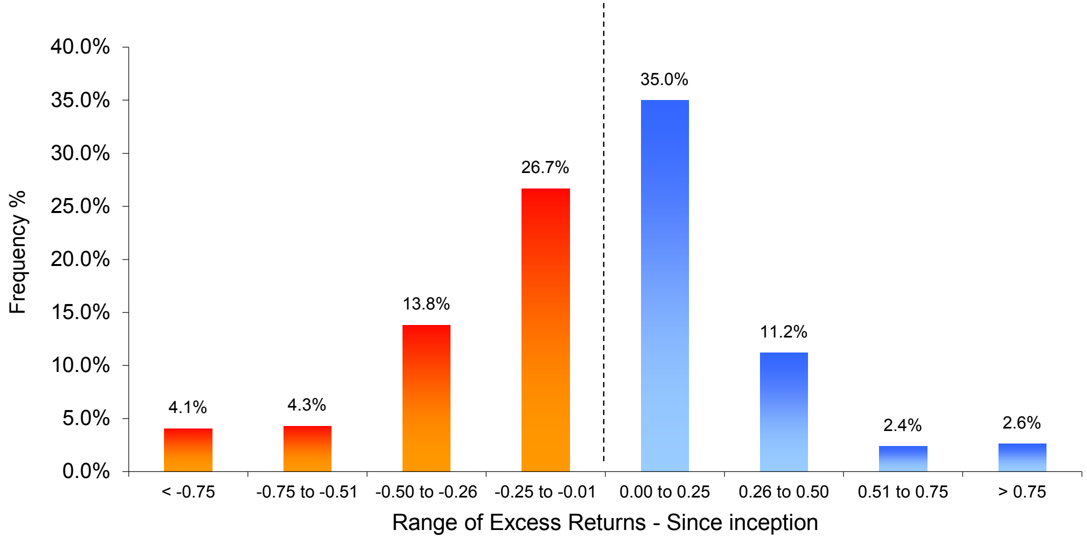
All returns for periods in excess of 1 year are annualised. The portfolio return is net.

Ex-Post Active Risk Analysis (%)



	1 Yr	3 Yr	5 Yr	10 Yr	Mar 87
Active Risk	1.1	2.0	2.0	1.6	1.5
Portfolio Risk	5.8	8.3	7.6	8.4	12.3
Benchmark Risk	5.3	9.6	8.8	8.8	12.2

Excess Return Consistency Analysis



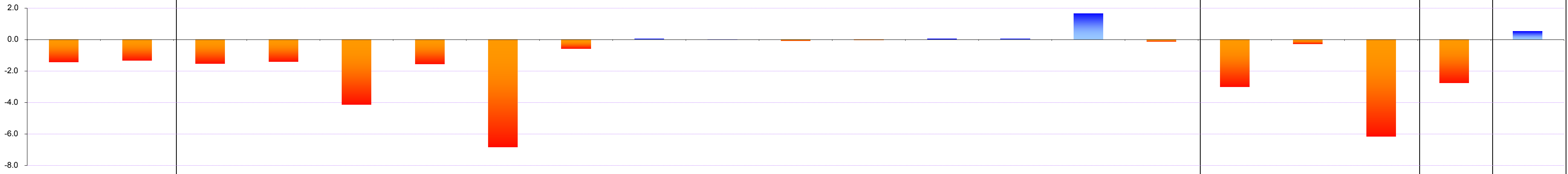
Ex-Post Active Risk measures the volatility of the actual excess returns achieved by the Portfolio/Fund.
Excess Return Consistency Analysis measures the frequency of the Portfolio/Fund's outperformance (Blue) and underperformance (Red) versus its benchmark, calculated using monthly (or quarterly if indicated) returns since inception.

Attribution to Total Fund Excess Return Analysis
Worcestershire County Council Pension Fund
for Quarter Ended 31st March 2022

PORTFOLIO EVALUATION LIMITED

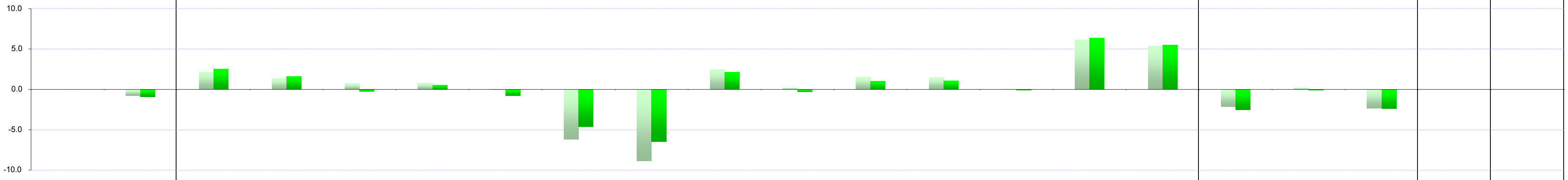
Market Value: £3.5bn

Returns Summary (%)



	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*	MSCI Wld Qual - L&G	AW Passive Climate Factor Fund - LGPSC	*R&M EPO*	*R&M EPO ex Overlay*	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Excess Return	-1.4	-1.3	-1.5	-1.4	-4.1	-1.5	-6.8	-0.6	0.1	0.0	-0.1	0.0	0.0	0.1	1.7	-0.1	-3.0	-0.3	-6.2	-2.8	0.5
Portfolio Return	-2.9	-3.0	-3.6	-3.8	-6.7	-4.3	-9.3	-1.8	0.6	-2.0	-7.2	-5.1	-5.7	-3.9	1.7	-0.1	-6.5	-7.0	-4.7	1.2	3.0
Benchmark Return	-1.4	-1.7	-2.1	-2.4	-2.6	-2.8	-2.5	-1.3	0.5	-2.0	-7.1	-5.1	-5.8	-4.0	0.0	0.0	-3.5	-6.7	1.5	4.0	2.5

Asset Allocation Summary (%)

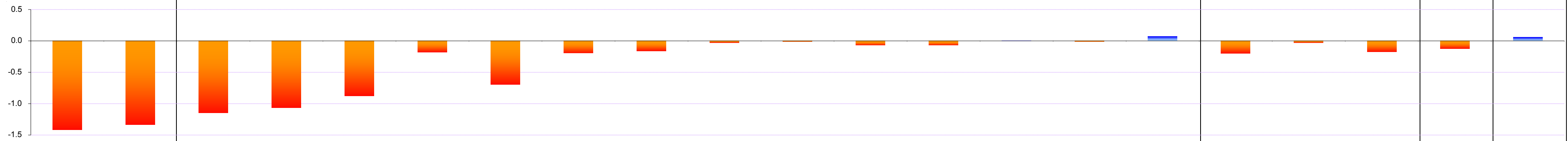


Net Exposure Start

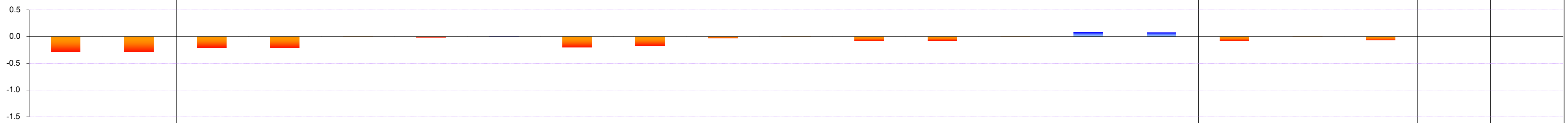
Net Exposure End

	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*	MSCI Wld Qual - L&G	AW Passive Climate Factor Fund - LGPSC	*R&M EPO*	*R&M EPO ex Overlay*	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Portfolio Start	100.0	99.2	76.5	75.7	20.7	10.8	9.9	33.1	15.9	10.5	6.7	16.5	10.5	6.0	6.1	5.4	7.9	6.2	1.7	4.4	11.3
Portfolio End	100.0	99.1	74.4	73.5	19.8	10.5	9.2	32.3	15.9	10.2	6.2	16.0	10.1	5.9	6.4	5.5	7.5	5.9	1.6	5.8	12.3
Benchmark Start	100.0	100.0	74.3	74.3	20.0	10.0	10.0	39.3	24.8	8.0	6.5	15.0	9.0	6.0	0.0	0.0	10.0	6.0	4.0	4.4	11.3
Benchmark End	100.0	100.0	71.9	71.9	20.0	10.0	10.0	36.9	22.4	8.0	6.5	15.0	9.0	6.0	0.0	0.0	10.0	6.0	4.0	5.8	12.3

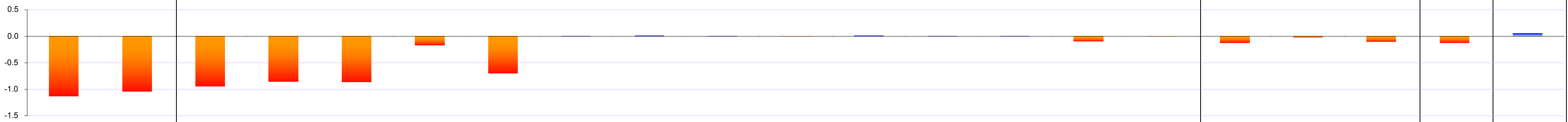
Attribution to Excess Return (%)



	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*	MSCI Wld Qual - L&G	AW Passive Climate Factor Fund - LGPSC	*R&M EPO*	*R&M EPO ex Overlay*	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Excess Return	-1.4	-1.3	-1.1	-1.1	-0.9	-0.2	-0.7	-0.2	-0.2	0.0	0.0	-0.1	-0.1	0.0	0.0	0.1	-0.2	0.0	-0.2	-0.1	0.1



	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*	MSCI Wld Qual - L&G	AW Passive Climate Factor Fund - LGPSC	*R&M EPO*	*R&M EPO ex Overlay*	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Asset Allocation	-0.3	-0.3	-0.2	-0.2	0.0	0.0	0.0	-0.2	-0.2	0.0	0.0	-0.1	-0.1	0.0	0.1	0.1	-0.1	0.0	-0.1	0.0	0.0



	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*	MSCI Wld Qual - L&G	AW Passive Climate Factor Fund - LGPSC	*R&M EPO*	*R&M EPO ex Overlay*	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Stock Selection	-1.1	-1.0	-0.9	-0.9	-0.9	-0.2	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	0.0	-0.1	-0.1	0.1

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 31st March 2022

PORTFOLIO EVALUATION LIMITED

Market Value: £3.5bn

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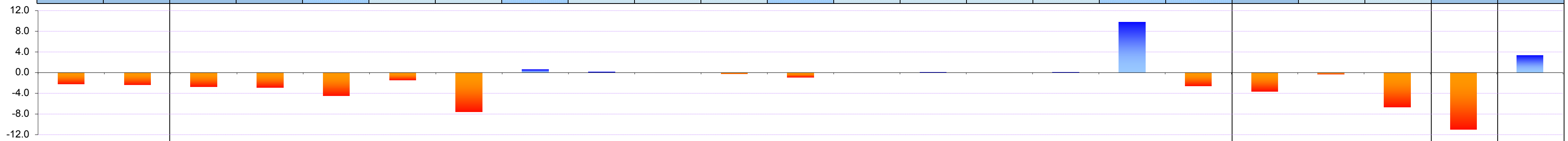
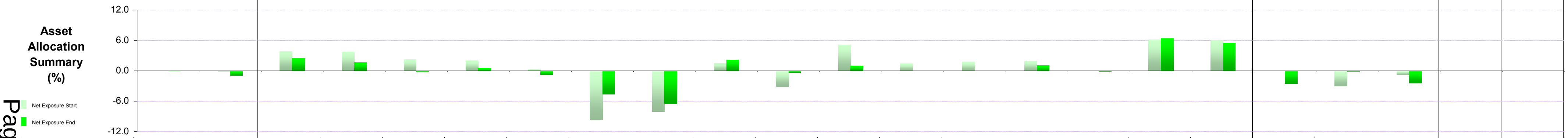
	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	*Total Passive*	UK - L&G	North American - L&G	Europe ex UK - L&G	*Total Alts*	RAFI Fdmntl Dev (inc Korea) Red Carbon Pathway Index Fund - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	AW Passive Climate Factor Fund - LGPSC	*R&M EPO*	*R&M EPO ex Overlay*	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra

Returns Summary (%)



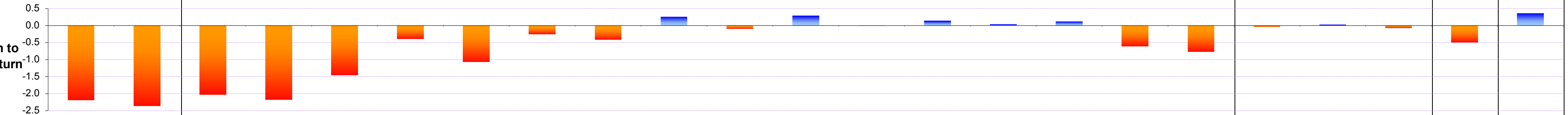
	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	Total Active	Far East Dev - Nomura	EMM - LGPSC	Total Passive	UK - L&G	North American - L&G	Europe ex UK - L&G	Total Alts	RAFI Fdmntl Dev (inc Korea) Red Carbon Pathway Index Fund - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	AW Passive Climate Factor Fund - LGPSC	R&M EPO	R&M EPO ex Overlay	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Excess Return	-2.2	-2.4	-2.7	-2.8	-4.5	-1.4	-7.6	0.6	0.1	0.0	-0.3	-0.9	0.0	0.1	0.0	0.1	9.8	-2.6	-3.6	-0.3	-6.7	-11.0	3.4
Portfolio Return	6.7	6.0	6.6	5.7	-6.8	-2.9	-10.9	14.3	13.2	19.7	6.2	11.7	8.3	11.8	17.5	-2.7	9.8	-2.6	-4.2	-5.2	-0.7	5.9	14.7
Benchmark Return	8.9	8.3	9.3	8.5	-2.3	-1.5	-3.3	13.7	13.0	19.7	6.5	12.6	8.3	11.8	17.5	-2.8	0.0	0.0	-0.6	-4.9	6.0	17.0	11.4

Asset Allocation Summary (%)

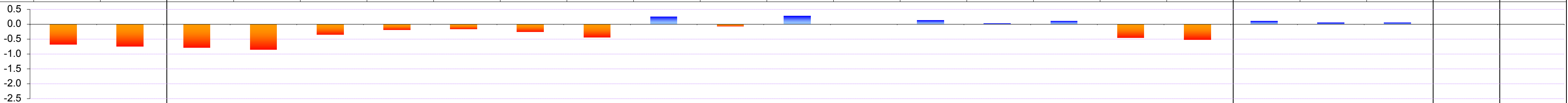


	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	Total Active	Far East Dev - Nomura	EMM - LGPSC	Total Passive	UK - L&G	North American - L&G	Europe ex UK - L&G	Total Alts	RAFI Fdmntl Dev (inc Korea) Red Carbon Pathway Index Fund - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	AW Passive Climate Factor Fund - LGPSC	R&M EPO	R&M EPO ex Overlay	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Portfolio Start	100.0	99.9	78.5	78.4	26.2	14.0	12.3	31.0	12.1	12.5	6.4	15.2	3.4	5.8	5.9	0.0	6.1	6.0	0.0	4.9	1.3	4.7	10.6
Portfolio End	100.0	99.1	74.4	73.5	19.8	10.5	9.2	32.3	15.9	10.2	6.2	16.0	0.0	0.0	10.1	5.9	6.4	5.5	7.5	5.9	1.6	5.8	12.3
Benchmark Start	100.0	100.0	74.7	74.7	24.0	12.0	12.0	40.7	20.2	11.0	9.5	10.0	2.0	4.0	4.0	0.0	0.0	0.0	0.0	7.9	2.1	4.7	10.6
Benchmark End	100.0	100.0	71.9	71.9	20.0	10.0	10.0	36.9	22.4	8.0	6.5	15.0	0.0	0.0	9.0	6.0	0.0	0.0	10.0	6.0	4.0	5.8	12.3

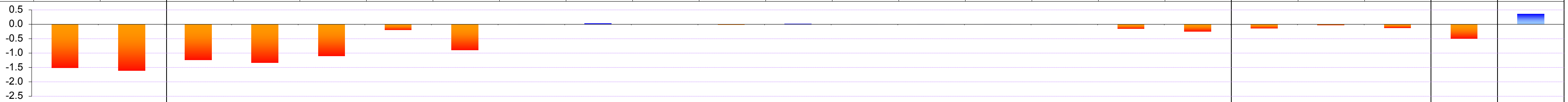
Attribution to Excess Return (%)



	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	AW Passive Climate Factor Fund - LGPSC	R&M EPO	R&M EPO ex Overlay	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Excess Return	-2.2	-2.4	-2.0	-2.2	-1.4	-0.4	-1.1	-0.2	-0.4	0.3	-0.1	0.3	0.0	0.1	0.0	0.1	-0.6	-0.8	0.0	0.0	-0.1	-0.5	0.4



	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	AW Passive Climate Factor Fund - LGPSC	R&M EPO	R&M EPO ex Overlay	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Asset Allocation	-0.7	-0.7	-0.8	-0.8	-0.4	-0.2	-0.2	-0.3	-0.4	0.3	-0.1	0.3	0.0	0.1	0.0	0.1	-0.5	-0.5	0.1	0.0	0.1	0.0	0.0



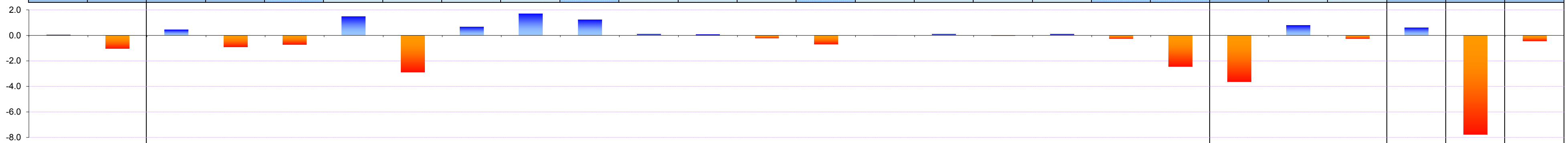
	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	Total Active	Far East Dev - Nomura	EMM - LGPSC	Total Passive	UK - L&G	North American - L&G	Europe ex UK - L&G	Total Alts	RAFI Fdmntl Dev (inc Korea) Red Carbon Pathway Index Fund - L&G	MSCI Wld Min Vol - L&G	MSCI Wld Qual - L&G	AW Passive Climate Factor Fund - LGPSC	R&M EPO	R&M EPO ex Overlay	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Stock Selection	-1.5	-1.6	-1.2	-1.3	-1.1	-0.2	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.1	0.0	-0.1	-0.5	0.4

Attribution to Total Fund Excess Return Analysis - Annualised
Worcestershire County Council Pension Fund
for 3 Year Period Ended 31st March 2022

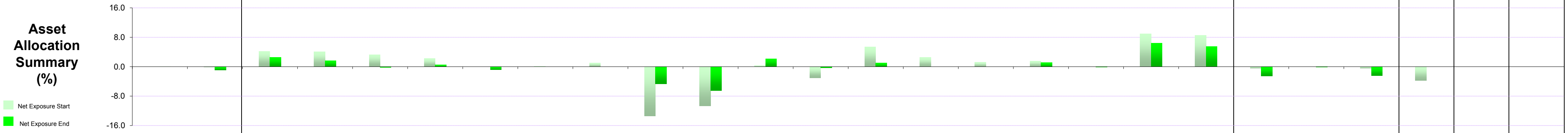
Market Value: £3.5bn

	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	AW Passive Climate Factor Fund - LGPSC	*R&M EPO*	*R&M EPO ex Overlay*	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	JP Morgan Corp Bond	Total Property	Total Infra
Returns Summary (%)																										
Excess Return	**0.0**	**-1.0**	**0.4**	**-0.9**	**-0.7**	1.5	-2.9	0.7	1.7	**1.2**	0.1	0.1	-0.2	**-0.7**	0.0	0.1	0.0	0.1	**-0.3**	**-2.4**	**-3.6**	0.8	**-0.2**	**0.6**	**-7.8**	**-0.4**
Portfolio Return	**7.9**	**7.6**	**8.6**	**8.3**	**5.8**	8.4	1.1	4.4	5.5	**11.2**	5.4	18.5	9.6	**10.4**	11.3	7.7	17.9	-2.7	**-0.3**	**-2.4**	**-4.2**	4.7	**6.3**	**7.6**	**2.6**	**9.1**
Benchmark Return	**7.8**	**8.7**	**8.1**	**9.2**	**6.5**	6.9	3.9	3.8	3.8	**10.0**	5.3	18.4	9.8	**11.1**	11.3	7.6	17.9	-2.8	**0.0**	**0.0**	**-0.6**	3.9	**6.5**	**7.0**	**10.4**	**9.5**
Asset Allocation Summary (%)																										
Portfolio Start	**100.0**	**99.9**	**83.1**	**83.0**	**27.3**	14.2	0.0	6.1	7.0	**31.5**	13.8	11.3	6.5	**15.3**	5.9	4.6	4.9	0.0	**8.9**	**8.5**	**0.5**	0.0	**0.5**	**5.4**	**5.1**	**5.9**
Portfolio End	**100.0**	**99.1**	**74.4**	**73.5**	**19.8**	10.5	9.2	0.0	0.0	**32.3**	15.9	10.2	6.2	**16.0**	0.0	0.0	10.1	5.9	**6.4**	**5.5**	**7.5**	5.9	**1.6**	**0.0**	**5.8**	**12.3**
Benchmark Start	**100.0**	**100.0**	**78.9**	**78.9**	**24.0**	12.0	0.0	6.0	6.0	**44.9**	24.4	11.0	9.5	**10.0**	3.3	3.3	3.3	0.0	**0.0**	**0.0**	**0.9**	0.0	**0.9**	**9.1**	**5.1**	**5.9**
Benchmark End	**100.0**	**100.0**	**71.9**	**71.9**	**20.0**	10.0	10.0	0.0	0.0	**36.9**	22.4	8.0	6.5	**15.0**	0.0	0.0	9.0	6.0	**0.0**	**0.0**	**10.0**	6.0	**4.0**	**0.0**	**5.8**	**12.3**
Attribution to Excess Return (%)																										
Excess Return	**0.0**	**-1.0**	**0.5**	**-0.7**	**-0.2**	0.2	-0.5	0.0	0.0	**0.1**	0.2	0.1	-0.2	**0.2**	0.0	0.0	0.2	0.0	**0.4**	**-0.8**	**0.1**	0.2	**0.0**	**0.0**	**-0.5**	**0.0**
Asset Allocation	**-0.4**	**-0.4**	**-0.5**	**-0.5**	**-0.2**	0.0	-0.1	0.0	0.0	**0.1**	0.1	0.1	-0.2	**0.1**	0.0	0.0	0.2	0.0	**-0.5**	**-0.6**	**0.1**	0.1	**-0.1**	**0.0**	**0.0**	**0.0**
Stock Selection	**0.4**	**-0.7**	**1.0**	**-0.2**	**0.0**	0.2	-0.3	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.1**	0.0	0.0	0.0	0.0	**0.9**	**-0.2**	**0.0**	0.0	**0.0**	**-0.1**	**-0.5**	**0.0**

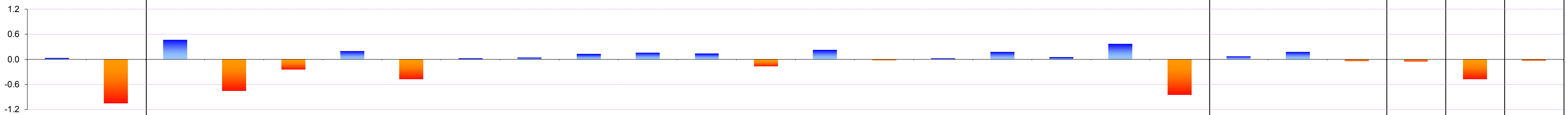
Returns Summary (%)

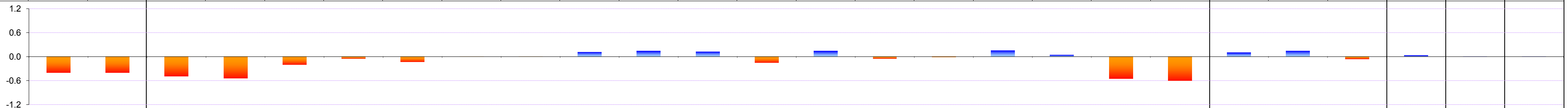


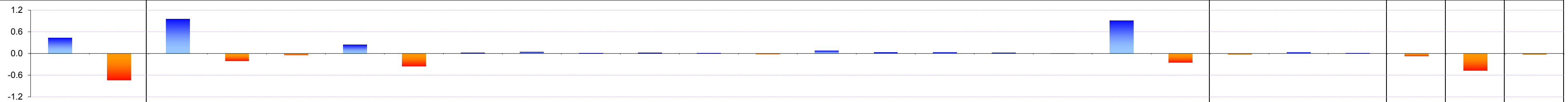
Asset Allocation Summary (%)



Attribution to Excess Return (%)







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Manager Return Analysis
Worcestershire County Council Pension Fund
for Period Ended 31st March 2022

Market Value: £3.5bn

	Benchmark	Incep Date	Market Value (£m)	Weight	QTR PF	QTR BM	QTR ER	Year To Date PF	Year To Date BM	Year To Date ER	1 Year PF	1 Year BM	1 Year ER	3 Year PF	3 Year BM	3 Year ER	5 Year PF	5 Year BM	5 Year ER	10 Year PF	10 Year BM	10 Year ER	Since Inception PF	Since Inception BM	Since Inception ER
Total Equity Fund	**Client Specific Weighted Index**	**Mar-16**	**2,602.6**	**74.4**	**-3.6**	**-2.1**	**-1.5**	**6.6**	**9.3**	**-2.7**	**6.6**	**9.3**	**-2.7**	**8.6**	**8.1**	**0.4**	**7.1**	**6.9**	**0.2**				**10.7**	**10.4**	**0.3**
Total Equity Fund ex Overlay	**Client Specific Weighted Index**	**Mar-16**	**2,571.0**	**73.5**	**-3.8**	**-2.4**	**-1.4**	**5.7**	**8.5**	**-2.8**	**5.7**	**8.5**	**-2.8**	**8.3**	**9.2**	**-0.9**	**6.9**	**7.6**	**-0.7**				**10.5**	**10.9**	**-0.4**
Total Active Equity Fund	Client Specific Weighted Index	Mar-16	691.0	19.8	-6.7	-2.6	-4.1	-6.8	-2.3	-4.5	-6.8	-2.3	-4.5	5.8	6.5	-0.7	5.2	5.6	-0.4				10.1	10.1	0.0
Nomura Far East Developed Fund	Worcs Nomura FT AW A P & FT AW J	Feb-03	368.4	10.5	-4.3	-2.8	-1.5	-2.9	-1.5	-1.4	-2.9	-1.5	-1.4	8.4	6.9	1.5	6.1	5.4	0.7	8.9	8.3	0.6	9.9	9.7	0.2
Nomura Far East Developed Fund - 01.08.21	Worcs Nomura FT AW A P & FT AW J	Aug-21	368.4	N/A	-4.3	-2.8	-1.5																-1.2	-0.7	-0.6
LGPSC Emerging Markets Fund	FTSE All World Emerging Market Index	Jul-19	322.6	9.2	-9.3	-2.5	-6.8	-10.9	-3.3	-7.6	-10.9	-3.3	-7.6										1.1	3.9	-2.9
Total Passive Equity Fund	Client Specific Weighted Index	Mar-16	1,128.1	32.2	-1.8	-1.3	-0.6	14.3	13.7	0.6	14.3	13.7	0.6	11.2	10.0	1.2	8.8	8.0	0.8				11.7	10.8	0.8
L&G UK Equity Fund	FTSE All Share Index	Dec-15	556.5	15.9	0.6	0.5	0.1	13.2	13.0	0.1	13.2	13.0	0.1	5.4	5.3	0.1	4.8	4.7	0.1				7.7	7.6	0.2
L&G North American Equity Fund	FTSE All World North American Index	Dec-15	355.4	10.2	-2.0	-2.0	0.0	19.7	19.7	0.0	19.7	19.7	0.0	18.5	18.4	0.1	14.7	14.6	0.1				18.1	18.0	0.0
L&G Europe Ex UK Equity Fund	FTSE Developed Europe Ex. UK Index	Dec-15	216.2	6.2	-7.2	-7.1	-0.1	6.2	6.5	-0.3	6.2	6.5	-0.3	9.6	9.8	-0.2	7.1	7.3	-0.2				10.4	10.6	-0.2
Total Alternatives Fund	20% RAFI/40% MSCI WL Min/40% MSCI WL Qual	Mar-16	559.8	16.0	-5.1	-5.1	0.0	11.7	12.6	-0.9	11.7	12.6	-0.9	10.4	11.1	-0.7	9.0	9.6	-0.6				12.1	12.7	-0.6
L&G MSCI World Quality Fund	MSCI World Quality Total Return Net Index	Dec-15	352.8	10.1	-5.7	-5.8	0.0	17.5	17.5	0.0	17.5	17.5	0.0	17.9	17.9	0.0	15.1	15.2	-0.1				17.5	17.6	-0.1
LGPSC All World Passive Climate Factor Fund	FTSE AW Climate Bal Com Factor Net	Nov-21	207.1	5.9	-3.9	-4.0	0.1																-2.7	-2.8	0.1
River & Mercantile Equity Protection Fund		Jan-18	223.7	6.4	1.7	0.0	1.7	9.8	0.0	9.8	9.8	0.0	9.8	-0.3	0.0	-0.3							1.0	0.0	1.0
River & Mercantile Equity Protection Fund ex Overlay		Jan-18	192.0	5.5	-0.1	0.0	-0.1	-2.6	0.0	-2.6	-2.6	0.0	-2.6	-2.4	0.0	-2.4							-3.0	0.0	-3.0
Total Fixed Income Fund	**60% LGPSC Corp Index & 40% Absolute Return +6%**	**Apr-21**	**262.1**	**7.5**	**-6.5**	**-3.5**	**-3.0**	**-4.2**	**-0.6**	**-3.6**	**-4.2**	**-0.6**	**-3.6**										**-4.2**	**-0.6**	**-3.6**
Total Corporate Bond Fund	LGPS Corporate Bond Index	Mar-20	206.3	5.9	-7.0	-6.7	-0.3	-5.2	-4.9	-0.3	-5.2	-4.9	-0.3										4.7	3.9	0.8
LGPSC Corporate Bond Fund	LGPS Corporate Bond Index	Mar-20	206.3	5.9	-7.0	-6.7	-0.2	-5.2	-4.9	-0.3	-5.2	-4.9	-0.3										4.7	3.9	0.8
Total Corporate Debt Fund	Absolute Return +6%	May-18	55.8	1.6	-4.7	1.5	-6.2	-0.7	6.0	-6.7	-0.7	6.0	-6.7	6.3	6.0	0.3							8.8	6.1	2.7
Bridgepoint Direct Lending II GBP	Absolute Return + 6.5%	May-18	55.5	1.6	-4.7	1.6	-6.3	-0.7	6.5	-7.2	-0.7	6.5	-7.2	6.3	6.5	-0.2							8.8	6.6	2.2
Bridgepoint Direct Lending II EURO	*Absolute Return + 6.5%*	*May-18*	*66.2*	*N/A*	*-2.4*	*1.6*	*-4.0*	*5.6*	*6.5*	*-0.9*	*5.6*	*6.5*	*-0.9*	*8.4*	*6.5*	*1.9*							*9.6*	*6.6*	*3.1*
Bridgepoint Direct Lending III GBP	Absolute Return +6%	May-21	0.3	0.0																					
Bridgepoint Direct Lending III EURO	*Absolute Return +6%*	*May-21*	*0.3*	*N/A*																					
Total Property Fund	**60% MSCI UK & 40% Abs Ret +7.5%**	**Mar-16**	**202.3**	**5.8**	**1.2**	**4.0**	**-2.8**	**5.9**	**17.0**	**-11.0**	**5.9**	**17.0**	**-11.0**	**2.6**	**10.4**	**-7.8**	**4.0**	**9.0**	**-5.0**				**5.4**	**8.7**	**-3.3**
Total UK Property Fund	Absolute Return +9%	Jul-18	54.7	1.6	0.6	2.2	-1.5	4.3	9.0	-4.8	4.3	9.0	-4.8	4.5	9.0	-4.5							5.2	9.0	-3.8
Invesco UK Property Fund	Absolute Return +9%	Oct-18	43.1	1.2	0.9	2.2	-1.2	3.9	9.0	-5.1	3.9	9.0	-5.1	0.9	9.0	-8.1							0.7	9.0	-8.3
Venn UK Property Fund	Absolute Return +9%	Jul-15	11.6	0.3	-0.5	2.2	-2.7	5.2	9.0	-3.8	5.2	9.0	-3.8	7.1	9.0	-1.9	7.9	9.0	-1.1				10.4	9.1	1.3
Walton Street US Property Fund - GBP	Absolute Return +6.5%	Feb-16	1.2	0.0	0.5	1.6	-1.1	5.9	6.5	-0.6	5.9	6.5	-0.6	-0.3	6.5	-6.8	2.3	6.5	-4.2				8.9	6.3	2.6
Walton Street US Property Fund - USD	*Absolute Return +6.5%*	*Feb-16*	*1.6*	*N/A*	*1.0*	*1.6*	*-0.6*	*5.0*	*6.5*	*-1.5*	*5.0*	*6.5*	*-1.5*	*1.8*	*6.5*	*-4.7*	*4.2*	*6.5*	*-2.3*				*7.0*	*6.3*	*0.7*
Walton Street US Property Fund II - GBP	Absolute Return +7%	Jun-19	7.1	0.2	0.3	1.7	-1.4	7.1	7.0	0.1	7.1	7.0	0.1										4.7	7.0	-2.2
Walton Street US Property Fund II - USD	*Absolute Return +7%*	*Jun-19*	*9.7*	*N/A*	*0.8*	*1.7*	*-0.9*	*6.3*	*7.0*	*-0.7*	*6.3*	*7.0*	*-0.7*										*6.2*	*7.0*	*-0.8*
Invesco European Property Fund - GBP	Absolute Return +6.5%	Feb-16	66.9	1.9	5.2	1.6	3.6	9.8	6.5	3.3	9.8	6.5	3.3	1.9	6.5	-4.6	3.2	6.5	-3.3				5.0	6.4	-1.4
Invesco European Property Fund - EURO	*Absolute Return +6.5%*	*Feb-16*	*79.1*	*N/A*	*4.5*	*1.6*	*2.9*	*10.7*	*6.5*	*4.2*	*10.7*	*6.5*	*4.2*	*2.8*	*6.5*	*-3.7*	*3.6*	*6.5*	*-2.9*				*3.9*	*6.4*	*-2.5*
Venn Property Debt Fund II - GBP	Absolute Return +6%	Aug-20	12.9	0.4	0.2	1.5	-1.3	0.4	6.0	-5.6	0.4	6.0	-5.6												
Venn Property Debt Fund II - EURO	*Absolute Return +6%*	*Aug-20*	*15.4*	*N/A*	*2.5*	*1.5*	*1.0*	*5.6*	*6.0*	*-0.4*	*5.6*	*6.0*	*-0.4*												
Gresham House Forestry Growth & Sustainability Fund	Absolute Return +6%	Dec-21	39.0	1.1	-5.3	0.5	-5.8																-5.3	0.5	-5.8
AEW Property Fund	UK RPI +4%	Oct-17	20.5	0.6	3.5	2.8	0.8	12.8	13.0	-0.1	12.8	13.0	-0.1	4.7	8.3	-3.6							4.9	7.7	-2.8
Total Infrastructure Fund	**70% UK CPI +5.5% & 30% Abs Return +10%**	**Mar-16**	**431.4**	**12.3**	**3.0**	**2.5**	**0.5**	**14.7**	**11.4**	**3.4**	**14.7**	**11.4**	**3.4**	**9.1**	**9.5**	**-0.4**	**8.0**	**9.0**	**-1.0**				**7.9**	**8.8**	**-0.9**
Green UK Infrastructure Fund	Absolute Return +7.6%	Apr-15	47.6	1.4	7.5	1.8	5.6	24.7	7.6	17.1	24.7	7.6	17.1	7.8	7.6	0.2							6.8	7.6	-0.8
Gresham House BSIF Housing and Infrastructure	Absolute Return +8%	May-20	44.7	1.3	18.0	1.9	16.1	0.0	8.0	-8.0	0.0	8.0	-8.0										9.2	8.0	1.2
Gresham House BSIF II Infrastructure Fund	Absolute Return +9%	Aug-21	-0.5	0.0																					
Hermes UK Infrastructure Core Fund	Absolute Return +8.4%	May-15	56.3	1.6	6.1	2.0	4.1	3.2	8.4	-5.2	3.2	8.4	-5.2	3.9	8.4	-4.5	4.4	8.4	-4.0				5.5	8.4	-2.9
Hermes UK Infrastructure Fund II	Absolute Return +8.5%	Jun-18	48.6	1.4	4.0	2.1	1.9	2.8	8.5	-5.7	2.8	8.5	-5.7	1.5	8.5	-7.0							-1.3	8.6	-9.8
Stonepeak Infrastructure Core Fund III - GBP	Absolute Return +12%	Jan-18	119.1	3.4	-6.6	2.9	-9.5	15.7	12.0	3.7	15.7	12.0	3.7	21.0	12.0	9.0							13.7	12.0	1.7
Stonepeak Infrastructure Core Fund III - USD	*Absolute Return +12%*	*Jan-18*	*161.3*	*N/A*	*-6.2*	*2.9*	*-9.1*	*14.7*	*12.0*	*2.7*	*14.7*	*12.0*	*2.7*	*23.9*	*12.0*	*11.9*							*14.3*	*12.0*	*2.3*
Stonepeak Infrastructure Core Fund IV - GBP	Absolute Return +12%	Nov-21	0.7	0.0																					
Stonepeak Infrastructure Core Fund IV - USD	*Absolute Return +12%*	*Nov-21*	*0.9*	*N/A*																					

First Sentier EDIF II GBP	Absolute Return +9%	Jun-18	114.9	3.3	5.4	2.2	3.2	22.0	9.0	13.0	22.0	9.0	13.0	12.6	9.0	3.6							10.0	9.1	0.9
First Sentier EDIF II EURO	*Absolute Return +9%*	*Jun-18*	*135.9*	*N/A*	*4.7*	*2.2*	*2.6*	*22.7*	*9.0*	*13.7*	*22.7*	*9.0*	*13.7*	*13.0*	*9.0*	*4.0*							*10.7*	*9.1*	*1.6*
First Sentier EDIF III	Absolute Return +8%	Nov-21																							
First Sentier EDIF III EURO	Absolute Return +8%	Nov-21																							
Worcestershire CC Total Fund ex Overlay		**Mar-87**	**3,466.7**	**99.1**	**-3.0**	**-1.7**	**-1.3**	**6.0**	**8.3**	**-2.4**	**6.0**	**8.3**	**-2.4**	**7.6**	**8.7**	**-1.0**	**6.5**	**7.2**	**-0.7**	**8.8**	**9.0**	**-0.2**	**8.0**	**8.5**	**-0.5**
Worcestershire CC Total Fund		**Mar-87**	**3,498.4**	**100.0**	**-2.9**	**-1.4**	**-1.4**	**6.7**	**8.9**	**-2.2**	**6.7**	**8.9**	**-2.2**	**7.9**	**7.8**	**0.0**	**6.7**	**6.7**	**-0.1**	**8.9**	**8.7**	**0.1**	**8.0**	**8.4**	**-0.4**

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

Total Fund Benchmark	**CLIENT SPECIFIC BENCHMARK:** 20.5% FTSE All Share - % Dependant upon actual drawdowns of Infra & Prop 6.5% FTSE Developed Europe Ex UK 10% FTSE All World Emerging Markets 15% 60% MSCI World Quality Total Return NET & 40% LGPSC All World Climate Index 8% FTSE All World North America 10% 5.5% FTSE All World Asia Pacific ex Japan & 4.5% FTSE All World Japan 6% Corp Bonds: LGPS Central Specific Index 4% Corporate Private Debt @ Absolute Return +10% Infrastructure: 70% UK CPI +5.5%, 30% Absolute Return 10% Property: 60% MSCI UK Monthly Property Index, 40% Absolute Return +7.5%	**Notes:** **Q4 2021**: Total Fund Benchmark updated and backdated from 01.04.2021. Total Fixed Income Fund created from 01.04.21. New investments were made on 24.11.2021 into LGPSC All World Passive Climate Factor Fund, Stonepeak Fund IV Infrastructure Core Fund (data will be 'lagged' for this and included in the Q1 2022 report), First Sentier EDIF Fund III (no capital has been drawn yet for this Fund). A new investment was also made with Gresham House Forestry Growth & Sustainability Fund from 10.12.2021 (data is produced annually and won't be available until late February 2022). Full disinvestments were made from L&G RAFI Fundamental Developed Reduced Carbon Pathway Index Fund on 22.10.2021 and from L&G MSCI World Minimum Volatility Fund on 24.11.2021. **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. 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 31st March 2022

Market Value: £3.5bn

	31st December 2021		Net	Total	Total	31st March 2022	
	Market Val (£000s)	Exposure (%)	Investment (£000s)	Income (£000s)	Gain/Loss (£000s)	Market Val (£000s)	Exposure (%)
Total Equity Fund	**2,735,297**	**76.5**	**-35,000**	**-145,213**	**-97,678**	**2,602,620**	**74.4**
Total Equity Fund ex Overlay	**2,707,598**	**75.7**	**-35,000**	**-121,021**	**-101,618**	**2,570,980**	**73.5**
Total Active Equity Fund	740,860	20.7	0	0	-49,876	690,984	19.8
Nomura Far East Developed Equity Fund	385,130	10.8	0	0	-16,736	368,394	10.5
LGPSC Emerging Markets Fund	355,729	9.9	0	0	-33,140	322,590	9.2
Total Passive Equity Fund	1,184,833	33.1	-35,000	0	-21,683	1,128,150	32.2
L&G UK Equity Fund	570,463	15.9	-17,223	0	3,270	556,510	15.9
L&G North American Equity Fund	374,113	10.5	-10,789	0	-7,923	355,401	10.2
L&G Europe Ex UK Equity Fund	240,257	6.7	-6,988	0	-17,030	216,239	6.2
Total Alternatives Fund	589,749	16.5	0	0	-29,932	559,817	16.0
L&G RAFI Fundamental Dev (inc Korea) Reduced Carbon Pathway Index Fund	0	0.0	0	0	0	0	0.0
L&G MSCI World Min Vol TR Fund	0	0.0	0	0	0	0	0.0
L&G MSCI World Quality Fund	374,234	10.5	0	0	-21,481	352,753	10.1
LGPSC All World Passive Climate Factor Fund	215,515	6.0	0	0	-8,451	207,064	5.9
River & Mercantile Equity Protection Fund	219,856	6.1	0	-145	3,813	223,669	6.4
River & Mercantile Equity Protection Fund ex Overlay	192,156	5.4	0	-121	-127	192,029	5.5
Total Fixed Income Fund	**281,511**	**7.9**	**-1,363**	**0**	**-18,012**	**262,137**	**7.5**
Total Corporate Bond Fund	221,804	6.2	0	0	-15,488	206,316	5.9
LGPSC Corporate Bond Fund	221,804	6.2	0	0	-15,488	206,316	5.9
Total Corporate Debt Fund	59,707	1.7	-1,363	0	-2,524	55,821	1.6
Bridgepoint Direct Lending II	59,707	1.7	-1,363	0	-2,798	55,547	1.6
Bridgepoint Direct Lending III	0	0.0	0	0	274	274	0.0
Total Property Fund	**156,610**	**4.4**	**44,213**	**768**	**1,444**	**202,268**	**5.8**
Total UK Property Fund	54,373	1.5	0	-31	374	54,746	1.6
Invesco UK Property Fund	42,732	1.2	0	0	405	43,137	1.2
Venn UK Property Fund	11,641	0.3	0	-31	-31	11,609	0.3
Walton US Property Fund	1,301	0.0	-115	0	6	1,191	0.0
Walton US Property Fund II	8,827	0.2	-1,717	0	27	7,137	0.2
Invesco European Property Fund	64,054	1.8	0	516	2,808	66,861	1.9
Venn Property Debt Fund II	8,026	0.2	4,887	0	8	12,921	0.4
Gresham House Forestry Growth & Sustainability Fund	0	0.0	41,159	0	-2,203	38,956	1.1
AEW Property Fund	20,030	0.6	0	284	425	20,455	0.6
Total Infrastructure Fund	**403,859**	**11.3**	**21,762**	**6,448**	**5,736**	**431,357**	**12.3**
Green UK Infrastructure Fund	45,330	1.3	-1,101	0	3,388	47,618	1.4
Gresham House BSIF Housing and Infrastructure	27,786	0.8	11,943	0	5,001	44,729	1.3
Gresham House BSIF II Infrastructure Fund	0	0.0	0	0	-526	-526	0.0
Hermes UK Infrastructure Core Fund	53,071	1.5	0	0	3,230	56,301	1.6
Hermes UK Infrastructure Fund II	46,783	1.3	0	0	1,861	48,644	1.4
Stonepeak Infrastructure Core Fund III	115,670	3.2	11,063	0	-7,664	119,069	3.4
Stonepeak Infrastructure Core Fund IV	0	0.0	0	0	655	655	0.0
First Sentier EDIF II	115,219	3.2	-143	6,448	-210	114,866	3.3
First Sentier EDIF III	0	0.0	0	0	0	0	0.0
Cash Fund	**0**	**0.0**	**0**	**0**	**0**	**0**	**0.0**
Worcestershire CC Total Fund ex Overlay	**3,549,578**	**99.2**	**29,613**	**7,095**	**-112,450**	**3,466,741**	**99.1**
Worcestershire CC Total Fund	**3,577,278**	**100.0**	**29,613**	**7,070**	**-108,510**	**3,498,381**	**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

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Quarterly Engagement Report

January-March 2022

Local Authority Pension Fund Forum

Ukraine, UK Endorsement Board, Mining & Human Rights, AstraZeneca, Chipotle

LAPFF Statement on Ukraine

LAPFF has expressed its profound sadness and solidarity with the people of Ukraine following the Russian invasion. On top of humanitarian and human rights concerns, the war is raising the prospect that Russia and Russian companies have become virtually uninvestable. LAPFF's approach to responsible investment and environmental, social, and governance (ESG) impacts is being put to the test as never before.

