Worcestershire County Council

Agenda

Pensions Committee

Wednesday, 22 March 2023, 10.00 am
County Hall, Worcester

This document can be made available in other formats (large print, audio tape, computer disk and Braille) on request from Democratic Services on telephone number 01905 728713 or by emailing democraticServices@worcestershire.gov.uk

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.

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Pensions Committee
Wednesday, 22 March 2023, 10.00 am, County Hall, Worcester

Membership: Cllr Elizabeth Eyre (Chairman), Cllr Karen Hanks, Cllr Adrian Hardman, Cllr Luke Mallett and Cllr Scott Richardson Brown

Coopted Members

Jane Evans	Employee Representative
Shane Flynn	Employer side
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: Monday, 13 March 2023

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PENSIONS COMMITTEE
22 MARCH 2023

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 2 March 2023 and the Pension Board meeting on 3 March 2023.

Supporting Information

Links to the Pensions Investment Sub-Committee and Pension Board Minutes can be found below:
Agenda for Pension Investment Sub-Committee on Thursday, 2nd March, 2023, 10.00 am - Worcestershire County Council (moderngov.co.uk)
Agenda for Pension Board on Friday, 3rd March, 2023, 2.00 pm - Worcestershire County Council (moderngov.co.uk)

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.

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

AGENDA ITEM 7

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PENSIONS COMMITTEE
22 MARCH 2023

INVESTMENT STRATEGY STATEMENT (ISS) AND CLIMATE RISK STRATEGY UPDATE

Recommendation

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

   a) **The Fund's 2023 Investment Strategy Statement (ISS) set out at Appendix 1 be approved;**

   b) **The updated LGPS Central Voting Principles Appendix 2 be approved;**

   c) **The Climate Risk Strategy set out at Appendix 3 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.**

Background

2. The LGPS Investment Regulations that came into effect from 1 November 2016 required all funds to publish a new ISS by 1 April 2017. The Fund's 2017 ISS was designed in collaboration with the seven other funds within LGPS Central to ensure a consistent approach to investment beliefs and responsible investment beliefs.

3. Under Regulation 7(6) and (7); the ISS must then be kept under review and revised from time to time and at least every three years. The Department for Levelling Up, Housing &Communities (DLUHC) outlines guidance on preparing and maintaining an Investment Strategy Statement.

4. The current 2022 ISS was approved by the Committee on 3 March 2022 and a key focus was to continue to enhance and strengthen the 'Stewardship and Responsible Investment (RI) areas. This was after taking into account the Funds Environmental, Social & Governance (ESG) Audit, Sustainable Development Goals (SDG) mapping, the Funds second 2021 Climate Risk report provided by LGPS Central and the first annual ESG review that the Fund conducted on 2 February 2022.

Investment Strategy Statement Guidance Requirements

5. Regulation 7(1) requires an Administering Authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS must include:

a) A requirement to invest money in a wide variety of investments;
b) The authority's assessment of the suitability of particular investments and types of investments;
c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
e) The authority's policy on how social, environmental, or corporate governance considerations are taken into account in the selection, non-selection, retention, and realisation of investments; and
f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

2023 Draft Investment Strategy Statement (Appendix 1) proposed amendments

6. The key amendments are highlighted via tracked changes and shaded areas. These mainly relate to:

a) Updating the cashflow management risks;
b) Updating information around the Funds surplus as at the 2022 Triennial Valuation.
c) Updating the Voting Principles provided by LGPSC.(Appendix 2);
d) The Funds commitment to the enhanced UK Stewardship code;
e) Taking out the compliance with the Myners principles (was section 12 of the ISS) as this has been superseded by compliance to the UK Stewardship Code;
f) Update to the Funds Strategic Allocation Investment Benchmark(SAIB) increase the Funds US Passive equity investment and reducing its UK passive equity investment by 5%; and
g) Noting the allocation within the SAIB to Private Equity by using the flexibility within the strategic asset allocation ranges that are available to build up to the 5% over time and then make this more formal in the next Strategic Asset Allocation review in 2025.
h) Maintain Equity Protection as a tool to be used within the Funds Strategic Asset Allocation. This is part of the Funds risk management strategy that acknowledges that the Fund continues to have a high exposure to equities, which can be quite volatile in performance terms in the short and medium term.
i) Alongside this approach the Fund will also consider 'Re Upping' with existing Fund Managers should these investments meet the Funds key objectives.

Funds ESG Review 8 February 2023

7. The Fund had an ESG Review workshop with Committee members on the 8 February 2023 which was to review progress against the Pension Committee ESG recommendations in March 2022 and ascertain what further changes may be required when looking ahead. The workshop was led by Karen Shackleton from Pensions for Purpose who has provided valuable support for the Fund in this area since January 2020, and supported by officers and the Funds independent Investment Advisor The objectives of the review were as follows:-

- Refresh – the Fund's investment beliefs, priorities and how you can align to these.
- Review - strategic actions agreed at the last review and progress made.
- Review - Stewardship Code 2020 and TCFD reporting.
- Update on key outcomes of the Funds 3rd Climate risk report and 2nd Climate scenario analysis presented by LGPS Central.

- Consider – ESG progress in private markets (presentations from two Fund managers, Bridgepoint (Corporate Private Debt) and Stonepeak (Infrastructure).
- Explore - case studies of LGPS funds exhibiting best practice.
- Review - key insights from the ESG pensioner members questionnaire.
- Consider - net zero goals – mapping the journey to net zero.
- Discuss – priorities for the next 12 months

8. **The workshop finished with a consideration of the next steps to consider for the next 12 months** with the issues below raised by Pensions for Purpose. General views expressed are shown by each item:

a) **Enhance engagement activity?** *The fund was already doing a lot on engagement activity and the Fund would target its engagement activity in line with the stewardship plan within LGPSC Climate Risk report*;

b) **Further member engagement?** *The current level of proposed engagement was satisfactory and the ESG questionnaire would be rolled out in 2023 to employees contributing to the Fund (around 23,000) and the following year to Deferred pension members (around 23,000);*

c) **More action from investment managers/pool?** *To continue to monitor the Fund managers progress in this area and work with LGPSC to enhance reporting and information on the effectiveness of engagement outcomes over time;*

d) **More climate solutions/more de-risking?** *Agree a decarbonisation goal for the next five years with 2020 as the baseline (an action for the committee to consider);*

e) **Commit to impact-driven investing?** *This may be a way to align to some of the other SDG priorities that the fund has agreed, subject to the opportunities delivering strong market-rate, risk-adjusted financial returns;*

f) **Training on impact investing?** *This was felt to be a good suggestion;*

g) **Training on Science Based Targets vs Implied Temperature Rise?** *This was felt to be a good suggestion.*

Climate Risk Strategy

9. The Fund has a separate Climate Risk Strategy (Appendix 3) for the Fund which sets out the Funds approach to addressing the risks and opportunities related to climate change. This also reflects the potential material effect of climate change, and the response to climate change, on the assets and liabilities of the Fund.

10. This has been updated to take on Committee the outcome of the ESG workshop that was conducted informally with the Pensions Committee members on the 8 February 2023. The strategy highlights the following

Allocation & Targets

- Reduce further the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio compared to its weighted benchmark in 2022 by the end of 2023; and set an internal decarbonisation reduction target up to 2025 at which point it will be further reviewed.
- Continue to invest a proportion of the Fund's portfolio in low carbon & sustainable investments by the end of 2023.
- Use the Climate Scenario Analysis to track and better understand the portfolio's capacity to transition into a low carbon economy

Transparency & Disclosure

The Fund will:

- Prepare a TCFD Report annually
- Report on the progression against the Fund's carbon footprint and low carbon & sustainable investment targets annually
- Report on a suite of carbon metrics in the Fund's annual report.
- Disclose the stewardship reports of the Fund's key investment managers on a quarterly basis.
- Report on progress against the RI Stewardship Plan engagement goals annually.
- Set an internal carbon reduction target up to 2025 and then review thereafter

Funds 2022 Climate Risk Report

11. The Fund has received its 3rd Climate Risk Report – January 2023 report from LGPSC (Appendix 4) covering the Funds listed equity portfolio. Its purpose is to:

a) assesses the Fund's exposure to climate-related risks and opportunities;
b) allows the Fund to identify further means to manage its material climate risks;
c) To highlight the report's key findings; and
d) To provide an overview of the Fund's progress in managing climate risk.

12. **The executive summary key highlights were:-**

a) The carbon intensity of the Fund's Total Equities decreased by 13% between 2020 and 2022;
b) This overall decrease was driven by a 24% decrease in the intensity of Passive Equities, but mitigated by a 22% increase in intensity of Active Equities;
c) The Fund's carbon intensity has remained consistently lower than the benchmark and is currently 30.1% lower;
d) Four of the Top 5 contributors to the portfolio's Carbon Footprint are currently in the Climate Stewardship Plan meaning dedicated engagement activities;
e) Seven out of eight of climate stewardship plan companies have been awarded a management quality of 4 (top mark) by the Transition Pathway initiative; and
f) Seen a marginal increase in its weight in fossil fuels.

13. The key recommendations by LGPSC for the Fund were:-

a) Continue updating the Climate Stewardship Plan following changes to the portfolio;
b) Consider formalising a Net Zero Climate Strategy;
c) Continue to report against the TCFD recommendations

d) Work with fund managers to continue understanding how they identify, monitor, and mitigate climate risk; and
e) Repeat the Carbon Risk Metrics annually and the CSA every 2-3 years.

Funds 2022 Climate Risk Report Scenario Report
14. LGPSC provided the Fund with a Climate Scenario Analysis for which Mercers complete the analysis and is to be produced every 3 years. The analysis provides three climate scenarios based on an average temperature increase of 1.5, 1.6 and 4 degrees by 2100 and demonstrates the potential impact on the Fund's Investment Strategy. The key findings of this report were presented as part of the Funds informal ESG review for members on the 8th February 2023. This will assist the Fund in its future strategic asset allocation.

Task Force on Climate related Financial Disclosures' (TCFD)
15. The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Committee. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD total 930 organisations representing a market capitalisation of over $11 trillion. Disclosure that aligns with the TCFD recommendations currently represents best practice.

16. LGPSC have provided the fund with an updated draft TCFD report and the Fund has added areas of additional activity and outcomes that have occurred during the year and is attached as Appendix 5.

Contact Points

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Supporting Information

- Investment Strategy Statement - Appendix 1
- Updated Voting Principles – Appendix 2
- Climate Risk Strategy - Appendix 3
- Climate Risk Report March 2023 – Appendix 4
- Task Force on Climate related Financial Disclosures' (TCFD) - Appendix 5

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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Investment Strategy Statement 2023

Contents

March 2023

1. Introduction

This is the Investment Strategy Statement (the 'Statement') of the Worcestershire Pension Fund (the Fund) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations"). In preparing this Statement, the Pensions Committee has consulted with such persons as it considered appropriate.

Fund Governance

Worcestershire County Council is the administering authority for the Fund under the regulations. Worcestershire County Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's assets and comprises of elected members and one employee representative and two employer representatives. In addition, the Fund has a Pensions Board whose role is to assist with good governance by ensuring compliance with statutory and regulatory duty. Finally, the Pensions Investment Sub Committee advises the Pensions Committee on investment issues relating to the Fund. The Pensions Board has no decision-making powers whereas the Pensions Investment Sub Committee does.

The Fund's Strategic asset allocation benchmarks and ranges are shown in Appendix A.

The Statement is subject to review at least annually and from time to time on any material changes to any aspects of the Fund, its liabilities, finances, and its attitude to risk which is judged to have a bearing on the stated investment policy. In preparing this statement, the Committee has considered advice from the Funds independent investment adviser.

The responsibilities of relevant parties are set out in the Governance Policy Statement. Governance Policy Statement

The Funds List of Advisers are set out at Appendix B
The Fund's Statement of Investment Beliefs are set out in Appendix C.

The following are publicly available on the Fund's website:

- Funding Strategy Statement
- Governance Policy
- Policy Statement on Communications (Within Administration Policy)

2. The Fund's Objectives

The primary objectives of the Fund are to:

(a) Ensure that sufficient assets are available to meet liabilities as they fall due.
(b) Maximise returns at an acceptable level of risk.

The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit. The full funding projection is achieved over a 12-year time frame.

In addition, the Fund has the following objectives:
• To be a leading performer in the LGPS sector
• To provide excellent customer service

Funding Strategy Statement

The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The FSS can be viewed on the website.

All Local Government Pension Scheme (LGPS) funds must produce, consult on, and publish a document called a "Funding Strategy Statement" (FSS). The purpose of the FSS is:

a) To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward.

b) to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and

c) to take a prudent longer-term view of funding those liabilities.

However, there will be conflicting objectives which need to be balanced and reconciled. For example, for most employer's objective a) implies low contribution rates, because they would see pension liabilities being "best met" by gaining as much help as possible from the investment strategy over the long term, which would lead you towards an equity-biased investment strategy. By contrast, objectives b) and c) imply stability and prudence of employer contribution rates, which would lead you towards a bond biased investment strategy.

Therefore, the best that can be achieved is a sensible balance between these different objectives

3. Risk

The risk tolerance of the Fund is determined through working with the Pensions Committee, investment managers, officers, and independent advisers to set investment beliefs, funding, and investment objectives. This is incorporated into the Strategic Investment Allocation Benchmark (SIAB), benchmarks and ranges. Risk is monitored by the Pensions Committee using a risk register and risk management tools as advised by the Fund's fund managers, investment advisers and the actuary.

The Fund is exposed to Investment, operational, governance and funding risks. These risks are identified, measured, monitored, and then managed. This is carried out using risk registers with section responsibility and oversight from the Chief Financial Officer.

The principal risks affecting the Fund are as follows:

Funding Risks Liabilities versus the Strategic Investment Allocation Benchmark (SIAB)

a) The risk of deterioration in the funding level of the Fund. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark assisted by the Fund's investment advisor. The strategic asset allocation benchmark seeks to achieve the appropriate balance between generating the required long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

b) The risk of changing demographics such as improvement in longevity and other demographic factors, increasing the cost of benefits.

The Fund monitors this by reviewing mortality and other demographic experience and assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

c) Systemic risk, i.e., the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund mitigates systemic risk through having a diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles.

d) Inflation risk The Fund mitigates inflation risk through holding a portfolio of growth and inflation linked assets. Inflation risk is considered at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

e) Future Investment Returns (Discount rate) risk The Fund's funding and investment strategies are inter-linked and discount rate risk is mitigated by reviewing them at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

f) Currency risk that the currency of the Fund's SIAB underperforms relative to sterling (the currency of the liabilities). The currency risk of the benchmark is considered at least triennially in the setting of the SIAB. Recommended changes will be expressed through changes in the benchmark and implemented by the investment managers

Asset Risks (the portfolio versus the SIAB)

a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

b) Illiquidity risk i.e., that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

c) Currency risk i.e., that the currency of the Fund's assets underperforms relative to the SIAB.

d) Manager underperformance, i.e., when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

e) Responsible Investment (RI) risks, i.e., including climate-related risks, that are not given due consideration by the Fund or its investment managers.

The Fund manages these asset risks by: -

- Constraining how far Fund investments deviate significantly from the SIAB by setting diversification guidelines and the SIAB strategic ranges.

- Investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.

- Investing across a range of liquid assets, including quoted equities and bonds; the Fund has recognised the need for some access to liquidity in the short term.

- Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process.

- Appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.

- Actively addressing environmental, social and governance (ESG) risks through implementation of its Responsible Investment (RI) beliefs.

The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, the Pensions Committee is comfortable taking this risk in general but may act to mitigate potentially significant risks as and when they are identified.

The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme Regulations.

Operational Risk

a) Transition risk of incurring unexpected costs in relation to the transition of assets amongst managers.

   When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers to mitigate this risk when it is cost effective to do so.

b) Risk of a serious operational failure by asset managers and/or LGPSC

   These risks are managed by having robust governance arrangements with LGPSC and by quarterly monitoring with asset managers

c) Custody risk of losing economic rights to Fund assets, when held in custody or when being traded.

These risks are managed by:

- The use of a global custodians for the custody of assets.
- The use of formal contractual arrangements for all investments.

When the Fund's investments are pooled in LGPSC, the asset servicer contract includes depositary protection over investment vehicles.

d) Risk of unanticipated events such as a Pandemic on normal operations

These risks are managed by back up arrangements for computer operations, including the ability to work remotely.

e) Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:

- Maintaining a comprehensive risk register with regular reviews.
- In-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny/oversight and reporting of KPIs of its service providers and audit of the operations they conduct for the Fund.

f) Cashflow management risks)

The Fund is becoming more mature and although its cashflow remains positive after taking into account investment income, the table below shows that the ‘in year balance’ for 2023/24 to 2025/26 remains tight. Managing cashflow will become an increasingly important consideration in setting the investment strategy. Mitigating actions are already being taken to manage the cashflow by investing in assets that continue to produce cashflows such as Property, Infrastructure and fixed income that can be used to meet these payments.

The table below sets out the estimated cashflow position of the Fund for the next four fiscal years and is continually monitored.

CASHFLOW FORECAST	FY22/23 £'m	FY23/24 £'m	FY24/25 £'m	FY25/26 £'m
Opening Balance	**36.6**	**38.1**	**50.1**	**68.4**
Receipts				
Contributions	99.3	124.5	129.7	135.1
65 Day Barclays	10.0	0.0	0.0	0.0
Distribution Income	51.6	50.2	62.6	57.9
Disinvestment	140.0	0.0	0.0	0.0
Overpaid pension	0.9	1.2	1.2	1.2
Other Receipts	4.5	0.0	0.0	0.0
Total Receipts	**306.3**	**176.0**	**193.5**	**194.1**
Payments				
Benefits Paid	-113.2	-129.5	-138.6	-142.7
WCC Prepayment	-14.5	0.0	0.0	0.0
Admin recharge	-1.6	-1.6	-1.6	-1.6
HMRC Payments	-12.0	-13.2	-14.1	-14.6
Capital Drawdowns	-144.6	0.0	0.0	0.0
Total Fees	-18.7	-19.7	-20.9	-22.2
Total Receipts	**-304.7**	**-164.0**	**-175.2**	**-181.1**
Closing Balance	**38.2**	**50.1**	**68.4**	**81.4**
In Year Balance	1.5	12.0	18.3	13.0

4. Investment Strategy

Funding Policy

The objectives of the funding policy are expressed in its FSS. The Fund has a strong employer covenant, being funded largely by tax-raising local authorities. Therefore, the Committee can adopt a long-term view, without concern about the ability of its sponsors to meet their liabilities.

Given the on-going restructuring of public bodies the Fund is now maturing increasingly faster. Positive cashflow are declining (although investment income is available if the Fund does go Cashflow negative) and this position is being closely monitored. However, at this time it is not felt necessary to change the investment strategy of the Fund.

Although the Fund has a surplus of assets against liabilities (100.1% funded at the 2022 Triennial Valuation), the Committee wishes to achieve the maximum assistance from investments in maintaining this surplus. This would suggest maintaining a higher risk strategy to generate returns, but this is moderated by the realisation that such a strategy can also lose significant amounts of money in the short-medium term.

It is the Fund's employers who would feel the result of unstable employer rates, and for the precepting authorities, ultimately the local taxpayer either through Council Tax or through service levels. Therefore, another very important consideration is the need for relative stability of investment returns, given that employee rates are fixed by statute and the tools available in the actuarial valuation process for smoothing of returns are limited. This can be achieved by investments that are inherently more stable, such as bonds. However, it is also aided by diversification (so that the ups and downs on particular investments do not arise together), and by seeking returns from both markets ("beta") and investment managers ("alpha") whose returns are skill based and relatively independent of the market.

Consequently, the Committee has set an overall investment goal that reflects these four factors.

The Funds approach to 'Pooling' is detailed in section 9, but alongside this approach the Fund will also consider 'Re Upping' with existing Fund Managers should these investments meet the Funds key objectives.

The Fund will consider having equity protection strategies in place as part of its future investment strategy and use this as a strategic tool to be implemented as and when the need arises.

Investment Strategies / Pots

In order that the Fund delivers on its key objectives (ensuring that each employer takes the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost), the Fund has introduced three distinct investment strategies (Growth, Medium and Cautious risk). These are detailed in Appendix A

Each investment strategy has its own strategic asset allocation benchmark. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating the required long-term returns, whilst taking account of market volatility, risk, and the nature of the Fund's liabilities.

The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. The Fund undertakes a fundamental review of the strategic asset allocation every three years following actuarial valuations. The Fund also monitors compliance with this statement at least quarterly and monitors progress towards the long-term funding objective for relevant groups of employers on a regular basis.

In addition to the fundamental review of the strategic asset allocation undertaken every three years, the Fund monitors the progress of employers within the Growth and Medium Strategies on a regular basis. This gives the Fund the opportunity to adjust the strategic asset allocation in the event that a group of employers are ahead or behind their funding plan.

This is an important mechanism used by the Fund to ensure that each employer continues to take the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost. The progress of employers in Cautious Risk Strategy will be monitored every year as these employers are already invested in their "target funding plan".

A full explanation of the process undertaken to assess employer funding progress is provided in the Fund's Investment Risk Management: All about Worcestershire Pension Fund's (the Fund's) Investment Pots which is published on the website

Investment Goal

The Fund's investment objective is to achieve a relatively stable "real" return above the rate of inflation over the long term, in such a way as to minimise and stabilise the level of contributions required to be paid into the Fund by employer bodies in respect of both past and future service liabilities.

Process for ensuring suitability of investments

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund (see Appendix A) considering both the liability structure and the objectives set out above. The Fund's benchmarks are consistent with the Pensions Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The Investment beliefs in appendix C also assist in formulating the investment strategy.

The Pension Committee monitors investment strategy relative to the agreed asset allocation benchmarks and strategic ranges. If ranges are breached, then appropriate action is taken by the Chief Financial Officer. In addition to ongoing monitoring the investment strategy is formally reviewed annually by Pensions Committee. Furthermore, specific consideration is given to the investment strategy in the light of information arising from each triennial actuarial valuation. The Pension Investment Sub Committee monitors the asset allocation on a quarterly basis.

5. Diversification

The Fund is diversified across multiple asset classes with different risk return expectations and correlations to deliver the targeted return of the Fund. Appendix A shows the Strategic Investment Allocation Benchmark (SIAB) and strategic ranges.

6. Day-to-Day Management of the Assets

Investment management structure

The Pensions Committee retains responsibility for the investment strategy of the Fund but has delegated oversight of its implementation to the Chief Financial Officer. The day to day management of the Funds' investments is delegated to the Fund's external investment managers.

External Investment Managers

The Fund has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The investment managers are required to comply with LGPS investment regulations.

Suitable Investments

Subject to the LGPS regulations on allowable investments the Fund may invest in a wide range of assets and strategies including quoted equity, Government and Non-Government bonds, money markets, traded options, financial futures and derivatives, alternative strategies including Infrastructure and property Pooled funds. The fund uses external managers to carry out stock lending ensuring suitable controls/risk parameters are put in place to prevent losses. Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it will not be held.

When new asset classes are considered and are not listed above then approval will be sought from the Pensions Committee after receiving advice on its suitability and diversification benefits.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation benchmarks for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

Expected Return on the Investments

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation (the discount rate). The individual mandates are expected to match or exceed the specific targets set for each portfolio over time.

Investment Restrictions

The investment management arrangements prohibit the holding of investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Operating within the investment regulations, the Fund determines investments that are acceptable and approved as such by the Pensions Committee.

Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Scottish Widows and Utmost Life.

The Fund monitors, from time to time, the suitability and performance of these vehicles.

Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's liquidity characteristics are monitored on a regular basis and the majority of the Fund's investments may be realised quickly if required. A number of the Fund's alternative investments in pooled Infrastructure and property funds, may be difficult to realise quickly in certain circumstances. The Fund will ensure that the liquidity of the investments is suitable to meet future cash flow requirements.

Monitoring the Performance of Fund Investments

The performance of the external investments is independently measured. In addition, officers of the Fund meet external investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance. The Pensions Committee meets at least quarterly to review markets, asset classes and funds.

7. Day-to-Day Custody of the Assets

The Fund has appointed a global custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

8. Stock Lending

Stock lending is undertaken in respect of the Fund's quoted equities holdings through the custodian / asset servicer. There is a formal stock lending agreement and approved collateral. Stock lending may also take place in pooled investment vehicles held by the Fund.

For the assets managed by LGPSC on the Funds behalf, LGPSC has an active securities lending programme. To ensure that LGPSC can vote its shares at important meetings, it has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. LGPSC monitors the meetings and proportion of the securities on loan, and will restrict and/ or recall lent stock in select circumstances, with due consideration to the advantages of voting the shares versus the cost implications of recalling or restricting the loan of the stock

9. Approach to Pooling

The Fund has joined the LGPSC Limited pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to more uncorrelated asset classes. Becoming an FCA registered investment manager will lead to improved governance, transparency and reporting giving the Fund assurance that its investments are being carried out effectively.

LGPSC has been set up as an arms-length company, accredited by the Financial Conduct Authority, to manage the pooled investment assets of eight LGPS funds across the centre of England. The Fund is one of the eight partner funds, all of whom hold equal shares in the company. LGPSC started trading on 3rd April 2018 and all partner funds are starting to migrate assets to LGPSC.

The Fund is participating in the pool with the belief that the Fund will benefit from lower investments costs achieved through the aggregation of assets. In addition, the Fund will have greater access to a broader range of investable asset classes, including new and innovative products and services. LGPSC and the partner funds have put in place a robust governance framework to ensure the company operates effectively and delivers timely and transparent reporting to shareholders and client funds.

The Fund will retain full responsibility and control over its strategic investment allocation policy with LGPSC being responsible for implementing the strategy via the engagement and dismissal of managers and the day to day monitoring of manager investment performance. Subject to satisfactory due diligence and value for money considerations being satisfied, the Fund intends to continue to invest its assets with LGPSC. Investment strategy will be determined by the Fund with advice from fund managers, operators, and the Independent investment adviser.

10. Responsible Investment (RI) and Stewardship

What do we mean?

Responsible investment is an approach to investment that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns.[1] It has relevance both during the selection of an investment and after an investment decision has been made, through on-going stewardship activity which covers considered voting and engagement with investee companies.

Responsible investment is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach to selecting investments on the basis of ethical beliefs (beliefs about what is morally right and wrong).

Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term. The Fund's investment team seeks to understand relevant ESG factors alongside conventional financial considerations within the investment process, and the Fund's external investment managers are expected to do the same. Non-financial factors may be considered to the extent that they are not detrimental to the investment return

ESG factors include:

Stewardship
We define the concept of stewardship in the same way as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code which was updated in 2020:

"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society"

Responsible Investment and LGPSC

From 1 April 2018 the implementation of parts of the Fund's investment strategy has been undertaken by LGPSC, an investment management company set up by 8 Local Authorities (including Worcestershire County Council) in line with the latest scheme regulations. The Fund will seek to ensure that LGPSC is set up to deliver objectives of this RI policy alongside that of the other Funds involved.

LGPSC Limited has developed a Responsible Investment & Engagement Framework (LGPSC Framework) incorporating the investment beliefs and responsible investment beliefs of the eight funds within the LGPSC Limited Pool which will be applied to both internally and externally managed investment mandates. The Fund's investment beliefs can be found in Appendix C

In collaboration with the eight Partner Funds, LGPSC has identified four themes that will be given particular attention in its ongoing stewardship efforts. The four themes, which will be reviewed after three years, are: Climate change; Single-use plastics; Fair tax payment and tax transparency; and Technology and disruptive industries. The partner funds and LGPSC believe that identifying core themes helps direct engagement and sends a clear signal to companies of the areas that the partner funds and LGPSC are likely to be concerned with during engagement meetings. WPF will monitor closely the effectiveness of LGPSC and their work in this area to support the Fund in its ongoing requirements.

LGPSC also supports the Fund through the annual preparation of a Climate Risk Report which supports the Fund in the preparation of the Fund's Climate-related Financial Disclosure Report prepared in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

It is expected that the Fund's ability to invest in a responsible way will be enhanced through LGPSC due to the inherent benefits of scale, collectivism and innovation that will result from being part of the pool. In order to broaden its stewardship activities, LGPSC appointed EOS at Federated Hermes as its stewardship provider, with the remit of engaging companies on ESG issues, and executing the LGPSC Voting Principles which are also the principles agreed by the Fund (see **shareholder voting** below).

RI Beliefs and Guiding Principles (See Appendix C)

The Fund's RI Beliefs (see Appendix C) underpin its RI approach. Taking these beliefs as foundational, the Fund has adopted two RI aims: (1) primarily, to support the Fund's investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry and raise standards across the marketplace.

The Fund intends to realise these aims through actions taken both before the investment decision (which we refer to as the **Selection** of investments) and after the investment decision (the **Stewardship** of investments). Actions will be taken with reference to an evidence base, using the best available objective data sets. We aim to be **Transparent** to all stakeholders and accountable to our clients through regular **Disclosure** of RI activities, using best practice frameworks where appropriate. These ambitions yield the Fund's three RI pillars: Selection, Stewardship and Transparency & Disclosure.

Climate Change

The Committee recognises that financial markets will be impacted by climate change and by the response of climate change policy makers. Risks and opportunities related to climate change are likely to be experienced across the whole of the Fund's portfolio. The current understanding of the potential risks posed by climate change, together with the development of climate-related measurements and disclosures, are still at an early stage, and there is considerable variability in the quality and comparability of carbon emission estimates. It is recognised that it will take time for companies to adapt to the changing regulatory and market positions.

Reflecting the potential material effect of climate change, and the global response to climate change on the assets and liabilities of the Fund, a separate Climate Risk Strategy has been developed, a copy of which can be found on the Fund's website

Selection

The Fund believes that effective management of financially material RI risks should support the Fund's requirement to protect returns over the long term. Investment managers will seek to incorporate RI into their investment process. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them. The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund believes that *Sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term*.' The Fund believes that this can be achieved by focussing on the specific United Nations Sustainable Development Goals (SDGs) that the Fund wants to target from an investment perspective. The SDGs are a global footprint for achieving a more sustainable future for everyone. Developed by the United Nations they recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth. For further information see: https://www.un.org/sustainabledevelopment/. The targeted SDGs are as follows:-

Economic Goals
SDG 8. Decent Work and Economic Growth
SDG 9. Industry, Innovation & Infrastructure
SDG 12 Responsible Consumption & Production
Climate Goa**ls**
SDG 7. Affordable and Clean Energy
SDG 13. Climate Action
Health Goal
SDG 3 Good Health and Wellbeing

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

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

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

- The Fund will consider the potential financial impact of ESG related issues on an ongoing basis (e.g., climate change or executive remuneration).
- The Fund will consider the potential financial impact of investment opportunities that arise from ESG related factors (e.g., investment in renewable energies or housing infrastructure).
- The Fund will consider investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e., Renewable energy and social impact investments
- The fund will consider investment opportunities that have positive impacts against the targeted SDGs agreed by the Fund

Stewardship

Company Engagement and Engagement through Partnership

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. The Fund adopts a policy of risk monitoring and engagement with companies on financially material RI issues, in order to positively influence company behaviour and enhance shareholder value; influence that would be lost through a divestment approach. The Fund extends this principle of “engagement for positive change” to the due diligence, appointment, and monitoring of external fund managers.

As part of the external Fund manager monitoring the Fund will request a report on the portfolio’s alignment to the Funds targeted Sustainable Development Goals (SDGs) detailed above in the ‘Selection’ part above and Carbon Risk metrics on an annual basis.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. To this end, the Fund uses its membership of the Local Authority Pension Fund Forum (LAPFF) and being a partner to the LGPSC pool to assist it in pursing engagement activities.

The Fund will engage investee companies on issues, including ESG issues that are material to long term value creation and robust risk management in order to safeguard and grow the Fund

- The Fund is committed to compliance with the UK Stewardship Code[1] and working within the spirit of the Principles of Responsible Investment (“PRI”).
- We will hold our investment managers to account to ensure compliance with this policy
- The Fund is committed to collective engagement through its membership of the Local Authority Pension Fund Forum (LAPFF), the LGPSC pool and other opportunities that arise from time to time.
- The Fund will exercise its voting rights in all markets where practicable

It should be noted that although disinvestment is not currently the Fund's policy, it could be considered in the future if a particular manager or company was not making any attempt to comply with our Fund's stated policies.

Shareholder Voting

On the 21st of June 2019 the Pensions Committee agreed that LGPSC would via EOS vote shares in certain discretionary and pooled funds on the Fund’s behalf. These principles were updated in March 2023 and votes will be executed in line with LGPSC’s published **Voting Principles**. The Fund believes that the advantage of a consistent signal and working collectively through the pool will have a positive influence on company behaviour.

Shares held in passively managed portfolios will be voted according to the voting policies of the Fund’s appointed fund manager, Legal & General Investment Management (LGIM). The Pension Committee is satisfied that LGIM’s approach to shareholder voting is sufficiently robust and aids in the delivery of the Fund’s RI objectives.

Transparency & Disclosure

The Fund is fully committed to the new enhanced UK Stewardship Code which was introduced in 2020 and the Fund has been a successful Tier 1 signatory of the Financial Reporting Council’s UK stewardship code since 2020.

LGPSC provides quarterly reporting for all funds managed by LGPSC detailing how votes have been cast in different markets and a vote by vote disclosure for full transparency. Engagement and voting disclosure is also done specifically for listed securities held across the Fund’s portfolios

How Will We Monitor our Performance on Responsible Investment?

The Fund will ultimately be **transparent and accountable** in terms of its performance on Responsible Investment. This will be achieved through the following approach:

- The Fund will publish its Investment Strategy Statement and its Climate Risk Strategy on its website in line with the scheme regulations.
- Decisions relating to the setting of investment policy will be explained.
- The Fund will monitor closely its appointed investment managers whom the Fund rely on to implement its RI policy.
- The Fund will undertake an annual review of corporate governance, voting and engagement activity undertaken by the Fund and its underlying managers.
- The Fund will publish an annual summary of voting and engagement activity
- The Fund will ensure that its decision makers are properly trained and kept abreast of ESG issues to make informed decisions.
- The Fund will include ESG as standing item on Pensions Investment Sub Committee (or equivalent) agendas (with a view to reporting on manager performance in relation to ESG investing and noting any hot topics / issues arising).
- The Fund will undertake a fundamental review of any specific ESG issues that are considered by the Pension Investment Sub Committee to be of potentially material financial impact.
- The Fund will consider and respond to feedback from stakeholders in relation to issues of concern.
- Reporting annually using the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)
- The Fund will request External Fund managers to report on their portfolio's alignment to the Funds targeted Sustainable Development Goals (SDGs) detailed above under 'Selection' and Carbon Risk metrics on an annual basis.

11. Compliance with This Statement

The Fund will monitor compliance with this statement. It will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement, so far as is reasonably practicable.

12. ~~Compliance with Myners~~

~~Following from the Myners' report of 2000 into institutional investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations identifying investment principles to apply to pension schemes.~~

~~These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives with a focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.~~

~~The Myners' principles have since been updated, and the Fund continues to support and comply with them. Details of compliance are set out in the Fund's Governance Compliance Statement within the Fund's Annual Report, which can be found on the Fund's website.~~

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List of Appendices

Appendix A – Strategic Allocation Investment Benchmark (SIAB) and Ranges.
Appendix B – List of Advisers
Appendix C – Statement of Investment Beliefs

Appendix A – Strategic Allocation Investment Benchmark and Ranges

	Growth	Medium	Cautious	
Asset Allocation	**%**	**%**	**%**	**Manager, Method & Performance Target**
Actively Managed Equities				
Far East Developed	10.0	5.0	0.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	5.0	0.0	LGPSC active global emerging markets equity mandates with BMO, UBS and Vontobel - FTSE - Emerging Market Index +2.0%
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	12.0~~17.0~~	9.0~~13.0~~	0.0	Legal and General Asset Management - FTSE All Share Index
North America	11.5~~6.5~~	9.0~~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				
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				

Asset Allocation	Growth %	Medium %	Cautious %	Manager, Method & Performance Target
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% - Bridgepoint Corporate Private Debt
Actively Managed Alternative Assets				
Property, ~~&~~ Infrastructure & Private Equity	20.0	20.0	20.0	Through a mix of Macquarie (was Green Investment Bank), Invesco, Hermes, Walton Street, Venn Partners, Stonepeak, Igneo (was First Sentier), AEW, Gresham House etc
TOTAL	**100.0**	**100.0**	**100.0**	

NOTE:
The Fund as part of its 2022 Strategic asset allocation (SAA) review agreed to allocate 5% to Private Equity. The mechanism to allocate 5% of the Funds SAA, will be by using the flexibility within the strategic asset allocation ranges that are available to build up to the 5% over time and then make this more formal in the next SAA review in 2025

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Tolerance Ranges

Asset Type	Growth	Medium & Cautious	Role (s) within the Strategy
Equities	**+/- 5%**	**+/-2.5%**	Deliver long term growth above inflation and generate investment income i.e., dividends.
Growth Fixed Income	**+/- 5%**	**+/-2.5%**	Provide protection from changes in real yields both in terms of capital value and income
Property	**+/- 5%**	**+/-2.5%**	Diversification; generate investment income; provide some inflation-sensitive exposure; illiquidity premium
Infrastructure			Provides the Fund with access to a diversified (but long term, illiquid) return and a stream of inflation related income
Index Linked Gilts	**+/- 5%**	**+/-2.5%**	Provide protection from changes in real yields both in terms of capital value and income
Diversified Growth / Multi Asset	**+/- 5%**	**+/-2.5%**	Diversification and dynamic asset allocation

Appendix B - Advisers as at March 2023

~~MJ Hudson –~~ Philip Hebson (Independent Investment Advisor)

Investment policy, general investment matters.

Mercers
Actuarial matters

Local Authority Pension Fund Forum (LAPFF)
Company governance issues.

BNY Mellon
Custodian, Stock lending.

Appendix C - Statement of Investment Beliefs

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

Financial Market Beliefs

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for skilled active managers.
- In making investments in illiquid assets, a return premium should be sought.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.
- The Fund believes that investing for the long term can add value, as it allows the fund manager to focus on long term value and use short term volatility to establish favourable investments.
- Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it should not be held.

Investment Strategy/Process Beliefs
Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.

Risk should be viewed both qualitatively and quantitatively. Focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Listed Equities are expected to generate superior long-term returns relative to Government bonds and our beliefs in this Listed Equities are expanded below: _.

a. Passively managed market cap-based investment has a balancing role to play in most pension schemes' equity allocations, bringing liquidity, transparency and reducing average fee levels.
b. Market cap weighted indices have their drawbacks; adding carefully selected systematic, factor tilted equity strategies can improve risk-adjusted returns, benefiting from disciplined rebalancing (the "rebalancing premium").
    i. Exposure to "valuation factors" can improve risk adjusted returns over time. Even if outweighed by technical factors in the short-term, diversified exposure to valuation-based factor tilts can add excess return per unit of risk over a reasonable timeframe.
    ii. Exposure to the "low volatility factor" can reduce absolute equity volatility and improve risk-adjusted returns. Strategies can be implemented which manage downside risk while achieving market returns over time.
    iii. Exposure to the "small size factor" can improve risk-adjusted returns. A diversified tilt towards medium and smaller sized businesses is generally rewarded over time.
    iv. Carefully selected exposure to actively managed growth strategies can improve the balance of overall equity exposure and improve risk adjusted returns.
c. Exposure to emerging markets provides diversification and the opportunity for higher returns due to the higher risk premium typically earned for investing in these markets.
d. With sufficient research and governance, active equity management can be incorporated to add value relative to market cap weighted indices; overall active equity exposure should be focused predominantly on stock-specific risk.
e. Currency exposure associated with investing in equities can add volatility. Whilst it can be desirable to retain exposure to some currencies, hedging a proportion of non-domestic currency exposure can reduce the volatility of equity investing.

- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time, but it is not guaranteed and can be hard to access managers who consistently out-perform the relevant benchmark. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty, conflicts of interest and reputational risk need assessment and management, in addition to investment risk.
- Concentrated portfolios (smaller numbers of holdings or less external managers) allow for greater investment focus, lower investment costs, and enable more focused engagement with Responsible investment.
- Managing fees and costs matter especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

Organisational Beliefs

- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- When outperformance of a desired benchmark is not possible the fund will use index funds, financial instruments, or proxies (Investments that share similar characteristics) to gain exposure to the asset class in the most cost-effective way.
- Investment costs are necessary to generate outperformance in asset classes where outperformance is achievable. Investment costs are a certain cost that should be fully transparent and managed by the operator in the best interests of the pension Fund.

Responsible Investment Beliefs

- **Long termism:**

A long-term approach to investment will deliver better returns and the long-term nature of the Fund's liabilities allows for a long-term investment horizon

The Fund believes that *Sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term*.' The Fund believes that this can be achieved by focussing on the specific United Nations Sustainable Development Goals (SDGs) as follows:-

Economic Goals

SDG 8. Decent Work and Economic Growth
SDG 9. Industry, Innovation & Infrastructure
SDG 12 Responsible Consumption and Production

***Climate Goa*ls**

SDG 7. Affordable and Clean Energy
SDG 13. Climate Action

Health Goal

SDG 3 Good Health and Wellbeing

- **Responsible investment:**

Responsible investment is supportive of risk adjusted returns over the long term, across all asset classes. Responsible investment should be integrated into the investment processes of the Fund and its investment managers.

- **Diversification, risk management and stewardship:**

Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well diversified portfolios face systematic risk. Systematic risk can be mitigated over the long-term through widespread stewardship and industry participation.

- **Corporate governance and cognitive diversity:**

Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision making, and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.

- **Fees and remuneration:**

The management fees of investment managers and the remuneration policies of investee companies are of significance for the Fund, particularly in a low return environment. Fees and remuneration should be aligned with our long-term interests, and value for money is more important than the simple minimisation of costs.

- **Risk and opportunity:**

Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with the Fund's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.

• Climate change[1]:

Financial markets could be materially impacted by climate change and by the response of climate policymakers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of likeminded investors where feasible. See also the Funds separate Climate Risk Strategy

1 *By highlighting climate change, rather than other RI risk factors, we are not asserting that climate risk has, for all assets, greater economic significance than other factors. Our motivation for referring specifically to climate change risk derives from our recognition that it is a risk factor of particular importance to several stakeholders, and we have communicated our investment beliefs about climate change for reasons of transparency.*

<PLEASE INCLUDE PARTNER FUND LOGOS AS WELL AS LGPS CENTRAL LIMITED’S>

LGPS Central Limited

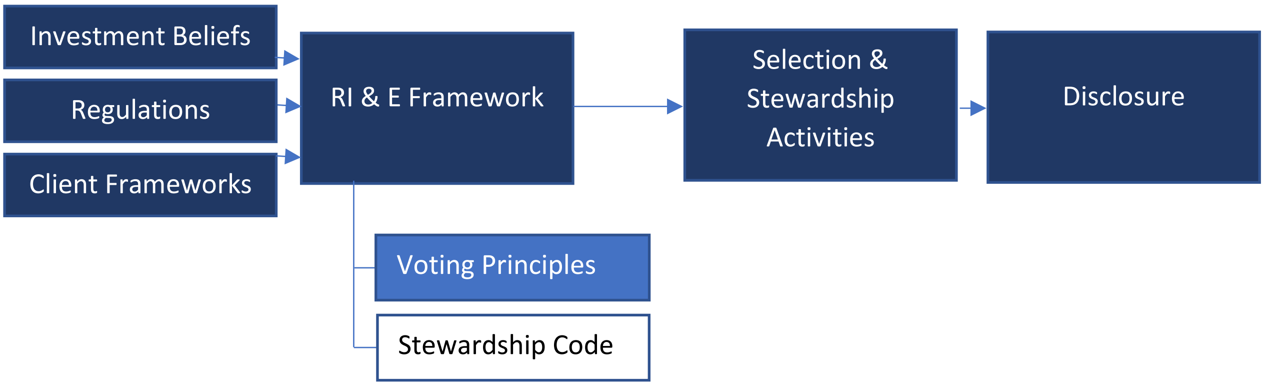
~~Voting Principles, March 2022~~Voting Principles, March 2023

1.0 Introduction to LGPS Central's Voting Principles

1.1 About this document

This document describes LGPS Central Limited's ("the Company") approach to exercising its delegated voting rights at the shareholder meetings of companies based in the UK. For non-UK securities the Company currently applies the international voting guidelines of its chosen proxy research provider. The principles in this document apply to voting rights attached to securities held in the Company's Authorised Contractual Scheme ("ACS"). As detailed in the Company's UK Stewardship Code, voting is a core component of the Company's approach to investment stewardship. This document is owned by the Company's Director of Responsible Investment & Engagement, and is implemented by the Investment Team, with ultimate responsibility resting with the Executive Committee. It is subject to annual review by the Board of the Company.

Figure 1: The Voting Principles in context



1.2 Responsible investment and voting at LGPS Central

Using our clients' investment beliefs, the Company has published a Responsible Investment and Engagement Framework which sets two aims: (1) primarily, to support investment objectives; (2) secondarily, to be an exemplar for responsible investment (RI) within the financial services industry, promote collaboration, and raise standards across the marketplace. A three-pillar framework supports these aims. The pillars are *Selection, Stewardship,* and *Transparency & Disclosure*. Voting is a core component of the Company's approach to *Stewardship*.

2.0 Corporate governance, stewardship and voting in the UK

Consistently with its approach to RI, the Company's principles regarding corporate governance, stewardship and voting in UK markets are informed by the Company's fiduciary responsibilities and, by extension, those of its clients and partner funds. The Company uses its voting rights to support the long-term economic interests of its stakeholders and to ensure boards of directors are accountable to shareholders.

2.1 UK Corporate Governance Code

The Company supports the UK Corporate Governance Code ("the Code") and believes that strong standards of corporate governance translate ultimately into healthy and stable financial markets. UK companies are expected to adhere to the Code and to provide high quality disclosure on the extent of compliance with the Code in the annual report. The Company does not view the Code as a corporate governance "straitjacket", and companies are encouraged to use the "explain" feature of the Code where particular circumstances make deviation from the Code appropriate. Such explanations should be sufficiently detailed and transparent. Beyond the Code's provisions, it is important that companies adhere to the spirit of the Code and that Boards feel empowered to make appropriate arrangements and disclosures that are suitable to the business in question. Rather than recapitulate the principles and provisions of the Code, this document focuses on areas of corporate governance and voting that require particular clarification.

2.2 Cyclical stewardship

Voting is inherently linked to engagement, and the votes cast by the Company at company meetings will typically reflect the outcomes of engagement activities during the year in review. Equally, a voting decision can set the tone for subsequent engagement. A vote is a process, not an event, and the Company's approach may be described as "cyclical stewardship". The Company's intention is that its voting decisions do not come as a surprise to our investee companies, and dialogue with companies facilitates this, and develops a two-way relationship of trust. Where the Company takes the decision to not support a resolution, this should be interpreted by the Boards of companies as an expression of strong and conscious dissatisfaction, not as a mechanical or thoughtless matter of routine. In order to send a strong signal, the Company makes a limited, tactical use of abstain.

2.3 Market transformation

The Company recognises its role as a large, diversified and long-term investor. It has an interest in improving the standards of corporate governance and sustainable business practices within financial markets and aspires to act, therefore, in a leadership role. Where certain standards or targets set the "minimum" (for example in matters relating to the diversity of company boards) the Company will consider voting beyond the minimum (for example by requiring a faster rate of progress on diversity within company boards). The Company's voting and stewardship activities are supported by its membership of various partnership organisations.

2.4 Voting procedures

The Company engages a proxy research provider to analyse and provide advice relating to the Company's voting opportunities, consistently with the Company's policies. The provider also executes the Company's votes through the relevant intermediaries.

The Company has an active securities lending programme. To ensure that the Company is able to vote its shares at important meetings, it has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. The Company monitors the meetings and proportion of the securities on loan, and will restrict and/ or recall lent stock in select circumstances, with due consideration to the advantages of voting the shares versus the cost implications of recalling or restricting the loan of the stock.

The Company's voting decisions are arrived at through a collegiate approach, incorporating the views of members of the Responsible Investment & Engagement ("RI&E") Team and fund managers as appropriate for the company in question. The Company's votes are executed in compliance with its Conflicts of Interest policy.

2.5 Voting disclosure

The Company's disclosure of its Voting Principles, and its voting outcomes, supports the Company's ambition of full transparency. With regards to voting outcomes, disclosures are made in three formats. Firstly, a report summarising the Company's voting activities is provided on a quarterly basis in the Company's *Quarterly Stewardship Report*. Secondly, the Company reports an annual summary of its voting activities, as well as other aspects of RI. Thirdly, the Company discloses its voting decision for every resolution at every eligible company meeting via an online portal. Each of these disclosures is available to the public.

From time to time the Company might choose to "pre-declare" its voting intentions for particular resolutions. This might include declarations made through third party platforms, such as the platform administered by the Principles for Responsible Investment.

3.0 Voting principles

The principles below describe the broad parameters the Company will consider before casting its votes. They are supplementary to the principles and provisions of the Code, which is fully supported by the Company. It is not possible for one document to cover every eventuality and this document's ambition is to serve as a guide. The Company will override the guidelines below where this is deemed to be in the long-term economic interests of the Company's stakeholders. Where issues are insufficiently addressed by the Code or by this document, the Company will come to a decision using internal research and the advice of the Company's chosen proxy research provider.

3.1 A great board with a long-term view

PRINCIPLES

Composition & committees

Good governance starts with a great board. Led by the Chair and/or the chair of the Nominations Committee, we expect our investee companies to appoint an effective board of directors whose combined expertise is a key strategic asset to the company. 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. 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. Equally, we will consider opposing the Chair of companies of any FTSE 100 company with materially less than 20% female representation in the combined population of the executive committee and its direct reports. Furthermore, we expect any FTSE 100 company to disclose information on ethnic minority representation at board level in line with the Parker Review report with the aim of having at least one director from an ethnic minority background. We will consider voting against the Chair of companies where insufficient progress is made against this target and where no credible plan exists to rapidly achieve this. Board members should be able to devote sufficient time to their directorship, should refrain from becoming "overboarded" and should attend all relevant meetings including committee meetings (audit, nomination, remuneration or other). Non-attendance should be explained in the Annual Report. Overboarded directors will not be supported, even if they are from demographics that are currently underrepresented in UK boardrooms. The board should demonstrate collective awareness of material short, medium and long-run risks including, where material, climate change. The Chair should ensure the board is of an appropriate size and, while the Company is not prescriptive on board size, would consider boards of 5 or fewer members, or boards of sixteen or more members, as red flags warranting further analysis. In line with the Code we expect the majority of board members, excluding the Chair, to be independent according the criteria defined in the Code. Independence is not, however, a sufficient condition for the support of a director's election or re-election: each director must offer a valuable contribution to the functioning of the board. With regards to the so-called "nine year rule" of independence: whilst we include "a tenure of fewer than nine years" among our criteria for independence, we fully support directors that make valuable contributions to the boardroom, even if their tenure exceeds this guideline. We will typically vote against special interest representation.

Consistently with the Code, boards should include nomination, remuneration, and audit committees. The latter two board committees should be composed solely of independent non-executive directors who have served on the board for at least a year, and participation by executives in these committee meetings should be by exceptional invitation only and explained in the annual report. Both the audit and the remuneration committee should have at least three members. The annual report should include a clear report from each committee Chair explaining the issues the committee has prioritised during the year in review, outlining progress made without recourse to boiler-plate language. Particular attention is paid to the overboarding of audit committee members owing to the requirement to read financial papers in sufficient detail. External advisors on remuneration and audit should be accountable to the committees, and details should be disclosed in the annual report including the nature of services provided and whether the advisor provides additional services. Conflicts of interest relating to external advisers should be disclosed and managed effectively. The Company supports the creation of additional committees that are appropriate to the business model in question, but we do not support unwarranted layers of governance, or the outsourcing of important issues to less experienced directors. We typically support board oversight of sustainability issues, either through committee structures or through individual responsibility. We support the election of employee representatives where this improves the quality of the board and accountability to stakeholders.

Leadership
The role of the Chair is of special significance, as is the relationship between the Chair and CEO. Accordingly, we pay particular attention to our vote on the re-election of the Chair. We support the Code's principles and provisions in relation to the role of the Chair and the eligibility of candidates. In exceptional circumstances we will support an interim Executive Chair, but expect a cut-off date to be provided, along with the appointment of a Deputy Chair and/or a strong Senior Independent Director ("SID"). Such exceptions should be discussed with shareholders and a clear and convincing rationale must be disclosed. The SID is another role of significance and we would not usually support the re-election of a non-independent SID, where independence is defined as per the Code.

Effectiveness, evaluation & election process
The effectiveness of boards should be reviewed internally (by an independent director, usually by the SID) on an annual basis, and should be reviewed by an external party every three years. Companies should seek shareholder input into the process for determining board effectiveness, and the identity of the triennial external reviewer should be disclosed in the annual report. Boards and their committees should establish a suitable number of meetings per year and the location of the meetings should be appropriate to the business and to the residency of the board members. In order to preserve the board's accountability to shareholders, directors should be re-elected on an annual basis by majority vote (excepting controlled companies, where director re-election ought to follow the Code). Director biographies should be sufficiently detailed in order for voting shareholders to make an informed judgement, and the Nominations Committee reports should describe the contribution the director will make, or has made, to the board during the year

3.2 A transparent audit function, supporting true and fair reporting

PRINCIPLES

The audit committee of the Board plays a critical role and votes pertaining to its composition and conduct carry particular importance for shareholders. The committee should be composed of at least three independent non-executive directors with recent financial experience, and each member should have been on the board for at least a year in order to become familiar with the business. Members of the audit committee should achieve 100% committee meeting attendance and the thresholds for overboarding are stricter for audit committee members than for other directors. Attendance by executives at audit committee meetings should be by invitation only and should be explained in the annual report. We expect the audit committee to take responsibility for reviewing internal audit controls.

