

Minutes of the Pensions Committee

County Hall, Worcester

Wednesday, 22 March 2023, 10.00 am

Present:

Cllr Elizabeth Eyre (Chairman), Cllr Karen Hanks, Cllr Adrian Hardman and Cllr Scott Richardson Brown

Also attended:

Cllr Roger Phillips, Chairman of the Pension Board and Adam Pruszynski, a member of the Pension Board.

Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 8 February 2023 (previously circulated).

430 Apologies/Named Substitutes (Agenda item 1)

An apology was received from Cllr Luke Mallett.

431 Declarations of Interest (Agenda item 2)

None.

432 Public Participation (Agenda item 3)

None.

433 Confirmation of Minutes (Agenda item 4)

RESOLVED that the minutes of the meeting held on 8 February 2023 be confirmed as a correct record and signed by the Chairman.

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

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

435 Exclusion of Public and Press (Agenda item 6)

RESOLVED that pursuant to Section 100A of the Local Government Act 1972, the press and public shall be excluded from the meeting during item 7 on the grounds that there would be disclosure to them of information relating to the financial or business affairs of any particular person (including the authority holding the information) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Summary of the proceedings of the meeting during which the press and public were excluded. (This is a fair summary of the proceedings and there are no exempt minutes.)

436 Strategic Asset Allocation Review (Agenda item 7)

The Committee considered the Strategic Asset Allocation Review.

In the ensuing debate, the following points were made:

- The Fund should look to improve the responsible investment element of its position on re-ups
- The Fund had continued to maintain a higher weighting in equities than the vast majority of funds nationally because it had always been considered that equities would outperform fixed income in the long-term
- The recommendations in the report to increase the Fund's passive equity market exposure in US markets and invest in private equity were welcomed
- It should be noted that the SAA recommendations brought to the Committee had been adapted from the Hymans' report to suit the needs of this Fund. There were some differences, for example it was not considered appropriate for this Fund to take up the Hymans' suggestion to invest in multi-asset credit
- Philip Hebson acknowledged the high level of engagement of all members in the SAA process.

RESOLVED that the Strategic Asset Allocation recommendations set out in paragraph 6 of the report be approved.

437 Investment Strategy Statement (ISS) and Climate Risk Strategy Update (Agenda item 8)

The Committee considered the Investment Strategy Statement (ISS) and Climate Risk Strategy Update.

In the ensuing debate, concern was expressed that there were discrepancies between the graphs and their associated text set out in the Climate Risk Strategy. Officers would look to establish where the discrepancies existed and address them accordingly.

RESOLVED that:

- a) **The Fund's 2023 Investment Strategy Statement (ISS) set out at Appendix 1 to the report be approved;**
- b) **The updated LGPS Central Voting Principles Appendix 2 to the report be approved;**
- c) **The Climate Risk Strategy set out at Appendix 3 to the report be approved;**
- d) **The Fund's ESG Workshop Review on the 8 February 2023 and the recommended outcomes be noted;**
- e) **The Fund's 3rd Annual Climate Risk Report (Appendix 4) be noted; and**
- f) **The 'Task Force on Climate related Financial Disclosures' (TCFD) Report (Appendix 5) be approved.**

438 Pension Investment Update (Agenda item 9)

The Committee considered the Pension Investment Update.

In the ensuing debate, the following points were made:

- Philip Hebson updated the Committee on aspects of the Budget Statement pertinent to the Fund. The Statement referred to all public market assets being pooled by 2025 which did not necessarily reflect the reality of the pooling arrangements. It would appear that reference to Levelling-Up as an investment policy would slowly disappear from Government parlance although a local angle to investment would remain a policy initiative. The Government was encouraging investment in liquid assets but this was not an area where Government intervention was welcomed or necessary. He anticipated that a Government consultation paper would be released in due course
- The Chairman of the Pension Board commented that the SAB had had a meeting to discuss the content of the budget statement. It was recognised that LGPS was one of the largest pension schemes in the world but did not exercise the influence it should and needed to strengthen its position nationally. Pooling made sense but it needed to work in a more collaborative and in a consistent way. At present the

make-up of individual pools varied nationally and each pool appeared to have varying approaches to treating its stakeholders. The Government seemed to be unaware of or failed to recognise the progress made by pension funds towards the 5% investment targets in infrastructure and renewables

- The Government did not pay any heed to the link between Council Tax rates and the efficiency of LGPS pension funds in a particular area. The Government also failed to recognise that pension funds' income was not their money to spend
- Philip Hebson explained that banking markets remained volatile. The UK market was slightly down from its peak during the year whereas the US and Europe markets were still ahead. The issues experienced at the Silicon Valley Bank and Credit Suisse, albeit for different reasons highlighted how quickly financial confidence could evaporate. A run on a bank was now an on-line event which meant that the banking industry needed to react very quickly to events to avoid a crash. It was possible that these banking failures could lead to a tightening of credit controls in global banking which could positively impact on the current level of inflation
- It might be beneficial at the conclusion of the review of the work by LGPSC on emerging markets to request a meeting with the Chief Executive of LGPSC in order to re-emphasise the role of the Fund as the client in the relationship with the Pool. Philip Hebson added that the LGPSC seemed to be determined to continue with the multi-manager approach regardless of this Fund's wishes on the basis that they had a mandate from some of the other partner funds
- Would it make any difference to the Fund if the range of funding levels across employers was narrower? Sherief Loutfy responded that the biggest impact on the Fund was when an employer was in deficit and the time taken to reduce that deficit. Discussions had taken place with Mercer, the Fund's actuary about setting a timeline for the reduction of deficits.