From a governance perspective, it is clear that the Russian government is incapable of ensuring a legal framework that respects the rule of law, destabilising incentives for Russian companies to operate in a certain, sustainable environment. The companies themselves face increasing sanctions, including a ban on the importation of Russian oil into the US. Foreign companies likewise face sanctions on investing in Russia and Belarus and challenges in determining when and how to withdraw from Russia. These challenges seem unlikely to be resolved, even with an end to hostilities.

From an environmental perspective, the invasion of Ukraine has highlighted the problem with the world's reliance on fossil fuels. It is clear that an orderly fair and just transition to renewables, as quickly as possible, is critical not only for environmental, social, and financial reasons, but also for global security.

From a social perspective, as Russia is increasingly shut off from the rest of the world, both through sanctions and through the level of outrage expressed globally at the Russian invasion, it is expected that Russian firms will face increasing difficulties in operating effectively and in securing staff. It is also foreseeable that to the extent foreign companies are able to maintain their operations in Russia, notwithstanding sanctions, these companies will face increased social challenges, including maintaining staff levels and morale. This is apart from the reputational hit to any company associated with Russia due to humanitarian and human rights abuses committed in the course of the war.

Alongside these unsettling developments, the proposed Jenrick Amendment poses an additional risk of uncertainty to LGPS investment opportunities in Russia. The war in Ukraine highlights concerns for responsible investors – and others – that the proposed amendment will create confusion for investors about how to undertake responsible investment in relation to ESG issues. This confusion pertains both to Russia and more broadly.

Other systemic contextual challenges include what we hope is the transition from Covid being pandemic to its being endemic sometime soon and an ever-shortening time frame to mitigate and adapt to the climate catastrophe.

LAPFF has sought to use its financial clout to improve the world for over 30 years now. This work cannot take place in isolation and will not always be successful, but we have learned that persistence, consistency, and determination do lead to positive outcomes.

COMPANY ENGAGEMENTS

UK Endorsement Board (IFRS17)

Objective: The UKEB is the new body to approve international accounting standards (IFRS) for use in the UK, post-Brexit. The prior arrangement under the EU had led to unsatisfactory outcomes, essentially due to Big 4 capture of the endorsement process obfuscating the law. The position regarding UK law should be clearer. The objective therefore is to ensure that the UKEB follows the law (UK law follows the drivers of going concern, in both the numbers and internal control). The international model under the auspices of the Big 4 incorporates defensive assertions that are contrary to UK law.

A problem is the composition of the UKEB, which contains people carried over from the prior FRC Accounting Standards Board's approval of IFRS, including Big 4 defence and lobbying interests. There is no credible asset owner representation. The first standard up for endorsement is IFRS 17 and there are public concerns that the UKEB has pre-decided the outcome and that endorsement processes are a rubber-stamping exercise. The defects in IFRS are well known to LAPFF in the context of banking collapses, the insolvency of Carillion and the incidence of frauds, such as Patisserie Valerie. A recurring theme is dressing up the lack of prudence as a virtue, when the outcomes are numbers more flattering to the wishes of management.

Achieved: Baroness Bowles has tabled over a dozen Parliamentary Questions dealing with the governance of the UKEB, as technical matters. As also covered in the Times, her questions have included extracts from emails a journalist obtained. They stated that the member of the UKEB, a solicitor, had sought to use a barrister with an acknowledged conflict to act "behind the scenes". The LAPFF Chair wrote to the Chief Executive of the Financial Reporting Council which has responsibility for oversight of the UKEB. As a result of that letter a meeting of the LAPFF chair was held with the civil servant responsible for the UKEB and FRC.

In Progress: The discussions with BEIS are likely to continue. The core issue is simple. The accounting and auditing framework is there for shareholder and creditor protection, and auditor liability settles on that basis, but the IFRS model doesn't fit that model. The problem is that the IFRS model lacks the crucial ingredients to determine whether a company is a going concern or not.

Shell

Objective: Further to LAPFF's position on Shell, which is one of scepticism about Shell's climate change plans, the Forum has sought improvement in the plan and its delivery against targets. Shell does not have a 1.5°C plan, which would require both time dependent actions and a carbon budget (the total future emissions over time). Shell instead has vague aspirations of 'net zero' by 2050 which doesn't cover the necessary emissions reductions prior to 2050, and which is: i) dependent on customers, and ii) relies on vague offsets, such as Carbon Capture and Storage (CCS) and trees.

Achieved: A joint meeting with CA100+ members and the CEO of Shell was held in March 2021, which was the first meeting after the decision of the Dutch Court in May 2021 which also concluded that Shell's plans were not adequate. There was no discernable shift in either the strategy or the path to limiting global warming to 1.5°C. But there now appears to be more scepticism in line with the LAPFF position from asset managers and owners that had previously been supportive of the Shell plans in 2021.

In Progress: The war in Ukraine has highlighted that in addition to climate change problems oil and gas also carry problems with the security of supply, the ethics of supply and the volatile price (as opposed to cost) of oil and gas. These matters will be built into future LAPFF engagements. High fossil fuel costs also make already unviable CCS-type projects even less viable.

Total

Objective: LAPFF noted during the quarter that Total decided to divest from Myanmar after a presence in the country of around thirty years. This decision was taken just before the war in Ukraine began, and Total has subsequently been criticised by Greenpeace and Friends of the Earth for its position on Russia. Therefore, LAPFF was interested to understand how Total had taken its decisions in relation to the two challenging situations.

Achieved: Total's representative helpfully set out a detailed account of the company's decision to withdraw from Myanmar and the set of challenges the company faced in relation to Russia and Ukraine. The specific complications related to geopolitics and balancing human rights considerations with legal and financial obligations was very clear. Whatever view one takes on the conduct of companies in this position, they are at the crux of the tensions and decision-making in a practical way that most societal actors are not. This position poses both risks and opportunities for the companies involved, and has significant implications for investors, civil society, and the environment.

COMPANY ENGAGEMENTS

In Progress: It was agreed that LAPFF would engage further on this complicated topic.

BHP

Objective: BHP offered to arrange a meeting for LAPFF with the Renova Foundation to discuss how to progress the remaining houses to be built after the Samarco tailings dam collapse at Mariana, Brazil in 2015. Both BHP and Renova representatives joined the call.

Achieved: LAPFF had been concerned at the lack of progress regarding the housebuilding with only three houses (to a total of 10) being built during 2021. However, by the time the meeting had taken place, 47 houses had been built. LAPFF Chair, Cllr Doug McMurdo, made clear that even this improved progress was inadequate. However, the improvement was welcomed.

In Progress: There continues to be political and operational obstacles to making progress with the housebuilding. For example, obtaining permits for the houses is clearly an issue. Affected communities are also concerned that a programme to provide those still waiting for homes with existing houses rather than having to wait for new ones is a cop out by the companies and Renova. In contrast, the companies and Renova are saying that the community members who have taken up this offer have been pleased to do so. Therefore, all sides have a lot of work to do, and LAPFF will continue to engage the companies, Renova, and the affected communities to have everyone's needs met as soon as possible.

Freeport McMoran

Objective: Having met with a number of other mining companies, and extensively with BHP and Rio Tinto in relation to the Resolution Copper project in Arizona, LAPFF was keen to meet with Freeport McMoran, a mining company headquartered in Arizona. The aim was to better understand Freeport McMoran's approach to engaging with affected communities.

Achieved: As LAPFF had not met with the company before, the meeting was introductory to a large extent. However, LAPFF was pleased that within the first 15 minutes of the conversation, the topic of free, prior and informed consent was raised in the context of how important relationships with Indigenous communities are. Given LAPFF's mining and human rights report and the fact that Freeport has faced recent accusations of problems in community relations at its Emma B operations in New Mexico, it was helpful to hear the company's approach to community engagement. There was also a discussion about corporate governance in light of a number of recent board changes.

In Progress: LAPFF is keen to engage further with Freeport McMoran on its approach to community engagement and to build an engagement relationship similar to those it has established with other major mining companies.

Rio Tinto

Objective: Rio Tinto reached out to LAPFF to offer a meeting with the company's Chief Financial Officer, Peter Cunningham. LAPFF met with Mr. Cunningham last year when he was still interim CFO and was pleased to re-connect now that he has been permanently in office for nearly a year. LAPFF's aim was to assess the extent to which Rio Tinto is accounting for social and environmental factors in its financial considerations.

Achieved: This meeting came not long after Rio Tinto bravely released publicly an independent investigation into the company's workplace culture. The findings were not flattering. However, it is encouraging to LAPFF that Rio Tinto has started to be more open about its social and environmental shortcomings as it is believed this openness will ultimately build a company that is financially resilient.

Sadly, the conversation turned to whether Rio Tinto has operations in Russia and Belarus as the war in Ukraine had just begun at the time of the meeting. Rio Tinto appears to be fairly resilient on this front, though it was noted that depending on how wide an impact the war ends up having, the company could be impacted indirectly.

LAPFF also heard about Rio Tinto's plans to hold a say on climate vote at the company's AGM, which will be held in person for the first time since the Covid pandemic began. After engaging with other company representatives, investors, and NGO commentators on the plan, LAPFF decided to advise members to oppose it on the basis that an appropriate timeframe for Scope 3 emissions reductions and a just transition were not adequately addressed in the transition plan.

In Progress: LAPFF considers that Rio Tinto has made good progress on practices to address carbon emissions, including engaging with business customers on technologies to decarbonise steel and aluminum production, and on human rights practices, but the company has more work to do in both areas. Furthermore, the company can still do more to link its financial performance to these social and environmental impacts. For example, over the course of the year, Rio Tinto has seen a 69-day strike in Canada, the loss of a mining permit due to community opposition in Serbia, and

Aluminium smelter, Kitimat, British Columbia, Canada

COMPANY ENGAGEMENTS

continued operational delays in both the US and Australia, in part due to difficult community relations in both countries. Additionally, given the extent of Rio Tinto's Scope 3 emissions and the limited timeframe available to take action, LAPFF's view is that an effective energy transition can't take place without an effective fair and just transition. Therefore, it is LAPFF's view that the company still has some work to do to create a culture whereby its staff understands that social and environmental impacts are the basis for financial resilience.

Vale

Objective: Vale invited LAPFF to participate in three investor roundtables regarding the company's progress on social issues. LAPFF's goal was to understand if there has been progress on this front and if so, the extent to which there has been progress. Any progress was deemed very welcome in particular because of the findings of the LAPFF mining and human rights report which flagged a number of concerns for Vale.

Achieved: One of the concerns LAPFF has raised in its mining and human rights report is that Vale (and other companies in the industry) appear to be too focused on human rights processes and not sufficiently focused on human rights outcomes. LAPFF was therefore pleased to note with the investor roundtables that the company reached out to investors beforehand to ask what concerns they would like addressed during the meetings.

That said, some meetings have continued to consist primarily of Vale staff providing slide presentations on their work with little audience interaction or time for questions. These presentations are highly technical and rarely, if ever, mention the needs of, or interaction with, affected communities.

In Progress: There is still concern that although Vale appears to be seeing investor input better than it has before, it is not yet hearing the voices of its affected community members. In LAPFF's view, this gap creates operational, reputational, legal, and financial risks to the company and to shareholders because the company is missing an important source of information. LAPFF will continue to work with both Vale and affected community members on this communication.

Occupied Palestinian Territories (OPT) Engagements

Objective: LAPFF continues to ask a number of companies to undertake human rights impact assessments on their operations in the Occupied Palestinian Territories (OPT).

Achieved: LAPFF met with two companies this quarter: Motorola, alongside representatives for LGPS Central, and Bezeq. Both meetings were somewhat introductory and a starting point to continue dialogue going forward. Bezeq is the first company LAPFF has met on this topic that operates under Israeli state law, and provided an overview of its operations and what areas it operates in. LAPFF also met with the UN Special Rapporteur on Human Rights to discuss a letter that was sent to LGPS Funds, as well as further information on company positions on the list and the process for companies being removed from it.

In Progress: LAPFF will continue to engage with a number of companies it initially engaged with – a large number of whom do not appear to have sufficient human rights due diligence processes in place, or even a human rights policy. The Forum will consider voting recommendations on these, given that the OPT is definitively a conflict zone, and such zones require enhanced human rights due diligence.

Chipotle

Objective: LAPFF has been engaging Chipotle for over two years, the primary objective being to encourage the company to undertake a full value chain water risk assessment as well as the disclosure of quantitative performance metrics and best practices for water management targeted to the areas of water stress. LAPFF argued that without this assessment, Chipotle would not be well placed to identify its total water risk exposure and prepare for water supply uncertainties associated with climate change moving forwards.

Achieved: After a period of heightened engagement with the company, LAPFF member fund Greater Manchester Pension Fund (GMPF) filed a resolution ahead of Chipotle's 2022 AGM. The proposal requested the company undertake an assessment to identify, in light of the growing pressures on water supply quality and quantity posed by climate change, its total water risk exposure, and policies and practices to reduce this risk. Following discussions between LAPFF Executive member John Anzani, a GMPF representative and the company, an agreement was reached that would see the resolution withdrawn from the ballot. The withdrawal was conditional upon formal commitments being made which will see significant improvement to the company's approach to managing water risk throughout its entire value chain. The specific actions being taken by the company will be disclosed to the market upon publication of its sustainability report in April, at which time LAPFF can elaborate more on the specific actions Chipotle is taking in this space. The commitments represent significant progress in the company's sustainability practices, the direct result of LAPFF's active engagement.

In Progress: Part of the agreement with the company included a commitment to continuing engagement through 2022. LAPFF will monitor the company's performance against its commitments on an ongoing basis and meet with the company to discuss progress during the year.

AstraZeneca

Objective: LAPFF Executive member, John Anzani, met with AstraZeneca Chair, Leif Johannson, to discuss the company's experience during the Covid pandemic and what learnings it has taken from this experience. There was also a question about whether AstraZeneca will change its business strategy or business model in light of its learnings.

Achieved: From the outset, Mr. Anzani expressed his thanks to AstraZeneca on behalf of LAPFF for the role the company has played in its vaccine development and rollout. In particular, it was appreciated that AstraZeneca had not sought to profit from its vaccine in the same

COMPANY ENGAGEMENTS

way that Pfizer and Moderna have and sought instead to distribute the medication as widely as possible around the world. There was a discussion around the misunderstanding of the vaccine's risks as presented in the press that arguably compromised an even more effective rollout process.

Again, the developments surrounding the war in Ukraine were discussed, which prompted a discussion about supply chain security. Interestingly, the last time LAPFF met with Mr. Johansson, there was a similar discussion about supply chain security stemming from the impending impact of Brexit. The importance of diversity and inclusion in all aspects of the company's operations was also discussed.

In Progress: AstraZeneca faced significant operational problems as a result of the media reporting around the blood clots said to be associated with the company's Covid vaccine. It is hoped that the company will be able to reflect on this challenge over time to ensure that it can help as many people as possible and push back on any unwarranted reputational concerns in future.

LyondellBasell

Objective: LyondellBasell is a chemicals company listed in the Netherlands. Following a call with company representatives at the end of 2021, as part of engagement with the CA100+ investor collaborative group, a meeting was sought with the chair, Jacques Aigrain, to discuss the company's climate transition plan and further progress to be made on setting targets for Scope 3 carbon emission reductions.

Achieved: At the meeting, Mr Aigrain was probed on the greatest challenges the company faces in moving to net zero. LAPFF asked for more detail around company plans for electrification using renewables and green hydrogen or green methanol technology and what lessons were being taken from other sectors to bring forward their implementation. Mr Aigrain agreed it had to be progressed through partnerships and gave the example of partnering with a utility to eliminate its use of coal in Germany.

In Progress: Subsequent correspondence with the chair set out various areas of investor expectations discussed during the meeting including on decarbonisation pathways, exploring partnerships to further technological advances, further disclosure on climate-related capex, accounting and auditing, and lobbying and policy stances. A further meeting is proposed after the company has issued its sustainability report later in 2022.

ArcelorMittal

Objective: In a meeting at the end of 2021, LAPFF and the other lead CA100+ investors sought publication of a more granular report on lobbying with a trade association overview. Further correspondence in early January promoted engagement with InfluenceMap, whose assessment feeds into the CA100+ benchmarking process.

Achieved: In January 2022, ArcelorMittal issued a new Climate Advocacy Alignment Report. Continued engagement on lobbying disclosure and the shortly to be released new CA100+ benchmark results have helped the company, a year and a half on from their first 'lobbying' report, to update and improve it. In particular there is now disclosure on the action the company will take where misalignment is found between climate policy positions taken by membership associations, and ArcelorMittal's own policy priorities and the Paris agreement. Potential escalation measures include direct communication requesting further alignment with company policy priorities and the Paris agreement, ensuring ArcelorMittal's financial contribution is ringfenced for non-lobbying activities (e.g. towards standard setting only) and ArcelorMittal ceasing membership of the respective association.

In Progress: In January, as part of further collaborative engagement, a letter was sent to Karen Ovelmen, the audit committee chair, commending improvements in ArcelorMittal's accounting disclosure for Paris-aligned accounts, pressing for further relevant disclosure and seeking a meeting. The letter was copied to all audit committee members as well as the lead partner of the audit firm, Deloittes.

London, 2021. Rally calling for the end of Uyghur genocide in China

Uyghur Engagements

Objective: The Uyghurs, a Turkic ethnic group native to Xinjiang in China, and other Muslim groups in the region, have reportedly been detained against their will for a number of years. There have been instances of evidence of Uyghurs being used for forced labour in the region, amongst other accusations of human rights violations. A large number of companies have been instigated in having instances of Uyghur forced labour in their supply chains, most notably by the Australian Strategic Policy Institute (ASPI) in February 2020. LAPFF initially reached out to eight companies to discuss supply chain due diligence and to ascertain whether these companies had found instances of Uyghur forced labour in their supply chain.

Achieved: To date, LAPFF has met with two of the eight companies, Dell and Cisco, and has had correspondence on the matter with a further two. Tesco has agreed to a meeting in May 2022, shortly after publishing the annual report and sustainability materials, whilst Microsoft also provided further details. Both Dell and Cisco provided similar responses during the meeting, noting that they had not found any instances of Uyghur forced labour in their due diligence processes. Both companies are members of the Responsible Business Alliance and conduct audits with its assistance. Given the complexity of technological supply chains, it was unclear how far down the audit process went for either company. Both Dell and Cisco appeared to take on board feedback from LAPFF, encouraging for better transparency around reporting, particularly on the topics of modern slavery, grievance mechanisms on whistleblowing, and more examples of precisely what serious findings they find in their audits, and how they remedy this.

COMPANY ENGAGEMENTS

In Progress: LAPFF has joined around 60 investors in a working group, coordinated by the Investor Alliance for Human Rights. This provides the opportunity to collaborate going forward and corroborate notes and engagement strategies with a host of other investors. LAPFF will be seeking meetings with those companies that have yet to respond, alongside Microsoft who provided further detail.

VOTING ALERTS

Apple

LAPFF issued a voting alert at Apple. The voting alert focused on shareholder proposals on human rights. The alert recommended that members vote in favour of improved transparency reporting on the removal of apps following concerns about freedom expression in China, reporting on policies and procedures to protect against forced labour, and undertaking a civil rights audit. The alert also recommended supporting shareholder proposals for clearer reporting on gender and ethnic pay gaps and assessing risks of workplace concealment clauses.

Rio Tinto

As mentioned above, LAPFF issued a voting alert for Rio Tinto. The alert recommended that LAPFF members oppose the annual report, the remuneration report implementation, the re-election of Megan Clark, and the company's climate action plan. There was a recommendation to abstain on the remuneration report. The recommendation to oppose the annual report was based on concerns that Rio Tinto had not adequately reported the risk of community relations considerations at its Resolution Copper joint venture in Arizona, had not adequately set out a just transition strategy, and had not adequately considered whether the company's auditors were taking account of climate risk in appointing the auditors.

COLLABORATIVE ENGAGEMENTS

COLLABORATIVE INVESTOR MEETINGS

Say on Climate

Over the quarter, more responses have been received in response to joint correspondence with TCI and Sarasin late last year to FTSE companies. This asked companies to provide shareholders with the opportunity to support disclosure of greenhouse gas emissions and reduction plans by putting an appropriate resolution on their 2022 AGM agenda. Recent responses that show progress on addressing emission reductions have included Halma and GlaxoSmithkline, but most positive was the response from the London Stock Exchange chair, who has put a resolution on the company's 2022 AGM ballot.

Asia Collaborative Engagement Platform for Energy Transition

LAPFF continues to meet with other investors in progressing collaborative engagement on climate and energy transition with banks and power generation companies in Asia, organised and informed by Asia Research and Engagement (ARE). Assessments have been undertaken on decarbonisation policies and practices of 26 power companies in the region and shared with the companies. LAPFF has provided commentary on ARE's review of 32 banks in the region which will be issued as a publicly available report at the end of March.

Institutional Investor Group on Climate Change (IIGCC)

Participation in this weekly investor round-up provides updates on potential 2022 Say on Climate/transition plan resolutions to European companies. These plans are mapped against the Climate Action (CA100+) benchmarks, providing a measure of progress in the energy transition. There is also a focus on company lobbying, accounting, and auditor votes. Investors can 'flag' voting intentions at these companies, as well as any of the global companies covered by CA100+.

Investor Alliance on Human Rights (IAHR)

LAPFF joined the IAHR this quarter to connect to investors globally who are engaging with companies on human rights issues. IAHR has working groups on Uyghur labour in Xinjiang, Myanmar, and the technology sector. LAPFF will participate in all of these groups. The IAHR is also a way for LAPFF to roll out its new human rights strategy, which covers these areas and stresses the need for collaborative engagement.

SHARE

Another organisation that has been working on a range of human rights issues is SHARE, an investor organisation in Canada focusing on environmental, social, and governance issues. LAPFF spoke with SHARE's human rights coordinator about collaborating on engagements, where possible. There appears to be significant overlap in engagements with SHARE also working on Uyghur forced labour, a fair and just transition, and tailings dams, among other issues.

PRI

LAPFF met with PRI this quarter to discuss the PRI's nascent engagement on human rights. As the initiative is not yet officially underway, it is not clear what role LAPFF will play. However, LAPFF will continue to liaise with PRI and others in the group to ensure that the respective work is complementary as both organisations increase their work in this area.

UNI Global

LAPFF met with UNI Global to discuss the global union's new initiative on social protection. There is now a binding document on social protection concluded in the wake of the Rana Plaza factory collapse and the subsequent Bangladesh Accord on fire safety. UNI Global is seeking to engage investors on social protection on the back of this new global agreement.

COLLABORATIVE INVESTOR INITIATIVES

US Securities and Exchange Commission (SEC) on climate disclosure

LAPFF joined other investors in writing to the SEC referencing its upcoming Climate Disclosure Rulemaking. Co-ordinated by the US 'As You Sow' organisation, correspondence underscored the importance of requiring verified Scope 1 through 3 value chain carbon emissions-reporting with an emphasis on Scope 3 verified reporting.

COLLABORATIVE ENGAGEMENTS

Letter to French auditors on climate risk

LAPFF supported a collaborative letter to French auditors EY, PwC, KPMG and Deloitte, asking about disclosure on material climate-related risks. It raised the concern that if material climate risks are not properly examined, there may be questions over the reliability if auditor's opinions that these accounts meet the true and fair view standard as required under European Company Law.

Amazon and Starbucks Freedom of Association Letters

After signing onto an initial collaborative letter to Amazon seeking improved practices on freedom of association and collective bargaining at the company's facility in Bessemer, Alabama, LAPFF signed a follow up letter on this topic. LAPFF signed a similar letter this quarter to Starbucks after reports of anti-union conduct by the company.

Kellogg

LAPFF, alongside Mercy Investment Services and PIMCO, joined a collaborative effort under the Access to Nutrition Index (ATNI) in engaging with Kellogg on a number of issues related to nutrition. Representatives from the company were probed on the company's approach to addressing malnutrition, how it defines what is considered a healthy product and whether it intends to use a more globally recognised system, what reformulation strategies it has, how it intends to market healthy products through existing channels that it already has such as the use of value stores and whether there would be any targets around this. The Forum is looking to follow up with continued dialogue in Q2 on a number of issues not discussed in the meeting.

Sainsbury and Share Action

During the pandemic, supermarket employees have been amongst a number of key workers on the frontline, providing an essential service in serving the nation. LAPFF joined ShareAction and the Good Work investor coalition in engaging with Sainsbury around the paying of a living wage. Before the meeting had taken place, Sainsbury announced its new pay deal in January. However, the resolution being put forward by ShareAction is seeking support by the company to accredit as a Living Wage employer in the next few years. Sainsbury's pay rise in January was a welcome step but left some gaps that the engagement seeks to address, such as discrepancies between inner and outer London living wage rates and no commitment relating to any of its third-party staff. LAPFF raised questions of Union negotiation, as the company consults with Union, and Argos has a collective bargaining agreement with Unite. The wider workforce does not have such an agreement, whereas a number of the company's peers do.

Care sector – UNI Global Union

LAPFF continued its involvement in the UNI Global Union collaborative initiative on employment standards and care quality at nursing homes. The investor expectations statement now includes support from over 100 institutions with combined assets of over $3.3 trillion. Engagement with REITs within the care sector is commencing, with LAPFF the lead investor at Welltower and a supporting investor at others.

Slamon fish farm aquaculture

FAIRR Initiative

After becoming a signatory to the FAIRR initiative in December 2021, an investor network focusing on ESG risks in the global food sector, LAPFF signed onto collaborative engagements. One looks at sustainable aquaculture, asking salmon companies to develop and disclose strategies for diversifying feed ingredients towards lower impact and more sustainable alternatives, and to implement better climate risk management. The other looks at working conditions in global meat supply chains. It seeks to address a number of human rights capital risks in the animal farming industry.
Collaborative Community Meetings

Brazilian Communities & British Consul in Brazil

Prior to the pandemic, LAPFF promised to visit the communities affected by the tailings dam collapses in Mariana and Brumadinho, Brazil. LAPFF intends to keep its promise to visit these communities and, in preparation, held a discussion with the British Consulate in Belo Horizonte, Brazil, to discuss timings and information necessary to proceed with the trip.

LAPFF EVENTS

Say on Climate Event

LAPFF, together with Sarasin & Partners and TCI Fund Management wrote to FTSE All Share companies in 2021, urging them to submit a Climate Transition Action Plan to each AGM for shareholder approval. Having received a significant response to this, it was decided to hold an event at which companies, investors and other interested parties could discuss how best to formulate and disclose such plans and put them to shareholders for review. In February, a range of speakers in the investor, corporate, regulatory and advisory space gathered to discuss what are likely soon to be mandatory disclosures, with lively debate ensuing.

APPG

The LAPFF-supported All-Party Parliamentary Group on Local Authority Pension Funds held a meeting in March. The meeting followed on from the launch of the APPG's report on responsible investment for a just transition, with presentations from Dr Alan Whitehead MP, Shadow Minister for Climate Change and Net Zero, and Matt Toombs, Director of Campaigns and Engagement, Cop26 Unit, Cabinet Office. Tessa Younger, Head of Engagement at PIRC, also provided an overview of the Say on Climate initiative and LAPFF's involvement with it.

Communities affected by Rio Tinto Operations

LAPFF Chair, Cllr Doug McMurdo, hosted a webinar with community members affected by Rio Tinto operations in Australia, Mongolia, and Papua New

COLLABORATIVE ENGAGEMENTS

Guinea. While there are still many areas that need progress, which Rio Tinto itself admits through its brave and helpful workplace culture report, there are also points of improvement. In general, it was felt that the culture at the executive level of the company has improved; it is hoped this improved culture will extend throughout the entire organisation. It was also noted that Rio Tinto has agreed to an independent assessment of its role at its legacy Panguna mine in Papua New Guinea. However, progress appears patchy globally with accounts from Mongolia – and through separate contact with LAPFF, Arizona - less positive.

CONSULTATIONS

UN OHCHR Accountability and Remedy Project Consultation

One area of interest as LAPFF increases its work on human rights is the growing number of legislative initiatives on human rights and environmental due diligence (mHREDD) emerging at both the domestic and international levels. To this end, LAPFF joined a consultation held by the United Nations Office for the High Commissioner of Human Rights to discuss trends in mHREDD globally. Sessions included an overview of mHREDD initiatives, the role of courts, the role of administrative bodies, and the link between mHREDD and grievance mechanisms. This discussion is particularly relevant for LAPFF as the UK deliberates on its own mHREDD legislation. LAPFF also attended a UN Global Compact webinar on mHREDD that stressed the need to overcome the siloed approach to environmental and social issues in approaches to legislating for due diligence. This observation fits well with LAPFF's approach to engaging on a fair and just transition to a zero carbon economy.

MEDIA COVERAGE

DAM COLLAPSE

UK local govt pension scheme "dismayed" at lack of action over Brazil dam collapses
https://www.mining.com/web/uk-local-govt-pension-scheme-dismayed-at-lack-of-action-over-brazil-dam-collapses/
The ESG Interview: Learn from the Past, Look to the Future
The ESG Interview: Learn from the Past, Look to the Future - ESG Investor

UK ENDORSEMENT BOARD

Standards board 'looks like a cabal'
https://www.thetimes.co.uk/article/standards-board-looks-like-a-cabal-hks5ch38b

ISRAEL PALESTINE

LGPS seeks UN clarity on investment comments
https://www.pensions-expert.com/DB-Derisking/LGPS-seeks-UN-clarity-on-Israel-investment-comments

UKRAINE

Lessons from Ukraine: are defence exclusions 'responsible'?
https://www.room151.co.uk/blogs/lessons-from-ukraine-are-defence-exclusions-responsible/

CHAIR'S QUOTE

"I had hoped, with the promising trajectory of the Omicron variant, that 2022 would be a year of more positive developments. However, we now find ourselves with the prospect of another world war and less certain than ever about how to act on ESG issues as investors due to recent government initiatives in the UK. In this context, LAPFF's work takes on even greater significance as investors must step up to respect human rights, the environment, and good governance where governments and other actors fail to do so."

Local Authority Pension Fund Forum

COMPANY PROGRESS REPORT

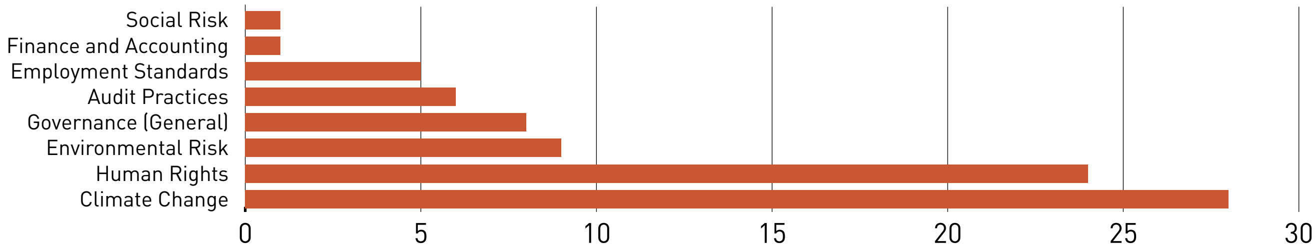
50 Companies engaged over the quarter

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

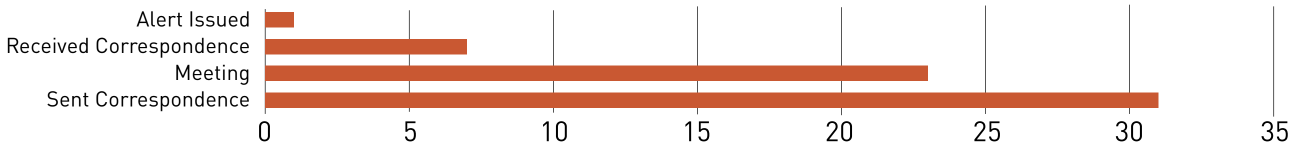
Company/Index	Activity	Topic	Outcome
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Change in Process
ALSTOM SA	Meeting	Human Rights	Dialogue
AMAZON.COM INC.	Sent Correspondence	Employment Standards	Dialogue
ANGLO AMERICAN PLC	Sent Correspondence	Climate Change	Change in Process
APPLE INC	Alert Issued	Human Rights	Dialogue
ARCELORMITTAL SA	Received Correspondence	Climate Change	Substantial Improvement
ASTRAZENECA PLC	Meeting	Governance (General)	Dialogue
BEZEQ THE ISRAELI TELECOMMUNICATION CORP LTD	Meeting	Human Rights	Dialogue
BHP GROUP LIMITED (AUS)	Meeting	Human Rights	No Improvement
BP PLC	Meeting	Climate Change	Change in Process
BRF - BRASIL FOODS SA	Sent Correspondence	Human Rights	Awaiting Response
CHEVRON CORPORATION	Sent Correspondence	Human Rights	Awaiting Response
CISCO SYSTEMS INC.	Meeting	Human Rights	Dialogue
CK HUTCHISON HOLDINGS LTD	Meeting	Environmental Risk	Awaiting Response
CRANSWICK PLC	Sent Correspondence	Human Rights	Awaiting Response
CRH PLC	Received Correspondence	Climate Change	Change in Process
DBS BANK LTD	AGM	Climate Change	Small Improvement
DBS GROUP HOLDINGS LTD	AGM	Climate Change	Substantial Improvement
DELL TECHNOLOGIES	Meeting	Audit Practices	Dialogue
FREEPORT-MCMORAN INC.	Meeting	Governance (General)	Change in Process
GLAXOSMITHKLINE PLC	Received Correspondence	Climate Change	Moderate Improvement
HALMA PLC	Meeting	Finance and Accounting	Small Improvement
HALMA PLC	Received Correspondence	Climate Change	Moderate Improvement
INTERCONTINENTAL HOTELS GROUP PLC	Received Correspondence	Climate Change	Moderate Improvement
KELLOGG COMPANY	Meeting	Social Risk	Small Improvement
LEROY SEAFOOD GROUP ASA	Sent Correspondence	Environmental Risk	Awaiting Response
LONDON STOCK EXCHANGE GROUP PLC	Received Correspondence	Climate Change	Substantial Improvement
LYONDELLBASELL INDUSTRIES N.V.	Meeting	Climate Change	Change in Process
MARFRIG GLOBAL FOODS S.A	Sent Correspondence	Human Rights	Awaiting Response
META PLATFORMS INC	Sent Correspondence	Human Rights	Awaiting Response
MOTOROLA SOLUTIONS INC.	Meeting	Human Rights	Dialogue
MOWI ASA	Sent Correspondence	Environmental Risk	Awaiting Response
NESTLE SA	Meeting	Climate Change	Small Improvement
NEXTERA ENERGY INC	Sent Correspondence	Climate Change	Moderate Improvement
PENNON GROUP PLC	Sent Correspondence	Environmental Risk	Awaiting Response
RENAULT SA	Sent Correspondence	Climate Change	Small Improvement
RIO TINTO PLC	Meeting	Climate Change	Moderate Improvement
SAINSBURY (J) PLC	Meeting	Employment Standards	Moderate Improvement
SALMAR ASA	Sent Correspondence	Environmental Risk	Awaiting Response
SANDERSON FARMS INC	Sent Correspondence	Human Rights	Awaiting Response
SEVERN TRENT PLC	Sent Correspondence	Environmental Risk	Awaiting Response
SYNTHOMER PLC	Meeting	Human Rights	Small Improvement
TESCO PLC	Received Correspondence	Human Rights	Dialogue
THYSSENKRUPP AG	Meeting	Climate Change	Change in Process
TOTALENERGIES SE	Meeting	Human Rights	Dialogue
TYSON FOODS INC	Sent Correspondence	Human Rights	Awaiting Response
UNITED UTILITIES GROUP PLC	Sent Correspondence	Environmental Risk	Awaiting Response
VALE SA	Meeting	Governance (General)	Dialogue
WELLTOWER INC	Sent Correspondence	Employment Standards	Awaiting Response
WH GROUP LTD	Sent Correspondence	Human Rights	Awaiting Response

ENGAGEMENT DATA

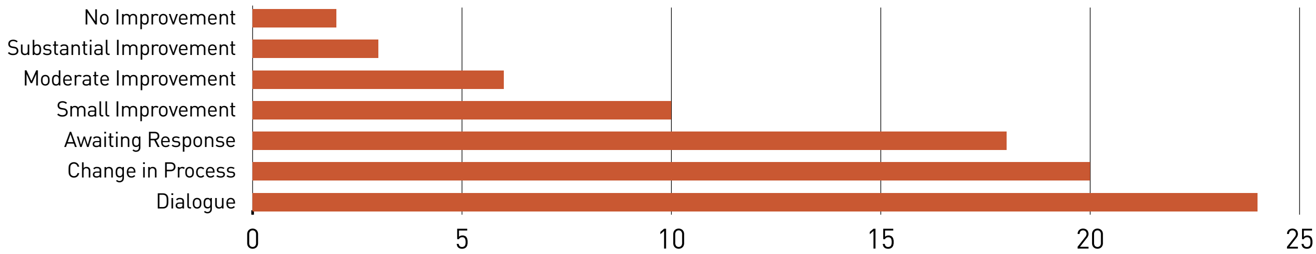
ENGAGEMENT TOPICS



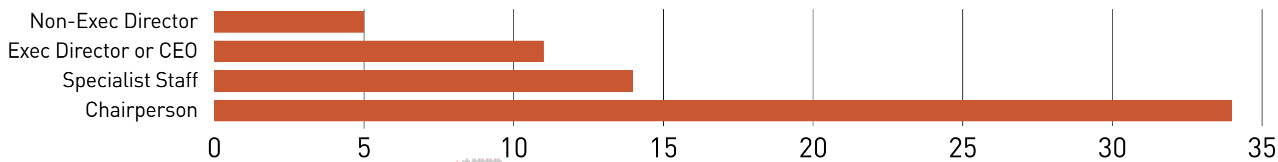
ACTIVITY



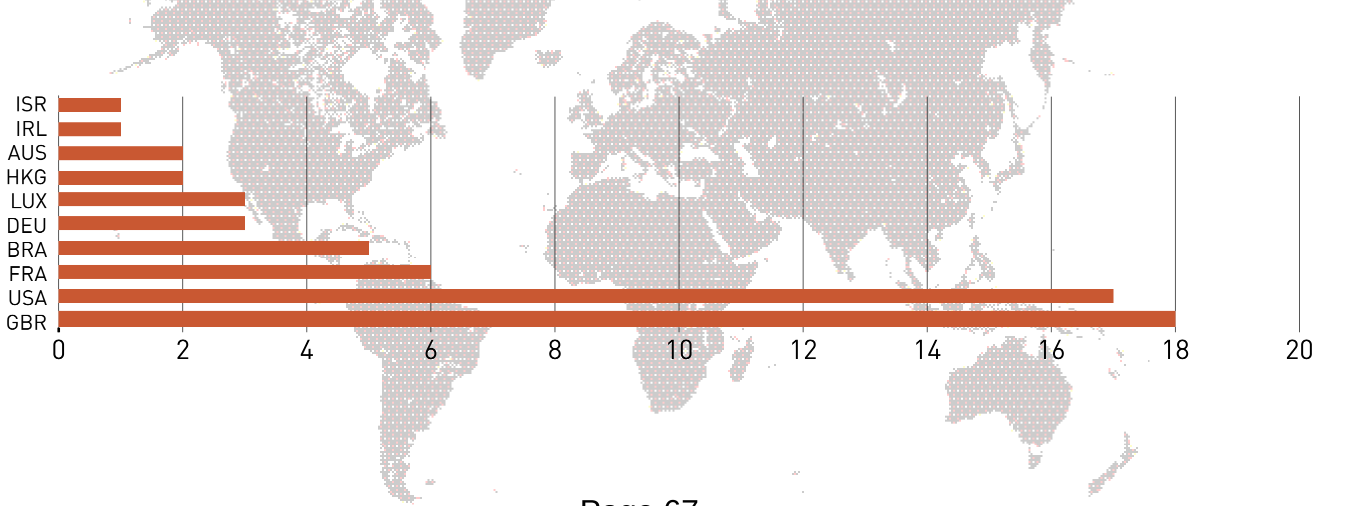
MEETING ENGAGEMENT OUTCOMES



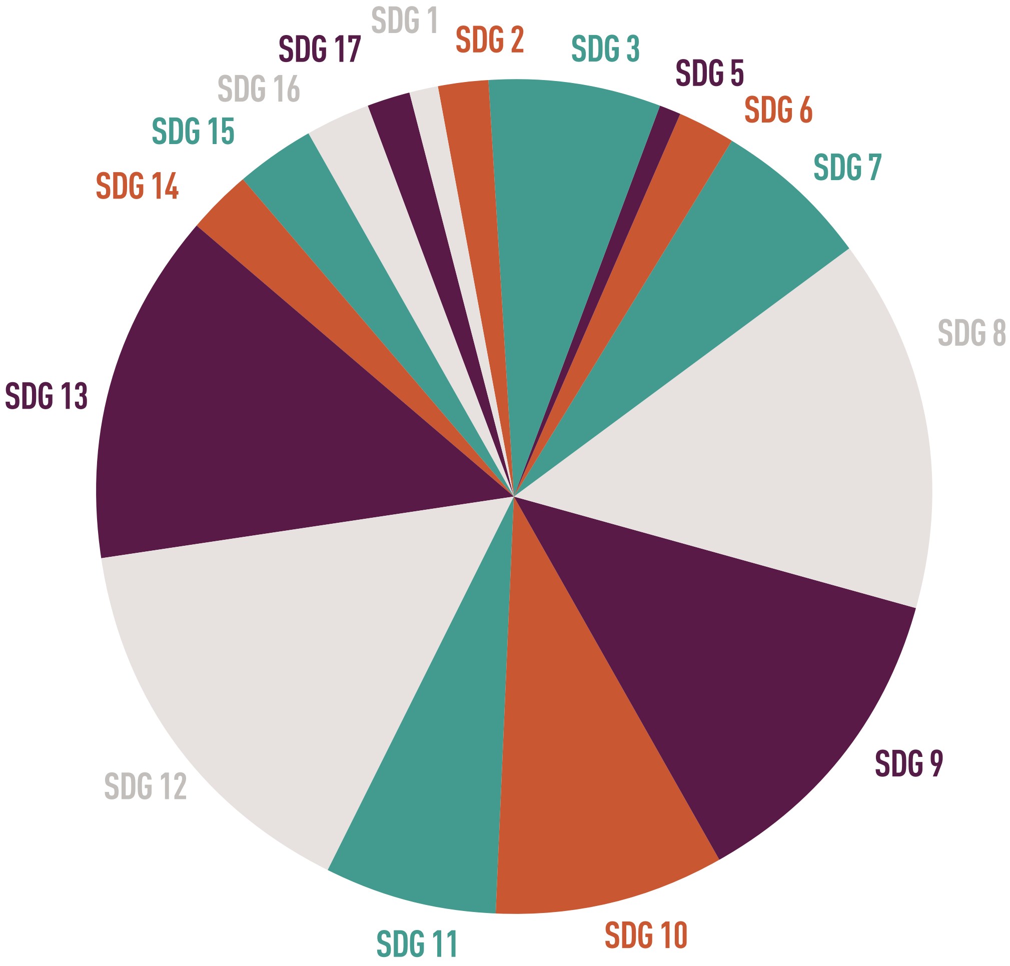
POSITION ENGAGED



COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	3
SDG 2: Zero Hunger	5
SDG 3: Good Health and Well-Being	16
SDG 4: Quality Education	0
SDG 5: Gender Equality	2
SDG 6: Clean Water and Sanitation	5
SDG 7: Affordable and Clean Energy	15
SDG 8: Decent Work and Economic Growth	35
SDG 9: Industry, Innovation, and Infrastructure	30
SDG 10: Reduced Inequalities	21
SDG 11: Sustainable Cities and Communities	16
SDG12: Responsible Production and Consumption	37
SDG 13: Climate Action	33
SDG 14: Life Below Water	6
SDG 15: Life on Land	7
SDG 16: Peace, Justice, and Strong Institutions	6
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	4

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
Kent Pension Fund
Kingston upon Thames Pension Fund
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

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Worcestershire Pension Fund

EOS at Federated Hermes

Engagement by region

Over the last quarter we engaged with 60 companies held in the Worcestershire Pension Fund portfolios on a range of 202 environmental, social and governance issues and objectives.