A company should disclose its auditor tendering policy and details of the tendering process (when it occurs). The Company supports the EU's audit reforms, primarily that the external auditor should be independent and conflict-free (from the company and from audit committee members), and there should be regular tendering and rotation (at a minimum: tendering at least every ~~10~~ seven years, rotating every ~~20~~ 15, with no re-appointment until at least four years following the rotation). The lead audit partner should be rotated and named in the annual report. Auditor fees must be clearly disclosed, and non-audit fees should not exceed 50% of total fees over a three-year average. Where this limit is breached, the audit committee should plan for fee reduction. Companies should not provide auditors with limited liability or indemnification. The resignation of an auditor during the financial year should be clearly explained, as should any qualifications to the annual report. There should be no material omissions. The audit committee should ensure that adequate whistleblowing procedures are in place.

As with all elements of corporate disclosure, boilerplate should be avoided at all costs. Disclosures should be clear, relevant, as concise as possible and AGM materials should be available in English in sufficient time before the meeting. We will consider voting against the annual report where disclosure falls short of the mark. We support the FRC's guidance on risk management, internal control and related financial and business reporting.

The statements of viability and working capital should be clearly disclosed. Companies should provide sufficient disclosure on material and emerging risks across a suitably long-term horizon. "Long-term" should relate to the company's business cycle and should never be limited to the next twelve months. Aside from a description of risks, the strategic report should detail the contribution and composition of the company workforce.

3.3 Stewarding our capital, protecting shareholder rights

PRINCIPLES

We aim to be responsible stewards of the capital bestowed on us by our clients. In turn, we expect companies to steward the capital we provide to them with care and concern for long-term outcomes. We would like our companies to be granted the flexibility to manage their capital structure effectively and raise additional capital where necessary in a timely and cost-efficient manner. We are against giving companies unlimited authorisation to raise capital unless there is a sufficiently compelling case. We encourage companies to use the 14-day General Meeting ("GM") facility to raise extraordinary, unanticipated volumes of capital and expect prior dialogue with shareholders.

Securities that are accompanied by shareholder rights are more valuable than securities lacking these rights. Clearly, we wish to preserve or enhance this value, not fritter it away. We avoid, therefore, the unnecessary dilution of our shares and seek to preserve our rights of pre-emption. We expect resolutions pertaining to capital decisions to be split out on the proxy statement, rather than "bundled" into one resolution. We will not typically approve the creation of non-voting shares and usually vote against attempts by controlling shareholders to increase the differential between his or her level of equity ownership and voting control. Stock splits are approved on a case-by-case basis with reference to the justification disclosed by the company.

Companies ought to disclose clear dividend policies. Dividends should be sufficiently covered and put to shareholder vote. Uncovered dividends should be accompanied by an explanation covering the sustainability of the dividend or distribution policy. Companies proposing scrip issues should offer a cash dividend option. Companies ought to explain why a share buyback programme is the most appropriate method of returning cash to shareholders, including the circumstances in which a buyback will be executed. The Company pays particular attention to share buyback programmes that could affect remuneration structures through the influence on earnings per share ("EPS") measurements: such structures must be buyback-neutral and buyback authorities must be within acceptable limits, expiring no later than the following AGM. The Company will typically vote against waivers of Rule 9 of the Takeover Code.

We are unlikely to support article changes that materially reduce shareholder rights. The Company is strongly opposed to virtual-only AGMs and views as fundamental the right to attend shareholder meetings in-person. We typically oppose resolutions seeking authority to limit the jurisdiction that applies to dispute resolution.

Merger and acquisition decisions are made on a case-by-case basis, with reference to the long-term economic interest of scheme members and compliance with the Company's Conflicts of Interest Policy. Decisions are arrived at through a collegiate approach including the RI&E Team and portfolio managers as relevant for the company in question. The Company will consider supporting transactions with the following characteristics: long-term benefits to shareholders, good quality disclosure, high quality management, supportive independent advice, approval of the independent directors. We seek to determine whether the deal yields a good strategic fit, and we value prior engagement with shareholders. We think poison pills should be generally discouraged and we do not support poison pills that entrench management or damage shareholder value. Introductions of poison pills should be clearly explained and put to shareholder vote. By contrast, poison pill redemption resolutions are generally supported. We will usually vote at courts and classes in a consistent manner with our GM vote.

The Company does not support resolutions seeking authority to make political donations, where the recipients are likely to be political parties or lobbying organisations of concern.

When it comes to capital, smaller companies might be afforded greater flexibility, depending on circumstance.

3.4 Fair remuneration for strong performance through the cycle aligned with long-term success

PRINCIPLES

General

For the majority of the Company's UK listed investee companies, shareholders are entitled to vote annually on an advisory basis on the remuneration report and (typically) every three years on the remuneration policy (where the voting outcome is binding). Our voting decisions recognise that remuneration is contextual, rather than one-size-fits-all. Companies need flexibility to design and apply remuneration structures appropriate to the business in question. There is no requirement for remuneration structures to follow traditional models if more appropriate models can be found. Whilst the structure of remuneration policies is of prime importance, we are also concerned about the quantum of pay. Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company. Levels of executive remuneration that are, or are perceived to be, excessive and unfair can be demotivating to staff and reputationally damaging to the company. Executive pay should be considered in the context of overall workforce pay and in the context of the long-term financial needs of the company, its ability to meet its dividend policy and its ongoing requirement for capital investment and R&D. Remuneration structures should be simple and easy to understand for both shareholders and executives, who need clear lines of sight as to their objectives.

Governance

A remuneration committee, composed solely of independent non-executive directors, should design and apply appropriate remuneration structures and should enter into dialogue with shareholders and employee representatives. The outcome of consultations should be made known in advance of the AGM, such that policy changes do not come as a surprise to engaged shareholders or employee representatives. Any advisors to the remuneration committee should be disclosed with an explanation of the advice provided. Multiple relationships with the company should be transparent and the external auditor should not normally perform the role of remuneration advisor. The committee should feel empowered to apply discretion appropriately (including increases and decreases) and should be aware that it is possible to gain shareholder trust through the use of restraint. Where the remuneration report or policy receive large votes against (which we currently consider to be more that 20% oppose votes among minority interests), the company should consider changes to the remuneration committee, engaging shareholders and changing remuneration advisors. The output of the remuneration committee – including remuneration policies and reports – should exhibit intelligent design and proactivity. This can be achieved through appropriate departures from traditional remuneration models including Long Term Incentive Plans ("LTIP"). We advocate for simpler remuneration structures, with an emphasis on long-term share ownership, to align the interests of executives with the long-term success of the company. The remuneration committee and the nomination committee should work together on succession planning and at an early stage of the recruitment process should start to design appropriate remuneration for incoming executives. We view exceptional payments as indicative of poor planning by the remuneration committee.

Disclosure

The Chair of the remuneration committee should author a detailed but intelligible report outlining the work undertaken during the year and, where relevant, how the committee has responded to significant levels of opposition votes. Disclosures should clearly relate remuneration structures to business strategy and should relate the levels of award to company performance, strategy, financial liabilities and overall workforce conditions. Any use of discretion should be fully explained. The median and maximum awards under the bonus scheme and incentive plans should be clear, as should the effect on EPS-based targets of share buyback schemes. The targets for variable pay, for this year and next, should be disclosed (there should be retrospective disclosure if the targets are commercially sensitive). We encourage companies to disclose executive to employee pay ratios, gender pay gap, and other workforce diversity and inclusivity data which can provide insight into pay practices.

Structure and fairness

Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company.

An executive's base salary should reflect his or her role and level of responsibility. Base salary should not increase significantly without a clear, compelling and exceptional justification. The rate of salary should not be solely or mainly based on quartile comparison, and we would expect salary benchmarking to occur once every three years at a maximum. Salary increases should be set in the context of wage increases to the median worker. The remuneration committee should understand how base pay increases affect the total level of pay now and in the future. Contracts should be agreed on a 12 months basis.

Annual bonuses should have stretching, declared targets that link to company strategy. There should be consistency with the targets given prominence in the strategic report. Performance against targets should be disclosed in the remuneration report. In determining targets for variable pay, the remuneration committee should consider strategic, financial and non-financial measurements, and companies with high levels of ESG (environmental, social or governance) risk should consider using ESG metrics with appropriate weightings. We encourage c~~C~~ompanies ~~which~~to ~~utilise~~ embed ESG metrics in their pay structure and to ~~should~~ explain to shareholders the relevance of each metric to its strategy. In general, bonuses should be reduced from their current levels, and maximum and median rewards under annual bonuses should usually be lower than rewards within LTIP schemes, reflecting the dominance of the long-term over the short-term. The payment of a significant proportion of the annual bonus in deferred shares is welcomed where this improves alignment with shareholders, does not risk excessive dilution, and includes a suitable holding period. If a company experiences a significant negative event, bonus sanction should be considered even if the annual targets were met.

Incentive schemes should be transparent, understandable, long-term and appropriate to the circumstances and strategy of the company. For reasons of simplicity, companies should avoid having more than one active incentive plan. Performance conditions should ensure there is no reward for failure, nor for luck, and sufficient clawback and malus provisions should be designed and applied. The performance measurement period should have a minimum of three years, with a vesting period a minimum of three years from grant. Companies operating in sectors with long-term investment horizons should consider a performance period of more than three years. We are concerned that, despite the wide range of business models and investment horizons across UK listed companies, there are too many standard LTIP schemes with common vesting periods and performance targets, and we think this reflects a lack of intelligent design by remuneration committees. Committees should give thought to not having an LTIP and rewarding executives through a single bonus scheme which pays out in deferred shares with a holding period, based on stretching performance targets. Whether contained in an LTIP or otherwise, performance targets should not reward below-median performance and threshold vesting amounts should not be significant relevant to base salary. Any performance award should be clearly linked to disclosed targets. Where comparator groups are used, the remuneration committee should disclose why the comparators are believed to be genuinely representative (e.g. with reference to their size, sector and performance). If awards depend on Total Shareholder Return ("TSR") relative to overseas peers, companies should disclose fair currency conversion policies in advance of the grant. There should be several performance targets, which should relate to shareholder return, to the business strategy and include financial and non-financial elements, according to the company's current and expected operating environment. We would not expect performance conditions to be re-tested between remuneration policy reviews. Following a change of control, awards under an LTIP plan should be made pro-rata for time and performance to date; they should not automatically vest. Share-based awards should not lead to excessive dilution and exceptions to this principle should be put to shareholder vote, which ought to receive support from the majority of minority shareholders. In the event of a decline in the share price, remuneration committees should prevent accidental ("windfall") gains through top level grants through the use of downward discretion. Remuneration policies should explain the treatment of M&A and share buybacks where these are likely to impact performance targets either directly or indirectly.

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. Whilst these shares may be hedged or used as collateral, the company should make it clear that this is not true for share awards earned through LTIPs. Executive share ownership for alignment purposes should be distinct from shares granted under LTIPs, though exceptions may be made where shares are vested and not subject to ongoing performance conditions. Significant share sales should be rationalised in the annual report. As with all aspects of remuneration, the remuneration committee should be wary of unintended consequences e.g. effects on risk taking or risk aversion, dividend policy design and M&A.

Remuneration committees should be cognisant of the significant costs and liabilities of executives' pensions contributions, the overall remuneration structure, and the tax and regulatory environment. Whilst we use a 30% contribution rate as a guideline for the upper limit, we think executive pensions contributions must set in the context of contributions for the overall workforce. Changes in actuarial assumptions that affect transfer values should be clearly disclosed. No element of variable pay should be pensionable.

Certain payments to incoming and outgoing executives cannot be avoided, but remuneration committees should be mindful of opportunities to minimise such costs in alignment with long-term shareholders. Outgoing executives should not be rewarded for failure. Severance pay consequences should be considered before appointment, such that early termination does not lead to unanticipated liabilities. We will not usually support retention payments ("golden handcuffs"), but could support deferred payments to key staff during critical periods. A clear rationale should be presented during shareholder dialogue. Similarly, compensatory payments for new appointments (including where the appointee has had to forgo expected variable pay at a previous employer) could only be considered with a clear rationale and we would expect compensation to be awarded in shares and subject to perf conditions. New appointments should normally begin on a lower salary to avoid creeping costs.

We will typically oppose tax equalisation payments where this introduces a new (net) cost to the company. We expect a cap on such payments to be disclosed.

Non-executive directors' fees should reflect the role and the level of responsibility and should not increase excessively from one year to the next. We do not expect non-executives to participate in LTIP schemes but understand that, exceptionally, directors may be granted shares at listing or pre-listing stage on a one-off basis. Share awards need a clear rationale and the policy should be applied consistently over time with conditions and parameters that ensure independence of the director's contribution. At a minimum this should include a requirement that share-based awards do not have performance conditions and are made at the market price. Additional benefits for non-executives should reflect necessary business duties only.

3.5 Sustainable Business Practices

PRINCIPLES

We expect companies to assess and address the impact of their operations on society and the environment, including in supply chains and business relationships, and through their products. We expect companies to consider relevant, material social and environmental risk factors in their long-term strategic business planning. These can have a significant effect on the value of a company's assets over time, and on its ability to generate long-term returns for shareholders.

We consider disclosure of codes of conduct, policies, strategies, management plans and performance data with respect to environmental and social issues, as well as impact assessments of specific projects or operations, to be the first step towards better management of associated risks. Reporting should follow from the board's view of material or salient risks and opportunities and be aligned with business strategy and risk assessments. Companies should seek to align their disclosures with established reporting standards and frameworks.

We will consider voting against the C~~c~~hair, and other relevant directors or resolutions (including remuneration), 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. We expect disclosure of climate-related risks and actions to mitigate these in line with latest best practice guidelines, such as those of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) and the ClimateAction 100+ Benchmark Framework. Furthermore, we expect companies to present a climate transition plan with an explicit net-zero by 2050 target to shareholders for advisory voting at three-year intervals, as a minimum. Net-zero strategies should be expressed in absolute emissions, not emissions intensity only, and cover the full lifecycle of emissions, as well as establish short and medium-term targets, critically 2030 targets, that demonstrate how net-zero by 2050 can be achieved. Progress against the plan should be reported to the annual general meeting. ~~In particular, if~~If a company is assessed by the Transition Pathway Initiative's Management Quality framework ~~to be at a~~below a Level ~~3 or lower~~4, we will consider voting against the company Chair, and other relevant directors or resolutions. We encourage companies to commit to protect and restore biodiversity as part of their broader climate transition effort. We expect companies to disclose information on their climate and energy policy lobbying and expenditure, allowing shareholders the opportunity to assess whether these lobbying activities are in line with the goals of the Paris Accord.

3.6 Miscellaneous

PRINCIPLES

We are regularly called on to vote on shareholder proposals. These proposals address a range of topics including proxy access, articles of association, climate change, human rights and more. The Company takes a case-by-case approach to shareholder resolutions. We will support resolutions that are appropriately worded and, on balance, encourage sustainable business practices and support the long-term economic interests of our stakeholders and help to make boards of directors accountable to shareholders. We consider pre-declaring our voting intentions on shareholder proposals on a case-by-case basis.

We follow the Pension and Lifetime Savings Association's ("PLSA") guidance on related party transactions.

We usually support all employee share schemes, except where we have concerns over dilution.

Smaller companies and investment trusts are at different stages with respect to corporate governance arrangements, and our expectations of these companies reflect these differences in some circumstances. We are mindful of the QCA corporate governance code for smaller and medium listed companies and the Association of Investment Companies Code of Corporate Governance.

Where the Company has voting rights at private (unlisted) companies, votes will be cast drawing on principles articulated above as far as practicable.

About LGPS Central Limited

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CLIMATE CHANGE RISK STRATEGY

MARCH 2023

Contents

1. Introduction

This Climate Strategy sets out Worcestershire Pension Fund's (the Fund) approach to addressing the risks and opportunities related to climate change.

The Fund is supportive of the ambitions of the Paris Agreement on Climate Change to hold the increase in the global temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels – ratified by 191 parties.

The Pensions Committee (the Committee) is responsible for reviewing and approving the Fund's policies and strategies, including its Climate Strategy. The Climate Strategy works in tandem with the Fund's Investment Strategy Statement and Funding Strategy Statement.

The development of a separate Climate Strategy reflects the potential material effect of climate change, and the response to climate change, on the assets and liabilities of the Fund. For example, short-term risks include stock price movements resulting from increased regulation to address climate change. Medium-term risks include policy and technology leading to changes in consumer behaviour and therefore purchasing decisions – the uptake in electric vehicles is an example of this. Long-term risks include physical damages to real assets and resource availability. Examples would include increased sea level rise for coastal infrastructure assets or supply chain impacts for companies as a result of severe weather events.

The Committee will review the Climate Strategy at least every two years, or at such time as the Committee determines it is appropriate to review the Fund's approach to addressing the risks and opportunities related to climate change.

Responsibility for the identification and management of climate-related risks, together with the implementation of the Fund's Climate Strategy, resides with the Chief Financial Officer and the Pensions Investment & Treasury Management Manager.

The Fund works closely with LGPS Central who provide the Fund an annual Climate Risk report, a draft TCFD report and a Climate Risk scenario report every 3 years. LGPSC are also looking to roll out Environmental;, Social Governance tool to improve reporting and looking to expand the Responsible Investment & Engagement reporting to reflect evolving industry best practice.

2. Climate Change

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. Most of this warming has occurred in the last 35 years, with the five warmest years on record taking place since 2010. The observed global mean surface temperature has risen from around 1950 onwards. Over 97% of climate scientists (Source: NASA) agree that this trend is the result of greenhouse gas (GHG) emissions which are being trapped in the atmosphere and creating a 'greenhouse effect' – a warming that occurs when the atmosphere blocks heat radiating from Earth towards space. These climate scientists have observed that these climactic changes are primarily the result of human activities including electricity and heat production, agriculture and land use change, industry, and transport.

This is causing more frequent and more extreme weather events and world governments have started to respond. The signatories to the 2015 Paris Agreement committed to keeping the global temperature rise this century to well below 2.0°C compared with pre-industrial levels and to aiming to limit the increase to 1.5°C (Article 2(1)a). The Paris Agreement commits signatories to the establishment of Nationally Determined Contributions (NDCs), which are intended to be individually equitable and collectively sufficient to achieve Article 2(1)a. It is estimated that under current global policies (and assuming successful implementation), the world is heading towards a warming of 3.2°C.

The low-carbon transition is already underway, with a number of governments and institutions around the world intensifying their climate change policies, and corporates responding in turn. Investors are exposed globally to the risks and opportunities presented by climate change adaption and mitigation. The risks might include holding companies whose business will be negatively impacted as the climate transition evolves (e.g. fossil fuel companies). The opportunities might include investing in companies that stand to gain from the transition to a low carbon economy.

Investors have a key role to play in the transition to a low carbon economy, influencing company behaviours and encouraging the development of better climate-related disclosures. However, investors cannot effect material change alone. Governments, policy makers, consumers, companies, and investors all have a role to play in the transition to a low carbon economy.

If policy and corporate action does not progressively transition towards the net zero goal, it will be extremely challenging for investors to achieve a portfolio of assets that has net zero emissions in 2050.

The Fund recognises that:

- Human activities have caused a change in the earth's climate which presents material risks to human and eco-systems and to global economies.
- A global coordinated policy response and a change in consumer behaviour will be required to limit the damaging rise in global temperatures.
- Climate change is a long-term financial material risk for the Fund, across all asset classes, and has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.

The Fund believes that:

- The risks and opportunities of climate change should be considered as part of asset allocation decisions, manager selection decisions and individual investment decisions.
- Diversification across asset classes, regions and sectors is an important risk management tool to reduce the unpredictability of climate-related risks such as unexpected events (weather) and expected events (such as melting ice) where the implications of these events are not fully understood as yet.
- In order to fully integrate climate-related risk into the Fund's investment processes, the consistency, comparability, and quality of climate-related data, including the identification and measurement of companies' Scope 3 emissions will need to improve. **Scope 3 emissions** are the result of activities from assets not owned or controlled by the reporting organisation, but that the organisation indirectly impacts in its value chain. Scope 3 emissions, also referred to as value chain emissions, often represent the majority of an organisation's total Greenhouse Gas (GHG) emissions
- The low-carbon transition is already underway, but the pathway is unclear, and the transition will not occur by focusing only on the suppliers of energy; the demand for energy must also be addressed.
- It is possible for a company to shift its business model in order to thrive in the transition to a low carbon future; such a shift is more likely with the support and stewardship of responsible investors.

3. Climate-related Objectives

The Fund aims to have access to the best possible information available on the risk and opportunities presented by climate change. This includes impacts to the Fund's investment strategy, or its funding strategy, as a result of transition risks, physical risks, and opportunities.

The Fund aims to ensure that its investment portfolio will be as resilient as possible to climate-related risks over the short, medium, and long term. For an effective first line of defence, the Fund aims to integrate climate-related factors into the investment process, including the selection of investment managers.

The Fund intends to reduce the carbon intensity of its portfolio through its selection of investments and investment managers.

4. Collaboration and Transparency

The Fund aims to collaborate with like-minded organisations to support the ambitions of climate-related initiatives and aims to be fully transparent with its stakeholders through regular public disclosure, aligned with best practice.

- The Fund supports the Paris Agreement on Climate Change.
- The Fund will actively participate in selected initiatives that lend support to the Fund's Climate Strategy, including working with other like-minded investors to engage with high-emitting companies.
- The Fund supports the Taskforce on Climate-related Financial Disclosures (TCFD) and adopts

its recommendations for the Fund's climate disclosures.

- The Fund will use its membership of the Local Authority Pension Fund Forum (LAPFF) and being a partner to the LGPS Central Limited pool to assist it in pursing engagement activities.

5. Strategic Actions

5.1 Measurement & Observation

The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the best available information to assess climate-related threats to investment performance.

The Fund will make regular measurements and observations on climate-related risks and opportunities relevant to the Fund. This will include:

- Identification of the most material climate-related risks to the Fund.
- Economic assessment of the Fund's asset allocation against plausible climate-related scenarios.
- A suite of carbon metrics for the Fund's listed equity portfolio to allow the Fund to assess progress in responding to climate-related risks and opportunities, including carbon intensity; weight in companies with fossil fuel reserves; weight in companies with thermal coal reserves; and weight in companies with clean technology. A more complete analysis of all of the Fund's assets classes will be conducted when reliable carbon-related data becomes available for non-listed equity assets.
- Assessment of progression against the Fund's carbon footprint and low carbon & sustainable investment targets.

Methodologies for assessing the impact of future climate-related scenarios, including the possibility of measuring against alignment with the Paris Agreement, remain at an early stage of development, and the Fund will support efforts to develop more reliable and comparable methodologies.

The Fund recognises that there is currently significant variability in the relevance, consistency, comparability, and quality of companies' climate-related disclosures. The Fund supports adoption, and encourages disclosure, in line with the recommendations of the TCFD.

5.2 Asset Allocation & Targets

Where there is a credible evidence base, the Fund will integrate climate-related factors into asset class reviews, subject to the requirements of the Investment Strategy Statement and Funding Strategy Statement. The Fund will aim to:

- Reduce further the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio compared to its weighted benchmark in 2022 by the end of 2023; and set an internal decarbonisation reduction target up to 2025 at which point it will be further reviewed.
- Continue to invest a proportion of the Fund's portfolio in low carbon & sustainable investments by the end of 2023.
- Use the Climate Scenario Analysis to track and better understand the portfolio's capacity to transition into a low carbon economy.

5.3 Manager Selection and Monitoring

The Fund will assess material climate-related risk and opportunities using an evidenced based long term investment appraisal to inform decision making, alongside other relevant investment factors, as part of the investment manager selection process.

As a largely externally managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual investment managers appointed by the Fund. Existing investment managers are monitored on a regular basis to review the integration of climate-related risks into the portfolio management process, and to understand their engagement activities.

The Fund will also continue working with appointed fund managers to understand how they are assessing, monitoring, and mitigating key transition and physical risks within sectors which carry the highest risks

5.4 Stewardship

The Fund's annual Responsible Investment Stewardship report will include a section on climate-related stewardship plans. This will set clear goals of engagement with investee companies and investment managers to manage risks and opportunities within the Fund's investment portfolio, focusing on those risks and opportunities which will have the greatest impact.

The Fund will collaborate with other like-minded investors where possible and the Fund will participate in selected collaborative initiatives where these support the Fund's climate-related objectives. The Fund will make full use of its voting rights and will co-file or support climate-related shareholder resolutions where these support the Fund's climate-related objectives.

6. Transparency & Disclosure

The Fund will:

- Prepare a TCFD Report annually
- Report on the progression against the Fund's carbon footprint and low carbon & sustainable investment targets annually
- Report on a suite of carbon metrics in the Fund's annual report.
- Disclose the stewardship reports of the Fund's key investment managers on a quarterly basis.
- Report on progress against the RI Stewardship Plan engagement goals annually.
- Set an internal carbon reduction target up to 2025 and then review thereafter.

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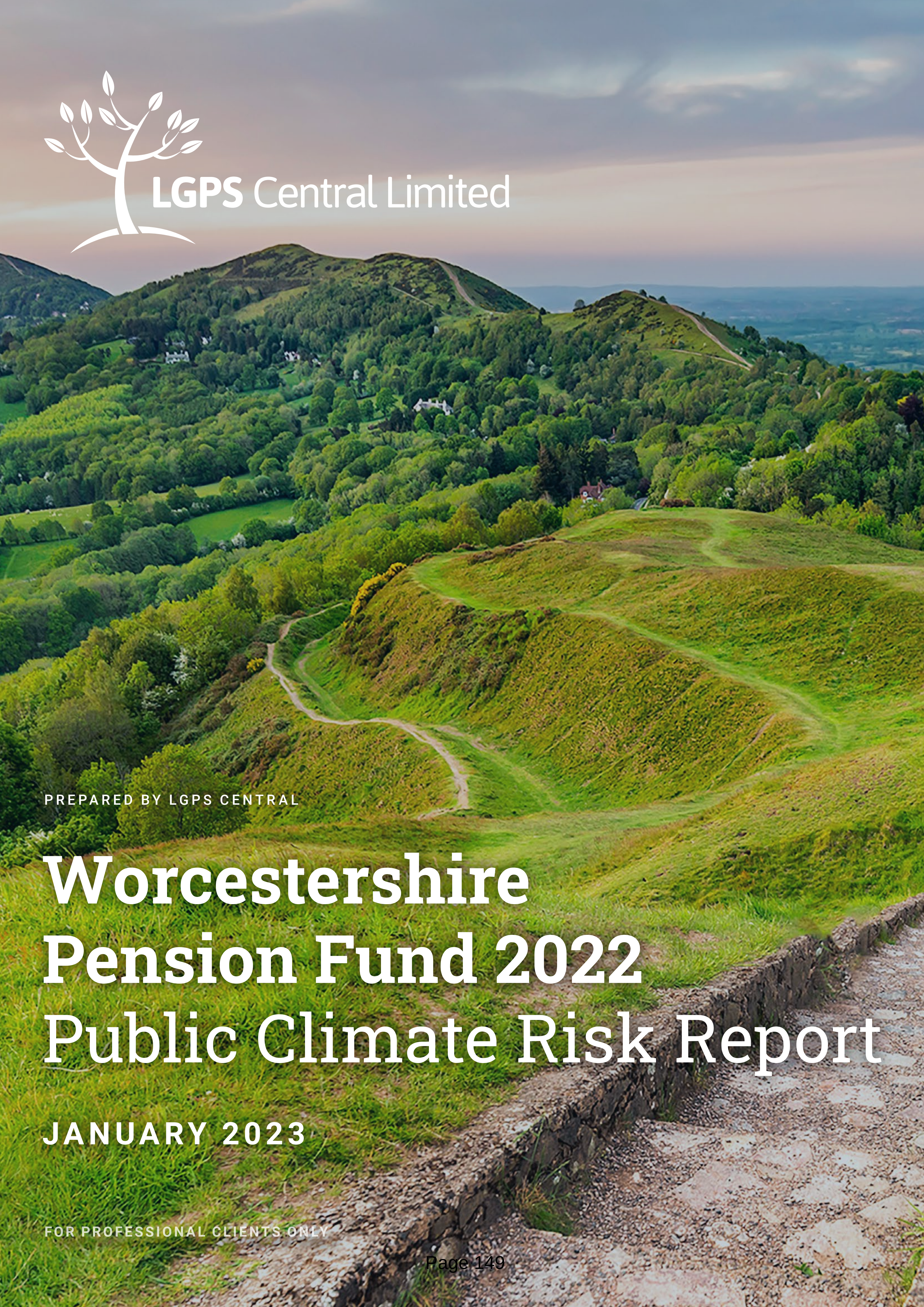

LGPS Central Limited

PREPARED BY LGPS CENTRAL

Worcestershire Pension Fund 2022
Public Climate Risk Report

JANUARY 2023

FOR PROFESSIONAL CLIENTS ONLY

PREPARED BY LGPS CENTRAL

Worcestershire Pension Fund 2022 Public Climate Risk Report

JANUARY 2023

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LGPS Central Limited

Contents

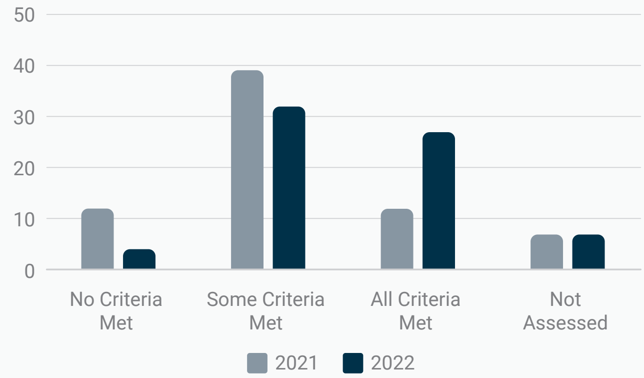
1.0 Executive Summary

Key Highlights from 2022:

AS OF MARCH 2022
the carbon footprint
of total equities has decreased by
▼ **13.63%**
FROM MAY 2020
The carbon footprint of the benchmark decreased by 5.79% over the same period.

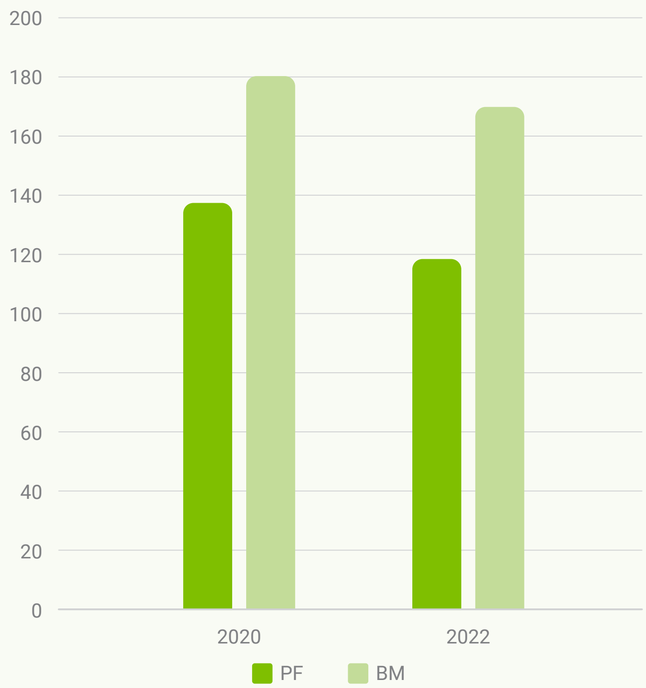
The carbon footprint
of the Total Equities portfolio was
▼ **30.10%**
LOWER THAN THAT OF THE BENCHMARK
and 13.63% lower than in 2020.

Total CA100+ NZB Indicators Met by CSP Companies



In turn, the decrease in the carbon footprint
OF THE TOTAL PASSIVE EQUITIES
can be associated with
the portfolio changes made between 2020 and 2022

Total Equities Carbon Footprint



THE OBSERVED DECREASE IN THE
carbon footprint of total equities
is driven by a ▼ **24.44%** decrease in the
carbon footprint[1] of the Total Passive Equities

7 out of 8
of Climate Stewardship Plan companies
HAVE BEEN AWARDED A
Management Quality of 4 or 4* by the Transition Pathway Initiative[3]
This implies 7 of the 8 companies in the Climate Stewardship Plan exhibit strong governance of greenhouse gasses.

The financed emissions[2] of the Total Equities
INCREASED BY
▲ **5.51%**
driven by an increase in the
financed emissions of Total Active Equities

THE ONE COMPANY WHICH DID NOT RECEIVE A
4 or 4* TPI Management Quality score
FALLS OUTSIDE OF THE SECTORS WHICH TPI EXAMINES
and was therefore not scored.

[1] Carbon footprint is calculated as the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company attributed by portfolio weight.
[2] Financed emissions is calculated by the total emissions of the company apportioned by WPF's financing of the company (both debt and equities exposure) divided by the EVIC.
[3] The Transition Pathway Initiative (TPI) framework evaluates companies based on their climate risk management quality and their carbon performance. A Management Quality rating of 4 means the company has performed a strategic assessment of climate change, while 4* means the company has been awarded the highest possible TPI management quality score and satisfies all relevant management quality criteria.

This Report is Worcestershire Pension Fund's (WPF) Third Climate Risk Report. During September 2020 and January 2022 WPF received its first and second Climate Risk Reports respectively. Through a combination of bottom-up and top-down analysis, the report was designed to allow WPF to view the climate risk held throughout the equities and fixed income portfolios, accompanied by recommendations WPF may choose to adopt to manage and reduce climate risks.

The purpose of this third report is to analyse progress against the baseline of data from the initial 2020 report. This will allow a reassessment of the Fund's exposure to climate-related risks and opportunities and identification of further means for the Fund to manage its material climate risks. The report is structured to align with the four pillars of the Taskforce on Climate-Related Financial Disclosures (TCFD) and facilitates public disclosure against this framework. We provide below a summary of the salient findings from each section in the report.

GOVERNANCE

The Fund has made progress in enhancing its responsible investment and climate change practice. Examples of these enhancements include: attaining signatory status to the 2020 UK Stewardship Code, integrating responsible investment, including climate change as a regular item within Pensions Committee meetings, holding climate-related workshops, and publishing key reports and documents such as the Climate-Related Disclosures Report. Finally, the consideration of explicit climate targets has also been put to the Committee.

STRATEGY

Section 4.2 provides a Climate Scenario Analysis (CSA), which estimates the effects on key financial parameters (such as risk and return) that could result from plausible climate scenarios. The findings from Mercer's climate scenario analysis highlights the possible impact from transition and physical risks of climate change. The Fund will likely perform better in an Orderly or Rapid transition scenario. In a Failed transition scenario, physical impact from climate change will likely affect longer-term investment return.

RISK MANAGEMENT

We have reviewed ongoing engagements with the eight companies in the Fund's Climate Stewardship Plan (CSP). Currently, none of these companies have attained all the indicators within the CA100+ benchmark assessment. However, most of the companies are making clear progress in their climate strategies, which is evidenced through several measures of success. In the meantime, the Fund has agreed to adding Reliance Industries to the CSP.

METRICS AND TARGETS

Carbon footprint of Total Equities has decreased by 13.63% from the May 2020 baseline level and is now 30.10% lower than the benchmark level. However, financed emissions have increased by 5.51% from the baseline.

2.0 Recommendations and Considerations

2.1 Governance

CATEGORY	PORTFOLIO	RECOMMENDED ACTION	REPORT REFERENCE
Governance	Total Fund	• **R:** Continue to schedule time at Pension Fund Committee meetings for the discussion of climate-related risks and climate strategy. Schedule one training session on general RI matters, and one climate-specific training per year. • **R:** Continue to include Quarterly Stewardship updates in Pension Committee meetings. • **C:** WPF could consider a Net Zero Climate Strategy for the fund, as well as short term and long-term net zero targets.	4.1

2.2 Strategy

CATEGORY	PORTFOLIO	RECOMMENDED ACTION	REPORT REFERENCE
Strategy	Total Fund	• **R:** Continue to collaborate with its various partners including LGPS Central and other external managers to address key physical and transition risks in the portfolio. • **R:** Keep exposure to growth assets which have greater long term physical risks from climate change and sustainable equities which help mitigate transition risks under review. • **C:** Explore other low carbon asset classes such as sustainable private equity and sustainable private infrastructure. • **R:** Continue working with appointed fund managers to understand how they are assessing, monitoring, and mitigating key transition and physical risks within sectors which carry the highest risks. • **R:** Use the Climate Scenario Analysis to track and better understand the portfolio's capacity to transition into a low carbon economy.	4.2

2.3 Risk Management

CATEGORY	PORTFOLIO	RECOMMENDED ACTION	REPORT REFERENCE
Company Stewardship	Total Equities	• **R:** Continue to engage the companies highlighted in the Climate Stewardship plan through selected stewardship partners. • **R:** Report progress in the next Climate Risk Report.	4.3

2.4 Metrics & Targets

CATEGORY	PORTFOLIO	RECOMMENDED ACTION	REPORT REFERENCE
Metrics	Total Equities	• **R:** Continue to monitor the carbon footprint and financed emissions of this portfolio. • **R:** Continue to monitor engagement with BP, CRH, Shell, Rio Tinto, and Cemex.	4.4.2

3.0 Introduction

3.1 Scope of the Report

The purpose of this report is to:

1. Analyse progress against the baseline of data from previous reports.
2. Reassess the Fund's exposure to climate-related risks and opportunities.
3. Identify further means for the Fund to manage its material climate risks.

3.2 Climate Action to Date

To demonstrate the urgency surrounding climate change, and why it is necessary for Pension Funds to act now to mitigate climate risks, we provide below a summary of the key climate updates which have occurred since the start of 2021.

The evidence is clear that climate change could be the largest systemic risk, and largest example of market failure, faced by any human society. Whilst concern is being voiced, the action to date shows we are not yet doing enough, with the current trajectory of 3°C likely to place us beyond the realm of human experience sometime in the next 30 years. This is sub-optimal for pension funds, even accounting for their ability to diversify idiosyncratic risk. The climate scenario with the lowest estimated economic damages and the one most favourable to long-term investors is a scenario that aligns with the Paris Agreement. Since climate risks could to one extent or another affect all asset classes, all sectors, all regions, it is unlikely that climate-risks can be mitigated completely through diversification alone.

For investors, climate change is a fiduciary issue. Local authority pension funds typically have multidecadal time horizons, with both their investment beliefs and liability profiles thoroughly long-term. Significant uncertainty remains, and no single tool can provide an accurate and complete observation on a pension fund's climate risk. For responsible investors looking to proactively manage climate risk, a combination of metrics and methodologies, paired with targeted engagement, represents the best possible information set currently available.

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MAY 2021

IEA 1.5°C SCENARIO

The International Energy Agency (IEA) publishes its 1.5°C 'Net Zero' Scenario. It argues the new scenario is the most technically feasible, cost-effective and socially acceptable way to stay below the 1.5°C limit. Stipulations of the scenario include: no new investments in fossil fuel supply as of 2021; a 75% decline in methane emissions; a radical shift towards renewable energy; an increase in Carbon Capture and Storage (CCS) capacity of 4000%; no sales of new combustion engines in cars by 2035; and net zero emissions from the power sector by 2040.

OCTOBER 2021

WMO STATE OF GLOBAL CLIMATE REPORT

The World Meteorological Organisation (WMO) releases its 2021 State of Global Climate Report which combines inputs from multiple UN agencies, national meteorological and hydrological services, and scientific experts. The report reveals that:

- 2021 was among the seven hottest years on record. Global average temperatures were 1.1°C–1.2°C above the preindustrial average.
- Levels of atmospheric CO_2 reached 414ppm, their highest average in the modern record. This represents an increase of 50% compared to pre-industrial levels.
- Sea level rise reached 1.4mm/yr between 2013 and 2021. Global mean sea level reached a record high in 2021.
- Ocean heat content reached a new record high in 2020.

OCTOBER 2021

UN EMISSIONS GAP REPORT 2021

The UN released its Emissions Gap Report 2021. The report shows that countries' 2030 climate targets would lead to a global temperature rise of 2.7°C by the end of the century. This is above the goals of the Paris Agreement and would lead to catastrophic changes in the Earth's climate.

NOVEMBER 2021

COP26

COP 26 was the 26th edition of the United Nations Climate Change Conference, held in Glasgow in November 2021. The outcomes of COP26 included the following:

1) 197 countries agreed to adopt the Glasgow Climate Pact. This commits countries to review and strengthen their NDCs at COP27, and to accelerate efforts towards the phase-down of unabated coal power.
2) 100 countries signed a pledge to cut methane emissions by 30% by 2030. The pledge includes six of the world's ten largest emitters.
3) Joint US-China climate declaration centred around principles for climate cooperation, ranging from methane reduction to protecting forests.
4) UK-led initiative of 190 countries and organisations agreeing to phase out the use of coal-fired power for major economies in the 2030s.
5) Article Six was finalised, ensuring rules for a global carbon offset market.
6) Agreement between 141 countries to end deforestation by 2030.

DECEMBER 2021

IEA ANNUAL REPORTS

The 2021 IEA Renewables Forecast revealed that a record amount of renewable energy was added to energy systems globally in 2021, but it remains half of what is needed annually to be on track to reach net zero emissions by 2050. Additionally, within their Coal Forecast, the IEA called for strong and immediate action from governments to tackle emissions from coal as it predicted the amount of electricity generated from burning the fuel would jump by 9%.

FEBRUARY 2022

IPCC SIXTH ASSESSMENT PART TWO

The IPCC releases Part Two "Impacts, Adaptation and Vulnerability" of its Sixth Assessment Report. The report warns that climate change risks are greater than previously thought. The world has a brief and rapidly closing window to adapt to climate change. Some losses are already irreversible, and ecosystems are reaching the limits of their ability to adapt to the changing climate. Hazards such as the rise in sea level were unavoidable and "any further delay" to mitigate and adapt to warning would miss the "window of opportunity to secure a liveable and sustainable future for all".

APRIL 2022

IPCC SIXTH ASSESSMENT PART THREE

The IPCC releases Part Three "Mitigation of Climate Change" of its Sixth Assessment Report. The Report covers efforts to mitigate the effects of climate change and finds that the world can still achieve 1.5°C if radical action is taken. Net carbon emissions must peak within the next three years and be eliminated by the early 2050s. On our current trajectory, we are heading for a temperature rise of 3°C. The main finding for investors is that financial flows are currently 3-6 times lower than the level needed by 2030 to limit global warming. While there is sufficient capital to close investment gaps, increasing flows relies on clearer signalling from governments.

4.0 Analysis

4.1 Governance

4.1.1 SCOPE

In the Fund's 2020 Climate Risk Report we reviewed the Fund's published documentation and governance arrangements from the perspective of climate strategy setting. In the subsequent 2021 Climate Risk Report we provided a progress update and refresh to this review. Both reports identified areas in which the Fund's governance and policies could further embed and normalise the management of climate risk. We provide a progress update against the recommendations and considerations issued in the previous report and suggest further policy extensions the Fund could consider. We recognise that the Fund's existing climate governance is already to a high standard, and our perspectives offered below are suggestive only.

4.1.2 WPF'S CLIMATE MANAGEMENT TIMELINE

SEPTEMBER 2020

FIRST CLIMATE RISK REPORT

During September 2020, WPF received its first Climate Risk Report.

FEBRUARY 2021

ESG AUDIT & SDG MAPPING EXERCISE

WPF completed and published an environmental social governance (ESG) audit and a sustainable development goals (SDGs) mapping exercise during February 2021.

JUNE 2021

INVESTMENT STRATEGY STATEMENT WITH INCLUSION OF RESPONSIBLE INVESTMENT AND STEWARDSHIP SECTION

In June 2021 WPF published its Investment Strategy statement with the inclusion of a section examining Responsible Investment and Stewardship.

SEPTEMBER 2021

FIRST PENSION FUND TO ACHIEVE SIGNATORY STATUS ON THE UK STEWARDSHIP CODE 2020

On the 1st of September 2021, the FRC notified WPF that they have achieved signatory status to the 2020 UK Stewardship Code.

JANUARY 2022

SECOND CLIMATE RISK REPORT

During January 2022, WPF received its second Climate Risk Report.

FEBRUARY 2022

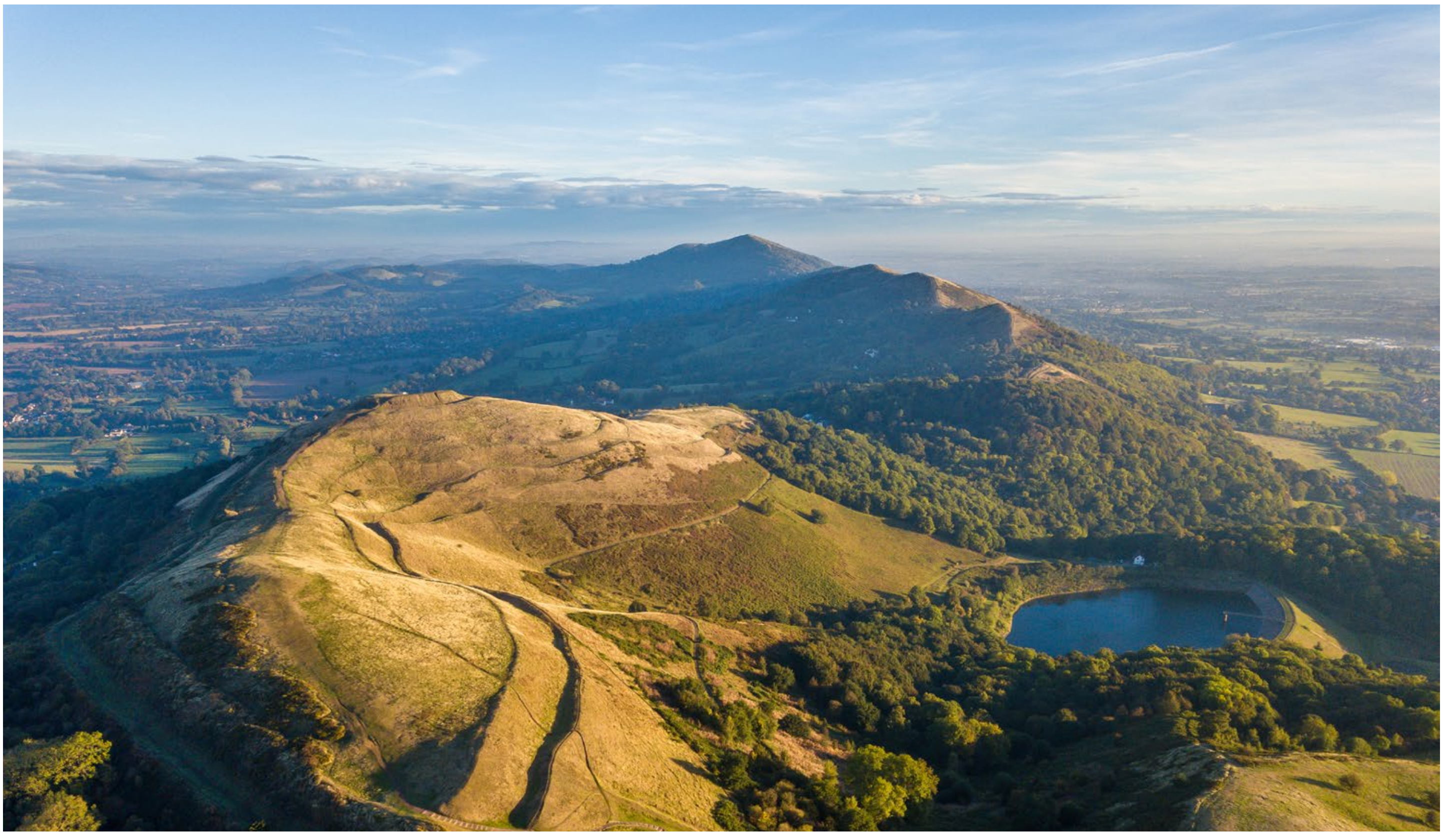
CLIMATE-RELATED DISCLOSURES REPORT (TCFD)

WPF published their Climate-Related Disclosures Report during February 2022.

MARCH 2022

CLIMATE CHANGE RISK STRATEGY

In March 2022 WPF published its Climate change Strategy, which addresses WPF approach to addressing the risks and opportunities related to climate change.



4.1.3 KEY FINDINGS

WPF has made significant progress in terms of its responsible investment and climate change practice. Since 2020 WPF has published several key documents/reports as well as integrating responsible investment into the Investment Strategy.

4.1.4 FURTHER ACTIONS

RECOMMENDATIONS:

The following recommendations were successfully achieved in 2022 but due to their ongoing nature we recommend they continue as regular practice in future years.

- Continue to schedule time at Pension Fund Committee meetings for the discussion of climate-related risks and climate strategy. Schedule one training session on general RI matters, and one climate-specific training per year.
- Continue to include Quarterly Stewardship updates in Pension Committee meetings.

CONSIDERATIONS:

We recommend that the following recommendations/ considerations are carried over from the 2021 Climate Risk Report.

- WPF could consider a Net Zero Climate Strategy for the fund, as well as short term and long-term net zero targets.

4.2 Strategy

4.2.1 CLIMATE SCENARIO ANALYSIS

CLIMATE SCENARIO ANALYSIS INTRODUCTION

In the Fund's 2020 Climate Risk Report, we utilised the services of Mercer LLC (Mercer) to conduct Climate Scenario Analysis of the Fund. Climate Scenario Analysis estimates the effects on key financial parameters (such as risk and return) that could result from plausible climate scenarios. In this report the scenarios were defined according to the change in mean global surface temperatures since pre-industrial times. We considered three scenarios (2°C, 3°C and 4°C) across three timescales (2030, 2050 and 2100).

For 2022, Mercer has partnered with Ortec Finance and Cambridge Econometrics to develop climate scenarios that are grounded in the latest climate and economic research and give practical insights. This partnership brings together Mercer's investment and climate expertise alongside Ortec's research and scenario generator technology.

This report will summarise the key changes in the model and discuss the results of the analysis, focusing on annualised and cumulative impacts against a baseline assumption, and comparison between the two asset allocations.

WHY SHOULD A PENSION FUND CONDUCT CLIMATE SCENARIO ANALYSIS?

Investors often use scenario analysis to support Strategic Asset Allocation (SAA) and portfolio construction decisions, as it helps to model potential risks and returns.

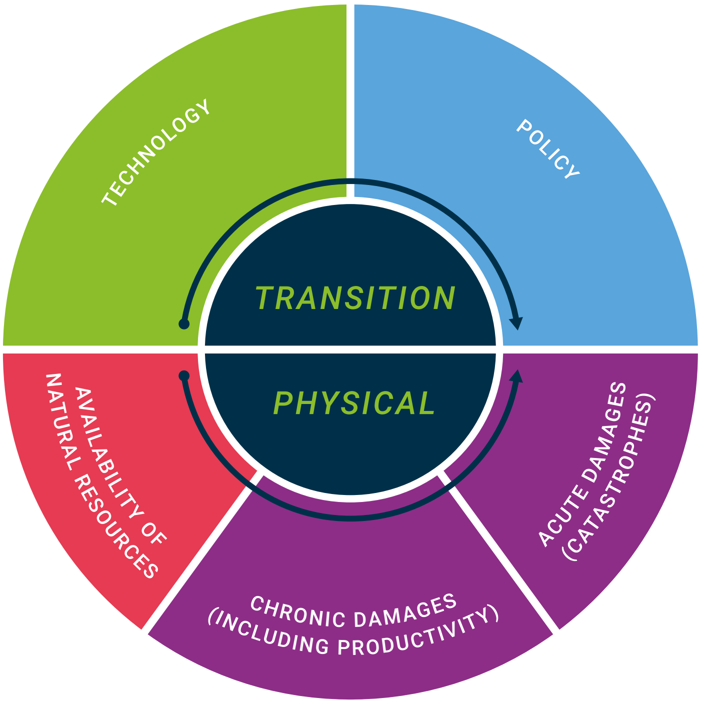
With a growing (but still early) understanding of the potential impacts of climate change on investment performance and following the recommendations of the TCFD, more pension funds are electing to conduct Climate Scenario Analysis. Climate Scenario Analysis helps investors to better understand the short-, medium- and long-term climate change risks and opportunities associated with plausible climate change scenarios, to understand the portfolio's sensitivities to such scenarios, and to build more resilient portfolios.

As we argue above, although the predictions made by climate scientists have gained overwhelming consensus, there remains a great deal of uncertainty for investors around the market reaction to climate risks and changing climate policies. This creates a strong argument for Climate Scenario Analysis to understand the different possible eventualities across a range of scenarios. It is important that investors assess their portfolio's resilience to different climate scenarios and consider the impact of their portfolios on future climate trajectories.

We remain conscious that scenario analysis (of any kind) requires by necessity the use of assumptions about inherently unpredictable phenomena. Climate Scenario Analysis is no different in this regard. We believe, however, that investors looking to manage climate risk proactively ought to attempt an 'inference to the best explanation' and we think the Mercer's model and approach to Climate Scenario Analysis is the best available.

Mercer's climate scenarios are constructed to explore three climate scenarios (Rapid Transition, Orderly Transition and Failed Transition) and explore a range of plausible futures over 5 to 40 years, rather than exploring tail risks. Mercer's analysis considers two risk factors: transition risk and physical risk.

RISK FACTORS



CLIMATE SCENARIO ANALYSIS: PROS AND CONS

Future developments are inherently uncertain and impossible to predict. To manage uncertainty, scenario analysis is used to assist asset allocation decisions.

SCENARIO ANALYSIS CHALLENGES:

- Scenario uncertainty: Any climate scenario only reflects one possible way to achieve a certain temperature goal, while in reality many different scenarios are possible for the same temperature outcome.
- Model uncertainty: Different models lead to different results, due to different model structure and assumptions.
- Uncertainty around assumptions: For example, ambitious scenarios depend on future (negative emissions) technologies such as carbon capture and storage.

- Gaps: On the other hand, certain necessary changes to achieve zero emissions are currently not included in most models, such as changes in lifestyle (e.g. plant-based diets) or economic systems (e.g. circular economy). Furthermore, certain high-risk impacts cannot be covered in most models, such as impacts of sea level rise, migration, health and tipping points in the climate system.

SCENARIO ANALYSIS BENEFITS:

- Proactively assesses impact of changing future climate events.
- Ability to understand a wide range of climate outcomes.
- Forecast the potential impacts into actionable insights.

