

Agenda

Pension Investment Sub-Committee

Thursday, 29 September 2022, 1.30 pm
County Hall, Worcester

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DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

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

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

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

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

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

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

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

Not normally. You must withdraw only if it:

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

DON'T FORGET

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

Pension Investment Sub-Committee
Thursday, 29 September 2022, 1.30 pm, County Hall, Worcester

Membership: Cllr Adrian Hardman (Chairman), Cllr Elizabeth Eyre, Cllr Karen Hanks

Co-opted Members

Cllr Trish Marsh (voting) Herefordshire Council
Vacancy (Non-voting) Employee Representative

Agenda

Item No	Subject	Page No
1	Apologies/Named Substitutes	
2	Declaration of Interests	
3	Public Participation Members of the public wishing to take part should notify the Assistant Director for Legal and Governance in writing or by e-mail indicating both the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 28 September 2022). Enquiries about this can be made through the telephone number/e-mail address listed in this agenda and on the website.	
4	Stonepeak Infrastructure Partners Fund III and IV Performance Update	1 - 26
5	Strategic Asset Allocation update as of the 30 June 2022 and preliminary results of the provisional 2022 Actuarial Valuation	27 - 34

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

Date of Issue: Tuesday, 20 September 2022

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PENSIONS INVESTMENT SUB COMMITTEE

29 SEPTEMBER 2022

STONEPEAK INFRASTRUCTURE PARTNERS FUND III & IV

PERFORMANCE UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the Pensions Investment Sub Committee note and comment on the presentation provided by Stonepeak Infrastructure Partners on Fund III & IV attached as an Appendix.**

2. The attached presentation provides details of Stonepeak Infrastructure Fund III & IV investment update and details the following:
 - Performance Summary
 - Firms evolution and Global Footprint
 - Team
 - Overview of Funds III to IV
 - Sourcing against challenging macro landscape
 - Inflation
 - 2022 Focus and Track Record
 - ESG policies, strengthening of ESG program, Diversity, Equity & Inclusion
 - Key Pillars of the business
 - Conclusions

3. **Please note that the Appendix contains exempt information (on salmon pages) and should members wish to discuss the information included in this Appendix they would need to consider passing the appropriate resolution and moving into exempt session.**

Supporting Information

Appendix – Stonepeak Infrastructure partners Funds III & IV Update

Contact Points

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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PENSIONS INVESTMENT SUB COMMITTEE

29 SEPTEMBER 2022

STRATEGIC ASSET ALLOCATION UPDATE AS OF THE 30 JUNE 2022 AND PRELIMINARY RESULTS OF THE PROVISIONAL 2022 ACTUARIAL VALUATION