Global

We engaged with 60 companies over the last quarter.

- Environmental 30.2%
- Social and Ethical 22.8%
- Governance 34.2%
- Strategy, Risk and Communication 12.9%

Europe

We engaged with four companies over the last quarter.

- Environmental 50.0%
- Governance 40.0%
- Strategy, Risk and Communication 10.0%

United Kingdom

We engaged with three companies over the last quarter.

- Environmental 60.0%
- Governance 20.0%
- Strategy, Risk and Communication 20.0%

Emerging & Developing Markets

We engaged with 17 companies over the last quarter.

- Environmental 20.0%
- Social and Ethical 22.0%
- Governance 42.0%
- Strategy, Risk and Communication 16.0%

Developed Asia

We engaged with ten companies over the last quarter.

- Environmental 26.2%
- Social and Ethical 26.2%
- Governance 38.1%
- Strategy, Risk and Communication 9.5%

Australia & New Zealand

We engaged with two companies over the last quarter.

- Environmental 40.0%
- Governance 30.0%
- Strategy, Risk and Communication 30.0%

North America

We engaged with 24 companies over the last quarter.

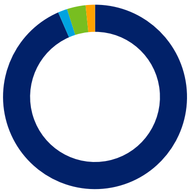
- Environmental 32.9%
- Social and Ethical 28.2%
- Governance 28.2%
- Strategy, Risk and Communication 10.6%

Engagement by theme

Over the last quarter we engaged with 60 companies held in the Worcestershire Pension Fund portfolios on a range of 202 environmental, social and governance issues and objectives.

Environmental

Environmental topics featured in 30.2% of our engagements over the last quarter.



- Climate Change 93.4%
- Forestry and Land Use 1.6%
- Pollution and Waste Management 3.3%
- Supply Chain Management 1.6%

Social and Ethical

Social and Ethical topics featured in 22.8% of our engagements over the last quarter.

- Conduct and Culture 10.9%
- Diversity 19.6%
- Human Capital Management 21.7%
- Human Rights 47.8%

Governance

Governance topics featured in 34.2% of our engagements over the last quarter.

- Board Diversity, Skills and Experience 34.8%
- Board Independence 17.4%
- Executive Remuneration 36.2%
- Shareholder Protection and Rights 8.7%
- Succession Planning 2.9%

Strategy, Risk and Communication

Strategy, Risk and Communication topics featured in 12.9% of our engagements over the last quarter.

- Audit and Accounting 15.4%
- Business Strategy 23.1%
- Cyber Security 3.8%
- Integrated Reporting and Other Disclosure 26.9%
- Risk Management 30.8%

Worcestershire Pension Fund

EOS at Federated Hermes

Over the last quarter we made voting recommendations at 42 meetings (332 resolutions). At 20 meetings we recommended opposing one or more resolutions. We supported management on all resolutions at the remaining 22 meetings.

Global

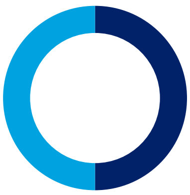
We made voting recommendations at 42 meetings (332 resolutions) over the last quarter.

Total meetings in favour 52.4%

Meetings against (or against AND abstain) 47.6%

Australia and New Zealand

We made voting recommendations at two meetings (11 resolutions) over the last quarter.



Total meetings in favour 50%

Meetings against (or against AND abstain) 50%

Developed Asia

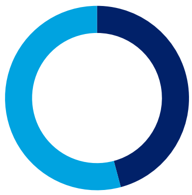
We made voting recommendations at 15 meetings (146 resolutions) over the last quarter.

Total meetings in favour 60%

Meetings against (or against AND abstain) 40%

Emerging and Frontier Markets

We made voting recommendations at 24 meetings (174 resolutions) over the last quarter.

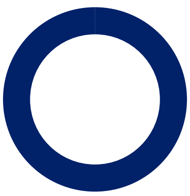


Total meetings in favour 45.8%

Meetings against (or against AND abstain) 54.2%

United Kingdom

We made voting recommendations at one meeting (one resolution) over the last quarter.



Total meetings in favour 100%

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

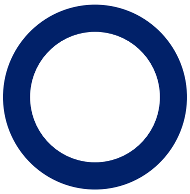
Global

We recommended voting against or abstaining on 78 resolutions over the last quarter.

- Board structure 48.7%
- Remuneration 35.9%
- Shareholder resolution 2.6%
- Capital structure and dividends 1.3%
- Amend articles 5.1%
- Audit and accounts 2.6%
- Investment/M&A 1.3%
- Other 2.6%

Australia and New Zealand

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



- Remuneration 100%

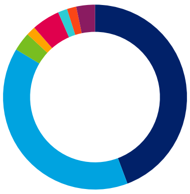
Developed Asia

We recommended voting against or abstaining on 15 resolutions over the last quarter.

- Board structure 73.3%
- Remuneration 13.3%
- Amend articles 6.7%
- Audit and accounts 6.7%

Emerging and Frontier Markets

We recommended voting against or abstaining on 61 resolutions over the last quarter.



- Board structure 44.3%
- Remuneration 39.3%
- Shareholder resolution 3.3%
- Capital structure and dividends 1.6%
- Amend articles 4.9%
- Audit and accounts 1.6%
- Investment/M&A 1.6%
- Other 3.3%

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

Meeting Date	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
18/03/2022	Trusco Nakayama Corp.	Annual	Against	2.1 1.6	Concerns about overall board structure Lack of independence on board
25/03/2022	ASICS Corp.	Annual	All For		
25/03/2022	NEXON Co., Ltd.	Annual	Against	4 2.1 2.4 3.2,3.3 3.1	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity Lack of independence on board Concerns related to attendance at board or committee meetings Lack of independence on boardLack of independent representation at board committees Lack of independent representation at board committees
29/03/2022	Chugai Pharmaceutical Co., Ltd.	Annual	All For		
29/03/2022	Ebara Corp.	Annual	All For		
30/03/2022	Dentsu Group, Inc.	Annual	Against	3.2,4.5,4.6	Lack of independence on board
30/03/2022	Renesas Electronics Corp.	Annual	Against	1	Concerns related to shareholder rights
31/03/2022	DBS Group Holdings Ltd.	Annual	All For		
14/03/2022	NAVER Corp.	Annual	All For		
16/03/2022	Samsung Electronics Co., Ltd.	Annual	All For		
24/03/2022	Shinsegae Co., Ltd.	Annual	Against	3.2	Lack of independence on board
28/03/2022	LG Household & Health Care Ltd.	Annual	All For		
30/03/2022	HYBE Co., Ltd.	Annual	All For		
30/03/2022	SK hynix, Inc.	Annual	All For		
31/03/2022	SK Innovation Co., Ltd.	Annual	Against	4 2.1	Apparent failure to link pay and appropriate performance Concerns about overall performance
20/01/2022	BHP Group Limited	Special	All For		
24/02/2022	Aristocrat Leisure Limited	Annual	Against	3,5	Apparent failure to link pay and appropriate performance
10/03/2022	Banco Bradesco SA	Annual	Against	11	
10/03/2022	Banco Bradesco SA	Annual	Abstain Against	4,6,7.1,7.2,7.3,7.4,7.5,7.6,7.7,7.8,7.9,7.10,7.11,8 5.1,5.2,5.3,5.4,5.5,5.6,5.7,5.11,9,10	
10/03/2022	Banco Bradesco SA	Extraordinary Shareholders	Against	6,7	
14/02/2022	Sea Ltd. (Singapore)	Annual	Against	1	Concerns about reducing shareholder rights
05/01/2022	NARI Technology Co., Ltd.	Special	Against	1,1.1,1.2,1.3,1.4,1.5,1.6,1.7,1.8,1.9,1.10,1.11,1.12,1.13,1.14,1.15,2,3,4	Concerns to protect shareholder value
10/01/2022	LONGi Green Energy Technology Co., Ltd.	Special	Against	2	Concerns related to shareholder rights
14/01/2022	Midea Group Co. Ltd.	Special	All For		
21/01/2022	Riyue Heavy Industry Co., Ltd.	Special	Against	1	Concerns to protect shareholder value
24/01/2022	Shenzhen Topband Co., Ltd.	Special	All For		
07/02/2022	LB Group Co., Ltd.	Special	All For		
09/03/2022	Luxshare Precision Industry Co. Ltd.	Special	All For		
11/03/2022	Midea Group Co. Ltd.	Special	All For		
17/03/2022	Will Semiconductor Co., Ltd. Shanghai	Special	Against	2	Concerns related to shareholder rights
25/03/2022	By-Health Co., Ltd.	Annual	All For		
12/01/2022	Hindustan Unilever Limited	Special	All For		
12/02/2022	Tata Consultancy Services Limited	Special	All For		
19/02/2022	One 97 Communications Ltd.	Special	Against	1,2,3	Concerns to protect shareholder value
09/03/2022	Reliance Industries Ltd.	Court	All For		
26/03/2022	One 97 Communications Ltd.	Special	Against	1	Insufficient justification for related party transaction
27/03/2022	HDFC Bank Limited	Special	All For		
10/03/2022	PT Bank Mandiri (Persero) Tbk	Annual	Against	7,8	Concerns to protect shareholder value
17/03/2022	PT Bank Central Asia Tbk	Annual	All For		
24/03/2022	CEMEX SAB de CV	Annual/Special	Against	4.A7,4.B	
28/01/2022	Thai Beverage Public Co., Ltd.	Annual	Against	10 5.1,3,5.1.5	Insufficient/poor disclosure Overboarded/Too many other time commitments
22/02/2022	Wizz Air Holdings Plc	Special	All For		

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worcestershire county council

PENSIONS COMMITTEE
28 JUNE 2022

PENSION FUND UNAUDITED ANNUAL ACCOUNTS 2021/22

Recommendation

1. **The Chief Financial Officer recommends that the unaudited Pension Fund Annual Accounts 2021/22 (Appendix 1) and the review of the level 3 Fund investments (Appendix 2) be approved.**

Background

2. The annual report is a key communications channel between the fund and a wide variety of stakeholders and will be available at the Committee in October 2022. The report contains information relating to the Pension funds unaudited annual accounts (which are part of the Annual Report) including the fund investments, administration, governance, valuations, accounts and membership.

Legislative Requirements and Guidance

3. The requirement for and content requirements of LGPS pension fund annual reports in England and Wales was initially introduced under Regulation 34 of the LGPS (Administration) Regulations 2008. For reporting periods beginning 1 April 2014 and beyond, the statutory requirement in England and Wales can be found in Regulation 57 of The Local Government Pension Scheme Regulations 2013.

4. CIPFA published updated guidance in January 2022 that represents a general framework for pension fund administering authorities to meet their statutory obligation to prepare and publish an annual report for the pension fund. The Department for Communities and Local Government has adopted this guidance as statutory guidance for the purposes of regulation 57(3) in the 2013 Regulations.

5. The CIPFA guidance included the requirement for specific information to be published to assist the production of the scheme annual report compiled by the LGPS scheme advisory board.

Some Key Highlights are as follows:

6. The key points to note on the accounts are as follows (figures in brackets relate to the equivalent 2020/21 position).

- The Fund had a revenue deficit of £7.4m before the net return on investments (surplus £116.6m). This is mainly due to several organisations prepaying their 3-year (2020/21 to 2022/23) employer deficit recovery contributions and 90% of their normal contributions in 2020/21 up to the next triennial valuation due to take effect from the 1 April 2023.

- Employers’ contributions into the fund were £90.7m (£201.2m).

- Benefit payments increased by £3.0m (2.7%) to £115.6m (£112.6m) mainly due to an increase in pension payments reflecting the rise in the number of pensioners and an increase in lump sum payments.
- Management Expenses (which include fees pay to external investment managers) have increased from £18.2m to £21.5m. The £3.3m increase reflects the 2019 strategic asset allocation decision to disinvest from passive equity investments into property and infrastructure funds for which the management fees tend to be more expensive. Also, the Funds asset valuation increased which results in increased management fees.
- The Payments to and on account of leavers increased by £0.5m year on year to £10.0m (£9.5m). This figure varies each year due to a combination of the number of staff moving to employers outside the Fund and value of the pension these staff members have accrued, along with the impact of freedom and choice, which allows members to transfer to an external pension and access their benefits.
- Investment income of £37.2m (29.1m) increased mainly due to increased dividends paid as a result of the recovery from the impact of Covid-19.
- The Fund incurred a surplus of £227.2m on investment returns compared to the surplus of £602.8m in 2020.21 which is a result of the continuing market rally following the major impact of Covid-19 on investment returns in 2019.20.
- The value of net assets as at 31 March 2022 is £3.584.6bn from £3.364.8bn in 2020/21. This represents an increase of £0.219.8bn.

7. As in the previous year’s accounts, the Fund has included an estimate to reflect the possible impact of the McCloud judgement (Note 2) on the cost of paying LGPS benefits. The actuary has provided some costings of the potential effect of McCloud as at 31 March 2022, based on the individual member data as supplied to them for the 2019 actuarial valuation and this results in an additional liability for past service liabilities of broadly £29 million and an increase in the Primary Contribution rate of 0.6% of Pensionable Pay per annum.

Review of Level 3 Investments

8. Grant Thornton our external auditors provided their Pension Fund Audit Plan for the year ending the 31 March 2022 and one of the key risks is the valuation of level 3 investments. The key reason being that **Level 3 assets** are financial **assets** and liabilities considered to be the most illiquid and hardest to value. A fair value for these **assets** cannot be determined by using readily observable inputs or measures, such as market prices or models.

9. Financial assets are included in the Net assets statement (page 12 of the accounts) on a fair value basis as at the reporting date with a description of how the value of investments have been determined.

10. The Funds level 3 investments mainly relate to the Property and Infrastructure investments and our Corporate private debt investment with Bridgepoint. All these Fund managers provide regular quarterly investment performance reports and some monthly reports within 45 to 60 days after the period end.

11. Our custodian BNY Melon who manages our Pension Fund assets reconciles each fund manager on a monthly basis and provides a monthly report within 15 days after month end. The custodian reports are used as the basis for the investment valuations within the Funds final accounts. The custodian uses the latest available investment performance information taking on board any capital drawdowns and distributions. Therefore, for year-end there is a timing issue between the information we are using to closedown our accounts in a timely manner to the availability of the most up to date valuation information from our level 3 investment managers.

12. The differences in valuation each year are normally below the Auditors materiality levels overall which is 1% of the Fund value as at the 31 March 2022 being £35.8m. Appendix 2 provides a comparison to the market valuations within the custodian report to those provided by the Fund managers towards the end of May / beginning of June 2022. This shows a difference of £10.8m which is mainly due to an increase in valuations.

13. The key reason for the increases in valuation will be the more positive outlook in terms of asset valuations in particular as the Covid recovery continues. The Property and Infrastructure Managers all have professional independent valuers who value the Fund's assets every 6 months at the end of June and end of December. Therefore, the valuation increase would not have been reflected in the valuations provided to the custodian at the time of reconciling the Funds overall assets at year-end.

14. The Finance Manager for Investment & Treasury Management and the Funds Independent Investment advisor meet quarterly with all the Funds level 3 Managers and discuss asset performance, valuation, impact of Covid, risk, etc as part of these meetings which are covered in the investment update to Pensions Investment Sub Committee on a quarterly basis.

15. Pensions Committee are asked to note the process on how level 3 investments are shown at fair value in the final accounts and agree that these were a fair assessment at the time the draft accounts were provided to the auditors. The Pensions Committee is also asked to note the differences in valuation reflected in Appendix 2 acknowledging that these are below the materiality levels of the Fund.

Supporting Information

- Appendix 1 – Unaudited Pension Fund Accounts 2021/22
- Appendix 2 - Review of the level 3 Fund investments

Contact Points

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

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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Worcestershire Pension Fund

Draft Statement of Accounts 2021/22

Table of Contents

Worcestershire Pension Fund (the Fund) Financial Statements 2021/22

About the Accounts

BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2021 / 2022 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2021/22 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 a Review of the Year 2021/22

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

The Fund Account

Details the money received and spent within the Pension Fund during 2021/22.

Net Assets Statement

Statement showing the Fund's financial position at 31 March 2022.

Notes to the Fund Accounts

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

Statement of Accounting Policies

These are shown against the relevant note.

The accounts have been prepared on a going concern basis.

1. Explanatory Foreword and a Review of the Year 2021/22

Foreword by the Chief Financial Officer

Welcome to the Fund's 2021/22 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also administer the LGPS for members of other organisations which have made admission agreements with the Fund and designated bodies who have passed resolutions with Worcestershire County Council.

Table 1 Aim and Purpose of the Fund

The aims of the Fund are to:	
•	**Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost.**
•	**Manage employers' liabilities effectively.**
•	**Ensure that sufficient resources are available to meet all liabilities as they fall due.**
•	**Maximise the returns from investments within reasonable risk parameters.**
The purpose of the Fund is to:	
•	**Receive monies in respect of contributions, transfer values and investment income.**
•	**Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.**

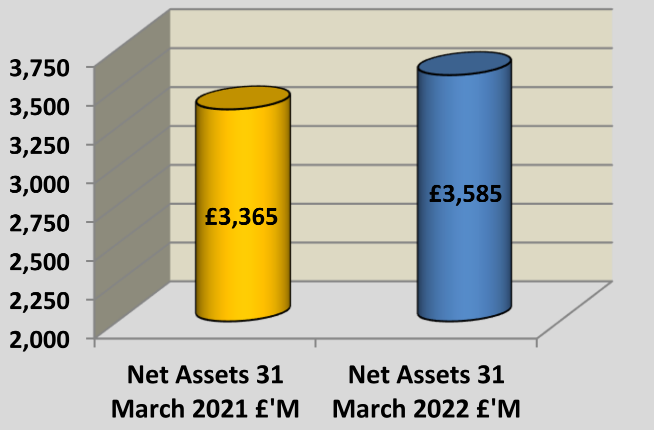
Key headlines

- Chart 1 shows that the value of the Fund's net assets increased by £219.8 million from £3,364.8 million at 31 March 2021 to £3,584.6 at 31 March 2022:

- Income from contributions decreased to £90.7 million, from £201.2 million, due largely to a number of main employers providing 3-year contribution prepayments in one instalment in 2020/21).

- Net investment returns increased by £264.2 million compared to 2020/21 which was mainly due to the continuing recovery in the financial markets following the impact of COVID 19.

Chart 1: The Funds Net Assets



Contributions from staff and employers were less than the benefits paid as well as administration and management expenses in 2021/22 by £44.4 million. This was expected due mainly to some employers paying their 3-year pension contributions upfront this financial year to reduce their overall 3 year costs.

- Chart 2 shows that during the year a deficit resulted on the Fund Account (aside from the net investments returns) totalling £7.4 million, a decrease of £109.2 million from the 2020/21 total of £116.6 million due to reasons stated above.

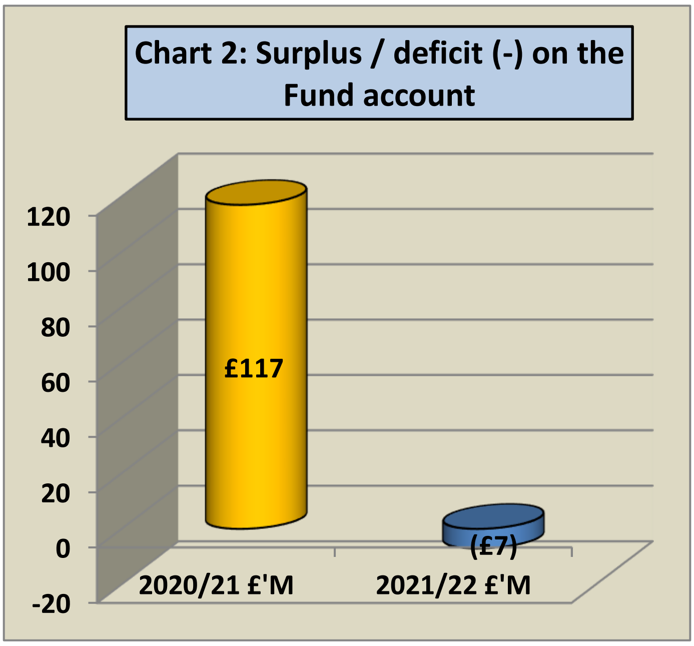


Table 2 analysis of changes within the Fund's membership profile

	31 March 2021	31 March 2022	Change	Change %
Contributors to the Fund	23,070	23,078	8	0.0
Pensions paid	19,533	20,273	740	3.8
Deferred members	22,167	23,248	1,081	4.9
	64,770	**66,599**	**1,829**	**2.8**

Table 2 above shows that the scheme membership has continued to grow. Active employer numbers have increased from 183 to 204 at the end of March 2022 due mainly to an increase in the designated employers and some employer contractual arrangements increases. Given the administrative challenges presented by this continued growth, the Fund regularly review its systems and processes and importantly, the way it engages with, and receives data from scheme employers.

Pensions Administration

Throughout 2021/22 the Administration Team continued to work flexibly but maintained excellent performance monitoring achieving its average turnaround targets for all the twelve key performance indicators it measures. This is also set in a context whereby in 2021/22 the team processed its highest volumes.

Activity / Process	Target turnaround (working days)	2020 / 2021 average turnaround (working days)	2021/2022 average turnaround (working days)
Joiners notification of date of joining	40	25	19
Calculate and notify deferred benefits	30	13	8
Letter notifying actual retirement benefits	15	4	2
Letter notifying estimate of retirement benefits	15	4	3
Process and pay lump sum retirement grant	23	15	10

	2020/21	2021/22
Total Number of staff FTE	**20.7**	**22.3**
Admin Cost per member*	**£31.46**	**£25.38**

'*' the higher administration costs per member in 2020/21 was mainly due to one off costs incurred on the pensions administration system to deliver increased data security and efficiency

Governance

The Council has established a Pensions Committee to exercise the Administering Authority's responsibility for the management of the Fund. The Pensions Committee has overall responsibility for the management of the administration of the Fund and for the strategic management of the Fund's assets. In order to discharge its responsibility effectively the Pensions Committee is supported by the Pension Administration Advisory Forum and the Pension Investment Sub Committee. Note, it is the Audit and Governance Committee that is charged with governance for the purpose of the accounts.

The Council established a Pension Board in July 2015. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager. Such assistance is to: (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and (b) to ensure the effective and efficient governance and administration of the Scheme.

The Fund's Governance Policy Statement is published on the Council's website. It complies with LGPS Regulations and is aligned to prescribe best practice guidance.

The Fund also reports quarterly to the Pensions Committee on the Fund’s progress towards delivering the recommendations arising from the Scheme Advisory Board’s (SAB) ‘Good Governance project.

Management of the Fund's assets

The management of the Fund's assets is operated through fourteen specialist external managers with nineteen mandates in total. 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 Fund's asset allocation is kept under regular review and the current long-term investment allocation includes investments in a wide variety of UK and overseas companies, corporate bonds, corporate private debt, property and infrastructure. A strategic asset allocation review took place in December 2019 and was endorsed by the Pensions Committee in March 2020 and the following recommendations arising from the review continued to be progressed during 2021/22, and will continue over the medium term:

a) Increase in the allocation to infrastructure or a mix of infrastructure and real estate by 5% from the current strategic allocation of 15% of the Fund to up to 20%.

b) Maintain the Fund's allocation to fixed income at 10%.

c) Decrease in the Fund’s strategic asset allocation to passive equities by 5% from 55% to 50%. The active equities allocation of 20% remained the same.

During 2021/22 the 2019 strategic asset allocation review’s recommendation of a 20% commitment to 'alternatives including property' continued to be implemented following investments into:-

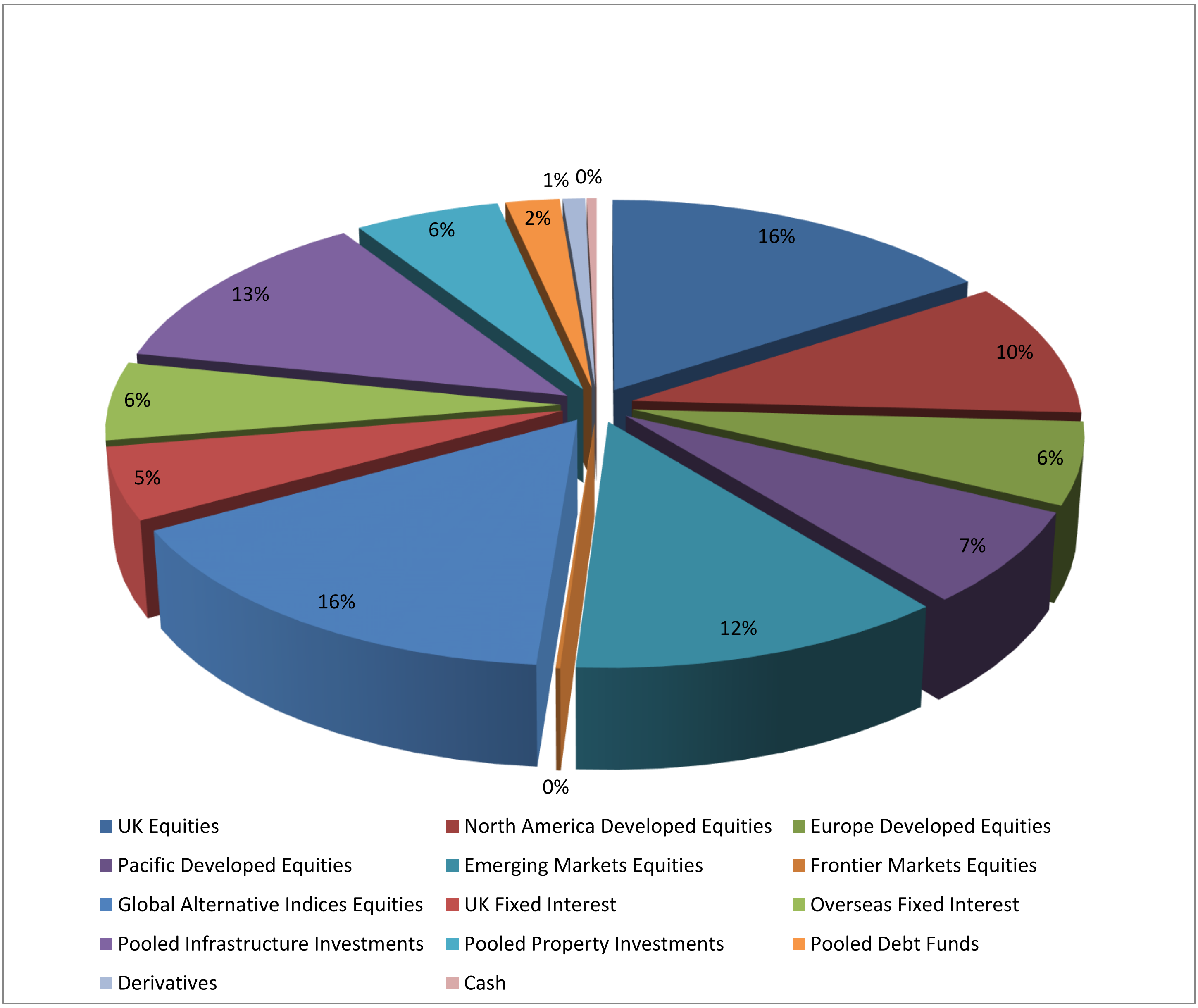
- Gresham House British Strategic Infrastructure Fund II: £75m in September 2021.
- Gresham House Forestry Growth & Sustainability Fund: £50m in November 2021.
- First Sentier (Now Igneo) European Diversified Infrastructure Fund III: £50m in November 2021.
- Stonepeak Infrastructure Fund IV: £75m in in November 2021.
- Gresham House Forestry Fund VI: £75m in March 2022.

To enhance the Fund’s investment returns whilst reducing its carbon footprint, the Fund also disinvested from passive equity LGIM ‘low Volatility’ factor funds and invested £200m in LGPS Central Limited’s (LGPSC) All World Equity Climate Multi Factor Fund.

The Fund retained River and Mercantile to deliver its equity protection strategy that was originally implemented during early March 2018 and continues to provide some asset valuation protection for the market cap passive equity portfolio.

The following chart details the distribution of the Fund's assets as at 31 March 2022:

Chart 3 Distribution of the Fund’s Assets



Environmental, Social & Governance (ESG) & Responsible Investment (RI)

The Fund has continually looked to develop and improve its approach to RI and conducted an ESG audit last year which included mapping the Fund’s entire portfolio to the United Nations’ sustainable development goals (SDGs). The Fund conducted an ESG workshop for its Pensions Committee on the 2nd February 2022 to review progress against the identified actions and was found to have made significant headway.

In January 2022 the Fund’s second annual Climate Risk Report delivered a view of the climate risk of the Fund’s entire equity asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund’s public-facing Climate related Financial Disclosures for the second year.

The Fund was particularly pleased to see that our initial focus on transitioning out of our passive mandates with the greatest carbon footprint has resulted in the Fund's overall listed market portfolio now being 28% (23% in 2020) more carbon efficient than the benchmark. To build on this the Fund is looking to transition a further £200m (6% of its portfolio) from its passive mandates into active sustainable equity funds by May 2022.

The Fund recognises that its investments in private markets also have a significant role to play in addressing climate related issues and the Fund has committed £175m towards a forest and sustainability fund and £200m to a number of sustainable infrastructure and housing investments which will have a long term environmental and social impact. This builds on the existing assets we have in this space.

Impact of COVID 19

Ongoing discussions throughout the year have taken place with existing fund managers and our actuary to continue to consider and understand the implications of COVID 19 on the market valuation of the Fund. As detailed above the Fund had already taken steps to diversify some of its asset allocations from equities into property and infrastructure as well as implementing an equity protection strategy to guard against major market fluctuations. This helped cushion somewhat the initial impact on the Fund's market valuations, which has since recovered, but the Fund has seen a reduction in dividends. Excessive volatility in market risk is also managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities as well as equity protection. Funding and risk is kept under constant review.

LGPS Central Limited (LGPSC)

The Fund's 2017/18 accounts highlighted the government's requirements and reasoning (opportunities for collaboration, cost savings and efficiencies) for asset pooling NB responsibility for asset allocation stays with the Fund. The Fund is a partner fund along with Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire and Nottinghamshire in a collective investment vehicle called LGPSC. The company is authorised to operate as an alternative investment fund manager (AIFM) and became formally operational from the 1 April 2018.

Each partner fund approved the regulatory capital requirements for LGPSC and its introduction on the 31 January 2018. As all FCA regulated entities are required to hold regulatory capital designed to protect the solvency of the entity, £16m of capital was introduced ("Capital Introduced") by the eight shareholders to cover the capital requirement, a prudent buffer, set-up costs and operational liquidity. Each partner fund provided £2million of capital on 31st January 2018, with the Fund's share consisting of £1.3million of equity and £0.7million of debt.

LGPSC has been in operation just over 4 years and the Fund has 21% of its assets in LGPSC's Emerging Markets Equity Active Multi Manager Fund / Global Corporate Bonds Fund / Global All World Equity Climate Multi Factor Fund. This increases to 63% when including the Pooling undertaken by the 'Shire' Pension Funds for passive equities just before LGPSC was formed which is included in the DLUHC pooling return.

Management of the Fund's liabilities

The Funds’ funding strategy is kept under regular review by the Pensions Committee and the Fund's actuary assesses at three yearly intervals the Fund's assets and its liabilities. An actuarial valuation of the Fund was carried out by Mercer’s as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023. The key outcomes of the valuation at that point in time are detailed below:

- The Fund’s assets of £2,795 million represented 90% of the Fund’s past service liabilities of £3,090 million (the “Funding Target”) at the 31st March 2019 valuation date. This was an increase on the 75% funded position at the previous valuation at 2016.

- A common rate of contribution of 17.5% of pensionable pay per annum was required from employers covering 2020-23. The common 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. Different rates apply across fund employers based on specific factors. This ranges from 13.6% to 26.5%.

- The deficit of £295 million would be eliminated by a contribution addition of £28 million per annum increasing at 3.9% per annum for 15 years.

The next actuarial valuation will take place with an effective date of 31 March 2022, and any changes to the employers' contribution rates will be implemented with effect from 1st April 2023.

To meet the requirements of the Regulations, the Fund has 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.

Michael Hudson
LLB (Hons), LLM, CPFA
Chief Financial Officer

2. Fund Account (money received and spent during 2021/22)

For the year ended 31 March 2022

2020/21 £m		Notes	2021/22 £m
	Dealings with members, employers and others directly involved with the Fund		
201.2	Contributions	4	90.7
29.0	Transfers in from other pension funds	5	13.7
230.2			**104.4**
(112.6)	Benefits	6	(115.6)
(9.5)	Payments to and on account of leavers	7	(10.0)
(122.1)			**(125.6)**
108.1	**Net additions / (withdrawals) from dealings with members**		**(21.2)**
(2.0)	Administrative expenses	8	**(1.7)**
(18.2)	Management expenses	9	**(21.5)**
87.9	**Net additions / (withdrawals) including fund management and administrative expenses**		**(44.4)**
	Returns on investments		
29.1	Investment income	10	37.2
(0.4)	Taxes on income	11	(0.2)
602.8	Profit and (losses) on disposal of investments and Changes in the market value of investments	12a & 15b	227.2
631.5	**Net return / (loss) on investments**		**264.2**
719.4	**Net increase / (decrease) in the net assets available for benefits during the year**		**219.8**
2,645.4	**Opening net assets**		**3,364.8**
3,364.8	**Closing net assets**		**3,584.6**

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. The increase in market valuations is mainly due to the continuing recovery of the financial markets following the impact of COVID 19.

3. Net Assets Statement for the year ended 31 March 2022 (showing the financial position at 31 March 2021 and 2022)

2020/21		Notes	2021/22
£m			£m
1.4	Long term Investment Assets	12	1.4
2,861.5	Investment Assets -Internally Managed	12 &15	2,960.1
562.1	Investment Assets -LGPSC Managed	12 &15	736.0
13.6	Cash Deposits	12	13.0
3,438.6			**3,710.5**
(156.3)	Investment Liabilities	12	(167.1)
86.9	Current Assets	17	46.2
1.6	Non-Current Assets	18	1.5
(6.0)	Current Liabilities	19	(6.5)
3,364.8	**Net assets of the Fund available to fund benefits at the period end**		**3,584.6**

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 were 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** 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.

4. 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 and Herefordshire, 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 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 Fund’s Investment Strategy Statement.

b) Membership

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 2021	31 March 2022	Diff
Number of employers	183	204	21
Employee Members of the Fund			
County Council	7,460	7,467	7
Other Employers	15,610	15,611	1
Total	**23,070**	**23,078**	**8**
Pensioner Members of the Fund			
County Council	5,869	6,143	274
Other Employers	13,664	14,130	466
Total	**19,533**	**20,273**	**740**
Deferred Members of the Fund			
County Council	8,787	9,034	247
Other Employers	13,380	14,214	834
Total	**22,167**	**23,248**	**1,081**
Total Number of Members in the Fund	**64,770**	**66,599**	**1,829**

The member numbers have increased mainly due to an increase in pensioners and deferred members.

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 2022. 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 1st April 2020, and currently, employer contribution rates range from 13.6% to 26.5% of pensionable pay. The common 2021/22 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

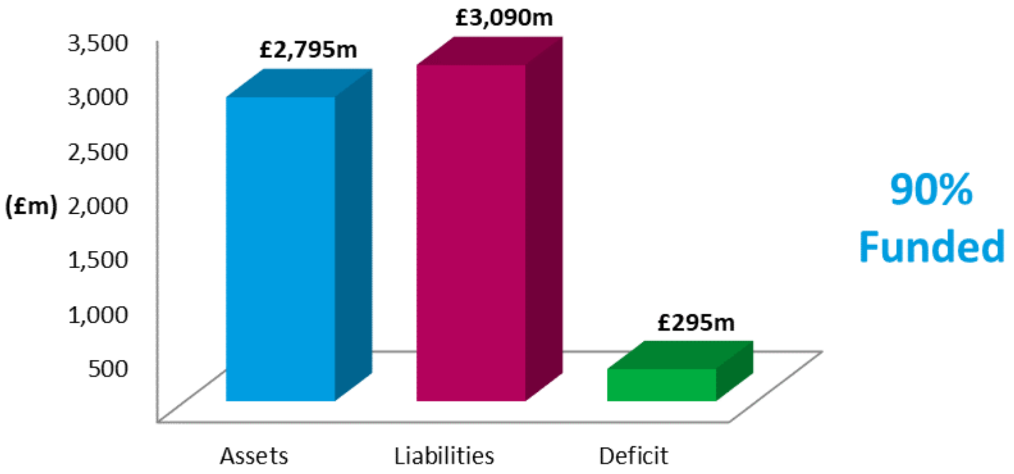
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial 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 31st March 2020 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 Judgment

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 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2019. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine and associated cost of living crisis.This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review and will be considered further as part of the 2022 valuations currently ongoing. We believe that it is important to take stock of the situation as opposed to making immediate decisions in what is an unprecedented set of events. Contributions will be reviewed and updated as part of the 2022 valuation. In additon the Administering Authority has the power to review contributions between valuations where there is a material change in employer circumstances, in line with the regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who 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 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	3.4% per annum
Rate of pay increases*	4.2% per annum	4.9% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.8% per annum	3.5% 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, with the exception of mortality where we have updated the assumption to use the most recent CMI future improvement tables (CMI 2021). 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 increased, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1% p.a.). In isolation, this would have led to a significantly lower value placed on the liabilities, but it was offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.4% p.a.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £4,987 million including the potential impact of the McCloud Judgment. Interest over the year increased the liabilities by £104 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by £83 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £26 million due to "actuarial gains" (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 2022 pension increase award was more 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 2022 is therefore £5,148 million.

	31 March 2021	31 March 2022
	£m	£m
Present value of promised retirement benefits	4,987	5,148
Fair value of Fund assets	3,365	3,585
Net liability	1,622	1,563

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 IAS 26 liabilities calculated last year and is again included in the overall liability figure above.

Paul Middleman
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Laura Evans
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May 2022

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.

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 more recently the effects of the Russia / Ukraine conflict as well as inflation rises which 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 impact of inflation and consequent price rises on fuel and the cost of living is likely to impact on increasing budgetary pressures and it is unlikely that the level of funding that local government bodies receive in future years will keep pace with pressures being faced. This will need to be taken into account for employer's contributions to the Fund

The Fund Accounts include more detail regarding the impact of COVID-19, the Russia / Ukraine conflict and inflation 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: -

		2020/21	2021/22
By Category		**£m**	**£m**
Employers			
	Normal contributions	119.2	47.6
	Deficit recovery contributions	54.0	14.6
	Augmentation contributions	2.5	2.6
	Additional contributions	0.0	0.0
Employees			
	Normal contributions	25.0	25.6
	Additional contributions	0.5	0.3
		201.2	**90.7**

	2020/21	2021/22
By authority:	**£m**	**£m**
Worcestershire County Council	89.2	11.2
Scheduled bodies	99.0	68.3
Community admission bodies	5.2	3.8
Transferee admission bodies	6.9	6.4
Designated bodies	0.9	1.0
	201.2	**90.7**

The reduction in contributions in 2021/22 was due to a number of major employers 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: -

	2020/21	2021/22
	£m	£m
Individual transfers	12.5	13.7
Bulk transfers	16.5	0.0
	29.0	**13.7**

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: -

By category:	2020/21	2021/22
	£m	£m
Pensions	92.8	95.5
Commutations and lump sum retirement benefits	16.8	17.4
Lump sum death benefits	3.0	2.7
	112.6	**115.6**

By authority:	2020/21	2021/22
	£m	£m
Worcestershire County Council	41.9	40.9
Scheduled bodies	58.2	61.2
Admitted bodies	1.6	1.7
Community admission bodies	7.0	7.1
Transferee admission bodies	3.1	4.1
Designated bodies	0.8	0.6
	112.6	**115.6**

NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020/21	2021/22
	£m	£m
Individual transfers	9.5	10.0
Group transfers	0.0	0.0
	9.5	**10.0**

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.

	2020/21	2021/22
	£m	**£m**
Employee expenses	0.6	0.6
Support services	0.5	0.5
Actuarial services	0.5	0.4
Other expenses	0.4	0.2
	2.0	**1.7**

The audit fee (included in support services above) for work completed by the Fund's external auditors for the year ended 31 March 2022 was £32,743 (31 March 2021: £33,743), 1.8% (31 March 2021: 1.7%) 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.

	2020/21	2021/22
	£m	**£m**
Oversight and Governance	0.2	0.4
LGPSC*	0.7	0.7
Investment Management Expenses		
Administration, management and custody fees	17.3	20.4
Other expenses	0.0	0.0
	18.2	**21.5**

*LGPSC is the governance and management costs the Fund contributes towards the Pooling company

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: -

2021/22	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.2	1.0	0.0	**1.2**
LGPS Central (Emerging Markets)	1.5	1.6	0.0	**3.1**
LGPS Central (Global Climate Fund)	0.1	0.0	0.0	**0.1**
Nomura Asset Management UK Ltd	0.7	0.4	0.0	**1.1**
Legal & General Asset Management	0.5	0.0	0.0	**0.5**
Green Investment Bank	0.6	0.0	0.0	**0.6**
Hermes	0.7	0.0	0.0	**0.7**
Invesco	0.8	0.0	0.0	**0.8**
VENN	0.3	0.0	0.0	**0.3**
Walton Street	0.1	0.0	0.0	**0.1**
AEW	0.1	0.0	0.0	**0.1**
Stonepeak	8.0	0.0	0.0	**8.0**
Igneo (Was First Sentier)	0.9	0.0	0.0	**0.9**
Bridgepoint (was EQT)	1.0	0.0	0.0	**1.0**
River and Mercantile	0.5	0.1	0.0	**0.6**
Gresham Forestry	0.3	0.0	0.0	**0.3**
Gresham (BSIF)	0.5	0.0	0.0	**0.5**
Closed Mandates & one off advisory fees	0.4	0.0	0.0	**0.4**
Subtotal	17.2	3.1	0.0	**20.3**
Custody Fees				0.1
Total Fees				**20.4**

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**

The £20.2m investment management expenses incurred in 2021/22 represent 0.57% or 57 basis points (bps) of the market value of the Fund's assets as at 31st March 2022 (0.52% or 52bps as 31 March 2021). The cash for pooled property investments, pooled infrastructure investment and equity protection strategy drawdowns was 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 £13.0 million to £20.2 million for 2021/22 (£14.4 million to £18.2 million for 2020/21). 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.

	2020/21	2021/22
	£m	£m
Fixed interest securities	3.5	(0.3)
Equity dividends	9.1	11.6
Pooled property investments	7.4	10.4
Pooled infrastructure investments	8.9	15.6
Interest on cash deposits	0.1	(0.1)
Securities lending	0.1	0.0
	29.1	**37.2**

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.