MERCER'S CLIMATE SCENARIOS

Mercer's three climate scenarios are developed by building the investment modelling on top of the economic impacts of different climate change scenarios within the Cambridge Econometric's E3ME climate model. Each climate scenario covers a specific level of warming driven by levels of carbon dioxide (CO_2) and other greenhouse gases. These levels are determined by the policies enacted and technological developments. The impacts of the warming are shown in the physical damages. The three scenarios used in the modelling are outlined below.

1.5°C RAPID TRANSITION

AVERAGE TEMPERATURE INCREASE OF 1.5°C BY 2100 IN LINE WITH THE PARIS AGREEMENT

This scenario assumes sudden large-scale downward re-pricing across multiple securities in 2025. This could be driven by a change in policy or realisation that policy change is inevitable, consideration of stranded assets or expected cost. To a degree the shock is sentiment driven and therefore followed by a partial recovery across markets. The physical damages are most limited under this scenario.

1.6°C ORDERLY TRANSITION

AVERAGE TEMPERATURE INCREASE OF 1.6°C BY 2100

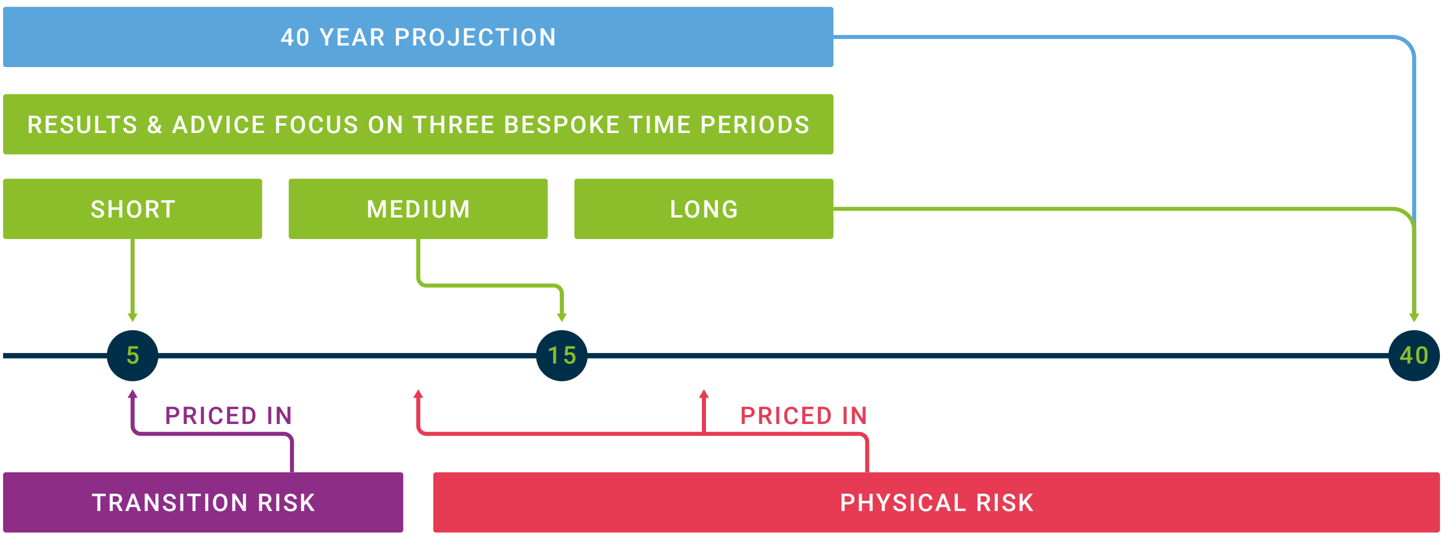
This scenario assumes political and social organisations act in a co-ordinated way to implement the recommendations of the Paris Agreement to limit global warming to well below 2°C. Transition impacts do occur but are relatively muted across the broad market.

4°C FAILED TRANSITION

AVERAGE TEMPERATURE INCREASE ABOVE 4°C BY 2100

This scenario assumes the world fails to co-ordinate a transition to a low carbon economy and global warming exceeds 4°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasingly negative impacts from extreme weather events. These are reflected in re-pricing events in the late 2020s and late 2030s.

In the analysis, Mercer focused on short-, medium- and long-term time frames of 5, 15 and 40 years. In shorter time frames, transition risk tends to dominate while over longer time frames physical risk is expected to be the key driver of climate impacts. Transition risks are priced in around 2026 and future physical damages are priced in around the end of 2020s and 2030s. These pricing in shocks reflect likely market dynamics and mean climate impacts are more likely to fit within investment timeframes.



INTERPRETATION OF THE MAIN RESULTS

The main results produced by Mercer's model is an estimated impact on investment returns, given some particular pair of (a) climate scenario and (b) time horizon, expressed either as annualised (%) or cumulative (£) returns. This should be interpreted as the climate-related impact on the estimated returns for a portfolio or asset class, i.e., it is additional to the expected mean return for that portfolio or asset class. The expected mean return of the portfolio is expressed by a climate aware baseline. It incorporates climate impacts that has been 'priced-in' by the economy and markets associated with the global warming that has occurred to date (approximately 1.2°C relative to pre-industrial levels). It does not include future additional climate impacts associated with further warming or the paradigm shifts in economies that could plausibly result from the transition or physical impacts. There is compelling academic evidence to suggest that climate impacts are currently priced-in to some extent. This means the impacts of the Orderly and Rapid Transition scenarios tend to be smaller as some of the impact is already priced in. The transition impact of a Failed Transition can be positive for sectors that the market is expecting to be negatively impacted by a transition in the short- to medium-term.

This analysis focuses on the potential impacts on the funds' performance of different global warming scenarios given the funds asset allocation. Under this analysis, the asset allocation of WPF does not determine which scenario is realised or most probably. WPF has developed a climate strategy, which includes supporting the ambitions of the Paris Agreement and aims to achieve a portfolio of assets with net zero carbon emissions by 2050. The transition process and outcome achieved will be determined by a multitude of factors including the policy response and global coordination (or failure to coordinate) of political and social organisations.

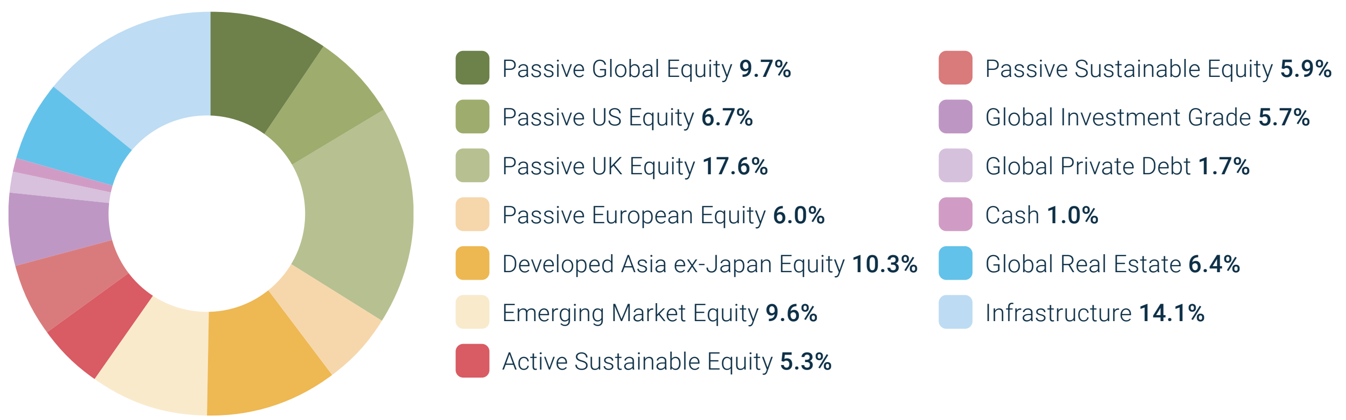
CLIMATE SCENARIO ANALYSIS SCOPE

The analysis includes the whole of WPF's investment portfolio. The analysis is top-down, mapping each of WPF's underlying portfolios to an asset class that is featured within Mercer's model. The projections utilise asset allocations as of 30th June 2022, assume £3,312m initial asset value and contributions income matches benefit outgo. Two variations of WPF's investment portfolio are analysed by Mercer:

1. The Current Asset Allocation (invested as of 30th June 2022)
2. The Reduced Carbon Asset Allocation

TABLE 4.2.1.1 ASSET ALLOCATION VARIANTS ANALYSED

CURRENT ASSET ALLOCATION (CURRENT AA)



REDUCED CARBON ASSET ALLOCATION (RCAA)

CURRENT AA	%	MODELLING ASSET CLASS	CURRENT AA (%)	REDUCED CARBON ASSET ALLOCATION (%)
DEVELOPED EQUITY	50.3%	Passive Global Equity	9.7%	10.0%
		Passive US Equity	6.7%	7.0%
		Passive UK Equity	17.6%	10.0%
		Passive European Equity	6.0%	5.0%
		Developed Asia ex-Japan	10.3%	8.0%
EMERGING MARKET EQUITY	9.6%	Emerging Market Equity	9.6%	9.0%
SUSTAINABLE EQUITY	11.2%	Sustainable Equity*	11.2%	20.0%
GLOBAL INVESTMENT GRADE	5.7%	Global Investment Grade	5.7%	6.0%
GLOBAL SENIOR PRIVATE DEBT	1.7%	Global Senior Private Debt	1.7%	4.0%
REAL ESTATE	6.4%	Global Real Estate	6.4%	6.0%
INFRASTRUCTURE	14.1%	Infrastructure	14.1%	14.0%
CASH	1.0%	Cash	1.0%	1.0%
TOTAL	100.0%		100.0%	100.0%

CLIMATE SCENARIO ANALYSIS FINDINGS

KEY CONCLUSION ONE: A SUCCESSFUL TRANSITION IS AN IMPERATIVE

Over the long term a successful transition is imperative for WPF as both asset allocations are forecasted to fare better under Rapid and Orderly transition scenarios versus the Failed transition. This is similar for nearly all investors, as over the long term a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.

Under a Failed transition scenario, climate impact on returns is felt in the long-term from the manifestation of physical risks. Both asset allocations suffer under this scenario relative to the expected return under the baseline scenario. Under the Orderly and Rapid transition scenarios, long-term physical impact from climate change is less prevalent due to the mitigation responses in the short-term such as policy changes and technological breakthroughs. In a Rapid transition, the hastiness and uncoordinated responses lead to short-term transition impact as asset prices decline as a consequence of these moves.

According to Mercer's model, an Orderly transition leads to superior economic outcomes relative to other climate change scenarios. The model suggests that an Orderly scenario would in the long-term see both the Current Asset Allocation and the Strategic Asset Allocation experience returns that are most aligned with the baseline. The Rapid transition scenario produces marginally lower returns compared to the Orderly scenario stemming from the short-term transition impact. The asset allocations perform the worst under the Failed scenario. Cumulative losses under the Failed transition scenario over 40 years could amount to c.37% of portfolio's value relative to the baseline.

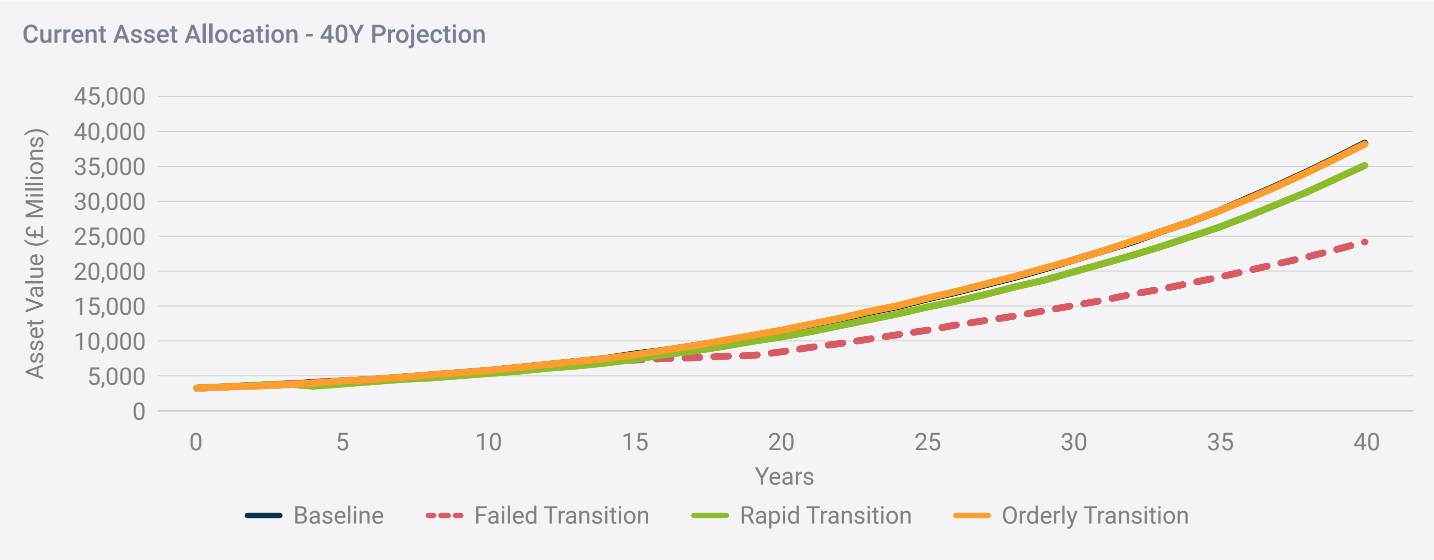
The reduced carbon asset allocation's performance is marginally less impacted in all three climate scenarios compared to the current asset allocation. Although there are similar allocations to developed equities between the current asset allocation and reduced carbon asset allocation the allocation to sustainable equities almost doubles (from 5.9% to 10.0%), which translates into a slight improvement in both the orderly and rapid transitions. The performance of the reduced carbon asset allocation is also assisted by a greater allocation to private debt.

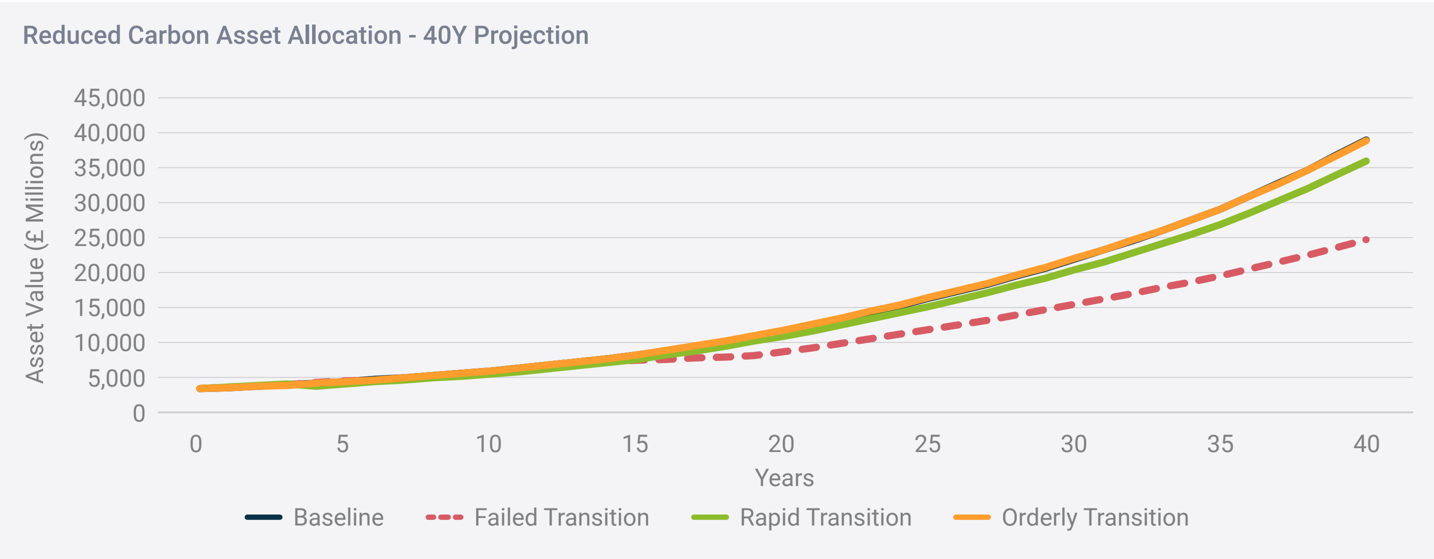
TABLE 4.2.1.2 ANNUALISED CLIMATE CHANGE IMPACT ON PORTFOLIO RETURNS – TO 5, 15 AND 40 YEARS

		CURRENT ASSET ALLOCATION	REDUCED CARBON ASSET ALLOCATION
RAPID	5 years	-2.03%	-1.92%
	15 years	-0.60%	-0.56%
	40 years	-0.23%	-0.21%
ORDERLY	5 years	-0.15%	-0.15%
	15 years	-0.02%	-0.01%
	40 years	-0.01%	-0.01%
FAILED	5 years	0.18%	0.16%
	15 years	-0.71%	-0.72%
	40 years	-1.21%	-1.21%

≤ - 10 bps   > -10 bps, < 10bps   ≥ 10 bps

FIGURE 4.2.1.1 CUMULATIVE RETURN PROJECTIONS BY CLIMATE CHANGE SCENARIO





RECOMMENDATIONS:

We recommend the Fund to continue to collaborate with its various partners including LGPS Central and other external managers to address key physical and transition risks in the portfolio. Key findings from this section can help inform priority areas from an asset class perspective.

KEY CONCLUSION TWO: 2. SUSTAINABLE ALLOCATIONS PROTECT AGAINST TRANSITION RISK, GROWTH ASSETS ARE HIGHLY VULNERABLE TO PHYSICAL RISK

Asset class returns vary significantly by scenario depending on their respective exposure to transition and physical risks. Allocations to sustainable asset classes provide some transition risk protection in the event of a Rapid Transition. On the other end of the scale, growth assets are generally more vulnerable to physical risk.

TABLE 4.2.1.3 CUMULATIVE RETURN IMPACTS FOR CURRENT ASSET ALLOCATION, BY ASSET CLASS ACROSS THREE CLIMATE CHANGE SCENARIO

CURRENT SAA	MODELLING ASSET CLASS	ALLOCATION	5 YEARS			40 YEARS		
			FAILED TRANSITION	RAPID TRANSITION	ORDERLY TRANSITION	FAILED TRANSITION	RAPID TRANSITION	ORDERLY TRANSITION
Developed Equity	MSCI World Equity	9.70%	2%	-13%	-1%	-42%	-12%	-1%
	US Equity	6.70%	2%	-13%	-2%	-43%	-13%	-3%
	UK Equity	17.60%	1%	-10%	-1%	-36%	-8%	0%
	Europe Equity	6.00%	1%	-13%	0%	-39%	-12%	1%
	Developed Asia Ex. Japan Equity	10.30%	1%	-14%	-1%	-47%	-13%	-1%
Emerging Market Equity	Emerging Markets Equity	9.60%	1%	-12%	0%	-49%	-11%	0%
Sustainable Equity	Passive Sustainable Equity	5.90%	1%	-9%	-2%	-44%	-7%	0%
	Active Sustainable Equity	5.30%	-2%	-2%	0%	-45%	-3%	2%
Global Investment Grade	Credit - Global Investment Grade	5.70%	0%	-1%	0%	-5%	-1%	1%
Real Estate	Global Real Estate	6.40%	0%	-5%	0%	-36%	-3%	1%
Infrastructure	Infrastructure	14.10%	1%	-9%	0%	-37%	-9%	-1%
Global Senior Private Debt	Global Senior Private Debt	1.70%	0%	-1%	0%	-8%	-2%	0%
Cash	Cash	1.00%	0%	0%	0%	-7%	1%	1%

RECOMMENDATIONS:

WPF allocates a significant portion of its investments into growth assets which carry higher long-term physical risks from climate change, and the impacts are depicted in Table 4.2.1.3. The Funds exposure to sustainable equities provides protection against transtion risks in the event of a rapid transtion. We recommend WPF to keep the commitment to these allocations under review and continue to consider exploring allocations to low carbon strategies and other asset classes, such as sustainable private equity and sustainable infrastructure which will provide further protection against transtion risks.

KEY CONCLUSION THREE: MONITOR SECTOR AND REGIONAL EXPOSURES

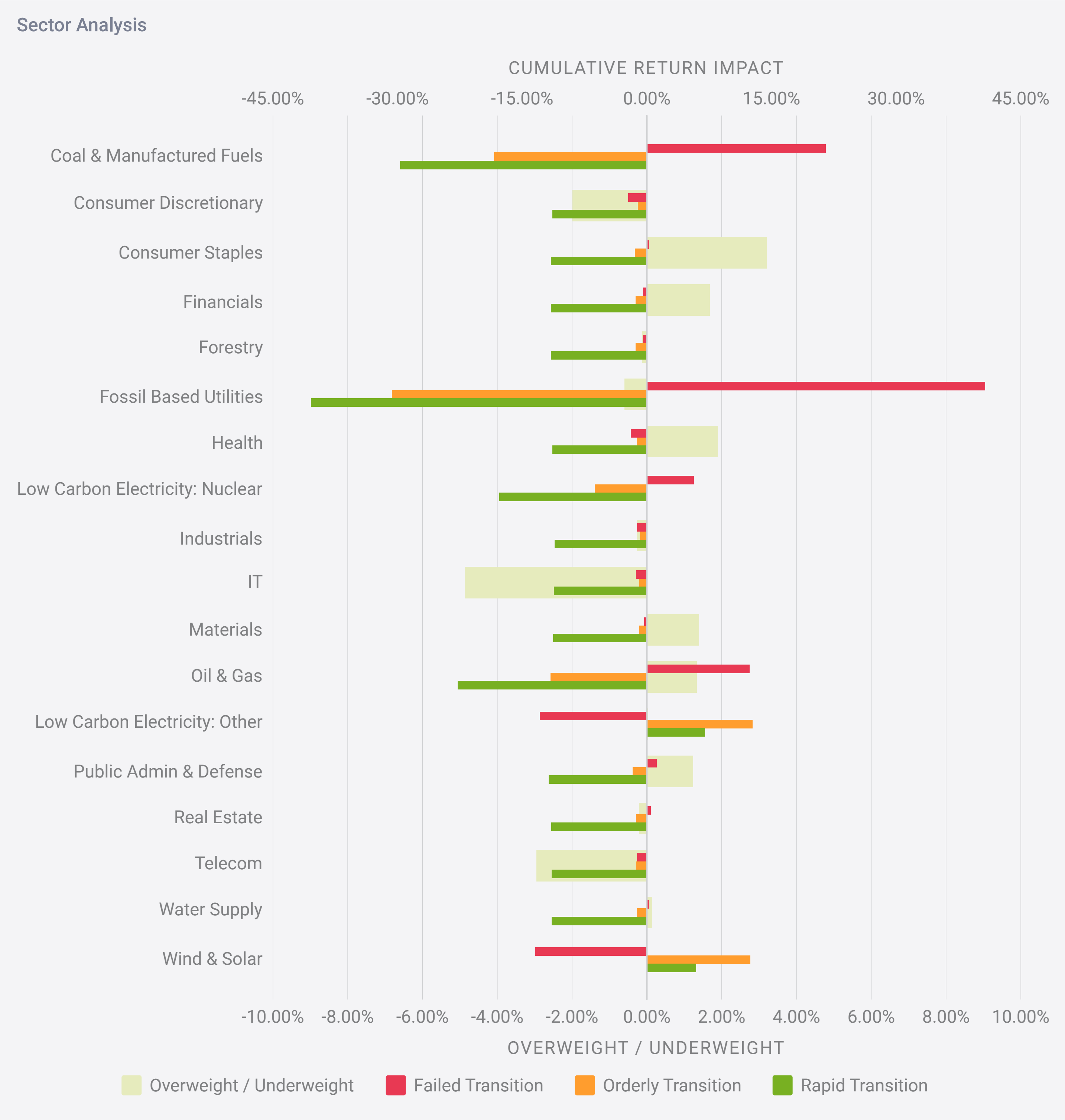
Differences in return impact are most visible at an industry sector level, with significant divergence between scenarios. Oil and Gas, Fossil Fuel Based Utilities and Renewables are most impacted by the transition.

Figure 4.2.1.2 shows the relative under/overweight positions of WPF's overall equity portfolio versus MSCI ACWI (light grey bar), as well as cumulative return impact experienced by different sectors within an equity portfolio over a 5 year-period, when transition risks dominate.

WPF's equity portfolios are overweight to oil and gas while being slightly underweight to fossil based utilities, which are both sectors that are significantly exposed to transition risk. These sectors are therefore negatively impacted during the rapid and orderly transition scenarios. Conversely, these sectors perform well in a failed transition.

In the Rapid and Orderly transition scenarios, Renewable Energy (Wind & Solar) and Low Carbon Electricity (ex. Nuclear) are the only two sectors to generate positive returns.

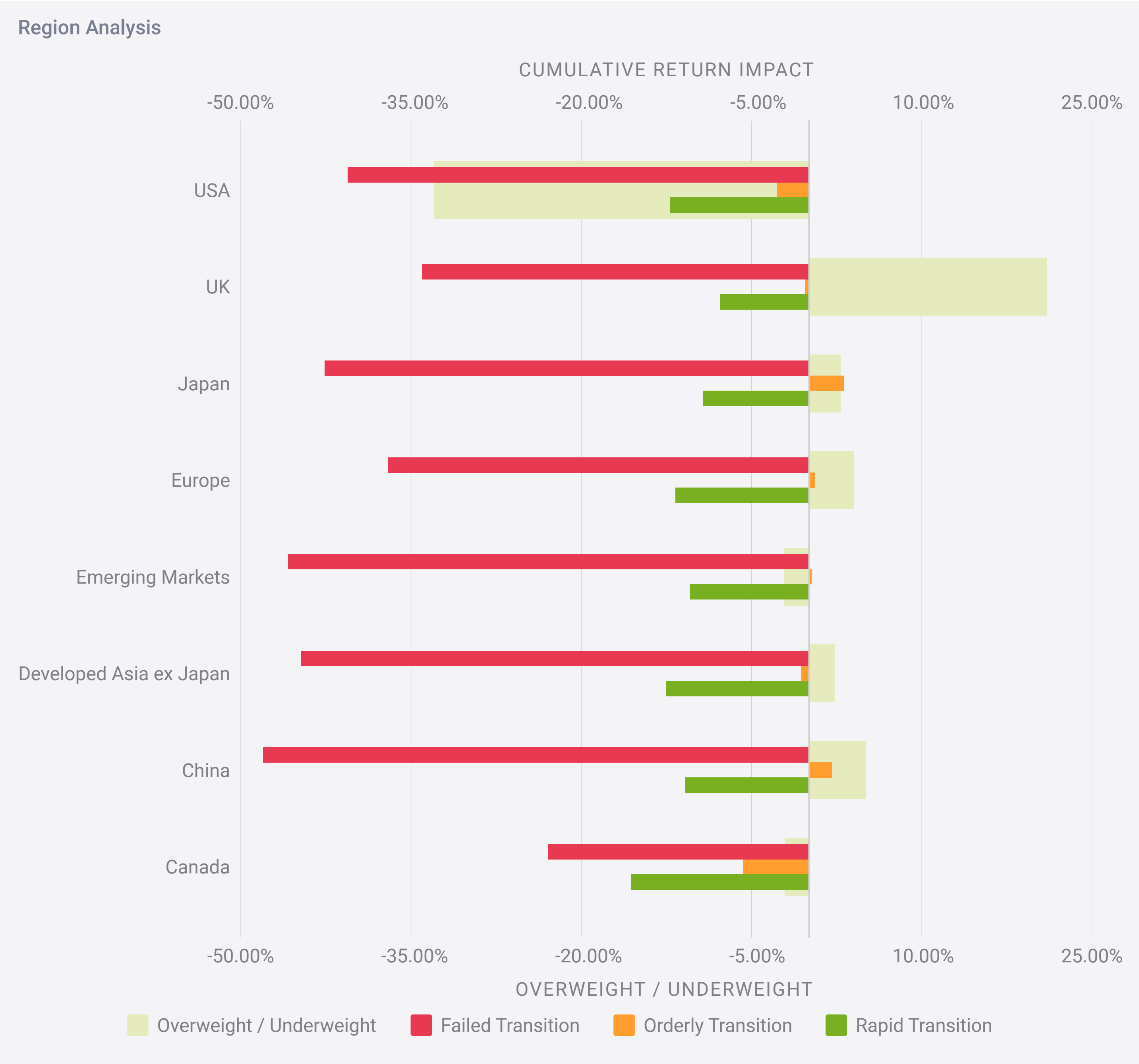
FIGURE 4.2.1.2 SECTORAL CUMULATIVE RETURN IMPACT AND WPF CURRENT EQUITIES SECTOR ALLOCATION



In terms of regional impact, China, Emerging Markets and Developed Asia ex-Japan are most exposed to climate risks. Figure 4.2.1.3 shows the relative under/overweight positions of WPF's overall equity portfolio versus MSCI ACWI (light grey bar), as well as cumulative return impact experienced by different region within an equity portfolio over a 40 year-period, when physical risks dominate.

WPF is most notably overweight to UK equities, which are less impacted in a failed transition than most other regions. WPF is also significantly underweight to US equities, which are broadly impacted in line with most other developed regions under the different scenarios. There is also a slight underweight exposure to emerging markets (Excluding China) equities but overweight to developed Asia excluding Japan, these regions experience significant negative outcomes under a failed transition.

FIGURE 4.2.1.3 REGIONAL CUMULATIVE RETURN IMPACT AND WPF CURRENT EQUITIES SECTOR ALLOCATION



RECOMMENDATIONS:

We recommend WPF work with its appointed fund managers to understand how they are assessing, monitoring, and mitigating key transition and physical risks within the high-impact sectors, particularly in Oil & Gas where the Fund has an overweight position relative to the global index. The Fund should keep regional exposures under review, especially considering exposure to emerging market equities.

KEY CONCLUSION FOUR: BE AWARE OF FUTURE PRICING SHOCKS

As markets react to new information because of changing physical and policy / transition risks, investors will be vulnerable to rapid repricing shocks. Exploring the potential impact that repricing events can have on investment strategy and positioning portfolios ahead of time is critical.

Investors look to predict future events and price these events before they occur. This means that longer-term impacts, including transition and physical risks could impact portfolios earlier than the time these events occur.

Mercer's Rapid Transition includes a shock around 2025 pricing in (and overreacting to a degree) to transition costs. The Failed Transition includes shocks towards the end of the 2020s and 2030s pricing in future damage. While the exact timing of such shocks is unknowable, considering such shocks is an important aspect of Mercer's risk analysis.

As discussed in key conclusion two, WPF's current allocations to sustainable asset classes provide some transition risk protection in the event of a rapid repricing event. WPF's allocations to Listed Equity, Property and Infrastructure are materially exposed to physical risks under a Failed Transition over the longer term.

RECOMMENDATIONS:

Using the analysis from this Climate Scenario Analysis and the overall Climate Risk Report, WPF is on track to get a better understanding of the portfolio's capacity to transition into a low carbon economy. We recommend using these analyses to evolve WPF's sustainable investment targets to include more ambitious climate objectives.

4.3 Risk Management

4.3.1 CLIMATE STEWARDSHIP PLAN SCOPE

Based on the findings of its previous Climate Risk Reports, the Fund has developed a Climate Stewardship Plan (CSP). The CSP identifies the areas in which stewardship techniques can be leveraged to further understand and manage climate-related risks within the Fund.

Currently the CSP identifies a focus list of eight companies for prioritised engagement. These companies are chosen based of several factors including contribution to the Fund's carbon intensity, financed emissions, weight of holdings and regional spread. To ensure relevance to the Fund's investments, the list is updated annually to reflect its current holdings. Reflecting the externally managed nature of WPF, the Fund's portfolio managers and suppliers are engaging with these companies on behalf of the Fund.

We have reviewed ongoing engagements with these companies and provide below a progress update on the outcomes of the engagement. The Climate Action 100+ Net Zero Benchmark and Transition Pathway Initiative are used as key tools to monitor progress within the Fund's CSP.

TRANSITION PATHWAY INITIATIVE

The Transition Pathway Initiative (TPI) framework evaluates companies based on their climate risk management quality and their carbon performance. The former includes an assessment of policies, strategy, risk management and targets. There are six management quality levels a company can be assigned to:

- **Level 0** – Unaware of (or not Acknowledging) Climate Change as a Business Issue
- **Level 1** – Acknowledging Climate Change as a Business Issue
- **Level 2** – Building Capacity
- **Level 3** – Integrated into Operational Decision-making
- **Level 4** – Strategic Assessment
- **Level 4*** – Satisfies all management quality criteria

Companies expected future emissions intensity pathways – labelled carbon performance – is assessed against international targets and national pledges made as part of the 2015 Paris Agreement. Alignment is tested on different timeframes, including 2030 and 2050. There are eight carbon performance trajectories:

- No or unsuitable disclosure
- Not aligned
- International pledges
- National pledges
- Paris pledges
- 2 Degrees
- Below 2 Degrees
- 1.5 Degrees

CLIMATE ACTION 100+ NET ZERO BENCHMARK

The CA100+ Net Zero benchmark is designed to assess the performance of the world's 166 largest corporate greenhouse gas emitters against ten key indicators. These indicators are all measures of success for business alignment with a net zero emissions future and with the goals of the Paris Agreement. The ten indicators are:

1. Net Zero GHG Emissions by 2050 (or sooner) ambition
2. Long-term (2036-2050) GHG reduction target(s)
3. Medium-term (2026-2035) GHG reduction target(s)
4. Short-term (up to 2025) GHG reduction target(s)
5. Decarbonisation Strategy (Target Delivery)
6. Capital Alignment
7. Climate Policy Engagement
8. Climate Governance
9. Just Transition
10. TCFD Disclosure

The first assessments for each CA100+ company against the ten indicators were published on 22nd March 2021 and refreshed on 30th March 2022. These assessments offer comparative assessments of individual focus company performance against the goals of the initiative. The Benchmark will be reviewed in 2022 with an aim to provide sector-specific transition pathway parameters that companies respectively are compared to.

4.3.2 PROGRESS UPDATE

TABLE 4.3.2.1 COMPANIES INCLUDED IN THE CLIMATE STEWARDSHIP PLAN

COMPANY	SECTOR	NET ZERO TARGET	% OF CA100+ INDICATORS MET	TPI MANAGEMENT QUALITY	TPI CARBON PERFORMANCE		
					TO 2025	TO 2035	TO 2050
BHP Group	Materials	Yes	60%	4	1.5 Degrees	1.5 Degrees	1.5 Degrees
BP	Energy	Yes	30%	4*	Not Aligned	National Pledges	1.5 Degrees
Cemex	Cement		40%	4	Below 2 Degrees	Below 2 Degrees	1.5 Degrees
CRH	Materials	Yes	30%	4	Below 2 Degrees	1.5 Degrees	1.5 Degrees
Glencore	Materials	Yes	40%	4	1.5 Degrees	Below 2 Degrees	National Pledges
Rio Tinto	Mining	Yes	20%	4	Paris Pledges	Paris Pledges	Below 2 Degrees
Royal Dutch Shell	Energy	Yes	50%	4	Not Aligned	Below 2 Degrees	1.5 Degrees
Taiwan Semiconductor Manufacturing Co	Info Tech	N/A	N/A	N/A	N/A	N/A	N/A
Reliance Industries	Energy	Yes	0%	1	No or unsuitable disclosure	No or unsuitable disclosure	No or unsuitable disclosure

Keep on the CSP   Add to the CSP

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4.4 Metrics and Targets

4.4.1 SCOPE AND DEFINITIONS OF TERMS

The following Carbon Risk Metrics section is a bottom-up analysis conducted at the company and portfolio level. The purposes of this analysis are:

- To observe climate transition risks and opportunities in the portfolio
- To identify company engagement opportunities
- To support manager monitoring of climate risk management

The scope of the analysis comprises the equities and fixed income portfolios as of 30th June 2022. The results are compared to baseline data taken as of 29th May 2020. The analysis seeks to identify and assess how the portfolio carbon risk metrics have changed within this timeframe.

The analysis is limited to equities and corporate bonds as unlisted asset classes do not have sufficiently complete and comparable data to facilitate carbon risk metrics analysis at this time. Data coverage for fixed income securities are also inconsistent which limits the accuracy and usefulness of the results.

TABLE 4.4.1.1: SCOPE OF CARBON RISK METRICS ANALYSIS AS OF 30TH JUNE 2022

	EQUITIES
NUMBER OF STRATEGIES ANALYSED	13
INDIVIDUAL COMPANIES INCLUDED	3,203

The analysis is based on a dataset provided by MSCI ESG Research LLC (MSCI)[4]. Table 4.4.1.2 provides an overview of the types of carbon risk metrics utilised. We are aware that the raw numbers are not a complete guide to climate risk and have published elsewhere our views on the limitations of carbon footprinting[5]. We believe, however, that this kind of bottom-up quantitative analysis can assist an asset owner in identifying the parts of the portfolio to prioritise, and in framing relevant questions to put to investee companies and external fund managers.

[4] Certain information @ 2022 MSCI ESG Research LLC. Reproduced by permission. Attention is drawn to Section 8.0 Important Information.
[5] https://www.responsible-investor.com/articles/carbon-footprint-piece In collaboration with other asset owners.

TABLE 4.4.1.2: CARBON RISK METRICS USED

CARBON RISK METRIC	DEFINITION	USE CASE	LIMITATIONS
PORTFOLIO CARBON INTENSITY (WEIGHTED AVERAGE CARBON INTENSITY (WACI))	Is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.	A proxy for carbon price risk. Were a global carbon price to be introduced in the form of a carbon tax, this would (ceteris paribus) be more financially detrimental to carbon intensive companies than to carbon efficient companies.	This metric includes scope 1 and 2 emissions but not scope 3 emissions. This means that for some companies the assessment of their carbon footprint could be considered an 'understatement'.
EXPOSURE TO FOSSIL FUEL RESERVES	The weight of a portfolio invested in companies that (i) own fossil fuel reserves (ii) thermal coal reserves (iii) utilities deriving more than 30% of their energy mix from coal power.	A higher exposure to fossil fuel reserves is an indicator of higher exposure to stranded asset risk.	It does not consider the amount of revenue a company generates from fossil fuel activities. Consequently, diversified businesses (e.g. those that own a range of underlying companies, one of which owns reserves) would be included when calculating this metric. In reality, these companies may not bear as much stranded asset risk as companies that do generate a high proportion of revenue from fossil fuels.
EXPOSURE TO FOSSIL FUEL RESERVES BY REVENUE	This identifies the maximum percentage of revenue either reported or estimated derived from conventional oil and gas, unconventional oil and gas, as well as thermal coal. These values by companies are summed and weighted by the portfolio weights to produce a weighted exposure.	This has been included to overcome the limitations of the metric of Exposure to Fossil Fuel Reserves, which includes all companies which have any exposure regardless of how small.	This measurement uses maximised estimates where reported values are not available. Therefore, there is a potential to overestimate exposure.
EXPOSURE TO CLEAN TECHNOLOGY	The weight of a portfolio invested in companies whose products and services include clean technology (Alternative Energy, Energy Efficiency, Green Buildings, Pollution Prevention, and Sustainable Water). The final figure comes from the percentage of each company's revenue derived from clean technology.	Provides an assessment of climate-related opportunities so that an organisation can review its preparedness for anticipated shifts in demand.	While MSCI has been used for this report due to its wide range of listed companies and data points, there is no universal standard or definitive list of green revenues. This is due to the inherent difficulty in compiling a complete and exhaustive list of technologies relevant for a lower-carbon economy.
EXPOSURE TO CLEAN TECHNOLOGY BY REVENUE	This identifies the maximum percentage of revenue, either reported or estimated, derived from companies involved in clean technology (see above).	Allows for a comparison of company's exposure to clean technology, adjusted according to a proportion of that company's size.	This measurement uses maximised estimates where reported values are not available. Therefore, there is potential to overestimate exposure.

CARBON RISK METRIC	DEFINITION	USE CASE	LIMITATIONS
CARBON RISK MANAGEMENT VIA THE TPI	The TPI framework evaluates companies based on their climate risk management quality and their carbon performance. The former includes an assessment of policies, strategy, risk management and targets.	Contextualises the companies contributing to a portfolio's carbon footprint or fossil fuel exposure. Can be used to track how companies are managing climate risk and whether their strategies are aligned with the goals of the Paris Agreement.	Does not assess every company, only the world's largest high-emitting companies. The data are also not updated very frequently, which can make some assessments outdated.
FINANCED EMISSIONS	Is calculated by multiplying an attribution factor by a company's emissions. The attribution factor is the ratio between an investor's outstanding amount in a company and the value of the financed company.	Measures the absolute tons of CO_2 for which an investor is responsible.	Limited usefulness for benchmarking and comparison to other portfolios due to the link to portfolio size.
NET ZERO TARGET COVERAGE	The weight of the portfolio invested in companies that have set a "net zero" emissions target, as defined by the company.	Provides an insight into the alignment of a portfolio with Net Zero based on the commitments of the underlying companies.	Does not provide any insight into how likely the companies are to meet their targets. Does not provide any insight into the quality of the targets set.
ALIGNMENT TO CA100+	How a company performs against a set of 10 indicators published by CA100+. Indicators are divided into sub-indicators and metrics, each of which are scored on a Yes/No basis, upon which a final score is calculated.	Allows for a direct comparison of how different companies are approaching Net Zero, with a specific focus on strategy and governance rather than actual emissions.	Can be considered simplistic due to its reliance on Yes/No questions. Currently a relatively small number of companies are assessed.

4.4.2 TOTAL EQUITIES

Please note this section will examine total passive equity and active equity funds.

Recommendations will not be included for total equities, but instead will be included in the sections which provide a closer examination of the individual portfolios.

TABLE 4.4.2.1 TOTAL EQUITIES DESCRIPTIVE STATISTICS

STRATEGY	BENCHMARK	CLIENT AUM (£, DEC 2020)	STRATEGIES ANALYSED	NO. COMPANIES
Total Equities	Total Equities Blended BM	£2,341,566,797	2/2	3,203

CARBON FOOTPRINT

TABLE 4.4.2.2 TOTAL EQUITIES CARBON FOOTPRINT METRICS

	2020			2022			% DIFFERENCE BETWEEN 2020 AND 2022	
	PF	BM	% DIFF	PF	BM	% DIFF	PF	BM
Portfolio Carbon Footprint (tCO_2e/ $m)	137.41	180.22	-23.75%	118.7	169.8	-30.10%	-13.63%	-5.79%
Weight in fossil fuel reserves (%)	6.58%	7.71%	-1.13%	7.44%	8.89%	-1.45%	0.86%	1.18%
Weight in thermal coal reserves (%)	2.17%	2.95%	-0.78%	1.92%	2.71%	-0.78%	-0.25%	-0.24%
Weight in coal power (%)	1.20%	1.53%	-0.32%	0.72%	1.28%	-0.56%	-0.48%	-0.25%
Weight in clean tech (%)	34.55%	34.67%	-0.13%	34.4%	36.2%	-1.70%	-0.10%	1.48%

Figure 4.4.2.1 Total Equities Carbon Footprint

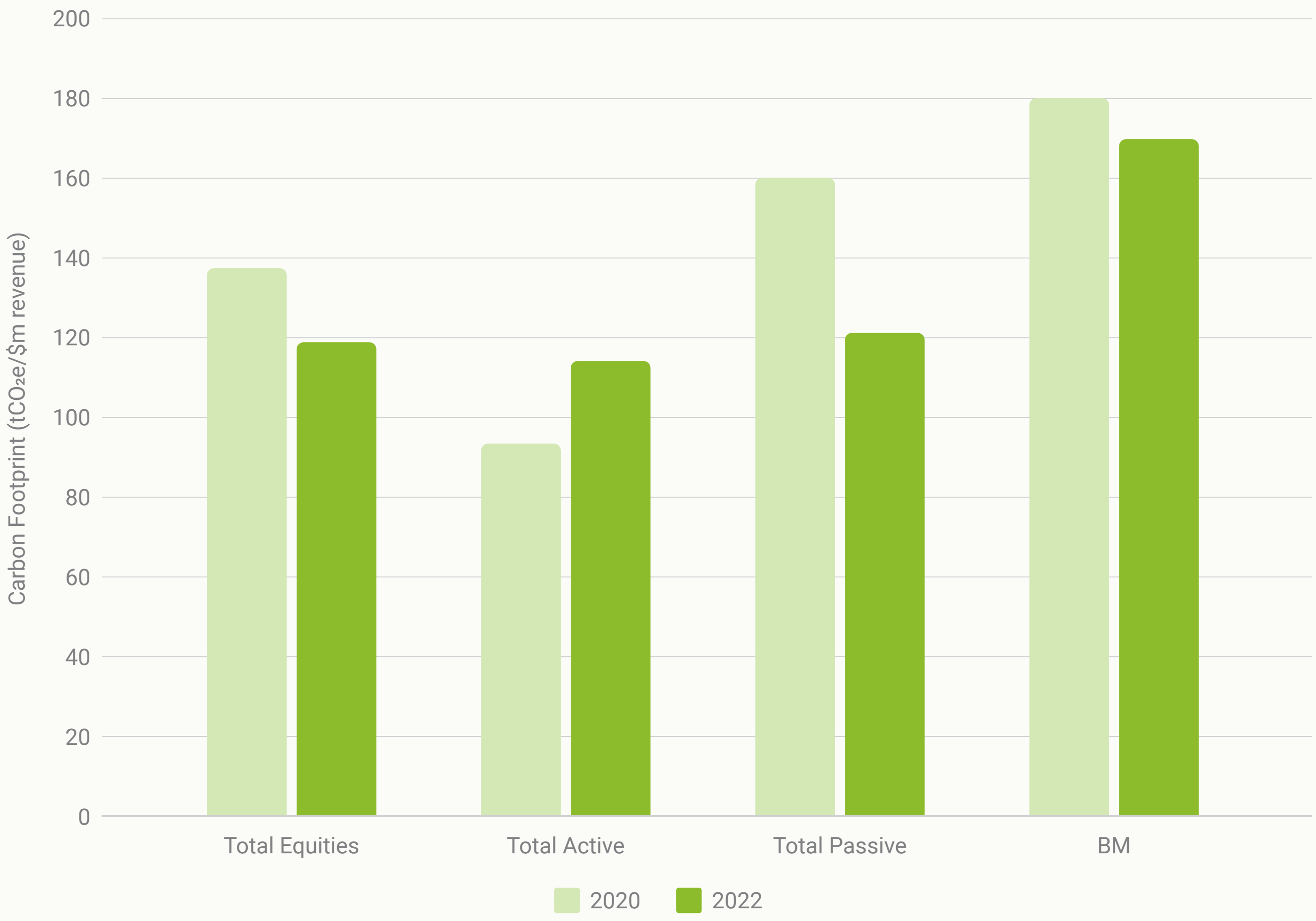


Figure 4.4.2.2 Total Equities Financed Emissions

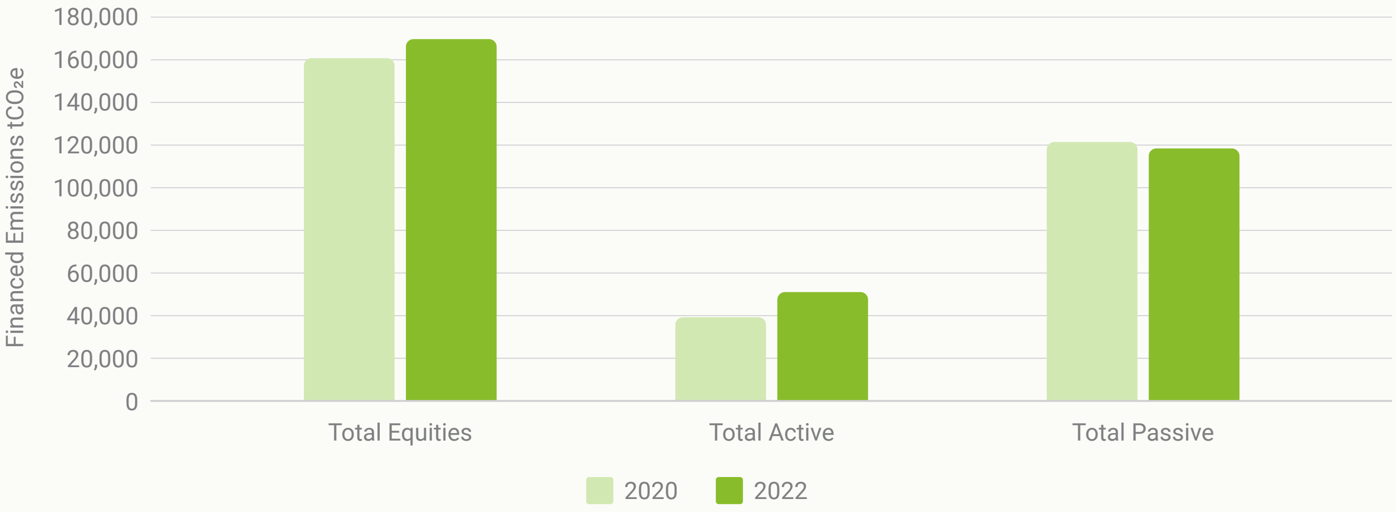


TABLE 4.4.2.3 TOTAL EQUITIES LARGEST CONTRIBUTORS TO PORTFOLIO CARBON FOOTPRINT

COMPANY	PORTFOLIO WEIGHT	CARBON INTENSITY	CONTRIBUTION TO PORTFOLIO CARBON FOOTPRINT
SHELL PLC	1.82%	382.4	6.17%
HUAXIN CEMENT CO LTD	0.05%	9735.1	4.04%
TAIWAN SEMICONDUCTOR MANUFACTURING CO., L	1.97%	197.8	3.45%
RIO TINTO PLC	0.63%	489.8	2.74%
CRH PUBLIC LIMITED COMPANY	0.25%	1162.0	2.61%

TABLE 4.4.2.4 TOTAL EQUITIES LARGEST CONTRIBUTORS TO PORTFOLIO FINANCED EMISSIONS

COMPANY	PORTFOLIO WEIGHT	SCOPE 1&2 EMISSIONS	CONTRIBUTION TO PORTFOLIO FINANCED EMISSIONS
SHELL PLC NEW	1.82%	100000000	14.00%
HUAXIN CEMENT CO LTD	0.05%	49165505	5.38%
GLENCORE PLC	0.66%	25724000	4.32%
BP PLC	0.83%	39100000	3.79%
NIPPON YUSEN	0.20%	13730592	3.55%

From 2020 the carbon intensity of the Total Equities portfolio decreased by 13.63%, which is driven by the 24.46% decrease in the carbon intensity of the passive portfolio, which in turn is driven by the portfolios changes which occurred between 2020 and 2022. The decrease in carbon intensity of Total Equities is mitigated by the 17.12% increase in carbon intensity of the active portfolio. The effect of the decrease in carbon intensity is compounded by the greater increase in the AUM of the Passive Equities in comparison to the AUM increase of the Active Equites. The carbon intensity of the total portfolio is 30.10% lower than that of the benchmark.

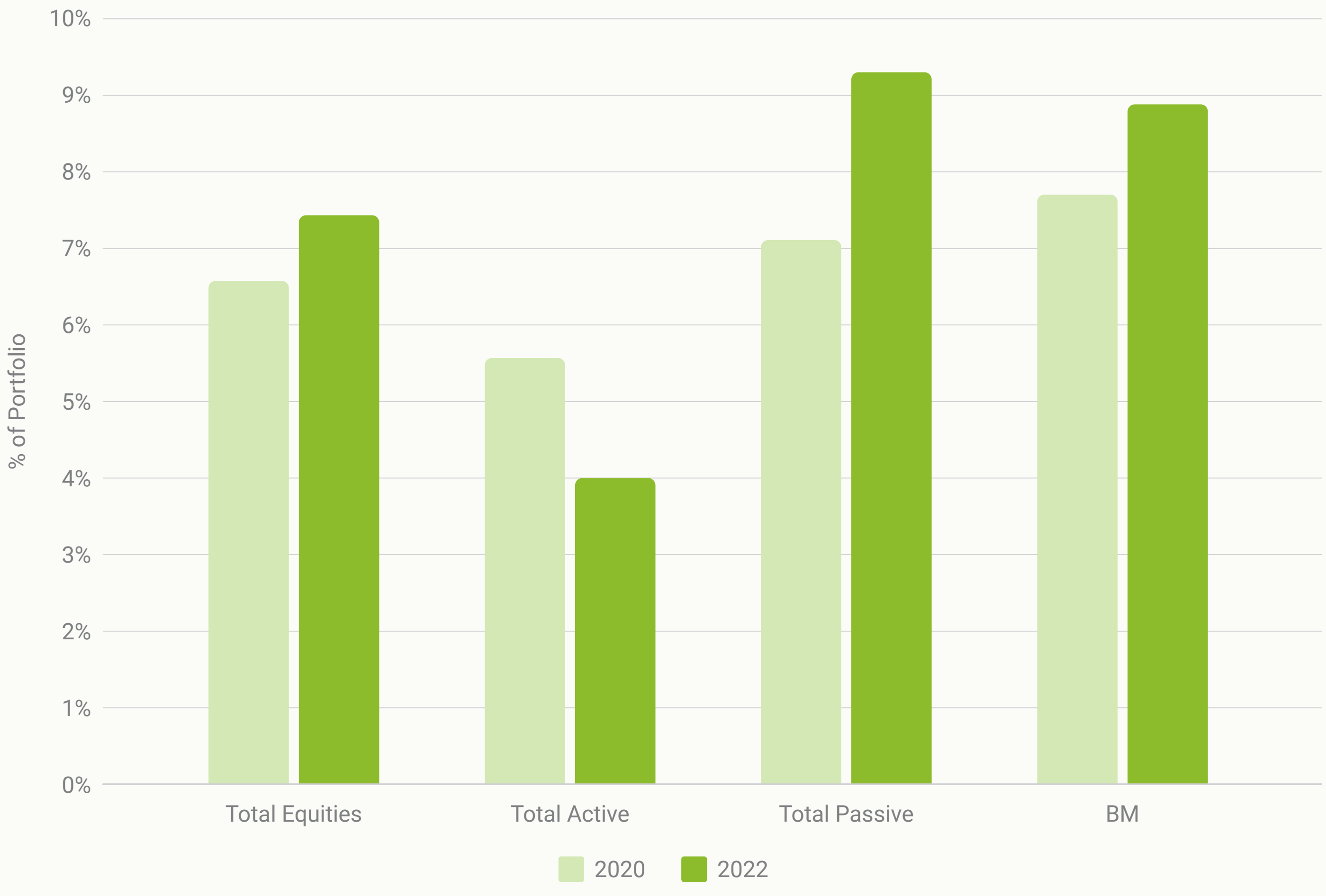
There are similar findings observed in the financed emissions where the financed emissions of the Total Active Portfolio have increased, and the financed emissions of the Total Passive Equities have decreased. However, the Total Equites portfolio experienced an overall increase in finance emissions from 2020 to 2022. This will be driven by the same factors as the portfolio carbon intensity, however changes in financed emissions are felt as absolute rather than being weighted by portfolio weights.