Recommendation

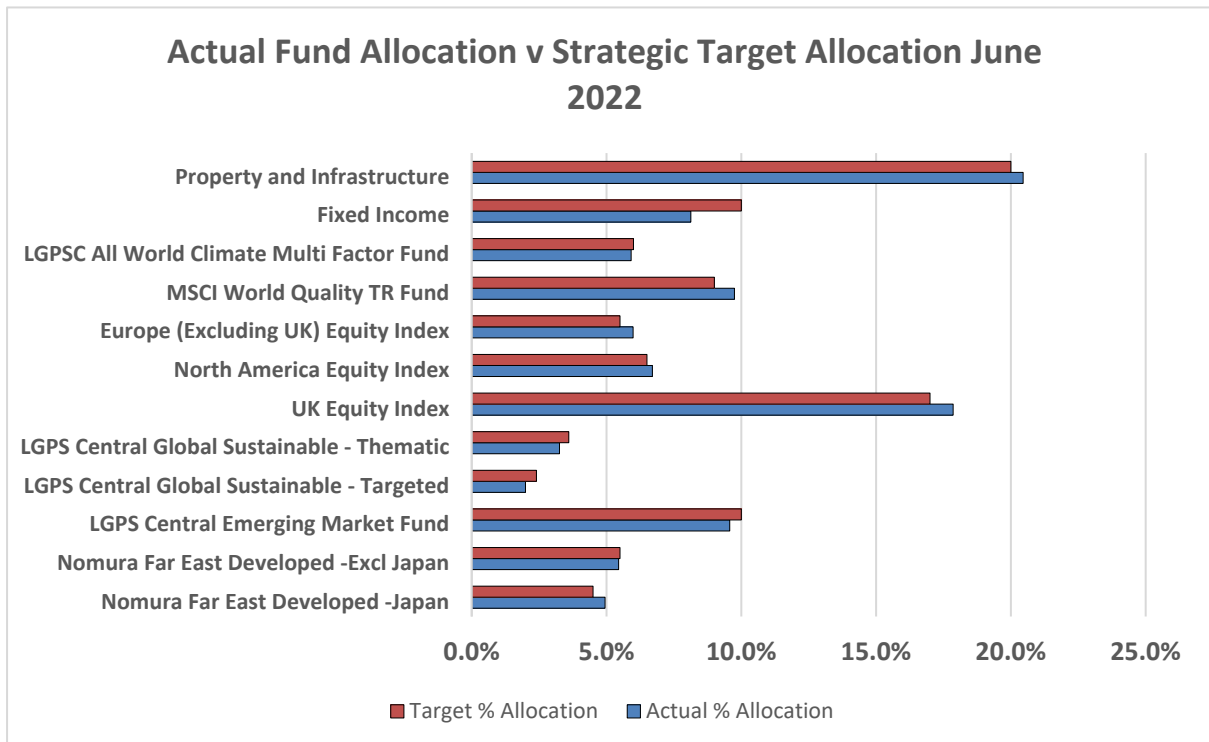
1. **The Chief Financial Officer recommends that the Pensions Investment Sub Committee (PISC) note and comment on:**
 - a) **The Funds Strategic Asset Allocation update; and**
 - b) **The preliminary results of the provisional 2022 Actuarial Valuation.**

Background and purpose

2. The purpose of this report is to provide members with an update on the Funds strategic asset allocation as at the end of June 2022.
3. The following paragraphs provide PISC with an update as to how the assets are performing against the Funds 3 to 5 year strategic asset allocation targets set from the 1st of April 2020.

Current Equity Performance and actual allocation versus target allocation as at the end of June 2022.

Table 1 Current Equity Performance and actual allocation versus target allocation as at the end of June 2022



4. Table 1 above shows the current actual Fund allocation of the Fund’s assets compared to the revised strategic asset allocation targets being 70% Equities, 20% Property & Infrastructure and 10% Fixed income with effect from the 1st of April 2020.

5. The overall allocation to equities as detailed in table 2 is 71.4% (74.4% March 2022) compared to a target of 70%. This has reduced since March due mainly to a reduction in the equity markets due to the impact of inflation, cost of living increases and the Ukraine / Russia conflict. The Fund has also made a number of infrastructure investments during the last 3 to 4 months and incurred some capital calls which will be reflected in the next quarters report.

6. Table 2 below shows the overall Equity performance of the Fund over the past 3 years and since inception up to the end of June 2022. The table highlights that Market cap passive funds have not performed as well compared to the Alternative Factors (around 1.3% better) and the Active equities (0.3% worse) since inception (December 2015).

Table 2 Equity Performance as at the end of June 2022

Asset Class	Fund Value £'M	3 Year Actual	3 Year BM	Since Inception	Since Inception BM	Target Allocation	Actual Allocation	Variance under (-) over target
		Return	Return	Return	Return			
	£	% p.a.	% p.a.	% p.a.	% p.a.	%	%	%
Passive								
UK Equity Fund	444.8	2.5	2.4	6.6	6.4	17.0	17.9	0.9
North America Equity Fund	166.9	12.1	12.0	15.5	15.5	6.5	6.7	0.2
Europe Equity Fund	149.1	3.4	3.6	8.4	8.7	5.5	6.0	0.5
Equity Protection strategy	236.6							
Total Passive Equity	997.4	6.6	5.7	9.9	9.2	29.0	30.5	1.5
Alternatives Factors								
All World Climate Multi Factor Fund	193.1	0.0	0.0	-9.3	-9.3	6.0	5.9	-0.1
Quality	318.2	11.5	11.5	15.0	15.1	9.0	9.7	0.7
Total Alternatives	511.3	4.9	5.6	10.0	10.5	15.0	15.7	0.7
Total Active Equities	823.3	1.1	3.6	8.0	8.9	26.0	25.2	-0.8
TOTAL FUND All Equities	2,332.0	4.6	4.5	9.0	9.0	70.0	71.4	1.4