	2020/21	2021/22
	£m	£m
Withholding tax – equities	(0.4)	(0.2)
	(0.4)	**(0.2)**

NOTE 12: INVESTMENTS

	Market value 31 March 2021	Market Value 31 March 2022
	£m	£m
Long term Investment Assets		
LGPS Central shares	1.4	1.4
Investment Assets -LGPS Central Managed		
Equites	402.4	322.5
Pooled investment vehicles	0.0	207.1
Fixed Interest Securities	159.7	206.4
Investment assets -WPF Managed		
Fixed interest securities	192.7	190.4
Equities	448.8	332.9
Pooled investment vehicles	1,518.7	1,508.8
Pooled property investments	160.7	221.9
Pooled infrastructure investments	332.6	426.7
Pooled debt Assets	42.2	76.3
Derivatives - futures	160.5	198.7
Derivatives - forward FX	0.0	0.0
Cash deposits	13.6	13.0
Investment income due	5.3	4.4
Amounts receivable for sales	0.0	0.0
Total investment assets	**3,438.6**	**3,710.5**
Investment liabilities		
Derivatives - futures	(156.3)	(167.1)
Derivatives - forward FX	(0.0)	(0.0)
Amounts payable for purchases	(0.0)	(0.0)
Total investment liabilities	**(156.3)**	**(167.1)**
Net investment assets	**3,282.3**	**3,543.4**

NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2021	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 2022
-	£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	**159.7**	60.0	(1.1)	(12.2)	206.4
Pooled investment vehicles	**0.0**	212.8	(0.1)	(5.6)	207.1
Equities	**402.4**	0.0	(43.1)	(36.8)	322.5
	563.5	**272.8**	**(44.3)**	**(54.6)**	**737.4**
Investment Assets -WPF Managed					
Fixed interest securities	**192.7**	196.7	(198.6)	(0.4)	**190.4**
Equities	**448.8**	207.2	(296.9)	(26.2)	**332.9**
Pooled investment vehicles	**1,518.7**	263.4	(489.2	215.9	**1,508.8**
Pooled property investments	**160.7**	75.6	(18.2)	3.8	**221.9**
Pooled infrastructure investments	**332.6**	63.4	(33.9)	64.6	**426.7**
Pooled debt investments	**42.2**	36.9	(4.5)	1.7	**76.3**
	3,259.2	**1,116.0**	**(1,085.6)**	**204.8**	**3,494.4**
Derivative contracts:					
Futures	**4.2**	375.4	(370.8)	22.8	**31.6**
Forward currency contracts	**0.0**	0.0	0.0	0.0	**0.0**
	3,263.4	**1,491.4**	**(1,456.4)**	**227.6**	**3,526.0**
Other investment balances:					
Cash deposits	13.6			(0.4)	13.0
Investment income due	5.3				4.4
Amount receivable for sales of investments	0.0				0.0
Amounts payable for purchases of investments	0.0				0.0
Net investment assets	**3,282.3**			**227.2**	**3,543.4**

Prior year comparators:

	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					
LGPSCentral – 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**

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 2021/22 year amounted to £3.0 million, (2020/21: £4.7 million). These transaction costs represent 0.08% or 8bps of the market value of the Fund's assets as at 31 March 2022 (1.4bps at 31 March 2021).

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: 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	2020/21		2021/22	
	£m	%	£m	%
LGPS Central (Bonds)	159.7	5	206.4	6
LGPS Central (Emerging Markets)	402.4	12	322.5	9
LGPSC (Global All World Climate Factor Fund)	0.0	0	207.1	6
JP Morgan Asset Management (Bonds)	0.2	0	0.2	0
JP Morgan Asset Management (Emerging Markets)	1.4	0	1.5	0
Nomura Asset Management UK Ltd	455.0	14	365.8	10
Schroder Investment Management	1.3	0	1.4	0
Legal & General Asset Management	1,514.5	47	1,480.1	43
Green Investment Bank	40.2	1	44.7	1
Hermes (Fund I and II)	104.9	3	103.6	3
Invesco (Euro and a UK Property Fund)	105.1	3	107.6	3
VENN (Fund I & II)	19.4	1	25.2	1
Walton Street (Fund I & II)	9.5	0	10.2	0
AEW	18.8	1	19.9	1
Stonepeak	81.1	2	134.9	4
Igneo (was First Sentier)	100.4	3	114.7	3
Bridgepoint Fund II & III (was EQT)	42.2	1	76.3	2
River and Mercantile	200.6	6	223.4	6
WCC Managed Account	5.0	0	5.4	0
Gresham House (BSIF)	13.9	1	44.2	1
Gresham House Forestry	0.0	0	42.5	1
	3,275.6	**100**	**3,537.6**	**100**

The above excludes £1.4m (2020/21: £1.4m) Invested in LGPSC and £4.4m (2020/21: £5.3m) of investment income due. The following investments represent more than 5% of the net assets of the Fund:

Security	Market value 31 March 2021 £m	% of total Fund	Market value 31 March 2022 £m	% of total Fund
LGIM – UK Equity Index Pooled Fund	396.8	12.1	556.1	15.7
LGIM – North America Index Pooled Fund	410.8	12.6	355.2	10.1
LGIM - Client Specific unitised Fund -STAJ	195.2	6.0	352.6	10.0
LGPS Central Emerging Market Equity Pool	402.4	12.3	322.6	9.1
LGIM – Europe (ex-UK) Index Pooled Fund	209.8	6.4	216.1	6.1
LGPS Central All World Equity Climate Factor Fund	0.0	0.0	207.1	5.9
River and Mercantile UK Gilts	192.7	5.9	190.3	5.4
LGIM - MSCI World Mini Volatility Index	188.9	5.8	0.0	0.0

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 £0.8 million (2020/21: £2.8 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 £0.8 million (2020/21: £2.9 million) representing 105.6% of stock lent.

Income received from stock lending activities was £0.0 million for the year ending 31 March 2022 (2020/21: £0.1 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 2021	Economic Exposure	Market Value 31 March 2022
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	64.6	0.0	138.4
EUROSTOXX exchange traded option	Under one year	0.0	33.1	0.0	21.4
US S+P exchange traded option	Under one year	0.0	62.8	0.0	38.9
Overseas exchanged traded	under one year				
Total assets			**160.5**		**198.7**

LIABILITIES		Economic Exposure Value	Market Value 31 March 2021	Economic Exposure Value	Market Value 31 March 2022
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	(55.8)	0.0	(98.7)
EUROSTOXX exchange traded option	Under one year	0.0	(34.0)	0.0	(29.0)
US S+P 500 exchange traded option	Under one year	0.0	(66.5)	0.0	(39.4)
Overseas exchanged traded	Under one year				
Total liabilities			**(156.3)**		**(167.1)**
Net futures			**4.2**		**31.6**

OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2022

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 2022						
					0.0	**(0.0)**
Net forward currency contracts at 31 March 2022						**0.0**
Prior year comparative:						
Open forward currency contracts at 31 March 2021					**0.0**	**0.0**
Net forward currency contracts at 31 March 2021						**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.

	2020/21	2021/22
Cash	**£m**	**£m**
Cash deposits	7.0	5.4
Cash instruments	6.6	7.6
	13.6	**13.0**

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
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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
				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 2022	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	1,056.6	1,914.6	724.9	3,696.1
Total fair value financial assets	**1,056.6**	**1,914.6**	**724.9**	**3,696.1**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	(167.1)	0.0	(167.1)
Total fair value financial liabilities	**0**	**(167.1)**	**0.0**	**(167.1)**
Net fair value financial assets	**1,056.6**	**1,747.5**	**724.9**	**3,529.0**

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**

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 2022.

Sensitivity Analysis	Valuation range	Value as at 31st March 2022	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	2.7	221.9	227.9	215.9
Pooled Investments - Infrastructure Funds	5.2	426.7	449.1	404.3
Pooled Investments - Debt Funds	2.7	76.3	78.4	74.2
Total		**724.9**	**755.4**	**694.4**

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 2021	**160.7**	**332.6**	**42.2**	**535.5**
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	75.6	63.4	36.9	**175.9**
Sales and derivative receipts	(18.2)	(33.9)	(4.5)	**(56.6)**
Unrealised gains/(losses)	3.8	64.6	1.7	**70.1**
Realised gains/(losses)	0.0	0.0	0.0	**0.0**
Market value 31st March 2022	**221.9**	**426.7**	**76.3**	**724.9**

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 2020/21	Financial Instruments at Amortised Cost 2020/21		Fair value through profit and loss 2021/22	Financial Instruments at Amortised Cost 2021/22
£m	£m		£m	£m
		Financial assets		
	1.4	Other share capital		1.4
562.1		LGPS Central Managed	736.0	
192.7		Fixed interest securities	190.4	
448.8		Equities	332.9	
1,518.7		Pooled investment vehicles	1,508.8	
160.7		Pooled property investments	221.9	
332.6		Pooled Infrastructure investments	426.7	
42.2		Pooled Debt investments	76.3	

Fair value through profit and loss 2020/21	Financial Instruments at Amortised Cost 2020/21		Fair value through profit and loss 2021/22	Financial Instruments at Amortised Cost 2021/22
£m	£m		£m	£m
160.5		Derivatives - Futures	198.7	
0.0		Derivatives - Forward FX	0.0	
	88.1	Cash		49.4
5.3		Other investment Balances	4.4	
	12.4	Current assets		9.8
	1.6	Non-current assets		1.5
3,423.6	**103.5**		**3,696.1**	**62.1**
		Financial liabilities		
(156.3)		Derivatives - Futures	(167.1)	
(0.0)		Derivatives - Forward FX	0.0	
(0.0)		Other investment balances	0.0	
	(6.0)	Current liabilities		(6.5)
(156.3)	**(6.0)**		**(167.1)**	**(6.5)**
3,267.3	**97.5**		**3,529.0**	**55.6**

NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2021		31 March 2022
£m		£m
	Financial assets	
639.8	Fair value through profit and loss	204.8
(13.2)	Financial Assets at Amortised Cost	(0.4)
	Financial liabilities	
(23.8)	Fair value through profit and loss	22.8
602.8	**Total**	**227.2**

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. avoiding 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 2022:

- 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 and the absolute and relative risk for each portfolio 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 2021/22 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	6.9%
Global bonds	6.9%
UK equities	15.4%
Overseas equities	12.4%
UK pooled investment vehicles	15.4%
Overseas pooled investment vehicles	11.5%
Global pooled investment vehicles	11.5%
Emerging markets pooled equities	11.5%
Pooled property investments	2.7%
Pooled infrastructure investments	5.2%
Pooled debt investments	2.7%

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 2022	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	13.0	0	13.0	13.0
Investment portfolio assets:				
UK fixed interest securities	190.2	6.9	203.3	177.1
Overseas fixed interest securities	0.0	6.9	0.0	0.0
Global bonds	206.5	6.9	220.7	192.3
UK equities	4.5	15.4	5.2	3.8
Overseas equities	323.5	12.4	363.6	283.4
UK pooled investment vehicles	556.1	15.4	641.7	470.5
Overseas pooled investment vehicles	576.4	11.5	642.7	510.1
Global pooled investment vehicles	559.7	11.5	624.1	495.3
Emerging market pooled equities	351.2	11.5	391.6	310.8
Pooled property investments	221.9	2.7	227.9	215.9
Pooled infrastructure investments	426.7	5.2	449.1	404.3
Pooled debt investments	76.3	2.7	78.4	74.2
Net derivative assets	31.6	0.0	31.6	31.6
Investment income due	4.4	0.0	4.4	4.4
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	**3,542.0**		**3,897.3**	**3,186.7**

Prior-year comparators

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**

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 2021	Value as at 31 March 2022
	£m	£m
Cash and cash equivalents	13.6	13.0
Cash balances	74.5	36.4
Fixed interest securities	192.7	190.4
Total	**280.8**	**239.8**

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 to happen.

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 2022 of a +/- 100 basis points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2022	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	13.0	13.1	12.9
Cash balances	36.4	36.8	36.0
Fixed interest securities	190.4	192.3	188.5
Total change in assets available	**239.8**	**242.2**	**237.4**

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**

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. Changes 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 2021	Asset value as at 31 March 2022
	£m	£m
Overseas quoted securities	433.9	323.5
Overseas pooled investment vehicles	631.2	576.4
Global pooled investment vehicles	497.1	559.7
Global bonds and pooled EM equities	566.3	557.7
Overseas pooled property investments	73.1	104.5
Total overseas assets	**2,201.6**	**2,121.8**

Overseas bonds are 100% hedged to GBP as at 31 March 2022.

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 6.5% (as measured by one standard deviation).

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

An 6.5% 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 2022	Change to net assets available to pay benefits +6.5%	-6.5%
	£m	£m	£m
Overseas quoted securities	323.5	344.5	302.5
Overseas pooled investment vehicles	576.4	613.9	538.9
Global pooled investment vehicles	559.7	596.1	523.3
Global bonds and pooled EM equities	557.7	594.0	521.4
Overseas pooled property investments	104.5	111.3	97.7
Total change in assets available	**2,121.8**	**2,259.8**	**1,938.8**

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**

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 2022 was £50.6 million (31 March 2021: £88.1 million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2021	Balances as at 31 March 2022
		£m	£m
Cash Instruments			
BNY Mellon US Dollar Liquidity Fund	AAA	6.3	7.7
JP Morgan Swap Collateral	A+	0.3	0.0
Bank deposit accounts			
The Bank of New York Mellon	A-1+	7.0	5.3
Bank current accounts			
Barclays Bank PLC	A-1	74.5	36.4
Total		**88.1**	**49.4**

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

	2020/21	2021/22
	£m	**£m**
Contributions due from employer in respect of:		
Employer	6.2	6.4
Members	1.8	2.0
Cash balances	74.5	36.4
Other Debtors	4.4	1.4
	86.9	**46.2**

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

	2020/21	2021/22
	£m	**£m**
*LGPSC capital advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.3	0.5
Contributions from employers	0.2	0.1
Augmentation	0.4	0.2
	1.6	**1.5**

*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

	2020/21	2021/22
	£m	**£m**
Investment management expenses	(1.0)	(0.9)
Payroll and external vendors	(0.8)	(0.6)
Other expenses	(4.2)	(5.0)
	(6.0)	**(6.5)**

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 £1.4 million in 2021/2022 (2020/2021: £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 £11.2 million to the Fund in 2021/2022 (2020/2021: £89.2 million 90% 3 year prepayment).

LGPSC 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 LGPSC annual running costs of £0.7 million was charged to the Fund in 2021/2022 by LGPSC (£0.7 million in 2020/2021).

Key Management Personnel

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

	2020/21	2021/22
	£000	£000
Short term benefits*	61	78
Long term/ post-retirement benefits**	826	213
	887	**291**

*This is annual salary, benefits in kind and employer contributions.
**This is the accrued pension benefits, expressed as cash equivalent transfer value. The main reason for the reduction is that the previous Head of Pensions Administration left the Fund in February 2021 and has been replaced by an interim until the post is filled permanently,

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 2022 totalled £493.4 million (31 March 2021: £163.7 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 13 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 17 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.

Three 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 2021/2022 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:

	2020/21	2021/22
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	0.4	0.1
Retirement benefits paid or transferred	(0.2)	(0.6)

The combined value of the AVC funds as at 31 March 2022 was £2.9 million (31 March 2021: £3.1 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.

	2020/21	2021/22
	£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).

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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 as at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if 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, inflation, 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.

Item	Uncertainties	Effect if actual results differ from assumptions
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. There is continuing uncertainty regarding the property and infrastructure valuations due to the time that it will take to fully realise the impact of COVID-19 upon these illiquid assets as well as the growing concerns as to inflation rises. The valuations have been updated based on the information available as at 31 March 2022 and may be subject to variations as further market information becomes available. Investments are valued each month as per the latest quarterly statements available to our custodian, which are 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 £221.9m (£160.7m in 2020/21). 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 £426.7m (£332.6m in 2020/21). 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 the members of Worcestershire County Council on the pension fund financial statements of Worcestershire Pension Fund

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Worcestershire Pension Fund Valuation 31st March 2022 Appendix 2

Allocation (%)	Level	31.03.2022 Valuation provided to External Audit £'M	Custodian Report Valuation 31.03.22	Difference between Custodian Rpt and Valuation provided to External Audit £'M	Variance %
Nomura Far East Developed	*1*	368.60	370.00	1.40	0.4%
LGPS Central Emerging Markets	*1*	322.60	322.60	0.00	0.0%
Actively Managed Equities		691.20	692.60	1.40	0.2%
UK	*2*	556.50	556.10	-0.40	-0.1%
North America	*2*	355.40	355.30	-0.10	0.0%
Europe – ex UK	*2*	216.20	216.10	-0.10	0.0%
Passively Managed Equity Alternative Indices		1,128.10	1,127.50	-0.60	-0.1%
LGPSC FTSE All World Climate Multi Factor Fund	**2**	207.10	207.10	0.00	0.0%
MSCI World Quality TR Fund	**2**	352.80	352.60	-0.20	-0.1%
Passively Managed Equity Alternative Indices		559.90	559.70	-0.20	0.0%
Equity Protection - River & Mercantile	***1***	**223.70**	223.70	0.00	0.0%
Corporate Bond Fund - LGPS Central	*1*	206.30	206.30	0.00	0.0%
Bridgepoint (was EQT) Mid Market Credit Fund III	*3*	20.30	20.40	0.10	0.5%
Bridgepoint (was EQT) Mid Market Credit Fund II	*3*	55.75	55.90	0.15	0.3%
Fixed Income		282.35	282.60	0.25	0.1%
Actively Managed Alternative Assets					
Property					
UK Property Fund Invesco	*3*	44.70	43.10	-1.60	-3.6%
UK Property Fund Venn	*3*	11.70	11.60	-0.10	-0.9%
Euro & UK Property Fund Venn II	*3*	13.48	13.40	-0.08	-0.6%
US Property Fund Walton St I	*3*	1.22	1.20	-0.02	-1.4%
US Property Fund Walton St II	*3*	7.38	8.70	1.32	17.9%
Euro Property Fund Invesco	*3*	66.62	64.50	-2.12	-3.2%
Gresham Forestry Growth & Sustainability Fund	*3*	42.50	42.50	0.00	0.0%
Property Fund AEW	*3*	20.10	20.10	0.00	0.0%
Total Property		207.69	205.10	-2.59	-1.2%
Infrastructure					
UK Infrastructure - Green Investment Bank	*3*	44.60	44.60	0.00	0.0%
UK Infrastructure - Hermes I	*3*	56.30	55.90	-0.40	-0.7%
UK Infrastructure - Hermes II	*3*	48.60	47.70	-0.90	-1.9%
US Infrastructure Fund - Stonepeak Fund III	*3*	122.00	114.40	-7.60	-6.2%
US Infrastructure Fund - Stonepeak Fund IV	*3*	20.99	20.50	-0.49	-2.3%
Infrastructure Fund Igneo EDIF II (was First Sentier)	*3*	114.45	116.00	1.55	1.3%
Infrastructure Fund Igneo EDIF III (was First Sentier)	*3*	0.00	0.00	0.00	0.0%
Infrastructure Fund - BSIF I	*3*	44.70	44.20	-0.50	-1.1%
Infrastructure Fund - BSIF II	*3*	0.00	0.00	0.00	0.0%
Total Infrastructure		451.65	443.30	-8.35	-1.8%
Other residual Funds		3.20	3.20	0.00	0.0%
Stock Lending CLT		5.30	5.30	0.00	0.0%
Total Fund Valuation		**3,553.09**	**3,543.00**	**-10.09**	-0.3%
TOTAL LEVEL 3 INVESTMENTS		**715.09**	**704.30**	**-10.79**	-1.5%

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worcestershire
countycouncil

PENSIONS COMMITTEE
28 JUNE 2022

BUSINESS PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Worcestershire Pension Fund (WPF) Business Plan as at 25 May 2022 be noted.**

Background and update

2. We are not aware of any matters that needed to be escalated.

3. We have not received any new IDRPs, experienced any new data breaches or had to report anything to The Pensions Regulator since the last quarterly, rolling Business Plan. In 2021 / 2022 we had no data breaches, 1 Internal Dispute Resolution Procedure (IDRP) and 1 complaint (NB complaints generally do not escalate to IDRPs).

4. Our latest pensions administration Key Performance Indicators (KPIs) are reassuring and in line with targets set. As detailed in Section 5, in March 2022 and for the full LGPS year 2021 / 2022, we met our average target turnaround for all 12 of our key measured processes. 37 deaths have been recorded in March 2022 and the average monthly number of deaths in 2021 / 2022 was 36. The average monthly number of deaths in 2019 / 2020 was 15 and in 2020 / 2021, it was 25.

5. Our Fund performance / funding levels are in line with our targets. We have recently invested £200m in LGPSC's Global Active Equity Sustainability Fund.

6. Our projects / budgets are on schedule and members' attention is drawn to the list of projects set out in the Appendix.

7. 91 of our employers have now completed our McCloud checklist / declarations form.

8. The County Council's IT department have reviewed our pensions administration system's supplier's Cyber Security Review 2022 and concluded that it passes muster.

Supporting information

- Appendix - WPF Business Plan 25 May 2022

Contact Points

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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 25 05 2022

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 not aware of any matters that we need to escalate.

2. We have not received any new IDRPs, experienced any new data breaches or had to report anything to The Pensions Regulator since the last quarterly, rolling Business Plan. In 2021 / 2022 we had 0 data breaches, 1 IDRP and 1 complaint (NB complaints generally do not escalate to IDRPs).

3. Our latest pensions administration KPIs are reassuring and in line with targets set. As detailed in Section 5, in March 2022 and for the full LGPS year 2021 / 2022, we met our average target turnaround for all 12 of our key measured processes. We had 37 deaths in March 2022 and the average monthly number of deaths in 2021 / 2022 was 36. The average monthly number of deaths in 2019 / 2020 was 15 and in 2020 / 2021 it was 25.

4. Our Fund performance / funding levels are in line with our targets. We have recently invested £200m in LGPSC's Global Active Equity Sustainability Fund.

5. Our projects / budgets are on schedule and members' attention is drawn to our list of projects in Appendix 1.

6. 91 of our employers have completed our McCloud checklist / declarations form.

7. WCC's IT department have reviewed our pensions administration system's supplier's Cyber Security Review 2022 and concluded that it passes muster.

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**. And in our **Governance Policy Statement**.

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 86 funds administering the LGPS in England & Wales. Worcestershire County Council is the statutorily appointed Administering Authority.

2.6 We administer the LGPS for our employers who vary considerably in size and type and who have allowed their current and previous employees to become members:

	As at 31 Dec 2021	As at 31 March 2022
Employers with active members	192	197
Employee member records	22,233	22,650
Pensioner member records	20,091	20,282
Deferred member records	22,997	23,257
Total member records	65,321	66,189

2.7 We manage a **£3,585m** (as at 31 03 2022) pension fund to pay benefits as they are due and as at 31 March 2022 our estimated whole Fund solvency (the minimum risk funding position is much lower) funding position was 100%.

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 going into County Hall, 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 information gathering, 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**; **Pensions Dashboards**; and **changes to the valuation cycle**.
e) Guaranteed Minimum Pension (GMP) equalisation.
f) New employers (from outsourcing and academy conversions). As part of its Levelling

Up agenda, the Government has issued a **white paper** on education in England which confirms plans to permit councils to establish their own Multi Academy Trusts (MATs) and to require all local authority schools to convert to academy status by 2030.

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 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.

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 are on schedule for / preparing our 2022 annual report.

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:
On 29 March Aquila Heywood, our pensions administration supplier, ran an 'Introduction to the Pensions Dashboards Programme' webinar. It is clear from it that Heywood has a good understanding of the implications of the regulations; are moving ahead with testing / development of their proposition with the help of some clients; and will be providing clients with further guidance on selected aspects including data preparation and maintenance / preparing business cases for approval / a member user guide / an Insights PDP Dashboard. Although there is likely to be limited work for us in plugging into the Heywood dashboard solution, once

dashboards are in place, we should expect an increase in member enquiries / requests for calculations.

Data quality:

Working with a company called Target Professional Services (UK) who help pension schemes find members who they may have lost touch with, we have so far traced 400 members.

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 an employer and terminating Maid Marions BHBS on 13 01 2019.
- 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.
- The Orchard School (Sidemoor) 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 1 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.
- TTB Pitcheroak terminating 31 05 2021.
- AIP WFS terminating 31 08 2021.
- Purgo terminating 31 12 2021.
- Clearview Cleaning terminating 22 07 2021.
- Aspens Hereford Sixth terminating 31 07 2021.
- Lewis Cleaning St Annes terminating 22 08 2021.
- School Catering Support Limited (Relish) joining as a new employer.
- Woodfield Academy joining Bordesley MAT on 01 04 2022.
- Civica transferring some members to Malvern Hills DC in Oct 22.

FRS:
We have supplied employers with a 31 March 2022 year end the required information for their accounts.

KPIs:
As detailed in Section 5, in March 2022 and for the full LGPS year 2021 / 2022, we met our average target turnaround for all 12 of our key measured processes. We had 37 deaths in March 2022 and the average monthly number of deaths in 2021 / 2022 was 36. The average monthly number of deaths in 2019 / 2020 was 15 and in 2020 / 2021 it was 25.

In 2021 /2022 we wrote off 9 cases of pensions overpayments following a death (£194.27 / £1,452.63 / £237.44 / £103.77 / £249.78 / £535.38 / £438.13 / £155.52 and £154.73).

In 2021 / 2022 we had 0 data breaches, 1 IDRP and 1 complaint (complaints generally do not escalate to IDRPs).

Regarding outstanding payments from employers or debtors for whom we have raised an invoice, we have no current concerns.

McCloud:
91 of our employers have completed our McCloud checklist / declarations form.

For employers who have only had Worcestershire County Council (WCC) and Liberata as a payroll provider, we were missing 2017/ 2018 hours changes, casual hours from 2016/17 to date and breaks in service due to unpaid leave not paid back from 2014.

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.

Stronger Nudge to Pensions Guidance
To comply with **the new regulations** from 1 June we will be providing members with a phone number to call if they wish us to arrange an appointment with Pension Wise along with details of how to contact Pension Wise themselves.

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 have arranged a virtual employer forum with our actuary on 22 June to brief employers on the latest re the 2022 actuarial valuation.

Our website's page views were 6,584 in March 2022 (6,860 in March 2021).

In LGPS year 21/22 our website had 66,100 page views (63,553 in 20/21) and 44,567 visits (25,400 in 20/21).

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 drafted two new Fund policies: one on representation and one on conflicts of interest.

WCC's IT department have reviewed our pensions administration system's supplier's Cyber Security Review 2022 and concluded that it passes muster.

We have completed our latest six-monthly review of the objectives for and performance of the Fund's independent investment adviser.

We interviewed for the Head of Pensions Administration on 24 May.

We have recruited a replacement for the member of staff who received a promotion to a grade 4 post following the retirement of the grade 4 postholder.

Training update:

As detailed in a separate agenda item, Committee approved our latest Training Policy & Programme on 23 March, and we have delivered training on 'Does what we are paying our investment managers represent value for money?'

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 31 March 2022 was £3,585m and its solvency funding level was 100%. There remains a lot of volatility in financial markets.

As detailed in the next section (section 4), the Fund has generated an average annual return of 7.9% compared to its benchmark of 7.6% over the 3 years to 31 03 2022.

Over the year to 31 03 2022 the Fund generated a return of 6.7% compared to its benchmark of 8.3%.

We are in the process of investing £200m in LGPSC's Global Active Equity Sustainability Fund.

We have submitted our application for 2022 signatory status to the UK Stewardship Code.

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 31 Mar 2022 v benchmark
Far East Developed	FTSE All World Asia Pacific / Japan Indices + 1.5%	8.4% (1.5% 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	5.4% (0.1% above benchmark)
North America	FTSE All World North American Index	18.5% (0.1% above benchmark)
Europe ex - UK	FTSE All World Europe ex UK Index	9.6% (0.2% below benchmark)
Global (alternatives)	**20%** RAFI, **40%** MSCI WL Min, **40%** MSCI WL Qual	10.4% (0.7% below benchmark)
Fixed Interest	LGPSC Corporate Bond Index for LGPSC Global Active Investment Grade Corporate Bond MM Fund Absolute return for Bridgepoint Direct Lending	Not available as only invested Apr 2021 6.3% (0.3% above benchmark)
Property / Infrastructure	Various absolute return benchmarks for different fund managers	Property 2.6% (7.8% below benchmark) Infrastructure 9.1% (0.4% 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 Mar 2022	% Processed within KPI in Mar 2022	Av turnaround (working days) in Mar 2022	Target turnaround (working days)	2021/2022 average number processed per month
Joiners notification of date of joining	385	99	18	40	353
Process and pay refund	42	100	4	10	40
Calculate and notify deferred benefits	131	97	6	30	117
Letter notifying actual retirement benefits	45	100	2	15	42
Letter notifying amount of dependant's benefits	20	100	3	10	17
Letter acknowledging death of member	37	78	3	05	36
Letter detailing CETV for divorce	7	100	1	45	10
Letter notifying estimate of retirement benefits	109	100	2	15	123
Letter detailing transfer in quote	39	97	2	10	40
Process and pay lump sum retirement grant	91	100	7	23	85
Letter detailing transfer out quote	29	100	2	10	31
Letter detailing PSO	2	0	3	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	4246	89	19	40
Process and pay refund	489	98	4	10
Calculate and notify deferred benefits	1408	95	8	30
Letter notifying actual retirement benefits	512	100	2	15
Letter notifying amount of dependant's benefits	210	98	3	10
Letter acknowledging death of member	433	79	3	05
Letter detailing CETV for divorce	130	100	2	45
Letter notifying estimate of retirement benefits	1486	100	3	15
Letter detailing transfer in quote	485	99	2	10
Process and pay lump sum retirement grant	1023	99	10	23
Letter detailing transfer out quote	382	97	3	10
Letter detailing PSO implementation	8	100	4	15

6 BUDGET

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
Aq Hey	Aquila Heywood
AH	Aquila Heywood
App	Application
BCP	Business Continuity Plan
Bods	Bodies
Calcs	Calculations
CARE	Career average revalued earnings
CB	Corporate bonds

CC	County Council
CEM	CEM Benchmarking Inc
Cert	Certificate
CIPFA	Chartered Institute of Public Finance & Accountancy
CMA	Competition and Markets Authority
Coll	Colleges
Config	Configuration
Consult	Consultation
Conts	Contributions
Covs	Covenants
Cttee	Pensions Committee
DC	District Council
DLUHC	Department for Levelling Up, Housing and Communities
EM	Emerging markets
Engage	Engagement
Er	Employer
ESG	Environmental, Social, Governance
Expend	Expenditure
FI	Fixed interest
FRS	Financial Reporting Standards
FSS	Funding Strategy Statement
GMP	Guaranteed Minimum Pension
Gov	Governance
GPS	Governance Policy Statement
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
Med	Medium
MSS	Member Self Service (online access to a member's pensions record)
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
TOR	Terms of reference
TPR	The Pensions Regulator
TV	Transfer (of member benefits)
W	With
Y/End	Year end

~ ENDS ~

Operational Plan: Projects 25 May 2022 NOTES: none	KRA	Aspiration	Lead	Started	May 22	Jun22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun23	Comments
11 LGPSC budget	A/C	1	RW			Cttee				Cttee		Cttee			Cttee			Cttee	√ to date/scheduled, with 22/23 budget discussed at 2/2 Cttee
12 Annual Report & Accounts / associated docs (30 09 22)	A/C	2	RW			Cttee		signed off	Publish	Cttee								Cttee	2022 on schedule
15 ONS Inc / Expend return	A/C	1	RW				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											2022 on schedule
18 TPR Annual return /survey	A/C	1	NW								Annual				Survey				√2022 survey and on schedule
19 CEM investment benchmarking (31 07 22)	A/C	1	RW				Annual												Training arranged for members on 2021 results
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	√ whole Fund interim results
32 Reprocure pension admin system (30 04 2024)	Ad-min	4	NW	May-20															contract extended to 30 04 2024
10 Pension Administration Strategy review (01 04 23)	Ad-min	10	CF											consult	Cttee	publish			√2022
13 Review data quality	Ad-min	4	NW							Aq Hey results									2022 on schedule
25 Revalue CARE accounts (30 04 2023)	Ad-min	4	SH													System config.			√2022
26 Provide FRS info	Ad-min	7	AL				Coll	Ac				admit bods			Sch				√ to date and scheduled
3 Branding and digital strategy (MSS)	Eng-age	5	CF	Oct-18															check out pensions dashboards / UPM with Dorset
20 Monitor employer covenants / pots / conts	Eng-age	10	RW			Cttee				Cttee		Cttee	ask ers		Cttee	reset ercont		Cttee	Pfaroe in place and Bond requirements being updated
21 Deferred annual benefit statements (31 08 22)	Eng-age	9	CF			Annual	Q manag											Annual	2022 on schedule
22 Employee annual benefit statements (31 08 22)	Eng-age	9	CF					Annual	Q manag						Y/End				2022 on schedule
23 Pensioner P60s (30 04 23)	Eng-age	3	SH		Annual	Q manag											Annual	Q manag	√2022
24 Payslips reflecting pension increase (30 04 23)	Eng-age	3	SH													Annual			√2022
27 Pension Savings Statements (06 10 22)	Eng-age	3	NW							Annual									2022 on schedule
29 Pensioner newsletter / life cert (30 11 22)	Eng-age	9	CF								Annual								2022 on schedule
28 /30 Good Governance incl TPR	Gov Staff	11	RW	TBD		Cttee				Cttee		Cttee			Cttee			Cttee	pols on conflicts of int and rep done and MJH reviewed
33 McCloud: data collection; er rates; and calcs	Ad-min	3	NW	Aug-20		Cttee				Cttee		Cttee			Cttee			Cttee	employers asked to complete dec/ checklist and supply data
5/6 Review of Asset Allocation / ISS (31 05 23)	Inv	14	RW			Cttee Sub			Sub	Cttee	Sub	Cttee			Cttee			Cttee Sub	√2022
9 Increase assets managed by LGPS Central Limited	Inv	14	RW	Feb-19		Cttee Sub				Cttee		Cttee			Cttee			Cttee Sub	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 Risk Report 2021 and Stewardship Code App for 2022
35 Pensions Dashboards (2024)	Ad-min	7	TBD	Feb 22		Cttee				Cttee		Cttee			Cttee			Cttee	DWP consultation issued
36 Investment service providers' reprocurements	Inv	13	RW	Feb 22			MJH		PEL										on schedule

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worcestershire county council

PENSIONS COMMITTEE
28 JUNE 2022

RISK REGISTER

Recommendation

1. **The Chief Financial Officer recommends that the 25 May 2022 WPF Risk Register be noted.**

Background and update

2. The Risk Register is kept under regular review and, following the May 2022 review by Officers, an updated Register is attached as an Appendix.

3. The review resulted in the addition of no new risks.

4. The review resulted in the residual risk score for WPF 34 Inflation being increased from 25 to 50.

5. Mitigating actions have been updated for:

   a. **new measures** e.g. drafting our first policies on representation / conflicts of interest; submitting our 2022 application to retain our signatory status to the Stewardship Code; changing our processes to comply with the new Stronger Nudge to Pensions Guidance regulations; and using a tracing service to find 'lost' members.

   b. **previous measures that have been completed / developed further / have changed timelines** e.g. publishing our second annual Climate Risk Report and Climate Change Risk Strategy; arranging an employer forum on the actuarial valuation as at 31 March 2022; analysing selected employers' 2021 financial metrics; reviewing our pensions administration system's supplier's Cyber Security Review 2022; and progressing the pensions administration restructure.

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 25 May 2022

Contact Points

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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 25 May 2022

About this Risk Register

The following colour coding is used for the 32 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 22 02 2022 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 34 Inflation.
5. 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.
6. WPF 07 Future change to LGPS regulations or other legislation, for example from government legislation on minimum normal pension age or exit payments.
7. WPF 33 Climate change.
8. WPF 31 Pandemic affecting our staff / our employers' Payroll or HR staff / staff at payroll providers who provide services to us or our employers.
9. WPF 24 Employers having insufficient skilled resources to supply our data requirements.
10. WPF 11 Failure to pool assets using LGPS Central Limited.
11. WPF 06 Fair Deal consultation proposals being implemented.
12. WPF 02 Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.
13. WPF 28 Cyber-attack leading to loss of personal data or ransom or our hardware being disabled or from financial loss from our banking / custody arrangements being compromised.
14. WPF 08 Failure to appoint suitable investment managers and review their performance / markets / contracts.
15. WPF 03 Failure of officers to maintain a sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix.
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 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	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 was approved by the Pensions Committee on 23 March 2022), 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. We have discussed with major employers their funding positions as at 31 Oct 2021 and their possible contribution rates from 01 04 2023 and reviewed the position for the medium investment pot employers as at 31 Oct as preparation for the actuarial valuation as at 31 March 2022. We have arranged a virtual employer forum with our actuary on 22 June to brief employers on the latest re the 2022 actuarial valuation. Strategic asset allocation is reviewed quarterly by the Pension Investment Sub Committee. We have equity protection arrangements in place up to September 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 their latest budgets that have been challenged mean 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 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	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 restructuring and will be adding resources to our pensions administration team. Our recruitment activities may be constrained by having to follow WCC policies re where we can advertise and re which agencies we can use and by a market where other LGPS funds are advertising 100% WFH positions that do not require the jobholder to go to the LGPS fund, something that may even cause us to lose staff. We interviewed for the Head of Pensions Administration on 24 May. We have internally promoted to replace the grade 4 full time member of staff who will be retiring on 31 03 2022 and recruited an external candidate to the position vacated. 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 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. We are investigating liability driven investments as a potential option to aid further protection against higher inflation. Preliminary actuarial valuation as at 31 March 2022 discussions on inflation assumptions and their affect on liabilities and on employers' funding positions as at 31 Oct 2021 have been held with the actuary. We intend to develop the investment pots further to provide greater inflation protection.	25	2	50 (25)

WPF Risk Register 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	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. We have discussed with major employers their funding positions as at 31 Oct 2021 and possible contribution rates from 01 04 2023 and reviewed the position for the medium investment pot employers as at 31 Oct as preparation for the actuarial valuation as at 31 March 2022. We have arranged a virtual employer forum with our actuary on 22 June to brief employers on the latest re the 2022 actuarial valuation. We will again be issuing interim results, offering 1:1s with the actuary and offering some flexibility in exceptional circumstances such as phasing in increased payments. 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 have analysed selected employers' 2021 financial metrics using Mercer's Pfaroe tool. We have employer grouped investment strategies.	20	2	40

WPF Risk Register 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	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 2022 FSS to strengthen our DDA appeals process. We have added Pensions Dashboards to our list of projects. We have, in preparation for delivering the remedy to our members, asked our employers to complete a McCloud checklist / declarations form by 8 April 2022 and, where appropriate, to follow up by providing any missing data by 30 June 2022. 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. We are aware that as part of its Levelling Up agenda, the Government has issued a white paper on education in England which confirms plans to permit councils to establish their own Multi Academy Trusts (MATs) and to require all local authority schools to convert to academy status by 2030. 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. 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	LGPSC have provided the latest annual climate risk report which is used to target managers where required. We ran an ESG / responsible investment workshop for the Pensions Committee on 2 February and 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 have transitioned £211m from global equities to LGPSC's All World Climate Multi Factor Fund. 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 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	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 adapted 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. We have introduced 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 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	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. As we are expecting more detail on the application of the McCloud remedy to the LGPS soon, we have, in preparation for delivering the remedy to our members, asked our employers to complete a McCloud checklist / declarations form by 8 April 2022 and, where appropriate, to follow up by providing any missing data by 30 June 2022. We have been processing the hours changes that we have historically received and identifying the likely gaps in our data. Following our annual employer consultation we updated the Pension Administration Strategy on 1 April 2022. We support employers with monthly newsletters / an area on our website / employer fora (the next of which will be held on 22 June on the actuarial valuation as at 31 03 2022). 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 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	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. Each pool member has an equal share in the pool. Shareholders meetings and the Practitioners Advisory Form (PAF) with the pool's investment managers are taking place regularly. 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. We have transitioned £211m from global equities to LGPSC’s All World Climate Multi Factor Fund. We are also in the process of investing in the pool's Sustainable Equities Active Fund.	15	2	30
WPF 06 (Chief Financial Officer)	Fair Deal consultation proposals being implemented.	Increasing administrative complexity.	15	3	45	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	Following an Officer review, on 23 March 2022 Pensions Committee approved our updated Training Policy and Programme.	15	2	30

WPF Risk Register 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 28 (Pensions Administration Manager)	Cyber attack leading to loss of personal data or ransom or our hardware being disabled or from financial loss from our banking / custody arrangements being compromised.	Data Protection breach / fraud.	25	2	50	WCC's IT department have reviewed our pensions administration system's supplier's Cyber Security Review 2022 and concluded that it passes muster. We have prepared a Cyber Security Data Transmission Grid detailing who we send data to or receive data from and how that data is protected when transmitted / received. Moving to the Cloud and training our staff on the risks mitigate this risk. 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 08 (Chief Financial Officer)	Failure to appoint suitable investment managers and review their performance / markets / contracts.	Investment underperforma nce / regulatory non-compliance / paying too much in fees.	25	3	75	The Pension Investment Sub Committee is delivering more effective decision making than its predecessor, the Pension Investment Advisory Panel, that had to have its recommendations approved by the Pensions Committee. It monitors performance of our diverse range of investment managers (including LGPSC), meeting with / placing managers on watch as appropriate. We carry out a subjective review and objective analysis of asset performance and take advice from the investment adviser, LGPS Central Limited / its partner funds. Contract service is reviewed quarterly by the Pension Investment Sub Committee. The Finance Manager - Pensions reviews investment managers' internal control reports and reports any significant exceptions to the Chief Financial Officer. CMA objectives for our Investment Adviser were agreed at the 17 March 2020 Pensions Committee and are reviewed and reported to Committee around every 6 months.	25	1	25

WPF Risk Register 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 03 (Chief Financial Officer)	Failure of Officers to maintain sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix.	Inability to carry out their duties.	25	3	75	Our review of our Training Policy and Programme included Officer training. Officers participate in various scheme / industry groups / fora to keep up-to-date on pensions issues. They also review specialist publications.	25	1	25
WPF 09 (Chief Financial Officer)	Being reliant on LGPS Central Limited's investment approach.	Investment underperformance / regulatory non-compliance.	25	2	50	We have agreed to invest £60m in 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 the 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 are working with a company called Target Professional Services (UK) to find members who we have lost touch with and using the LGPS framework for mortality screening. We undertake regular data quality reviews. An extract of data on 5 October revealed that the quality of our data had improved over 12 months. 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 have resolved the issues identified.	15	1	15

WPF Risk Register 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
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. This 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), Insights (that can deliver improved M.I.) and Member Self Service (online access for members to their pension record). Ongoing validation of our supplier is delivered through LGPS frameworks and the supplier's user groups.	15	1	15
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 life expectancy.	Increases required in employer contributions.	20	2	40	To respond to the now disapplied £95K exit cap in Dec 2020 we adopted (and on 21 July implemented revised) unisex GAD capitalisation factors. We have introduced monitoring for all ill health retirements, advising employers of the increase in their liabilities associated with each case. We have made ill health liability insurance available to our employers to mitigate our exposure for those employers who take up the insurance. We check that employers have paid their strain costs for non-ill health cases and ensure that employers are made aware of the financial consequences of the retirements they offer their employees. We have added wording to our redundancy calculations about the government's intention to bring forward proposals to tackle unjustified exit payments. 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 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	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 probe the supplier of our pension administration system about: (1) what they have been doing to keep the cloud / our data / our login arrangements / sending (bulk / individual) emails from Altair safe; (2) what new threats they have popped mitigations in place for; (3) what recent changes or patches have been made to their disaster recovery arrangements; (4) evidencing (perhaps via internal or external audits) the things that they have done recently to keep up to date; and (5) the ongoing vulnerability scanning they have in place alerting them to new vulnerabilities. We have obtained business continuity assurance from Heywood and contract service is reviewed annually, with regular meetings / robust system maintenance routines / internal and external systems support / back-up procedures in place. As the National LGPS Framework for pension admin systems confirms Heywood are an approved supplier, we have independent validation of our supplier.	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 cloud solution supplied by Aquila Heywood means that our system is more securely backed up than it was on WCC servers. We will ensure that WCC includes delivery of support services to us in its Risk Register.	15	1	15

WPF Risk Register 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	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	Cash flow is monitored 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	Having achieved signatory status to the UK Stewardship Code 2020, we have reviewed the RI progress we have made to date and addressed the areas the FRC suggested we should improve on when submitting our 2022 application to retain our status. We have published our second annual Climate Risk Report and Climate Change Risk Strategy. We participate in LAPFF and other groups. We ran an ESG / responsible investment workshop for the Pensions Committee on 2 February. We have added SDG12 (Responsible Consumption and Production) to our investment beliefs 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. 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 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	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	As detailed in our quarterly Governance Updates, good progress in preparation for SAB's Good Governance proposals being taken forward by DLUHC is being made. For example, we have drafted our first policies on representation and on conflicts of interest for approval. Our annual reports include our Governance Compliance Statement. We are 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 conduct a further consultation in 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	The Finance Manager - Pensions reviews 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 2022.	5	1	5
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 Risk Register 25 May 2022 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Actions	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 25 (Pensions Administration Manager)	Fraud by scheme members.	Financial loss.	5	1	5	We have updated our processes / documentation for transfers out following The Pensions Regulator's 8 November guidance. To comply with the new Stronger Nudge to Pensions Guidance regulations, from 1 June we will be providing members with a phone number to call if they wish us to arrange an appointment with Pension Wise along with details of how to contact Pension Wise themselves. We require a member signature as authorisation and do not take instructions over the phone. 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 2022. Employee annual benefit statements that are returned to us are passed on to the member's employer. The 2022 deferred and employee annual benefit statements are on schedule. In November 2021 we despatched 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

worcestershire countycouncil

PENSIONS COMMITTEE
28 JUNE 2022

GOVERNANCE UPDATE

Recommendation

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

    a) The Governance Update be noted; and

    b) The proposed Policy on Representation (Appendix 1); and Policy on Conflicts of Interest (Appendix 2) be approved.