RESOLVED that:

- a) The independent investment 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;**

- f) **The update on the LGPS Central report on the voting undertaken on the Fund's behalf be noted (Appendices 4 to 6); and**
- g) **The update on Taskforce for Climate-related Financial Disclosures (TCFD) Consultation be noted.**

439 Business Plan (Agenda item 10)

The Committee considered the Business Plan.

In the ensuing debate, the following points were made:

- In response to a query, Richard Sultana explained that ongoing communication was taking place with the supplier of the IT administration system and procurement
- The Judicial Review into the McCloud Judgement had now been concluded and had been dismissed.

RESOLVED that the Worcestershire Pension Fund Business Plan as at February 2023 be noted.

440 Governance Update (Agenda item 11)

The Committee considered the Governance Update.

In the ensuing debate, the following points were made:

- It made sense for some of the lower risks to be transferred from the Risk Register to the governance update
- Philip Hebson commented that at present, the Chief Financial Officer was the LGPS senior officer. Proposal A2 of the Good Governance report seemed to permit this under example organisation structure 2 provided that the CFO's direct reports working in the LGPS were of sufficient seniority. In order to deliver a degree of separation between roles, it was agreed that a review of the current approach would be undertaken to establish whether the Fund's current arrangements were appropriate and in accordance with expected, future best practice.

RESOLVED that:

- a) **The Good Governance Position Statement as at February 2023 be noted (Appendix 1);**
- b) **The draft Worcestershire Pension Fund Governance Policy Statement 2023 be approved (Appendix 2);**
- c) **The draft Worcestershire Pension Fund Policy on Representation 2023 be approved (Appendix 3);**

- d) The Worcestershire Pension Fund Policy on Conflicts of Interest be noted (Appendix 4);
- e) The draft Worcestershire Pension Fund Pension Administration Strategy 2023 be approved (Appendix 5); and
- f) The update on reviewing the objectives for and performance of the independent investment adviser be noted (Appendix 6).

441 Worcestershire County Council Pension Fund Administration Budget 2023/24 (Agenda item 12)

The Committee considered the Worcestershire County Council Pension Fund Administration Budget 2023/24.

RESOLVED that:

- a) The Pension Fund Administration Budget, including manager fees, for 2023/24 shown in the Appendix totalling £22.964m be approved;
- b) The indicative budget allocations for 2024/25 and 2025/26 be noted;
- c) The monitoring of the variations against budget be noted; and
- d) The Chief Financial Officer be granted delegated authority to approve variations of up to £0.5m.

442 Actuarial Valuation and Final Pension Fund Strategy Statement (Agenda item 13)

The Committee considered the draft actuarial valuation report and Funding Strategy Statement.

RESOLVED that:

- a) The outcome of the Funding Strategy Statement consultation and the proposed final FSS (Appendix 1) be noted;
- b) The update to the climate change funding level scenario analysis within the FSS be noted; and
- c) The initial draft of the 2022 valuation rates and adjustment certificate (Appendix 2) be noted.

443 Local Government Pension Scheme Central Update (Agenda item 14)

The Committee considered the Local Government Pension Scheme Central Update.

In the ensuing debate, the following points were made:

- Sherief Loutfy explained that at the recent LGPSC AGM, partner funds had unanimously approved the LGPSC budget and approved the remuneration for non-executive directors albeit two partner funds had voted against this motion
- A couple of partner funds had initially objected to the proposed LGPSC budget but realised that that the fall-back position was an RPI + inflation increase and therefore had decided to object to the motion to increase the non-executive remuneration instead
- At the recent LGPSC shareholders meeting, it had been agreed to advance the selection of a new Chair of the pool as soon as possible given that Joanne Seger's term of office was shortly coming to an end and she was not standing again. The work she had done for the pool was recognised but a new style of leadership would be required going forward
- It was queried whether Pension Boards had a role in monitoring the savings made by partner funds as a result of pooling. The Chairman of the Board commented that no in depth work had been undertaken to date although updates were received from LGPSC. He would raise the matter with fellow partner fund Board chairs at their next meeting because it was important that this issue was addressed collaboratively
- In response to a query, Rob Wilson confirmed that the updated LGPSC budget would mean that the savings from pooling for this Fund would be projected further into the future.

RESOLVED that the LGPS Central update be noted.

444 Training Update (Agenda item 15)

The Committee considered the Training Update.

In the ensuing debate, a request was made that officers filter the forthcoming training programme so that members could be directed to the training sessions most relevant to their needs.

RESOLVED that the Worcestershire Pension Fund Training Update including the Training Policy and Programme (Appendix 1) and the Training Plan (Appendix 2) be noted.

445 Risk Register (Agenda item 16)

The Committee considered the Risk Register.

RESOLVED that the February 2023 Worcestershire Pension Fund Risk Register be noted.

446 Forward Plan (Agenda item 17)

RESOLVED that the Forward Plan be noted.

The meeting ended at 12.10pm.

Chairman