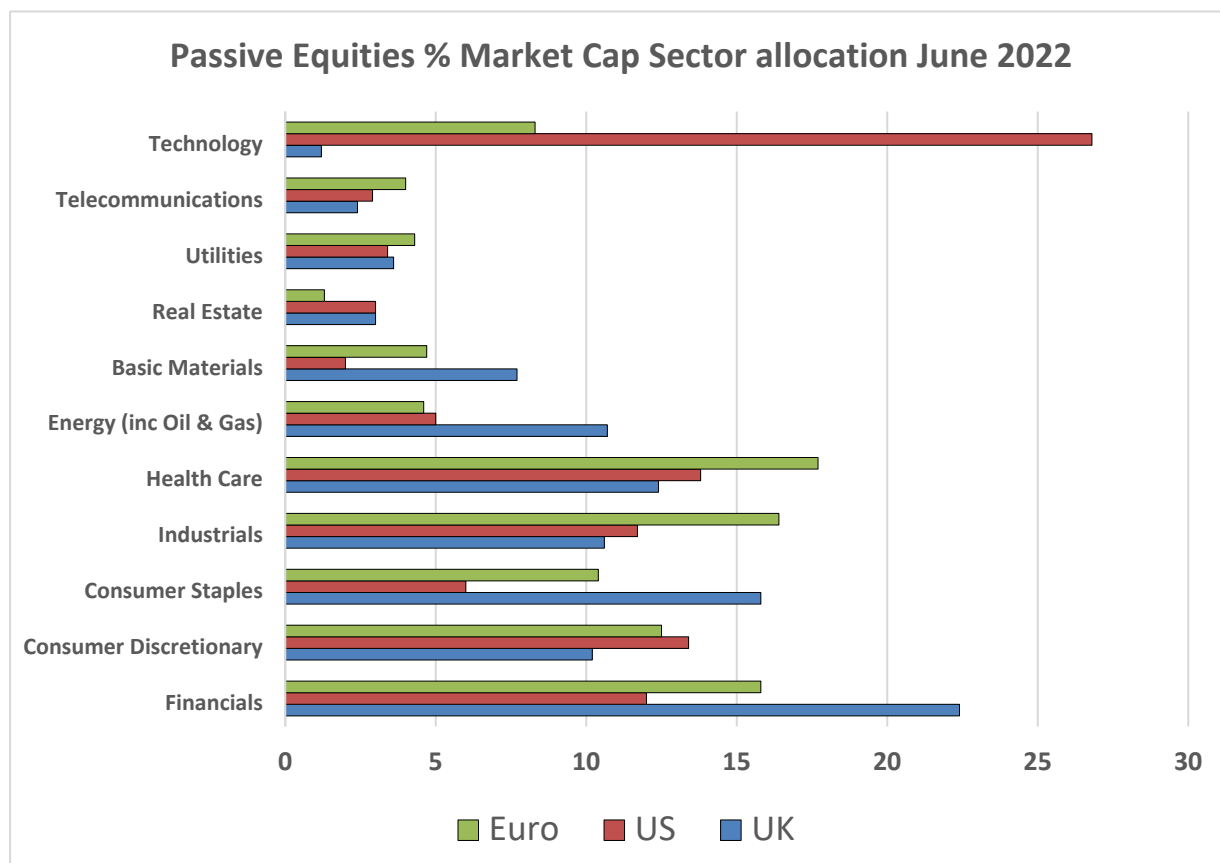
Passive Market Cap

7. From a passive point of view the North America fund (includes Canada allocation of just over 4%) has performed far better than the European Fund which in turn has performed well against the UK FTSE Market cap Funds since inception. The previous larger underweight position in asset allocation in the UK compared to the US overweight before rebalancing back in September 2021 has helped cushion the low performance return of the UK FTSE for the Fund. The overall passive actual allocation is just over 2.2% over target and the Equity Protection has been pro-rated over the existing Market cap indices.