Background

2. The Fund regularly reviews all its statements of policy / strategy, particularly when new legislation or guidance is issued.

3. In preparation for Department for Levelling Up, Housing and Communities' (DLUHC's) response to the recommendations from Scheme Advisory Board's (SAB's) Good Governance project, the Fund has drafted two new policies that are included as appendices to this Governance Update: one on representation and one on conflicts of interest.

4. The Fund has been updating its Business Plan and Risk Register, its key operational / planning / management documents, quarterly since March 2019. From the latest (May 2022) versions of these it is worth highlighting from a governance perspective that the County Council's IT department have reviewed our pensions administration system's supplier's Cyber Security Review 2022 and concluded that it passes muster.

5. The Fund also produces quarterly Good Governance Position Statements and updates on reviewing the objectives for and performance of the Fund's independent investment adviser. The latest versions of both are included as appendices to this Governance Update.

Supporting information

- Appendix 1 - Draft Policy on Representation
- Appendix 2 - Draft Policy on Conflicts of Interest
- Appendix 3 - Good Governance Position Statement May 2022
- Appendix 4 - Update on reviewing the objectives for and performance of the independent investment adviser

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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 Policy on Representation V2 dated 26 April 2022

To ensure that management decisions for the Fund are made by the appropriate people and that stakeholders have the appropriate input to those decisions, the Fund's governance structure comprises a Pensions Committee, a Pension Investment Sub Committee (PISC) and a Pension Board.

Whilst this policy recognises that all scheme members and employers should be appropriately represented in the running of the Fund, as Worcestershire County Council is the body with ultimate responsibility for running the Fund, it maintains a majority position on the key governance bodies.

To support this policy, the Fund carries out a range of activities that are designed to engage members, employers, and other stakeholders. These are set out in the Fund's Policy Statement on Communications.

Pensions Committee

The Committee is the formal committee of Worcestershire County Council responsible for making management decisions for the Fund that have not been delegated elsewhere by it and comprises a total of 8 voting members:

- 5 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire County Council (being the second largest employer in the Fund)
- 1 co-opted voting employer representative
- 1 co-opted voting employee representative from a relevant trade union

The Chair of a Committee meeting has a second or casting vote in the case of equality of votes.

The 5 Worcestershire County Councillor members are formally appointed by the Assistant Director for Legal and Governance in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders.

The 3 co-optees are co-opted by the Chair of the Committee.

All elected members and voting co-optees of the Committee are subject to the Worcestershire County Council Code of Conduct for Members and must therefore register and keep updated their disclosable pecuniary interests as required by law and code and disclose potential conflicts of interest as required.

Members of the Committee are expected to hold the appropriate knowledge and skills to discharge their responsibility effectively.

Members of the Committee have equal access to agenda papers and associated appendices in accordance with the legislation and constitutional rules relating to access to information for committees.

Formal meetings of the Committee will take place in public unless it has resolved to move into exempt session in accordance with the applicable access to information provisions.

PISC

The PISC is a sub-committee of the Pensions Committee responsible for providing the Pensions Committee with strategic advice on the Fund's assets / investment managers their performance and comprises a total of 4 voting members and 1 non-voting co-opted employee representative from a relevant trade union:

- 3 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire County Council (being the second largest employer in the Fund)
- 1 non-voting co-opted employee representative

The Chair of a meeting has a second or casting vote in the case of equality of votes.

Worcestershire County Council appoints the Chair and Vice-Chair of the PISC.

The 3 Worcestershire County Councillor members are formally appointed by the Assistant Director for Legal and Governance in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders.

The co-optees are co-opted by the Chair of the PISC.

The composition of the PISC is intended to reflect the abilities and knowledge of the individuals in matters relating to the investment of the Fund's assets rather than political representation.

All elected members and voting co-optees of the PISC are subject to the Worcestershire County Council Code of Conduct for Members and must therefore register and keep updated their disclosable pecuniary interests as required by law and code and disclose potential conflicts of interest as required.

Members of the PISC have equal access to agenda papers and associated appendices in accordance with the legislation and constitutional rules relating to access to information for committees.

Formal meetings of the PISC will take place in public unless it has resolved to move into exempt session in accordance with the applicable access to information provisions.

Pension Board

The Board is an Other Body of Worcestershire County Council responsible for scrutinising the Fund's plans / activities / performance / governance and consists of 8 voting members appointed by the Chief Financial Officer:

- 4 Member Representatives
- 4 Employer Representatives

Substitutes will not be appointed, and appointments will be for terms of 4 years.

No officer or elected member of Worcestershire County Council who is responsible for the discharge of any function of Worcestershire County Council may serve as a member of the Board.

Member Representatives shall be appointed from the following sources:

- 2 shall be appointed as nominated by the recognised trade unions representing employees who are scheme members of the Fund
- 1 shall be appointed as an active / employee representative. The recruitment of this member will be following a transparent recruitment process which should be open to all active Fund members
- 1 shall be appointed as a retired member representative

Employer Representatives shall be appointed having asked all employers to submit any interest in undertaking the role of Employer Representative on the Board and shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity.

One of the Board members is to be elected by the Board as the Chair and one as the Vice-Chair. The Chair will be from the Employer Representatives and the Vice-Chair from the Member Representatives.

All members should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

All members must not have a conflict of interest as defined in section 5 (5) of the Public Service Pensions Act 2013.

Board membership may be terminated by the Chief Financial Officer prior to the end of the term of office due to:

- A member representative no longer being a scheme member or a representative of the body on which their appointment relied
- An employer representative no longer holding the office or employment or being a member of the body on which their appointment relied
- A Board member no longer being able to demonstrate their capacity to attend and prepare for meetings or to participate in required training
- The representative being withdrawn by the nominating body and a replacement identified
- A Board member having a conflict of interest which cannot be managed in accordance with the Board's conflict policy
- A Board member who is an elected member becoming a member of the Pensions Committee
- A Board member who is an officer of the Administering Authority becoming responsible for the discharge of any function of the Administering Authority under the Regulations
- Resignation
- Otherwise as the Chief Financial Officer considers appropriate

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Worcestershire Pension Fund Policy on conflicts of interest V2 dated 26 April 2022

Conflicts of interest can arise in the LGPS, as those managing or advising an LGPS fund can have other roles, interests, or responsibilities. Specifically, Worcestershire County Council's dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest.

For example (see the end of this Policy for some further examples), a member of a Pensions Committee may also be employed by an employer participating in that LGPS fund or be an adviser to more than one LGPS fund / pool or have an individual personal, business, or other interest which might conflict.

It is also generally accepted that LGPS funds have both fiduciary and public law duties to act in the best interests of both LGPS members and participating employers.

This Policy applies to all members of the Pensions Committee, Pension Investment Sub Committee (PISC) and Pension Board.

It also applies to:

1. All officers involved in managing the Fund who are also required to adhere to the Worcestershire County Council Code of Conduct for Employees which includes requirements in relation to the disclosure and management of personal and other interests and receipt of gifts and hospitality

2. All advisers and suppliers to the Fund who may also be required to meet their own professional standards relating to conflict of interest

A cornerstone of this Policy is that the Chief Financial Officer will monitor potential conflicts of interest, having highlighted the Policy to all those involved in the daily management of the Fund when they first become so involved.

The Chief Financial Officer will promote a culture of:

- Acknowledging any actual or potential conflicts of interest
- Encouraging any individual who considers that they or another individual has a potential or actual conflict of interest to speak up
- Being open with the Fund and any other body on which they represent the Fund on any actual or potential conflicts of interest they may have
- Adopting practical solutions to managing those conflicts
- Planning ahead and agreeing with the Fund how any conflicts of interest which arise in future will be managed
- Maintaining confidentiality as appropriate

Attendees of Pensions Committee or Pension Board meetings will be required to sign a Record of Conflicts of Interest Declarations Made form at the start of each meeting.

The Fund will regularly monitor and review a Declarations of Interest Register that is maintained from the verbal declarations of interest made during the meeting's appropriate (usually the second) agenda item and may be viewed by any interested party at any point in time. It records the date identified / name of person / role of person / details of conflict / whether actual or potential / how notified / action taken / follow up required / date resolved.

At least once every 12 months the Chief Financial Officer will provide to all individuals to whom this Policy applies a copy of their currently declared conflicts of interest and require them to confirming that their information contained in the register is correct / highlight any changes that need to be made to the declaration.

The Chair of the Pension Board is also required to include an item on conflicts of interest in its annual report.

All members of the Pensions Committee, PISC and Pension Board are required to:

- Register and declare disclosable pecuniary interests
- Abide by the Code of Conduct for Members and Co-opted Members of Worcestershire County Council. This sets out the rules governing the behaviour of all elected Councillors, co-opted and independent members of the Council with voting rights (collectively called "Members"). Anyone wishing to seek advice on the Code should contact the Assistant Director for Legal and Governance
- Abide by The Seven Principles of Standards in Public Life (the Nolan Principles)
- State clearly at meetings if they are providing a specific point of view on behalf of an employer (or group of employers) or member (or group of members)

The Fund will manage and mitigate conflicts of interest by:

- Having clear governance material to refer to, including a Funding Strategy Statement, Pension Administration Strategy, Investment Strategy Statement, Climate Change Risk Strategy, Governance Policy Statement and Training Policy & Programme
- Keeping the Fund's budget separate to Worcestershire County Council's
- Ensuring actual and potential conflicts of interest are considered during procurement processes
- Asking the individual concerned to abstain from discussion, decision-making or providing advice relating to the relevant issue
- Excluding the individual from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
- Establishing a working group or sub-committee, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)
- Advising an individual to resign due to a conflict of interest or requesting the appointing body to reconsider their appointment

The key identified risks to the delivery of this Policy are outlined below, and the Chief Financial Officer will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles
- Insufficient training or failure to communicate the requirements of this Policy
- Failure by an individual to follow the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by the Chair to take appropriate action when a conflict is highlighted at a meeting

All costs related to the operation and implementation of this Policy will be met directly by Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Examples of potential conflicts of interest faced by those covered by this Policy could include:

- Being required to provide views on a funding strategy which could result in an increase in the employer contributions payable by the employer he or she represents
- Being a board member of an investment manager that the Fund is considering appointing
- Being on an LGPS Central Limited board / group when a matter is being considered that would benefit their originating Council or LGPS fund to a greater degree than other participating Councils or funds
- Accepting a dinner invitation from an investment manager who has submitted a bid as part of a tender process or might be in the process of preparing a bid for an open tender process
- Being asked to review a case or calculate a benefit relating to a close friend or relative
- Being asked to provide technical advice to a scheme employer about an outsourcing contract, including being asked questions about the impact on that employer and the employer requirements relating to the outsourcing contract
- Having a role in driving carbon reduction in one's local authority
- A Fund adviser being party to the development of a strategy which could result in additional work for their firm

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Worcestershire Pension Fund Updated Position Statement: Good Governance 25 May 2022

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 run a further consultation on the single code in 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)
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 23 March 2022 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 (CF / TBD) ✓ 2021: benchmarked against 2021 annual reports / latest versions on website

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
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 and Pension Board meeting. All attendees of a Pensions Committee and Pension Board meeting sign the Record of Conflicts of Interest Declarations made	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 has been in use since 17 Nov 2021 Review best practices employed at other funds (including private sector) to help identify possible conflicts and approaches in preparation for producing a policy (SH / TBD) for POG ✓ and (RW / 11 11 2021) for LGPSC funds ✓ At Joint Committee meetings for LGPSC conflict of interest is a standard agenda item. Publish conflicts of interest policy (CF / TBD) policy drafted and tabled for approval at the Pension Committee meeting of 28/06/2022
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		

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party	Information about the Pensions Committee is available via our website 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	Review whether the current position remains adequate annually using comparator funds' annual reports to benchmark practices (CF / 17 11 2021) benchmarked against 2021 annual reports Publish representation policy (CF / TBD) policy drafted and tabled for approval at the Pension Committee meeting of 28/06/2022
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 training session every couple of months for Board / Committee members and our senior team, agreeing	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 12 Board / Committee members and awaiting new structure for pensions administration being in place for officers 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 #)
	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 We 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 training sessions / Committee papers top this strong baseline position up	s151 to complete skills framework and personal competencies assessments and address within his CPD programme (MH / 17 09 2021)
D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements	Our current Training Policy and Programme was tabled at the 23 March 2022 Pensions Committee meeting	Review the current position with the Chairs of the Board / Committee annually (RW / 06 09 2021) ✓ 2021 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

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
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 Fund to ensure no conflict of interest arises	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 (CF / 28 02 2022)
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

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
		(CF/ 17 09 2021) identification. The Fund has purchased Altair Insights.
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)
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) all job descriptions have been drafted, and interviews for the Head of Pensions Administration post conducted
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

Update on reviewing the objectives for and performance of the independent investment adviser

Task	Current Position as at end of May 2022	KPI / Outcome
A. Provide qualitative general advice to the Fund on markets, RI, 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 adviser has attended all the Pension Investment Sub Committee and Pensions Committee meetings.	• Attend all Pensions Committee and Pension Investment Sub-Committee meetings unless 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
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. • The adviser has been integral to these meetings and has provided appropriate challenge where needed as well as highlighting poor performance to the Committee and put managers on 'watch' where required.	

Task	Current Position as at end of May 2022	KPI / Outcome
	• The adviser helped to develop and shape the 2020 strategic asset allocation 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 adviser supports the SAA quarterly update to Committee.	attendance being agreed in 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 LGPSC pool.	• The adviser 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. • Also, regular performance meetings have been held with LGPSC and appropriate challenge made where under-performance is happening.	• 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.
D. Provide other ad-hoc support and advice as required by either the Pensions and	• Advice and support have been provided for an ESG audit and a climate risk review besides the regular support described	• Any ad hoc support and advice provided in line with agreed service specifications and on a timely basis.

Task	Current Position as at end of May 2022	KPI / Outcome
Pension Investment Sub Committee or the Fund's other service providers.	above. The adviser has been supporting the requirements of the impending Strategic Asset allocation review for 2022. • Fees and service are discussed on regular advice and update calls. • Advice provided for the Equity Protection strategy as part of the fortnightly meetings with the Fund manager.	• Adviser'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 adviser as soon as they are known to that person.
E. Oversight of the relationship between the Fund and the LGPSC pool, ensuring 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. • Any areas of poor performance highlighted, challenged and solutions identified.
F. Support the Fund in training, through transparent general advice.	• The adviser has provided training and helped source a number of training events.	• Pensions Committee, Pension Investment Sub Committee and Pension Board satisfied with the quality and content of any training requested.

Task	Current Position as at end of May 2022	KPI / Outcome
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.

worcestershire countycouncil

PENSIONS COMMITTEE
28 JUNE 2022

UK STEWARDSHIP CODE

Recommendation

1. **The Chief Financial Officer recommends that the 2021 Stewardship Code application for the Fund submitted on the 30 April 2022 be noted.**

Background and update

2. The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council (FRC) strongly encouraged best practice in respect of investor engagement. The expectation was that institutional investors should publish a statement in respect of their adherence to the code. Compliance with the Code was on a voluntary basis.

3. The Fund previously agreed it's Stewardship Compliance Statement at Committee on the 28 November 2018 and became a signatory to the Code. The Committee were informed at its March Committee in 2021 that the UK Stewardship Code 2020 had been revised and had twelve principles.

4. The Fund submitted its 2020 application which was provided at the June 2021 Committee and received notification from the FRC (reported to the October Committee) that we (along with several LGPS funds) had been successful in becoming a signatory to the 2020 Stewardship Code, something which 64 organisations out of 189 organisations (including 147 asset managers, 28 asset owners including pension funds and insurers, and 14 service providers including data and information providers and investment consultants) applying to the Financial Reporting Council did not achieve. LGPS Central and West Midlands Pension Fund were also successful code signatories from the Pool.

5. FRC provided feedback on our submission on a number of areas under each of the 12 principles where the FRC required improvement for future submissions to remain a code signatory. The next submission (covering the period 1 January – 31 December 2021) was sent on the 30 April 2022.

<u>Purpose and Principles of the Code</u>

6. The UK Stewardship Code 2020 ('the Code') sets high expectations for how investors, and those that support them, invest, and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. It is a set of 12 Principles for asset owners and asset managers, and a separate set of six Principles for service providers – investment consultants, proxy advisors, data providers and others.

7. The Fund's submission for Stewardship Code for the period 1 January – 31 December 2021 is attached as Appendix 1 took on board the improvement areas identified by the FRC in our last submission (reported to Committee on the 8 October 2021). Applicants that effectively evidence how they apply the Principles and meet the reporting expectations will be listed as signatories to the Code in the Summer 2022.

8. LGPS Central provided support again to all partner funds in the submission particularly in providing evidence of engagement.

9. This report is seeking the Committee to note and comment on the application.

Supporting information

- Appendix – Stewardship Code submission relating to Calendar year 2021

Contact Points

Specific Contact Points for this report

Rob Wilson
Pensions Investment & Treasury Management Manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer), the following background papers relate to the subject matter of this report.

Stewardship Code report to Pension Committee on the 8 October 2021.

Worcestershire Pension Fund

Application to FRC for signatory status to the UK Stewardship Code 2020

2021 Submission

Contact: Rob Wilson Finance Manager Pensions & Treasury Management
Email: RWilson2@worcstershire.gov.uk
Tel: 01905 946908

1. Foreword

1.1 Responsible investment (RI) is a core part of the Fund's stewardship and has been a key part of our Investment Strategy Statement for many years.

1.2 The Fund has been a signatory to the Stewardship Code since 2018 and was granted signatory status to the revised 2020 Code in 2021.

1.3 The Fund believes that effective management of financially material environmental, social and governance (ESG) risks protects investment returns over the long term.

1.4 Specifically, the Fund 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. Our current understanding of the potential risks posed by climate change, together with the development of climate-related measurements and disclosures, is still at an early stage: for example, we are aware that there is considerable variability in the quality and comparability of carbon emission estimates and recognise that it will take time for companies to adapt to the changing regulatory and market environment.

1.5 The Fund has continually looked to develop and improve its approach to RI and conducted an ESG Audit last year which included mapping the Fund's portfolio to the United Nations' sustainable development goals (SDGs). The Fund conducted an ESG workshop for its Pensions Committee on the 2nd February 2022 to review progress against last year's identified actions and the findings were noted and further actions were formally agreed at its Pensions Committee on the 23RD March 2022.

1.6 In January 2022 the Fund's second annual Climate Risk Report delivered a view of the climate risk of the Fund's entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing Climate related Financial Disclosures for the second year. The Fund was particularly pleased to see that our initial focus on transitioning out of our passive mandates with the greatest carbon footprint has resulted in the Fund's overall listed market portfolio now being 28% (23% in 2020) more carbon efficient than the benchmark. To build on this the Fund is looking to transition a further £200m (6% of its portfolio) from its passive mandates into active sustainable equity funds by May 2022.

1.7 The Fund recognises that its investments in private markets also have a significant role to play in addressing climate related issues and the Fund has committed £175m towards a forest and sustainability fund and £200m to a number of sustainable infrastructure and housing investments which will have a long term environmental and social impact. This builds on the existing assets we have in this space.

1.8 In last year's report it was highlighted how both the audit and the assessments, which had positive outcomes from the outset, had been critical in establishing and understanding the Fund's baseline position and in helping formulate its future investment approach. For example, the Climate Risk Report enabled the Fund to develop a targeted stewardship plan for engagement with fund managers and those investee companies who have the most relevance to holdings in the Fund's portfolio that are highly exposed to climate change risk. This has also enabled the Fund to take a measured and informed approach in affecting transition of underlying assets through engagement, alongside asset allocation to transition out of those assets with a high carbon footprint.

2. Purpose and governance (Principles 1 to 5)

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Purpose

2.1 Worcestershire County Council is the administering authority for the Fund under the LGPS regulations. Worcestershire County Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Fund has about 200 participating employers and 66,000 member records of which 21,000 are pensioners; 23,000 are deferred; and 22,000 actively contributing. As the Fund's two largest employers are County Councils, virtually all its participating employers are associated with local government activities, and 6 of the 8 members of its Pensions Committee are Councillors, the Fund's ethos is driven by a strong sense of social responsibility.

2.2 The primary purposes of the Fund are 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

2.3 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 over a 15-year time frame.

Strategy

2.4 The Fund takes its responsibilities as a shareholder seriously. Our stewardship responsibilities extend over all assets of the Fund.

2.5 The Fund has published policy documents which identify how we meet our Stewardship responsibilities and these include, but are not limited to, our Investment Strategy Statement (ISS) that includes our voting policy and our Governance Policy Statement. These documents cover the following areas:

- Monitoring of manager decisions including ESG integration
- The exercise of voting rights
- Risk measurement and management
- ESG considerations in the tender, selection, retention, and realisation of investments
- Statement of compliance with the Myners principles
- Stock lending
- Strategic asset allocation

2.6 The Fund's ISS and Funding Strategy Statement (FSS), the key document setting out how each Fund employer's pension liabilities are to be met going forward and which all employers are consulted on, are taken to our Pensions Committee for input, debate and ultimate agreement. Members are therefore able to have clear input and influence on the Fund's stewardship.

2.7 The FSS and ISS first go to the Pension Board for review and employer forums provide an additional opportunity for input. The Fund provides monthly updates to all its employers via a newsletter and updates all its members using a newsletter that in the case of deferred and contributing members accompanies their annual benefit statements. The Fund also has a comprehensive and user-friendly website that provides stakeholders with a first port of call for all of their pension information needs including details about the Fund's strategies, policies, investment beliefs, climate strategy, etc.

2.8 In practice the Fund's policy is to apply the UK Stewardship Code 2020 (the Code) through:

- Its contractual arrangements with asset managers
- Membership of the Local Authority Pension Fund Forum (LAPFF) whose mission is to proudly protect £300bn of local authority pensions by promoting the highest standards of corporate governance and corporate responsibility
- Being part of the LGPS Central Limited (LGPSC) pool.

2.9 At the inception of LGPSC in April 2018, a Framework for Responsible Investment and Engagement was established which builds directly on the investment beliefs of the company's eight partner funds. It is a shared belief across our pool partners that strong investment stewardship increases our ability to protect and grow shareholder value.

2.10 LGPSC has identified four themes that are given particular attention in its ongoing stewardship. The four themes are reviewed on a three-year basis (the current period is 2020-2023) are: climate change; plastic pollution; responsible tax behaviour; and technology and disruptive industries (see further detail below under Principle 4).

2.11 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 monitors closely the effectiveness of LGPSC and their work in this area to support the Fund in its ongoing requirements in the following ways:

1	Regular meeting of the LGPSC RI & Engagement Working Group
2	Quarterly stewardship updates provided to the Fund's Pensions Committee
3	Quarterly voting disclosures provided to the Fund's Pensions Committee
4	Quarterly media monitoring of relevant RI news and LAPFF reports to Committee

2.12 LGPSC also supports the Fund through the annual preparation of a Climate Risk Report which assesses (a) what the climate-related risks and opportunities faces by the Fund are and (b) what options are available to manage these risks and opportunities.

2.13 During 2021, LGPSC supported the Fund in the preparation of the Fund's second Climate-related Financial Disclosures, ensuring alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). We consider this a critical stepping-stone in the Fund's ongoing management of climate risk and a direct way of translating our investment beliefs on climate change into action.

2.14 The Fund's ability to invest in a responsible manner is enhanced through LGPSC due to the inherent benefits of scale, collectivism and innovation that results from being part of the pool.

2.15 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 as set out in the ISS – 'shareholder voting' (see also Principle 12 **exercising rights and responsibilities** below).

2.16 The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests.

2.17 All relevant fund managers are signatories to the UN-backed Principles for Responsible Investment (PRI) as evidenced on the PRI website.

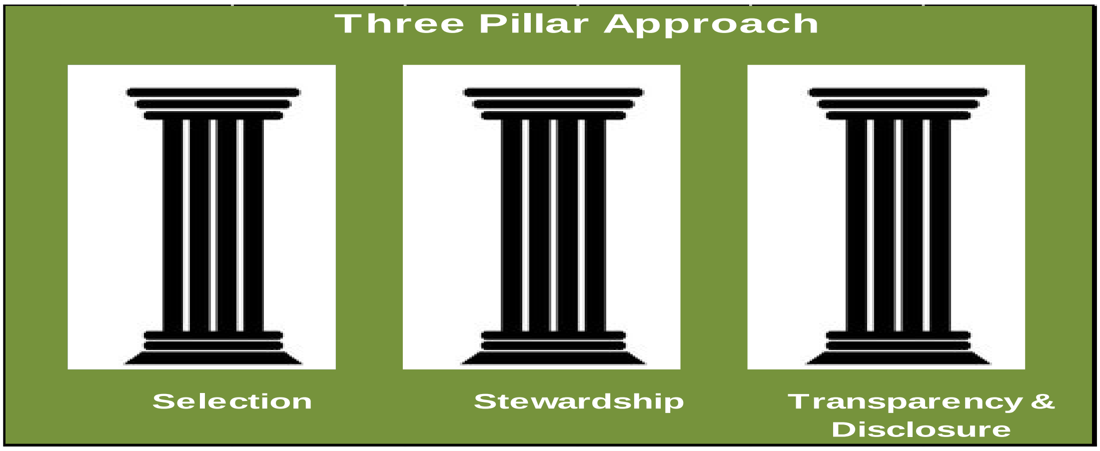
Investment beliefs

2.18 The Fund's investment beliefs are included in its ISS and encompass its:

- Financial market beliefs
- Investment strategy / process beliefs
- Organisational beliefs
- RI beliefs

2.19 As emphasised in 1.4 above, RI is a core part of the Fund's fiduciary duty, and we believe that effective management of financially material ESG risks supports 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:

2.20 The Fund's RI Beliefs underpin our RI approach, and we take a three-pillar approach to the implementation of RI as set out below:



2.21 The Fund intends to realise these aims through actions taken on its three RI pillars, 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 our RI activities, using best practice frameworks where appropriate. Some recent examples of how this has been applied are:

Selection

2.22 A key recommendation from the ESG audit approved by the Pensions Committee in March 2021 was for the Fund to look at investing in a mix of sustainable equities and low carbon factor funds. The application of these beliefs has been demonstrated in 2021 by a number of investments and asset allocation actions as follows:

- Our asset allocation decision (actioned November 2021) to transition £220m out of both the Legal & General MSCI World Min Vol TR Fund and the Legal & General FTSE RAFI DEV Fund into the LGPSC Climate Multi Factor Fund. With a carbon footprint of only 58.3 tCO_2e/$m revenue, the LGPSC Climate Multi Factor Fund is significantly more carbon efficient than these two portfolios, and this drives down the carbon footprint at the total equities level.

- Our investments of a further £75m in June 2021 in the British Strategic Investment Fund II (BSIF) which is mix of infrastructure and housing assets and a £50m investment in First Sentier's European Diversified Infrastructure Fund. Both funds have a requirement for each investment to deliver a positive environmental or social impact.

- A £150m investment agreed in November 2021 (£50m per annum for next 3 years) with Gresham House in their Forest Growth & Sustainability Fund.

- A £200m asset allocation decision in November 2021 to invest in LGPSC's Global Active Equity Sustainability Fund, which focusses on delivering a positive environmental and social impact.

Stewardship

2.23 The Fund has continually looked to develop and improve its approach to RI and conducted an ESG Audit last year which included mapping the Fund's portfolio to the United Nations' sustainable development goals (SDGs). The Fund conducted an ESG workshop for its Pensions Committee on the 2nd February 2022 to review progress against last year's identified actions and the findings were noted and further actions were formally agreed at its Pensions Committee on the 23RD March 2022.

2.24 In January 2022 the Fund's second annual Climate Risk Report delivered a view of the climate risk of the Fund's entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing Climate related Financial Disclosures for the second year.

Transparency & disclosure

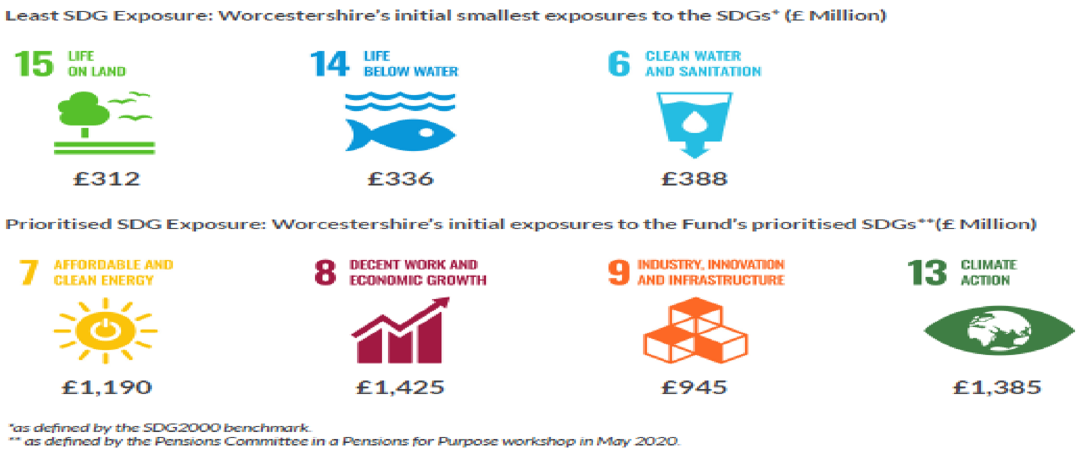
2.25 Starting in January 2020 the Fund has provided a training and workshop programme delivered by 'Pensions for Purpose' on RI, sustainable, impact and ethical investment, and the spectrum of capital for all its Pension Board, Pension Investment Sub Committee (PISC) and Pensions Committee members to enable them to make informed decisions going forward. A workshop was also provided to discuss and debate the Fund's investment beliefs for a sustainable approach to investing. This included an introduction to the 17 United Nations SDG's, and as a result elected members agreed to prioritise the following SDGs that they considered as likely to have the biggest investment impact:

- **SDG 3** Good Health and Well-being, **SDG 7** Affordable and Clean Energy, **SDG 8** Decent Work and Economic Growth, **SDG 9** Industry, Innovation, and Infrastructure and **SDG 13** Climate Action

After the February 2022 review of the SDG's the Fund added SDG 12 Responsible consumption and production

LGPSC also provides a dedicated annual RI training event to which all members were invited.

2.26 The ESG audit that was started in October 2020 and highlighted in last year's submission was undertaken by Minerva on behalf of the Fund and the LGPSC Climate Risk Report (detailed more fully below) have proved to be critical stepping-stones in the Fund's ongoing management of its ESG and climate-related risks by translating our investment beliefs into action through discussions and decisions made by the Pensions Committee:



2.27 These initiatives were reported to the March 2021 Pensions Committee at which a number of key recommendations and next steps / future plans were agreed which are publicly available for all our members.

2.28 An ESG 2021 review workshop was provided for members on the 2nd of February 2022 delivered by 'Pensions for Purpose' to ensure consistency of approach. The review included:

- Reviewing progress against the ESG Recommendations approved by the Pensions Committee in March 2021
- Focussed presentations from 3 of our listed managers on how effective their ESG strategies had been
- A presentation from LGPSC on the outcomes of the Fund's second Climate Risk report
- Discussions and debate on the way forward for the next 12 to 18 months

This has proved an effective way of demonstrating how the Fund is progressing and that the action the Fund has taken and is in the process of taking is in the best interests of clients and beneficiaries. The key outcomes of the workshop were as follows:

Emphasis for targeting SDGs should remain focussed on the financial risk / return, and if there is any desire to add any new goals to the existing beliefs. SDG 12 Responsible Consumption & Production stood out as an SDG that met these criteria, and it was agreed to extend the beliefs to include this, in the belief that this will lead to better returns for the fund over the long term
Climate targets: The general feeling was that in 2022 it would be good to explore and agree an internal climate target for the Fund, and speak to managers about how they would align to this target. This could then be rolled out publicly at a later date. Science-based targets on the whole fund with broad interim deadlines would be preferred, so as to avoid the Fund becoming a hostage to fortune on individual parts of the portfolio. A first step will be to consider targets that other LGPS funds are setting, and to seek their views on how easy these have been to adhere to
Spectrum of Capital and the S in ESG: There was more caution about proceeding further along the spectrum of capital at this stage although this seemed because of a concern over the investment thesis: could social impact investments really deliver market-rate, risk-adjusted returns? The committee seemed willing in principle to consider this and further exploration of this will be taken forward

3. Principle 2

Signatories' governance, resources, and incentives support stewardship

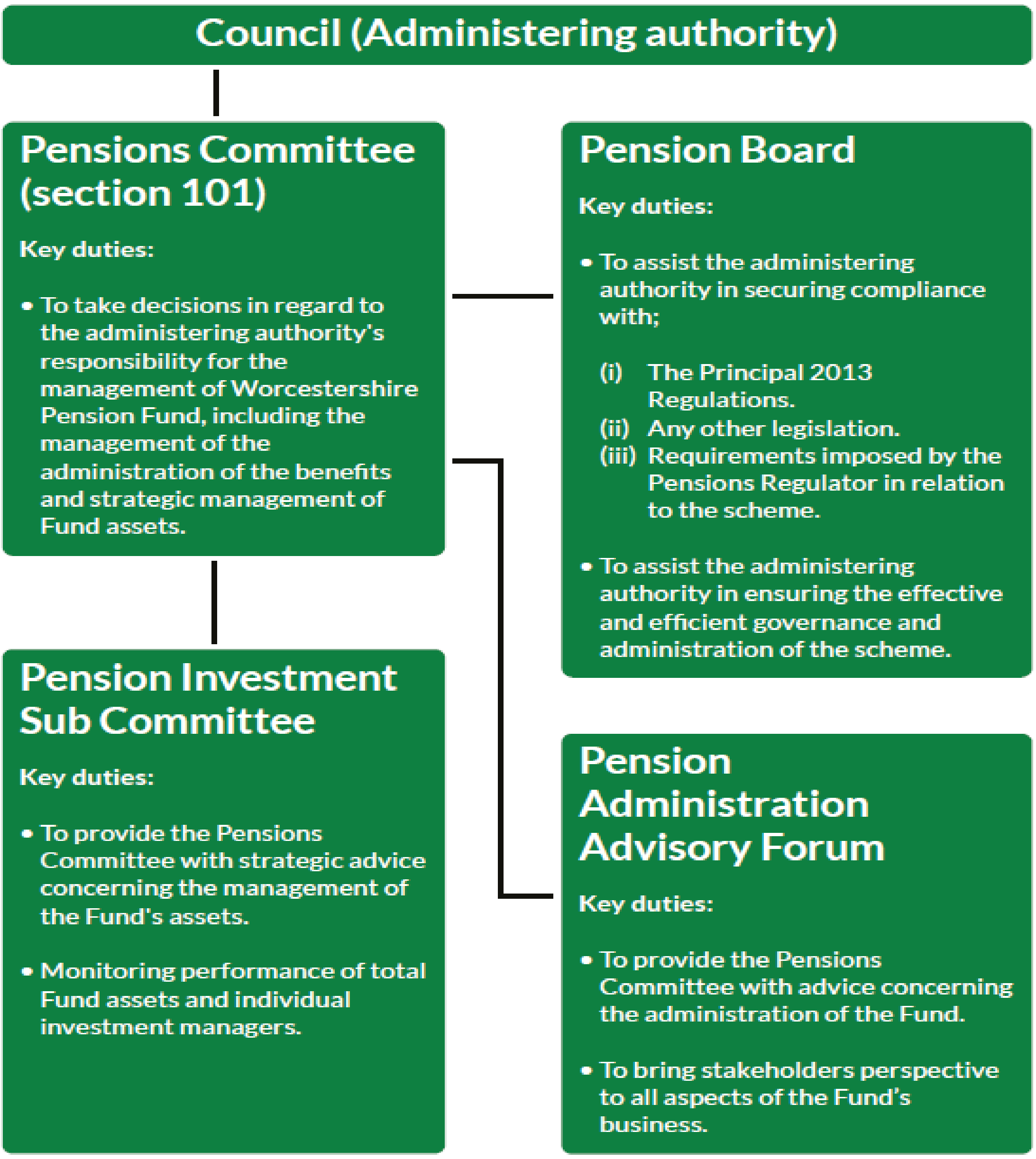
Governance

3.1 As detailed in our Governance Policy Statement accountability for all decisions is delegated to the Pensions Committee to take decisions in regard to the administering authority's responsibility for the management of Worcestershire Pension Fund. This includes the management of the administration of the benefits and strategic management of Fund assets. The Committee comprises of 8 voting members being 6 Councillors, 1 employer's representative and an employee / union representative.

3.2 The Committee's activities are overseen by the Pension Board which was set up as a result of two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator looking at how to strengthen governance. The Board's role is ensuring the effective and efficient governance and administration of the Fund. This includes securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS.

3.3 The Board is made up of 3 councillors, a senior officer from an employer, an active member (retiree) and two trade union representatives. Its current Chairman is also the Chair of SAB.

Worcestershire Pension Fund Governance



3.4 The Committee is assisted by strategic investment advice from the PISC who are also responsible for investment performance monitoring and for identifying and approving investment in climate related opportunities. PISC also provide the Pensions Committee with strategic advice concerning the management of the Fund's assets. PISC comprises of 4 voting members being 3 Councillors and an employee representative from a relevant trade union.

Stewardship Resourcing

3.5 The Fund has an appointed investment advisor from MJ Hudson (with the Fund since 2012) who attends all the Committee meetings, supports the investment performance monitoring of all the Fund's investment managers, advises on RI, supports due diligence requirements on the Fund's investments and provides a quarterly investment update to our PISC. The advisor is independent to the Fund and plays a crucial role in advising the Fund on its investment opportunities.

3.6 The Fund's day-to-day duties are delegated to the County Council's Chief Financial Officer who is supported by a Pensions Administration Team (24 FTE's) and a Pensions Investment Team (4 FTE's) who have many years of knowledge and experience in this area. Many have been with the Fund for over 15 years or more.

3.7 The Fund has long had a culture of inclusiveness with strong values and behaviours that can be demonstrated more clearly on our intranet Workforce Strategy Pillar of Success – Culture. The Fund looks to keep its workforce well informed of how it integrates stewardship and investment decision-making via weekly staff meetings.

3.8 LGPSC's Responsible Investment & Engagement (RI&E) function supports the Fund's stewardship activities and reports regularly to the Partner funds RI&E working Group (The Fund is a representative). Their contribution has included work on: ESG integration, engagement, voting, the RI&E framework, the Climate Risk strategy, the Climate Risk 2021 report, the TCFD report and ongoing guidance on the Fund's reporting against the Stewardship Code.

3.9 LGPSC has a dedicated RI&E team that sits within LGPSC's investment team and reports to the CIO. There is close collaboration between the RI&E team and asset class teams on (a) the approach to RI when new funds are conceived and set up, (b) the selection and monitoring of fund managers, (c) engagement and voting, as relevant to the asset class, and (d) RI performance assessment and reporting.

3.10 The LGPSC RI&E Team currently consists of an Investment Director, Head of Stewardship, one Stewardship Analyst and two ICM qualified RI analysts, both of whom are working toward the CFA certificate in ESG. Team members come from diverse academic backgrounds and specialisms across RI policy development, ESG integration in public and private markets, stewardship and engagement across the value chain, as well as climate expertise. This level of diversity and breadth of perspectives is a strength for the team. The RI&E Team leverages a strong network among peer investors both in the UK and globally, as well as investee companies, industry associations and relevant regulatory bodies.

3.11 LGPSC has EOS at Federated Hermes (EOS) as its stewardship provider, with the remit of engaging companies on ESG issues across all relevant asset classes, sectors, and markets, executing the LGPSC voting principles which are also the principles agreed by the Fund.

3.12 This followed a comprehensive due diligence process by LGPSC: EOS were selected as their beliefs align well with LGPSC's and the Fund's beliefs, namely that dialogue with companies on ESG factors is essential to build a global financial system that delivers improved long-term returns for investors, as well as more sustainable outcomes for society. The EOS team provides access to companies globally based on a diverse set of skills, experience, languages, connections, and cultural understanding. EOS also engages regulators, industry bodies and other standard setters to help shape capital markets and the environment in which companies and investors can operate more sustainably.

3.13 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 disclosures are also done specifically for listed securities held across Worcestershire Pension Fund portfolios. Our quarterly engagement, voting reports and policy / strategy statements are all available on the Fund's website in the Funding and investments area and are a standing item on the Pensions Committee agendas.

3.14 The Pensions Committee delivers its oversight of stewardship by meeting four times a year, or otherwise as necessary. This is the same for the Pension Board and Pensions Investment Sub Committee.

3.15 To support our initiatives and work on strengthening / improving our investment and RI approach, we commission appropriate, additional expertise as required. For example, over the last 18 months we have tasked:

Pensions for Purpose with delivering support to our members through RI and impact investment workshops / training. A bespoke workshop discussed and debated the Fund's investment beliefs for a sustainable approach to investing and included an introduction to the 17 United Nations SDGs. As a result, members agreed to prioritise the SDGs detailed in Principle 1, as they considered they are likely to have the biggest sustainable investment impact
Minerva with conducting an ESG audit and SDG mapping of the portfolio. It identified the holdings of the Fund's relationship (positive/ negative) to the 17 SDGs, highlighted the SDGs the Fund wanted to target and identified the risks and opportunities associated with the analysis.
LGPSC with completing a 2nd annual Climate Risk Report, Climate Change Risk Strategy and TCFD report
Pensions for Purpose with delivering support to our members through an ESG review workshop in February 2022 looking at progress since the initial baseline audit and recommendations agreed at Pensions Committee in March 2021 and exploring further progress requirements over the next 12 to 18 months

3.16 In order to support good decision-making, the Fund applies the Myners principles. Disclosure against the Myners principles is made annually (see section 12 of the Fund's ISS). These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives, focussing 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.

3.17 It is our view that the Fund's governance structure alongside internal and external resources/services facilitate effective assessments and integration of ESG factors in asset allocation and stewardship of assets

4. Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

4.1 The Fund manages and mitigates conflicts of interest by:

- Having clear governance material to refer to, including a Funding Strategy Statement, Pension Administration Strategy, Investment Strategy Statement, Climate Change Risk Strategy, Governance Policy Statement and Training Policy & Programme
- Keeping the Fund's budget separate to Worcestershire County Council's
- Ensuring actual and potential conflicts of interest are considered during procurement processes
- Asking the individual concerned to abstain from discussion, decision-making or providing advice relating to the relevant issue
- Excluding the individual from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
- Establishing a working group or sub-committee, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)
- Advising an individual to resign due to a conflict of interest or requesting the appointing body to reconsider their appointment

4.2 The Fund encourages all its asset managers to have effective policies in place to address potential conflicts of interest

4.3 The need to avoid conflicts of interest is also highlighted in our asset manager mandates and contracts with external parties.

4.4 When the Fund appoints external managers, a thorough due diligence process is undertaken. This includes consideration of the external managers process and procedures around the Management of Conflicts of Interest. All the Fund's managers have confirmed that they have conflict of interest policies in place, and these are subject to regular review. All managers have confirmed that they have a Conflicts of Interests Board / separate Committee to monitor and investigate conflicts of interest and have a conflicts of interest register.