FOSSIL FUELS

TABLE 4.4.2.5 TOTAL EQUITIES FUND FOSSIL FUEL METRICS

	2020	2022	% DIFFERENCE BETWEEN 2020 AND 2022
Weight in fossil fuel reserves	6.58%	7.44%	0.86%
By Revenue		0.89%	
Weight in thermal coal reserves	2.17%	1.92%	-0.25%
By Revenue		0.05%	
Weight in coal power (%)	1.20%	0.72%	-0.48%

Figure 4.4.2.3 Total Equities Fund Fossil Fuel Exposure



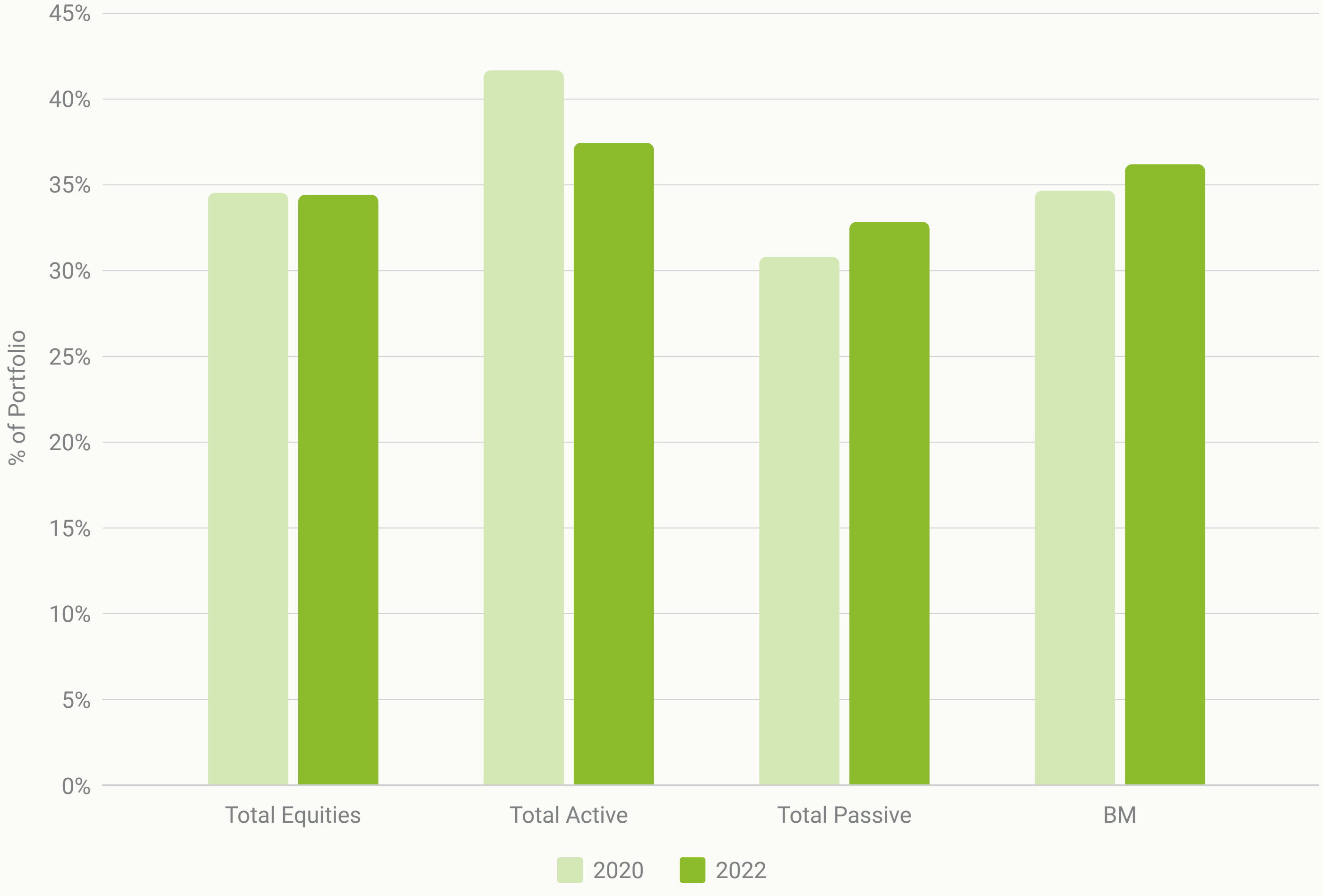
The portfolio's allocation to companies with fossil fuel reserves has increased by 0.86%, while exposure to thermal coal reserves and coal power has decreased by 0.25% and 0.48% respectively between 2020 and 2022. These values are all below their respective benchmarks.

CLEAN TECH

TABLE 4.4.2.6 TOTAL EQUITIES CLEAN TECHNOLOGY EXPOSURE

	2020	2022	% DIFFERENCE BETWEEN 2020 AND 2022
Weight in Clean Technology	34.55%	34.45%	-0.10%
By Revenue		3.93%	

Figure 4.4.2.4 Total Equities Fund Clean Tech Exposure



The exposure of Total Equities to clean technology has marginally decreased by 0.1% between 2020 and 2022. Apportioned by revenue, the portfolio has 3.93% exposure to clean technology solutions, suggesting the majority of companies are not pure-play clean technology companies (i.e, they do not derive a significant proportion of their revenue from clean tech).

CLIMATE GOVERNANCE

TABLE 4.4.2.7: TOTAL EQUITIES % OF COMPANIES WITH A NET ZERO TARGET

% of Total Portfolio	62.50%
% of Companies in Material Sectors	67.58%
% Financed Emissions	80.40%

TABLE 4.4.2.8: TOTAL EQUITIES FUND TPI ASSESSMENT

	RANKING	2022
Management Quality	**4*, 4**	57.78%
	3, 2	31.33%
	1, 0	10.89%
Paris Alignment	**1.5 Degrees**	27.71%
	2 Degrees or below	30.21%
	International/ National/ Paris Pledges	15.66%
	Not Aligned	26.43%

As of 31st June 2022, 381 companies in the Total Equities, accounting for 16.70% of holdings are ranked by the Transition Pathway Initiative. Over half (57.78%) of the companies assessed achieved a management quality rating of 4-4*.

The results for Paris Alignment exhibit, only 7.89% of companies were assessed suggesting the majority of companies are yet to release targets aligned to the goals of the Paris Agreement. From these companies over half (57.91%) are aligned to 2 degrees or less (including 1.5 degrees), while over a quarter (26.43%) of companies are not aligned or there is no or unsuitable disclosure.

Looking at the net-zero target coverage, 57.78% of Total Equities are committed to achieving Net Zero emissions by 2050. 80.40% of financed emissions are attributed by companies which have net zero targets.

5.0 Conclusion

In WPF's third Climate Risk Report, we continue to argue that climate-related risks can be financially material, and that the management of climate risk is a fiduciary issue. Through physical events, policy or market changes, climate risks are likely to affect almost all asset classes, sectors and regions. Understanding how these impact WPF's portfolio helps the Fund with its strategic asset allocation and forms the basis of its net zero metrics.

In the Fund's first Climate Risk Report we used a combination of top-down and bottom-up analyses to explore the nature and magnitude of the Fund's climate-related risks. The report established a baseline for WPF's climate risk management and supported the Fund in shaping its strategic approach to climate risk. In this third report we focus on providing the Fund with a progress update.

KEY TAKEAWAYS:

The key takeaways from the report are:

1. WPF has made significant progress in its responsible investment and climate change practice. Since 2020 WPF has published several key documents/reports such as the Climate-Related Disclosures Report and the Climate Change Risk Strategy, as well as integrating responsible investment into the Investment Strategy.
2. The Fund has significantly decreased the carbon intensity and financed emissions of total equities. This has largely been driven by the portfolio changes made in the Total Passive Equities.
3. The Climate Stewardship Plan is a useful tool for tracking the progress of engagement with the most material contributors to the Fund's carbon performance. Notable progress in these companies includes 7 out of 8 of these companies have been awarded the highest Management Quality rankings of 4 or 4* by the Transition Pathway Initiative, and the number of CA100+ Categories with "all criteria met" has increased from 12 to 27 from 2021 to 2022. However, this means that across the 8 companies there are still 45 categories which are "partially met" or "not met". This would be a topic for future engagement.

6.0 Glossary

Carbon Risk Management: How well a company is managing ESG risks and opportunities. A higher score is indicative of better management.

Clean Technology/ Weight in Clean Technology: the weight of a portfolio invested in companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.

Coal Power Generation/ Portfolio exposure to coal power generation: the weight of a portfolio invested in electricity utilities where more than 30% of the fuel mix derives from coal power.

Coal Reserves/ Portfolio exposure to thermal coal reserves: the weight of a portfolio invested in companies that own thermal coal reserves.

COP: Conference of Parties (United Nations Climate Change Conference).

COP 26: The 26th edition of the annual United Nations Climate Change Conference. Held in Glasgow in November 2021.

Divestment/exclusion/negative screening: the exclusion, usually on moral grounds, of particular types of investments, possibly affecting in a negative way the risk-return profile of a portfolio.

Engagement: dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

ESG factors: determinants of an investment's likely risk or return that relate to issues associated with the environment, society or corporate governance.

Ethical investment: an approach to investment where the moral persuasions of an organisation take primacy over investment considerations.

Fossil Fuel Reserves/ Portfolio exposure to fossil fuel reserves: the weight of a portfolio invested in companies that own fossil fuel reserves.

Interaction effect: The combined impact of sector allocation decisions and stock selection decisions.

Non-financial factors: determinants of an investment's likely risk or return that cannot be, or cannot straightforwardly be, given a monetary value for insertion into an organisation's financial statements.

Physical risk/ climate physical risk: the financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Portfolio Carbon Intensity/ Carbon Intensity: A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.

Responsible Investment factor/RI factor: an aspect of an investment which relates to environmental, social or corporate governance issues.

Responsible Investment/RI: the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes both before and after the investment decision.

Scope 1 Greenhouse Gas Emissions: Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles.

Scope 2 Greenhouse Gas Emissions: Indirect emissions from the generation of purchased energy.

Scope 3 Greenhouse Gas Emissions: Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

Sector Allocation Effect: The impact of over or underweighting portfolio sectors relative to a benchmark. Negative value comes from underweighting sectors with carbon footprints higher than the benchmark or overweighting sectors with carbon footprints lower than the benchmark.

Social investing/social impact investing: investments that seek to achieve a positive social impact in addition to a financial return.

Stewardship: the promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Stock Selection Effect: The impact of specific security selection within a sector relative to the benchmark. A negative value indicates the fund manager is choosing more carbon-efficient assets than the benchmark.

TCFD: Taskforce on Climate-related Financial Disclosures. A body established by Mark Carney in his remit as Chair of the Financial Stability Board whose recommendations have come to be seen as the best practice framework for climate-related disclosures by companies, asset managers, asset owners, banks and insurance companies.

Transition risk/ climate transition risk: the financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.

Voting: the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

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8.0 Important Information

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LGPS Central Limited

WORCESTERSHIRE PENSION FUND CLIMATE-RELATED DISCLOSURES REPORT

MARCH 2023

Contents

Management Summary

Recognising that climate change is a risk to financial markets, the Financial Stability Board (FSB) felt that it would be desirable to have clear, comprehensive, high-quality information on its impact and created the Task force on Climate-related Financial Disclosures (TCFD) to improve and increase the reporting of climate-related financial information.

The TCFD came up with recommended disclosures in the four thematic areas that it felt represent the core elements of how organisations operate:

• **Governance**: Disclose the organisation's governance around climate-related risks and opportunities.

• **Strategy**: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

• **Risk management**: Disclose how the organisation identifies, assesses, and manages climate-related risks.

• **Metrics and targets**: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

The Fund believes that:

1. Better disclosure of the risks and opportunities presented by rising temperatures, climate related policy, and emerging technologies in our changing world is in our interests as we will be able to:

   a. More effectively evaluate climate-related risks to us and our employers.

   b. Make better-informed decisions on where and when to allocate our assets.

2. The TCFD's recommendations provide the optimal framework to describe and communicate the steps that pension funds are taking to manage climate-related risks and to incorporate climate risk management into their investment processes.

3. TCFD-aligned disclosure from asset owners, asset managers, and corporates is in the best interest of our stakeholders.

Further background to the TCFD's recommendations is also provided in Appendix 1 and 2.

Governance

TCFD Recommended Disclosure
a) Describe the board's oversight of climate-related risks and opportunities

Roles and responsibilities at the Fund are set out clearly in the Fund's Governance Policy Statement and our annual reports include a Governance Compliance Statement. Overall responsibility for managing the Fund lies with Worcestershire County Council which has delegated the management and administration of the Fund to the Worcestershire Pension Fund Pensions Committee.

The Pension Committee ('the Committee') is responsible for the oversight of climate-related risks and the Fund's Climate Change Risk Strategy. The Committee meet four times a year, or otherwise as necessary and includes quarterly engagement and voting reports (including climate change) from the Fund's investment managers as a standing item on the agendas. Quarterly engagement reports are made available by the Fund on their website. The Committee also approve the Investment Strategy Statement (ISS), which includes the Fund's approach to responsible investment and a specific section on climate change. The ISS includes a set of responsible investment beliefs, including a formal investment belief on climate change, recognising it as a factor that could materially impact financial markets. The Climate Change Risk Strategy is premised on five foundational evidence-based beliefs about climate risk, considering climate science, the energy transition, and climate stewardship. The Climate Change Risk Strategy is reviewed at least every two years by the Committee.

The Pension Investment Sub Committee are responsible for identifying and approving investment in climate related opportunities. The Committee is currently exploring the potential for additional allocations to sustainable and/or low carbon equities.

The Committee, Pension Investment Sub-Committee and Pension Board receive focused training and workshops on responsible investment topics (including climate change).

In late 2020 the Fund undertook an external Environmental, Social and Governance (ESG) audit of the Funds' investments and at the same time sought to map all the Fund's investments to the United Nations Sustainable Development Goals (SDGs) including SDG13 Climate action. This was to establish a baseline for the Fund as to where we are and help formulate future strategic actions required for the Fund's investment approach.

In order to support good decision-making, the Fund is fully committed to the new enhanced UK Stewardship Code which was introduced in 2020 and the Fund has been a successful Tier 1 signatory of the Financial Reporting Council's UK stewardship code since 2020. See section 10 of the Fund's Investment Strategy Statement).

In January 2023 the Committee received its third Climate Risk Report which is being used to implement the Fund's Climate Change Risk Strategy.

The Pensions Board has an oversight role in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the LGPS.

TCFD Recommended Disclosure
b) Describe management's role in assessing and managing climate-related risks and opportunities.

The Chief Financial Officer and the Pensions Investment & Treasury Management Manager have primary day-to-day responsibility for the way in which climate-related investment risks are currently managed. As a primarily externally managed fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers. Each manager's approach to ESG factors and how these are integrated into their investment process is assessed as part of the manager selection process. The manager selection guidelines on impact criteria and TCFD Compliance further strengthens this process. External portfolio managers are monitored on a regular basis by the Pension Investment Sub-Committee.

Fund Officers have received a Climate Risk Report annually for the last 3 years and in 2021 the Fund also conducted an ESG Audit which mapped the Fund's Investment to the SDGs. Both of these enabled the consideration of climate change within strategy setting, including asset allocation and asset selection. Receipt of a Climate Risk Report is expected to occur annually. Completion of an SDG mapping is expected to occur every two to three years

As detailed in the Climate Change Risk Strategy, the Fund leverages partnerships and initiatives – including the Institutional Investors Group on Climate Change (IIGCC) – to identify and manage climate risk.

Strategy

TCFD Recommended Disclosure
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

As a diversified asset owner, the range of climate-related risks and opportunities are multifarious and constantly evolving. A subset of risk factors is presented in Table 1.

Table 1: Example Short, Medium & Long-Term Risks

	Short & Medium Term	Long Term
Risks	Carbon prices Technological change Policy tightening Consumer preferences	Resource scarcity Extreme weather events Sea level rise
Asset class	Listed equities Growth assets Energy-intensive industry Oil-dependent sovereign issuers Carbon-intensive corporate issuers	Infrastructure Property Agriculture Commodities Insurance

Short-term risks include stock price movements resulting from increased regulation to address climate change. Medium-term risks include policy and technology leading to changes in consumer behaviour and therefore purchasing decisions – the uptake in electric vehicles is an example of this. Long-term risks include physical damages to real assets and resource availability. Examples would include increased sea level rise for coastal infrastructure assets or supply chain impacts for companies as a result of severe weather events.

TCFD Recommended Disclosure
b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.

The Fund believes that diversification across asset classes, regions, and sectors is an important investment risk management tool to reduce risk. The Fund recognises that climate risk is systemic and is unlikely to be eliminated through diversification alone. The Fund is continually exploring options to further embed climate-related risks and opportunities into its investment strategy, including reviewing potential investments in sustainable and / or low carbon equities where this supports the Fund's investment and funding objectives.

The Fund aims to target investments in global companies that are sustainable in financial, environmental, social and governance terms and, where appropriate, providing solutions to sustainability challenges. Furthermore, the Fund has invested in several renewable energy opportunities and more recently Forestry. The Fund continues to actively assess and explore additional opportunities. Research commissioned by LGPSC from Mercers (presented below) suggests that these allocations could lead to a positive return impact on the Fund's investment portfolio in a 2°C scenario.

As well as the significant investment activity detailed in last year's TCFD report to reduce its climate-related risks, the Fund has invested £150m into a Forestry Growth and Sustainability Fund and £200m into a global sustainable active equity fund in 2022. The Fund will continue to explore options to further embed climate-related risks and opportunities into its investment strategy, where this supports the Fund's investment and funding objectives.

The Fund will also use the analysis of the SDG Mapping exercise which shows £1.4bn of its £2bn of listed assets had exposure to SDG13 Climate Action through some of the most influential global companies contained within the World Benchmarking Alliance's SDG2000 benchmark. The analysis will help the Fund in

➢ Tackling the 'weaker' areas in the Fund's investments by having a **proactive identification and engagement** approach with 7 Classified as Confidential

➢ The **lowest-rated Fund SDG2000 holdings**, and

➢ Those **other Fund investments** deemed as being **SDG-detracting thus** creating a **more rigorous approach** towards future manager **appointments** / real asset investments

TCFD Recommended Disclosure
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

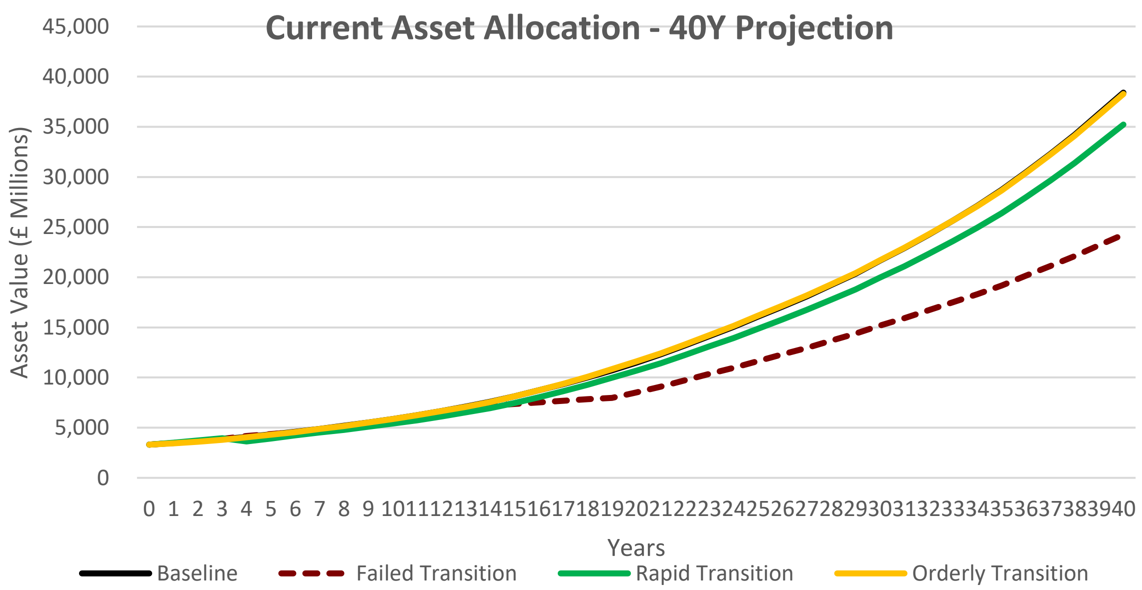
In 2022 the Fund engaged the expertise of an external contractor, Mercer LLC[1], to understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at the fund and asset-class level). All asset classes are included in this analysis. The climate scenarios considered are Rapid Transition, Orderly

[1] Via LGPS Central Limited

Transition and Failed Transition. This analysis is carried out every 2 to 3 years and the results of the 2022 analysis are provided below.

The scenarios are defined according to the change since pre-industrial times in mean global surface temperatures. A rapid transition scenario leads to a 1.5°C temperature increase by 2100 and is characterised by sudden divestments on a global scale in 2025 in order to align society to the Paris Agreement goals. An early and smooth transition is represented by a 1.6°C temperature increase by 2100, with the markets pricing-in dynamics occur gradually over four years. A failed transition is represented by a temperature increase of 4.3°C by 2100, with severe physical and extreme weather events and the markets pricing in these risks.

Graph 1: Cumulative Return Projections by Climate Change Scenario.[2]



The analysis shows that over medium- to long-term, a successful transition is imperative for the Fund as its asset allocation fare better under Rapid and Orderly transition scenarios versus the Failed transition. Over the long term for nearly all investors a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.

Translating Climate Scenario Analysis into an investment strategy is a challenge because there is a wide range of plausible climate scenarios; the probability of any given scenario is hard to determine, and; the best performing sectors and asset classes in an orderly scenario tend to be the worst performers in a failed scenario and vice versa. Despite the challenges, the Fund believes in seeking out the best available climate-related research in order to make its portfolio as robust as possible.

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[2] Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated December 2022 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Shropshire Pension Fund. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

Risk Management

TCFD Recommended Disclosure
a) Describe the organisation's process for identifying and assessing climate-related risks.

The Fund seeks to identify and assess climate-related risks at the total Fund level and at the individual asset level. The Fund has received a Climate Risk Report to assess financially material risks in support of the Fund's Climate Change Risk Strategy which includes both top-down and bottom-up analyses of its listed holdings and a Sustainable Development Goals Audit to support this endeavour. The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the best available information to assess climate-related threats to investment performance.

As far as possible climate risks are assessed in units of investment return, in order to compare with other investment risk factors.

As a primarily externally managed pension fund, the identification and assessment of climate related risks is also the responsibility of individual fund managers appointed by the Fund. Existing fund managers are monitored on a regular basis and the Fund's monitoring process will be more focussed in future to review the integration of climate risks into the managers portfolio management approaches, and to understand their engagement activities.

Engagement activity is conducted with investee companies through selected stewardship partners including LGPSC, EOS at Federated Hermes, and LAPFF (see below). The Fund is, based on a Climate Risk Report, devising a Climate Stewardship Plan in order to focus engagement resources on the investments most relevant to the Fund.

TCFD Recommended Disclosure
b) Describe the organisation's process for managing climate-related risks.

The prioritisation of risks is determined on the level of perceived threat to the Fund which, for climate-related risk, will likely depend on analyses including Climate Scenario Analysis and Carbon Risk Metrics. As set out in the Fund's Climate Change Risk Strategy, the main management techniques are utilising the best possible tools and techniques for assessing climate-related risks; accessing the best possible climate change data available; and working collaboratively with other investors.

Although the Fund's Climate Change Risk Strategy involves more than just engagement and shareholder voting, stewardship activities will remain an important aspect of the Fund's approach to managing climate risk. The Fund expects all investee companies to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activities by investors.

The Fund supports the engagement objectives of the Climate Action 100+ initiative, namely that companies: adopt the appropriate governance structures to effectively manage climate risk; decarbonise in line with a 1.5°C and disclose effectively using the TCFD recommendations.

Either through its own membership or through LGPSC membership, the Fund has several engagement partners that engage investee companies on climate risk.

Table 3: The Fund's Stewardship Partners

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPS Central Limited. Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website. The Responsible Investment Team at LGPS Central engages companies on the Fund's behalf, including via the Climate Action 100+ initiative.
Federated Hermes	EOS at Federated Hermes is engaged by LGPS Central to expand the scope of the engagement programme, especially to reach non-UK companies.
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.

The use of shareholder voting opportunities is an important part of climate stewardship. The Fund's approach to shareholder voting is to appoint high quality asset managers whose voting policies support the long-term economic objectives of shareholders. Voting rights attached to securities in portfolios managed by LGPSC are instructed according to LGPSC's Voting Principles, to which the Fund contributes during the annual review process. LGPSC's Voting Principles incorporate climate change, for example by voting against companies that do not meet certain thresholds in the Transition Pathway Initiative (TPI) scoring system. LGPSC has co-filed shareholder resolutions that relate to climate change.

Legal & General Investment Management (LGIM) currently manage a sizeable proportion of the Fund's assets on a passive basis. The votes in respect of these assets are cast by LGIM. LGIM has a robust approach to incorporating climate change factors in its voting decisions, including on specific climate-related shareholder resolutions.

The results of engagement and voting activities are reviewed by the Committee and Pension Investment Sub-Committee. LGPSC's activities are reported in Quarterly Stewardship Updates which are available on the LGPSC website.

Based on its first Climate Risk Report, the Fund has developed a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPS Central, EOS at Federated Hermes, and LAPFF, includes targeted engagement with eight investee companies of particular significance to the Fund's portfolio. The Fund believes that all companies should align their business activities with the Paris Agreement on climate change.

Table 3: Companies included in the Climate Stewardship Plan

Company	Sector
BHP Group	Materials
BP	Energy
Cemex	Cement
CRH	Materials
Glencore	Materials
Rio Tinto	Mining
Royal Dutch Shell	Energy
Taiwan Semiconductor Manufacturing Co	Info Tech

TCFD Recommended Disclosure

c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

The Committee discusses both 'mainstream' risks and climate-related risks. While specific macro-economic risks are not usually included in isolation, the Fund has included climate risk on the Fund's Risk Register.

Climate risk is further managed through the Fund's Climate Stewardship Plan.

Metrics and Targets

TCFD Recommended Disclosure
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

The Fund has recently received a report from LGPSC on carbon risk metrics for its listed equities portfolios, which represent 71% of the Fund's total assets. The poor availability of data in asset classes other than listed equities prevents a more complete analysis at this time.

The carbon risk metrics analysis include:

- portfolio carbon footprints[3]
- weight of portfolios invested in companies with fossil fuel reserves
- weight of portfolios invested in companies with thermal coal reserves
- weight of portfolios invested in companies whose products and services include clean technology
- metrics assessing the management of climate risk by portfolio companies

Carbon risk metrics aid the Fund in assessing the potential climate-related risks to which the Fund is exposed, and identifying areas for further risk management, including company engagement and fund manager monitoring. The Fund additionally monitors stewardship data (see above).

In considering its carbon risk metrics, the Fund remains aware of the limitations of the available metrics and the underlying datasets. There are certain data gaps caused by companies failing to report GHG data, or by companies reporting unreliable GHG data. In such cases the GHG data must be estimated, and different suppliers of GHG datasets might have different methodologies for making such estimations, leading to potentially different values for the same company or portfolio of companies. The results should, therefore, be treated with some degree of caution. Despite the potential pitfalls, the Fund has resolved to integrate the consideration of carbon risk metrics within the Fund's overall framework of risk management, whilst remaining conscious that the results are primarily useful in enabling the Fund to reach broad conclusions, to enable risk management measures to be prioritised and to enable broad direction of travel and progress to be assessed.

In 2020 the Fund undertook an external ESG audit of the Funds' investments to the SDGs. This was to establish a baseline of the Fund's current position and to help formulate future strategic actions for the Fund's investment approach.

This involved examining the existing Investment Portfolio holdings and their relationship (positive/ negative) to the 17 SDGs, specifically highlighting a number of specific SDGs one of these being SDG13 Climate Action that will be used to identify the risks and opportunities associated with the analysis.

[3] Following TCFD guidance we use weighted average portfolio carbon footprints.

TCFD Recommended Disclosure
b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. TCFD Guidance: *Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy.*

In line with the TCFD guidance and following receipt of a report from LGPS Central Limited we provide below the carbon footprints of our equity portfolio[4]:

Figure 4: Total Equities Carbon Footprint[5]

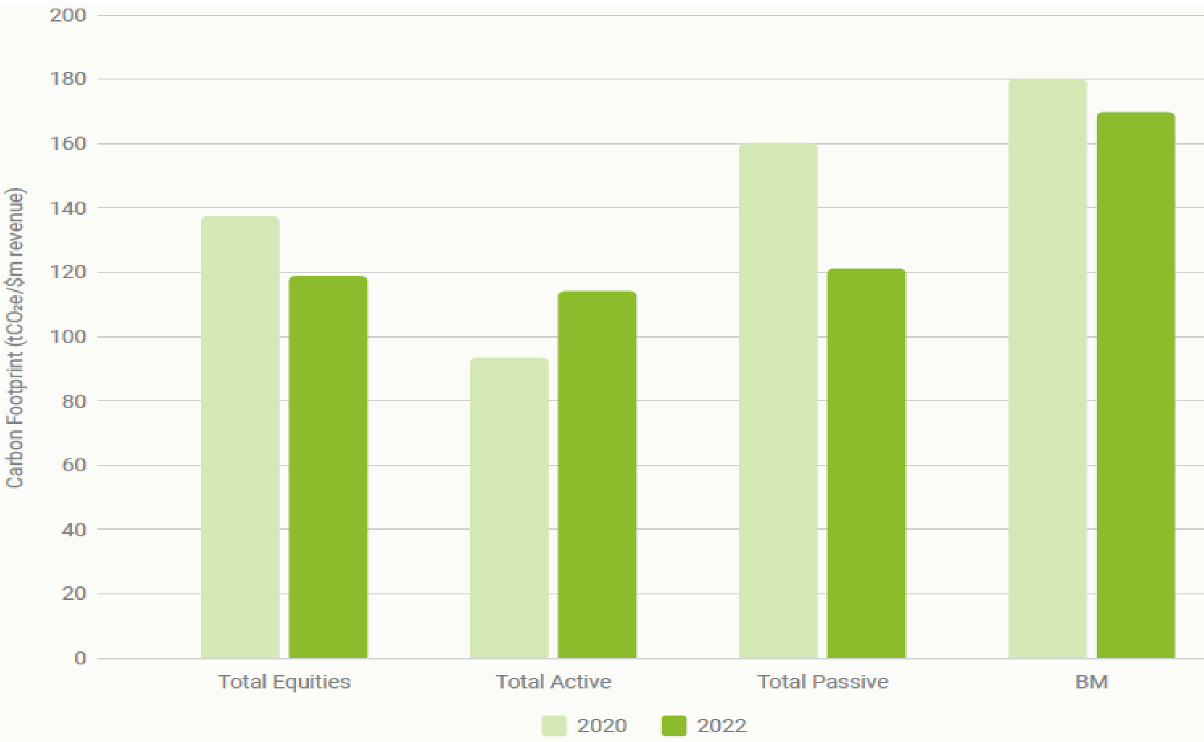

Figure 4 above shows that from 2020 the carbon intensity of the Total Equities portfolio decreased by 13.63%, which is driven by the 24.46% decrease in the carbon intensity of the passive portfolio, which in turn is driven by the portfolios changes which occurred between 2020 and 2022, exiting of the FTSE RAFI Development fund and the MSCI World Min Vol TR and transitioning into the LGPS Central Climate Multi Factor Fund. The decrease in carbon intensity of Total Equities is mitigated by the 17.12% increase in carbon intensity of the active portfolio.

[4] Analysis undertaken on the listed equities portfolios with holdings data as of 30th November 2021 unless otherwise stated. The information in Figure 4, 5, 6, 7 & 8 was provided to the Fund in a report authored by LGPS Central Limited. In LGPS Central Limited's Reports the Total Equities portfolio comprises the Nomura Asia-Pacific, LGPS Central Emerging Equity Active Multi-Manager Fund, LGIM UK Equity, LGIM North America Equity, LGIM Europe Ex-UK Equity, LGIM Global Fund. The Total Active Equities portfolio comprises the Nomura Asia-Pacific and LGPSC Emerging Equity Active Multi Manager portfolio. The Total Passive Equities comprises the LGIM UK Equity, LGIM North America Equity, LGIM Europe Ex-UK Equity and LGIM Global fund. The LGPSC Emerging Market Equity Active Multi-Manager fund contains 3 underlying strategies: BMO, UBS and Vontobel.

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The effect of the decrease in carbon intensity is compounded by the greater increase in the AUM of the Passive Equities in comparison to the AUM increase of the Active Equites. The carbon intensity of the total portfolio is 30.10% lower than that of the benchmark.

Figure 5 below shows the portfolio's allocation to companies with fossil fuel reserves has increased by 0.86%, while exposure to thermal coal reserves and coal power has decreased by 0.25% and 0.48% respectively between 2020 and 2022. These values are all below their respective benchmarks

.Figure 5: Total Equities fossil fuel exposure[6]

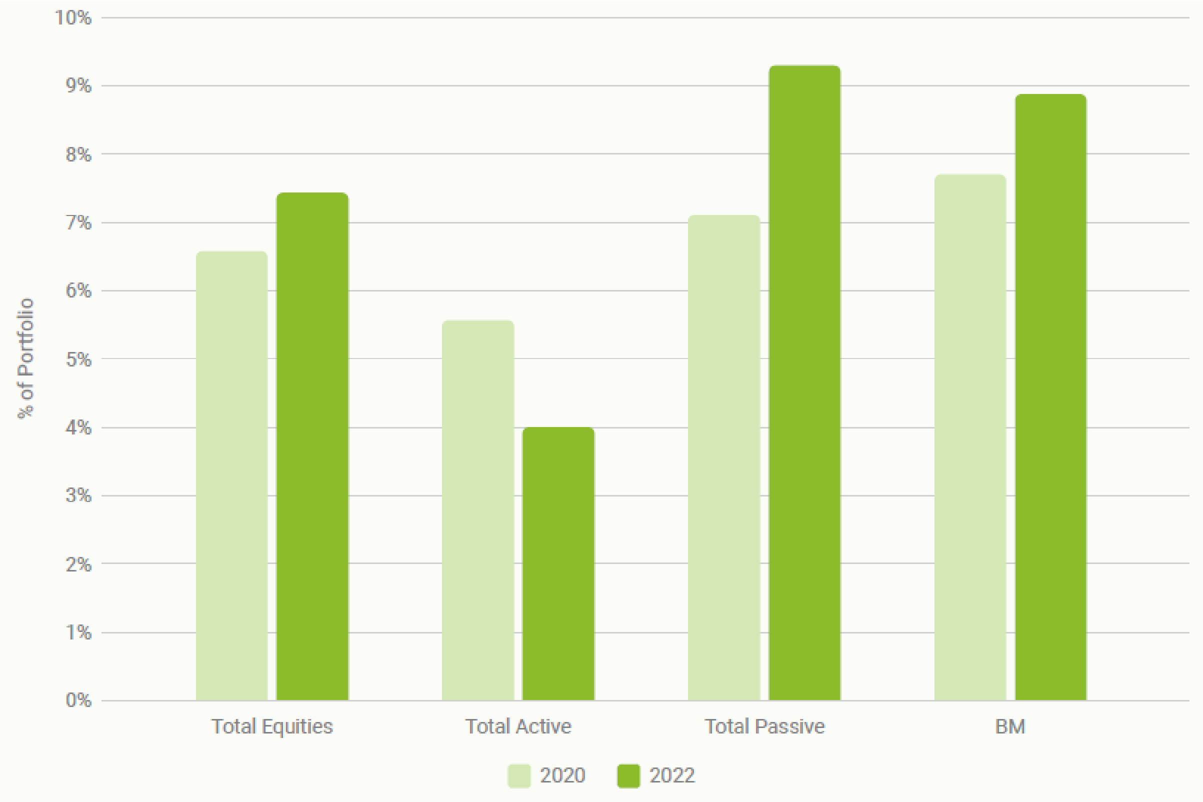

Figure 6 below shows the exposure of Total Equities to clean technology has marginally decreased by 0.1% between 2020 and 2022. Apportioned by revenue, the portfolio has 3.93% exposure to clean technology solutions, suggesting the majority of companies are not pure-play clean technology companies (i.e., they do not derive a significant proportion of their revenue from clean tech).

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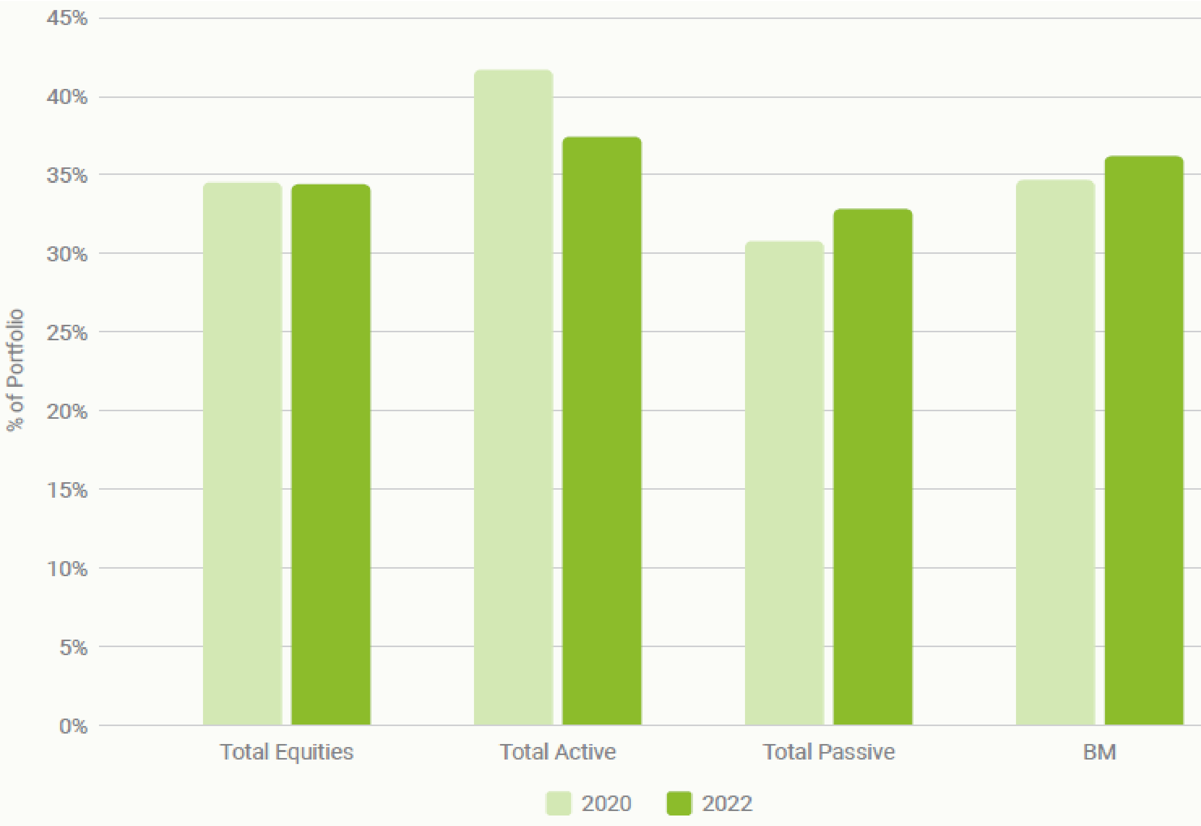
[6] Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.

Figure 6: Total Equities clean technology exposure[7]



Whilst the Fund's carbon risk metrics results show the Fund already 'outperforms' its benchmarks, the Fund is proactively exploring ways to further embed climate risk management in its investment decision making. The Fund expects to update its carbon risk metrics data on an annual basis.

SDG Mapping to the Fund's portfolio undertaken by Minerva

At the end of September 2020, the Fund's listed equity investment managers collectively held 1,007 (50.4%) of the 2,000 companies in the SDG2000. Minerva used the World Benchmarking Alliance (WBA) SDG2000 to measure the alignment between the Fund's investments and the SDGs. The WBA SDG 2000 measures and ranks 2000 of the world's most influential companies in respect of SDGs.

These are seen as global companies that are deemed likely by the WBA to have the greatest potential to help deliver the SDGs, if managed in a sustainable manner.

The Fund had a total of **£1.33bn invested** in these 1,007 companies' equities and corporate bonds, **representing 66% of the total value of the in-scope assets** as at end September 2020.

The Fund also assessed the number of its portfolio companies referencing TCFD disclosures. This found that almost 47% of the Fund's in scope equities under coverage have made some material reference to TCFD in their latest Annual Report and Accounts. The Fund aims to request that managers present their TCFD report in future.

The Fund will look to complete the SDG Mapping of its overall portfolio every 2 to 3 years.

[7] Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.

TCFD Recommended Disclosure
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The ability for diversified investors (such as pension funds) to set meaningful climate targets is inhibited by the paucity of credible methodologies and data currently available. Like most investors, the Fund is supportive of the development of target-setting methodologies, and the increasing completeness of carbon datasets. The Fund wishes to set meaningful and challenging climate targets

The Fund has reviewed the use of targets. As per the Climate Change Risk Strategy, the Fund has set the following targets:

No.	Target
1	Reduce further the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio compared to its weighted benchmark in 2022 by the end of 2023
2	Set an internal decarbonisation annual reduction target up to 2025 at which point it will be further reviewed
3	Continue to look to invest a proportion of the Fund's portfolio in low carbon & sustainable investments by the end of 2023.
4	Use the Climate Scenario Analysis to track and better understand the portfolio's capacity to transition into a low carbon economy

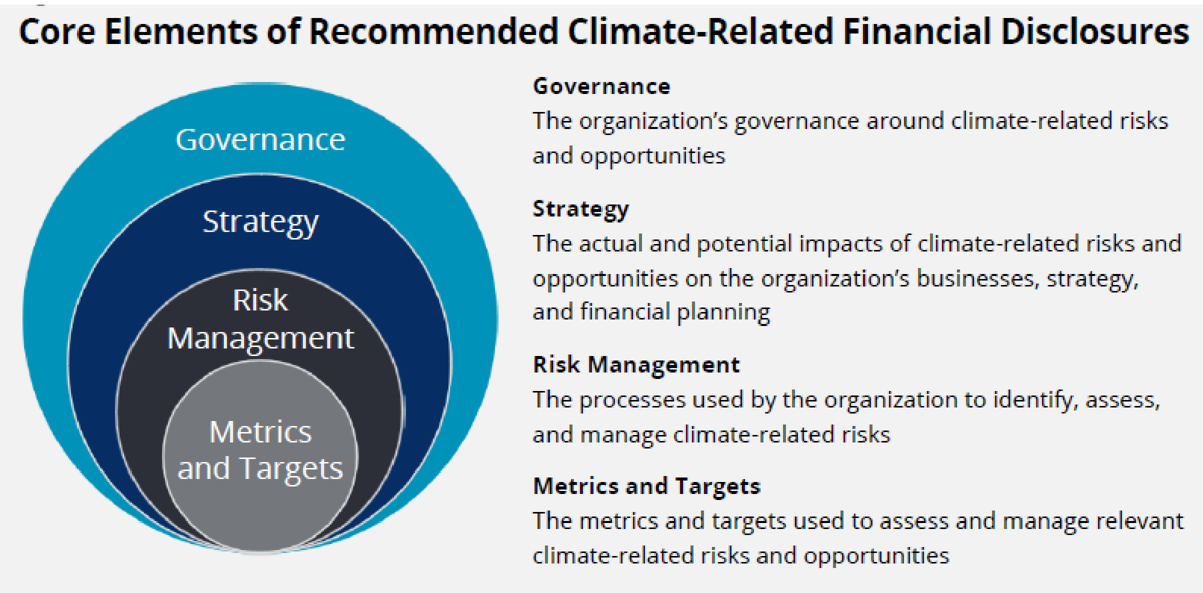
APPENDIX 1

Introduction to the TCFD

The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD total 930 organisations representing a market capitalisation of over $11 trillion. Disclosure that aligns with the TCFD recommendations currently represents best practice.

The recommendations are based on the financial materiality of climate change. The four elements of recommended disclosures (see Figure 1 below) are designed so as to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances. Examples of pension funds that have been early adopters of the TCFD recommendations include AP2, NEST, PGGM, RPMI Railpen, The Pensions Trust, and Environment Agency Pension Fund.

Figure 1: TCFD Disclosure Pillars



The Fund supports the TCFD recommendations as the optimal framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. As a pension fund, we are long-term investors and are diversified across asset classes, regions and sectors, making us "universal owners". It is in our interest that the market is able to effectively price climate-related risks and that policymakers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of our beneficiaries.

About this report

This report is Worcestershire Pension Fund’s (WPF or ‘the Fund’) second climate-related disclosure report. It describes the way in which climate-related risks are currently managed within the Fund.

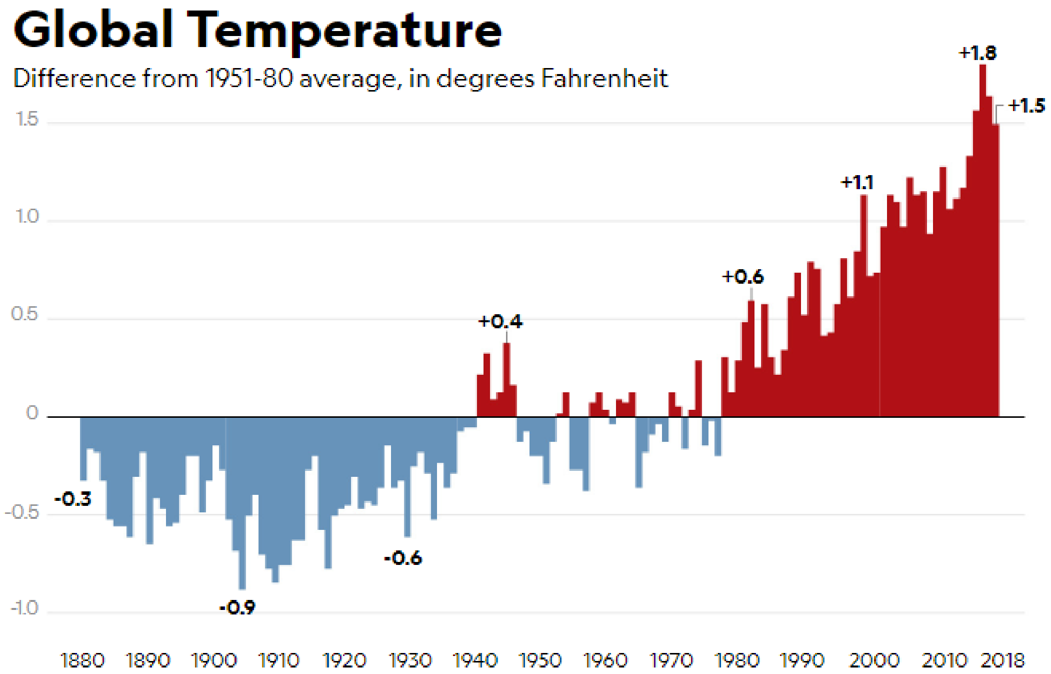
Since September 2020, WPF has received three Climate Risk Reports from the Fund’s pooling company, LGPS Central Ltd. These reports have provided an in-depth review of the Fund’s climate risks under different climate change scenarios across all asset classes. The Fund is currently using the findings of these reports to develop a more detailed Climate Strategy.

In the interests of being transparent with the Fund’s beneficiaries and broader stakeholder base, this report discloses the most recent Carbon Risk Metrics Analysis and Climate Scenario Analysis undertaken on the Fund’s assets. We expect to update our Carbon Risk Metrics on an annual basis.

Climate-related risks

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. Most of this warming has occurred in the past 35 years, with the five warmest years on record taking place since 2010. Between the years 2006-2015, the observed global mean surface temperature was 0.87°C higher than the average over the 1850-1990 period. The overwhelming scientific consensus is that the observed climactic changes are the result primarily of human activities including electricity and heat production, agriculture and land use change, industry, and transport.

Figure 1 Graph showing Global Temperature Difference from 1951-80 average. Source: NASA



In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, the majority of climate scientists anticipate that given the current level of climate action, by 2100 the world will be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

Figure 2: Selected extracts from the Paris Agreement on climate change.[8]

Paris Agreement Article 2(1)a

Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

Paris Agreement Article 2(1)c

Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Paris Agreement Article 4(1)

In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.

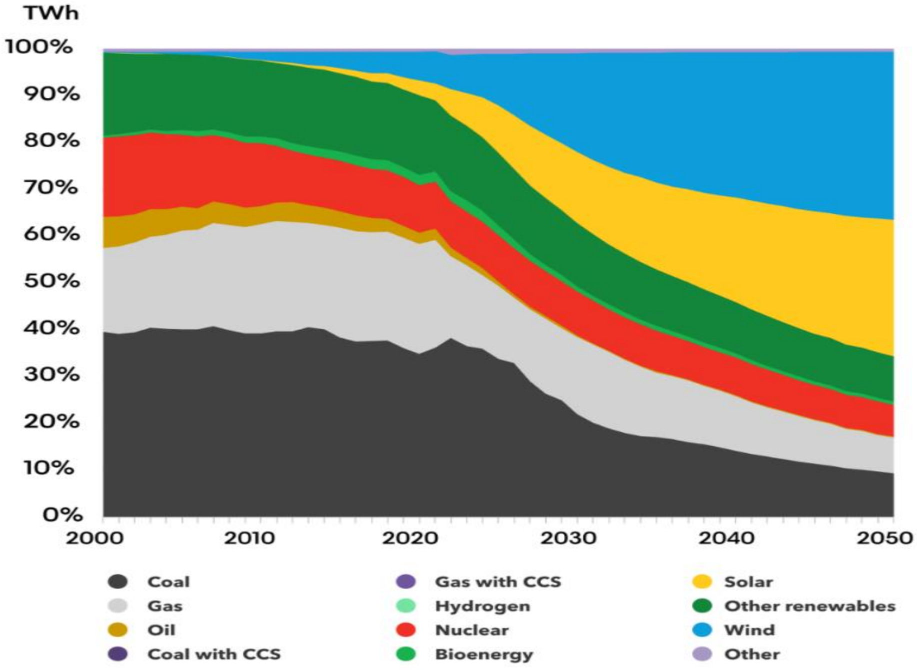
Given its contribution to global green-house gases (GHG) emissions, the energy sector is expected to play a significant role in the long-term decarbonisation of the economy. Figure 3 suggests that in one climate scenario the proportion of coal, oil, and gas in the global power generation mix will shrink to 31% of total by 2050. It is important to recognise however that not only is the supply of energy expected to be a factor in global decarbonisation, but the demand for energy plays a crucial role too. In addition, the behaviour of private and state-owned energy companies (not commonly invested in by UK pension funds) is as important as their publicly traded counterparts.

The issue faced by diversified investors (such as pension funds) is not limited to the oil & gas and power generation sectors, but also to downstream sectors. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors. Research suggests that the oil & gas sector is not homogeneous with regards to climate risk: were climate policies to affect the oil price, those companies with assets lower down the cost curve are less likely to be financially compromised by those companies with higher cost assets. Investors that assume each fossil fuel company bears an equal magnitude of climate-related risk could be led towards sub-optimal decision-making.

The Fund recognises that climate-related risks can be financially material and that the consideration of climate risk falls within the scope of the Fund's fiduciary duty. Given the Fund's long-dated liabilities and the timeframe in which climate risks could materialise, a holistic approach to risk management covering all sectors and all relevant asset classes is warranted.

[8] Source: UNFCCC

Figure 3: The Bloomberg New Energy Outlook global power generation mix. Source: BloombergNEF.



APPENDIX 3

TCFD Recommendations for Asset Owners (source: TCFD)

Governance

Recommended Disclosure (a) Describe the board's oversight of climate-related risks and opportunities.

Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy

Recommended Disclosure (a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Recommended Disclosure (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Recommended Disclosure (c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management

Recommended Disclosure (a) Describe the organisation's processes for identifying and assessing climate-related risks.

Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.

Recommended Disclosure (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Metrics and Targets

Recommended Disclosure (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Recommended Disclosure (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

APPENDIX 4

Important Information

Extract above from Mercer Limited’s (Mercer) report “Climate Change Scenario Analysis” dated December 2022 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Worcestershire Pension Fund. Other third parties may not rely on this information without Mercer’s prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

The following notices relates to Table 4 (above), which is produced for the Fund by LGPS Central Limited based on a product licensed by MSCI ESG Research LLC. This report confers no suggestion or representation of any affiliation, endorsement or sponsorship between LGPS Central and MSCI ESG Research LLC. Additionally:

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Glossary of Terms

Clean Technology/ Weight in Clean Technology: the weight of a portfolio invested in companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.

Coal Reserves/ Portfolio exposure to thermal coal reserves: the weight of a portfolio invested in companies that own thermal coal reserves.