8. This should continue to reduce over time as the fund invests into Property and Infrastructure in line with the overall target allocation at the moment. Committee are asked to note that the funding for the capital draw downs will be taken from the North American passive market cap fund to help reduce the overweight us position against the Funds Strategic target asset allocation.

9. The performance of the market caps may also be explained by the market sector as the US has a substantial investment in the technology sector compared to the UK and European markets as shown in Table 3 below.

Table 3: % Passive Market Cap Sector allocation June 2022

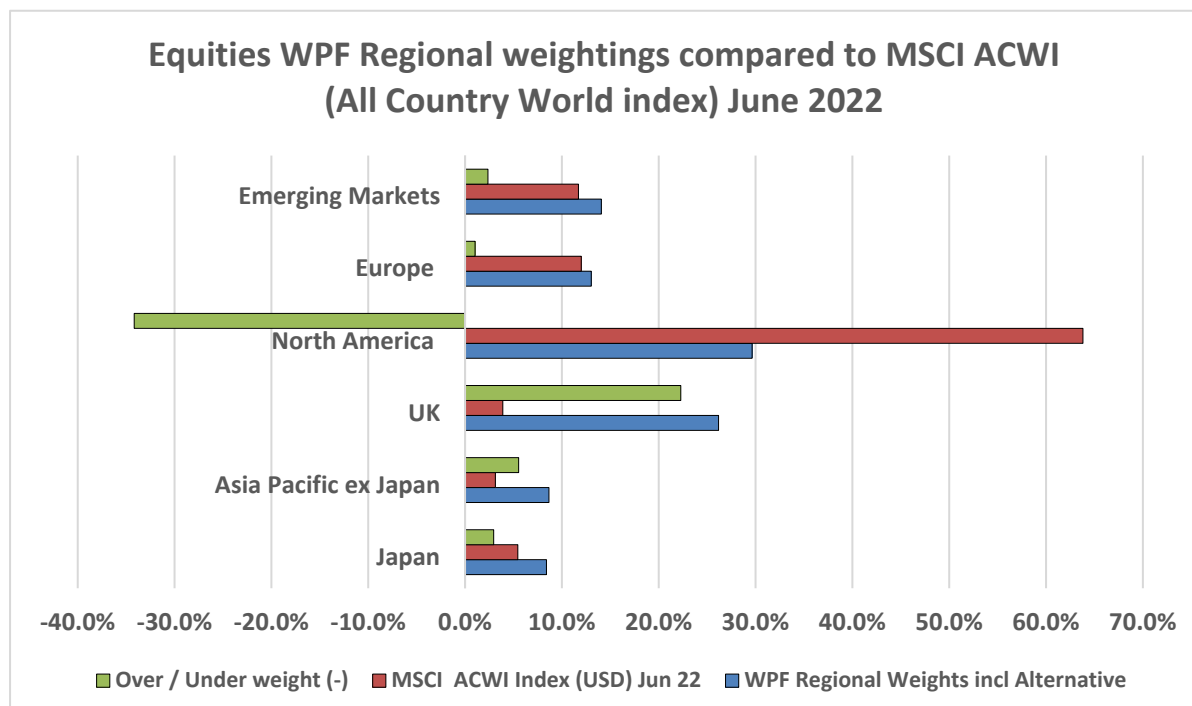


Review of Regional weights compared to global index

10. Equities are primarily split on a regional geographic basis, except for the alternative indices’ allocation in the passive equity portfolio, which is on a global basis. All active equity indices are 'Market Cap' based, whilst the passive allocation is 'Market Cap' based for the developed regional equity investments and a mix of alternative indices for the global allocation.

11. It is worth pointing out that our own regional equity asset allocation in table 4 below, and our benchmark, is significantly different from the makeup of the global index. Members need to be mindful of this and remain comfortable with the position.