4.5 A public register of interests is maintained for all Councillors and could be subject to audit inspection at any time. Councillors are responsible for updating their register as and when their interests change. This is overseen by the Monitoring Officer**.**

4.6 Pensions Committee and PISC members are required to make declarations of interest at the start of all meetings. If a member declares that they have an interest at the start of a meeting, then the context would determine the action that would be taken i.e., if they declare that they have an interest that is either personal or financial to an item on the agenda, then they would more than likely be asked to leave the room for that item and would be excluded from any voting activities.

4.7 All Fund officers and Committee / PISC members are made aware of and reminded at least annually of Worcestershire County Council's [codes of conduct]. The Code of Conduct includes a section on conflicts of interest and the expectations placed upon Council employees (the requirement to handle public funds in a responsible and lawful manner for example). Any member of staff found to be in breach of the policy may be the subject of disciplinary action and could be subject to dismissal. This includes staff who administer the investment side of the Fund.

4.8 The Council also has a whistleblowing policy to enable staff to raise any concerns that they may have.

4.9 **LGPSC's** approach to managing and mitigating risks associated with conflicts of interest is outlined in the LGPSC conflicts of interest policy. This is made available to all staff and clients of LGPSC. While this policy is intended to ensure compliance with FCA rules (SYSC 4 & 10) and regulations around conflicts management and requirements under MIFID II, the policy is also designed to ensure fair outcomes for clients and to ensure that LGPSC fulfils its stewardship responsibilities to its clients in terms of how their assets are managed.

4.10 LGPSC operates a one for eight RI service model. This ensures that LGPSC delivers a consistent level of service to all eight partner funds ensuring that no conflicts arise in terms of the level of support they get from the Responsible Investment Team. As an example, LGPSC provided Climate Risk Reports to all eight Partner Funds in the course of 2021. For the 2022 provision of the same service, LGPSC will follow the same delivery order as last year. This is to ensure consistency and fairness among Partner Funds and to avoid some receiving reports six months apart or others +14 months apart.

4.11 The policy was signed off by the LGPSC Investment Committee, Executive Committee and Board when implemented. The policy is reviewed annually and changes to the policy are approved through the same governance process.

4.12 LGPSC employees, including senior management and members of the executive committee, are required to complete conflicts management training on an annual basis and confirm their adherence to its standards. This training includes guidance on what constitutes a conflict of interest. The conflicts policy is also contained within the LGPSC Compliance Manual. It is readily available to all staff whether working from home or office based.

4.13 When LGPSC appoints external managers, a thorough due diligence process is undertaken. This includes consideration of the external managers process and procedures around the Management of Conflicts of Interest. LGPSC expects their managers to have robust controls and procedures in place around conflict management and to demonstrate commitment to managing conflicts fairly.

4.14 LGPSC only manages client assets, and all of their active portfolios are managed externally. LGPSC staff are not remunerated through a bonus scheme. These two factors are key mitigants in terms of conflict risk.

Examples of addressing possible conflicts of interest

Appointment of Transition Manager for the LGPSC Global Active Sustainable Equities Fund

4.15 All colleagues involved in the appointment process were required to complete a conflicts of interest declaration. The declaration asked colleagues to provide details of any conflicts with any of the potential transition managers for assessment of the compliance team. The approach taken is that conflicts will inevitably arise particularly in the form of existing business relationships and previous periods of employment with the investment managers on the shortlist. As long as these conflicts are declared and recorded, they can be managed.

Voting

4.16 Conflicts can arise during the voting season. This can for instance be the case where a proxy voting provider also provides other services to corporates or where they have pension schemes as clients whose sponsor company they engage with and provide voting recommendations on.

4.17 LGPSC expects their proxy voting agents to be transparent about conflicts of interest and to implement appropriate measures to ensure conflicts are managed such as Chinese walls, conflicts management policies and conflicts registers. As from Q1 of 2021, EOS at Federated Hermes – LGPSC's external stewardship provider – applies an enhancement to its service to further improve transparency by informing voting clients of potential significant conflicts of interest when EOS provides voting recommendations. One such conflict would be when EOS recommends a vote in relation to clients' sponsor companies, and specific assurance of EOS' independence in assessing this stock is needed.

4.18 EOS has a publicly available Stewardship conflicts of interest policy. EOS conflicts are maintained in a group conflicts of interest policy and conflicts of interest register. As part of the policy, staff report any potential conflicts to the compliance team to be assessed and, when necessary, the register is updated. The conflicts of interest register is reviewed by senior management on a regular basis.

5. Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

5.1 Due to the membership's age profile and that membership of the Fund continues to grow, the Fund is able to take a long-term view of investment and risk, including those in relation to environment, social and governance factors. However, we also recognise the important of risk budgeting and monitoring, scanning widely for emerging financial, regulatory and operational changes on which short to medium term action will aid in supporting and enhancing the longer-term value of our assets.

5.2 It is now more important than ever to have the best possible understanding of the world around us and that we review, prioritise, scrutinise and adapt effectively. Our risk management processes supports us in doing this with ongoing review and challenge through an effective assurance program.

5.3 We manage risk by setting investment beliefs, funding, and investment objectives that are incorporated into our strategic asset allocation benchmark (SAAB) bands and benchmarks.

5.4 To mitigate and respond to risk, we regularly review our ISS, monitor the investment performance of our appointed managers, have a diversified portfolio, and review our qualified advisors' objectives regularly. Strategic asset allocation is reviewed quarterly by the Pension Investment Sub Committee. We have equity protection arrangements in place up to September 2022 for all our passive market cap equity funds which provides protection against a fall of up to 20% in market valuations whilst capturing as much of the upside as possible.

5.5 The Fund is exposed to investment, operational, governance and funding risks. These risks are identified, measured, monitored, and then managed using a Risk Register (reported quarterly and reviewed monthly with section responsibility and oversight from the Chief Financial Officer).

5.6 The Risk Register is reported and reviewed at every Pensions Committee and Pension Board. The risk of a mismatch in asset returns and liability movements has consistently been the risk with the highest residual risk score.

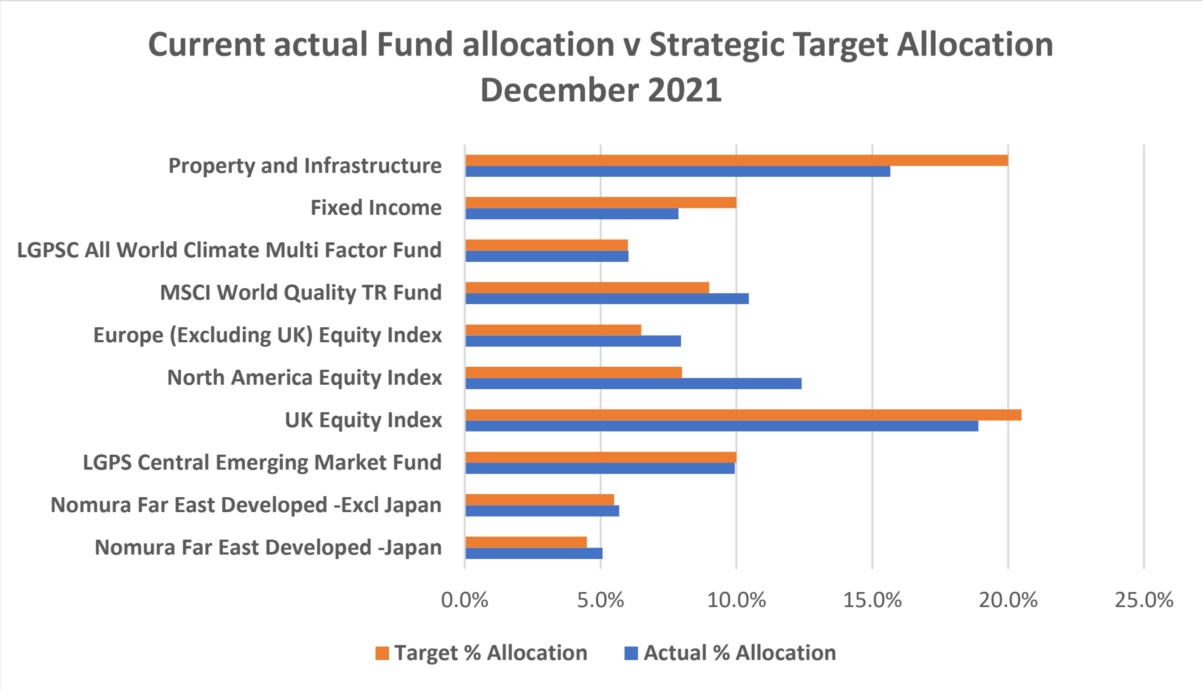
5.7 We continue to liaise with all our investment managers in response to the ongoing market volatility resulting from such as the Russia / Ukraine conflict and previously COVID-19. Equity markets have recovered a lot of the initial losses. The Fund's diversified portfolio and equity protection policy on some of its assets helped cushion the Fund initially but at its worst COVID still had a significant valuation impact: funding fell down to 80% from 91% in March 2020. The fact that our indicative funding level is now at 99% (as at the end of January 2022) is testament to the robust portfolio position and strategy that is in place.

5.8 **The principal risks affecting the Fund are as follows:**

Funding Risks These include deterioration in the funding level of the Fund as a result of changing demographics, systemic risk, inflation risk, insufficient actual / future investment returns (discount rate) and currency risk.

The Fund manages these risks by setting a strategic asset allocation benchmark (SAAB) after counselling the Fund's investment advisor. The SAAB 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.

The Fund's monthly investment performance report is reviewed by the Fund's investment advisor and reported quarterly to the PISC. An annual review of the strategic benchmark is also undertaken and fundamentally reviewed every three years as part of the triennial valuation. The liabilities are reviewed quarterly with the actuary and reported as part of the overall funding level to Pensions Committee. The Fund also reports its actual individual asset class performance against its strategic benchmark on a quarterly basis as detailed in the example below and action is taken where necessary.



Systemic risk These include the possibility of failure of asset classes and/or active investment managers resulting in an increase in the cost of meeting the liabilities.

The Fund mitigates systemic risk through a diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles. All the Fund's managers provide a detailed quarterly investment performance report and quarterly meetings are held with the Fund's investment advisor to review these. Areas of concern will be discussed, and, if performance does not improve over time, managers will be placed on watch and formally reported to Committee. Ultimate action would see the Fund disinvesting from the portfolio.

Operational Risk

These include transition of assets risk, risk of a serious operational failure, custody risk of losing economic rights to Fund assets, risk of unanticipated events such as a pandemic, credit default and cashflow management. Some examples of how we are managing some of these risks are as follows:

- **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 appoints a specialist transition manager to mitigate this risk when it is cost effective to do so.

- **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 of asset managers. Monthly meetings are held with LGPSC to ensure that the company is functioning as it should. A number of key performance indicators and the Risk Register are reviewed at least quarterly.

- **Risk of unanticipated events such as a pandemic on normal operations**. The impact of Covid 19 was unprecedented, and, although the risk of a pandemic was highlighted on the Risk Register, no one could have foreseen the impact it would have on investment performance and operations. In terms of operations the Fund was already effectively working from home or remotely 2 days a week and managed to deliver business as usual throughout the Covid pandemic. This is testament to the robust operational procedures that were in place and the effectiveness of the staff in working in this changing environment. This has also helped explore and implement effective and more efficient ways of working whilst being mindful of the wellbeing and mental health of staff.

Asset Risks (the portfolio versus the SAAB)

These include concentration risk, illiquidity risk, currency risk, manager underperformance and RI risk. Some examples of how we are managing some of these risks are as follows:

- **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. This is managed by effective reporting and monitoring as specified in the 'systematic risk' above. It is also managed by constraining how far Fund investments deviate significantly from the SAAB by setting diversification guidelines and the SAAB strategic ranges. Also, the Fund invests 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. These are monitored through the quarterly fund manager meetings and reports to Committee. The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme Regulations

- **Manager underperformance** when the fund managers fail to achieve the rate of investment return, performance targets, tracking errors, etc assumed in setting their mandates. This is managed by having robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process. Also, in appointing several investment managers, the Fund has addressed the risk of underperformance by any single investment manager.

- **Responsible Investment (RI) risks**, including climate-related risks, that are not given due consideration by the Fund or its investment managers. The Fund actively addresses ESG risks through implementation of its RI beliefs. It also reviews this as part of the quarterly performance meetings with its fund managers and regular dialogue and support through the LGPSC RI and Engagement team.

The Fund has recently conducted an ESG audit and Climate Risk assessment which have identified where the existing Fund's portfolio may be detracting from its SDG targets and calculated carbon metrics to enable the Fund to have effective management of climate change risk. Areas of concern will be discussed, and, if performance does not improve over time, managers will be placed on watch and formally reported to Committee. Ultimate action would see the Fund disinvesting from the asset.

5.9 **In identifying and managing ESG risks, the Fund's stewardship partners are**

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPSC which has identified four stewardship themes that are the primary focus of engagement. These themes are viewed as likely to be material to the Fund's investment objectives and time horizon, likely to have broader market impact, and to be of relevance to stakeholders. See further detail immediately below. During 2021, LGPSC has been actively involved in 47 engagements across these themes. A selection of engagement cases is provided under Principles 9-11 below
Federated Hermes	EOS at Federated Hermes is contracted by LGPSC to expand the scope of the engagement programme, especially to reach non-UK companies. In 2021, EOS engaged with 888 companies on 3,375 environmental, social, governance, strategy, risk and communication issues and objectives. EOS takes a holistic approach to engagement and typically engage with companies on more than one topic simultaneously. 1,951 of the issues and objectives engaged in 2021 were linked to one or more of the SDGs.
Local Authority Pension Fund Forum	The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2021, LAPFF engaged 165 companies through more than 97 meetings across a spectrum of material ESG issues.

Stewardship themes

5.10 In close collaboration with Worcestershire Pension Fund and the other Partner Funds, LGPSC has identified four core stewardship themes that guide the pool's engagement and voting efforts. These are climate change, plastic pollution, responsible tax behaviour and 'tech sector' risks. These themes have been chosen based on the following parameters:

- Economic relevance
- Ability to leverage collaboration
- Stakeholder attention

5.11 Identifying core themes that are material to the Partner Funds' investment objectives and time horizon, that are likely to have broader market impact, and that are perceived to be of relevance to stakeholders, helps us prioritise and direct engagement. We fully acknowledge that the spectrum of ESG risks is broad and constantly evolving. However, and in agreement with our LGPSC pool partners, we consider it appropriate to pursue these themes over a three-year horizon, at a minimum, while conducting annual reviews to allow for necessary adjustments or changes. This helps us build strong knowledge on each theme, seek or build collaborations with like-minded investors, identify and express consistent expectations to companies on theme-relevant risks and opportunities, and to measure the progress of engagements. Furthermore, we take the view that engagement on a theme needs to happen at multiple levels in parallel: company-level, industry-level, and policy-level. With our long-term investment horizon, we take a whole-of-market outlook and changing the "rules of the game" through industry and policy dialogue is as important, if not more important, than individual company behaviour. In Section 6.8 below, we give a detailed overview of engagement activity and progress for each stewardship theme. In Section 6.9, we provide information on the annual review of stewardship themes that was carried out during Q4 of 2021.

Climate Risk Monitoring Service provided by LGPSC

5.12 Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to recent reports from the Intergovernmental Panel on Climate Change. If 'business as usual' continues, the world could heat up by about 5 degrees by 2100 which would have catastrophic environmental impacts and cause profound societal damage and significant human harm. A Paris-aligned transition to a low-carbon economy would lead to lower economic damage and for long-term investors is preferable to alternative climate scenarios. We believe investors can best encourage this transition through a combination of a) understanding the risks to their portfolios at a granular level, b) stress-testing portfolios against various temperature scenarios, c) identifying tools and actions that can be taken to address and minimise risk. In January 2022, LGPSC announced a commitment to achieve Net Zero across assets under stewardship by 2050, with support from all its eight Partner Funds. Our climate risk monitoring is a key building block in ongoing work toward this goal.

5.13 LGPSC's Climate Risk Monitoring Service aims to address each of these aspects. Since 2020 LGPSC has conducted in-depth climate risk assessments for each individual Partner Fund and provided an annual Climate Risk Report (CRR) bespoke to each of them. The CRR is designed to allow each Partner Fund a view of the climate risk held through their entire asset portfolio accompanied by proposed actions each could take to manage and reduce that risk. To facilitate TCFD disclosure, the CRR is deliberately structured to align with the four disclosure pillars.

5.14 In 2021, LGPSC provided our second year of Climate Risk Reporting and made several enhancements to the service to ensure it remained aligned to the latest industry developments and therefore the best assessment on climate-related risk LGPSC could provide to us and Partner funds. LGPSC particularly wanted to emphasise progress made against the findings of the first report to give funds a view on their direction of travel. The executive summary provides a summary of the methods we use to assess financially material climate-related risks and opportunities, alongside outlining the improvements LGPSC made to the service in 2021.

5.15 Having recently completed the 2021 reporting cycle, LGPSC has conducted a review to identify further improvements to the service. Enhancements that we aim to make to the 2022 reports include:

- Inclusion of a 1.5°C scenario into the Climate Scenario Analysis
- Enhance the company progress updates to demonstrate a more robust link between engagement and outcomes
- New additions to the suite of carbon risk metrics, reflecting the shift towards measuring alignment with Net Zero, such as % of portfolio with Net Zero targets, % of portfolio revenue derived from fossil fuels, % of portfolio revenue derived from clean technology and absolute carbon emissions/ financed emissions

5.16 We have used the findings of their CRRs to develop our Climate Change Risk Strategy covering governance, beliefs, objectives, strategic actions and reviews in relation to their climate-related risk. Aside from strategy setting, the CRRs have also been used to facilitate our 2nd TCFD disclosure; formulate stewardship plans; conduct training sessions on climate change; initiate governance and policy reviews; and for exploring potential investments in sustainable asset classes.

5.17 In 2021, LGPSC continued to explore areas of convergence and commonality across each of the eight bespoke CRRs in order to facilitate collective action as a pool. They identified a number of recommendations that featured in all of the CRRs and worked in collaboration with all Partner Funds to crystallise these into specific pool-level workstreams. Examples of actions taken include holding a joint Partner Fund Responsible Investment Day, releasing an updated 2021 TCFD Report, and issuing a Net Zero Statement for LGPSC made with the full support of all eight Partner Funds.

Attendance and contributions to industry dialogue, partnerships and building of standards:

5.18 LGPSC is an active participant in the debate on good corporate and investor practice. Collaboration with peer investors and industry initiatives is a critical component to engagement, giving a stronger voice and more leverage. Industry initiative participation can serve several purposes: access to data, research, and tools available to members; influence further development of these initiatives; encourage market uptake of new standards/benchmarks as appropriate.

5.19 Appendix 1 provides an overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2021

Policy engagements and consultation responses:

5.20 Since inception of LGPSC in April 2018, it has taken active part in policy dialogue on behalf of Partner Funds across various themes and regulations including on ethnicity pay reporting, tax transparency, modern slavery, climate change and sustainability reporting requirements.

5.21 In Q1 2021 LGPSC co-signed a letter to the COP26 President asking for support to investors by seeking publication of key underlying assumptions and commodity price projections tied to a 1.5C scenario. The International Energy Agency's special report Net Zero by 2050: a Roadmap for the Global Energy Sector published in May 2021 provides clarity in this regard. The roadmap highlights the gap between where we are and where the 1.5 scenario says we need to be. The IEA describes the energy transition as an all-hands-on-deck crisis that "hinges on a singular, unwavering focus from all governments—working together with one another, and with businesses, investors and citizens". The Net Zero report from IEA is actively used as a reference point when we engage companies across sectors, for instance through the Climate Action 100+ collaboration.

5.22 LGPSC responded to an All-Party Parliamentary Group for Local Authority Pensions Funds consultation on Just Transition on 4 May 2021. We are of the opinion that the just transition must be recognised as a global challenge, as communities that stand to be impacted the most by climate change are often situated in developing countries. We consider that COVID 19 illustrates that global challenges require global solutions. Government has an important role to play in encouraging supporting innovation by sending strong signals to investors in terms policies, subsidies, and taxes. For example, decisive carbon pricing and robust regulation around carbon off-setting. Investors also have an important role to play in bringing about a just transition through both engagement with the corporations and assets in which we invest and through financing the transition itself. The element of just transition is being raised with companies that are in scope Climate Action 100+ engagement and will be assessed on this in the 2022 benchmark exercise.

5.23 LGPSC expressed support for the Government to mandate **Net Zero Metrics as part of TCFD reporting** in a response to the Department for Work and Pensions' consultation on Climate and investment reporting. We consider that mandatory reporting will encourage more comprehensive reporting of emissions by corporations and commitments to achieve Net Zero, particularly if this regulation is supported by complimentary regulations across the economy. The financial cost associated with TCFD reporting in a manner consistent with the regulation proposed by DWP may be underestimated and we recognise that this might be challenging for some investors to achieve. Furthermore, we think the metrics will need to be carefully explained to stakeholders and Net Zero alignment does not tell us everything we need to know about the climate risk faced by a portfolio.

5.24 Ahead of COP26 in Glasgow, LGPSC signed a statement alongside 586 other investors, managing $46 trillion in assets, **urging governments to undertake five priority actions to accelerate climate investment** before COP26. These priority actions include:

- Strengthening of NDCs[1] for 2030 before COP26
- Commitment to a domestic mid-century, net-zero emissions target, and implementation of domestic policies to deliver these targets
- Incentivising private investments in zero-emissions solutions and ensure ambitious pre-2030 action
- Ensuring COVID-19 economic recovery plans support the transition to net-zero emissions and enhance resilience
- Committing to implementing mandatory climate risk disclosure requirements aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

5.25 LGPSC's stewardship provider, EOS, regularly engages on behalf of clients with a wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs, to identify and respond to market-wide and systemic risks. As an example, EOS co-authored a paper setting out **investor expectations on the alignment of the banking sector with the goals of the Paris Agreement**. The paper focused on three areas: the actions banks should take to align their financing activities with the Paris goals and the achievement of net-zero emissions; steps to strengthen the governance of their climate strategy; and disclosure to demonstrate implementation. The paper was officially launched by the Institutional Investors Group on Climate Change (IIGCC) in April 2021 and a courtesy letter was sent to 27 banks by a group of 35 investors, with a copy of the paper. Subsequently, the group initiated collaborative engagements with these banks. EOS leads or co-leads the dialogue with eight banks and takes an active participating role with five other banks.

5.26 EOS also engages on market-specific trends and policies and, as an example, responded to a consultation by the UK Department for Business, Energy & Industrial Strategy on **mandatory Task Force on Climate-related Financial Disclosures (TCFD) reporting** for listed companies, large private companies and limited liability partnerships. EOS promoted enhanced regulation around climate risk reporting in line with the TCFD recommendations. In the US, EOS welcomed the **decision by Nasdaq mandating that Nasdaq-listed companies should have at least two diverse directors** (including at least one woman and at least one member of an underrepresented community). If companies do not, they must explain why they have failed to do so under a phased transition that started from 6 August 2021.

6. Principle 5

Signatories review their policies, assure their processes, and assess the effectiveness of their activities

6.1 Fund Officers reviews the Fund's ISS and Governance Policy Statement annually. They are reviewed by the Pension Board before submission to the Pensions Committee for formal approval.

[1] Nationally Determined Contributions (NDCs). Under the Paris Agreement each Party must prepare, communicate, and maintain successive nationally determined contributions it intends to achieve

6.2 The Fund has undertaken a fundamental review over the past 2 and a quarter years of its RI beliefs and policies to enable effective stewardship. Some of the key parts of this review have been detailed in Principle 2 above and include an ESG audit and an SDG mapping exercise. Pensions for Purpose (PfP), the Fund's independent investment advisor and LGPSC have provided external assurance on the review.

6.3 The Fund has also conducted its first specific ESG review workshop on the 2nd of February 2022 aimed at reviewing the recommendations from the Pensions Committee in March 2021 as well as looking ahead at any further specific actions needed over the next 12 to 18 months. The actions were agreed at Pensions Committee on the 23rd March 2022.

6.4 LGPSC, and PfP have provided external assurance on the Fund's Climate Change Risk Strategy and Climate Related Financial Disclosures. Minerva was asked to provide a 'user friendly' version of the report to aid members understanding. LGPSC provided an executive summary of the Climate Risk Report to assist readers identify the key points.

6.5 As detailed in Principle 1, these recent initiatives have provided a baseline for the Fund in understanding how the Fund sits compared to its benchmark in relation to carbon metrics and SDG alignment mapping to reflect the underlying objective to align/support SDGs through its investments.

6.6 The Fund reports quarterly to Committee with specific reference on RI and an update on the quarterly LAPFF and LGPSC stewardship reports. Each of the Fund's managers is required to provide a quarterly update including how the Fund is doing in relation to ESG.

6.7 The Fund has a significant passive equity portfolio though LGIM and the LGIM quarterly ESG Report is available on the Fund's website. LGIM was assessed as part of the ESG audit and found to have relatively good SDG alignment overall, but there were areas where this would need to be improved in the future. The Fund's website also has specific areas dedicated to responsible investment and climate change.

Ongoing information-sharing and review of stewardship themes through LGPSC Partner Funds

6.8 Through our quarterly PAF RIWG meetings, information-sharing and debate/checks on LGPSC's provision of RI services against the RI&E Framework are discussed. As one of the Partner Funds we take a keen interest in RI and engagement, which is a reflection of our ultimate beneficiaries' ongoing interest in climate change and broader sustainability issues.

6.9 LGPSC undertake an annual review of the effectiveness of the stewardship themes in close collaboration with Partner Funds. During 2021, LGPSC conducted a review through PAF RIWG discussions which resulted in the following adjustments:

- Climate change remains the number one theme
- Biodiversity and land use should be included alongside climate change
- The S in ESG should feature more prominently, with a preference for focus on Human Rights

Description of themes in light of discussions with Partner Funds:

Theme	Discussions and review during 2021
Climate Change	Climate change is regularly among the World Economic Forum's top five global risks, both in terms of likelihood and impact. Through both physical risks (e.g., increases in extreme weather events) and market risks (e.g., impact of carbon pricing or technology substitution), climate change impacts institutional portfolios. In addition, greater incidence of flooding, wildfires, chronic precipitation, sea level rise are already having profound societal consequences. In the UK, campaign groups, governments and regulators are increasingly taking an interest in the extent to which investors are managing climate-related risks. This includes the Environmental Risk Audit Committee, Department of Work and Pensions, Financial Reporting Council, divestment campaign groups, and more. TCFD reporting will become mandatory for LGPS funds from 2023. Investor best practice on climate change is emerging through the Institutional Investor Group on Climate Change (IIGCC) Net-Zero Investment Framework. Biodiversity loss could reduce nature's ability to provide goods and services, including food, clean water and a stable climate. Tropical forests play an important role in tackling climate change, protecting biodiversity and ensuring ecosystem services. Forests alone absorb one-third of the CO2 released from burning fossil fuels every year. During COP26 we have seen governments pledge to halt deforestation by 2030. Financial institutions, including LGPSC, have committed to engage with a view to eliminating commodity-driven deforestation by 2025 through engagement at policy and corporate levels.

Theme	Discussions and review during 2021
Plastics	Plastic pollution is a global problem that is continually growing due to both an increase in consumerism and an increase in the number of plastics used to manufacture the things we use regularly. Some companies are starting to change the way they use these plastics and are actively taking steps to reduce waste. As well as the negative effects on the planet, companies that purchase, use, or produce significant amounts of plastic could face regulatory tightening, more plastic taxes, and reputational damage as consumers and policymakers become more aware and mindful of the problem. It will be necessary to look at both shorter-term targets companies should strive for, in line with emerging best practices, as well as a longer-term vision for “zero leakage/waste” by 2050. LGPSC joined a call (on behalf of businesses and financial institutions) on United Nations member states to commit to the development of a global treaty on plastic pollution to commence early 2022. Agreement has since been found to negotiate a treaty.
Technology & disruptive industries risk **replaced by Human Rights**	The current technology theme is a sector-specific theme that covers several risks factors. LGPSC’s engagements have primarily focused on human rights risks for tech sector companies, including social media content control. These areas have come under increased scrutiny from regulators and stakeholders more broadly including companies that advertise on social media platforms. We envisage continuing engagement with tech sector companies (Alphabet, Amazon, Apple, Facebook, Microsoft and Twitter) on relevant human rights risks including privacy and data protection; freedom of expression; disinformation in public and political discourse; and discrimination and hate speech. We also know that weak labour rights in supply chains (especially in emerging markets), both in the technology sector and across other industries, can cause reputational damage that in turn risk undermining shareholder value over the long term. We view it as feasible to adjust this theme to a broader Human Rights theme that would allow a greater focus on human and labour rights across companies and sectors. We would take as a starting point the UN Guiding Principles for Business and Human Rights, which also apply to investors. Ongoing engagements on Modern Slavery and related to the Israel/Palestine conflict would continue and would be captured under this theme.
Tax - transparency and fair tax payment	The trust an organisation builds with its stakeholders is of critical (though intangible) value. As a measure of an organisation’s contribution to the economies it operates in, tax is a key dimension in building that trust. Global corporate tax avoidance is estimated to cost governments $240 billion globally in foregone revenues each year. Companies with overly aggressive tax strategies could be storing up liabilities and could damage their reputation with key stakeholders. While many countries are providing various forms of tax relief to

Theme	Discussions and review during 2021
	businesses during the COVID pandemic, it seems reasonable for investors to expect companies to pay their fair share of tax. G20 leaders have recently agreed a corporate tax deal for minimum 15% corporate tax, which adds to the expectations for responsible tax behaviour.

6.10 LGPSC has carried out AAF controls of the investment operations during the reporting year. These controls include testing of the accuracy of RI data and implementation of RI processes in relation to LGPSC's voting policy, voting implementation, and accuracy of voting data. In addition to the AAF controls, LGPSC carries out quarterly internal quality controls of engagement and voting data before this is shared with Partner Funds through regular Stewardship Updates. LGPSC's external stewardship provider, EOS at Federated Hermes, has its voting process independently assured on an annual basis.

6.11 In essence we used the output from our ESG Audit and our second Climate Risk scenario report to be in a position to have focussed engagement with those fund managers / holdings that are detracting away from the Fund's carbon metrics / SDG targets. This helped form a stewardship plan for the Fund. Some of the actions agreed at Pensions Committee were to:

Actions agreed March 2021 Committee	Action taken
• Challenge managers on holdings (particularly the top 10 to 20 in terms of value) that detract from the Fund's SDGs or carbon reduction aims, using a manager monitoring template as a method to do this • Prioritise the most material / strategic exposure for dialogue on climate risk	We had specific meetings (over and above the normal performance meetings) with all of our fund managers over May / June 2021 to go through the ESG Audit findings and ask a series of specific ESG, SDG and climate-related questions. These meetings were really informative and have helped improve the reporting to the Fund over the year. The plan is to do this annually to measure progress and improvement and the next meetings are planned for May 2022
• Ask managers to report on the portfolio's alignment to the Funds agreed targeted SDG's and carbon risk metrics: •	
• Ask managers to present their TCFD report	
• See evidence of a strong investment thesis where the Fund may have concerns	

6.12 We have updated our Climate Change Risk Strategy as follows:

Actions agreed March 2021 Committee	• Action taken
• Having an overarching climate statement to include in the ISS	Completed

• Putting a statement or summary of the LGPSC Climate Risk Report in a manner consistent with the TCFD Recommendations into the Fund's annual report.	Completed
• Having a "best endeavours" type statement, with a view to considering setting goals / targets at next year's ISS review, that includes reducing our carbon footprint and measuring against our key SDGs • Having a % of assets invested in low carbon and sustainable investments	Completed, see updated Climate Change Risk Strategy
• Repeating carbon metrics analysis annually	Completed
• Repeating climate scenario analysis every 2 to 3 years	Considering in 2022
• Reporting progress on climate risk using the TCFD Framework annually	Updated TCFD report
• Mapping the Fund's portfolio to the UN SDGs every 2 to 3 years	Considering in 2023

6.13 The Fund is also looking to invest further in sustainable equities and low carbon factor funds. Agreed recommendations at the March 2021 Pensions Committee were:

Actions agreed March 2021 Committee	Action taken
To explore further the examples of potential investments that were presented regarding the passive LGPSC All World equity Climate Multi Factor Fund and the five active sustainable equity funds on the West Midlands Framework	See Paragraph 2.22
To also take on board the existing offering of sustainable active equities that were being developed by LGPSC as an alternative to the West Midlands Framework	Transitioning £200m of assets into LGPSC Sustainable equities in May 2022
To take these suggested examples to the next Pension Investment Sub Committee for further consideration and debate	Completed and invested see above

INVESTMENT APPROACH (Principles 6 to 8

7. Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

7.1 The Fund has been established to pay LGPS defined benefit promises as they become due. The Fund has about 200 participating employers and 66,000 member records of which 21,000 are pensioners; 23,000 are deferred; and 22,000 actively contributing. The average age of members is 51 to 55.

7.2 The Fund is primarily an equity investor, and the covenants of its employers, its net cashflow, the age profile of its members and the fact that it has a steady stream of new members mean that it can take a long-term investment horizon of at least 15 to 20 years taking on board the need of meeting the immediate and future member benefit liabilities

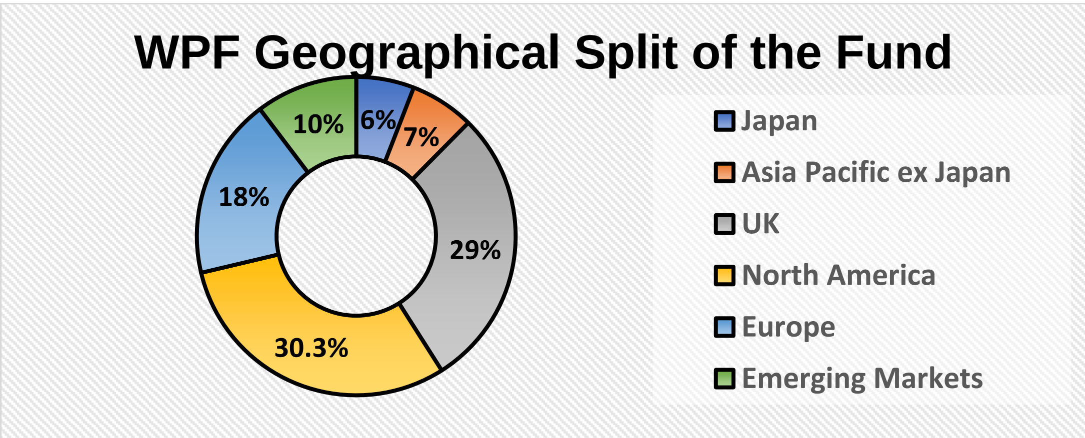
Cashflow Management	2022-23 £'M	2021-22 £'M	2020-21 £'M	2019-20 £'M	2018-19 £'M	2017-18 £'M
Contributions receivable	86.4	83.8	191.2	87.7	81.8	185.2
Benefits Payable	-118.6	-116.3	-114.0	-111.5	-106.3	-98.0
Surplus / Deficit (-)	**-32.2**	**-32.5**	**77.2**	**-23.8**	**-24.5**	**87.2**
Investment income	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**

7.3 The Fund's Strategic Asset Allocation Benchmark (SAAB) and Ranges are:

	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%
LGPSC Global Sustainable	6%	3%	0.0	LGPSC active Global Sustainable equity mandates with Liontrust and Baillie Gifford - FTSE – All World +2.0% to 3%
Passively Managed Equities - Market Capitalisation Indices				
United Kingdom	17.0	13.0	0.0	Legal and General Asset Management - FTSE All Share Index
North America	6.5	5.0	0.0	Legal and General Asset Management - FTSE All World North America - Developed Series Index
Europe ex - UK	5.5	4.0	0.0	Legal and General Asset Management - FTSE All World Europe ex UK Index - Developed Series Index
Passively Managed Equities – Alternative Indices				

	Growth	Medium	Cautious	
Asset Allocation	**%**	**%**	**%**	**Manager, Method & Performance Target**
Global	15.0	5.0	0.0	Legal and General Asset Management: 60% STAJ - CSUF - STAJ MF36726/36727 (Quality Factor) - 40% LGPSC All World Equity Multi Factor Climate Fund
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**	

7.4 Geographical asset allocation is shown in the table below and has been developed over a number of years to ensure the long-term liabilities of the Fund can be met. As highlighted in principle 4, the Fund's diversified portfolio alongside its mitigating risk strategies such as equity protection has stood the Fund in good stead. The long-term SAA is fundamentally reviewed every 3 years as part of the actuarial valuation project that includes updating the Fund's FSS and ISS. These strategies are consulted on with our employers and ultimately the Pensions Committee make the decision.



7.5 The Fund does however recognise that it needs to widen its consultation with its members beyond the employee representatives on the Board , Committee and PISC to take their views on the Fund's ESG approach on board, and steps are being taken to do this during 2022 by asking a series of questions and some examples are:-

- *Would you like your pension fund to invest even more into investments taking environmental and social purpose into account?*
- *Are you happy with the Fund's current stewardship of its £3bn+ of assets?*
- *The pension fund has prioritised the following SDGs. Which is the most important goal for you?* .

7.6 The Fund provides a hard copy annual newsletter to all its members that includes information about the Fund and its investment / stewardship activities. For example, the 2021 newsletter for deferred members includes the following article and we are providing a further progress update in May 2022.

About the Fund

We took some significant steps on our responsible investment journey in LGPS scheme year 2020 / 2021, including completing an environmental social governance (ESG) audit, undertaking a sustainable development goals (SDGs) mapping exercise, commissioning a climate risk report and producing our climate change strategy.

A headline finding was that our portfolio of equities has a carbon footprint that is 23.75% lower than the benchmark, with the footprint from each of our actively managed investment portfolios being significantly lower than their respective benchmarks.

Our member records reached an all-time high of 64,000 on 31 December 2020 when the Fund's value also reached an all-time high of £3,223 million, making the Fund 97% funded with an asset allocation of:

26% Actively managed equities

30% Passively managed equities

15% Alternatives

06% Equity protection

06% Fixed interest securities, credit and bonds

05% Property

12% Infrastructure

*Y**ou can find out more about the Fund in the About us area of our website.***

7.7 The Fund delivers a monthly newsletter to its employers to keep them abreast of what the Fund is doing, see [Employer publications - Worcestershire Pension Fund]

7.8 The Fund consults with its employers on its Funding Strategy Statement as part of each triennial actuarial valuation, taking on board employers' views before agreeing any changes to the strategy at Pensions Committee. It will also consult on any proposed changes due to legislation or policy in between valuations, for example on new employer flexibilities like deferred debt arrangements.

7.9 The Fund's employer and member stakeholders are represented on the Fund's Pensions Committee and Pension Board as detailed in the Fund's Policy Statement on Communications. The membership of the Pensions Committee includes a Herefordshire Green Party Councillor.

7.10 Our training programme for members of our Pensions Committee and Pension Board ensures that members can challenge and contribute meaningfully on stewardship issues. A member-led specific ESG Audit working group was formed.

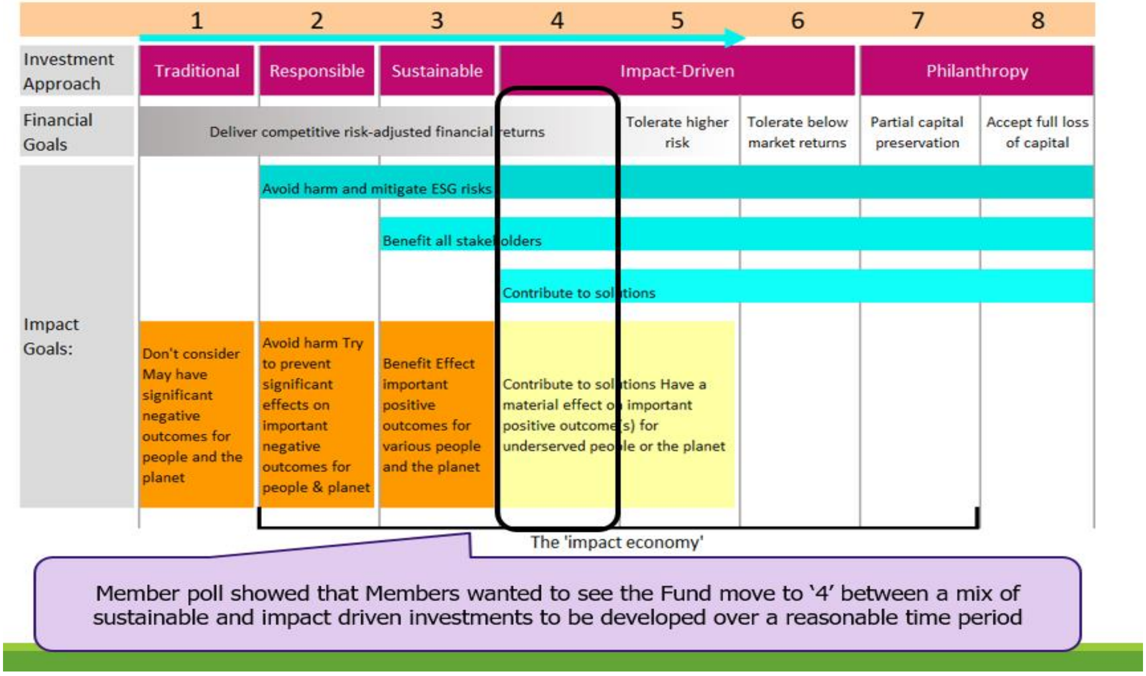
7.11 Our Annual Report and Financial Statements are available from our website and our website also provides up to date information about our governance, funding, investments, finances, and operations including a bespoke Funding and investments area.

7.12 The Fund also replies to all Freedom of Information requests as and when they arise in line with the statutory deadlines.

8. Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

8.1 The issues that the Fund prioritises for assessing investments are those matching our desired position on the spectrum of capital and are reflected in our investment manager monitoring / selection processes that include a requirement for managers to present their TCFD report as well as investments that support the SDGs that we have prioritised.



8.2 The Fund considers RI to be relevant to the performance of the entire Fund across asset classes and its investment beliefs are described in Principle 1.

8.3 The Fund commissioned an ESG audit and a Climate Risk Report to benchmark its position and to further incorporate RI into its investment process.

8.4 The Fund believes that *sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term*.

8.5 The Fund focusses on the following targeted SDGs:

- SDG 3 Good Health and Well-being
- SDG 7 Affordable and Clean Energy
- SDG 8 Decent Work and Economic Growth
- SDG 9 Industry, Innovation, and Infrastructure
- SDG 13 Climate Action

8.6 To ensure service providers have received clear and actionable criteria to support integration of stewardship and investment:

- The Fund sets longer-term performance objectives for its investment managers
- The Fund ensures that investment managers are aligned with our long-term interests on all issues including ESG considerations
- Policies relating to ESG are considered as part of the Fund's long-term investment planning process, following a thorough and robust investment appraisal

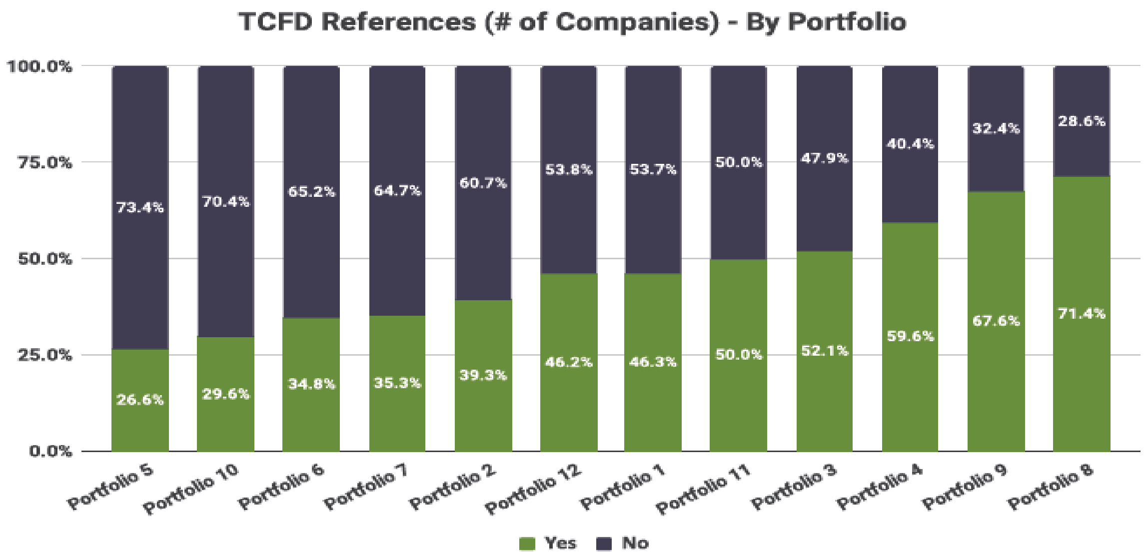
8.7 We use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of RI principles across our investment strategy to make better more informed investment decisions and encourage / influence better corporate practices that lead to value creation and good risk management. For example, the Fund considers:

- The potential financial impact of ESG related issues on an ongoing basis (e.g., climate change or executive remuneration)
- The potential financial impact of investment opportunities that arise from ESG related factors (e.g., investment in renewable energies or housing infrastructure)
- The 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 investment opportunities that have positive impacts against the targeted SDGs agreed by the Fund

8.8 The following guidelines were agreed at the March 2021 Pensions Committee in relation to future manager selection:

- To introduce impact criteria into the Fund's manager selection decisions e.g. Does the manager report against the SDGs, or CO2 emissions and do they have a clear investment thesis around climate change, decent work, and innovation?
- To identify whether the manager is TCFD compliant
- To consider allocating some of the scoring weights in any procurement specifically to ESG e.g., 70% of the score based on investment, 20% on price and 10% on ESG

8.9 The Fund seeks managers that invest in companies compliant with TCFD recommendations because it is a good way of identifying the Fund's economic exposure to the companies that do – and do not – seem to have identified climate change as a specific risk to their business model. This will allow us a starting point in order to assess which companies are taking the risk of climate change seriously. The baseline assessment of the Fund in this area conducted by Minerva is detailed below for the Funds listed assets (70% of our portfolio).