Engagement: dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

Fossil Fuel Reserves/ Portfolio exposure to fossil fuel reserves: the weight of a portfolio invested in companies that own fossil fuel reserves.

Physical risk/ climate physical risk: the financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Portfolio Carbon Footprint/ Carbon Footprint: A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.

Scope 1 Greenhouse Gas Emissions: Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles.

Scope 2 Greenhouse Gas Emissions: Indirect emissions from the generation of purchased energy

Scope 3 Greenhouse Gas Emissions: Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

Stewardship: the promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Transition risk/ climate transition risk: the financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.

Voting: the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

Abbreviations

Acronym	Meaning
CH_4	Methane
CO_2	Carbon Dioxide
ESG	Environmental, Social & Governance
GHG	Greenhouse Gas
LGIM	Legal & General Investment Management
LGPSC	LGPS Central Limited
NDC	Nationally Determined Contribution
TCFD	Task Force on Climate-related Financial Disclosures
WEF	World Economic Forum
WPF	Worcestershire Pension Fund

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PENSIONS COMMITTEE
22 MARCH 2023

PENSION INVESTMENT UPDATE

Recommendation

1. **The Chief Financial Officer recommends 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 Funds behalf be noted (Appendices 4 to 6); and**

   g) **The update on Taskforce for Climate-related Financial Disclosures (TCFD) Consultation be noted.**

Background

2. The Committee will receive regular updates on Fund performance. The Fund's Independent Investment Adviser has provided a Fund performance summary and a brief market background update at Appendix 1 up to the end of December 2022 together with the following supporting information.

- Portfolio Evaluation overall Fund Performance Report up to the end of December 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 December 2022 being £990million and the amount that has been drawn, i.e., the capital invested being £752million (76%). 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 Dec 2022 £m	%
Total Commitment Property Investments	391	311*	80%
Total Commitment Infrastructure Investments	599	441	74%
Total	**990**	**752**	**76%**

** Note that Venn I and Walton St I is coming to an end and capital is currently being recalled.*

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

5. As reported previously to 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 recovered well from the previous significant volatility in the markets because of the Coronavirus which has since been found to be unprecedented. The Fund had a funding level of 100% as at the end of March 2022 and preliminary pension 2022 valuation discussions with employers took place on the 8 and 10 November with the actuary. Further details can be found within the Valuation report on this agenda.

Market turmoil
8. In the short term the current turmoil in financial markets, coupled with rising interest rates and inflation clearly continue to raise some concerns. LGPS pensioners have the benefit of index linked (CPI) increases to their pensions each year. This is in contrast to most private sector pension schemes, that tend to have a cap (or a limit) on the amount that pensions will increase each year, regardless of the rate of inflation.

9. In this respect Worcestershire Pension Fund is anticipating that the pension increase next year will be 10.1% (based on the published CPI increase for September).

Certainly for pensioners this will provide some relief to the rapid increase in the cost of living, but it is acknowledged that with the large increases being seen in energy costs and for some food items times will still be challenging for many. This large increase in pension payments will be managed by the internal team at the Fund through appropriate cash flow planning.

10. Over the longer term the investment strategy of the Fund is designed to ensure that the ability to pay pensions in the short, medium and long term is fully maintained. The Fund invests in a diversified range of assets that over time is anticipated to increase in value and to provide a secure flow of income to pay those pensions.

11. The assumptions that are made in the management of the Fund are regularly reviewed to ensure that changes to economic forecasts, including the cost of living, are incorporated within the investment strategy. With the expectations that the rate of inflation and interest rates will increase further in the short term, but then fall back to lower levels (but higher than we have seen in recent years), the forthcoming asset allocation review will ensure that the investment strategy is adjusted accordingly to maintain the correct balance of assets between those that see a growth in value over time and those that generate a steady flow of income. One of the great strengths of the LGPS is the way in which it is designed to provide a secure income in retirement to our pensioners and to be able to absorb short term challenges due to the long term strength of the asset base

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**	**Mar-22**	**Jan-23**
Assets £'M	1,952	2,795	2,612	3,367	3,585	**3,624
Liabilities £'M	2,606	3,090	*3,243	*3,404	3,585	*3,719
Surplus (-) / Deficit	**654**	**295**	**631**	**37**	**(0)**	**95**
Estimated Funding Level	**75%**	**90%**	**81%**	**99%**	**100%**	**97%**

* *Estimated liabilities provided by the actuary and Assets include cash.*
** *Note the Assets include cash of £35m which are excluded from the* Portfolio Evaluation overall Fund Performance Report attached at Appendix 2.

Equity Protection (EP) update

12. The previous facility provided by Shroders (River & Mercantile), covered our passive equity market cap portfolio of approximately £1.1bn (including the Equity Protection valuation). It was 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.

13. As discussed at the October Committee, the fund took the opportunity to exit the protection given the continued downward trend in market valuations at the time. This was fully exited from Schroders in early November and the £231m was then reinvested back into the passive equity market cap funds on the 10 November 2022.

14. Although the Fund has exited the Equity Protection, the Fund is looking to have this facility as part of the investment tools in its investment strategy. The Fund will need to reprocure Equity Protection strategy going forward.

Strategic Asset Allocation

15. Table 3 below shows the asset allocations as at 31 December 2022 against the Strategic Asset Allocation targets agreed by Committee in June 2020 and updated on the 8th December 2021 to take into account the investment in Global Sustainable equities. This highlights that our overall investment in equities is **67.9%** (71.4% as at June 2022) (including the equity protection) compared to the revised strategic asset allocation target of 70%.

16. Property and Infrastructure investments represent **24.1%** of the portfolio and are therefore slightly overweight against the target of 20%. The Fixed Income portfolio is slightly underweight at **8.0%** compared to a 10% target. The impact of inflation and the Ukraine / Russia conflict continues to result in a degree of market volatility which has seen equity market valuations decrease recently compared to the existing Property and Infrastructure investments.

17. This table now reflects the strategic asset allocation of 6% to Sustainable active equities was approved in December 2021 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.

Table 3 Strategic Asset Allocation targets

Actual Fund as at the 31 December 2022		**Strategic Asset Allocation targets**	
Asset Class	Portfolio Weight	Asset Class	Portfolio Weight
Actively Managed Equities	**24.3%**	**Actively Managed Equities**	**26.0%**
Far East Developed	10.1%	Far East Developed	10.0%
Emerging Markets	8.8%	Emerging Markets	10.0%
LGPSC Global Sustainable	5.3%	LGPSC Global Sustainable	6.0%
Passively Managed Equities – Market Capitalisation Indices	**28.2%**	**Passively Managed Equities – Market Capitalisation Indices**	**29.0%**
United Kingdom	17.2%	United Kingdom	17.0%
North America	5.1%	North America	6.5%
Europe ex UK	5.9%	Europe ex UK	5.5%
Passively Managed Equities – Alternative Indices	**15.5%**	**Passively Managed Equities – Alternative Indices**	**15.0%**
Quality Factor	9.6%	Quality Factor	9.0%
LGPSC Climate Factor	5.9%	LGPSC Climate Factor	6.0%
Equity Protection			
Total Equities	**67.9%**	**Total Equities**	**70.0%**
Fixed Interest	**8.0%**	**Fixed Interest**	**10.0%**
Actively Managed Bonds & Corporate Private Debt	5.2% 2.8%	Actively Managed Bonds & Corporate Private Debt	6.0% 4.0%
Actively managed Alternative Assets	**24.1%**	**Actively managed Alternative Assets**	**20.0%**
Property	8.6%	Property & Infrastructure	20.0%
Infrastructure	15.5%		
TOTAL	**100.0%**	**TOTAL**	**100%**

Responsible Investment (RI) Activities

18. 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.

19. 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)

20. 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.

21. The attached quarterly engagement report (October to December 2022) Appendix 3 features LAPFF company engagements and their records of their collaborative engagements, community meetings, policy responses, and media coverage. The key feature is the LAPFF Chair visits to the Tailings Dam affected communities in Brazil.

22. 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

23. 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 October to December 2022 Responsible Investment – LGPS Central. This will demonstrate progress on matters of investment stewardship.

24. 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

25. 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

26. 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).

27. 'Donut' charts for the engagement statistics (Appendix 4), voting statistics (Appendix 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 December 2022.

Taskforce for Climate-related Financial Disclosures (TCFD) Consultation to be updated

28. As detailed at the last Pensions Committee in December, the UK Government has launched their consultation on Governance and Reporting of climate risks. As widely expected, the consultation follows the Taskforce for Climate-related Financial Disclosures (TCFD) framework and will require Administering Authorities to consider and report against the four key areas of governance, strategy, risk management, and metrics and targets. The aim of this framework is to help the LGPS demonstrate how the consideration of climate change risks and opportunities are integrated into each Authority's entire decision-making process.

29. The proposals under the consultation are similar to the new requirements that came into force for private sector pension funds in October 2021 but include some key differences in order to reflect the needs of the LGPS, the desire to have consistency in data and reporting, and to try to positively impact the ability to accurately measure and report climate risk and emissions data.

Key requirements proposed in the consultation

- Establish and maintain a **Governance** approach for oversight of climate risks and opportunities.
- Assess the impact of climate-related risks and opportunities on funding and investment **strategies.**
- Carry out **scenario analysis** reflecting different temperature pathway alignments(one being Paris aligned).
- Establish and maintain processes for identifying and managing climate-related **risks and opportunities.**
- Report on a minimum of four prescribed **climate metrics** which need to be measured and disclosed annually.
- Set a (non-binding) **target** in relation to one metric, chosen by the Authority.
- As part of ongoing **disclosure requirements** Authorities will need to publish an **annual climate risk report** with the Scheme Advisory Board also preparing an annual report, linking to individual reports and aggregate figures for the prescribed metrics.

  Other requirements including taking **proper advice** and having the **knowledge and skill**s required.

30. The consultation opened on 1 September and had a closing date of 24 November 2022. The Fund has not submitted a response as it has similar views to those of LGPS Central and a number of Partner Funds in the Pool who have submitted returns. The Scheme Advisory Board have also submitted a response which can be found on the

following link [SAB DLUHCClimateRiskReportingresponse].

31. The relevant regulations are expected to be in force by April 2023 with Authorities' first report due by December 2024 covering the 2023/24 scheme year.

32. The Fund is already well placed to meet these key requirements as it has produced a Climate Risk Strategy and TCFD report for the past 2 years. The Fund will look to LGPS Centrals Responsible Investment Team and partner funds within the Pool to see how to address the key requirements and provide progress updates to Committee.

33. The Fund held an ESG Workshop on the 8 February 2023 which was to review progress against the Pension Committee ESG recommendations in March 2022 and ascertain what further changes may be required when looking ahead. The workshop was led by Karen Shackleton from Pensions for Purpose who has provided valuable support for the Fund in this area since January 2020, and supported by officers and the Funds independent Investment Advisor The objectives of the review were as follows: -

- Refresh – the Fund's investment beliefs, priorities and how you can align to these.
- Review - strategic actions agreed at the last review and progress made.
- Review - Stewardship Code 2020 and TCFD reporting.
- Update on key outcomes of the Funds 3rd Climate risk report and 2nd Climate. scenario analysis presented by LGPS Central.
- Consider – ESG progress in private markets (presentations from two Fund. managers, Bridgepoint (Corporate Private Debt) and Stonepeak (Infrastructure).
- Explore - case studies of LGPS funds exhibiting best practice.
- Review - key insights from the ESG pensioner members questionnaire.
- Consider - net zero goals – mapping the journey to net zero.
- Discuss – priorities for the next 12 months.

34. The workshop finished with a consideration of the next steps to consider for the next 12 months with the issues below raised by Pensions for Purpose. General views expressed are shown by each issue:

- Enhance engagement activity? The fund was already doing a lot on engagement activity and the Fund would target its engagement activity in line with the stewardship plan within LGPSC Climate Risk report.
- **More action from investment managers/pool?** *To continue to monitor the Fund managers progress in this area and work with LGPSC to enhance reporting and information on the effectiveness of engagement outcomes over time.*
- More climate solutions/more de-risking? Agree a decarbonisation goal for the next five years with 2020 as the baseline (an action for the committee to consider).
- Commit to impact-driven investing? This may be a way to align to some of the other SDG priorities that the fund has agreed, subject to the opportunities delivering strong market-rate, risk-adjusted financial returns.
- Training on impact investing? This was felt to be a good suggestion.

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 October to December 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

March 2023

Philip Hebson
MJ Hudson

philip.hebson@mjhudson.com

Independent Investment Advisor's report for the Pension Committee meeting

22 March 2023

Fond farewells

Not the normal introduction to my report, but this isn't a normal moment. In March the Fund loses two faithful servants: Michael Hudson and Rob Wilson. Both became involved with the Fund five years ago and in that time, they have totally transformed the governance and professionalism in which the Fund is managed, such that it is safe to say that in this respect we are now one of the very best managed Funds in the LGPS. Rob in particular has had an enormous part to play in this, his will be hard act to follow. I'm sure that Sherief is up to the task! I wish Michael well in his new role at Cambridgeshire and to Rob, my thanks for being such a joy to work with and I wish you well for a long and happy retirement, at whichever garden centre café you settle in!!

Global overview

Q4 was a very positive quarter for risk assets generally, with equities and credit rebounding from losses in Q3 as investors have grown more optimistic that inflation may have peaked and Central Banks will soon have reason to end their rate hikes. Inflation still remains uncomfortably high however, and Central Bank rhetoric has so far remained hawkish generally. Long-term bond yields showed little overall movement (with the exception of UK gilts returning to normality), while short-term yields generally rose as monetary policy was tightened further. Additional positive impetus was provided by China's relaxing of its zero-COVID policy, improving the outlook for growth in its economy, and by the surprising resilience of European gas supplies, reducing oil/gas prices and easing fears of recession: oil and gas finished the year only 10% and 20% above their end-2021 levels. Equity markets rallied this quarter, especially beleaguered European and Emerging Markets, although global equities are overall unchanged from June 2022 levels, despite volatile price moves in this period. The UK was one of the best-performing equity markets, and sterling recovered some of its earlier losses versus the dollar. Value stocks (+14.2%) outperformed growth (+4.6%) by a wide margin this quarter.

GDP growth and labour markets: Despite the ongoing recovery from the pandemic, the impact of tight monetary policy and the war in Ukraine are expected to slow growth, particularly in the UK and Europe. Labour markets have to date remained strong with unemployment at very low levels historically for the US, UK and Europe (3.5%, 3.7%, and 6.0% respectively from the most recent data).

The 'new' UK Government under Rishi Sunak has restored order to gilt markets and sterling by promising fiscally conservative plans. Markets have so far looked favourably on this and returned bond yields to their former positions relative to peer yields.

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

Inflation – the story after the peak. While YoY CPI inflation appears to have now peaked for the US, UK and Europe, concern remains over how rapidly and to what level inflation will fall. There are indications of inflation becoming more entrenched, but investors appear to be pricing in a more rapid cut in rates than that which Central banks are currently forecasting. Perhaps the misstep by the Fed in 2021 of calling inflation 'transitory' has reduced markets' trust. Euro inflation reached 10.6% in October, a fresh high, however this fell in November to 10.1%. Similarly for the UK, a high of 11.1% was reached in October before falling in November. For the US, the high in CPI appears to have been reached in June at 9.1% and has since declined to 7.1%.

Inflation vs Recession – the next stage for monetary policy. Monetary policy continued to tighten in most major developed countries, with the Fed, the BoE and the ECB all raising rates several times in Q4. Markets now expect rates to peak at ~4.5% for the UK, ~5% for the US, and a little over 3% for the ECB which indicates hiking cycles are coming towards their end. In addition, the Bank of Japan (BoJ) surprised markets by lifting the yield ceiling for their 10-year bond to 0.5% from 0.25%. The BoJ noted this was to restore proper market function, but as the BoJ owns over half of the bonds on issue investors have questioned if there is another rationale for the change. Prime Minister Kishida has also announced they will discuss the BoJ's inflation target approach when a new BoJ Governor starts his term in April.

A return to fixed income? The repricing of debt of all forms, following the rapid rises in interest rates last year, has increased yields on many debt asset classes, potentially increasing long-term returns. Interest rates are now in a more volatile phase, in marked contrast to the repressed volatility of the past decade of QE, so this potential for improved returns is likely to come with increased volatility.

Equity valuations reflect "mild" recession – earnings on watch in 2023. Following the 18% decline in US equities this year they are now trading at 16.5x forward earnings, below the 10-year average of 17.2x, but up from 15x in Q3. Over the course of Q4, expectations for 2023 earnings fell by -4.4% with much of the negative impact expected in the first half of 2023, and some of the leading economic indicators (e.g., ISM survey data) are starting to signal a decline. Investors appear willing to look through any potential decline in earnings but clearly there remains a risk to earnings, as corporate profit margins remain elevated by historical standards, and inflating costs may yet impact these.

Energy crisis: off the boil, but not gone. While the immediate threat of blackouts in Europe this winter has probably been avoided, and gas storage levels are high, the problem is not over. Furthermore. China's reopening is likely to increase demand pressure on global supplies.

Summary and Market Background

The value of the Fund in the quarter rose to £3.434bn, an increase of £177m compared to the end September value of £3.257bn. The Fund produced a return of 3.8% over the quarter, which was 0.7% ahead of the benchmark. The main reason for the outperformance was attributed to the Property, Infrastructure and Corporate Bond mandates. The process of winding up of the equity protection strategy was completed during the quarter. Over a 12-month period the Fund recorded a negative relative return against the benchmark of -1.4% (-4.3% v. -2.9%). The Fund has performed at or near the benchmark over the three-, five- and ten-year periods, details of which can be found in Portfolio Evaluation Limited's report.

As stated above the equity protection strategy in its current form has been liquidated, due to the former manager being taken over by another company, with the lead personnel either not joining the new owner or subsequently leaving. It is important that the capability to implement protection is maintained, given that the asset allocation continues to have a relatively high percentage of the Fund's assets (70%) invested in equities. The equity protection strategy forms part of the overall risk management arrangements, with the objective of continuing to provide some protection to the funding level in the event of future significant falls in equity markets. The initial work to reinstate the ability to implement equity protection as and when required in the future has commenced, although this might take some time to put in place.

The Triennial Actuarial Valuation currently being undertaken by Mercers has not shown anything that is unexpected or that would require major changes in the Fund's asset allocation. Currently the main items that need to be considered are ensuring that the mix of assets are appropriate to deal with a) inflation likely to be running at a higher level than we have been accustomed to in recent years and b) a higher cash flow requirement to accommodate the increase in pension payments resulting from higher inflation. The Fund has experienced a lot of changes in the way that the investment assets are managed over the last three years, partly as a result of the pooling of those assets with LGPS Central. This has carried a high price in the short term, so a period of consolidation would now be prudent. The process of evolution to keep the Fund in good shape should continue however, the details of that are contained within the Strategic Asset Allocation review, so as to ensure that we have sufficient liquidity along with the right mix of investments to diversify risk and to meet the longer-term objectives.

We also need to be cognisant of the constantly rising expectations and requirements relating to ESG and climate change considerations. Considerable progress has already been made in this respect by the Fund and by LGPS Central, but this is an evolving process and consideration needs to be given to the pace of next steps and what they should be. A review of progress to date and consideration of future objectives was undertaken at a workshop on 8th February.

Performance during Q4 2022 has once again been a bit of a mixed bag, but also has highlighted the value of having a diversified portfolio of asset types. It was pleasing to see a recovery in values for the public market assets after three disappointing quarters, and although on a wider basis property value (in the UK in particular) suffered some major falls, our mix of investments fared relatively very well. Although the impact of inflation on the cost of living was really starting to manifest itself, markets generally seemed to be trying to look through the economic gloom to potentially better times ahead.

In performance terms from our active managers Nomura (Pacific) showed an underperformance of -1.1% and LGPS Central (Emerging Markets) underperformed by -0.2%, with two out of three managers contributing to that. It is good to see a net positive contribution in Q4 from the LGPS Central Global Sustainable Active Funds, with the Targeted strategy outperforming by 4.1%, but sadly the Thematic strategy pulled that down a bit by underperforming by -0.6%. LGPS Central (Corporate Bonds) slightly underperformed the benchmark, by -0.2%. The total property fund showed an outperformance against our own benchmark of 9.9%, which is an encouraging position given the hiatus seen in UK property in general during Q4. Hopefully potential recession won't damage that position and in the context of the long-term nature of the Fund's investment strategy these irritations are not significant detractors from overall performance. Infrastructure continued to perform well.

The passive equities outperformed the alternative passive strategies by 4.9% (7.7% v. 2.8%). Passive equities also outperformed the active equity strategies, by 5.4% (7.7% v. 2.3%). Out of the passive geographies Europe was the winner (11.7%), with the UK (8.9%) next, with North America (-0.5%) being the laggard this time.

Equities

Global equities rose sharply in Q4, as inflation appears to have now peaked and investors expect that Central Banks will not need to maintain restrictive monetary policies for as long as they have been guiding. Given the rise in equity markets, the VIX decreased by -31.5%, from 32 to 22, although this level is above the pre-COVID-19 average.

In the US, the S&P 500 rose by 7.5% and the NASDAQ fell by -1.0% as markets rallied due to falling inflation data, but investors remain wary of growth and tech stocks. A number of tech companies have announced staff layoffs and cost cutting measures in a response to investor concerns.

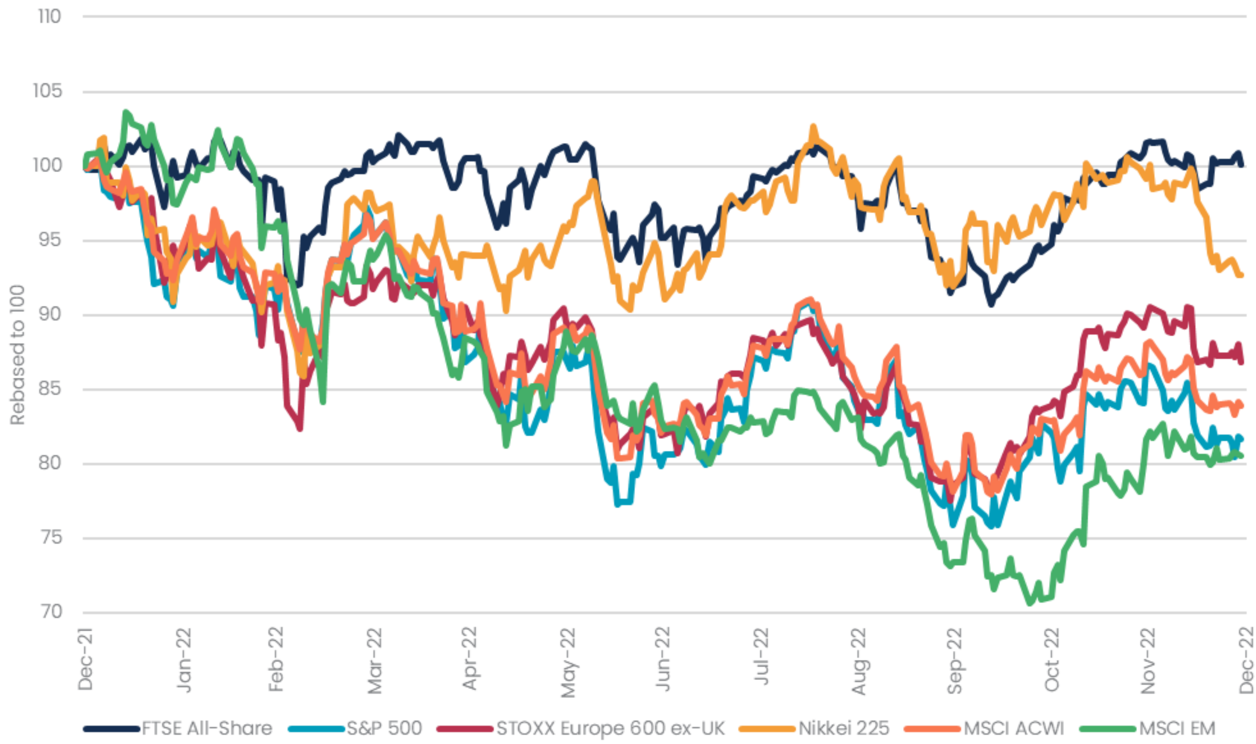
UK equities rallied in Q4, rising 8.7% as investors welcomed the government leadership change and return to normal market functioning of gilts following the BoE's intervention. Energy price declines amid warmer temperature and rising inventories of natural gas also helped temper inflation expectations. The BoE raised the base rate to 3.5% in December, however two committee members voted to keep rates unchanged which could signal the start of a shift toward more dovish policy. Q4 GDP was at 0.0%, a 0.3% improvement from its November report.

The Euro Stoxx 50 rose by 14.9% in Q4 as investors were cheered by inflation data declining in the quarter, albeit it is still at high levels. Inflation in Europe has been particularly high due to the impact of energy prices following Russia's invasion of Ukraine and consequent impact to European energy supply.

Japanese equities underperformed other equity markets, rising by only 0.7% in Q4. Japanese equities performed well in the quarter until core CPI in December was announced at a 40-year high and the BoJ increased the ceiling of the trading range for the 10-year bond to 0.5% (from 0.25%) which proved a headwind for equities. While inflation remains well below other major economies, investors are wary of a hawkish pivot at upcoming BoJ meetings due to the upcoming retirement of Governor Kuroda. The yen reached a high (i.e., a weak yen) of 150 vs the US dollar during Q4 but ended the year at 131 following the inflation peak and yield curve adjustment.

Emerging market equities performed strongly (+9.6%) with sentiment improving in China following the announcement of COVID-19 restrictions easing, and US dollar weakness provided a boost.

<u>Global Equity Markets Performance</u>



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

Medium- and longer-term bond yields were largely rangebound in Q4 as investors weighed expected declines in inflation against Central Banks' desires to ensure inflation is stamped out. Additionally, employment data generally has remained strong which provides the impetus for Central Banks to hike rates now while labour markets are viewed as strong enough to withstand it. In corporate bonds, high-yield credit outperformed as spreads tightened over the quarter but remain around their long-term average level. Emerging market bonds rose 7.8% in local currency, and 8.1% in hard currency.

The US 10-year Treasury yield rose marginally in Q4, ending at 3.88% from 3.83%. The 2-year yield rose in Q4, from 4.22% to 4.41%, as the yield curve inverted further. US rates rose initially in the quarter as core inflation data continued to be strong and Fed speakers maintained the narrative that hawkish policy needed to be maintained. Later in the quarter rates fell though, as markets maintained the view that the Fed will pivot and cut rates in 2023 as inflation falls, spurred by recent falls in monthly CPI data. The Fed raised short term rates to 4.25-4.5% as at end of Q4.

The UK 10-year Gilt yield fell from 4.09% to 3.67% and 2-year from 4.30% to 3.56%. The declines largely reflected markets returning to normal following the spike in yields in Q3 following the Truss government 'mini budget' and occurred despite the BoE hiking rates by 125bps. While Gilt rates fell sharply over the quarter, UK Gilts now trade in a similar relative position to peer government bonds as they did before Q3.

European government bonds had a total return of -2.1% in Q4. Yield curves flattened or inverted during the quarter, as short end rates rose in response to the ECB raising its policy rate to 2.5% during the quarter and noted it expects to hike rates further based on its inflation outlook. Long-end rates rose less, as investors view inflation as likely to fall steadily. The German 10-year bund yield increased from 2.11% to 2.57%, and Italy's went up from 4.51% to 4.70%.

US high-yield bonds outperformed investment grade, returning 4.2%, and European high-yield bonds returned 4.7%. Investment-grade bonds returned 6.4% in the UK, 1.7% in Europe and 3.6% in the US.

Currencies

In currencies, sterling strengthened sharply against the US dollar (+8.2%) but fell against the euro (-0.8%) over the fourth quarter. The principal driver was the appointment of Rishi Sunak as Prime Minister who is viewed as likely to pursue a more fiscally conservative agenda, and the BoE's intervention in gilt markets to stabilise yields. Overall, the US dollar fell in Q4 (Dollar index -7.7%), reversing much of the Q3 gains. Over the year 2022, the Dollar Index rose +8.2%. Notably, the US dollar also fell against the Japanese yen by -9.4% in Q4 as the BoJ shocked markets in December by increasing the top range at which the 10 year bond could yield.

Commodities

Energy prices fluctuated during Q4 as investors mulled over China re-opening, risk of looming recessions in Europe, UK, USA, and warmer weather than expected reducing near term demand for natural gas. Precious metals rose as the US dollar declined and also received a boost from falling interest rates.

US gas prices fell -33.9% over Q4, reversing some of the sharp gains earlier in 2022 as winter weather has been warmer than expected (reducing demand) and inventories have been higher than previously expected.

Brent crude oil fell -2.3% in Q4. Prices have been volatile as fears of a fall in demand from a global recession and structural trends toward renewable energy have clashed with supply side dynamics relating to Russia's invasion of Ukraine, OPEC production, and the US releasing oil from its Strategic Petroleum Reserve. Brent closed the quarter at $86 per barrel.

Gold and Copper rose 9.9% and 11.7% respectively in Q4, with gold rising as interest rates and the US dollar declined, as well as reports of Central Banks including China and Turkey increasing their purchases. Copper rose as China, a significant copper importer, announced the start of COVID-19 re-opening. Gold and copper closed Q4 at 1,826 USD/toz and 381 USD/lb, respectively.

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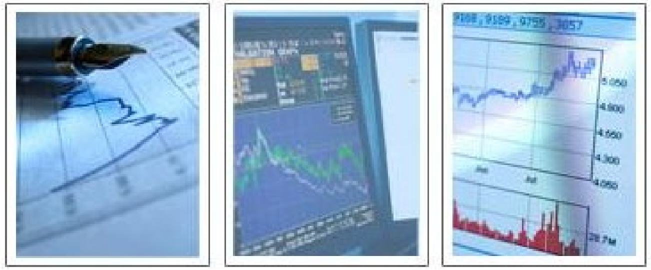


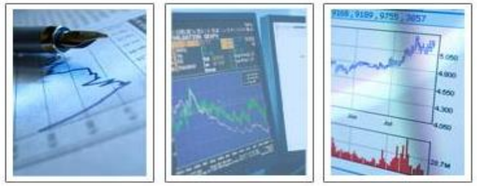
Specialists in Investment Risk and Return Evaluation

Quarterly Risk and Return Analysis
Total Fund

Worcestershire County Council Pension Fund

Period ending 31st December 2022

Contents



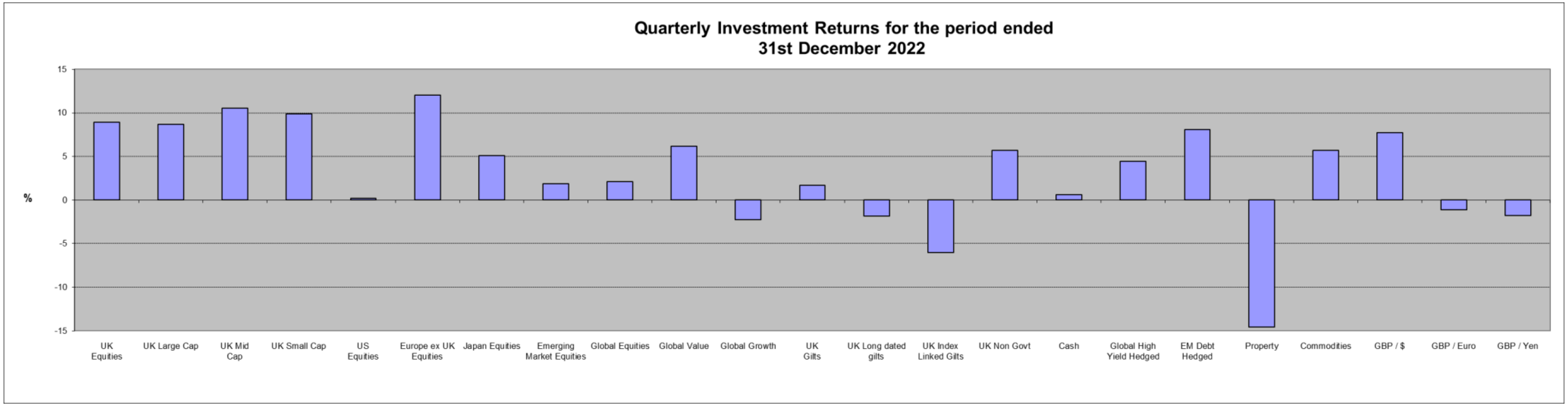
Specialists in Investment Risk and Return Evaluation

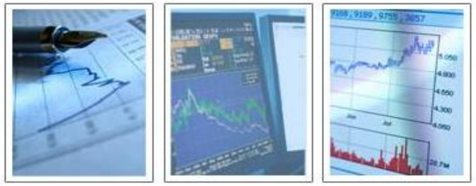
Portfolio Evaluation Ltd Market Commentary Q4 2022 (Sterling)

Quarter four witnessed key equity markets, corporate bonds, many gilt markets, and commodities rising. Property was the key loser. Sterling also strengthened as the Truss days became a distant memory and the BofE and Sunak calmed the markets; however over the year the strong dollar / weak sterling and the weight of USD assets in the global indices has impacted GBP returns. The 2022 year has seen most markets having negative returns (except for commodities) as investors struggled with high inflation, central bank tightening, a war between Ukraine and Russia, energy supply problems, tightening labour markets, COVID and output falling in China due to (now redundant) zero-COVID policies. Within global sectors the majority have had significant negative returns except for healthcare, consumer staples, banks, energy and utilities that had significant positive returns.

Many of our institutional clients have benefitted from high returns in 'alternative' asset classes such as Private Equities, Infrastructure, Private Debt and Property but it should be noted that much of the data is lagged and although returns may soften as valuations are updated returns continue to be resilient. It should also be noted that many of our clients are continuing to fund 'alternative' asset portfolios.

We saw some clients being impacted by increasing yields requiring LDI portfolio margin accounts to require significant funding; this in some instances is requiring selling other portfolio assets and it should be noted that the BofE had to assist this part of the market in early October.

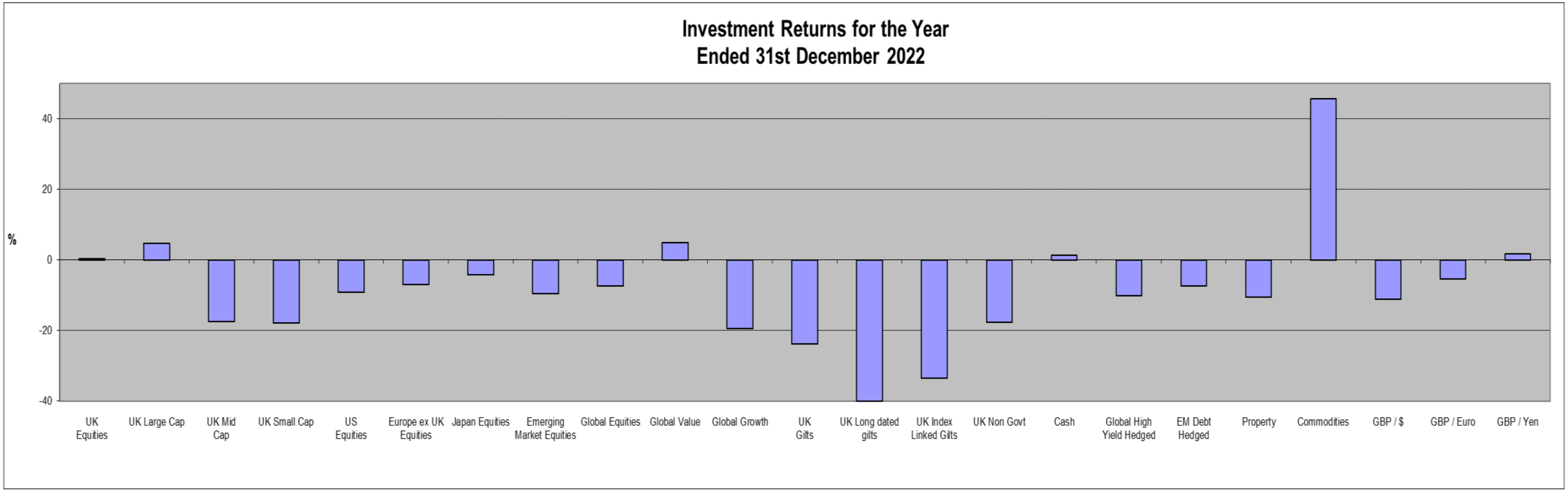




Specialists in Investment Risk and Return Evaluation

It appears that going into 2023 many investors are apprehensive. Many investors feel that the era of low interest rates fuelling markets has ended. Although inflation rates remain high and growth will reduce many market commentators expect the U.S. and Europe to escape recession. However, they do expect interest rate rises albeit at a slower pace than in 2022. Many investors believe that both equity market valuations appear positive globally and in particular in Europe. Bonds also appear attractive. However many investors believe that the outlook for earnings revisions remain significant as does the probability of 'mis-steps' by central banks given their tussles with inflation and labour market strength. The UK market appears to be the most likely to have a recession given the outlook for lower growth especially as inflation remains stubbornly high.

An interesting year awaits!



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 December 2022

QUARTERLY SUMMARY: **Worcestershire County Council Pension Fund** **Return: 3.8%** **Benchmark Return: 3.1%** **Excess Return: 0.6%**

- This quarter saw the R&M EPO strategy overlay fund close in mid-November; the assets (including the collateral fund invested in gilts) were transferred to the LGIM passive UK Equity, North American Equity and European Equity Funds. Additionally a significant investment was made into the BSIF Forestry Fund IV and the EDIF lll Fund was funded for the first time (allowing for reporting lags).

- The Fund and its benchmark have both generated positive returns, and the Fund has outperformed its benchmark by 0.6% excess. The EPO has had a negative influence on the Total Fund and benchmark return albeit relatively small; this was expected given the rise in markets in October (the last full month that the EPO was used).

- Equity returns underperformed the benchmark despite the LGPSC Global Sustainable Equity Active Targeted Fund and the Total Passive equity assets outperforming. The Nomura Far East portfolio, LGPSC Sustainable Equity Active Thematic Fund and the LGPSC EMM all underperformed. The primary areas of outperformance have been generated by Property, Corporate Debt Fund and Infrastructure asset classes. It should be noted that the negative depreciation of sterling versus the US dollar has been a positive contributor to the Fund.

- Within the primary asset classes, infrastructure assets were the highest returning generators over the quarter at 4.7, %. Property assets had a return of 1.6%. Equity assets (inc EPO) generated a return of 3.8% whilst equities ex EPO the return was marginally lower at 3.7%. Within equities, the Passive Pool was the highest return generator at 7.7% whilst the Active Pool had a return of 2.3% and the Alts Pool a return of 2.8% (approximately in line with the benchmark).

- The recently established Total Fixed Income asset class has outperformed and is underweight its strategic asset allocation (note that equities remain overweight their strategic asset allocation).

- The Fund outperformed the benchmark primarily due to Property, Infrastructure and Total Fixed Income. Equity assets were a negative influence on excess return as was the EPO strategy. Fund asset allocation was also a negative contributor to excess return.

- 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 June 2022 whilst the Gresham House Forestry Funds have a lag of 6 months.

YEAR SUMMARY: **Worcestershire County Council Pension Fund** **Return: -4.3%** **Benchmark Return: -2.9%** **Excess Return: -1.4%**

- The Fund and its benchmark have generated negative returns and the Fund has underperformed its benchmark by -1.4% excess. The underperformance has been primarily generated by equity assets, and by the performance of the Fixed Income assets which significantly underperformed. The Infrastructure and Property Pools outperformed. 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 from their investments.

- With the closure of the EPO strategy the Fund, due to the assets being invested in passive equities, has become overweight passive equities due to becoming overweight the UK Index Fund.

- The most significant drag on excess return was primarily generated by the LGPSC EMM Fund, the Nomura Far East Developed portfolio and the transition portfolio in the quarter ended June 2022. The highest positive contributor to excess return were Infrastructure and Property assets.

- Infrastructure assets generated the highest return of 18.3% followed by Property with a return of 7.4%. Equity assets were the next highest return generators over the year and excluding the overlay generated a return of -8.1%. Within equities the Passive Pool was the highest return generator followed by the Alternatives Pool and finally the Active Pool (generating returns of -3.7%, -10.0% and -14.9% respectively), all of them underperformed their benchmarks. Fixed Income assets had a return of -14.5% underperforming by -6.0%.

THREE YEAR SUMMARY: **Worcestershire County Council Pension Fund** **Return: 4.5% p.a.** **Benchmark Return: 4.2% p.a.** **Excess Return: 0.3% p.a.**

- Over the three-year period, the Fund has generated a positive return of 4.5% p.a. and has outperformed the benchmark. It should be noted that there has been a considerable number of new mandates established in that timeline especially in the property, infrastructure and bond asset classes. Additionally, the equites have been restructured.

- All primary asset classes, except for Total Fixed Income have generated positive returns.

- The equity protection overlay program has increased the Fund return over the three-year period (by 0.3% p.a.). 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: **£3.4bn**

Total Fund Overview
Worcestershire CC Pension Fund
Report Period: Quarter Ending December 2022

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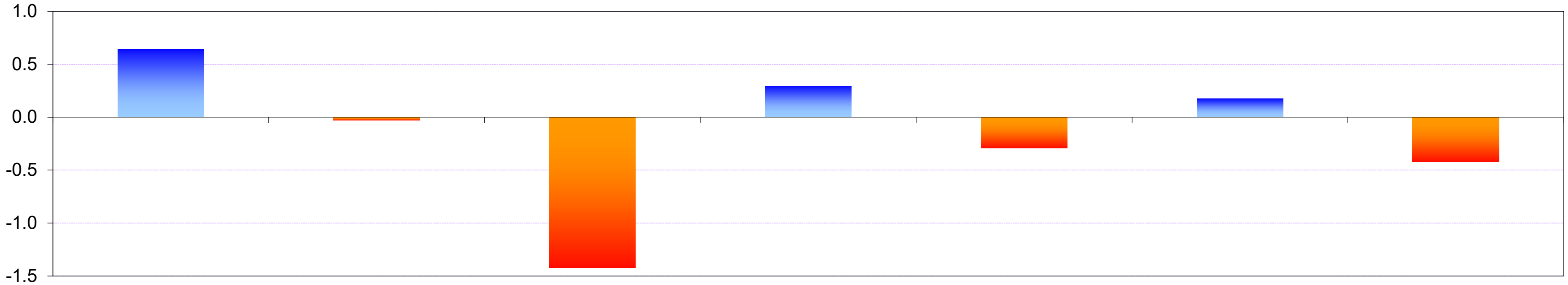
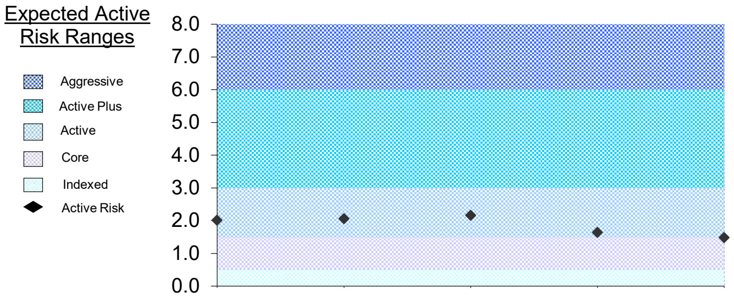
Excess Return Analysis (%)



	QTR	Fin YTD	1 Yr	3 Yr	5 Yr	10Yr	Since Mar 87 (p.a.)
Excess Return	0.6	0.0	-1.4	0.3	-0.3	0.2	-0.4
Portfolio Return	3.8	-1.5	-4.3	4.5	4.5	8.3	7.8
Benchmark Return	3.1	-1.4	-2.9	4.2	4.8	8.1	8.2

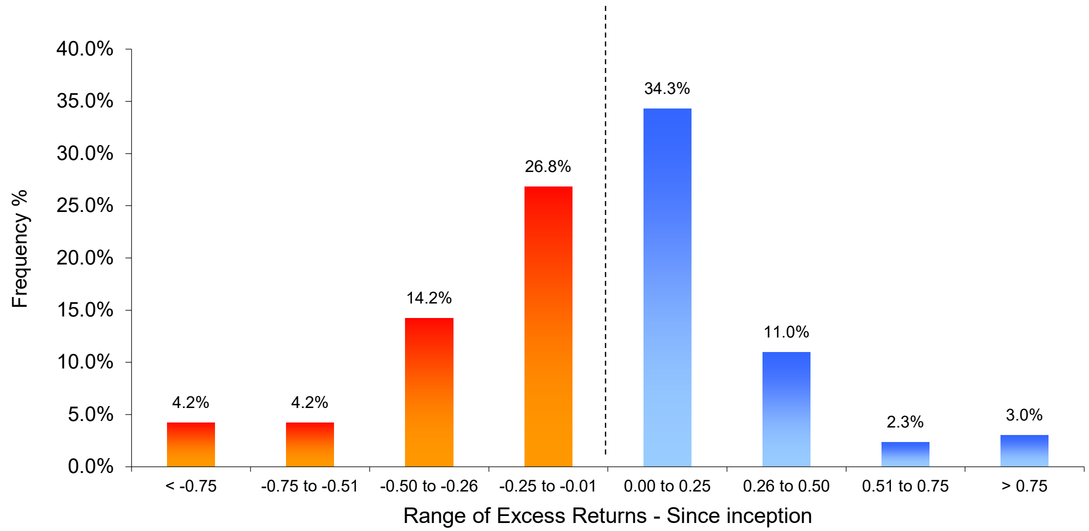
All returns for periods in excess of 1 year are annualised. The portfolio return is net.

Ex-Post Active Risk Analysis (%)



	1 Yr	3 Yr	5 Yr	10 Yr	Mar 87
Active Risk	2.0	2.1	2.2	1.6	1.5
Portfolio Risk	7.8	9.0	8.0	8.4	12.3
Benchmark Risk	8.6	10.2	9.3	8.9	12.2

Excess Return Consistency Analysis

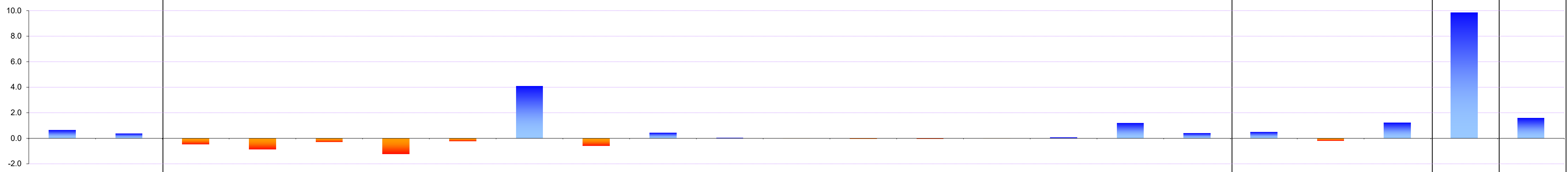


Ex-Post Active Risk measures the volatility of the actual excess returns achieved by the Portfolio/Fund.
Excess Return Consistency Analysis measures the frequency of the Portfolio/Fund's outperformance (Blue) and underperformance (Red) versus its benchmark, calculated using monthly (or quarterly if indicated)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

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

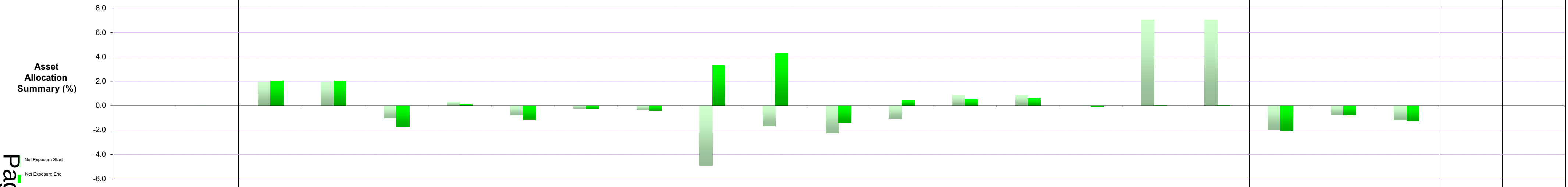
Market Value: £3.4bn

Returns Summary (%)



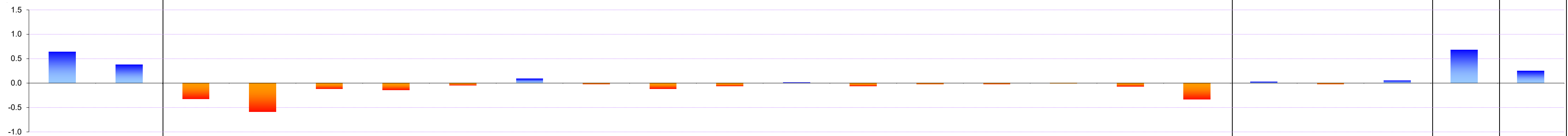
	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - LGPSC	*Total Passive*	UK - L&G	North American - L&G	Europe ex UK - L&G	*Total Alts*	MSCI Wld Qual - L&G	AW Passive Climate 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	**0.6**	**0.4**	**-0.5**	**-0.9**	**-0.3**	-1.2	-0.2	4.1	-0.6	**0.4**	0.0	0.0	0.0	**0.0**	0.0	0.0	**1.2**	**0.4**	**0.5**	-0.2	**1.2**	**9.9**	**1.6**
Portfolio Return	**3.8**	**3.7**	**3.8**	**3.7**	**2.3**	3.3	0.5	6.2	1.5	**7.7**	8.9	-0.5	11.7	**2.8**	2.3	3.7	**1.2**	**0.4**	**4.1**	4.9	**2.7**	**1.6**	**4.7**
Benchmark Return	**3.1**	**3.4**	**4.2**	**4.6**	**2.6**	4.5	0.7	2.1	2.1	**7.2**	8.9	-0.5	11.7	**2.9**	2.3	3.7	**0.0**	**0.0**	**3.6**	5.1	**1.5**	**-8.2**	**3.1**

Asset Allocation Summary (%)

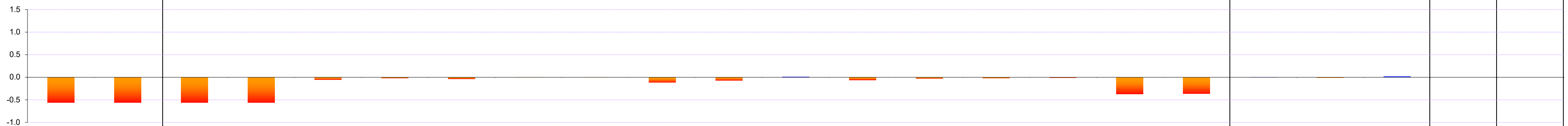


	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - LGPSC	*Total Passive*	UK - L&G	North American - L&G	Europe ex UK - L&G	*Total Alts*	MSCI Wld Qual - L&G	AW Passive Climate 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**	**100.0**	**69.8**	**69.8**	**25.0**	10.3	9.2	2.1	3.4	**21.9**	13.2	4.3	4.5	**15.9**	9.9	6.0	**7.0**	**7.0**	**8.1**	5.3	**2.8**	**6.7**	**15.4**
Portfolio End	**100.0**	**100.0**	**67.9**	**67.9**	**24.3**	10.1	8.8	2.1	3.2	**28.2**	17.2	5.1	5.9	**15.5**	9.6	5.9	**0.0**	**0.0**	**8.0**	5.2	**2.7**	**8.6**	**15.5**
Benchmark Start	**100.0**	**100.0**	**67.8**	**67.8**	**26.0**	10.0	10.0	2.3	3.7	**26.8**	14.8	6.5	5.5	**15.0**	9.0	6.0	**0.0**	**0.0**	**10.0**	6.0	**4.0**	**6.7**	**15.4**
Benchmark End	**100.0**	**100.0**	**65.9**	**65.9**	**26.0**	10.0	10.0	2.4	3.6	**24.9**	12.9	6.5	5.5	**15.0**	9.0	6.0	**0.0**	**0.0**	**10.0**	6.0	**4.0**	**8.6**	**15.5**

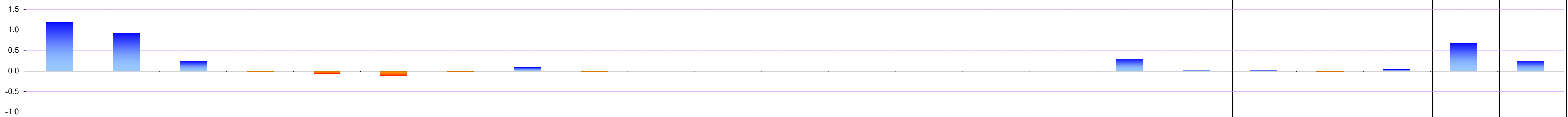
Attribution to Excess Return (%)



	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - 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	**0.6**	**0.4**	**-0.3**	**-0.6**	**-0.1**	-0.1	0.0	0.1	0.0	**-0.1**	-0.1	0.0	-0.1	**0.0**	0.0	0.0	**-0.1**	**-0.3**	**0.0**	0.0	**0.1**	**0.7**	**0.2**



	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - 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	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.1**	0.0	0.0	0.0	0.0	**-0.1**	-0.1	0.0	-0.1	**0.0**	0.0	0.0	**-0.4**	**-0.4**	**0.0**	0.0	**0.0**	**0.0**	**0.0**



	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - 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	**1.2**	**0.9**	**0.2**	**0.0**	**-0.1**	-0.1	0.0	0.1	0.0	**0.0**	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.3**	**0.0**	**0.0**	0.0	**0.0**	**0.7**	**0.2**

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.