Table 4 sets out the Fund's equity exposure via regional portfolios relative to the MSCI All Country World Index (ACWI) as of June 2022.



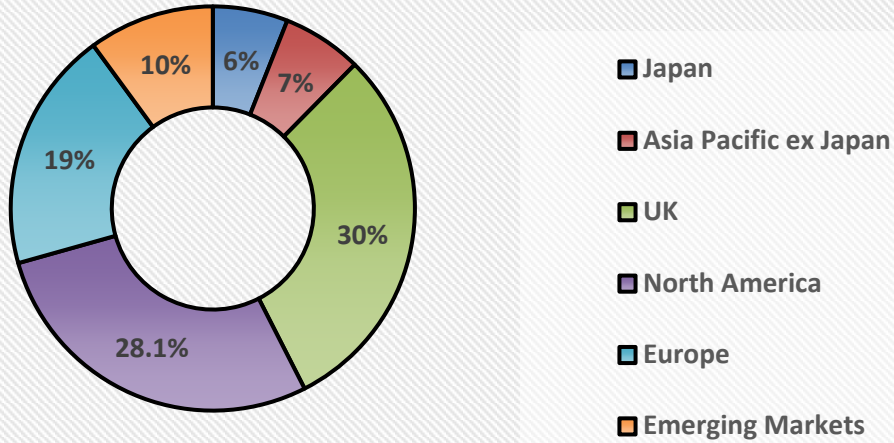
12. Compared to the MSCI All Country World Index the Fund has a large underweight to North America, a large overweight to the UK. Over the long term the process of determining regional weights is likely to be a major driver of the Fund's equity allocations performance.

13. Performance of regional vs. global allocations will fluctuate over time but investing via a series of regional weightings does offer the Fund better opportunities to fully tailor regional weights and provides the option of dynamic asset allocation by the Pension Fund

Overall Geographical Split of the Funds Total Assets under Management June 2022

14. Table 5 below shows the overall Geographical Split of the Fund's Total Assets under Management as at June 2022 taking on board its allocations to Fixed Income, Property and Infrastructure. This demonstrates the diversification of the assets in the Fund.

WPF Geographical Split of the Fund June 2022



15. The preliminary results at a total Fund level are shown in table 1 below. The Fund's funding level has increased from 91% funded at 31 March 2019 to 100% at 31 March 2022 (based on the Reduced discount rate plus short term pay at 4% per annum) . This has been updated for employers actual member data, demographic & mortality sensitivities and inflation and discount rate (Funds rate of investment return) sensitivities.

16. PISC is asked to note that these are only preliminary results and the Funding level and forecast contributions will vary per employee. The reduced discount rate option is main proposal for the scheme and we are exploring the other options particularly the moderate stagflation option as a potential alternative dependant on employers circumstances.

17. The Fund is really mindful of the inflation issue and the potential cashflow increases this will make on the Fund. This is where the Investment Strategy will look to take on board the implications of the Funding strategy when it is reviewed over the next 3 to 6 months.

Table 1 Whole Fund Preliminary Results

	31 March 2019	31 March 2022 (including McCloud costs)		
	2019 Valuation	Reduced discount rate	Reduced discount rate plus extended short term pay (4% p.a. for 3 years)	Moderate Stagflation
Past Service Discount Rate	CPI+1.65%	CPI+1.50%	CPI+1.50%	CPI+1.25%
Future Service Discount Rate	CPI+2.25%	CPI+2.00%	CPI+2.00%	CPI+1.75%
Prob of attaining past service discount rate	64%	72%	72%	74%
Prob of attaining future service discount rate	58%	66%	66%	69%
Surplus / Deficit	-£324m	-£12m	£14m	-£168m
Funding Level	90%	100%	100%	96%
Future Service Rate (% of pay)	17.5%	18.8%	18.8%	20.3%
Short Term Pay	Varies by employer	None	4% for 3 years	None
Life Expectancy Assumption	2019 val baseline CMI 2018 1.75%	2022 val baseline CMI 2021 1.75%	2022 val baseline CMI 2021 1.75%	2022 val baseline CMI 2021 1.75%

Contact Points

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy 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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