8.10 The ESG audit was conducted across all the Fund's asset classes and it identified that the Fund has exposure to four main asset classes in its investment strategy: equities, corporate bonds, infrastructure, and real estate.

8.11 Minerva's approach to the ESG audit and SDG mapping aspects of the project were broadly the same for each asset class, although there was one important difference when it came to SDG mapping. For equities and corporate bonds, information is generally publicly available relating to the Fund's investee companies, and with the existence of the SDG2000 index providing a good proxy for the SDGs themselves, a quantitative approach was possible.

8.12 However, for infrastructure and real estate, publicly available information of sufficient detail and quality is scarcer, due mainly to the nature of the vehicles used by investors to gain access to these assets. As a result, the SDG2000 could not be used to map these assets to the SDGs; instead, Minerva used their experience and judgment to look at each portfolio's underlying assets, to gauge whether they were likely to help or hinder in the delivery of the SDGs.

8.13 Accordingly, the Fund will need to constantly review its approach, particularly as there are likely to be significant developments in how performance and metrics are reported in the future before a consistent and robust system is in place.

LGPSC's RI Integrated Status tool

8.14 Our pooling company has established a system whereby any new fund that is launched and made available to Partner Funds will have Responsible Investment Integrated Status (RIIS) from concept and through lifespan of the fund. The LGPSC Investment Committee needs to approve a particular product's (or set of products') RIIS status(es). The proposal for RIIS within some particular investment product is communicated via a RIIS Document, which is co-sponsored by the Director of Responsible Investment & Engagement and the relevant Investment Director for the product(s) put to approval.

8.15 By requiring co-sponsoring of the RIIS documents, LGPSC ensures that RI&E is an integrated process, not a siloed affair. The RIIS proposal will be approved by the Investment Committee if and only if the committee is satisfied that the combination of processes, techniques, activities and reporting achieve, in a manner suitable to the asset class, product, or mandate in question, the Company's agreed responsible investment aims. These are: (1) primarily, to support investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry. Promote collaboration and raise standards across the marketplace. RIIS criteria to be met will typically include:

- RI beliefs relevant to the asset class or mandate in question
- Relevant RI related documentation that supports the decision to invest, e.g., policies and procedures at external managers or co-investors
- Fund managers factor RI and ESG into their selection of portfolio assets
- RI reviews are carried out by the fund managers at regular intervals (usually quarterly)
- Stewardship responsibilities are carried out thoroughly (engaging with companies, shareholder voting, manager monitoring, industry participation)
- Fund managers are transparent in their reporting to clients and the wider public

Manager selection

8.16 An assessment of RI&E is a core part of LGPSC's manager selection process. Typically, manager selection processes are done in three broad stages: standard questionnaire, request for proposal, and manager meetings, of which RI&E assessments feature in all three. In stages one and two, the RI&E Team draft questions for insertion and then score the managers based on their responses.

In both stages, a 10-15% weighting is attached to the RI&E questions to reflect the importance that LGPSC places on full ESG integration. A representative from the RI&E Team then attends all the manager meetings. A key objective in the assessment of a manager is whether the ultimate decision maker is engaged in the integration of ESG factors into his or her decision-making process. Managers will not be appointed unless they can demonstrate sufficient awareness of and ability to manage the risks posed by ESG factors.

Case Study: Tendering for Global Sustainable Equities Mandates

8.17 In close dialogue with our Partner Funds and , LGPSC it was decided that the tendering for Global Sustainable Equities Mandates would take the form of a three-sleeve approach encompassing broad, thematic and targeted offerings. LGPSC's active investment team conducted a three-stage selection process, having advertised for potential managers in June 2021. The first stage, The Selection Questionnaire, attracted 77 applications across the three sleeves. Applications were all read and marked by members of the team in a fair, transparent and consistent manner with support from the RI&E Director and the Investment Risk Manager. 22 applications were selected to progress to the next stage,

8.18 The Request for Proposal submissions were read and marked by the team in the same manner. Nine applications, comprising three for each sleeve, were taken through to the final due diligence stage. This took place in September and consisted of 3-hour meetings for each manager. Due to Covid-19 restrictions, this took place online. Meetings included a 1.5-2-hour presentation followed by breakout sessions in separate virtual meeting rooms which provided the team with further insight on focused areas such as RI&E and Risk.

8.19 The presentations and interviews were scored by the team and resulted in three managers being selected, one for each sleeve. Following the selection of the successful managers, the team has received expressions of interest totalling around £1bn from Partner Funds. The funds are now expected to launch in Q2 2022. The team has investigated different tools which could be used for measuring impact of the funds and also looked at a number of different secondary benchmarks which could be used for internal measurement purposes.

Active Equities and Fixed Income

8.20 Once appointed, LGPSC require external public market fund managers to complete a quarterly ESG questionnaire. Some disclosure items are "by exception" (for example alerting us to changes in ESG process or personnel) and others are mandatory. LGPSC receives quarterly data from external fund managers on the number of engagements undertaken and the weight in portfolio. LGPSC set expectations regarding the volume and quality of engagement, and we assess climate risk including portfolio carbon footprint, and exposure to oil, gas and coal producers. To send a unique voting signal to investee companies LGPSC votes its shares - whether externally or internally managed - according to one set of voting principles. While the ultimate voting decision rests with LGPSC, we have a procedure through which we capture intelligence and recommendations from external fund managers.

8.21 The RI&E team attend quarterly monitoring meetings with external managers. The purposes of RI&E monitoring are to analyse the level of ESG risk and climate risk in the portfolio, determine whether the manager is successfully applying the ESG process that was pitched, and assess whether that ESG process is proving successful. Monitoring is achieved through a combination of our own internal portfolio analysis, inspection of the manager's responses to quarterly data requests, and via dialogue at the quarterly meetings.

8.22 LGPSC has developed a Red, Amber, Yellow, Green (RAYG) rating for manager monitoring, of which RI&E is a core component. These ratings get updated each quarter based on the discussion at the manager meetings. The RAYG rating is split into four possible ratings: red (manager fails to convince, warrants formal review with potential manager exit), amber (manager warrants closer scrutiny with potential for going on "watch"), yellow (manager is fulfilling role but with minor areas of concern) and green (manager shows clear strengths tailored to requirement). We score managers on four components of their RI&E approach:

1) philosophy, people and process

2) evidence of integration

3) engagement with portfolio companies

4) climate risk management.

Reflecting its importance, the RI&E component carries 13% of the weight in the overall score.

Cross-team interaction in development of new LGPSC funds

8.23 Proposals for product development are discussed and challenged at the Investment Committee (IC) and the Private Markets Investment Committee (PMIC), which derives its authority from the IC and the Board. The Director of RI&E is a voting member of IC and PMIC.

8.24 These committees scrutinise investment proposals at a preliminary stage and authorise appropriate expenditure in connection with full due diligence and negotiation of investments. The RI and stewardship implications are first discussed and scrutinised during this initial preliminary review. A due diligence report, including due diligence by the RI&E Team, is presented to the IC or PMIC for scrutiny and final approval.

Case study: Launch of Infrastructure Fund

8.25 A recent example of cross-team interaction is provided by the Q1 2021 launch of the LGPSC Infrastructure Fund which invests in a variety of renewable energy solutions. The RI&E team had full access to all the deal documentation and met with the ESG teams of the shortlisted managers. Due diligence showed that overall ESG integration and stewardship were strong at both managers, however areas for improvement were identified around supply chain management and one of the company's human rights' policies. We will re-assess and discuss the situation related to human rights risk oversight and management at the first review in 2022.

Integration of climate change risk through Climate Risk Monitoring project

8.26 During the course of 2020, LGPSC conducted in-depth climate risk assessments for Worcestershire Pension Fund and the other LGPSC Partner Funds and provided a Climate Risk Report (CRR) bespoke to each of them.

8.27 The CRR is designed to allow each Partner Fund a view of the climate risk held through their entire asset portfolio accompanied by proposed actions each could take to manage and reduce that risk. In the analysis, LGPSC uses two approaches, bottom-up & top-down analysis. The top-down work is at the asset-allocation level and considers the financial consequences to the individual Partner Fund given plausible climate change scenarios. The bottom-up analysis is at the company/asset level and considers carbon risk metrics such as portfolio carbon foot printing, exposure to fossil fuel reserves, carbon risk management, and investments in clean technology. In each type of analysis, LGPSC is not addressing the impact of the Partner Fund on the climate, but rather the impact of a changing climate, and changing climate policies, on the fund.

8.28 To facilitate TCFD disclosure, the CRR is deliberately structured to align with the four disclosure pillars. Below is a summary of the methods used to assess financially material climate-related risks and opportunities:

Section	Analysis
Governance	The purpose of this section is to identify areas in which the Fund's governance and policies can further embed and normalise the management of climate risk. We provide a review of the Fund's documentation from the perspective of climate strategy setting and issue recommendations on how the Fund could improve its governance of climate-related risk.
Strategy	Using the services of Mercer, LGPSC assesses the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at fund and asset-class level), and climate stress tests (to explore the potential impact of a sudden climate-related price movement).
Risk Management	Based on the report findings LGPSC provides a Climate Stewardship Plan which identifies the areas in which stewardship techniques could be leveraged to further understand and manage climate-related risks within the portfolio. The Plan includes plans to engage both individual companies and fund managers.
Metrics & Targets	LGPSC conducts a bottom-up carbon risk metrics analysis at the company and portfolio level. For the most part, four types of carbon risk metric are utilised: portfolio carbon footprint, fossil fuel exposure, weight in clean technology and climate risk management (via the Transition Pathway Initiative).

8.29 As per our reporting against Principle 1, we consider this Climate Risk Monitoring project a critical stepping-stone in the Fund's ongoing management of climate risk and a direct way of translating our investment beliefs on climate change into action.

8.30 LGPSC have provided the Fund a bespoke CRRs on an annual basis for the past 2 years. Future iterations of the report will show progress against the baseline of data collected in the first 2 years. The 2021 report explored 1) how the results have changed in the past year 2) what recommendations have been achieved and 3) how our Partner Funds can continue to develop in this space. In our reporting against Principle 5 above, we detail climate reporting and metrics that are under consideration going forward and will be exploring ways in which climate risk can be analysed in alternative asset classes

9. Principle 8

Signatories monitor and hold to account managers and/or service providers.

9.1 The Fund expects its appointed investment managers to ensure that our needs have been met by taking account of financially material social, environmental, and ethical considerations in the selection, retention and realisation of investments and believes that this forms part of the manager's fiduciary duty to protect long term shareholder value.

9.2 This reflects the Fund's commitment to ensuring that companies that it invests in adopt a responsible attitude toward the environment, adopt high ethical standards and behave in a socially responsible manner by taking into account the interests of all stakeholders. The Fund seeks to achieve this objective by raising issues with companies in which it invests and to raise standards in a way that is consistent with long term shareholder value and our fiduciary duty.

9.3 The Fund understands that regardless of this delegation, we retain overall responsibility for the stewardship and responsible investment of the Fund's assets.

9.4 Specifically, managers are tasked with appropriately selecting the companies held in their portfolios, intervening where necessary and reporting back regularly on engagement activities.

9.5 The reports from our asset managers detailing engagement activities are a key monitoring tool used by our Pensions Committee on a quarterly basis.

9.6 These are reviewed by our independent investment advisor, Philip Hebson of MJ Hudson, who attends all Pension Investment Sub Committee meetings. Our advisor's objectives were reviewed at the Pension Committee December 2021 and include assisting the Fund in the monitoring of its managers and producing a quarterly performance update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisor in compliance with CMA regulations and reports this to Committee every 6 months.

9.7 Each of the managers meets with Committee once a year and also with officers of the Fund once a year. We have quarterly meetings with our active equity managers. Additional meetings with managers may also be arranged on an ad-hoc basis according to need. Manager performance is also reported annually in the Fund's annual report which is published on the Fund's website and made widely available to stakeholders.

9.8 The Fund also engages with its asset managers on a regular basis using a variety of means including phone, email, in person and formal written correspondence. The Fund uses its engagement with managers to monitor performance, evaluate risk, and to become aware of any ESG issues and opportunities.

9.9 In May 2021 as part of our quarterly performance meetings with managers we placed a specific focus on ESG and all our fund managers irrespective of the type of asset class were asked the same questions as follows:-

a) *Please explain your approach to ESG factor integration into the investment process*

b) *Please demonstrate:*
- *how your specific ESG factor integration approach informed the investments made; and*
- *how they are monitored and managed in the portfolio*

c) *Please share your current thinking (if any) on the relevance of the UN SDGs to the portfolio.*
- *Do you use an ex-ante framework for assessing whether potential and existing investments are net contributors to certain SDGs, and if any are net detractors to others?*
- *How do you establish some impartial basis for this determination?*
- *If you do not use an SDG-informed approach, what challenges and opportunities would you see in adopting an SDG approach to this fund or a future version of it?*

9.10 One of the recommendations from the ESG audit conducted by Minerva in November 2020 was to challenge our fund managers using a specific tool to assess their ESG capabilities across all asset classes: We are looking at how we use this tool to challenge our existing fund managers as part of our regular performance monitoring meetings in line with 9.9 above.

Table 2: Qualitative Assessment

Manager	Asset Class	A	B	C	D	E	F	G
LGPS Central	Equities/Corp Bonds	76	-	33	-	-	-	89
Manager A	Equities	76	37	41	-	-	-	-
Manager B	Equities	65	57	61	-	-	-	-
Manager C	Infrastructure	85	74	-	75	70	61	-
Manager D	Infrastructure	79	80	-	70	21	72	-
Manager E	Infrastructure	86	78	-	86	90	67	-
Manager F	Infrastructure	13	8	-	18	0	10	-
Manager G	Private Debt	73	58	68	56	-	-	-
Manager H	Real Estate	46	43	-	48	44	36	-
Manager I	Real Estate	61	79	-	59	62	90	-
Manager J	Real Estate	56	65	-	71	70	44	-
Manager K	Real Estate	0	15	15	0	0	-	-
Manager L	Real Estate	0	21	15	5	-	-	-

Table Key:

A: Strength of house-level ESG governance and orientation.

B: Portfolio disposition or potential for high ESG achievement.

C: Portfolio disposition or potential for contribution to the Fund's chosen SDGs.

D: Quality of ESG management using best practice in real assets (private debt for Manager G)

E: Participation in and performance in benchmarking and standards.

F: A high-level qualitative assessment on individual assets held in infrastructure funds for their potential to contribute to the Fund's chosen SDGs.

G: Assess the pool's policy on investment manager Selection, Appointment and Monitoring (SAM).

9.11 The aim will be to conduct this as an annual process and be able to map progress over time and work with our respective fund managers to improve their ESG integration where required.

9.12 The Fund receives Internal Control Reports from managers and our custodian every year and these are reviewed by officers of the Fund annually. Quarterly performance meetings are also held with our actuary.

9.13 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which has enabled us to develop our approach to shareholder engagement and responsible investment. Collective engagement through LAPFF enables us to maximise our influence.

9.14 Officers of the Fund regularly attend LAPFF business meetings, which include presentations from expert speakers and detailed updates on engagement and policy work. Furthermore, our membership of LAPFF enables us to benefit from their voting alerts service which highlights companies with material corporate governance failings. Full details of the alerts can be viewed on the LAPFF website in the members' area.

9.15 We participate in **LGPS Central Limited** for our active mandates. It is our ESG adviser and its approach is detailed in its **Responsible Investment and Engagement Framework**.

9.16 Whilst **LGPS Central Limited** does quarterly ESG update reports which can be found on its website, we monitor our engagement with companies and how the proxy voting of these investments is cast, reporting this to Pensions Committee meetings using geographical, and company name analyses.

9.17 We have appointed Legal & General Investment Management to manage our passive equity mandates. It believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces an LGIM quarterly ESG Impact Report.

9.18 From an asset allocation point of view, it appears to us preferable to think about **ESG impact strategies** within the already well-established asset classes rather than as a standalone bucket.

Further detail of LGPSC monitoring of managers' ESG integration & stewardship

9.19 External fund managers are monitored in order to ensure the ongoing application and efficacy of their approaches to RI and stewardship. Managers' report on a regular basis to LGPSC in respect of how engagement activities have been discharged during the period in review. In 2021, LGPSC's external managers conducted 203 direct engagements with companies held in the Global Equity Active Multi-Manager Fund and Emerging Equity Market Active Multi-Manager Fund.

9.20 Engagement undertaken by LGPSC's external managers in 2021 has been comprehensive and robust. These managers are all long-term investors with sizeable positions in their highest conviction portfolio holdings, giving them excellent access to company management which they used effectively to drive company change. There were a few occasions where the level of engagement disclosure was unsatisfactory, or where the link between an engagement and subsequent investment decision-making was not clear. In these instances, fund managers were marked down during our RAYG rating (red – amber – yellow – green) review and LGPSC discussed its concerns in the quarterly meetings.

9.21 An example of LGPSC changing the RAYG rating occurred in Q3 2021. Going into 2021, one of our managers achieved only a 'yellow' status due to concerns around the level of engagement being conducted. Compared to other managers, the number of engagements appeared low, and the accompanying description was poor. LGPSC initiated a dialogue with the manager around this issue and reiterated our expectations for managers' stewardship activities. Following this, the level of disclosure greatly improved. The manager now provides a full summary of their interactions with investee companies, and we are able to gain greater confidence that the manager is using their ownership position to maximum effect. We subsequently upgraded the managers engagement rating from a 'yellow' to a 'green'.

Engagement Cases below

Deere & Co, Union, LGPSC Global Equity Active Multi-Manager Fund

Objective: Disclosure improvements and implementation of a climate policy
Sector: Industrials
ESG topics addressed: Transparency & Disclosure; Management Remuneration
Issue/ Reason for Engagement: The company was a middling ESG candidate, lacking a net-zero policy and general transparency on a number of ESG measures.
Scope and Process / Action taken: Union conducted repeated engagements with the company since Biden's election (which served as an impetus to develop their sustainability competencies before regulation forced them to do so).
Outcomes and next steps: While the company does not use ESG KPIs as a criterion for manager remuneration, engagement efforts on this topic have been successful, and the company has committed to introducing these by 2023. Additionally, they are drafting a net-zero policy and have shown openness to integrating the UN SDGs into their practices. Union sees these actions as promising 'first steps' and hope to continue acting in an advisory role to help encourage Deere's continued ESG growth.

China Mengniu Dairy Company, UBS, LGPSC Emerging Market Equity Active Multi Manager Fund

Objectives: Disclosure improvements
Sector: Consumer Staples
Country: China
ESG topics addressed: Strategy and Business Model; Transparency & Disclosure; Nutrition
Issue / reason for engagement: China Mengniu scored poorly on the Access to Nutrition Index. This appeared to be due to the sole use of publicly disclosed information. In the past, other companies have had the opportunity to engage with the Access to Nutrition Foundation to share additional information and work towards enhanced practices and disclosures.
Scope and Process/ Action taken: UBS co-led a collaborative engagement as part of their membership of the Access to Nutrition Network. There were a total of 30 investors supporting the engagement and 10 participating in the engagement meeting itself.
Outcomes and next steps: The company has proved to be very receptive to the engagement and has requested a follow-up meeting with Union and the Access to Nutrition Foundation to better understand best practices as well as the methodology of the Index. They have committed to enhance disclosure on existing practices and to enhance practices.

Fixed Income

9.22 LGPSC views engagement with fixed income issuers as essential and value accretive, both via information gains and via the potential to influence company management. LGPSC observes this belief when selecting and onboarding managers. We look for evidence of robust issuer engagement and any manager unable to provide this is marked down. Once appointed, LGPSC monitors engagements undertaken by fixed income managers during quarterly meetings.

We seek to determine whether the manager is fulfilling the level of engagement that was pitched, and challenge accordingly if the response is unsatisfactory. These discussions subsequently feed into LGPSC's manager scoring system.

9.23 We consider our fixed income managers to have conducted meaningful and effective engagement in 2021. Throughout the year, LGPSC's external managers conducted 349 direct engagements with companies held in the Global Active Investment Grade Corporate Bond Multi Manager Fund, Global Active Emerging Market Bond Multi Manager Fund and Multi Asset Credit Fund. An example is as follows:-

National Grid, Neuberger Berman, LGPSC Global Active Investment Grade Corporate Bond Multi Manager Fund.

Objectives: (1) To gain a greater understanding of how the company is managing the physical climate risk facing parts of its asset base and (2) to encourage a repositioning towards electrical infrastructure assets and away from gas assets.
Sector: Utilities
ESG topics addressed: Energy transition
Issue/ Reason for Engagement: Neuberger Berman have concerns over the long-term stranded asset risk and limited growth potential exhibited in the firm's gas transportation assets.
Scope and Process/ Action Taken: Neuberger Berman have been conducting engagement with the National Grid over several years, a programme which has included regular discussions with the issuer's management team, investor relations team, segmental managers, industry competitors, and regulators.
Outcomes and Next Steps: As a result of the engagement, National Grid have agreed to an asset swap which significantly increases their exposure to fast growing infrastructure assets. The deal strengthens the company's role in building and operating the infrastructure required to meet the rising demand and changing energy mix that accompanies the low carbon transition. Neuberger Berman are encouraged by the capital allocation shift.

Future developments to the manager monitoring

9.24 LGPSC together with the partner Funds plan to undertake 12-month reviews in 2022 of our active equity and fixed income managers. Whilst we attend regular monitoring meetings, these reviews are designed to be a deep dive of the managers RI processes so LGPSC can ensure their ESG integration remains best practice.

9.25 For our primary private equity funds, LGPSC conducts a review, every two to three years of each funds' RI&E processes. As part of this, LGPSC has recently become a supporter of the ESG Data Convergence Project, an initiative which aims to standardise ESG data across the private equity industry by providing one set of metrics for companies to report against. We will work with our GPs over the next year to encourage participation.

9.26 This structure is further evidence of LCPSC's commitment to integrating RI across investment teams and our belief that RI is not just a prerogative of the RI&E team, it is something that all colleagues need to embrace if we are to realise the benefits in full.

ENGAGEMENT (Principles 9 to 11)

10. Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

10.1 Alongside LGPSC's direct engagements, we have several partners that engage with companies on our behalf: EOS at Federated Hermes (Stewardship provider to LGPSC) and LAPFF. Through these partnerships, our Fund was able to engage more than 1,000 companies on material ESG related issues in the course of 2021. Below we give further detail and examples to some of these engagements.

10.2 During 2021 LGPSC has continued engagement on four, core stewardship themes: climate risk, plastic pollution, responsible tax behaviour and tech sector risks. See Principle 5 for further detail on how these themes have been identified. **Appendix 2** provides details if the Stewardship Strategy, measures of success, engagement highlights and case study for each of the 4 Themes.

Engagement on themes and issues outside of Stewardship Themes

Engagement case: Diversity

10.3 Japanese boards have one of the lowest proportions of female representation in major markets and as a member of the 30% Investor Club we very much welcome recent developments with the 30% Investor Club opening a 30% Investor Club Chapter in Japan in May 2019. Over the last 18 months, we have together with fellow 30% Investor Club members, and led by Royal London Asset Management, engaged with a **Japanese bank** to encourage better diversity and to seek more disclosure on diversity-related policies. A general hurdle to achieving greater diversity at board level in the Japanese market is the fact that historically, Japanese women in their 40ies and 50ies gave up their careers to raise families. It is therefore particularly welcome that the company recently appointed a woman to the Board who had been on the management team since 2019, and with the company since 1987. This brings female representation at the Board to 13%. This move does not seem to have entailed broader changes to the Board's nomination policies and the low number of female executives remains an obstacle to greater diversity. An objective for this engagement was to encourage the company to join the 30% Club, and we were pleased to see the company take this step during H1 of 2021. While we would like the company to set more ambitious targets for diversity at all levels of the organisation, we note that the company aims to achieve increase in diversity by looking at recruitment and supporting women in career positions from early on. This engagement will continue alongside new engagements with a selection of other Japanese companies based on our exposure and/or their less than 10% gender diversity at board level in 2020, to be commenced in Q2 2022.

Combatting modern slavery

10.4 Over the last two years, LGPS Central has been a member of a collaborative investor-initiative convened by Rathbones Group Plc (Rathbones) that has successfully encouraged laggard **FTSE 350 companies** to meet the reporting requirements of Section 54 of the Modern Slavery Act 2015. According to the Act, companies with a turnover of more than £36 million per year must publish a modern slavery statement and ensure that the statement is approved by the board; signed by a director; reviewed annually and published on the company's UK website. During 2021, we engaged with 62 FTSE350 companies asking for Modern Slavery Act compliance. As per end 2021, all companies are now compliant [check with Archie at Rathbones and update].

Initial positive responses have given an opening for meetings to discuss companies' approaches to modern slavery. This is an important step beyond the initial ask of compliance with the Modern Slavery Act, to focus on the content of the statement and to enable investors an understanding of the key risks facing individual companies. In June 2021, we joined Rathbones in engagement with a **UK retailer** who has chosen to broaden its net zero climate strategy to include social risks, aiming to capture the interlinkages that exist between environmental and social factors. Human rights as a theme gets specific attention through a working group with a direct line to the company Board. In 2017, the company established a Modern Slavery Risk tool which has since been extended to include all human rights risks.

The tool is both product and region specific and it is possible to select specific risks (for instance gender, forced labour, child labour) but also assess the broader risk picture. The company strives to continue embedding the tool further in its business functions. Areas of increasing concern in relation to modern slavery are transport and haulage, as well as sea freight. We commended the company for its detailed modern slavery statement and for the high level of transparency around high-risk areas.

Example of a recent engagement through LGIM

10.5 An example of a recent engagement through LGIM relating to social factors re Ethnicity is cited below which is part of their Q4 ESG Impact Report 2021.

10.6 *Ethnicity campaign In September 2020, we launched our ethnicity engagement campaign and voting strategy, where we committed to engaging with the largest US and UK companies with no ethnic diversity on the board, with a commitment to taking action on a lack of improvement by placing a negative vote at their 2022 AGM.*

10.7 *We wrote to 79 companies across the S&P500 and FTSE 100 indices to alert them of our expectations, and to the potential voting action we would take.*

10.8 *In October 2021, we re-visited the board's ethnic representation of the companies in these indices, with the intention of writing to those who were still in breach of our expectations of one person of diverse ethnicity on the board. This review resulted in us writing to 37 companies in total, meaning that our target list has almost halved compared to the previous year, demonstrating decent progress. On initial study of the data, we discovered that in 2021, we wrote to 10 US and 12 UK companies which have been persistent laggards – falling short of our expectations in both 2020 and 2021 – which means that they have not improved the ethnic diversity of their boards over the last 18 months.*

10.9 *In Q1 2022 we will be taking a more granular look at the data to understand in more detail any trends and improvements. Our voting commitment is steadfast, and from January 2022 we shall be voting against the board chair of UK companies and the Chair of the Nomination Committee of US companies with no ethnic diversity on the board*.

11. Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers

11.1 We have worked with organisation detailed in Appendix 1 in collaborative engagement to influence issuers in order to maximise the influence that the Fund can have on individual companies:

11.2 LGPSC has continued active involvement in several strong investor collaborations that pursue better corporate standards across ESG issues, including for several Stewardship Themes[2], during 2021. The pool has also supported theme-relevant industry standards and benchmarks, which clarify investor expectations of companies and provide a mechanism for measurement of progress. For a list of initiatives that LGPSC actively supports and engages with, please refer to Appendix 1.

11.3 Examples of collaborative initiatives of particular importance to LGPSC's stewardship effort in 2021 are as follows:

Audit of climate risk

11.4 LGPSC has over the last two years been a member of an investor coalition, led by Sarasin and Partners LLP, engaging both auditors and companies asking for the provision of Paris-aligned accounting. Investors expect that directors of companies that face material climate risk consider these risks in their financial statements and make disclosures accordingly. If climate risk is not considered, the longevity and value of assets held by the company may be over-estimated, which could lead to capital being misdirected. The IIGCC's Investor expectations for Paris-aligned Accounts that were communicated to 36 European energy, material and transportation companies end of 2020, were again reiterated in letters to 17 of the same companies in November 2021 as we have not seen sufficient progress. An increasing number of investors are setting a net-zero by 2050 ambition at portfolio level, including LGPSC. It is critical that we have the component building blocks including full clarity on climate risk held at individual company level, how this risk is being managed and companies' transition trajectories. Companies themselves are also setting net-zero by 2050 targets and we expect them to make net zero accounting adjustments in line with such an ambition. Should a company not use a 2050 net-zero pathway as their base case for their financial statements – for instance, because they do not believe this is the most likely outcome – we are still asking them to disclose how the entity's financial position would likely be impacted by such a pathway in the notes to the accounts. Our strategy is to maximise engagement leverage with investee companies to ensure a transition that can achieve net-zero. In the letters sent out most recently, companies are made aware that an increasing number of investors may be voting against Audit Committee directors' reappointment, where high-risk companies fail to meet the expectations for Paris-aligned accounting.

Plastic pellet industry standard and UN treaty on plastic pollution

11.5 Billions of plastic pellets or "nurdles" make their way into the natural environment each year, which poses a serious threat to the ecosystem and potentially also a health threat to people. LGPSC has collaborated with the Investor Forum, peer investors and other stakeholders including Marine Scotland, the British Plastics Federation and the British Standards Institute to sponsor and create the first **industry specification to prevent plastic pellet pollution**. The new specification, a so-called Publicly Available Specification (PAS), was formally launched in July 2021 after nine months of preparation by an expert group. We consider the publication of this standard as positive progress which will start to direct corporate behaviour.

[2] Confer with response to Principle 4 above for further detail on LPGS Central Stewardship Themes

We intend to use the plastic pellet PAS as a direct reference in engagement with relevant industries, for example in ongoing engagements with packaging companies and plastics manufacturers.

Another interesting industry development is businesses and investors, including LGPS Central, calling for **UN treaty on plastic pollution** (www.plasticpollutiontreaty.org – a Treaty has since become a reality[3]). The aim of a treaty would be to establish a coordinated international response that aligns businesses and governments behind a shared understanding of the causes of plastic pollution, and a clear approach to addressing them.

Tax transparency

11.6 We have co-signed a letter to the European Parliament supporting **public country-by-country reporting (CBCR) in the EU** coordinated by the PRI[4]. We view it as vital that multinational companies provide disaggregated information on taxes paid in all countries and across operations. The EU legislation was adopted in November 2021 and will require public reporting of certain information such as revenues, number of employees, profit or loss before tax, tax accrued and paid, accumulated earnings, stated capital and tangible assets. Many multinationals already report revenue, profit and tax paid by territory to tax authorities as part of a requirement under the OECD Base Erosion and Profit Shifting guidelines. These large multinationals therefore already collect CBCR data and could readily report it to stakeholders more broadly. CBCR is crystallising as best practice in tax transparency. The most widely used sustainability reporting framework, the Global Reporting Initiative, has launched a Tax Standard which includes CBCR. This provides companies with a ready-made and consistent format. While only a minority of multinationals currently provide shareholders and other stakeholders with CBCR, those that do view it as an opportunity to “demystify” tax and have expressed to us that it has largely been well received by stakeholders.

Deforestation given heightened attention during COP26

11.7 During COP26 negotiations in Glasgow in November last year, LGPSC alongside 30 financial institutions, made a commitment to tackle agricultural commodity-driven deforestation and help drive the shift towards sustainable production and nature-based climate solutions. This commitment encourages a focus on active ownership and ongoing stewardship as the principle means to work towards portfolios that are free from forest-risk agricultural commodity-driven deforestation activities, as part of a global transition towards sustainable production, supply chains and associated investment and financing opportunities. The aim is to achieve “real world” impact in halting some of the most common causes of deforestation and, and will focus on high-risk sectors beef, soy, palm oil, pulp and paper.

[3] On 2 March 2022, Heads of State, Ministers of environment and other representatives from 175 nations endorsed a historic resolution at the UN Environment Assembly (UNEA-5) today in Nairobi to End Plastic Pollution and forge an international legally binding agreement by 2024. The resolution addresses the full lifecycle of plastic, including its production, design and disposal.

[4] 35 investors representing US$5.6trn in AUM signed the PRI letter on public CBPCR in the EU

We are cognisant that the timeframe is tight and will require joint effort among investors to strive for elimination of deforestation caused by sourcing for those agricultural commodities from investment and lending portfolios by 2025. We continue our policy engagement with the Brazilian government, and along with lead engagers of the Investor Policy Dialogue on Deforestation (IPDD), have met with federal representatives, state representatives, congress members, and civil society in Brazil. IPDD has also held educational and knowledge sharing sessions, both in and outside of Brazil, and conducted outreach with investor coalitions, foreign representatives, and other relevant stakeholders

Other Fund collaboration

11.8 The Fund also works closely with its asset managers, engaging with them on a regular basis and with other organisations, such as the Pensions & Lifetime Savings Association (PLSA). All our managers work closely with other organisations as part of their collaborative engagements, advocacy and research activities, details of which are given in their quarterly and annual reports which are reported to Committee.

11.9 Each year, various officers and members of the Pension Committee attend LAPFF business meetings which include presentations from expert speakers and detailed updates on engagement and policy work.

11.10 Representatives from the Fund regularly attend various other pension forums and conferences in order to stay abreast with the latest developments affecting LGPS pensions and investment markets and to use opportunities to network and collaborate with other.

LAPFF collaborative engagement example

11.11 In addition to the support provided directly via LGPSC there are examples provided through LAPFF of the supported engagement activities undertaken. A few recent examples are detailed below with extracts from LAPFF 2021 fourth quarterly report.

National Grid

11.12 ***Objective:*** *Correspondence was sent on behalf of the CA100+ initiative with an updated assessment of progress against the second CA100+ benchmark. The letter identified short-term priority actions to improve the benchmark score and a commitment for fully aligned disclosure with the benchmark by the end of 2023.*

Achieved: *The company gave further detail of net zero alignment with International Energy Agency's (IEA) 2035 date for all relevant electricity emissions, noting the assumption of a zero-carbon power grid by 2035.* ***In Progress:*** *A meeting in December covered disclosure on lobbying activities and further discussion on Paris Aligned accounting and audit disclosure.*

The Asia Collaborative Engagement Platform for Energy Transition

11.13 *Collaborative engagement, working with Asia Research and Engagement (ARE) and the Asia Transition Platform, has continued with some of Asia's largest listed financial institutions and buyers and producers of fossil fuels. During the quarter, LAPFF executive members Cllr Caron and Sian Kunert engaged with Sumitomo Mitsui Financial Group (SMFG) and Mizuho respectively. At Mizuho, bank representatives were asked for more details on sustainability experience and expertise of board members, as well as an insight into a time-line for the phase out of coal power financing. At SMFG, discussions also covered mechanisms to ensure sustainability experience on the Board as well as target setting and referencing the International Energy Agency Net Zero scenario.*

12. Principle 11

Signatories, where necessary, escalate stewardship activities to influence Issuers.

12.1 The responsibility for day-to-day interaction with companies is delegated to fund managers and LGPSC, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statement of adherence to the Stewardship Code and may include the following activities:

- Additional meetings with management
- Intervening jointly with other institutions – e.g., fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGMs
- LGPSC escalation
- Writing a letter to the board or meeting the board
- Submitting resolutions at general meetings and actively attending to vote
- Divestment of shares

12.2 Occasionally, the Fund may choose to escalate activity directly, principally through engagement activity by the LAPFF (see escalation example above in Principle 10) or via LGPSC. When this happens the Chairman of the Pensions Committee, in communication with the Vice Chairman and Chief Financial Officer to the Fund will decide whether to participate in the proposed activity.

12.3 Any concerns with the managers are added for discussion in the Pension Investment Sub Committee agenda and where there are specific concerns, the relevant managers will be invited to discuss concerns.

12.4 The Fund employs the services of an independent investment advisor, who, along with officers of the Fund, closely monitors the performance of the Fund's managers. The Investment advisor will attend Committee meetings and assist the Committee in the questioning of the managers and in the discussions that follow, helping the Committee by providing any guidance they need to help them to make the right decisions for the Funds interests. Further details are contained within the ISS which is available on the Fund's website.

12.5 Our advisor's objectives were reviewed at the Pensions Committee in December 2021 and include assisting the Fund in the monitoring of its managers and producing a Quarterly Performance Update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisor in compliance of CMA regulations and reports this to Committee every 6 months.

12.6 The Fund has only divested from shares in the past on the grounds of investment performance and has principally used engagement to influence companies through fund managers to escalate activity. However, as part of the ESG audit, the Fund included the potential to disinvest where appropriate within its agreed ISS. It highlighted that, whilst this was 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.

12.7 A large proportion of the Fund's assets are invested in passive pooled products managed by Legal & General Investment Management (LGIM) and are voted according to the voting policies of LGIM. An escalation example is detailed below:

LGIM escalation example

12.8 *LGIM's longstanding climate engagement programme, the Climate Impact Pledge, is linked to tangible voting and engagement sanctions which we introduced in 2016. We launched our revised Climate Impact Pledge 2.0 in October 2020, where we made our targeted engagement programme even more ambitious. Details of LGIM's Climate Impact Pledge score can be accessed here. Please also refer to the LGIM's Climate Impact Pledge: the 2021 results (pages 12-16) which outlines key areas of focus and a sanction list of companies that have persistently fallen short of our minimum standards or have been included due to a lack of response to our engagement requests.*

12.9 *We have strengthened our approach by expanding the coverage of our pledge from 80 to 1000 companies in climate critical sectors, which now accounts for circa 60% of all GHG emissions from listed companies. Furthermore, climate ratings for c.1000 companies are publicly available under a 'traffic light' system to allow companies to address gaps in strategy and disclosures. Our approach also includes a new engagement model – focused on large companies with poor scores relative to their scale – to help raise standards across the market*

LGPSC escalation example

12.10 The stewardship themes that we have identified as priority areas for engagement are all long-term and systemic in nature. Against that backdrop, we will often use escalation tactics to enhance the chances of achieving long-term engagement outcomes. However, a decision to escalate, and the form or sequence of subsequent escalation will be particular to the engagement in question. Examples of how we might escalate include, but are not limited to:

- Additional meetings with the management or the directors of an investee company
- Escalating the dialogue from the executive to the board of directors or from one board member to the Chair and/or a more amenable board member
- Collaboration with fellow investors and/or with partnership organisations
- Public statement
- Voting against management, e.g., against the annual report, the appointment of directors or the auditors
- Co-filing shareholder resolutions
- Attendance and raising questions at the company AGM

12.11 Through our involvement in collaborative engagement projects, like Climate Action 100+ (CA100+), we are continuously assessing the need for escalation depending on individual companies' response to expectations from investors. Due to the nature and complexity of the transition challenge, there is also an element of "moving target" which means that both investors and companies need to be ready to step up ambition. Going into 2021, CA100+ had established a Benchmark Framework which allows evaluation of company progress against Paris alignment on key parameters (short/medium/long-term targets, decarbonisation strategy, capex plans, remuneration, disclosures).

12.12 **Through our role of co-lead in CA100+ engagement with Glencore**, we held constructive discussions ahead of their 2021 AGM and encouraged the company to put forward a Climate Transition Plan to shareholders for an advisory vote. While the company still has some gaps relative to the CA100+ Benchmark Framework, we consider that they have taken some strong steps toward Paris alignment. This includes setting a net-zero by 2050 ambition across all scopes and a medium-term target of 50% absolute GHG emissions reduction by 2035, which will largely come from decline in coal exposure. LGPS Central would like Glencore to set more ambitious short-term targets, including a specific 2030 target, that marries up with the long-term ambition and ensures a steady decline in emissions in line with Paris over this next, critical decade. Furthermore, we will continue to push Glencore to pro-actively and transparently lobby for Paris-aligned climate policies in key markets, including Australia, both directly and through industry associations they are a member of. Their policy dialogue should align with the company's own net-zero target.

Engagement with banks

12.13 Together with more than 100 investors and coordinated by ShareAction, LGPSC co-signed letters to 68 banks setting out expectations for Paris-alignment and protection and restoration of biodiversity. Banks play a critical role in provision of finance to support transition to a low-carbon economy. While we have previously asked banks to set targets in line with Paris, this letter specifically addresses biodiversity, alongside climate, as an area that banks are expected to assess in their risk management and in their dialogue with clients. The inclusion of biodiversity as an ask from investors of banks in the broader climate mitigation effort, is in and of itself a form of escalation. Encouragingly, 50 banks have responded to the letter and dialogue is ongoing with a selection of these banks. Our first ask is for banks to publish climate targets covering all relevant financial services that are aligned with global efforts to hold temperature rise below 1.5 degrees Celsius. 19 confirmed they will publish new climate targets ahead of COP26, the end of the year, and/or their 2022 AGM. This includes BBVA, BNP Paribas, Citigroup, and Standard Chartered. A critical next step for the investor group is to assess whether these targets put banks on a clear path to net zero.

Escalation of engagement with Motorola

12.14 We expect businesses that operate in areas of war and conflict to take particular care to respect human rights. The Israeli-Palestinian conflict poses clear human rights risks for companies, but the sensitive political situation makes engagement challenging. During 2020 we initiated engagement with Motorola Solutions Inc. on human rights risks in operations through the wholly owned subsidiary Motorola Solutions Israel Ltd. We sought this engagement to bolster ongoing engagement that the Local Authority Pension Fund Forum (LAPFF) is undertaking with a selection of companies on human rights risks that stem from operating in Occupied Palestinian Territories (OPT). In our initial letter, we asked that the company carry out human rights impact assessments in line with the UN Guiding Principles on Business and Human Rights. We also stated that we would take the company's response into account as we formulate voting decisions at the next AGM.

The initial response from Motorola did not provide us with enough detail to understand how the company manages and mitigates human rights risks that are specific to operations in the OPT. Hence, we voted against the Chair at the 2021 AGM to send a clear message that the initial response had been unsatisfactory. We also followed up with further letters, the latest signed by our CIO, to explain why this remains a concern and emphasising our willingness to engage. We were pleased when the company agreed to meet and discuss these issues, a meeting that took place in January 2022, and will continue this engagement with the company.

Expectations on external managers to escalate on our behalf

12.15 We expect managers to be ready to escalate any engagement where there is lack of progress relative to engagement objectives, on any material ESG topic. During 2021, we have asked managers to give particular attention to companies' climate transition, or lack thereof, in line with the Paris Accord. This is part of a broader discussion with external managers around the implementation of our Net Zero targets. An example is

US Utility Company, Schroders, LGPSC Global Equity Active Multi Manager Fund
Objectives: For Company to set a clear decarbonisation strategy
ESG topics addressed: Climate change
Issue/ Reason for Engagement: The company does not have an overarching net zero commitment or quantitative targets to reduce emissions
Scope and Process/ Action Taken: Schroders engaged with the Company in September 2021, with an expectations letter to the company's chair requesting a commitment to achieve net zero emissions by 2050 or sooner, alongside short-, medium-, and long-term targets aligned to a 1.5°C scenario.
Escalation: Following the initial letter, Schroders sent a tailored letter to the CEO of the Company and followed this up with a one-to-one call with Investor Relations.
Outcomes and Next Steps: The company has been receptive to Schroder's requests, making valid points about the importance of having shorter term targets that the current management team can be held to, rather than long-term targets which have to be achieved by future teams. Schroders agree with this, but don't believe this prevents the Company having a long-term target. In 2022 if the Company fails to announce 2030 and/or 2050 targets, Schroders will re-engage.