Market Value: £3.4bn

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

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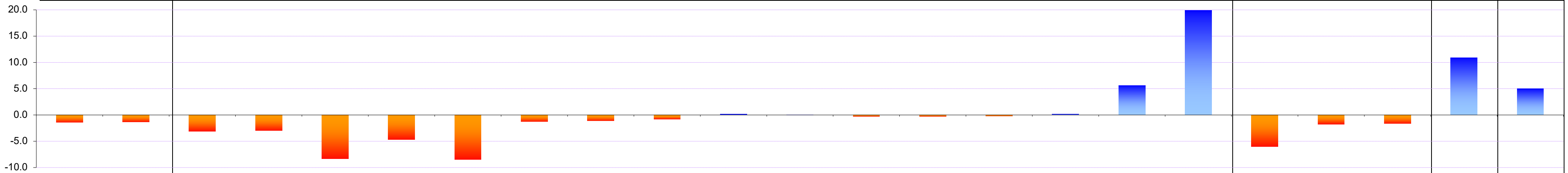
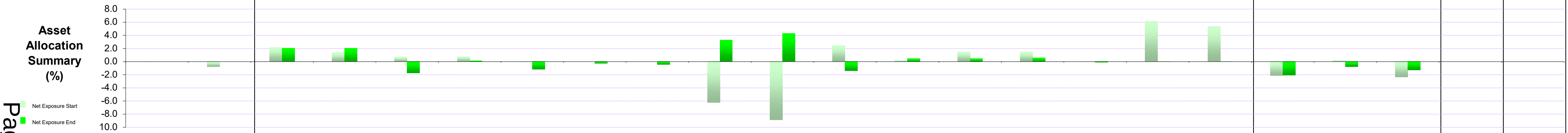
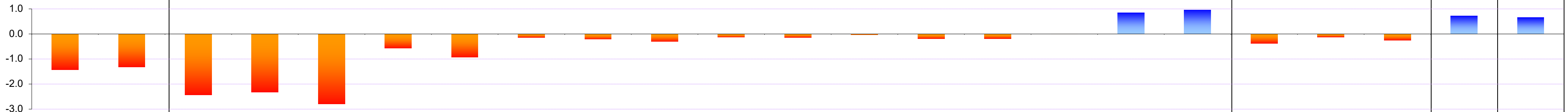
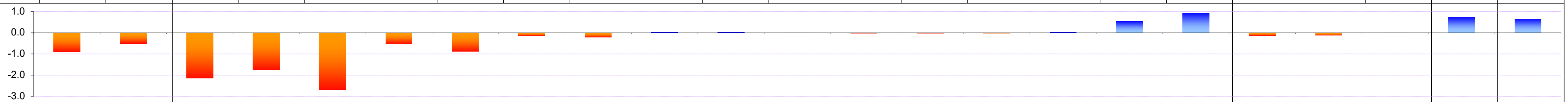
	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - LGPSC	*Total Passive*	UK - L&G	North American - L&G	Europe ex UK - L&G	*Total Alts*	MSCI Wld Qual - L&G	AW Passive Climate Factor Fund - LGPSC	*R&M EPO*	*R&M EPO ex Overlay*	Total Fixed Income	Corporate Bonds - LGPSC	Corporate Debt	Total Property	Total Infra
Returns Summary (%)																							
Excess Return	-1.4	-1.3	-3.1	-3.0	-8.3	-4.7	-8.5	-1.3	-1.1	-0.8	0.1	0.0	-0.3	-0.3	-0.2	0.2	5.6	19.9	-6.0	-1.8	-1.6	10.9	5.0
Portfolio Return	-4.3	-4.6	-7.6	-8.1	-13.9	-9.9	-14.9	-3.6	-3.5	-3.7	0.5	-8.8	-7.7	-10.0	-12.3	-5.9	5.6	19.9	-14.5	-19.0	4.4	7.4	18.3
Benchmark Return	-2.9	-3.3	-4.5	-5.1	-5.6	-5.2	-6.4	-2.4	-2.4	-2.9	0.3	-8.8	-7.5	-9.7	-12.1	-6.1	0.0	0.0	-8.4	-17.3	6.0	-3.5	13.3
Asset Allocation Summary (%)																							
Portfolio Start	100.0	99.2	76.5	75.7	20.7	10.8	9.9	0.0	0.0	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	100.0	67.9	67.9	24.3	10.1	8.8	2.1	3.2	28.2	17.2	5.1	5.9	15.5	9.6	5.9	0.0	0.0	8.0	5.2	2.7	8.6	15.5
Benchmark Start	100.0	100.0	74.3	74.3	20.0	10.0	10.0	0.0	0.0	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	65.9	65.9	26.0	10.0	10.0	2.4	3.6	24.9	12.9	6.5	5.5	15.0	9.0	6.0	0.0	0.0	10.0	6.0	4.0	8.6	15.5
Attribution to Excess Return (%)																							
Excess Return	-1.4	-1.3	-2.4	-2.3	-2.8	-0.6	-0.9	-0.1	-0.2	-0.3	-0.1	-0.1	0.0	-0.2	-0.2	0.0	0.8	1.0	-0.4	-0.1	-0.3	0.7	0.7
Asset Allocation	-0.5	-0.8	-0.3	-0.6	-0.1	0.0	0.0	0.0	0.0	-0.3	-0.2	-0.1	0.0	-0.2	-0.2	0.0	0.3	0.0	-0.2	0.0	-0.2	0.0	0.0
Stock Selection	-0.9	-0.5	-2.1	-1.8	-2.7	-0.5	-0.9	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.9	-0.1	-0.1	0.0	0.7	0.7







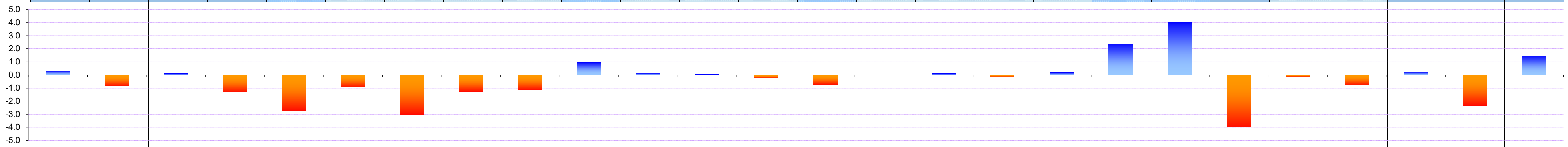


Attribution to Total Fund Excess Return Analysis - Annualised
Worcestershire County Council Pension Fund
for 3 Year Period Ended 31st December 2022

PORTFOLIO EVALUATION LIMITED

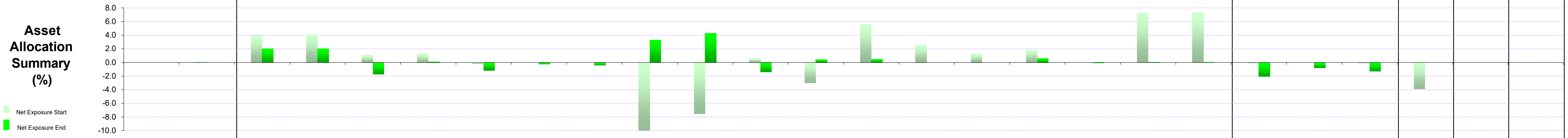
Market Value: £3.4bn

Returns Summary (%)



	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - 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 - 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
Excess Return	0.3	-0.8	0.1	-1.3	-2.7	-0.9	-3.0	-1.3	-1.1	0.9	0.1	0.0	-0.2	-0.7	0.0	0.1	-0.1	0.2	2.4	4.0	-4.0	-0.1	-0.8	0.2	-2.3	1.5
Portfolio Return	4.5	4.1	4.0	3.5	0.1	2.4	-1.1	-3.6	-3.5	6.7	2.4	10.9	5.6	4.3	10.2	5.1	9.5	-4.1	2.4	4.0	-7.3	-1.6	5.7	1.0	3.5	12.3
Benchmark Return	4.2	5.0	3.9	4.8	2.8	3.4	1.9	-2.4	-2.4	5.8	2.3	10.8	5.8	5.0	10.2	5.0	9.6	-4.3	0.0	0.0	-3.3	-1.5	6.5	0.8	5.8	10.9

Asset Allocation Summary (%)



	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - 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 - 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
Portfolio Start	100.0	100.1	79.2	79.3	25.1	13.2	11.8	0.0	0.0	31.3	13.2	11.6	6.5	15.6	5.8	4.6	5.2	0.0	7.2	7.3	0.8	0.0	0.8	5.3	5.8	9.0
Portfolio End	100.0	100.0	67.9	67.9	24.3	10.1	8.8	2.1	3.2	28.2	17.2	5.1	5.9	15.5	0.0	0.0	9.6	5.9	0.0	0.0	8.0	5.2	2.7	0.0	8.6	15.5
Benchmark Start	100.0	100.0	75.2	75.2	24.0	12.0	12.0	0.0	0.0	41.2	20.7	11.0	9.5	10.0	3.3	3.3	3.3	0.0	0.0	0.0	0.8	0.0	0.8	9.2	5.8	9.0
Benchmark End	100.0	100.0	65.9	65.9	26.0	10.0	10.0	2.4	3.6	24.9	12.9	6.5	5.5	15.0	0.0	0.0	9.0	6.0	0.0	0.0	10.0	6.0	4.0	0.0	8.6	15.5

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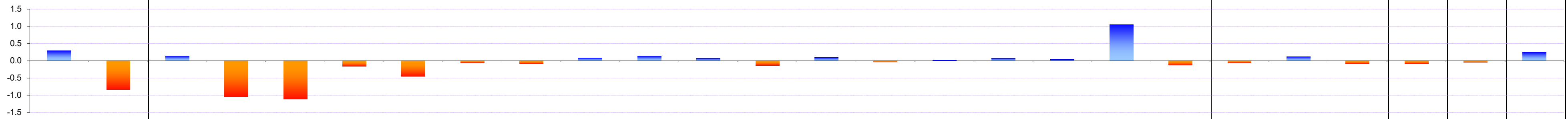
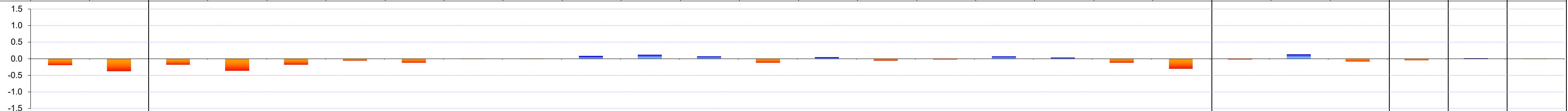
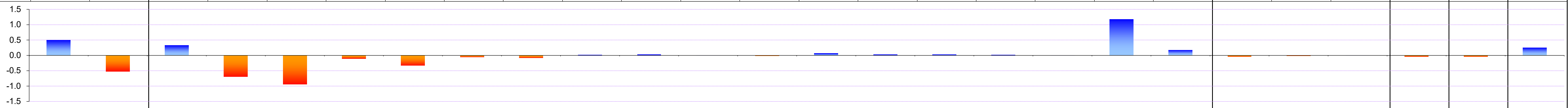
Attribution to Excess Return (%)



	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - 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 - 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
Excess Return	0.3	-0.8	0.1	-1.0	-1.1	-0.2	-0.4	-0.1	-0.1	0.1	0.1	0.1	-0.1	0.1	0.0	0.0	0.1	0.0	1.1	-0.1	-0.1	0.1	-0.1	-0.1	0.0	0.2



	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - 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 - 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
Asset Allocation	-0.2	-0.4	-0.2	-0.4	-0.2	-0.1	-0.1	0.0	0.0	0.1	0.1	0.1	-0.1	0.0	-0.1	0.0	0.1	0.0	-0.1	-0.3	0.0	0.1	-0.1	0.0	0.0	0.0



	Total Fund	Total Fund ex Overlay	Total Equity	Total Equity ex Overlay	*Total Active*	Far East Dev - Nomura	EMM - LGPSC	Glb Sust Active Targeted - LGPSC	Glb Sust Active Thematic - 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 - 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
Stock Selection	0.5	-0.5	0.3	-0.7	-0.9	-0.1	-0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	1.2	0.2	0.0	0.0	0.0	0.0	0.0	0.2

Market Value: £3.4bn

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

PORTFOLIO EVALUATION LIMITED

	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**	**2,333.6**	**67.9**	**3.8**	**4.2**	**-0.5**	**-4.2**	**-2.5**	**-1.7**	**-7.6**	**-4.5**	**-3.1**	**4.0**	**3.9**	**0.1**	**4.2**	**4.6**	**-0.4**				**8.7**	**8.8**	**0.0**
Total Equity Fund ex Overlay	**Client Specific Weighted Index**	**Mar-16**	**2,333.6**	**67.9**	**3.7**	**4.6**	**-0.9**	**-4.4**	**-2.8**	**-1.7**	**-8.1**	**-5.1**	**-3.0**	**3.5**	**4.8**	**-1.3**	**4.0**	**5.2**	**-1.2**				**8.5**	**9.2**	**-0.7**
Total Active Equity Fund	Client Specific Weighted Index	Mar-16	832.9	24.3	2.3	2.6	-0.3	-7.7	-3.1	-4.7	-13.9	-5.6	-8.3	0.1	2.8	-2.7	0.9	2.9	-2.0				7.6	8.4	-0.8
Nomura Far East Developed Fund	Worcs Nomura FT AW A P & FT AW J	Feb-03	347.3	10.1	3.3	4.5	-1.2	-5.8	-2.5	-3.3	-9.9	-5.2	-4.7	2.4	3.4	-0.9	2.4	3.0	-0.6	8.1	7.7	0.5	9.2	9.2	0.0
Nomura Far East Developed Fund - 01.08.21	Worcs Nomura FT AW A P & FT AW J	Aug-21	347.3	N/A	3.3	4.5	-1.2	-5.8	-2.5	-3.3	-9.9	-5.2	-4.7										-5.0	-2.2	-2.8
LGPSC Emerging Markets Fund	FTSE All World Emerging Market Index	Jul-19	302.6	8.8	0.5	0.7	-0.2	-6.2	-4.1	-2.1	-14.9	-6.4	-8.5	-1.1	1.9	-3.0							-1.0	1.8	-2.9
LGPSC Global Sustainable Equity Active Targeted Fund	FTSE All World Index	May-22	72.0	2.1	6.2	2.1	4.1																-3.6	-2.4	-1.3
LGPSC Global Sustainable Equity Active Thematic Fund	FTSE All World Index	May-22	111.0	3.2	1.5	2.1	-0.6																-3.5	-2.4	-1.1
Total Passive Equity Fund	Client Specific Weighted Index	Mar-16	968.8	28.2	7.7	7.2	0.4	-1.9	-1.6	-0.2	-3.7	-2.9	-0.8	6.7	5.8	0.9	6.8	5.9	0.8				10.0	9.3	0.7
L&G UK Equity Fund	FTSE All Share Index	Dec-15	590.1	17.2	8.9	8.9	0.0	-0.1	-0.2	0.1	0.5	0.3	0.1	2.4	2.3	0.1	3.0	2.9	0.1				6.9	6.7	0.2
L&G North American Equity Fund	FTSE All World North American Index	Dec-15	174.7	5.1	-0.5	-0.5	0.0	-6.8	-6.9	0.0	-8.8	-8.8	0.0	10.9	10.8	0.0	11.7	11.6	0.1				14.8	14.8	0.0
L&G Europe Ex UK Equity Fund	FTSE Developed Europe Ex. UK Index	Dec-15	204.0	5.9	11.7	11.7	0.0	-0.6	-0.4	-0.2	-7.7	-7.5	-0.3	5.6	5.8	-0.2	5.2	5.3	-0.2				9.1	9.4	-0.2
Total Alternatives Fund	20% RAFI/40% MSCI WL Min/40% MSCI WL Qual	Mar-16	531.9	15.5	2.8	2.9	0.0	-5.2	-4.9	-0.3	-10.0	-9.7	-0.3	4.3	5.0	-0.7	6.5	7.1	-0.6				9.8	10.3	-0.5
L&G MSCI World Quality Fund	MSCI World Quality Total Return Net Index	Dec-15	329.2	9.6	2.3	2.3	0.0	-7.0	-6.7	-0.3	-12.3	-12.1	-0.2	9.5	9.6	-0.1	11.7	11.8	-0.1				14.4	14.5	-0.1
LGPSC All World Passive Climate Factor Fund	FTSE AW Climate Bal Com Factor Net	Nov-21	202.7	5.9	3.7	3.7	0.0	-2.1	-2.2	0.1	-5.9	-6.1	0.2										-4.1	-4.3	0.2
River & Mercantile Equity Protection Fund		Jan-18	0.0	0.0	1.2	0.0	1.2	3.9	0.0	3.9	5.6	0.0	5.6	2.4	0.0	2.4	1.6	0.0	1.6				1.6	0.0	1.6
River & Mercantile Equity Protection Fund ex Overlay		Jan-18	0.0	0.0	0.4	0.0	0.4	20.0	0.0	20.0	19.9	0.0	19.9	4.0	0.0	4.0	1.0	0.0	1.0				1.0	0.0	1.0
Total Fixed Income Fund	**60% LGPSC Corp Index & 40% Absolute Return +6%**	**Apr-21**	**273.4**	**8.0**	**4.1**	**3.6**	**0.5**	**-8.5**	**-5.1**	**-3.4**	**-14.5**	**-8.4**	**-6.0**										**-7.3**	**-3.3**	**-4.0**
Total Corporate Bond Fund	LGPS Corporate Bond Index	Mar-20	179.7	5.2	4.9	5.1	-0.2	-12.9	-11.3	-1.6	-19.0	-17.3	-1.8										-1.6	-1.5	-0.1
LGPSC Corporate Bond Fund	LGPS Corporate Bond Index	Mar-20	179.7	5.2	4.9	5.1	-0.2	-12.9	-11.3	-1.6	-19.0	-17.3	-1.7										-1.6	-1.5	-0.1
Total Corporate Debt Fund	Absolute Return +6%	May-18	93.7	2.7	2.7	1.5	1.2	9.5	4.5	5.0	4.4	6.0	-1.6	5.8	6.0	-0.2							9.4	6.1	3.4
Bridgepoint Direct Lending II GBP	Absolute Return + 6.5%	May-18	57.9	1.7	2.4	1.6	0.8	9.2	4.8	4.4	4.1	6.5	-2.4	5.7	6.5	-0.8							9.4	6.6	2.8
Bridgepoint Direct Lending II EURO	*Absolute Return + 6.5%*	*May-18*	*65.2*	*N/A*	*1.3*	*1.6*	*-0.3*	*3.3*	*4.8*	*-1.5*	*0.8*	*6.5*	*-5.7*	*5.5*	*6.5*	*-1.0*							*8.8*	*6.6*	*2.2*
Bridgepoint Direct Lending III GBP	Absolute Return +6%	Jan-22	35.8	1.0	3.2	1.5	1.7	12.3	4.5	7.8													12.3	4.5	7.8
Bridgepoint Direct Lending III EURO	*Absolute Return + 6.5%*	*Jan-22*	*40.3*	*N/A*	*2.0*	*1.5*	*0.6*	*6.4*	*4.5*	*1.9*													*6.4*	*4.5*	*1.9*
Total Property Fund	**60% MSCI UK & 40% Abs Ret +7.5%**	**Mar-16**	**294.2**	**8.6**	**1.6**	**-8.2**	**9.9**	**6.1**	**-7.2**	**13.3**	**7.4**	**-3.5**	**10.9**	**3.5**	**5.8**	**-2.3**	**3.9**	**6.3**	**-2.5**				**5.7**	**6.5**	**-0.8**
Total UK Property Fund	Absolute Return +9%	Jul-18	54.5	1.6	3.9	2.2	1.7	14.0	6.7	7.3	14.7	9.0	5.7	7.9	9.0	-1.1							7.5	9.0	-1.5
Invesco UK Property Fund	Absolute Return +9%	Oct-18	47.7	1.4	4.8	2.2	2.7	17.4	6.7	10.8	18.6	9.0	9.6	7.3	9.0	-1.7							4.5	9.0	-4.5
Venn UK Property Fund	Absolute Return +9%	Jul-15	6.8	0.2	0.0	2.2	-2.2	1.5	6.7	-5.2	0.9	9.0	-8.1	5.1	9.0	-3.9	6.8	9.0	-2.2				9.5	9.1	0.4
Walton Street US Property Fund - GBP	Absolute Return +6.5%	Feb-16	1.5	0.0	9.7	1.6	8.1	31.7	4.8	26.9	32.3	6.5	25.8	6.2	6.5	-0.3	8.4	6.5	1.9				12.3	6.3	5.9
Walton Street US Property Fund - USD	*Absolute Return +6.5%*	*Feb-16*	*1.7*	*N/A*	*0.9*	*1.6*	*-0.7*	*9.0*	*4.8*	*4.1*	*10.0*	*6.5*	*3.5*	*2.9*	*6.5*	*-3.6*	*4.6*	*6.5*	*-1.9*				*7.6*	*6.3*	*1.2*
Walton Street US Property Fund II - GBP	Absolute Return +7%	Jun-19	9.9	0.3	11.1	1.7	9.4	29.5	5.2	24.3	29.9	7.0	22.9	10.9	7.0	3.9							11.6	7.0	4.6
Walton Street US Property Fund II - USD	*Absolute Return +7%*	*Jun-19*	*12.2*	*N/A*	*2.3*	*1.7*	*0.6*	*7.4*	*5.2*	*2.2*	*8.3*	*7.0*	*1.3*	*7.5*	*7.0*	*0.5*							*7.0*	*7.0*	*0.0*
Invesco European Property Fund - GBP	Absolute Return +6.5%	Feb-16	68.4	2.0	2.0	1.6	0.4	4.0	4.8	-0.9	9.4	6.5	2.9	3.3	6.5	-3.2	2.3	6.5	-4.2				5.0	6.4	-1.4
Invesco European Property Fund - EURO	*Absolute Return +6.5%*	*Feb-16*	*77.0*	*N/A*	*0.8*	*1.6*	*-0.7*	*2.0*	*4.8*	*-2.8*	*6.6*	*6.5*	*0.1*	*2.7*	*6.5*	*-3.8*	*3.1*	*6.5*	*-3.4*				*3.8*	*6.4*	*-2.6*
Venn Property Debt Fund II - GBP	Absolute Return +6%	Aug-20	12.9	0.4	1.1	1.5	-0.4	5.3	4.5	0.8	5.5	6.0	-0.5												
Venn Property Debt Fund II - EURO	*Absolute Return +6%*	*Aug-20*	*15.0*	*N/A*	*1.1*	*1.5*	*-0.4*	*3.4*	*4.5*	*-1.1*	*6.0*	*6.0*	*0.0*												
Gresham House Forestry Growth & Sustainability Fund	Absolute Return +6%	Dec-21	43.0	0.4	0.0	1.5	-1.5	-0.6	4.5	-5.0	-5.8	5.0	-10.8										-5.5	4.7	-10.2
Gresham House Forestry Fund VI	Absolute Return +5.5%	Oct-22	84.7	1.3	-0.4	1.3	-1.7																-0.4	1.3	-1.7
AEW Property Fund	UK RPI +4%	Oct-17	19.3	0.6	-7.4	4.6	-11.9	-3.2	14.3	-17.5	0.2	17.4	-17.2	1.6	11.3	-9.7	3.7	9.3	-5.6				3.5	9.3	-5.8
Total Infrastructure Fund	**70% UK CPI +5.5% & 30% Abs Return +10%**	**Mar-16**	**533.3**	**15.5**	**4.7**	**3.1**	**1.6**	**14.9**	**10.6**	**4.3**	**18.3**	**13.3**	**5.0**	**12.3**	**10.9**	**1.5**	**10.0**	**9.9**	**0.0**				**9.2**	**9.4**	**-0.2**
Green UK Infrastructure Fund	Absolute Return +7.6%	Apr-15	48.2	1.4	2.3	1.8	0.5	12.8	5.6	7.2	21.3	7.6	13.7	11.1	7.6	3.5							7.8	7.6	0.2
Gresham House BSIF Housing and Infrastructure	Absolute Return +8%	May-20	49.8	1.4	3.7	1.9	1.7	11.4	5.9	5.5	31.5	8.0	23.5										11.1	8.0	3.1
Gresham House BSIF II Infrastructure Fund	Absolute Return +9%	Jan-22	21.8	0.7	1.5	2.2	-0.7	-9.4	4.4	-13.8	-9.4	4.4	-13.8										-9.4	4.4	-13.8
Hermes UK Infrastructure Core Fund	Absolute Return +8.4%	May-15	49.4	1.4	2.5	2.0	0.4	-0.1	6.2	-6.3	6.0	8.4	-2.4	2.8	8.4	-5.6	3.2	8.4	-5.1				4.9	8.4	-3.4
Hermes UK Infrastructure Fund II	Absolute Return +8.5%	Jun-18	50.6	1.5	-0.4	2.1	-2.5	5.4	6.3	-1.0	9.5	8.5	1.0	2.0	8.5	-6.5							0.1	8.6	-8.5

Stonepeak Infrastructure Core Fund III - GBP	Absolute Return +12%	Jan-18	144.7	4.2	8.5	2.9	5.7	29.0	8.9	20.2	20.5	12.0	8.5	20.9	12.0	8.9	17.4	12.0	5.4				17.4	12.0	5.4
Stonepeak Infrastructure Core Fund III - USD	*Absolute Return +12%*	*Jan-18*	*161.5*	*N/A*	*0.5*	*2.9*	*-2.3*	*7.2*	*8.9*	*-1.7*	*0.6*	*12.0*	*-11.4*	*17.4*	*12.0*	*5.4*	*13.6*	*12.0*	*1.6*				*13.6*	*12.0*	*1.6*
Stonepeak Infrastructure Core Fund IV - GBP	Absolute Return +12%	Jan-22	34.1	1.0	10.1	2.9	7.2	23.2	8.9	14.4	23.2	8.9	14.4										23.2	8.9	14.4
Stonepeak Infrastructure Core Fund IV - USD	*Absolute Return +12%*	*Jan-22*	*38.1*	*N/A*	*-1.1*	*2.9*	*-4.0*	*-0.8*	*8.9*	*-9.6*	*-0.8*	*8.9*	*-9.6*										*-0.8*	*8.9*	*-9.6*
First Sentier EDIF II GBP	Absolute Return +9%	Jun-18	127.0	3.7	3.6	2.2	1.4	12.0	6.7	5.3	18.1	9.0	9.1	15.0	9.0	6.0							11.0	9.1	1.9
First Sentier EDIF II EURO	*Absolute Return +9%*	*Jun-18*	*143.1*	*N/A*	*2.9*	*2.2*	*0.7*	*7.2*	*6.7*	*0.5*	*12.2*	*9.0*	*3.2*	*13.2*	*9.0*	*4.2*							*10.5*	*9.1*	*1.5*
First Sentier EDIF III GBP	Absolute Return +8%	Nov-22	7.6	0.2																			5.9	1.3	4.6
First Sentier EDIF III EURO	*Absolute Return +8%*	*Nov-22*	*8.6*	*N/A*																			*4.5*	*1.3*	*3.2*
Worcestershire CC Total Fund ex Overlay		**Mar-87**	**3,434.5**	**100.0**	**3.7**	**3.4**	**0.4**	**-1.7**	**-1.7**	**0.0**	**-4.6**	**-3.3**	**-1.3**	**4.1**	**5.0**	**-0.8**	**4.3**	**5.2**	**-1.0**	**8.2**	**8.3**	**-0.2**	**7.8**	**8.3**	**-0.5**
Worcestershire CC Total Fund		**Mar-87**	**3,434.5**	**100.0**	**3.8**	**3.1**	**0.6**	**-1.5**	**-1.4**	**0.0**	**-4.3**	**-2.9**	**-1.4**	**4.5**	**4.2**	**0.3**	**4.5**	**4.8**	**-0.3**	**8.3**	**8.1**	**0.2**	**7.8**	**8.2**	**-0.4**

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

Total Fund Benchmark

CLIENT SPECIFIC BENCHMARK:

17% FTSE All Share - % Dependant upon actual drawdowns of Infra & Prop

5.5% 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

6.5% FTSE All World North America

6% FTSE All World

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 2022: Disinvested from River & Mercantile Equity Protection Fund from 10th November 2022. Invested into First Sentier EDIF III from 15th November 2022.
Q2 2022: Investment into LGPSC Global Sustainable Equity Active Targeted Fund and LGPSC Global Sustainable Equity Active Thematic Fund from 04.05.2022. Total Fund Benchmark updated. The attribution for Total Active/Total Equity/Total Fund will not add up due to the transition.
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, and Stonepeak Fund IV Infrastructure Core Fund (data is 'lagged'). A new investment was also made with Gresham House Forestry Growth & Sustainability Fund from 10.12.2021 (data is produced annually in February). 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.

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 December 2022

PORTFOLIO EVALUATION LIMITED

Market Value: £3.4bn

	30th September 2022		Net	Total	Total	31st December 2022	
	Market Val (£000s)	Exposure (%)	Investment (£000s)	Income (£000s)	Gain/Loss (£000s)	Market Val (£000s)	Exposure (%)
Total Equity Fund	**2,274,821**	**69.8**	**-35,393**	**33,140**	**94,189**	**2,333,617**	**67.9**
Total Equity Fund ex Overlay	**2,274,795**	**69.8**	**-33,944**	**0**	**92,766**	**2,333,617**	**67.9**
Total Active Equity Fund	814,033	25.0	0	0	18,894	832,927	24.3
Nomura Far East Developed Equity Fund	335,910	10.3	0	0	11,418	347,328	10.1
LGPSC Emerging Markets Fund	67,823	2.1	0	0	4,211	72,034	2.1
LGPSC Global Sustainable Equity Active Targeted Fund	109,274	3.4	0	0	1,679	110,953	3.2
LGPSC Global Sustainable Equity Active Thematic Fund	301,026	9.2	0	0	1,587	302,613	8.8
Total Passive Equity Fund	713,993	21.9	196,686	0	58,086	968,765	28.2
L&G UK Equity Fund	429,450	13.2	118,670	0	41,938	590,057	17.2
L&G North American Equity Fund	138,953	4.3	37,388	0	-1,681	174,659	5.1
L&G Europe Ex UK Equity Fund	145,590	4.5	40,629	0	17,830	204,049	5.9
Total Alternatives Fund	517,195	15.9	0	0	14,693	531,888	15.5
L&G MSCI World Quality Fund	321,755	9.9	0	0	7,434	329,189	9.6
LGPSC All World Passive Climate Factor Fund	195,440	6.0	0	0	7,259	202,699	5.9
River & Mercantile Equity Protection Fund	229,600	7.0	-232,080	33	2,516	36	0.0
River & Mercantile Equity Protection Fund ex Overlay	229,574	7.0	-230,630	0	1,092	36	0.0
Total Fixed Income Fund	**262,518**	**8.1**	**0**	**0**	**10,837**	**273,355**	**8.0**
Total Corporate Bond Fund	171,300	5.3	0	0	8,381	179,681	5.2
LGPSC Corporate Bond Fund	171,300	5.3	0	0	8,381	179,681	5.2
Total Corporate Debt Fund	91,218	2.8	0	0	2,456	93,674	2.7
Bridgepoint Direct Lending II	56,524	1.7	0	0	1,363	57,887	1.7
Bridgepoint Direct Lending III	34,694	1.1	0	0	1,093	35,787	1.0
Total Property Fund	**217,283**	**6.7**	**74,254**	**688**	**2,619**	**294,155**	**8.6**
Total UK Property Fund	57,332	1.8	0	0	-2,826	54,506	1.6
Invesco UK Property Fund	45,552	1.4	0	79	2,130	47,682	1.4
Venn UK Property Fund	11,779	0.4	-4,921	34	-34	6,824	0.2
Walton US Property Fund	1,409	0.0	0	0	131	1,540	0.0
Walton US Property Fund II	9,094	0.3	-755	0	1,554	9,893	0.3
Invesco European Property Fund	67,613	2.1	0	575	744	68,357	2.0
Venn Property Debt Fund II	17,765	0.5	-5,071	0	193	12,887	0.4
Gresham House Forestry Growth & Sustainability Fund	42,969	1.3	0	0	0	42,969	1.3
Gresham House Forestry Fund VI	0	0.0	0	0	0	0	0.0
AEW Property Fund	21,100	0.6	0	223	-1,769	19,332	0.6
Total Infrastructure Fund	**502,727**	**15.4**	**8,467**	**1,152**	**22,140**	**533,334**	**15.5**
Green UK Infrastructure Fund	48,027	1.5	-945	0	1,105	48,187	1.4
Gresham House BSIF Housing and Infrastructure	46,906	1.4	2,112	912	800	49,818	1.5
Gresham House BSIF II Infrastructure Fund	21,754	0.7	0	241	80	21,834	0.6
Hermes UK Infrastructure Core Fund	49,644	1.5	-1,411	0	1,213	49,446	1.4
Hermes UK Infrastructure Fund II	51,479	1.6	-650	0	-230	50,599	1.5
Stonepeak Infrastructure Core Fund III	133,077	4.1	274	0	11,358	144,709	4.2
Stonepeak Infrastructure Core Fund IV	28,353	0.9	2,823	0	2,925	34,100	1.0
First Sentier EDIF II	123,488	3.8	-947	0	4,452	126,993	3.7
First Sentier EDIF III	0	0.0	7,212	0	436	7,648	0.2
Cash Fund	**0**	**0.0**	**0**	**0**	**0**	**0**	**0.0**
Worcestershire CC Total Fund ex Overlay	**3,257,323**	**100.0**	**48,777**	**1,840**	**128,362**	**3,434,462**	**99.0**
Worcestershire CC Total Fund	**3,257,349**	**100.0**	**47,328**	**1,873**	**129,785**	**3,434,462**	**99.0**

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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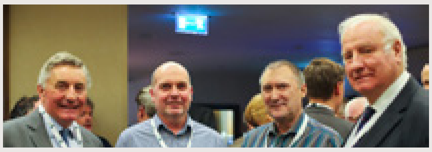
Quarterly Engagement Report

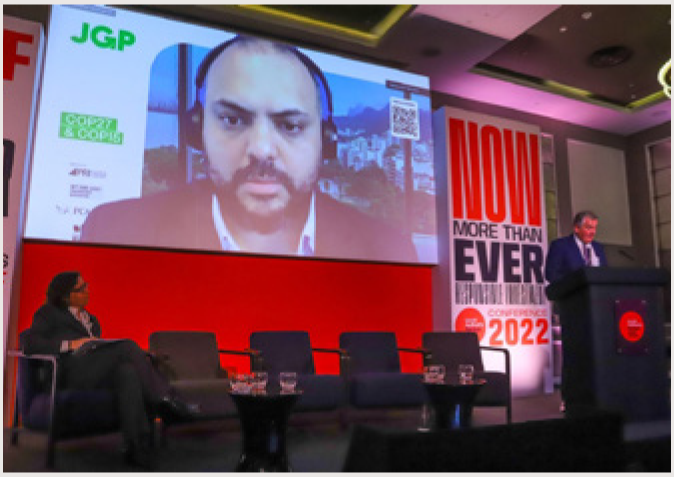
October-December 2022

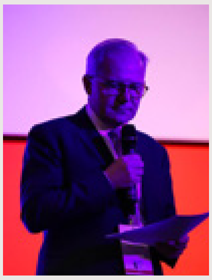
Human Rights, Mining, Drax, Renault, Mercedes, Chipotle

Local Authority Pension Fund Forum

LAPFF CONFERENCE







LAPFF Conference 2022

LAPFF held its annual conference in Bournemouth this quarter with a heavy focus on human rights and climate.
On the first afternoon, delegates heard from a Total representative about the company's decision to withdraw from Myanmar and from the Vale Chair about his company's efforts to move on from the 2015 and 2019 tailings dam disasters in Brazil. The LAPFF Chair also thanked a Brazilian communities' representative for hosting LAPFF's visit in August and September, and spoke with José Pugas of JGP Asset Management about his organisation's work with Vale, as well as on deforestation.

On the second day, the conference delegates heard from a range of asset managers about their experiences of working to implement sustainability in their operations. Moving onto climate specifically, engaging non-executive directors on the topic, and a panel on electric vehicles followed, along with a session on executive remuneration. There was a fascinating, if disturbing, session on the fall of FTX and a panel discussing the growing importance of the 'S' in ESG. An LGPS panel on 'levelling up' was followed by two sessions on the need for sustainable water use. The day ended with an update on shareholder resolutions requesting racial equity audits.

The final day of the conference opened with a recount of the Covid pandemic from Devi Sridhar, a University of Edinburgh professor who has been vocal about government and societal responses to the pandemic. She was followed by Nell McShane, who has written a book about sex discrimination and harassment against female flight stewardesses and their path to unionising. Brendan Curran from the Grantham Institute at the London School of Economics then spoke about the just transition to a zero-carbon economy. The day ended with a synopsis of the state of affairs globally by political editor and broadcaster, Robert Peston.

COMPANY ENGAGEMENTS

UN Forum on Business and Human Rights

In light of LAPFF's summer visit to Brazil, the LAPFF Chair, Cllr Doug McMurdo, was invited to speak on an investor panel at the 2022 UN Forum on Business and Human Rights in Geneva. He was joined by colleagues from Principles for Responsible Investment, Domini Impact Investments, and Business for Social Responsibility. Cllr McMurdo spoke about the need to engage with affected stakeholders, including communities affected by company operations, in order for investors to understand better the true value of their investments. He implored investors to do more on human rights as a matter of financial materiality.

BHP

Objective: LAPFF attended a BHP webinar on the company's sustainability activities and met with CEO, Mike Henry, informing a position for a voting alert ahead of BHP's November AGM. The LAPFF Chair, Cllr Doug McMurdo, also met with the Australasian Centre for Corporate Responsibility (ACCR) to find out more about why the organisation filed three shareholder resolutions ahead of BHP's AGM.

Achieved: LAPFF issued a voting alert in favour of the ACCR resolutions, recommending that its members oppose the BHP Chair, Ken MacKenzie, and vote in favour of three shareholder resolutions aimed at improving the company's climate practices.

In Progress: While LAPFF was grateful to the CEO for meeting to discuss the shareholder resolutions put to the AGM, there is still concern that the company has denied a meeting on the Samarco tailings dam collapse that occurred in 2015. LAPFF is continuing to engage BHP on both human rights and climate, but the views of both parties diverge significantly at the moment.

Vale Chair, José Penido, speaking at the LAPFF conference

Vale

Objective: One of LAPFF's main objectives with Vale is to have the company engage effectively with stakeholders affected by its operations. While Vale, and particularly the Chair, has remained open to engagement with LAPFF and other investors, LAPFF would still like to see the company engage more effectively with workers and communities affected by its operations.

Achieved: Vale Chair, José Penido, travelled to the LAPFF conference to speak in person to investors about Vale's work to provide adequate reparations and recover reputationally from the Mariana and Brumadinho tailings dam collapses from 2015 and 2019, respectively. LAPFF is therefore encouraged that the company is taking investor action seriously in respect of these disasters.

In Progress: It remains the case that the vast majority of houses in the various resettlements need to be rebuilt for affected community members. These houses are among many other reparations that still need to be carried out to an acceptable standard. LAPFF also has continued to express concerns that the company is not yet engaging in a meaningful way with affected community members. Fulfilment of Vale's reparations obligations and establishing a process for effective engagement with all stakeholders therefore remain high priorities for LAPFF.

Anglo American

Objective: Cllr McMurdo wrote to Anglo American Chair, Stuart Chambers, and offered to report back on his findings from speaking to communities in Brazil impacted by Anglo American operations.

Achieved: Mr Chambers appeared to be receptive to LAPFF's findings and requested more detailed information from LAPFF.

COMPANY ENGAGEMENT

In Progress: LAPFF is in the process of compiling the detailed findings from the Brazil visit to share with Mr Chambers and his colleagues. After this process has been completed, LAPFF is planning to meet with Anglo American's technical staff to talk them through the findings.

Glencore

Objective: Although LAPFF was keen to meet Anglo American, BHP, and Vale in relation to its Brazil visit, it wanted to share its findings and observations with other mining companies covered in LAPFF's mining and human rights report issued earlier this year. Therefore, Cllr McMurdo met with Glencore Chair, Kalidas Madhavpeddi, to talk about LAPFF's work in Brazil, to discuss concerns community members in Peru have raised about Glencore's activities in that country, and to discuss various bribery and corruption allegations against the company. Glencore's approach to climate was also discussed.

Achieved: For a number of years, LAPFF had requested that Glencore undertake an independent assessment of the company's internal controls. This request stemmed from an investor collaboration spearheaded by Sarasin when details of Glencore's business relationships in the Democratic Republic of Congo raised concerns of bribery and corruption. Although Glencore does not appear to have heeded this request, the company has now entered settlements in numerous countries in relation to various bribery and corruption allegations. It is hoped that these settlements will place internal control requirements on Glencore to prevent the occurrence of future problems in this area.

In Progress: LAPFF is hearing concerns from community members affected by Glencore's operations in Peru that are eerily similar to those LAPFF encountered in Brazil, Colombia, Mexico, Papua New Guinea, and elsewhere. Namely, communities allege that mining companies have polluted, and are continuing to pollute, their water. The companies respond by stating that the water is naturally polluted. LAPFF needs to investigate to understand what is happening in these situations.

Rio Tinto

Objective: LAPFF has been pleased to see some progress made by Rio Tinto after the company's destruction of a 46,000-year-old cultural heritage site at Juukan Gorge, Australia. Rio Tinto has been particularly transparent about its challenges on both community relations and workplace culture. During the year, the company issued both a community engagement update and a workplace culture report by a reputed independent consultant that highlighted a range of practices that need to be improved at the company. LAPFF is keen to ensure that Rio Tinto is undertaking effective social and environmental impact assessments and that the company does not face the same problems in relation to reparations at Juukan Gorge that BHP and Vale are facing in relation to reparations for the Mariana tailings dam collapse in Brazil.

Achieved: LAPFF attended an ESG briefing for investors to discuss the company's new 'Communities and Social Performance (CSP) Commitments Disclosure Final Report'. Given Rio Tinto's description of increased cultural heritage assessments, LAPFF asked if the company has also committed to independent environmental and social impact assessments (ESIAs) as part of its CSP approach.

In Progress: Although it seems that there is a fair amount of external input into various assessments, LAPFF is concerned that the company does not have a consistent or coherent approach to ESIAs. The independent assessment at Panguna in response to the OECD National Contact Point complaint on this issue is apparently underway and is to be commended, but it is reportedly a one off. Acknowledging the expense and resources involved in this type of assessment, LAPFF would like to work with a range of mining companies to determine how it could be feasibly done much more widely.

Drax

Objective: LAPFF has been increasingly concerned about the business model of Drax Group plc, which runs the UK's largest power plant at Drax in Yorkshire. Instead of coal, the plant burns imported wood pellets, mainly from North America. The concerns about sustainability flow from the burning of wood on such a scale, as well as the harvesting of wood, removing a near-term living carbon sink (trees) that can only be replaced over a long period.

Achieved: LAPFF requested a meeting with the chair of Drax Group. A meeting was held, and a comprehensive follow-up letter has been sent to the chair as a result.

In Progress: Because discussions are ongoing, further reporting and updates will occur in due course.

Drax Power Station

COMPANY ENGAGEMENT

Chipotle

Objective: LAPFF has been engaging with Chipotle on the company's approach to water stewardship for three years. The focus of the engagement has been to encourage the company to undertake a full value chain water risk assessment. After a period of heightened engagement with the company, LAPFF member Greater Manchester Pension Fund filed a resolution on this issue ahead of Chipotle's 2022 AGM. Following discussions between LAPFF 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 relating to the company's water stewardship programme.

Achieved: LAPFF held a follow-up call with Chipotle to measure progress made against LAPFF's initial asks. In response to the resolution, the company has completed a materiality assessment covering ingredients, its supply chain and restaurants.

In Progress: Given the company now has a better understanding of the water-related risks facing the business, the next phase of the stewardship plan is to develop context-based targets that relate specifically to areas of the operations under high water stress. LAPFF will continue to work with the company to develop these goals.

KLA

Objective: Given the investment risks associated with global warming LAPFF has been issuing climate change voting alerts focused on shareholder resolutions, including those seeking to ensure companies have 1.5°C aligned targets and transition plans.

Achieved: LAPFF issued a voting alert at US company, KLA, regarding a proposal for a report on net zero targets and climate transition planning. LAPFF recognised the work being undertaken by the company. However, given the risks posed by climate change and the need to disclose a strategy for addressing climate risk and carbon emissions (covering Scopes 1, 2 and 3 and targets aligned to a 1.5°C trajectory) LAPFF recommended a vote in favour of the resolution. In the end, the resolution secured the backing of a quarter of the votes, sending a strong message to the board about what action a significant minority of shareholders want to see.

In Progress: LAPFF expects companies to reflect and respond to such results given the level of support from shareholders. LAPFF will continue to issue climate-related voting alerts in 2023.

Rolls Royce production site

Rolls Royce

Objective: A meeting with Rolls Royce Chair, Anita Frew, was held to follow up on LAPFF's collaborative correspondence to FTSE All Share chairs requesting they set out the company's carbon transition strategy to investors and put an appropriate resolution to shareholders at the AGM.

Achieved: A meeting with the head of sustainability and others covered various aspects of business strategy, targets, governance and disclosure. LAPFF asked

COMPANY/COLLABORATIVE ENGAGEMENT

if a timeline to commercialisation could be given for the company's development of electric prototypes for commuter aircraft and regional flights, noting that Norwegian airline Widerøe, that Rolls Royce has partnered with, has targeted 2025 for its first commercial launch. A separate meeting of the LAPFF Chair with Anita Frew, provided insight into the workings and chairing of the 13-strong board. Discussions on the company's carbon impact and transition plan made evident the emphasis placed on the development of new businesses and products.

In Progress: The LAPFF Chair again pressed for the board to put the transition plan to the AGM for shareholder approval. This may be considered too soon for the 2023 AGM but has not been ruled out for future AGMs.

Responsible Mineral Sourcing

Objective: LAPFF has continued its engagement with electric vehicle manufacturers to gain a better understanding of how they are addressing the risks associated with sourcing the minerals they need to produce the batteries for their vehicles. LAPFF met with Renault and General Motors on this issue for the first time this quarter and with Mercedes for the second time.

Achieved: An overview of Renault's work on risk assessments for the minerals it sources and contingent reporting was discussed. LAPFF also raised the potential benefits of membership of the Initiative for Responsible Mining Assurance (IRMA).

The discussion with Mercedes provided an in-depth view of the work the company was doing with regards to risk assessment of minerals and some of the work the company was doing in the Democratic Republic of the Congo.

General Motors laid out new additions to its board and the skills they would bring in the transition to electric vehicles. The company also spoke about the aspirations it had with its risk assessment process, audit programme and its dialogue with suppliers on the IRMA.

In Progress: LAPFF is continuing to seek engagements with electric vehicle manufacturers, impressing upon them the benefits of transparent reporting and enhanced due diligence, whilst seeking to better understand what work companies are doing and how they are managing a just transition.

Tesco

Objective: Following the military coup in Myanmar in February 2021, it has been widely reported that there has been a drop in human rights and labour standards throughout the country, with union leaders targeted, internet connections cut, wages withheld, and a lack of freedom of assembly for workers. Tesco announced a responsible exit from the country, concluding in May 2022. LAPFF sought a meeting with the company to discuss this responsible exit and gain insight into the company's global supply chain due diligence.

Achieved: When LAPFF met with Tesco, a range of factors for the company's withdrawal from Myanmar were discussed. The Ethical Trade Initiative's recommendations for responsible business in the garment sector arose as a point of reference. There was also a useful discussion about whether companies are able to maintain leverage over factories and the human rights situation on the ground with the Junta in power.

In Progress: LAPFF is continuing to monitor a number of companies that have supply chain links to Myanmar and will likely seek meetings with those that are seeking to exit the country or have already done so to gain a broader picture of how companies are approaching a 'responsible exit'.

COLLABORATIVE ENGAGEMENTS

Asia Transition Platform (MUFG, SMBC, Kasikornbank, J Power)

Objective: Meetings were held with Asian financial institutions and coal-exposed power companies in collaboration with investors in the Asia Transition Platform. Meetings with banks focused on strategies to anticipate regulatory developments, mitigate risks to capital and capitalise on investment opportunities. Engagement with J-Power followed up on LAPFF's voting recommendation for the 2022 AGM, advising support for a resolution requesting carbon emission reduction targets aligned with the goals of the Paris Agreement.

Achieved: Engagement with MUFG sought to elicit further details on the company's proposed transition plan. LAPFF executive member, Cllr Wilf Flyn, pressed particularly on ostensible support for ammonia co-firing in the power industry, given that it delays transition

Workers ride a ferry truck as they go to a factory in the morning in Yangon, Myanmar

COLLABORATIVE ENGAGEMENT

Metal manufacturing and recycling

to renewables and may not provide much benefit due to marginal emission reductions and high costs relative to renewables.

At SMBC, progress was recognised since the last meeting, with the bank setting absolute reduction targets for the oil, gas and coal sectors. It appeared that targets for investment and underwriting were still under development.

A discussion with the President of Kasikornbank, Khun Krit Jitjang, focused on how to work with client companies and bring industry along, noting work undertaken with members of the Thai bankers' association. It appears that there is now no financing for new coal plants or expansion of existing ones.

A meeting with J-Power's Executive Vice President and Director, Hitoshi Canno, covered the company's target to achieve net zero for all operations. Critical points of discussion included a stable supply of electricity for the Japanese domestic market, and a roadmap on these issues.

In Progress: LAPFF intends to continue challenging J-Power's strategy to invest in carbon capture and co-firing, with the associated risk of being 'locked-in' to coal fired plants. Regular meetings continue with Asia Research and Engagement to determine company-specific coverage for 2023, including Chinese-listed companies.

CA100+ ENGAGEMENTS

Lyondell Bassell

Objective: LAPFF sought an update on the multinational chemical company's decarbonisation strategy, subsequent to Peter Vanacker having taken over as CEO in May.

Achieved: With the arrival of the new CEO, it appears that much work has been put into an overall review of company strategy, with low-carbon initiatives poised to be a major part of company growth going forward. The meeting provided initial feedback on progress against the CA100+ benchmark results, set out investor expectations on lobbying and explored policy challenges facing the company and where there might be areas for collaboration. Company representatives noted that engagement with the investor group has helped to promote this low-carbon focus.

In Progress: On Lyondell Bassell's lobbying activities, the company discloses the trade associations it is part of but little else. It is hoped that more company policies will be disclosed by next March when the full revised company business strategy is due to be announced.

ArcelorMittal

Objectives: LAPFF has undertaken a number of engagements with ArcelorMittal and wished to determine progress in implementing zero-carbon technologies, as well as press for shareholders to be able to endorse company initiatives through a 'Say on Climate' resolution at the AGM.

Achieved: ArcelorMittal has joined the Energy Transition Commission (a LAPFF request from 2019) and referred to the

COLLABORATIVE ENGAGEMENT

Mission Possible Partnership's 'net zero steel' report which shows two thirds of the US$5 trillion required to decarbonise the global steel industry is in enabling infrastructure for green hydrogen and renewable electricity. There was a discussion about the Science-Based Targets initiative to develop appropriate methodology for the steel sector. This approach differentiates between primary and secondary steelmaking. The latter is based on recycling scrap steel and accounts for about one-third of production. It is hoped that ArcelorMittal will issue its next climate report after the AGM so it appears there is no plan for a 'transition plan' resolution for the 2023 AGM.

In Progress: The company appears to have made progress in decarbonising primary steelmaking. The Inflation Reduction Act is spurring similar initiatives in the US. In Europe however, the pace of change appears to be slower.

National Grid

Objective: A meeting with National Grid representatives sought to ascertain why the company is not aiming to align with proposed ambitious US state policy for the decarbonisation of heat, and to follow-up on requests around policy disclosure.

Achieved: In the meeting, as ever, the divergence between the US and UK businesses was apparent. The north eastern US states where National Grid operates have set policies for 100% electrification of households in the decarbonisation of heat by 2050. It appears that the company wishes to keep the benefit of existing gas infrastructure. Cllr Chapman attended the meeting and highlighted comments made by the company, which LAPFF shares, that there is no long-term future in gas and that the future is in electrification.

In Progress: Engagement continues to identify and unlock potential policy barriers for National Grid's decarbonisation strategy. LAPFF and other CA100+ investors are interested in partnering with the company in calling for the necessary policies that can unlock the barriers to fast and decisive climate action.

Sarasin – Paris-aligned accounts

Objective: In conjunction with Sarasin, LAPFF co-signed correspondence to the audit committee chairs of Equinor, CRH, Air Liquide and Rio Tinto setting out investor expectations on 1.5°C aligned accounting and audit disclosures.

Achieved: This was a follow up to previous correspondence with the committee chairs, who were also provided with Carbon Tracker's assessment of the company's 2021 audited accounts. In all four cases, there has been evidence of progress. The most substantive was Equinor's accounts where there were additional notes to the accounts and a 1.5°C sensitivity analysis for Property, Plants and Equipment. This led to the identification of a potential impairment of $11.4 billion, equivalent to just under 30% of reported 2021 equity.

In Progress: Correspondence with all four companies recognised inherent uncertainties in the transition to net zero, and responses were welcomed with a meeting offered to discuss the requests made.

Investor Alliance for Human Rights (IAHR) – The Home Depot

Objective: LAPFF joined the Investor Alliance for Human Rights (IAHR) Uyghur Working Group earlier in 2022 as part of a collaborative effort in engaging companies with alleged Uyghur forced labour in their supply chains. Through this group,

LAPFF has taken the lead on The Home Depot, a company with alleged links to forced labour in its polyvinyl chloride (PVC) supply chain noted in the 'Built on Repression' report produced by Sheffield Hallam University.

Achieved: LAPFF met with The Home Depot in December after an initial letter was sent with multiple expectations. These expectations included asking the company to complete a mapping of its value chain both inside and outside of China. The objective of this mapping is to identify both direct and indirect business relationships that are connected to the East Turkestan/Xinjiang region. Other questions were raised around the company's audit programme, including issues with undertaking thorough audits in Xinjiang.

In Progress: LAPFF is continuing to participate in the IAHR's Uyghur working group and will look to follow up with The Home Depot in 2023 to ask further questions about the company's audit programme and mapping process.

Principles for Responsible Investment (PRI) – Advance Human Rights Initiative

Over the course of the year, the PRI has been developing its Advance initiative for investors to promote corporate respect for human rights. The programme was launched at the annual PRI in Person conference this quarter. LAPFF has been assigned to investor groups engaging with Anglo American and Vale. Planning for these group engagements is already under way and will complement LAPFF's own work on human rights, as well as its collaborations through IAHR.

Investor Alliance for Human Rights (IAHR) – Investor Statement on the Corporate Sustainability Due Diligence Directive

The PRI, Eurosif, and IAHR drafted an investor statement in relation to proposed changes to the EU's Corporate Sustainability Due Diligence Directive (CSDDD). The statement proposed five improvements, all of which align with LAPFF positions on human rights, corporate governance, supply chain, and climate. These proposed improvements

COLLABORATIVE/POLICY ENGAGEMENT

are aimed at greater inclusion of financial companies and value chains, strengthening board responsibility for human rights and environmental due diligence (including through executive remuneration), and ensuring alignment with other corporate sustainability legislation within the EU. LAPFF signed onto this statement along with other investors.

SHARE – Amazon Sign-On Letter
Canadian investor body, SHARE, circulated a sign-on letter to Amazon for investors to support. The letter followed a shareholder proposal at the company's AGM asking the Board of Directors to produce a report analysing how Amazon's current human rights policies and practices protect the rightful application of the fundamental rights of freedom of association and collective bargaining. The letter requested that the Board conduct an independent third-party assessment of Amazon's commitment, policies, practices on freedom of association to identify, address and prevent any misalignments with the ILO Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights. LAPFF joined other investors in signing onto this letter.

POLICY ENGAGEMENT

All-Party Parliamentary Group for Local Authority Pension Funds

Objective: LAPFF supports the All-Party Parliamentary Group (APPG) for Local Authority Pension Funds, established to discuss the issues and concerns of local authority pension funds. The APPG hosted a meeting in October to discuss the issue of levelling up. Part of the government's levelling up agenda has been to encourage and support private investment into local areas. The levelling up white paper also highlighted the role that local authority pension funds could play and called for LGPS funds to invest 5% locally. Through this white paper, the UK Infrastructure Bank has been tasked with engaging LGPS funds on supporting local growth. The meeting provided an opportunity to discuss barriers facing funds to reaching a local investment target as well as the potential opportunities.

Achieved: At the meeting chaired by Clive Betts MP, Lord Jim O'Neill, Vice-Chair of the Northern Powerhouse Partnership, set out the role investment could play in supporting local growth and how some LGPS funds had backed Northern Gritstone, which is financing companies being spun out of northern universities. Kate McGavin, Policy and Strategy Director at the UK Infrastructure Bank, focused on risk appetite, green infrastructure opportunities and investment some local authority pension funds had already made. The meeting provided an opportunity to hear about what funds were doing and their focus on their fiduciary duties and securing returns.

In Progress: The APPG for Local Authority Pension Funds will continue to discuss relevant policy issues facing the LGPS.

Party Political Conferences

Objective: LAPFF supports fringe events at political party conferences; they are an effective way to raise issues that LAPFF has been involved in with national politicians and among stakeholders. This year the focus of the meetings was on investing in a just transition, following the launch of the report into the issue by the LAPFF-supported APPG on Local Authority Pension Funds. The meetings provided the opportunity for LAPFF to highlight the work of the Forum on the just transition and take part in a discussion about the respective roles of government and investors.

Achieved: LAPFF held meetings at Labour, Conservative and SNP conferences, with the Liberal Democrat conference being cancelled due to the Queen's funeral. At the meetings, LAPFF highlighted why ensuring a just transition was important for investors, including reducing the risks of political resistance to climate action. LAPFF set out how it seeks to reduce risks for members by engaging companies on ESG issues and showcased the engagement work that it has undertaken on a just transition. LAPFF Executive representatives were able to discuss the issues with politicians from the respective parties and answer questions from the audience about the work of LAPFF.

In Progress: LAPFF will continue to be involved in discussions with national politicians given the importance legislation and regulation plays in shaping the environment in which LAPFF members operate.

Government Taskforce on Social Factors

Objective: Since it was founded over 30 years ago, LAPFF has been engaging on social issues and highlighting the importance of social factors to investment value. Despite the importance of social risks to responsible investors, it has often not had as much attention as governance and environmental risks. LAPFF has sought to change this situation, including among policymakers by engaging them through events and responding to consultations. In June last year LAPFF responded to the Department for Work and Pensions' call for evidence on consideration of social risks and opportunities by occupational pension schemes. As part of the Government's response, it decided to establish a Taskforce on Social Factors and LAPFF was invited to be a member.

Achieved: The establishment of the taskforce is to be welcomed and hopefully marks greater emphasis on the social risks that LAPFF engages on, including around human rights and employment standards. It is testament to the work of LAPFF and its members on social issues that it has been invited to take part in the taskforce and shows the importance of engagement with policymakers.

In Progress: The taskforce is running for a year with the expectation that it will culminate in a final report with recommendations.

ENGAGEMENT

CONSULTATION RESPONSES

LGPS Climate Governance and Reporting

In September, the Department for Levelling Up, Housing and Communities issued a consultation on governance and reporting of climate change risks for LGPS funds. The proposals within the consultation would broadly align LGPS funds with the Task Force on Climate-Related Financial Disclosures (TCFD) requirements introduced for DWP regulated funds. LAPFF responded to the consultation welcoming the move and noting LAPFF's long support for TCFD reporting. The response, based on LAPFF's policies and its Climate Change Investment Policy Framework, set out the Forum's positions on alignment with a 1.5°C scenario, the importance of a just transition, and called for further consultation on any guidance to funds that might be issued.

CA100+ Benchmark

LAPFF's response to proposed amendments for the CA100+ benchmark provided input to several proposed amendments. For example, LAPFF supported a new indicator on climate solutions where the proposed definition was for technologies, infrastructure or other activities "which help displace fossil fuels". Areas of concern included a new indicator citing 2050, which current indicators do not. LAPFF considers a 2050 focus to be unhelpful, as recent IPCC reports show the global carbon budget for remaining within 1.5°C is very likely to be used up well before then.

WEBINARS

IndustriALL Social Protection Webinar

IndustriALL and LAPFF joined forces to co-host a second webinar on the need for universal social protection. This webinar focused specifically on an ILO employee injury protection pilot project in Bangladesh. Representatives from brands H&M and Associated British Foods spoke about the reason that their companies see the need for this type of social protection. The Rana Plaza factory collapse in Bangladesh was cited as a catalyst for understanding why social protection is so important, but more brand support is needed (although there are fears of freeriding). It is hoped the pilot leads to long-term, permanent, systemic solutions. You can find a film with worker testimonials here and a brief from IndustriALL here.

MEDIA COVERAGE

Environment

ESG Investor: Firms Looking for the Right Lever to Lead on Net Zero

Mining and Human Rights:

ESG Investor: "Work Still to Do" on Brazilian Tailings Dams

Sydney Morning Herald: BHP investors dial up scrutiny of fatal dam disaster remediation and in the Age

Instit Invest: Un fonds de pension britannique mène son engagement actionnarial sur le terrain

Responsible Investor: Investor pressure builds over human rights in mining

Conectas: Tragedy in Mariana: With no agreement with affected people, companies are under pressure from international investors [in Portuguese]

BN Americas: Horizonte Minerals awards feasibility study contract for Brazil nickel-cobalt project

Health

City Wire: Firms with €5.7tn in total assets join new health coalition

ESG Investor: Investors Unite on Public Health

The Actuary: Investor alliance launched to support "healthier and fairer" societies

Ethical Marketing News: Global investor alliance managing $5.7 trillion unites to improve population health

IPE: Group of investors form health alliance

Due Diligence

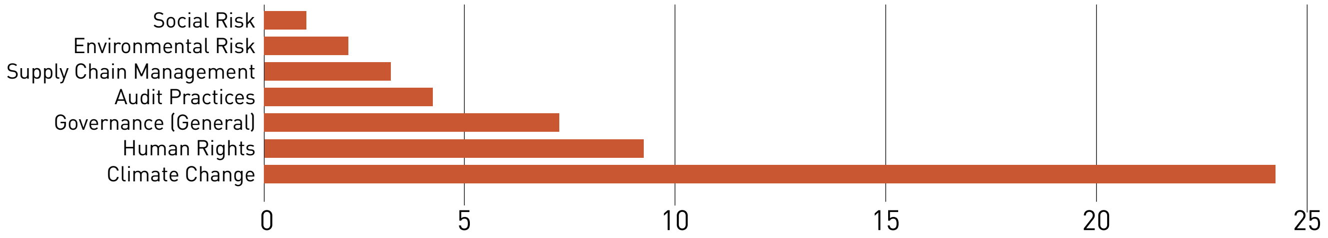
Responsible Investor: Alarm sounded over push for exclusion of FIs from EU due diligence directive

CHAIR'S QUOTE

"The LAPFF Conference this year showcased the breadth of LAPFF's work and the range of its network and partnerships. All of these endeavours and partnerships are aimed at informing our members in the best possible way so that they can make good, responsible investment decisions."

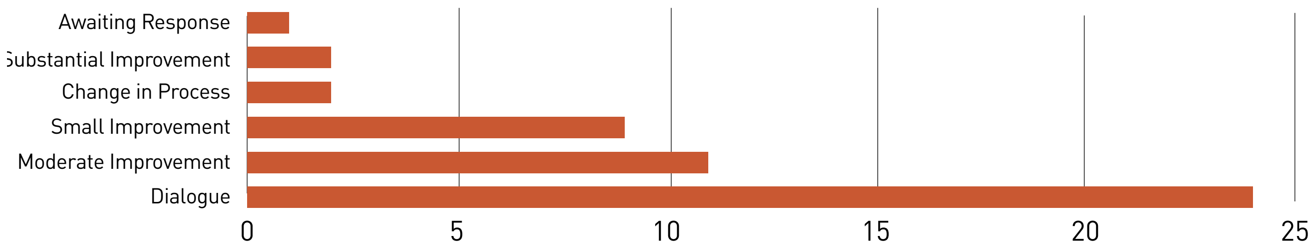
ENGAGEMENT DATA

ENGAGEMENT TOPICS

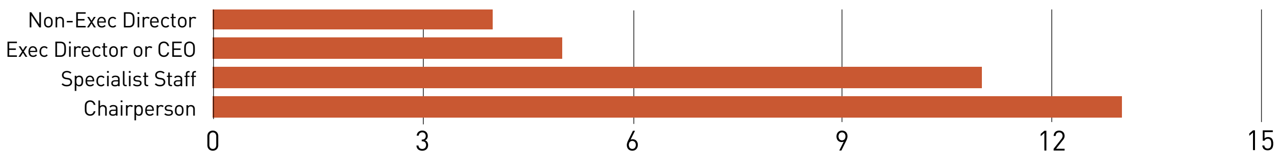


ACTIVITY

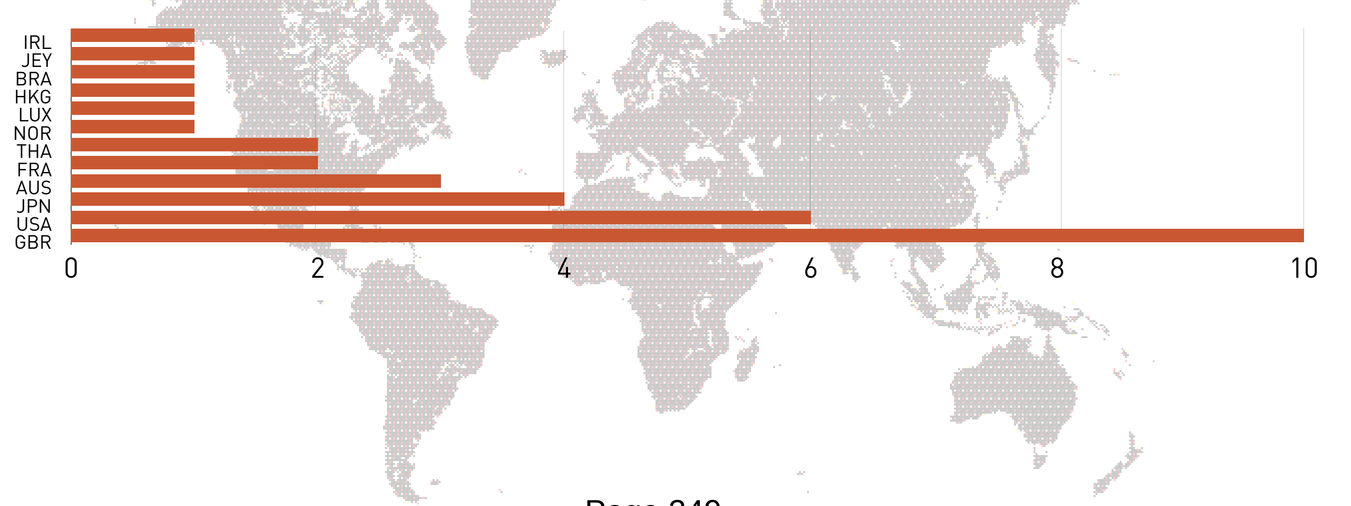
MEETING ENGAGEMENT OUTCOMES



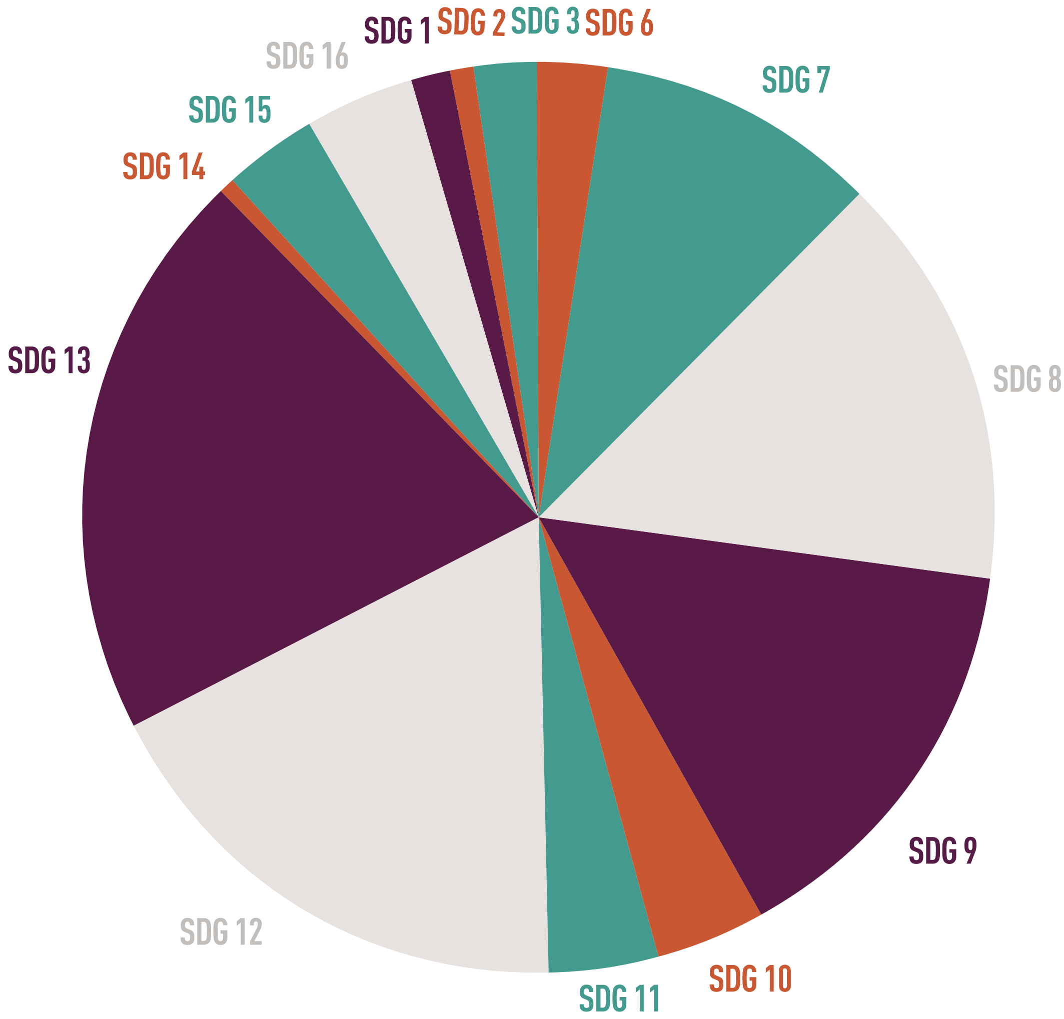
POSITION ENGAGED



COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	3
SDG 4: Quality Education	0
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	3
SDG 7: Affordable and Clean Energy	13
SDG 8: Decent Work and Economic Growth	19
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	5
SDG 11: Sustainable Cities and Communities	5
SDG12: Responsible Production and Consumption	23
SDG 13: Climate Action	26
SDG 14: Life Below Water	1
SDG 15: Life on Land	4
SDG 16: Peace, Justice, and Strong Institutions	5
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

COMPANY PROGRESS REPORT

26 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
AIA GROUP LTD	Sent Correspondence	Climate Change	Awaiting Response
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Moderate Improvement
ANGLO AMERICAN PLC	Meeting	Human Rights	Dialogue
ARCELORMITTAL SA	Meeting	Climate Change	Moderate Improvement
BHP GROUP LIMITED (AUS)	Meeting	Governance (General)	Dialogue
BHP GROUP LIMITED (AUS)	Alert Issued	Governance (General)	Dialogue
CHIPOTLE MEXICAN GRILL INC	Meeting	Environmental Risk	Moderate Improvement
CRH PLC	Sent Correspondence	Climate Change	Moderate Improvement
DRAX GROUP PLC	Meeting	Climate Change	Dialogue
ELECTRIC POWER DEVELOPMENT CO	Meeting	Climate Change	Small Improvement
EQUINOR ASA	Sent Correspondence	Climate Change	Substantial Improvement
GLENCORE PLC	Meeting	Governance (General)	Change in Process
KASIKORNBANK PCL	Meeting	Climate Change	Moderate Improvement
KELLOGG COMPANY	Sent Correspondence	Social Risk	Dialogue
KLA CORPORATION	Alert Issued	Environmental Risk	Dialogue
LYONDELLBASELL INDUSTRIES N.V.	Meeting	Climate Change	Small Improvement
MITSUBISHI UFJ FINANCIAL GRP	Meeting	Climate Change	Small Improvement
NATIONAL GRID PLC	Meeting	Climate Change	Change in Process
RENAULT SA	Meeting	Supply Chain Management	Small Improvement
RIO TINTO GROUP (AUS)	Meeting	Governance (General)	Dialogue
RIO TINTO PLC	Sent Correspondence	Climate Change	Moderate Improvement
ROLLS-ROYCE HOLDINGS PLC	Meeting	Climate Change	Moderate Improvement
SUMITOMO MITSUI FINANCIAL GROUP	Meeting	Climate Change	Moderate Improvement
TESCO PLC	Meeting	Human Rights	Small Improvement
THE HOME DEPOT INC	Meeting	Human Rights	Small Improvement
VALE SA	Meeting	Governance (General)	Dialogue

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Berkshire Pension Fund
Bexley (London Borough of)
Brent (London Borough of)
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
Isle of Wight Pension Fund
Islington Pension Fund
Kensington and Chelsea (Royal Borough of)
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
Scottish Borders Council
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 Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

Pool Company Members

Border to Coast Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership

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ENGAGEMENT BY REGION

We engaged with 136 companies held in the LGPS Central All World Equity Climate Multi Factor Fund portfolio on a range of 516 environmental, social and governance issues and objectives

GLOBAL

We engaged with 136 companies

- Environmental **44.4%**
- Governance **17.2%**
- Social and Ethical **29.8%**
- Strategy, Risk and Communication **8.5%**

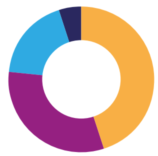
AUSTRALIA & NEW ZEALAND

We engaged with nine companies

- Environmental **28.0%**
- Governance **40.0%**
- Social and Ethical **20.0%**
- Strategy, Risk and Communication **12.0%**

DEVELOPED ASIA

We engaged with 19 companies



- Environmental **45.1%**
- Governance **31.7%**
- Social and Ethical **18.3%**
- Strategy, Risk and Communication **4.9%**

EMERGING & DEVELOPING MARKETS

We engaged with 10 companies

- Environmental **35.7%**
- Governance **19.0%**
- Social and Ethical **31.0%**
- Strategy, Risk and Communication **14.3%**

EUROPE

We engaged with 28 companies

- Environmental **48.8%**
- Governance **9.1%**
- Social and Ethical **28.9%**
- Strategy, Risk and Communication **13.2%**

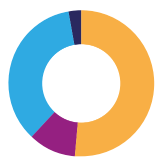
NORTH AMERICA

We engaged with 58 companies

- Environmental **44.0%**
- Governance **14.4%**
- Social and Ethical **34.9%**
- Strategy, Risk and Communication **6.7%**

UNITED KINGDOM

We engaged with 12 companies



- Environmental **51.4%**
- Governance **10.8%**
- Social and Ethical **35.1%**
- Strategy, Risk and Communication **2.7%**

Source: EOS at Federated Hermes

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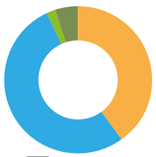
VOTING REPORT

Over the last quarter we made voting recommendations at 102 meetings (937 resolutions). At 54 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at five meetings and abstaining at two meetings. We supported management on all resolutions at the remaining 41 meetings.

GLOBAL

We made voting recommendations at 102 meetings (937 resolutions) over the last quarter.



- Total meetings in favour **40.2%**
- Meetings against (or against AND abstain) **52.9%**
- Meetings abstained **2.0%**
- Meetings with management by exception **4.9%**

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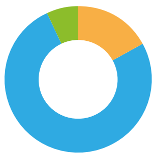
AUSTRALIA AND NEW ZEALAND

We made voting recommendations at 29 meetings (176 resolutions) over the last quarter.



- Total meetings in favour **17.2%**
- Meetings against (or against AND abstain) **75.9%**
- Meetings with management by exception **6.9%**

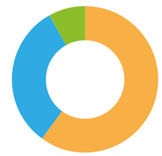
DEVELOPED ASIA

We made voting recommendations at five meetings (48 resolutions) over the last quarter.

- Total meetings in favour **40.0%**
- Meetings against (or against AND abstain) **60.0%**

EMERGING & DEVELOPING MARKETS

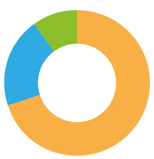
We made voting recommendations at 25 meetings (199 resolutions) over the last quarter.



- Total meetings in favour **60.0%**
- Meetings against (or against AND abstain) **32.0%**
- Meetings abstained **8.0%**

EUROPE

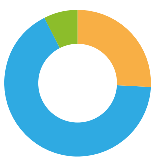
We made voting recommendations at 10 meetings (101 resolutions) over the last quarter.



- Total meetings in favour **70.0%**
- Meetings against (or against AND abstain) **20.0%**
- Meetings with management by exception **10.0%**

NORTH AMERICA

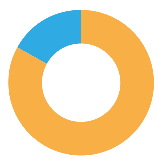
We made voting recommendations at 27 meetings (317 resolutions) over the last quarter.



- Total meetings in favour **25.9%**
- Meetings against (or against AND abstain) **66.7%**
- Meetings with management by exception **7.4%**

UNITED KINGDOM

We made voting recommendations at six meetings (96 resolutions) over the last quarter.



- Total meetings in favour **83.3%**
- Meetings against (or against AND abstain) **16.7%**

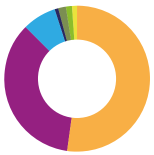
Source: EOS at Federated Hermes

VOTING REPORT

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

GLOBAL

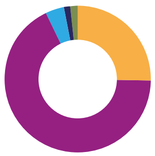
We recommended voting against or abstaining on 204 resolutions over the last quarter.



- Board structure **52.5%**
- Remuneration **35.3%**
- Shareholder resolution **7.4%**
- Capital structure and dividends **1.0%**
- Amend articles **1.5%**
- Audit and accounts **1.5%**
- Other **1.0%**

AUSTRALIA AND NEW ZEALAND

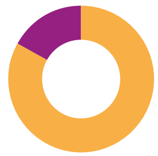
We recommended voting against or abstaining on 71 resolutions over the last quarter.



- Board structure **25.4%**
- Remuneration **67.6%**
- Shareholder resolution **4.2%**
- Audit and accounts **1.4%**
- Other **1.4%**

DEVELOPED ASIA

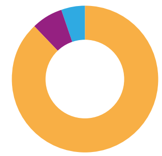
We recommended voting against or abstaining on 12 resolutions over the last quarter.



- Board structure **83.3%**
- Capital structure and dividends **16.7%**

EMERGING & DEVELOPING MARKETS

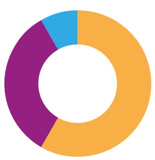
We recommended voting against or abstaining on 58 resolutions over the last quarter.



- Board structure **87.9%**
- Remuneration **6.9%**
- Amend articles **5.2%**

EUROPE

We recommended voting against or abstaining on 12 resolutions over the last quarter.



- Board structure **58.3%**
- Remuneration **33.3%**
- Other **8.3%**

NORTH AMERICA

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

- Board structure **42.0%**
- Remuneration **30.0%**
- Shareholder resolution **24.0%**
- Audit and accounts **4.0%**

UNITED KINGDOM

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

- Remuneration **100.0%**

Source: EOS at Federated Hermes

LGPS Central Limited

Notices:
LGPS Central Limited is committed to disclosing its voting record on a vote-by-vote basis, including where practicable the provision of a rationale for votes cast against management.
The data presented here relate to voting decisions for securities held in portfolios within the company's Authorised Contractual Scheme (ACS).

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
19/10/2022	Fosun International Limited	Extraordinary Shareholders	Against	1a,1b,1c,1d,1e,1f,1g,1h,1i,1j,1k,1l,1m,1n,1o,1p,1q	Apparent failure to link pay and appropriate performance
26/10/2022	Sino Land Co. Ltd.	Annual	Against	5.2,5.3 3.2,3.3,3.4 3.1	Issue of equity raises concerns about excessive dilution of existing shareholdersInsufficient/poor disclosure Lack of independence on board Lack of independence on boardConcerns related to inappropriate membership of committees
03/11/2022	Sun Hung Kai Properties Limited	Annual	Against	3.1d 3.1f 3.1e 6 7 3.1a,3.1c,3.1k,3.1l	Combined CEO/Chairman Concerns related to approach to board gender diversityConcerns related to succession planning Concerns related to succession planning Insufficient/poor disclosure Issue of equity raises concerns about excessive dilution of existing shareholdersInsufficient/poor disclosure Lack of independence on board
22/11/2022	New World Development Co. Ltd.	Annual	Against	7 3e 6 3f 3a	Apparent failure to link pay and appropriate performance Concerns related to succession planning Issue of equity raises concerns about excessive dilution of existing shareholders Lack of independence on board Overboarded/Too many other time commitments
24/11/2022	Champion Real Estate Investment Trust	Extraordinary Shareholders	All For		
23/12/2022	Cathay Pacific Airways Limited	Extraordinary Shareholders	All For		
20/10/2022	Japan Logistics Fund, Inc.	Special	All For		
28/10/2022	Industrial & Infrastructure Fund Investment Corp.	Special	All For		
17/11/2022	Bic Camera, Inc.	Annual	Against	3.9,3.10 4.2,4.3	Lack of independence on board Lack of independence on boardLack of independent representation at board committees
23/11/2022	Ryohin Keikaku Co., Ltd.	Annual	All For		
24/11/2022	FAST RETAILING CO., LTD.	Annual	Against	2.1,2.2,2.3,2.6,2.7	Lack of independence on board
24/11/2022	Mani, Inc.	Annual	All For		
25/11/2022	SHIFT, Inc.	Annual	All For		
08/12/2022	Noevir Holdings Co., Ltd.	Annual	Against	2.6	Lack of independence on board
09/12/2022	CyberAgent, Inc.	Annual	Against	3.4	Lack of independence on board
09/12/2022	Hitachi Metals, Ltd.	Special	All For		
13/12/2022	Japan Real Estate Investment Corp.	Special	All For		
16/12/2022	Hamamatsu Photonics KK	Annual	Against	3.1,3.8	Lack of independence on board
18/12/2022	GMO Payment Gateway, Inc.	Annual	Against	3.2,3.11	Lack of independence on board
21/12/2022	Open House Group Co., Ltd.	Annual	All For		
22/12/2022	FOOD & LIFE COMPANIES LTD.	Annual	All For		
23/12/2022	GMO Internet Group, Inc.	Special	All For		
06/10/2022	Singapore Exchange Ltd.	Annual	Against	3a	Concerns related to approach to board gender diversity
08/11/2022	Sembcorp Industries Ltd.	Extraordinary Shareholders	All For		
08/12/2022	Keppel Corporation Limited	Extraordinary Shareholders	All For		
14/10/2022	HANWHA AEROSPACE Co., Ltd.	Special	All For		
28/10/2022	HANWHA SOLUTIONS CORP.	Special	Against	2	Lack of independence on board
31/10/2022	Korea Electric Power Corp.	Special	All For		
03/11/2022	Samsung Electronics Co., Ltd.	Special	All For		
03/11/2022	Samsung Electronics Co., Ltd.	Special	All For		
04/11/2022	POSCO INTERNATIONAL Corp.	Special	All For		

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
01/12/2022	DL Holdings Co., Ltd.	Special	All For		
05/12/2022	Alteogen, Inc.	Special	All For		
07/12/2022	Korea Gas Corp.	Special	All For		
12/12/2022	Kangwon Land, Inc.	Special	All For		
23/12/2022	Daewoo Engineering & Construction Co. Ltd.	Special	All For		
11/10/2022	Telstra Group Ltd.	Annual	Against	3b 4b,5 4a	Concerns regarding Auditor tenure Apparent failure to link pay and appropriate performance Apparent failure to link pay & appropriate performance
11/10/2022	Telstra Group Ltd.	Court	All For		
12/10/2022	Commonwealth Bank of Australia	Annual	Against	3,4	Apparent failure to link pay & appropriate performance
12/10/2022	CSL Limited	Annual	Against	3,4	Apparent failure to link pay and appropriate performance
13/10/2022	Aurizon Holdings Ltd.	Annual	All For		
17/10/2022	Stockland	Annual	Against	3,4	Apparent failure to link pay and appropriate performance
18/10/2022	Brambles Limited	Annual	Against	2,6,7,8	Apparent failure to link pay and appropriate performance
18/10/2022	Cochlear Limited	Annual	Against	2.1,4.1 3.1	Apparent failure to link pay and appropriate performance Concerns related to inappropriate membership of committeesLack of independent representation at board committeesConcerns regarding Auditor tenure
18/10/2022	Endeavour Group Ltd. (Australia)	Annual	All For		
18/10/2022	IDP Education Ltd.	Annual	Against	2b 2a	Concerns related to inappropriate membership of committeesConcerns regarding Auditor tenure Concerns related to inappropriate membership of committeesLack of independent representation at board committeesConcerns regarding Auditor tenure
18/10/2022	Treasury Wine Estates Limited	Annual	Against	3	Apparent failure to link pay and appropriate performance
19/10/2022	APA Group	Annual	Against	1 3 2	Apparent failure to link pay and appropriate performance Concerns related to inappropriate membership of committeesConcerns regarding Auditor tenure Inadequate management of climate-related risks
19/10/2022	Origin Energy Limited	Annual	Against	3 4 9e	Inadequate management of climate-related risks Apparent failure to link pay and appropriate performance SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks 2- SH: For shareholder resolution, no management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
20/10/2022	Magellan Financial Group Ltd.	Annual	Against	2 3	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity Overboarded/Too many other time commitments Concerns regarding Auditor tenure
20/10/2022	Orora Ltd.	Annual	Against	4 2b,5	Apparent failure to link pay and appropriate performance Concerns related to Non-audit fees
20/10/2022	Perpetual Limited	Annual	Against	1,4a,4b,4c 2	Apparent failure to link pay and appropriate performance Concerns regarding Auditor tenure
20/10/2022	Steadfast Group Ltd. (Australia)	Annual	Against	3 4	Apparent failure to link pay and appropriate performance Concerns to protect shareholder value
20/10/2022	Transurban Group Ltd.	Annual	Against	3 2b	Apparent failure to link pay and appropriate performance Concerns regarding Auditor tenure
21/10/2022	Cleanaway Waste Management Ltd.	Annual	Against	2	Apparent failure to link pay and appropriate performance
21/10/2022	Insurance Australia Group Ltd.	Annual	Against	2 1 5,6	Concerns regarding Auditor tenure Concerns related to approach to board gender diversity Apparent failure to link pay and appropriate performance
21/10/2022	Worley Limited	Annual	Against	3,4	Apparent failure to link pay and appropriate performance
25/10/2022	Rio Tinto Limited	Extraordinary Shareholders	All For		
26/10/2022	Dexus	Annual	Against	3.2 2 1	Concerns about remuneration committee performance Apparent failure to link pay and appropriate performance Apparent failure to link pay & appropriate performance
26/10/2022	Tabcorp Holdings Limited	Annual	Against	3,4 2b,2c 2a	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity Concerns related to approach to board gender diversity Concerns related to Non-audit fees
26/10/2022	Whitehaven Coal Limited	Annual	Against	1 2 6	Apparent failure to link pay and appropriate performance Inadequate management of climate-related risks SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
26/10/2022	Woolworths Group Limited	Annual	Against	4 3	Apparent failure to link pay and appropriate performance Apparent failure to link pay & appropriate performance
27/10/2022	Challenger Limited	Annual	Against	3,4	Apparent failure to link pay and appropriate performance

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
27/10/2022	JB Hi-Fi Limited	Annual	Against	3,4a,4b 2a,2b	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity Concerns related to approach to below-board gender diversity
27/10/2022	Reece Limited	Annual	Against	5 2	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity
27/10/2022	South32 Ltd.	Annual	Against	3,4 2a,5	Apparent failure to link pay & appropriate performance Inadequate management of climate-related risks
27/10/2022	Wesfarmers Limited	Annual	Against	2c 3,4	Concerns regarding Auditor tenure Apparent failure to link pay and appropriate performance
28/10/2022	Carsales.Com Limited	Annual	Against	3b 3a	Concerns regarding Auditor tenure Concerns related to Non-audit fees Concerns related to inappropriate membership of committees Concerns related to approach to board gender diversity Lack of independence on board
02/11/2022	Domino's Pizza Enterprises Limited	Annual	All For		
03/11/2022	Boral Limited	Annual	Against	3 2.3 2.2 4	Apparent failure to link pay and appropriate performance Concerns related to Non-audit fees Concerns related to approach to board gender diversity Concerns related to shareholder rights
03/11/2022	Deterra Royalties Ltd.	Annual	Against	1,4	Apparent failure to link pay and appropriate performance
03/11/2022	Downer EDI Limited	Annual	Against	3,4	Apparent failure to link pay and appropriate performance
04/11/2022	Qantas Airways Limited	Annual	Against	3.1,3.2,4 2.2	Apparent failure to link pay and appropriate performance Concerns regarding Auditor tenure
08/11/2022	Bendigo and Adelaide Bank Limited	Annual	Against	6 2	Apparent failure to link pay and appropriate performance Concerns related to inappropriate membership of committeesConcerns regarding Auditor tenure
08/11/2022	Sims Limited	Annual	Against	5 7	Apparent failure to link pay and appropriate performance Inadequate management of climate-related risks
08/11/2022	The Lottery Corp. Ltd.	Annual	Against	5 3	Apparent failure to link pay and appropriate perform Concerns regarding Auditor tenure
09/11/2022	Coles Group Ltd.	Annual	Against	3	Apparent failure to link pay and appropriate performance
09/11/2022	Domain Holdings Australia Ltd.	Annual	Against	1 4	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity Concerns regarding Auditor tenure
09/11/2022	Newcrest Mining Ltd.	Annual	All For		
10/11/2022	Ansell Limited	Annual	All For		
10/11/2022	BHP Group Limited	Annual	Against	11,12 13 14,15	Apparent failure to link pay and appropriate performance Fund manager or client vote Inadequate management of climate-related risks
10/11/2022	Computershare Limited	Annual	Against	3 2	Apparent failure to link pay and appropriate performance Concerns related to Non-audit fees
10/11/2022	Insignia Financial Ltd.	Annual	Against	3,4	Apparent failure to link pay and appropriate performance
10/11/2022	REA Group Ltd	Annual	Against	2,4 3d 3a	Apparent failure to link pay and appropriate performance Concerns related to inappropriate membership of committees Concerns regarding Auditor tenure Concerns to protect shareholder value
14/11/2022	Flight Centre Travel Group Limited	Annual	Against	3	Apparent failure to link pay and appropriate performance
15/11/2022	AGL Energy Limited	Annual	Against	3 4d 5b,5c,5d	Inadequate management of climate-related risks Inadequate management of climate-related risksConcerns regarding Auditor tenure SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes appropriate accountability or incentivisation
15/11/2022	Allkem Ltd.	Annual	Against	1,9 5 4	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity Concerns related to inappropriate membership of committees
16/11/2022	Beach Energy Limited	Annual	Against	1	Apparent failure to link pay and appropriate performance
16/11/2022	Charter Hall Group	Annual	Against	3	Apparent failure to link pay and appropriate performance
16/11/2022	Medibank Private Ltd.	Annual	Against	6	Apparent failure to link pay and appropriate performance
16/11/2022	Northern Star Resources Ltd.	Annual	Against	1,2,4	Apparent failure to link pay and appropriate performance
16/11/2022	Platinum Asset Management Ltd.	Annual	Against	4,5,6,7 1	Apparent failure to link pay and appropriate performance Concerns related to Non-audit fees
16/11/2022	Vicinity Centres	Annual	Against	2	Apparent failure to link pay and appropriate performance
17/11/2022	Altium Limited	Annual	Against	2	Apparent failure to link pay and appropriate performance

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
17/11/2022	Goodman Group	Annual	Against	3 7,8,9,10,11 1 2 4	Concerns related to inappropriate membership of committees Concerns regarding Auditor tenure Concerns about remuneration committee performance Apparent failure to link pay and appropriate performance Concerns regarding Auditor tenure Concerns related to inappropriate membership of committees Concerns related to approach to board gender diversity Concerns about remuneration committee performance Concerns about overall board structure
17/11/2022	IGO Ltd.	Annual	Against	5	Apparent failure to link pay and appropriate performance
17/11/2022	Mineral Resources Limited	Annual	Against	3	Concerns related to approach to below-board gender diversityInadequate management of climate-related risks
17/11/2022	Pilbara Minerals Ltd.	Annual	Against	3 4	Concerns related to approach to below-board gender diversity Concerns to protect shareholder value
17/11/2022	Seek Limited	Annual	Against	2,5,6	Apparent failure to link pay and appropriate performance
17/11/2022	Seven Group Holdings Limited	Annual	Against	6 3	Apparent failure to link pay and appropriate performance Concerns related to Non-audit fees
17/11/2022	Sonic Healthcare Limited	Annual	Against	3,4,5	Apparent failure to link pay and appropriate performance
18/11/2022	Lendlease Group	Annual	Against	3 2c 2b	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity Concerns related to approach to board gender diversityConcerns regarding Auditor tenure
18/11/2022	Mirvac Group	Annual	Against	3	Apparent failure to link pay and appropriate performance
18/11/2022	NextDC Ltd.	Annual	Against	1,5 2	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity
21/11/2022	Pro Medicus Limited	Annual	Against	3.1	Concerns related to approach to board gender diversityConcerns regarding Auditor tenure
22/11/2022	Bluescope Steel Limited	Annual	Against	2,5	Apparent failure to link pay and appropriate performance
22/11/2022	Brickworks Ltd.	Annual	Against	2,3	Apparent failure to link pay and appropriate performance
22/11/2022	Fortescue Metals Group Ltd.	Annual	Against	1	Apparent failure to link pay and appropriate performance
22/11/2022	The Star Entertainment Group Limited	Annual	Against	6 4	Apparent failure to link pay and appropriate performance Overboarded/Too many other time commitments
23/11/2022	Region Group	Annual	Against	1,9,11 2	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity
23/11/2022	Wisetech Global Ltd.	Annual	All For		
24/11/2022	Evolution Mining Limited	Annual	Against	1,5,6 4	Apparent failure to link pay and appropriate performance Concerns related to approach to board gender diversity
24/11/2022	Harvey Norman Holdings Ltd.	Annual	Against	5 4	Concerns about overall board structure Concerns related to inappropriate membership of committees Concerns related to approach to board gender diversity Lack of independence on board
24/11/2022	Qube Holdings Ltd.	Annual	Against	3 1	Concerns regarding Auditor tenure Concerns related to approach to board gender diversity
29/11/2022	Lynas Rare Earths Limited	Annual	All For		
29/11/2022	Ramsay Health Care Limited	Annual	Against	3.3	Concerns regarding Auditor tenure
06/12/2022	Bank of Queensland Ltd.	Annual	Against	2c 3	Overboarded/Too many other time commitments Pay is misaligned with EOS remuneration principles
09/12/2022	Washington H. Soul Pattinson and Company Limited	Annual	Against	3b 2,4	Inadequate management of climate-related risksOverboarded/Too many other time commitments Pay is misaligned with EOS remuneration principles
14/12/2022	Magellan Financial Group Ltd.	Extraordinary Shareholders	All For		
14/12/2022	Orica Ltd.	Annual	Against	2.1 3	Concerns regarding Auditor tenure Pay is misaligned with EOS remuneration principles
14/12/2022	Westpac Banking Corp.	Annual	Against	4,5 3	Pay is misaligned with EOS remuneration principles Concerns regarding Auditor tenure
15/12/2022	Australia and New Zealand Banking Group Limited	Annual	Against	3,4	Pay is misaligned with EOS remuneration principles
15/12/2022	Australia and New Zealand Banking Group Limited	Court	All For		
16/12/2022	National Australia Bank Limited	Annual	Against	2,3b	Pay is misaligned with EOS remuneration principles
18/10/2022	Meridian Energy Limited	Annual	Against	2 1,3	Concerns regarding Auditor tenureInadequate management of climate-related risks Inadequate management of climate-related risks
20/10/2022	Auckland International Airport Limited	Annual	Against	3,4	Concerns regarding Auditor tenure
26/10/2022	Fletcher Building Limited	Annual	Against	1	Concerns related to approach to board gender diversity
27/10/2022	EBOS Group Limited	Annual	Against	2,3	Concerns regarding Auditor tenure
28/10/2022	SKYCITY Entertainment Group Limited	Annual	Against	3	Concerns regarding Auditor tenure
04/11/2022	Spark New Zealand Ltd.	Annual	All For		
16/11/2022	Contact Energy Limited	Annual	All For		

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
18/11/2022	The a2 Milk Company Limited	Annual	Against	1	Concerns regarding Auditor tenure
21/10/2022	Nine Dragons Paper Holdings Ltd.	Special	All For		
21/11/2022	NWS Holdings Limited	Annual	Against	3a 3d 5,7 3c 3b	Concerns related to approach to board gender diversity Concerns related to approach to board gender diversity Concerns related to succession planning Overboarded/Too many other time commitments Issue of equity raises concerns about excessive dilution of existing shareholders Insufficient/poor disclosure Lack of independence on board Lack of independence on board Overboarded/Too many other time commitments
24/11/2022	Orient Overseas (International) Limited	Special	All For		
06/12/2022	Nine Dragons Paper Holdings Ltd.	Annual	Against	3a5 3a4 5a,5c 3a2,3a3 3a1 3a6	Concerns related to inappropriate membership of committeesLack of independent representation at board committeesConcerns related to approach to board gender diversityInadequate management of climate-related risks Concerns related to succession planning Issue of equity raises concerns about excessive dilution of existing shareholdersInsufficient/poor disclosure Lack of independence on board Lack of independence on boardConcerns related to inappropriate membership of committeesConcerns related to approach to board gender diversity Overboarded/Too many other time commitmentsConcerns related to approach to board gender diversity
07/12/2022	Huabao International Holdings Limited	Special	All For		
08/12/2022	Kerry Logistics Network Ltd.	Special	All For		
09/12/2022	First Pacific Company Limited	Special	All For		
04/11/2022	Centrais Eletricas Brasileiras SA	Extraordinary Shareholders	Against	1	Insufficient/poor disclosure
04/11/2022	Transmissora Alianca de Energia Eletrica SA	Extraordinary Shareholders	All For		
12/12/2022	B3 SA-Brasil, Bolsa, Balcao	Extraordinary Shareholders	All For		
21/12/2022	Vale SA	Extraordinary Shareholders	All For		
22/12/2022	Centrais Eletricas Brasileiras SA	Extraordinary Shareholders	Against	1,2	Pay is misaligned with EOS remuneration principles
11/11/2022	Geely Automobile Holdings Limited	Extraordinary Shareholders	All For		
14/12/2022	Kanzhun Limited	Annual	Against	3,5 6	Issue of equity raises concerns about excessive dilution of existing shareholders Pay is misaligned with EOS remuneration principles
28/12/2022	China Resources Mixc Lifestyle Services Limited	Extraordinary Shareholders	All For		
28/12/2022	JinkoSolar Holding Co., Ltd.	Annual	Against	2	Lack of independence on board
10/10/2022	China Tower Corporation Limited	Extraordinary Shareholders	All For		
10/10/2022	Shenzhen Topband Co., Ltd.	Special	Against	1	Apparent failure to link pay and appropriate performance
14/10/2022	YTO Express Group Co., Ltd.	Special	Against	9.1 4,5,6,7,8 9.4	Concerns related to inappropriate membership of committees Insufficient/poor disclosure Lack of independence on board
18/10/2022	Jiangxi Copper Company Limited	Extraordinary Shareholders	Against	4	Concerns related to approach to board gender diversity
27/10/2022	People's Insurance Co. (Group) of China Ltd.	Extraordinary Shareholders	Against	1	Lack of independence on board
27/10/2022	PICC Property & Casualty Co., Ltd.	Extraordinary Shareholders	All For		
28/10/2022	China National Building Material Co., Ltd.	Extraordinary Shareholders	All For		
28/10/2022	China Shenhua Energy Company Limited	Extraordinary Shareholders	Against	2	Insufficient justification for related party transaction
01/11/2022	Postal Savings Bank of China Co., Ltd.	Extraordinary Shareholders	All For		
04/11/2022	Wuxi Lead Intelligent Equipment Co., Ltd.	Special	All For		
11/11/2022	New China Life Insurance Co., Ltd.	Extraordinary Shareholders	Against	1.3	Concerns related to inappropriate membership of committees
11/11/2022	Postal Savings Bank of China Co., Ltd.	Extraordinary Shareholders	Against	8 9	Concerns related to approach to board gender diversity Overboarded/Too many other time commitments
15/11/2022	GoerTek Inc.	Special	Against	2.1 2.3,2.4	Concerns related to inappropriate membership of committees Lack of independence on board
15/11/2022	Yantai Jereh Oilfield Services Group Co. Ltd.	Special	All For		
16/11/2022	China CITIC Bank Corporation Limited	Extraordinary Shareholders	All For		
21/11/2022	LONGi Green Energy Technology Co., Ltd.	Special	Against	8 12,13,14,15,16	Concerns related to shareholder rights Insufficient/poor disclosure
23/11/2022	Hangzhou Tigermed Consulting Co., Ltd.	Extraordinary Shareholders	All For		
23/11/2022	Hangzhou Tigermed Consulting Co., Ltd.	Extraordinary Shareholders	All For		
25/11/2022	Industrial and Commercial Bank of China Limited	Extraordinary Shareholders	Against	6,7 3	Concerns related to shareholder rights Inadequate management of climate-related risks
01/12/2022	Luxshare Precision Industry Co. Ltd.	Special	Against	1,2,3	Concerns to protect shareholder value
08/12/2022	Inner Mongolia Yili Industrial Group Co., Ltd.	Special	All For		

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
14/12/2022	Kweichow Moutai Co., Ltd.	Special	Against	1	Concerns related to shareholder rights
15/12/2022	Focus Media Information Technology Co., Ltd.	Special	All For		
19/12/2022	Bank of China Ltd.	Extraordinary Shareholders	All For		
19/12/2022	China Construction Bank Corporation	Extraordinary Shareholders	All For		
19/12/2022	China National Building Material Co., Ltd.	Extraordinary Shareholders	Against	1 4	Lack of independence on board Concerns to protect shareholder value
22/12/2022	Agricultural Bank of China Limited	Extraordinary Shareholders	Against	6	Concerns related to inappropriate membership of committees Concerns related to approach to board gender diversity
23/12/2022	Sinopharm Group Co., Ltd.	Extraordinary Shareholders	Against	1	Concerns related to approach to board gender diversity
29/12/2022	China Everbright Bank Co. Ltd.	Extraordinary Shareholders	Against	2,4,5	Concerns related to shareholder rights
29/12/2022	Wuxi Lead Intelligent Equipment Co., Ltd.	Special	All For		
30/12/2022	China Tower Corporation Limited	Extraordinary Shareholders	All For		
30/12/2022	Huaneng Power International, Inc.	Extraordinary Shareholders	Against	4,6	Concerns to protect shareholder value
30/12/2022	Shandong Weigao Group Medical Polymer Co. Ltd.	Extraordinary Shareholders	Against	1	Concerns related to approach to board gender diversity
30/12/2022	Yantai Jereh Oilfield Services Group Co. Ltd.	Special	Against	1.6	Lack of independence on board Concerns related to inappropriate membership of committees
22/11/2022	Grupo de Inversiones Suramericana SA	Extraordinary Shareholders	Against	6	Insufficient/poor disclosure
21/11/2022	Komercni banka as	Special	All For		
05/10/2022	ICICI Prudential Life Insurance Co. Ltd.	Special	Against	1	Concerns related to inappropriate membership of committeesConcerns related to approach to board gender diversity
08/10/2022	Ambuja Cements Limited	Extraordinary Shareholders	Against	4,5,6 12 1	Concerns related to approach to board gender diversity Issue of equity raises concerns about excessive dilution of existing shareholders Overboarded/Too many other time commitments
11/10/2022	Vedanta Limited	Court	All For		
13/10/2022	Larsen & Toubro Ltd.	Special	Against	2	Lack of independence on boardApparent failure to link pay and appropriate performance
14/10/2022	Zee Entertainment Enterprises Limited	Court	All For		
20/10/2022	Dr. Reddy's Laboratories Ltd.	Special	All For		
03/11/2022	Power Grid Corporation of India Limited	Extraordinary Shareholders	Against	1,2 3	Lack of independence on board Lack of independence on boardConcerns related to approach to board gender diversity
05/11/2022	Alkem Laboratories Ltd.	Special	Against	1,2	Apparent failure to link pay and appropriate performance
12/11/2022	AU Small Finance Bank Ltd.	Special	Against	1	Concerns related to approach to board gender diversity
12/11/2022	GAIL (India) Limited	Special	Against	1	Concerns related to approach to board gender diversity
16/11/2022	Bharat Petroleum Corporation Limited	Special	All For		
20/11/2022	Bajaj Auto Limited	Special	All For		
22/11/2022	Wipro Limited	Special	All For		
25/11/2022	HDFC Bank Limited	Court	All For		
25/11/2022	Housing Development Finance Corporation Limited	Court	All For		
02/12/2022	Infosys Limited	Special	All For		
03/12/2022	Oil & Natural Gas Corp. Ltd.	Special	Against	1	Concerns related to approach to board gender diversity
07/12/2022	Kotak Mahindra Bank Limited	Special	All For		
15/12/2022	ITC Limited	Special	Against	1	Pay is misaligned with EOS remuneration principles Lack of independence on board
17/12/2022	Jindal Steel & Power Ltd.	Special	All For		
21/12/2022	MRF Limited	Special	All For		
23/12/2022	Bharat Electronics Limited	Extraordinary Shareholders	All For		
27/12/2022	Pidilite Industries Limited	Special	Against	1,2	Lack of independence on board Pay is misaligned with EOS remuneration principles
30/12/2022	AU Small Finance Bank Ltd.	Special	All For		
30/12/2022	Page Industries Limited	Special	Against	1	Concerns related to approach to board gender diversity
30/12/2022	Reliance Industries Ltd.	Special	All For		
15/12/2022	PT Unilever Indonesia Tbk	Extraordinary Shareholders	All For		
16/11/2022	Elbit Systems Ltd.	Annual	Against	A	
27/10/2022	Hong Leong Bank Bhd.	Annual	Against	2	Concerns related to inappropriate membership of committees
31/10/2022	IOI Corp. Bhd.	Annual	All For		
15/11/2022	Sime Darby Bhd.	Annual	All For		
18/11/2022	Axiata Group Bhd.	Extraordinary Shareholders	Against	1	Concerns to protect shareholder value
18/11/2022	DiGi.com Bhd.	Extraordinary Shareholders	All For		
08/12/2022	Gamuda Bhd.	Annual	All For		