13. Principle 12

Signatories actively exercise their rights and responsibilities

13.1 The Pensions Committee has agreed that LGPSC will, via Hermes EOS, vote shares in certain discretionary and all pooled funds on the Fund's behalf. These votes are 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. LGPSC also provides regular updates on our targeted stewardship themes: climate change, single-use plastic, technology & disruptive industries, and tax transparency.

13.2 As described in Principle 10 we monitor our engagement with companies and how the proxy voting of these investments is cast, reporting this to Pensions Committee meetings using geographical, and company name analyses. Over the year EOS recommended voting against 2,965 resolutions against management or abstaining on resolutions at 323 meetings and engaged with 259 companies on environmental, social and governance issues and objectives. An example of the voting and engagement statistics provided is detailed below for quarter 4 of 2021.

Engagement by theme

Over the last quarter we engaged with 52 companies held in the Worcestershire Pension Fund portfolios on a range of 168 environmental, social and governance issues and objectives.

Environmental

Environmental topics featured in 44.6% of our engagements over the last quarter.

- Climate Change 88.0%
- Forestry and Land Use 4.0%
- Pollution and Waste Management 5.3%
- Water 2.7%

Social and Ethical

Social and Ethical topics featured in 20.2% of our engagements over the last quarter.

- Conduct and Culture 20.6%
- Diversity 26.5%
- Human Capital Management 8.8%
- Human Rights 41.2%
- Labour Rights 2.9%

Governance

Governance topics featured in 21.4% of our engagements over the last quarter.

- Board Diversity, Skills and Experience 38.9%
- Board Independence 22.2%
- Executive Remuneration 25.0%
- Shareholder Protection and Rights 8.3%
- Succession Planning 5.6%

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

Global

We recommended voting against or abstaining on 56 resolutions over the last quarter.

- Board structure 21.4%
- Remuneration 35.7%
- Shareholder resolution 3.6%
- Capital structure and dividends 3.6%
- Amend articles 21.4%
- Audit and accounts 8.9%
- Other 5.4%

13.3 We ask LGPSC to utilise all levers to influence corporate behaviour across our equity and fixed income investments. Voting is a core part of our overall stewardship effort as a shareholder in investee. Equally, exercising rights and responsibilities as fixed income holders is of key importance. During 2021, we have increased our exposure to private markets. LGPSC in liaison with partner funds have worked with private market partners to identify key performance indicators that are relevant for the underlying asset, and which we would request reporting against.).

Voting approach and objectives

13.4 **High-level objectives**: LGPSC and ourselves view voting as a core component of stewardship and all voting activities we undertake aim to:

1) support the long-term economic interests of our stakeholders

2) ensure boards of directors are accountable to shareholders

3) encourage sustainable market behaviour across companies and sectors

13.5 **Principles-based approach**: We take a principles-based approach to voting and are guided by LGPSC's established Voting Principles. At high level, we expect companies to:

- Adhere to essential standards of good governance for board composition and oversight
- Be transparent in their communication with shareholders
- Remunerate executives fairly
- Protect shareholder rights and align interests with shareholders
- Promote sustainable business practices and consider the interests of other stakeholders

13.6 In situations where companies are faced with a market-wide crisis that cause unprecedented disruption, uncertainty and challenges to their business models, operations, workforce and finances – such as the Coronavirus pandemic – we will consider applying a more flexible voting approach. We would in these situations explain to our Partner Funds and other stakeholders, including external managers, how we may deviate from our voting principles, on what issues and relative to which sectors (if different sectors are affected differently).

13.7 **Scope of voting**: To send a unique voting signal to investee companies LGPSC votes all its shares - whether externally or internally managed - according to one set of voting principles. While the ultimate voting decision rests with LGPSC, we have a procedure through which we capture intelligence and recommendations from external fund managers.

13.8 **Stock-lending**: LGPSC has an active securities lending programme. During 2021, we considered options for restriction on securities lending to bolster our overall stewardship and voting impact. The securities lending policy that has been in place since the inception of LGPSC ensures that we hold some securities back, a portion not on loan, to ensure that we can vote at all AGMs of investee companies. We also have the option of recalling securities out on loan e.g., in the case of filing a shareholder proposal. Based on dialogue with our Partner Funds, alongside discussions in-house at Investment Committee and Operations, Risk, Compliance and Administration, we have now revised the securities lending policy with effect from 2022.

13.9 The revision means that we fully restrict certain securities from lending at the start of voting season. This is to ensure that we maximise our voting impact, e.g., in relation to critical, ongoing engagements that we expect to escalate through shareholder resolutions or other forms of voting (e.g., votes against Board members). Among critical engagements are companies identified as high risk relative to climate change through Partner Fund Climate Risk Reports and that sit within the scope of Climate Action 100+. We considered the cost implications of excluding all companies in our Voting Watch List from lending and concluded that a more targeted approach would be the most proportionate and efficient response. This targeted approach entails a restriction of lending on a sub-set of companies that we view as critical engagements ahead of each voting season. Ahead of voting season 2022, 12 companies on our Voting Watch List (of 50 companies) are restricted from lending. The restriction will be lifted once relevant AGMs are held.

13.10 **Voting reinforcing engagement**: As far as possible, we aim to use voting to reinforce and promote ongoing engagements, whether carried out directly through LGPSC, through collaborative initiatives or through our external stewardship provider EOS at Federated Hermes. This means that we regularly raise issues concerning environmental sustainability, including climate change, and broader social issue like human rights risk oversight and management through our voting. Many votes against management concern good governance (board composition, board oversight and skill sets, remuneration etc.) – these votes are often an expression of underlying concerns with lack of expertise and or/oversight at board level on issues like climate change or human rights. We also know that strong governance increases the likelihood of companies dealing well with environmental and social risks. During April – June 2020 (high voting season) many ESG-related shareholder proposals got very strong or even majority support.

13.11 **Transparency**: LGPSC's disclosure of its Voting Principles, and its voting outcomes, supports our ambition of full transparency. With regards to voting outcomes, disclosures are made in three formats. Firstly, a report summarising voting activities is provided in Stewardship Updates three times a year (covering the first three quarters of the calendar year). Secondly, LGPSC provides an annual summary of voting activities, as part of the Annual Stewardship Report, and thirdly, discloses voting decisions for every resolution at every eligible company meeting via an online portal. Each of these disclosures is available to the public.

Voting strategy

13.12 **Ensuring that Voting Principles are applied**: We have set up a structure whereby EOS at Federated Hermes provides us with voting recommendations based on our voting principles which are input on the ISS voting platform prior to the vote deadline. The voting recommendations are then cast as voting instructions if there is no further intervention, except in the case of share-blocking votes. We currently hold approximately 2,900 companies through our ACS equities funds. With this voting structure, we have confidence that votes are cast according to our voting principles across a voting universe that under no circumstance could be checked manually at each individual company level. In minority cases where a company we are engaging and/or that the Local Authority Pension Fund Forum has issued a voting alert for falls outside EOS' main engagement, we often consult ISS research directly.

13.13 **Voting Watch List**: It is not feasible to do in-depth research into all proxies that will be voted at each of the companies we hold through our ACS equity funds. To prioritise, we establish a "Voting Watch List" annually that consists of approximately 50 companies which cover larger holdings and/or core engagements in and outside of our stewardship themes. Votes at these companies will be given particular scrutiny ahead of the AGM. While it is not feasible to attend all these companies' AGMs, we would aim to attend AGMs virtually (if permissible) for core Climate Action 100+ engagements and for any company with which we have filed a shareholder resolution. Watch List companies are a combination of larger holdings across our equity universe and/or core engagement companies and/or ongoing controversies. The Voting Watch List serves a further purpose, in allowing us to test whether our votes are generally cast in alignment with our voting principles.

Interaction with EOS at Federated Hermes:

13.14 Ahead of each voting season, we share our Voting Watch List with EOS to ensure that we receive a more detailed analysis to substantiate their voting recommendations for companies on this list ahead of relevant AGMs. We will seek ad-hoc interactions/meetings with EOS regarding core engagements, where either they or we would like further input from the other ahead of a vote.

13.15 As an example, we had in-depth discussions with EOS ahead of the vote at **Barclays AGM** 2021 on a climate-related shareholder proposal. The resolution requested the company to set short-, medium and long-term emissions reduction targets and to phase out the provision of financial services to fossil fuel projects and companies, in timeframes consistent with the Paris Agreement. LGPSC has engaged Barclays actively through a ShareAction-led collaboration during 2020 centred around the asks in a shareholder proposal which we co-filed in January 2020. The January 2020 shareholder proposal makes explicit reference to phasing out of finance to *non-Paris aligned* energy and utility companies. Dialogue has been constructive, and the company seems receptive to and appreciative of investor input and dialogue. The company has made progress in developing its climate strategy, putting forward a new methodology for determining alignment with the goals of the Paris Agreement for the energy and power sectors, including relevant 2025 targets. It has also accepted the principle of the need to withdraw finance from misaligned activities over time (for example in its current coal policy). While we fully support the underlying sentiment of the 2021 shareholder proposal in terms of Paris alignment, we asked ourselves what would at this point be more conducive to engagement and to further progress? After careful consideration we found that the 2021 resolution was premature in light of very recent progress made by the company and the prospect of ongoing engagement. We were also concerned about the wording of the resolution which could be interpreted to mean that certain projects and companies from the outset are not considered to be in line with Paris. As such, it appeared to be missing nuance around the potential and ability for transition also within the fossil fuel sector, which is both complex and dynamic.

13.16 **Interaction with external managers**: It is our intention to capture intelligence and recommendations from active equity fund managers relative to key holdings and/or contentious voting issues. To achieve this:

- LGPSC meets with each external manager annually ahead of the voting season for a dedicated voting-related discussion
- External Managers will be kept up to date on any changes to LGPSC Voting Principles, and vice-versa.
- We will share with each external manager our Voting Watch List with an explicit incentive to communicate their views on companies on this list that are held in their portfolio.
- We may reach out on an ad-hoc basis in cases where we would like to elicit views on contentious issues in core holdings or key engagements that can supplement views from EOS.

13.17 As an example, we had detailed discussions with one of our external managers ahead of the vote at **Berkshire Hathaway** on a shareholder proposal requesting that the company report on its management of physical and transitional climate-related risks and opportunities. We consider that reporting on climate related risks and opportunities is a critical first step for the company to manage these risks and allowing shareholders the ability to assess whether it does so effectively.

60% voted in favour of the proposal, adjusted for non-insiders. Berkshire Hathaway is the second largest power company in the US without a net-zero goal and we note that the company achieves the lowest score on TPI's climate risk management ladder. We considered arguments made by our external manager to vote against the resolution, although ultimately the decision rests with us. These included the fact that Berkshire's autonomous subsidiaries already report on operational risk, including climate risk, which makes a centralised report less appropriate. Furthermore, that the reporting from subsidiaries make it possible to assess climate risk exposure for Berkshire Hathaway. In our view, the current reporting at subsidiary level is not decision useful nor sufficiently complete for investors to fully appraise material climate-related risks. It is concerning that the company's board believe such disclosure to be unnecessary for investor interest. Shareholder interest lies with the parent company, not individual subsidiaries. We think it appropriate to ask this of a holding company like Berkshire Hathaway, which is a situation akin to asset owners and asset managers reporting on climate risks throughout their portfolios. While in this case, we did not see eye-to-eye with the manager in question, we will continue dialogue on amongst others climate-related votes which are only increasing in importance against LGPSC's newly announced net-zero ambition.

Voting highlights and outcomes 2021

Proportion of shares voted during 2021

13.18 Based on our voting set-up with EOS at Federated Hermes – whereby EOS' voting recommendations (aligned with LGPSC Voting Principles) are cast as voting instructions for all shares – we can ensure that all shares are indeed voted. There are occasions where a vote is not cast due to for instance share blocking or a non-standard voting procedure. However, these are very limited instances. Based on checks done by EOS on unvoted ballots due to an error (e.g., a missed deadline in an instance of share blocking) during voting seasons 2013 – 2021, the % of errors lie between 0.591% and 0.04% of votes not being cast. We consider this an acceptable level of error, and we also note the downward trend in terms of errors.

13.19 While the health pandemic understandably took centre stage in 2020 and to a degree overshadowed the climate crisis, the latter clearly came to the fore in 2021. The 2021 voting season saw a new development in climate transparency and dialogue with shareholders through 18 votes on climate transition across oil and gas, construction, aviation and consumer goods. Some plans met notable opposition, including Shell and BHP, and we expect investors to scrutinise these plans at a more detailed level against evolving climate risk management standards such as the Climate Action 100+ Benchmark assessment.

2021 Voting Statistics

- Voted at 3,344 meetings
- 40,288 resolutions
- LGPSC attended virtual AGM of Glencore
- EOS attended 66 AGMs on our behalf, including Deutsche Bank, BP, Google owner Alphabet, Novartis, Amazon and Facebook
- Voted against management for one or more resolutions at 58.6% of meetings

13.20 **Tipping point for investor engagement and voting on climate change**
18 votes on climate transition across oil and gas, construction, aviation and consumer goods – all passed with support ranging from 88% to 99%

- Shell's transition plan was opposed by a notable number of shareholders (ca. 12%), while a shareholder proposal asking the company to set and publish targets for GHG emissions reduction in line with Paris received a healthy 30% support
- Shareholder resolution at Chevron requiring Scope 3 targets gained 61% support
- Proxy battle at Exxon resulting in three climate-savvy directors appointed to Exxon's board against management advice

Shareholder proposal at Berkshire Hathaway on management of physical and transitional climate-related risks and opportunities. Company is the largest power company without a net-zero goal. 60% voted in favour of proposal (adjusted for non-insiders).

13.21 **Diversity and inclusion higher up the agenda**

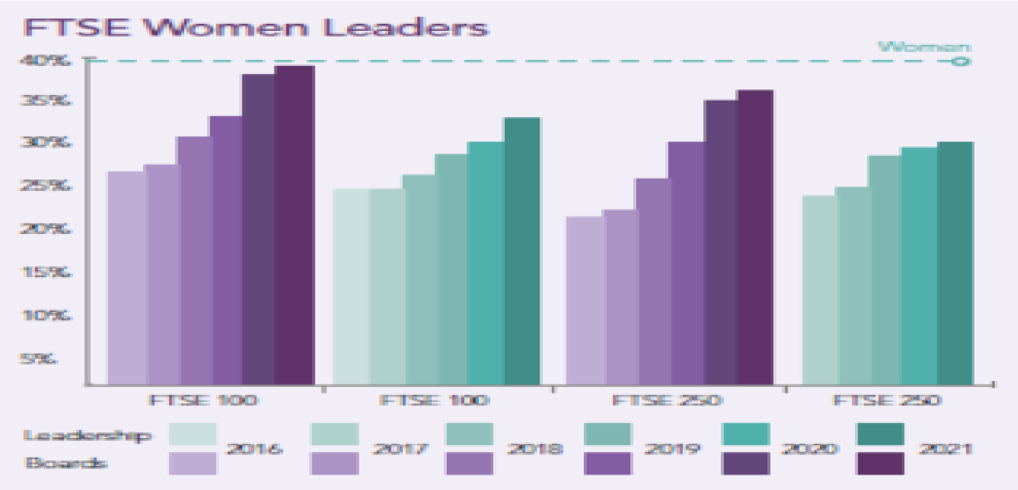
- We opposed FTSE 100 chairs in the UK at five meetings for failing to meet minimum expectations for racial diversity on boards
- We opposed the directors responsible (typically the board chair) at companies that fell below our expectation on UK FTSE 100 companies to have at least one woman on the executive committee. Examples include Ocado, Imperial Brands and Glencore
- In the US, we opposed 39% of nominating committee chairs, including at Kinder Morgan, Thermo Fisher Scientific and Discovery against an expectation that women and ethnic minorities make up at least 405 of the board at large companies
- Lack of progress on gender diversity in China, Hong Kong and Taiwan
- Japanese companies express support for the concept of board gender diversity, but this has not translated to more women on boards

13.22 **Remuneration during the pandemic**

- Executive pay should be justified in the context of the experience of other stakeholders, particularly companies that had made redundancies, benefited from government support, or otherwise in distress
- Some good practices among UK companies repaying money received from the government to furlough employees and/or business rates relief. Generally accepted that companies not able to do so would not pay bonuses to executives
- At publisher Informa, we opposed the rem report (alongside 62% of investors), considering pay-outs to executives from a long-term incentive scheme that would have lapsed, in the face of significant negative impact from Covid-19
- We opposed 80% of "say-on-pay" proposals in the US. Our concerns were exacerbated by decisions to insulate executives from the impacts of Covid-19, relative to other stakeholders
- Rio Tinto suffered 60% opposition to the rem report due to heavy focus on shareholder returns, with limited consideration of other strategic stakeholders, and pay-outs to departing executives, which did not reflect Juukan Gorge failures

Voting outcomes

13.23 In the UK, where the Hampton-Alexander Review established 2020 targets for 33% female representation on boards and in leadership roles, we have consistently opposed director proposals over concerns about insufficient diversity, including gender diversity, at board level and below. In 2021, we opposed 37 proposals due to lack of diversity, versus 35 and 45 proposals in 2020 and 2019, respectively. While the progress detailed in the latest FTSE Women Leaders Review released in February 2022 is encouraging, we agree with the report's notion that more work still needs to be done to achieve gender balance in leadership teams. As such we will monitor companies with a view to opposing director proposals at offending companies.



Source: FTSE Women Leaders Review, February 2022 ([FTSE Women Leaders - February 2022]())

Case Study: AVEVA Group Plc

Theme: Board gender diversity

13.24 **Objective:** We believe the most effective boards include a diversity of skills, experiences and perspectives. Through our voting decisions (and otherwise) we support the Davies Review, the Hampton-Alexander Review and the Parker Review.

13.25 **Process:** EOS at Federated Hermes, on our behalf informed the company of our intention to vote against the re-election of the chair of the board who is also the nominations committee chair due to insufficient gender diversity on the board. As per our voting principles, we expect FTSE 100 and 250 companies to have at least 33% women on their Boards and will consider voting against the Chair of companies with materially less female representation unless there are clear and justifiable reasons why 33% is not achievable in an interim period.

13.26 **Escalation through voting**: During the 2021 annual general meeting, LGPSC voted against Chair Philip Aiken when the company failed to respond to our concerns.

13.27 **Outcome**: The company has since appointed two female directors to its board in 2021. The two appointments lift the company above the gender diversity guideline threshold.

Case Study: TotalEnergies SE

Theme: Climate change

13.28 **Objective:** We expect companies to consider relevant, material social and environmental risk factors in their long-term strategic business planning. We will consider voting against the Chair, and other relevant directors or resolutions, at companies where we consider a company's response to the risks and opportunities presented by climate change to be materially misaligned with the goals of the Paris Accord.

13.29 **Process:** EOS at Federated Hermes, on our behalf, has co-led engagement efforts with TotalEnergies SE as part of the Climate Action 100+ initiative since 2017. Throughout its tenure as co-lead, EOS has corresponded with TotalEnergies on issues including investor expectations on scope 1, 2 and 3 greenhouse gas emissions reduction, Paris-aligned accounting, and TotalEnergies's energy transition plan.

13.30 **Escalation through voting:** During the 2021 annual general meeting, LGPSC voted against TotalEnergies energy transition plan due to the lack of alignment with Paris Agreement goals, whilst being clear in a letter to the company that engagements should continue.

13.31 **Outcome:** In December 2021 TotalEnergies indicated that the company would enhance its disclosure in its next sustainability and climate report including publishing a short-term target for Scope 3 emissions which will entail a 10% reduction of the average carbon intensity of its energy products.

13.32 **Next steps:** Monitor implementation of energy transition plan and sustainability disclosures. Engage with Company to get commitment on three-year say on climate votes.

Case Study: Amazon.com

Theme: Executive remuneration

13.33 **Objective:** To encourage company to align executive remuneration with long-term performance through the cycle. Incentive schemes should be transparent, understandable, long-term and appropriate to the circumstances and strategy of the company. In order to achieve alignment with shareholders, executives should make a material, long-term investment in company shares and these shares should be subject to a suitable holding period following an executive's departure. Companies should disclose the time by which new executives should reach the target level share ownership.

13.34 **Process:** In 2018, EOS, on our behalf, informed the company on its recommendation to vote against the say-on-pay proposal due to the lack of or poor disclosure of explicit share ownership requirements. In 2020, the company acknowledged that it should disclose policies on share ownership requirements.

13.35 **Escalation through voting:** During the 2021 annual general meeting, LGPSC voted against Amazon's say-on-pay proposal due to the lack of pledging policy, clawback policy, and minimum share ownership requirement.

13.36 **Outcome:** The company has instituted a ban on executives being able to make hedging transactions against share-based-equity awards and implemented a clawback policy. We continue to monitor the company for updates relating to share ownership requirement.

Case Study: DuPont de Nemours, Inc. (DuPont)

Theme: Plastic

13.37 **Objective:** Plastics pollution is one of LGPSC's stewardship themes, and we leverage collaboration opportunities to deliver progress in the subject. Voting is engagement led, and we will consider co-filing or supporting shareholder resolutions that relate to better risk management (reduce plastic use, reduce plastic waste, increase recycling, invest in relevant R&D).

13.38 **Process:** EOS Hermes on our behalf engaged DuPont on sustainability issues including plastics. We thanked DuPont for producing a 10-year sustainability roadmap with scope 1 and 2 targets in 2020. We reiterated the need for transparency and alignment with Paris Accord. Prior to the 2021 annual general meeting, EOS communicated our intention to support a shareholder proposal asking the company to issue a report on plastic pollution. We believe the company is lagging its peers who have committed to disclosing this information and currently the company produces no metrics on plastic pellet spills and the report will improve disclosure on how the company is mitigating plastic pollution related risks.

13.39 **Escalation through voting:** During the 2021 annual general meeting, LGPSC voted for the shareholder proposal requesting the company to publish an annual report on plastic pollution.

13.40 **Outcome:** In September 2021, DuPont announced that it has become a member of Operation Clean Sweep® Blue, a campaign dedicated to helping every plastic resin handling operation achieve zero plastic resin loss. OCS blue enhances the commitment to management, measurement, and reporting of unrecovered plastic releases into the environment from resin handling facilities. The company reported that there have been no releases in the third quarter 2021.

Fixed income – exercise of rights and responsibilities

13.41 We expect all our fixed income managers to fully exercise their rights and responsibilities. We provide below an example of how our external managers approach this.

13.42 Neuberger Berman, a manager in our Corporate Bond Fund, engages with capital markets participants in respect to new issue documentation and pushes back on weaknesses identified in the documentation, when possible. Neuberger Berman believes engagement with management teams is also critical in identifying material ESG factors as credit documentation generally provides a range of flexibility to an issuer in respect to capital allocation and business strategy.

13.43 For example, Neuberger Berman recently identified an issuer in which credit documentation flexibility, coupled with governance concerns at the issuer's parent, led to weakness in the issuer's trading levels due to market concern the equity owners would extract value from the issuer. Based upon Neuberger Berman's ongoing engagement with the management team and the company's commitment to conservative capital allocation policies and a strong ratings profile, they encouraged the issuer to proactively strengthen the credit documentation in its indentures to alleviate market concerns. The issuer ultimately enhanced structural bondholder protections and its governance framework, which was a positive development for the issuer's credit profile

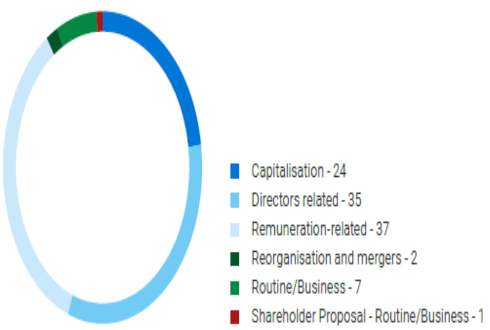
13.44 Our passive pooled products managed by LGIM are voted according to the voting policies of LGIM. LGIM believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces (see the penultimate paragraph) a [quarterly ESG impact report that includes a regional voting summary](). 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. LGIM's voting policy is based on a set of corporate governance principles. Previous engagement with an investee company also determines the manner in which voting decisions are made and cast. Voting activity is combined with direct engagement with the investee company to ensure that the investee company fully understands any issues and concerns that LGIM may have and to encourage improvement. LGIM utilises the voting information services of ISS and Institutional Voting Information Services (IVIS) to conduct thorough analysis and research on investee companies. An example of the voting undertaken by LGIM from their 2021 annual report 'Active ownership – global engagement to deliver positive change is detailed below

Regional updates

UK - Q4 2021 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	51	0	0
Capitalisation	270	24	0
Directors related	480	35	0
Remuneration related	95	37	0
Reorganisation and Mergers	23	2	0
Routine/Business	364	7	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	2	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	1	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	1285	106	0
Total resolutions	1391		
No. AGMs	83		
No. EGMs	41		
No. of companies voted	114		
No. of companies where voted against management /abstained at least one resolution	46		
% no. of companies where at least one vote against management (includes abstentions)	40%		

Votes against management



Number of companies voted for/against management

13.45 During 2021, LAPFF provided its members with 18 voting recommendations for a selection of companies on themes such as remuneration, board composition, climate change, human rights and other issues that were perceived as contentious/critical to a company's good ESG management. LGPSC provided Partner Funds with its view of resolutions up for vote that were covered by LAPFF's recommendations. In the majority of cases (80%), LPGSC took a similar view to LAPFF. Any difference in view was explained to the Fund and other Partner Funds, with the opportunity for Partner Funds to seek further clarifications on LGPSC's voting intention.

Appendix 1

Principle 4: Overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2021

Organisation/Initiative Name	***About the organisation/initiative***	***Efficiency and outcomes***
PRI	Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement. During 2021, LGPSC Head of Stewardship was a member of the PRI Plastics Working Group and the PRI Tax Working Group	PRI is a standard bearer of good practice for responsible investment. LGPSC has been a member of PRI since inception of the pool. We view LGPSC's active participation in PRI through submission of an annual report and through membership of PRI Working Groups as clearly value-adding to ongoing RI development and pursuit of stewardship theme engagements
IIGCC (Institutional Investor Group on Climate Change)	Influential asset owner and asset manager group. Useful for climate change research and policy influence. During 2021, LGPSC Head of Stewardship has been a member of the Corporate Programme Advisory Group.	IIGCC's corporate engagement and policy engagement programmes are both highly value-adding to LGPSC's work on climate change on behalf of all Partner Funds. It has a clear purpose and seems attentive to member needs and input. IIGCC engages broadly with stakeholders, for example with policy makers in the lead-up to COP26
Cross-Pool RI Group within LGPS	Collaboration group across the LGPS pools (and Scotland recently). Includes funds and pool operators. LGPSC Head of Stewardship was Vice Chair of the group during 2021.	This is a good forum to allow discussion between like-minded investors, who operate in the same regulatory environment and with similar expectations from Partner Funds and beneficiaries, on RI topics of interest and/or urgency, including Net Zero commitments for investors,

Organisation/Initiative Name	***About the organisation/initiative***	***Efficiency and outcomes***
		human rights risks, biodiversity etc.
The Local Government Pension Scheme Advisory Board	LGPSC Head of Stewardship is a member of an RI Advisory Group to SAB that was formed at the start of 2021. Discussions are held on RI relevant policies and standards that will have direct or indirect implications for LGPS funds and pools	Discussions during 2021 have centred around themes such as just transition, impact investing and MHCLG's work to introduce TFCF aligned reporting across LGPS pools and funds.
Transition Pathway Initiative (TPI)	Analysis of companies based on their climate risk management quality and their carbon performance. TPI analysis (by research team at LSE Grantham Research Institute on Climate and the Environment) is highly regarded and carries industry influence. LGPSC Head of Stewardship was a member of the TPI Steering Committee during H2 2021, and since October 2021 a member of the Board to the newly formed TPI Limited.	TPI is a highly useful tool that LGPSC uses directly to inform engagement and voting on behalf of Partner Funds. We view very positively TPI's close collaboration with CA100+ during 2020 and 2021 in the roll-out of the Benchmark Framework which allows evaluation of company progress against Paris alignment on key parameters (targets, actions, disclosures). We support the planned expansion of TPI research through the establishment of a Climate Transition Centre
30% Club Investor Group	Investor group engaging both UK listed equities and increasingly companies abroad, on gender diversity. LGPSC has been a member since inception of our Company	This forum has a clear target and allows for discussion, learning and direct engagement with like-minded peers on an ongoing critical governance issue. During 2021, a sub-set of 30% Club Investor Group members, including LGPSC, has engaged in the Japanese market.
BVCA British Private Equity and Venture Capital Association	UK trade body for private equity.	This forum is very useful for deal flow information. It also runs discounted training courses which helps build knowledge.
LAPFF Local Authority Pension Fund Forum	Engagement with companies in the UK and abroad, assisting LGPS funds with sustainable and ethical investment challenges.	LAPFF has conducted engagements that is complimentary to LGPSC's stewardship theme engagement effort, for instance in reaching out to companies during 2021 on

Organisation/Initiative Name	***About the organisation/initiative***	***Efficiency and outcomes***
		human rights risks that stem from operating in conflict zones such as Palestinian/Israeli territories.
Climate Action 100+	Engagement collaboration of more than 700 investors with a combined $68 trillion assets under management. Engaging 166 companies on climate risk that are responsible for 80% of global industrial GHG emissions. LGPSC Head of Stewardship is a member of the Mining and Metals Sector Group.	This is a robust, targeted and strong investor collaboration which LGPSC views as highly value adding relative to climate change risk management. The 2020 CA100+ Benchmark Framework, with scores published in March 2021, embeds structure and rigour to assessments of companies against a Paris trajectory
Investor Forum	High quality collaborative engagement platform set up by institutional investors in UK equities. LGPSC has been a member since inception of our Company	LGPSC co-sponsored an Investor Forum coordinated plastic pellet prevention project during 2020-2021. The overarching goal of this project is to help companies achieve and maintain zero pellet loss across their pellet handling operations. The first industry standard specification for plastic pellet handling was published in July 2021

Appendix 2

Principle 9: Details of the four core stewardship themes: climate risk, plastic pollution, responsible tax behaviour and tech sector risks showing the Stewardship Strategy, measures of success, engagement highlights and case study for each[5].

Climate risk stewardship theme

Stewardship strategy: Engagement is done through key collaborative initiatives including CA100+, Institutional Investor Group on Climate Change (IIGCC) and the Transition Pathway Initiative (TPI).

[5] The number of engagements encompass engagements undertaken by LGPS Central, EOS at Federated Hermes and LAPFF

Measures of success: We assess progress against the underlying objectives of the CA100+ engagement project, and against improvements on TPI score for management quality and carbon performance. Our aims are:

- To lead or be in the focus group of at least five CA100+ company engagements over the next year, prioritising engagements that overlap with companies that are identified as high risk within Partner Fund Climate Risk Reports
- To see progress in the CA100+ Benchmark Framework (launched March 2021)
- To see improvements on TPI score for management quality in key engagements
- To see improvements on TPI score for carbon performance in key engagements

Engagement highlights during 2021

During 2021 the following engagement highlights were achieved

- 627 companies engaged on 978 climate-related issues and objectives with progress on 426 specific objectives out of 741 total objectives set.
- Ongoing engagement with 68 banks on Paris-alignment and protection of biodiversity. 45 banks have responded and 19 confirmed they will publish new climate targets in connection with COP26, the end of the year, and/or their 2022 AGM. This includes **BBVA, BNP Paribas, Citigroup,** and **Standard Chartered.**
- Investor expectations on **Paris-aligned accounting** were communicated to 36 European energy, material and transportation companies in 2020, and again reiterated in letters to 29 of the same companies in November 2021 as we have not seen sufficient progress.
- During 2021 we opposed the election of the responsible director for climate change (usually the Chair) at over 100 companies, including **Canadian Natural Resources** and **China Resources Cement Holdings**.
- **Progress against CA100+ benchmark**: Data of March 2021 from CA100+ shows that 52% of the world's largest emitters have net-zero goals, but only 20% have short and medium-term emissions reduction targets, and only 7% have targets aligned with the Paris Agreement. Gaps also remain in aligning capital expenditure plans with net-zero ambitions and in linking delivery of climate targets with remuneration.
- Climate policy lobbying also remains an area of concern, where most companies need to improve processes and transparency around how they ensure alignment with their own climate positions and the advocacy done on their behalf through industry associations.
- In 2021, we voted against directors at companies that were failing to address deforestation risks, including at **Yakult Honsha, Li Ning Company,** and **WH Group**. Going into 2022, we will specifically include biodiversity in our engagement efforts related to climate change. We will amongst others initiate engagements to fulfil a commitment to tackle agricultural commodity-driven deforestation and help drive the shift towards sustainable production and nature-based climate solutions

Climate engagement case

In the role of co-lead for CA100+ engagement with a **utility company**, we have been in frequent dialogue with the company to discuss their climate strategy and to provide views on its climate transition plan. We were pleased to see the company set a clear net-zero by 2050 commitment accompanied by short- and medium-term targets in the transition plan. We also welcome the company's clear ambition to help customers decarbonise, e.g., through decarbonisation of heat. We explained our expectations relating to the indicators of the CA100+ benchmark and pointed to areas where the company would need to make further commitments to align with the benchmark. This includes short-term target setting (up to 2025) that substantiates a clear Net-Zero pathway this decade.

We would also like to see a commitment from the company to decarbonise its electric utility power generation by 2035. The company is enhancing transparency on climate policy lobbying in the climate transition plan, which we welcome.
We encourage further transparency around policy barriers so that investors can support specific policy action that will help achieve net-zero for the company and its sector.

Plastic pollution stewardship theme

Stewardship strategy: We will leverage investor collaboration opportunities for instance through the PRI Plastics WG and Investor Forum's Marine Plastic Pollution project. Voting will be engagement led, and we will e.g., consider co-filing or supporting shareholder resolutions that relate to better risk management (reduce plastic use, reduce plastic waste, increase recycling, invest in relevant R&D).

Measures of success were:

- We aim for positive interactions at senior levels of target companies and acknowledgement of plastic as a business risk, along with commitments to strategies or targets to manage those risks
- We aim to lead or be part of at least five plastics-related company engagements over the next financial year
- We aim to support investor expectations – e.g., as expressed by the PRI Working Group – in dialogue with companies

Engagement highlights during 2021 were:

- 57 companies engaged on 71 plastics and circular economy related issues and objectives, with progress on 28 specific objectives out of 61 total objectives set
- LGPSC has taken part in collaborative engagement led by Dutch investors Achmea Investment Management focusing on seven **packaging companies**, to engage and support progress for companies in a 'Plastics transition' - to reduce, re-use and replace fossil-fuel based plastics.
- 2-3 meetings have been held with each of the companies in 2020-2021 with an overall high level of receptiveness to investor concerns.
- Collaborative engagement led by First Sentier Investors engaging 13 companies to help **combat microplastics pollution** to the environment (see case study below)
- Launch of first **industry specification to prevent plastic pellet pollution** (co-sponsored by LGPSC alongside nine other institutional investors through an Investor Forum led multi-stakeholder project.
- Businesses and investors, including LGPS Central, have called for **UN treaty on plastic pollution** (www.plasticpollutiontreaty.org – a Treaty has since become a reality).

Case study

Through a **micro-plastics engagement project** led by First Sentier Investors, we seek to encourage domestic and commercial washing machine manufacturers to add filter technology as standard to all new washing machines produced by the end of 2023. This is to help combat microplastics pollution to the environment, a problem caused in large proportion by synthetic textiles which release microfibres (a type of microplastic) when washed. A first round of engagements with 13 target companies[6] have been concluded by the investor group this year. At the AGM of **Sainsbury's** and through subsequent dialogue with the investor group, the company is taking positive steps to engage its washing machine manufacturers and aims to introduce products with microplastic filters within the next 18 months.

[6] Arcelic, Dixons Carphone, Electrolux, Haier Group, Hitachi, Koc Holdings, LG Electronics, Midea, Panasonic, Sainsbury's, Samsung, Sharp and Whirlpool

We also welcome recommendations from the "All Party Parliamentary Group on Microplastics" issued in H2021, which could be influential in determining the direction of government policy in this area. The key recommendation in relation to microfiber filtration is to: *"Introduce legislation and standards which require microfibre filters to be fitted into all new domestic and commercial washing machines from 2025."*

Responsible tax behaviour stewardship theme

Stewardship strategy: We will leverage investor collaboration opportunities for instance through PRI Tax Investor Working Group and a Tax Roundtable (led by NBIM (Norway) and APG (Netherlands). Voting will be engagement led, and we will e.g., consider co-filing or supporting shareholder resolutions that relate to better risk management (through tax policy, board oversight, country-by-country reporting).

Measures of success were:
- We aim for positive interactions at senior levels of target companies and acknowledgement of lack of tax transparency as a business risk, along with commitments to strategies or targets to manage those risks
- We aim to lead or be part of at least five tax-related company engagements over the next financial year
- We aim to support investor expectations – e.g., as expressed by the GRI tax standard and the UK Fair Tax Mark – in dialogue with companies

Engagement highlights during 2021 were:
- 14 companies engaged on 16 tax related issues and objectives, with progress on four specific objectives out of 12 total objectives set.
- LGPSC has continued collaboration with four other, European investors which is a sub-group to a broader Tax Roundtable led by Norges Bank Investment Management and APGGroup has sought engagement with six companies across technology, telecommunications, finance and mining sectors where a low effective tax rate was an initial concern with several of these

- Key asks: Board oversight of tax policy and risk assessment; disclosure of tax strategy and policy; robust management of tax related risks, including preferably a country-by-country tax disclosure; link between company's purpose, sustainability goals and tax strategy; engagement with tax policy makers and other stakeholders
- Two out of the six companies have during this engagement signalled an intention to publish a stand-alone tax report which will provide country-by-country tax-relevant information, and thus increase transparency in line with our expectations
- Co-signed a letter to the European Parliament supporting a draft directive on **public country-by-country reporting (CBCR)** in the EU.

Case study

Together with three fellow European institutional investors we have had dialogue with a **global business services company** to discuss tax transparency and responsible tax behaviour. A core expectation from investors is that the company share tax-relevant Country-by-Country Reporting (CBCR) with shareholders so that we can make a meaningful assessment of their tax behaviour. We were pleased to hear that the company is considering publishing a stand-alone tax report that would enhance the disclosure of the company's approach to tax and its tax policies and may also give greater granularity on where tax is paid. In addition to its corporation tax contributions, the company makes significant tax contributions via its employee taxes (reflecting the company's highly skilled employee base).

The company is considering ways of enhancing transparency for instance by providing information on where employees are based alongside where taxes are paid. We also encouraged the company to explain its use of low-tax jurisdictions and to provide assurance that this correlates well to the company's business and strategy. The company explained that the Board takes a keen interest and receives regular reports on long term strategic tax issues. It seems clear that the company wishes to understand best practice for tax transparency and is embarking on a benchmarking exercise for that purpose. The investor group welcome these developments, alongside the company's ongoing revision of its Tax Policy. We will continue dialogue with the company to understand how its tax transparency work is progressing and to what degree industry standards like the Global Reporting Initiative tax standard[7] can be used in this regard.

Tech sector risks stewardship theme

Stewardship strategy: We will leverage investor collaboration opportunities for instance the New Zealand Crown-owned investors' coalition aimed at eliminating terrorist and violent extremist content online. Voting will be engagement led, and we will e.g., consider co-filing or supporting shareholder resolutions that relate to better risk management on social media content control and human rights risks.

Measures of success were:
- We aim for positive interactions at senior levels of target companies and acknowledgement of the above-mentioned risks faced by many tech companies.
- We aim to lead or be part of at least five engagements with tech companies over the next financial year
- We aim to support benchmarks such as Ranking Digital Rights, the Workforce Disclosure Initiative and SASB's Content Moderation taxonomy.

Engagement highlights during 2021 were
- 37 technology companies engaged on a range of 79 ESG risks including governance, cyber security, supply chain risks, social media content control and broader human rights risks. Progress was seen in 14 cases against a total of 48 specific objectives
- LGPSC has been part of two collaborative initiatives: one focusing on social media content control, and one addressing human rights more broadly
- In the face of COVID19 and a highly polarised US presidential election November 2020, the social media content control engagements garnered momentum through pressure from advertisers and other stakeholders (including World Federation of Advertisers) on harmful content including hate speech and aggression
- While initially hard to engage, the three companies in scope of social media content control engagement (Facebook, Twitter and Alphabet) have taken steps during 2020 – 2021 to strengthen controls and to prevent the live streaming and distribution of objectionable content

[7] The Global Reporting Initiative (GRI) Tax Standard is the first global standard for comprehensive tax disclosure at the country-by-country level. It supports public reporting of a company's business activities and payments within tax jurisdictions, as well as their approach to tax strategy and governance.

- The human rights risks engagement initiative has built momentum after Investor Expectations were published, including engagement with Facebook on their newly launched Human Rights Policy, and Amazon on their recent Human Rights Impact assessment

Case study
We have over the last two and a half years engaged the world's three largest social media companies, **Facebook, Twitter and Alphabet**, specifically on the issue of social media content moderation. This engagement has been led by the Guardians of New Zealand Superannuation (Guardians) alongside the New Zealand government-owned investors and supported by more than 100 investors globally. This project, which as of H2 2021 is drawn to a close having seen some significant progress, adds to growing investor scrutiny on the critically important role of social and traditional media in our societies. The platforms have all moved to strengthen controls to prevent the live streaming and distribution of objectional content. However, it is a difficult job for investors to assess if these changes are appropriate for the scale of the problem and a continued focus on the evolution of preventative safeguards will be needed. The issue of content moderation is becoming one of the defining legal and socio-political issues of our time.

It deserves its own body of specialist expertise stretching across a range of academia, law and policy. Our expectation is that these companies carry out their duty of care with absolute resolve, and while we've seen some good progress throughout our engagement – the goal posts keep moving and the companies need to remain focused on managing this. The engagement project received Stewardship Initiative of the Year award at the UN PRI 2021 Awards for its success in engaging these multinational giants. Key elements of its success lie in building a large investor coalition, escalating the engagement, and discussing specific steps companies can take to tighten controls as well encouraging more transparency about their ongoing work and interaction with various stakeholders.

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PENSIONS COMMITTEE
28 JUNE 2022

TRAINING UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the training update be noted.**

Background

2. The Committee approved the Fund's Training Policy & Programme at its last meeting on 23 March 2022.

3. Since then the training delivered by Fund Officers to members (and selected, invited Fund Officers) has included:

- An induction session for Jane Evans of UNISON on 27 April 2022.
- A training / information session from CEM Benchmarking UK Ltd on 13 May 2022 on 'Does what we are paying our investment managers represent value for money?'

4. In addition, members have been made aware that:

   a) **The LGA's training programme** includes some dates later this year for (LGPS) **Fundamentals;**
   b) The next, annual LGPS Governance Conference will take place in Cardiff on 19/20 January 2023;
   c) CIPFA's Annual Full Day Event for LGPS Local Board Members takes place on 18 May 2022;
   d) A training session on the actuarial valuation as at 31 March 2022 is available on 22 June; and
   e) A training session on equities / equity protection is being arranged.

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
28 JUNE 2022

FORWARD PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Committee comment 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**

Items	13/10/2022
LGPSC Update	Y
LGPSC Budget and Business Plan	
ESG Audit, SDG (sustainable development goals) mapping and Climate Risk Report	
Investment Update	Y
Business Plan	Y
Unaudited Annual Accounts	
Final External Audit Report on Annual Report	Y
Admin Budget Approval	
Admin Structure Review	
Budget Monitoring	Y
Government Actuary's Department Review Update	
Training Update	Y
Investment Strategy Statement, Climate Change Risk Strategy and Climate-related Financial Disclosures	
Asset Allocation Annual Review (reviewed quarterly at Pension Investment Sub Committee)	Y
Equity Protection Update	
Risk Register	Y
Actuarial Valuation and Funding Strategy Statement	Y
Pension Administration Strategy (includes Policy Statement on Communications)	
Internal Audit Report	
Pension Board Updates (includes SAB updates)	Y
Governance Update (includes CMA objectives for independent investment adviser)	Y
Stewardship Code (application to retain signatory status)	Y
Governance Policy Statement and Board / Committee Terms of Reference	

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