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
17/11/2022	Grupo Bimbo SAB de CV	Ordinary Shareholders	All For		
29/11/2022	Grupo Financiero Banorte SAB de CV	Extraordinary Shareholders	All For		
29/11/2022	Grupo Financiero Banorte SAB de CV	Ordinary Shareholders	All For		
20/12/2022	America Movil SAB de CV	Special	All For		
07/10/2022	KGHM Polska Miedz SA	Special	All For		
10/10/2022	Polskie Gornictwo Naftowe i Gazownictwo SA	Special	All For		
18/10/2022	Powszechna Kasa Oszczednosci Bank Polski SA	Special	All For		
24/11/2022	KGHM Polska Miedz SA	Special	Against	5.1,5.2	Insufficient/poor disclosure
23/10/2022	Riyad Bank	Ordinary Shareholders	Abstain	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	Insufficient/poor disclosure
30/11/2022	Sahara International Petrochemical Co.	Ordinary Shareholders	Abstain Against	1.1,1.2,1.3,1.4,1.5,1.6,1.7,1.8,1.9,1.10,1.11,1.12,1.13,1.14,1.15,1.16,1.17,1.18,1.19,1.20,1.21,1.22,1.23,1.24,1.25,1.26,1.27,1.28,1.29,1.30,1.31,1.32,1.33,1.34,1.35,1.36,1.37,1.38,1.39,1.40,1.41,1.42,1.43,1.44,1.45,1.46,1.47,1.48,1.49,1.50,1.51,1.52 4 2	Insufficient/poor disclosure Concerns related to shareholder rights Insufficient/poor disclosure
22/12/2022	Mouwasat Medical Services Co.	Ordinary Shareholders	Abstain	1.1,1.2,1.3,1.4,1.5,1.6,1.7,1.8,1.9,1.10,1.11,1.12,1.13,1.14,1.15,1.16,1.17,1.18,1.19,1.20,1.21,1.22,1.23,1.24,1.25,1.26,1.27,1.28,1.29,1.30,1.31,1.32	Insufficient/poor disclosure
09/11/2022	AVI Ltd.	Annual	Against	10,11,12,13,14,16 7 5 3	Apparent failure to link pay and appropriate performance Concerns related to inappropriate membership of committees Lack of independence on board Lack of independence on boardLack of independent representation at board committees
14/11/2022	Shoprite Holdings Ltd.	Annual	All For		
17/11/2022	Bid Corp. Ltd.	Annual	Against	5	Apparent failure to link pay and appropriate performance
23/11/2022	Woolworths Holdings Ltd.	Annual	Against	5.2	Apparent failure to link pay and appropriate performance
25/11/2022	The Bidvest Group Ltd.	Annual	All For		
29/11/2022	Growthpoint Properties Ltd.	Annual	Against	1.5.1	Apparent failure to link pay and appropriate performance
29/11/2022	Harmony Gold Mining Co. Ltd.	Annual	Against	6	Concerns about human rights
30/11/2022	Remgro Ltd.	Annual	Against	9,10,11 6,7 5	Concerns related to inappropriate membership of committees Lack of independence on board Lack of independence on boardConcerns related to approach to board gender diversity
01/12/2022	African Rainbow Minerals Ltd.	Annual	Against	11,14 9.2,9.3,9.4,9.7 1	Apparent failure to link pay and appropriate performance Concerns related to inappropriate membership of committees Lack of independence on board
01/12/2022	Discovery Ltd.	Annual	Against	1 2.2	Apparent failure to link pay and appropriate performance Lack of independence on board
02/12/2022	Sasol Ltd.	Annual	Against	3,4.4 1,12,13	Inadequate management of climate-related risks Pay is misaligned with EOS remuneration principles
08/12/2022	Aspen Pharmacare Holdings Ltd.	Annual	Against	2	Pay is misaligned with EOS remuneration principles
28/11/2022	Ford Otomotiv Sanayi AS	Special	All For		
06/10/2022	Colruyt SA	Extraordinary Shareholders	All For		
22/11/2022	DSV A/S	Extraordinary Shareholders	All For		
23/11/2022	Chr. Hansen Holding A/S	Annual	All For		
01/12/2022	Coloplast A/S	Annual	Abstain	8.6	Lack of independence on board
10/11/2022	Pernod Ricard SA	Annual	Against	8,9,10 4 5	Apparent failure to link pay & appropriate performance Concerns related to succession planning Overboarded/Too many other time commitments
19/12/2022	Sodexo SA	Annual/Special	All For		
16/12/2022	Volkswagen AG	Extraordinary Shareholders	All For		
19/12/2022	Uniper SE	Extraordinary Shareholders	Against	2.1,2.2	Issue of equity raises concerns about excessive dilution of existing shareholders

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
20/10/2022	GEK Terna Holding Real Estate Construction SA	Extraordinary Shareholders	All For		
01/11/2022	Hellenic Telecommunications Organization SA	Extraordinary Shareholders	All For		
14/12/2022	Public Power Corp. SA	Extraordinary Shareholders	Against	1 3	Concerns related to shareholder rights Pay is misaligned with EOS remuneration principles
24/10/2022	Seagate Technology Holdings Plc	Annual	All For		
03/11/2022	James Hardie Industries Plc	Annual	Against	2,6,7 5	Apparent failure to link pay and appropriate performance Apparent failure to link pay & appropriate performance
08/12/2022	Medtronic Plc	Annual	All For		
04/10/2022	Infrastrutture Wireless Italiane SpA	Extraordinary Shareholders	Against	3 1 2.3	 Concerns related to shareholder rights Shareholder proposal promotes appropriate accountability or incentivisation
10/10/2022	Atlantia SpA	Ordinary Shareholders	All For		
28/10/2022	Mediobanca Banca di Credito Finanziario SpA	Annual	Against	2a,2b	Apparent failure to link pay and appropriate performance
27/10/2022	Allegro.eu SA	Ordinary Shareholders	All For		
31/10/2022	B&M European Value Retail SA	Ordinary Shareholders	All For		
16/12/2022	Aroundtown SA	Extraordinary Shareholders	All For		
16/12/2022	Aroundtown SA	Ordinary Shareholders	All For		
21/12/2022	Samsonite International S.A.	Special	All For		
16/11/2022	NEPI Rockcastle NV	Extraordinary Shareholders	All For		
18/11/2022	Just Eat Takeaway.com NV	Extraordinary Shareholders	Against	5b	Concerns related to approach to board gender diversity Concerns related to below-board gender diversity
12/12/2022	argenx SE	Extraordinary Shareholders	All For		
27/10/2022	SalMar ASA	Extraordinary Shareholders	All For		
06/12/2022	Yara International ASA	Extraordinary Shareholders	All For		
25/10/2022	International Consolidated Airlines Group SA	Extraordinary Shareholders	All For		
17/11/2022	Endesa SA	Extraordinary Shareholders	All For		
10/11/2022	Beijer Ref AB	Extraordinary Shareholders	All For		
08/12/2022	Castellum AB	Extraordinary Shareholders	All For		
23/11/2022	Credit Suisse Group AG	Extraordinary Shareholders	Against	3.1,3.2	Insufficient/poor disclosure
14/12/2022	Barry Callebaut AG	Annual	Against	4.1.7,4.4.3 4.1.2 6 4.1.8 1.2	Concerns related to approach to board gender diversity Concerns related to inappropriate membership of committees Insufficient/poor disclosure Overboarded/Too many other time commitments Pay is misaligned with EOS remuneration principles
09/11/2022	Brookfield Corporation	Special	Against	3	Apparent failure to link pay and appropriate performance
07/10/2022	Apollo Global Management, Inc.	Annual	Against	1.6	Concerns about remuneration committee performance
07/10/2022	Unity Software, Inc.	Special	All For		
11/10/2022	The Procter & Gamble Company	Annual	Against	1k,2	Concerns regarding Auditor tenure
11/10/2022	Yum China Holdings, Inc.	Special	All For		
13/10/2022	Paychex, Inc.	Annual	Against	2 1h 1f	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Concerns related to approach to board diversityConcerns related to approach to board gender diversityConcerns related to succession planning
13/10/2022	Wayfair, Inc.	Special	Against	1	Apparent failure to link pay and appropriate performance
25/10/2022	Cintas Corporation	Annual	Against	7 8 1g	Shareholder proposal promotes appropriate accountability or incentivisation Shareholder proposal promotes transparency Concerns related to approach to board diversityConcerns related to approach to board gender diversity
26/10/2022	Parker-Hannifin Corporation	Annual	Against	2 1g 1k	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Concerns related to approach to board gender diversity
27/10/2022	Bio-Techne Corporation	Annual	Against	3 2h 2a	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Concerns related to approach to board gender diversityConcerns related to approach to board diversity
27/10/2022	Catalent, Inc.	Annual	Against	1c	Concerns about board approach to diversity
31/10/2022	Copart, Inc.	Special	All For		
02/11/2022	KLA Corporation	Annual	Against	3 1.5 4	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
03/11/2022	Coty Inc.	Annual	Against	2 1.5 1.1	Apparent failure to link pay and appropriate performance Concerns related to attendance at board or committee meetings Concerns to protect shareholder value Concerns about remuneration commitee performance
03/11/2022	Fox Corporation	Annual	Against	3 1g 1h	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Concerns to protect shareholder valueConcerns related to approach to board gender diversity
04/11/2022	VMware, Inc.	Special	All For		
08/11/2022	Lam Research Corporation	Annual	Against	1c 2	Concerns about remuneration committee performance Apparent failure to link pay and appropriate performance
09/11/2022	Automatic Data Processing, Inc.	Annual	Against	2	Apparent failure to link pay and appropriate performance
09/11/2022	Cardinal Health, Inc.	Annual	All For		
09/11/2022	Constellation Brands, Inc.	Special	All For		
10/11/2022	Broadridge Financial Solutions, Inc.	Annual	All For		
15/11/2022	Jack Henry & Associates, Inc.	Annual	All For		
15/11/2022	News Corporation	Annual	Against	3 1h 4 1e	Apparent failure to link pay and appropriate performance. Concerns about remuneration committee performance Shareholder proposal promotes transparency Concerns to protect shareholder value
16/11/2022	Oracle Corporation	Annual	Against	1.6 1.5	Concerns about remuneration committee performance Concerns related to succession planning 2- Overboarded/Too many other time commitments
16/11/2022	ResMed Inc.	Annual	Against	3 1h	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
16/11/2022	The Clorox Company	Annual	Against	2 1.3	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
16/11/2022	Western Digital Corporation	Annual	Against	2 1c 1g	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Concerns related to approach to board diversity
18/11/2022	Sysco Corporation	Annual	Against	2 1c 4 5 6	Apparent failure to link pay & appropriate performance Concerns related to below-board gender diversity 2- Concerns related to board gender diversity SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes appropriate accountability or incentivisation SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks SH: For shareholder resolution, no management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
18/11/2022	The Estee Lauder Companies, Inc.	Annual	Against	3 1b	Apparent failure to link pay & appropriate performance Concerns about overall board structure 2- Concerns related to minority shareholder interest 3- Concerns related to potential conflict of interests 4- Concerns related to succession planning
30/11/2022	Campbell Soup Company	Annual	Against	1.2,2 5	Concerns regarding Auditor tenure SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
02/12/2022	Copart, Inc.	Annual	Against	1.8 1.5 2	Concerns related to approach to board gender diversity Concerns related to approach to board diversity Concerns related to succession planning Concerns about remuneration committee performance Pay is misaligned with EOS remuneration principles
07/12/2022	Vail Resorts, Inc.	Annual	Against	1d 3	Concerns about remuneration committee performance Pay is misaligned with EOS remuneration principles.
08/12/2022	Bill.com Holdings, Inc.	Annual	Against	1.4 3	Concerns about overall board structureConcerns to protect shareholder value Pay is misaligned with EOS remuneration principles.
08/12/2022	Cisco Systems, Inc.	Annual	Against	4	SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
09/12/2022	Viatris Inc.	Annual	Against	1B 2 4	Concerns related to approach to board gender diversityConcerns related to approach to board diversity Pay is misaligned with EOS remuneration principles. Shareholder proposal promotes appropriate accountability or incentivisation

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
13/12/2022	Microsoft Corporation	Annual	Against	1.5 2 6 7 5 9	Concerns about remuneration committee performance Pay is misaligned with EOS remuneration principles SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes appropriate accountability or incentivisation 2- SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes transparency SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks 2- SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes transparency SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes transparency
13/12/2022	Palo Alto Networks, Inc.	Annual	All For		
14/12/2022	AutoZone, Inc.	Annual	Against	3	Pay is misaligned with EOS remuneration principles
15/12/2022	FactSet Research Systems Inc.	Annual	Against	1a 3	Concerns about overall board structure Pay is misaligned with EOS remuneration principles
22/12/2022	Palantir Technologies, Inc.	Special	All For		
14/10/2022	TwentyFour Income Fund Limited	Annual	All For		
25/10/2022	UK Commercial Property REIT Ltd	Special	All For		
29/11/2022	Bluefield Solar Income Fund Limited	Annual	All For		
02/12/2022	Ruffer Investment Company Limited	Annual	All For		
05/12/2022	Schroder Oriental Income Fund Limited	Annual	All For		
05/12/2022	VinaCapital Vietnam Opportunity Fund Limited (UK)	Annual	All For		
08/12/2022	Fidelity Emerging Markets Limited	Annual	Against	9	Overboarded/Too many other time commitments
09/11/2022	Amcor Plc	Annual	All For		
30/11/2022	Ferguson Plc	Annual	All For		
06/10/2022	Diageo Plc	Annual	Against	2	Apparent failure to link pay and appropriate performance
06/10/2022	Rentokil Initial Plc	Special	All For		
13/10/2022	Rank Group Plc	Annual	Against	2	Apparent failure to link pay and appropriate performance
14/10/2022	Ashmore Group Plc	Annual	Against	9	Apparent failure to link pay and appropriate performance
17/10/2022	Barratt Developments Plc	Annual	All For		
18/10/2022	Micro Focus International Plc	Court	All For		
18/10/2022	Micro Focus International Plc	Special	All For		
18/10/2022	Pantheon International PLC	Annual	All For		
19/10/2022	Frasers Group Plc	Annual	Against	2 3	Apparent failure to link pay & appropriate performance Concerns related to board ethnic and/or racial diversity
19/10/2022	Hargreaves Lansdown Plc	Annual	All For		
20/10/2022	Dechra Pharmaceuticals Plc	Annual	Against	2	Apparent failure to link pay & appropriate performance
25/10/2022	Hammerson Plc	Special	All For		
25/10/2022	Rio Tinto Plc	Special	All For		
25/10/2022	Tritax Eurobox Plc	Special	All For		
27/10/2022	The City of London Investment Trust PLC	Annual	All For		
01/11/2022	Capita Plc	Special	All For		
01/11/2022	Countryside Partnerships Plc	Court	All For		
01/11/2022	Countryside Partnerships Plc	Special	All For		
01/11/2022	Murray Income Trust PLC	Annual	All For		
01/11/2022	Vistry Group Plc	Special	All For		
02/11/2022	NCC Group Plc	Annual	All For		
03/11/2022	Darktrace Plc	Annual	Against	14	Apparent failure to link pay and appropriate performance
03/11/2022	JPMORGAN GLOBAL GROWTH & INCOME PLC	Annual	All For		
07/11/2022	Monks Investment Trust PLC	Special	All For		
09/11/2022	Essentra Plc	Special	All For		
09/11/2022	Hays plc	Annual	All For		
09/11/2022	JPMorgan Emerging Markets Investment Trust PLC	Annual	All For		
11/11/2022	Redrow Plc	Annual	All For		
15/11/2022	Biffa Plc	Court	All For		

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
15/11/2022	Biffa Plc	Special	All For		
16/11/2022	European Opportunities Trust plc	Annual	All For		
16/11/2022	Smiths Group Plc	Annual	All For		
17/11/2022	Close Brothers Group Plc	Annual	All For		
17/11/2022	JD Wetherspoon Plc	Annual	Against	2 6 3 7	Apparent failure to link pay and appropriate performance Lack of independence on board Lack of independence on board Concerns about overall board structure Lack of independent representation at board committees
17/11/2022	Supermarket Income REIT Plc	Annual	All For		
23/11/2022	Genus Plc	Annual	Against	3	Pay is misaligned with EOS remuneration principles
24/11/2022	PZ Cussons Plc	Annual	All For		
25/11/2022	AVEVA Group Plc	Court	All For		
25/11/2022	AVEVA Group Plc	Special	All For		
30/11/2022	Dunelm Group Plc	Annual	Against	22,23	Overboarded/Too many other time commitments
30/11/2022	Renishaw Plc	Annual	Against	6,7	Concerns to protect shareholder value
06/12/2022	Target Healthcare REIT Plc	Annual	All For		
09/12/2022	Associated British Foods Plc	Annual	All For		
13/12/2022	JD Sports Fashion Plc	Special	Against	1	Pay is misaligned with EOS remuneration principles
13/12/2022	Softcat Plc	Annual	Against	2,3	Pay is misaligned with EOS remuneration principles.
13/12/2022	Spectris Plc	Special	All For		
14/12/2022	Fidelity Special Values PLC	Annual	All For		
14/12/2022	Volution Group Plc	Annual	All For		
15/12/2022	Baillie Gifford Japan Trust PLC	Annual	All For		
15/12/2022	Capricorn Energy Plc	Special	All For		
16/12/2022	Bellway Plc	Annual	Against	2	Pay is misaligned with EOS remuneration principles.
16/12/2022	Inchcape Plc	Special	All For		
16/12/2022	JPMORGAN GLOBAL GROWTH & INCOME PLC	Special	All For		
20/12/2022	AVI Global Trust PLC	Annual	Against	5	Concerns related to approach to board gender diversity

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worcestershire
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PENSIONS COMMITTEE
22 MARCH 2023

BUSINESS PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Worcestershire Pension Fund Business Plan as at February 2023 be noted.**

Background and update

2. We have revamped our Business Plan, making the following changes since the last quarterly rolling Business Plan:

   a) Removing **Introduction;**
   b) Removing **Background;**
   c) Removing **Purpose and Goals**.;
   d) Replacing **Key Result Areas / Aspirations** with **The Latest on Investment / Funding / Finance** (that now includes **Investment Targets** and **Budget**), and **The Latest on Administration** (that now includes **Administration KPIs**);
   e) Removing the list of acronyms;
   f) Including the Appendix listing our projects in the main body of the Business Plan in a new section called **Looking Ahead**, having removed columns 2-4 from the spreadsheet.

3. We are not aware of any matters that we need to escalate.

4. We have met the average target turnaround for January for all 12 KPI's.

5. We have made progress in recruitment of new staff with 6 vacancies left to fill. We are currently running a recruitment process for the remaining Business support roles and offering 2 Apprenticeships for these vacancies.

6. The remaining vacancies will go out to advert during March 2023, including the newly created Governance Officer role.

7. We have also implemented a workforce plan in conjunction with the wider finance team including regular one to one meetings and developing bespoke training plans for all staff. This will help improve service resilience, staff development and future succession planning.

8. In respect of key projects, we are in the process of collating information in respect of McCloud from the remaining employers who have not supplied any additional information or have been in touch.

9. We are currently monitoring the Pensions Dashboard programme and continually reviewing our data to ensure that it is as accurate as possible.

Supporting information

- Appendix - Business Plan February 2023

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 Feb 2023

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 of whether all is currently well at the Fund:

I. Our latest pensions administration KPIs are reassuring and in line with targets set.

II. We have received 2 new IDRPs (about our diligence on a transfer out and an ill health retirement), not experienced any new data breaches, or had to report anything to The Pensions Regulator since the last quarterly, rolling Business Plan. The Pensions Ombudsman has asked us for information to help them to adjudicate on a case that has gone through the IDRP process concerning ill health retirement.

III. In 2022 / 2023 we have had 1 data breach (starter information sent to wrong member due to manual error), 8 IDRPs, an FOI (about our AVC provider), and 0 complaints.

IV. Our Fund performance for the year to 31 12 2022 of -4.3% was 1.4% below the benchmark that was -2.9%. Over the 3 years to 31 12 2022 our 4.5% was 0.3% above benchmark of 4.2%.

V. Our projects / budgets are on schedule and members' attention is drawn to our list of projects in section 3 (Looking Ahead).

1. THE LATEST ON INVESTMENT / FUNDING / FINANCE

1.1 Separate reports are tabled at Board / Committee meetings covering in detail our investment / funding / finance activities, our budget position, and the risks facing us in these areas.

1.2 The 2019 actuarial valuation set the following real annual discount rates for the Growth pot that will be updated on 1 April 2023 by the figures shown in brackets by the 2022 actuarial valuation: Past service: Consumer Prices Index + 1.65% (1.50%) and Future service: Consumer Prices Index + 2.25% (2.00%).

1.3 The assumed annual Consumer Prices Inflation is +2.4% (3.10%).

1.4 Therefore our annual return on investment targets for the Growth pot are 4.05% (4.60%) for deficit recovery payments and 4.65% (5.10%) for future service contributions.

1.5 Our Fund performance for the year to 31 12 2022 of -4.3% was 1.4% below the benchmark that was -2.9%. Over the 3 years to 31 12 2022 our 4.5% was 0.3% above benchmark of 4.2%.

1.6 The Fund's investment portfolio excluding cash of £75m as at 31 Dec 2022 totalled £3,434m, and its solvency funding level was 95%.

1.7 Relative to the benchmarks for our sectors we have achieved the 3-year returns shown in the right column of the table below:

Sector (market value)	Benchmark	Average annual Performance over the 3 years to 31 Dec 2022 v benchmark
Active equities (£832m)	Bespoke	0.10% (2.7 below benchmark)
Passive equities (£968m)	Bespoke	6.7% (0.9% above benchmark
Alternatives (£531m)	20% RAFI/40% MSCI WL Min/40% MSCI WL Qual	4.3% (0.7% below benchmark)
Fixed Interest (£273m)	60% LGPSC Corp Index & 40% Absolute Return +6%	Not available as only invested Apr 2021
Property (£294m)	60% MSCI UK & 40% Abs Ret +7.5%	3.5% (2.3% below benchmark)
Infrastructure (£533m)	70% UK CPI +5.5% & 30% Abs Return +10%	12.3% (1.5% above benchmark)

1.8 As PEL, our existing supplier of risk and return analyses, are looking to cease trading by the end of June, we are looking for a new supplier.

1.9 We are re-procuring our independent investment adviser.

1.10 DLUHC's consultation on climate reporting has closed.

1.11 A parliamentary written statement that included the following about asset pooling and alternatives was made by the Chancellor on 9 December 2022: 'the government announces today that it will, in early 2023, consult on new guidance to the Local Government Pension Scheme (LGPS) in England and Wales on asset pooling. The government will also consult on requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy.'

1.12 On 16 December 2022 The Pensions Regulator (TPR) published its draft funding code of practice for defined benefit (DB) pensions schemes for trust-based occupational pension schemes providing defined benefits and a consultation document. The 14-week consultation sets out that schemes will be expected to set a long-term objective and a journey plan to get there. It is expected that schemes will reduce reliance on their sponsoring employer as they reach maturity. It will require trustees to improve risk management and raise the bar for evidencing supportable risk taking.

1.13 We held an ESG training session / workshop for members of the Board and Committee on 8 February.

1.14 We are on schedule for all payments (for example to HMRC) and monitoring (for example cashflow) activities.

1.15 There are no issues with managing / reconciling the custodian accounts for investments including transactions, tax doc, cash controls, etc.

2 THE LATEST ON ADMINISTRATION

Dashboards:
The staging deadline for public sector schemes has been put back to 30 Sep 2024. Value data will be required from 1 April 2025. Deferred refunds will not be in scope at outset. There has been a consultation re which we await the results on dashboard standards and guidance, and a call for input on the design standards. We attended a Hymans webinar on 7 December and

have reviewed The Pensions Regulator's checklist.

Data quality:
We have received the results of our 2022 NFI data matching and have completed the exercise only having 2 matches overall. We continue to work with a company called Target Professional Services (UK) to find members we have lost touch with.

Employer changes:
We are aware of the following employer changes in 2022 / 2023:

- Hill and Moor Parish Council wanting to offer the LGPS to their staff.
- Worcester Community Trust expected to be terminating in 2022.
- Cater Link Ltd (TG Perdiswell) joining.
- School Catering Support Limited (Relish and WFS) 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.
- Platform Housing Group exploring a DDA.
- Waseley Hills joining Central Region School Trust.
- Pitcheroak School joining Central Learning Partnership Trust.
- Maid Marions (St Johns Primary) and Tenon terminating.
- Kindred (TGA Worcester), Kindred (previously Ridge Crest Cleaning Services) (Bishop Perowne), and Kindred (previously Ridge Crest Cleaning Services) (Tudor Grange) joining.
- Two Herefordshire schools, Bredenbury Primary and St Peters Primary, joining Queen Elizabeth Academy on 1 September 2022 that will thereafter be called Three Counties Academy Trust.
- Ridgeway joined The Shires MAT on 01 09 2022.
- Far Forest Lea Memorial Primary joined Severn Academies Educational Trust on 1 September 2022.
- Rushwick joining Diocese of Worcester MAT on 1 January 2023.
- The Forge joining Central Learning Partnership Trust.
- Leigh and Bransford Primary School joining Mercian Education Trust.
- Employer 00309 Civica UK employees transferring back as a shared service called South Worcestershire Revenue and Benefits, within Malvern Hills DC.
- Lickhill Academy joined Central Regions School Trust on 1 January 2023

Engagement:
We had 42 responses from our 18,445 pensioners to our online stewardship survey.

We have had no responses from employers following our Funding Strategy Statement consultation.

We have had no responses from employers following our Pension Administration Strategy consultation.

We have started work on a redesign of our website, working in conjunction with the WCC website redesign.

Our website's page views were 8,776 in January 2023 (6,039 in January 2022).

4 of our employers are on risk for ill health liability insurance.

FRS:
We have supplied employers with a 31 December year end the required information for their accounts and now have our first employer with a 30 June year end.

Governance:
A separate report is tabled at Board / Committee meetings covering our activities and the risks facing us in this area. The key deliverable in that report is that, leading up to this Board / Committee cycle, we have conducted our annual review of our governance documents.

KPIs:
We measure our performance against CIPFA industry standard targets for our key pension administration processes.

As detailed below in January 2023 and for the LGPS year to date 2022 / 2023, we met our average target turnaround for all 12 of our key measured processes.

In January 2023 deaths were 29 compared to the average monthly no of deaths in 19/20 of 15; in 20/21 of 25; in 21/22 of 36; and in 22/23 of 31. Note: On deaths we will regularly have a percentage not within KPI, as we wait to see if the money is returned on the BACS return before calculating under/overpayment.

Activity / Process	**Number processed in Jan 2023**	**% Processed within KPI in Jan 2023**	**Av turnaround (working days) in Jan 2023**	**Target turnaround (working days)**	**2022/2023 average number processed per month**
Joiners notification of date of joining	283	99	8	40	281
Process and pay refund	47	100	3	10	59
Calculate and notify deferred benefits	119	99	5	30	133
Letter notifying actual retirement benefits	44	100	2	15	44
Letter notifying amount of dependant's benefits	5	80	5	10	15
Letter acknowledging death of member	29	86	3	05	31
Letter detailing CETV for divorce	10	100	2	45	9
Letter notifying estimate of retirement benefits	46	100	2	15	100
Letter detailing transfer in quote	40	98	4	10	49
Process and pay lump sum retirement grant	74	100	16	23	93
Letter detailing transfer out quote	29	97	4	10	39
Letter detailing PSO implementation	0	n/a	n/a	15	0

Activity / Process	Number processed for year 2022 / 2023 to 31 Jan	% Processed within KPI for year 2022 / 2023 to 31 Jan	Av turnaround (working days) for year 2022 / 2023 to 31 Jan	Target turnaround (working days)
Joiners notification of date of joining	2814	93	16	40
Process and pay refund	598	93	5	10
Calculate and notify deferred benefits	1338	99	7	30
Letter notifying actual retirement benefits	447	99	2	15
Letter notifying amount of dependant's benefits	151	97	3	10
Letter acknowledging death of member	319	73	4	05
Letter detailing CETV for divorce	92	100	2	45
Letter notifying estimate of retirement benefits	1005	98	3	15
Letter detailing transfer in quote	495	99	2	10
Process and pay lump sum retirement grant	936	100	13	23
Letter detailing transfer out quote	390	96	3	10
Letter detailing PSO implementation	2	100	4	15

Our preliminary calendar year numbers of opt outs are: 2022: 104 (not all the way to 30/11); 2021: 138; 2020: 183; and 2019: 192.

In 2022 /2023 we have written off 6 cases (for £171.67; £198.03; £162.82, £144.35; £106.87; and £502.86).

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

Legal support:
We are currently working with the internal legal team to procure legal services, externally, through the LGPS National Frameworks, covering both Pensions Administration and Pensions Investment support.

McCloud:
We are aware that around 18,000 teachers may be offered membership of the LGPS as well as the Teachers' Pension Scheme (TPS) to implement the McCloud remedy, because the post-2015 part-time employment for teachers who also hold full-time contracts - the so-called 'excess teacher service' - can't be reinstated into the final salary TPS.

On 14 December 2022, HM Treasury (H M T) made the Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022. They came into force on 19 December 2022.

We await DLUHC publishing the Government's response to the **2020 consultation** and an updated version of the draft LGPS regulations and statutory guidance.

We have emailed our employers to advise them that we will be assuming that they are happy with the service (hours changes and service breaks) data that they have supplied us with and accordingly use it to implement the remedy for the LGPS members who will be affected.

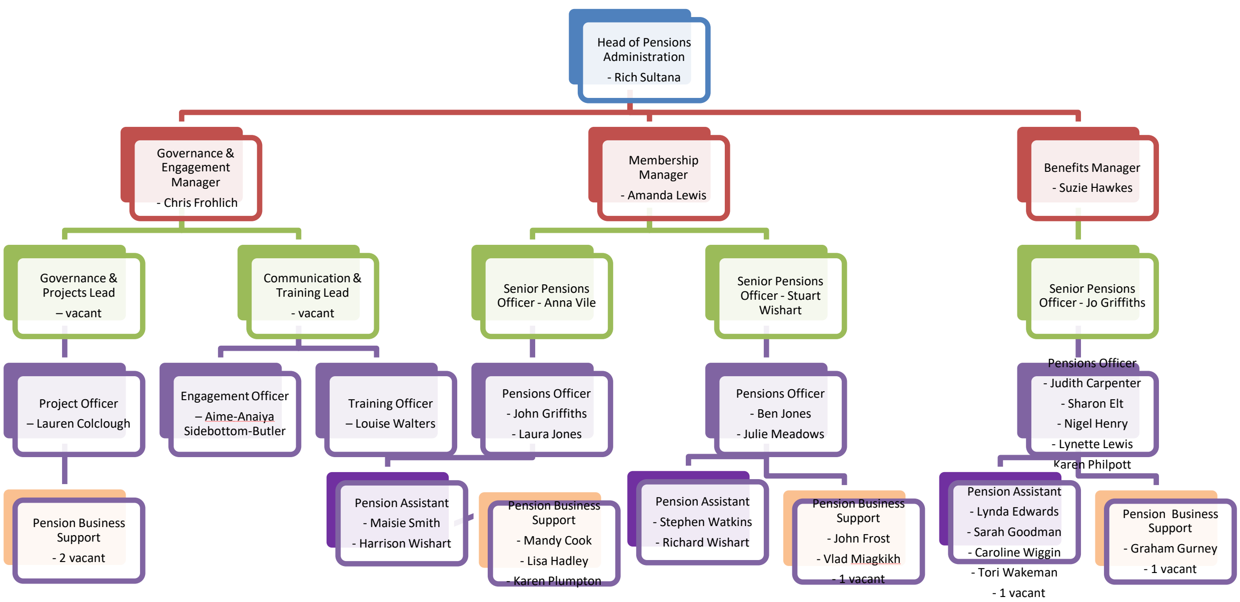
Pensions administration system procurement:
We are progressing with the procurement of the pensions administration system, working with the WCC procurement team to prepare the relevant documentation.

Public sector exit payments:
We added text to our redundancy retirement paperwork and introduced higher strain costs for all redundancy / efficiency retirement dates after 20 July 2021.

Remedying survivor benefits for opposite-sex widowers and surviving male civil partners:
The Chief Secretary to the Treasury made a written **statement** on remedying survivor benefits for opposite-sex widowers (the Godwin case) 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. We are awaiting regulatory guidance on our opposite-sex widowers re which we expect DLUHC to legislate. We also expect DLUHC to legislate to remove the current death grant upper age limit of 75.

Staffing:
We have implemented the WCC Finance workforce plan that includes monthly 121s for all staff.

We implemented the new pensions administration structure on 1 November. As can be seen from the structure chart below, we currently have a number of potential vacancies across the service to recruit to.



Training:
A separate report is tabled at Board / Committee meetings covering our activities and the risks that we face in this area. Leading up to this Board / Committee cycle, we have produced a

Training Plan summarising the training work that we plan to progress.

3 LOOKING AHEAD

The table below 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 and these are shown as unshaded. Shaded projects are one-off projects.

Projects Feb 2023	Started	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Comments
11 LGPSC budget			Cttee			Cttee				Cttee		Cttee			Cttee			√ to date and scheduled
12 Annual Report & Accounts / associated docs (30 09 23)						Cttee		signed off	Publish	Cttee								√2022 and 2023 scheduled
15 ONS Inc / Expend return				¼ rtn			¼ rtn			¼ rtn			¼ rtn			¼ rtn		√ to date and scheduled
16/17 DLUHC SF3 LGPS Funds account (31 08 23)									Annual									√2022 and scheduled
18 TPR Annual return /survey			Survey								Annual				Survey			√2022 survey and 2023 scheduled
19 CEM investment benchmarking (31 07 23)							Annual											√2022 and 2023 scheduled
2 GMP equalisation	TBD																	awaiting guidance NB non-club TVouts 1990 to 1997 in scope
4 Valuation / FSS / pots / admiss term etc policies			Cttee			Cttee				Cttee		Cttee			Cttee			on schedule
32 Reprocure pension admin system (30 04 2024)	May-20																	working with procurement to see if need to re-procure
10 Pension Administration Strategy review (01 04 23)		consult	Cttee	publish										consult	Cttee	publish		√2023
13 Review data quality		NFI								Aq Hey results								2 NFI matches for the 2022 exercise
25 Revalue CARE accounts (30 04 2023)				System config.												System config.		√2022 survey and 2023 scheduled
26 Provide FRS info			Sch			Millbrook	Coll	Ac				admit bods			Sch			√ to date and scheduled
3 Branding and digital strategy (MSS)	Oct-18																	website redesign commenced
20 Monitor employer covenants / pots / conts			Cttee	reset ercونts		Cttee				Cttee		Cttee	ask ers		Cttee	reset erconts		Pfaroe in place and Bond requirements being updated
21 Deferred annual benefit statements (31 08 23)						Annual	Q manag											√2022 survey and 2023 scheduled
22 Employee annual benefit statements (31 08 23)			Y/End					Annual	Q manag						Y/End			√2022 survey and 2023 scheduled
23 Pensioner P60s (30 04 23)					Annual	Q manag											Annual	√2022 survey and 2023 scheduled
24 Payslips reflecting pension increase (30 04 23)				Annual												Annual		√2022 survey and 2023 scheduled
27 Pension Savings Statements (06 10 23)										Annual								√2022 survey and 2023 scheduled
29 Pensioner newsletter / life cert (30 11 23)											Annual							√2022 survey and 2023 scheduled
28 /30 Good Governance incl TPR	TBD		Cttee			Cttee				Cttee		Cttee			Cttee			new pensions admin structure recruitment progressing
33 McCloud	Aug-20		Cttee			Cttee				Cttee		Cttee			Cttee			we have contacted all employers advising that we will implement the remedy with what they have supplied
5/6 Review of Asset Allocation / ISS (31 05 23)			Cttee			Cttee Sub			Sub	Cttee	Sub	Cttee			Cttee			√2022 survey and 2023 scheduled
9 Increase assets managed by LGPS Central Limited	Feb-19		Cttee			Cttee Sub				Cttee		Cttee			Cttee			looking into infrastructure / private debt / sustainable equity
34 Progress the Fund's RI journey	Jan 20		Cttee			Cttee				Cttee		Cttee			Cttee			ESG workshop held on 8 Feb
35 Pensions Dashboards (2024)	Feb 22		Cttee			Cttee				Cttee		Cttee			Cttee			Heywood asked for data quality report
37 Reprocurements other than pensions admin system			Legal				CFH Docmail			Mercer					Legal			

~ ENDS ~

worcestershire county council

PENSIONS COMMITTEE
22 MARCH 2023

GOVERNANCE UPDATE

Recommendation

1. **The Chief Financial Officer recommends 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)**

Background

2. The Fund has been updating its Business Plan and Risk Register, its key operational / planning / management documents, quarterly since March 2019. From the latest (Feb 2023) versions of these it is worth highlighting from a governance perspective that we have revamped them both.

3. Specifically, following a review of the Fund's Risk Register, progress in developing mitigating action for five risks will henceforth be reported in our Governance Updates, so that members can assess whether further mitigating actions are appropriate:

a) WPF 26 Fraud by staff;
b) WPF 15 Failure of the actuary to deliver the services contracted;
c) WPF 01 Failure of governance arrangements to match up to recommended best practice;
d) WPF 17 Failure of custodian to deliver the services contracted; and
e) WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy;

4. Progress in mitigating the five risks since the last quarterly Board / Committee cycle has included:

a) Updating the progress we have made in preparation for SAB's Good Governance proposals being taken forward by DLUHC on the attached appendix;
b) Reviewing our Governance Policy Statement, Policy on Representation, Policy on Conflicts of Interest and Pension Administration Strategy, all of which the Committee is asked to approve the highlighted changes to on the attached appendices;
c) Reviewing the objectives for and performance of the independent investment adviser;
d) Reviewing 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; and
e) Reviewing managers' SAS70 audit reports and regular meetings with / audits of our custodians BNY Mellon and Northern Trust.

5. In Hymans Robertson's National Knowledge Assessment (NKA) 2022, The Pensions Regulator's Policy Delivery Lead commented that "Turnover of those with governance responsibilities is a significant issue", suggesting that succession planning for elected members and training of potential Board / Committee members is worth considering.

6. The Committee is asked to note the Worcestershire Pension Fund Governance Update as at February 2023 and approve the draft Worcestershire Pension Fund Governance Policy Statement 2023 (Appendices 1 and 2). Members should note that the Draft Worcestershire Pension Fund Policy on Representation 2023 (Appendix 3) uses track changes to highlight the changes from the current policy. It is proposed to make no changes to the Worcestershire Pension Fund Policy on Conflicts of Interest (Appendix 4). The draft Worcestershire Pension Fund Pension Administration Strategy 2023 (Appendix 5) uses track changes to highlight the proposed changes from the current strategy that employers have been consulted on and have passed no comment on. The Committee is also asked to note the update on reviewing the objectives for and performance of the independent investment adviser.

Supporting information

- Appendix 1 - Good Governance Position Statement February 2023
- Appendix 2 - Draft Governance Policy Statement 2023
- Appendix 3 - Draft Policy on Representation 2023
- Appendix 4 - Policy on Conflicts of Interest 2022
- Appendix 5 - Draft Pension Administration Strategy 2023
- Appendix 6 - 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.

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Worcestershire Pension Fund Updated Position Statement: Good Governance Feb 2023

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 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).

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
A. General		
A.1 DLUHC will produce statutory guidance to establish new government requirements for funds to effectively implement the proposals below. ("the Guidance")	Awaiting the draft Guidance and monitoring news about it, such as to expect a new requirement to produce a workforce plan	
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	
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 an annual Governance Compliance Statement as part of our annual reports We have benchmarked our Governance Compliance Statement against Appendix 2 of the Phase 3 Report The 23 March 2022 Pensions Committee approved our updated Governance Policy	Benchmark our Governance Compliance Statement against the Guidance once it has been issued and in the meantime against peer funds' statements annually (CF / TBD) 2021 peer fund benchmarking completed but 2022 benchmarking is still to do. We are recruiting a Governance Officer to deliver extra resource to progress this action

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
	Statement, and at its 22 March 2023 meeting the Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version	
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	We have published our Policy on Conflicts of Interest, and at its 22 March 2023 meeting Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version 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 are asked to sign the Record of Conflicts of Interest Declarations made	
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	

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
C. Representation		
C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party	We have published our Policy on Representation, and at its 22 March 2023 meeting Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version Our annual reports, our Investment Strategy Statement and para K of appendix 1 of the Worcestershire County Council constitution contain information about representation	
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 have published our Training Policy and programme, and at its 22 March 2023 meeting Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version We have produced a Training Plan that summarises the training work that we plan to progress in 2023 /2024	
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 current s151 officer's previous role was the most senior officer at another LGPS fund, and our training sessions /	New s151 to complete skills framework and personal competencies assessments and address within CPD programme

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
	Committee papers top this strong baseline position up	(CFO / TBD) awaiting new S151
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	We have published our Training Policy and Programme, and at its 22 March 2023 meeting Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version We have produced a Training Plan that summarises the training work that we plan to progress in 2023 /2024	
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	
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	Publish a matrix that meets the requirements (CFO / TBD) This action will commence once we have a new S151 and a settled structure in place

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
	affecting the Fund to ensure no conflict of interest arises	
E.2 Each authority must publish an administration strategy	We comply with this requirement, and at its 22 March 2023 meeting Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version	
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 all Pensions Committee meetings and all Pension Board 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 can produce and what would be needed to produce the missing information (CF/ TBD) The Fund has purchased Altair Insights, and we are recruiting a Governance Officer to deliver extra resource to progress this action
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 all Pensions Committee meetings and all Pension Board meetings	
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	We are completing a restructure that has included regrading most posts	We are continually reviewing the pensions structure considering ongoing developments within the LGPS. We have applied a Market Forces Supplement to one role, where it is proving difficult to recruit to

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
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	
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. (CFO / TBD) awaiting more info and a new S151
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 (CFO / TBD) awaiting more info and a new S151

Note: in the last column CF = Chris Frohlich

Worcestershire Pension Fund

Governance Policy Statement

09~~1~~ February 2023~~2~~

1. Introduction

1.1 Worcestershire Pension Fund (the Fund) administers the Local Government Pension Scheme (LGPS) for its own employees and employees and those of 191 other Scheme employers in the administrative area of Herefordshire and Worcestershire, with 22,000 contributing members, 21~~0~~,000 pensioners and beneficiaries and 23,000 deferred pensioners.

1.2 The LGPS regulations require all administering authorities to publish a Governance Policy Statement which sets out how the administering authority discharges its responsibilities in response to the regulatory requirements.

1.3 This statement combines the overall governance arrangements which meet the requirements set out in Part 2 (Administration) Regulation 55 and Part 3 (Governance) Regulation 106 of LGPS Regulations 2013.

1.4 This statement also takes account of the guidance issued by the Ministry of Housing, Communities and Local Government (now the Department for Levelling Up, Housing and Communities) entitled Local Government Pension Scheme Governance Compliance Statement Statutory Guidance. The basic principles are accountability and transparency and both principles are achieved by setting clear responsibilities and appropriate reporting mechanisms.

1.5 Further sources of information are available on the Fund's website at www.worcestershirepensionfund.org.uk including the Annual Report and Accounts, the Funding Strategy Statement, and the Investment Strategy Statement.

2. Purpose of the Governance Policy Statement

2.1 The LGPS regulations require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain, publish, and keep under review a written statement setting out:

- Whether it delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee, or an officer of the authority.
- The terms, structure, and operational procedures of the delegation.
- Whether such a committee or sub-committee includes representatives of scheme employers or members, and if so, whether those representatives have voting rights.
- The extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.
- Details of the terms, structure and operational procedures relating to the Local Pension Board.

3. Governance of Worcestershire Pension Fund

3.1 Overall responsibility for managing the Fund lies with the full Council of Worcestershire County Council in its role as administering authority. Under the County Council's Constitution, further delegations for the management, administration and investment of the Fund are made to the Pensions Committee and the Chief Financial Officer and his staff.

Governance Structure of Worcestershire Pension Fund

Council
(Administering authority)

Pensions Committee (section 101)

Key duties:

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

Pension Board

Key duties:

- To assist the administering authority in securing compliance with:

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

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

Pension Investment Sub Committee

Key duties:

- To provide the Pensions Committee with strategic advice concerning the management of the Fund's assets.
- Monitoring performance of total Fund assets and individual investment managers.

Pension Administration Advisory Forum

Key duties:

- To provide the Pensions Committee with advice concerning the administration of the Fund.
- To bring stakeholders perspective to all aspects of the Fund's business.

In all areas of the Governance Structure, the 7 Principles of Public Life (Selflessness, Integrity, Objectivity, Accountability, Openness, ~~Honesty~~Honesty, and Leadership) are widely acknowledged and practiced; both within the decision-making framework and within day-to-day activities.

4. Administrative Arrangements

4.1 On 1 April 1998 Worcestershire County Council was constituted and vested, under section 16 of the Hereford and Worcester (Structural, Boundary and Electoral Changes) order 1996 (Statutory Instrument 1996 No 1867), with the rights and liabilities of the former pension fund run by Hereford and Worcester County Council. Therefore, the Council is the appropriate administering authority to maintain the Fund.

4.2 As the statutory administering authority and Scheme Manager for the Fund, Worcestershire County Council is responsible for ensuring effective stewardship of the Fund's affairs. Worcestershire County Council has established a Pensions Committee to discharge the Council's responsibility for the management of the administration of the Fund.

4.3 Worcestershire County Council has also established a Pension Investment Sub Committee to provide the Pensions Committee with strategic advice concerning changes to the Fund's asset allocation, the termination and appointment of investment managers and independent investment advisers.

4.4 A Pension Administration Advisory Forum has also been established to provide wider stakeholder representation and communication in matters relating to the Fund. The Pensions Committee has overall responsibility for the management of the administration of the Fund, as set out in the Scheme of Assignment of Responsibility for Functions. The Pensions Committee takes advice from the Pension Administration Advisory Forum to enable the Pensions Committee to discharge its responsibility effectively.

5. Pensions Committee

5.1 The Pensions Committee discharges the responsibilities of the Council as administering authority of the Fund pursuant to Section 101 and Regulations under Section 7 of the Superannuation Act 1972.

5.2 The Pensions Committee discharges the responsibilities for management of the administration of the Fund. It will take views from the Pension Investment Sub Committee to enable it to discharge its duties effectively.

5.3 The Pensions Committee discharges the responsibilities for the strategic management of the Fund's assets. However, it will take strategic advice from the Pension Investment Sub Committee to enable it to discharge its duties effectively. The dates of Pensions Committee meetings will be synchronised with those of the Pension Investment Sub Committee to ensure investment decisions are reviewed without unnecessary delay.

5.4 The Council appoints the Chairman and Vice-Chairman of the Pensions Committee. The Chairman of the meeting has a second or casting vote in the case of equality of votes.

5.5 The Pensions Committee is a formal committee of the Council and comprises a total of 8 voting members:

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

5.6 The 5 County Councillor members are formally appointed by the Assistant Director for Legal and Governance~~Head of Legal and Democratic Services~~ in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders and the 3 co-optees are co-opted by the Chairman of the Committee.

5.7 The Pensions Committee will be advised by on an ad hoc basis by an independent investment adviser and the Fund's actuary.

5.8 **Pensions Committee Terms of Reference**:
The Pensions Committee will meet at least quarterly or otherwise as necessary to take decisions on:

- Changes to the Investment Strategy Statement, including the strategic benchmark for asset allocation, i~~I~~nvestment manager benchmarks and i~~I~~nvestment manager targets.
- Transition of investments to LGPS Central Limited or other pooling arrangements
- The termination and appointment of investment managers and associated professional service providers.
- The termination and appointment of the Fund's independent investment adviser, performance measurement consultant, global custodian, and actuary.
- The Pension Administration Strategy, Policy Statement on Communications, Governance Policy Statement, Funding Strategy Statement, signatory status to the UK Stewardship Code, Climate Change Risk Strategy, and Governance Compliance Statement.
- The triennial and interim actuarial valuations.
- The approval of the Fund’s Annual Report and Accounts.
- The approval of the Fund’s annual and triennial budgets.
- The review of the Fund’s Risk Register and key outstanding risks identified.
- The Pension Administration Advisory Forum arrangement and regular Forum reports, which consider and address outstanding member and employer issues and concerns.
- The Pension Investment Sub Committee’s arrangements and regular Sub Committee reports, which monitor performance of the Fund's assets.
- Requests for admission of qualifying Community and Transferee Bodies wishing to join the Fund.
- Key pension policy discretions that are the responsibility of the administering authority.

- The Fund's Business Plan.
- Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.
- Reviewing the Fund's governance arrangements and the effective use of its advisors to ensure good decision-making.

5.9 All elected members and voting co-optees of the Pensions 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 the law and Code and disclose potential conflicts of interest as required by that Code.

5.10 Members of the Pensions Committee are expected to hold the appropriate knowledge and skills to discharge their responsibility effectively – see Section 11.

5.11 The responsibility for advising the Pensions Committee is delegated to the Chief Financial Officer.

5.12 Members of the Pensions Committee have equal access to Pensions Committee 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.

5.13 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 formally introduced the concept of asset pooling. As assets move into pooled structures the Pensions Committee is also responsible for:

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- The selection, appointment, and dismissal of an investment pooling operator to manage the assets of the Fund.
- Determining what the administering authority requires the pool to provide to enable it to execute its local investment strategy effectively.
- Receiving and considering reports and recommendations from the Joint Committee and Practitioners Advisory Forum, established to oversee the pool, to ensure that the Fund's investor rights and views are represented effectively.
- Identifying and managing the risk associated with investment pooling.
- Ensuring that appropriate measures are in place to monitor and report on the ongoing costs of investment pooling.
- Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.

6. Pension Board

A separate Pension Board Terms of Reference document is available at https://worcestershire.moderngov.co.uk/documents/s24004/Pension%20Board%20Terms%20of%20Reference.pdf

7. Worcestershire County Council Pension Investment Sub Committee (ISC)

7.1 The role of the Pension Investment Sub Committee shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund’s investment objectives.

7.2 The Council appoints the Chairman and Vice-Chairman of the Pension Investment Sub Committee. The Chairman of the meeting has a second or casting vote in the case of equality of votes.

7.3 The Pension Investment Sub Committee is a formal committee of the Council and comprises 4 voting members and a non-voting member:

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

7.4 The 3 County Councillor members are formally appointed by the Assistant Director for Legal and Governance ~~Head of Legal and Democratic Services~~ in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders, reflecting the abilities and knowledge of the individuals in matters relating to the investment of the Fund's assets. T~~ and t~~he co-optees are co-opted by the Chairman of the Committee.

7.5 The ISC will be advised by an independent investment adviser who will attend all meetings and on an ad hoc basis by the Fund's actuary

7.6 ~~The composition of the Pension Investment Sub Committee 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 members of the Sub Committee are entitled to vote, if necessary, for the Sub Committee to fulfil its role of providing advice to the Pensions Committee regarding the administration of the Fund's assets.

7.7 The responsibility for advising the Pensions Committee is delegated to the Chief Financial Officer.

Terms of reference:

7.8 The role of the Pension Investment Sub Committee shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund’s investment objectives.

7.9 The ISC may also be occasionally requested to by the Pensions Committee to undertake research and report back on a specific investment area.

7.10 All decision 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 ISC.

7.11 The ISC, will be responsible for:

a. Reviewing strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
b. Reporting regularly to Committee on the performance of investments and matters of strategic importance.
c. Monitoring investment managers' investment performance and recommending decisions to terminate mandates on performance grounds to Committee.
d. Monitoring the transition of investments to LGPS Central Limited or other pooling arrangements.
e. Researching and providing a report back to the Worcestershire Pension Fund Pensions Committee on any specific investment areas requested.

The ISC will have delegated authority to:

f. Approve and monitor tactical positions within strategic allocation ranges.
g. Implement investment management arrangements in line with strategic policy including the setting of mandate parameters and the appointment of managers.
h. Approve amendments to investment mandates within existing return and risk parameters.
i. Delegate specific decisions to officers as appropriate.

7.12 The ISC meet quarterly ahead of the main Committee meetings to review manager performance and make decisions within the strategic asset allocations agreed.

7.13 The ISC is advised by an independent investment adviser who attends all meetings and on an ad hoc basis by the Fund's actuary.

7.14 One of the regular quarterly meetings will include an annual meeting to consider the Fund's full year's performance.

7.15 The Fund's Investment Strategy Statement (ISS) sets out the arrangements in place for the management of the investments of the Fund.

7.16 The day-to-day management of the Fund's investments is divided between external Investment managers, operating in accordance with mandates set out in the Investment Strategy Statement.

7.17 The Chairman of the Investment Sub Committee will attend the Pensions Committee to ensure flow of information between the 2 bodies.

7.18 Members of ISC must not have a conflict of interest and are required to provide the Chief Financial Officer with such information as the Chief Financial Officer reasonably requires for the purposes of ensuring no conflict of interest exists prior to appointment to the ISC and on an ongoing annual basis.

7.19 Members of the ISC are required to hold the appropriate knowledge and skills to discharge their responsibility effectively.

8. Pension Administration Advisory Forum

8.1 The Pension Administration Advisory Forum provides the Pensions Committee with advice concerning the administration of the Fund. It is neither a decision-making body nor formal committee and will not normally meet in public. No voting rights apply to the Pension Administration Advisory Forum as the purpose of the Forum is to provide transparency of information to Fund employers and for employers to provide advice to, and raise concerns with, the employer representative.

8.2 The Pension Administration Advisory Forum comprises

- A~~a~~ll Fund employers who wish to attend following invitation by the administering authority.
- T~~t~~he Fund's actuary (ad hoc basis).
- Fund officers.
- ~~and t~~The employer representative and employee representative of the Pensions Committee.

Terms of reference:

8.3 The Forum will meet at least twice a year or otherwise as necessary to:

- Discuss administration issues.
- Discuss Government consultations relating to the administration and benefits of the LGPS.
- Discuss the outcomes of the triennial/interim valuations and respond to any issues raised by employers.
- Discuss the minutes and updates from the Pensions Committee and ensure flow of information between the Pensions Committee and the Forum.
- To advise on service delivery to all stakeholders.
- To bring a stakeholders' perspective to all aspects of the Fund's business.
- To ask the administering authority and the Pensions Committee to consider topics which affect the Fund.

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8.4 All Fund employers are invited to attend the Pension Administration Advisory Forum along with the Fund's actuary, administering authority officers and the employer and employee representatives on the Pensions Committee.

8.5 Other meetings are held as required between administering authority officers and employers to discuss important issues such as discretionary policies and regulatory changes.

8.6 The administering authority also communicates with the Fund's membership through newsletters, road shows and presentations.

8.7 The Fund's Policy Statement on Communications explains in more detail the Fund's engagement with all stakeholders.

9. Delegation

9.1 The day-to-day administration of, and investment decisions for the Fund are delegated to the Chief Financial Officer.

9.2 The Chief Financial Officer may authorise other officers to exercise on his/her behalf those functions delegated to him/her.

9.3 The Chief Financial Officer has delegated responsibility for the following responsibilities concerning the management of the administration of the Fund including:

- Preparing and maintaining a Pension Administration Strategy, Policy Statement on Communications, Governance Policy Statement, Funding Strategy Statement, Business Plan, signatory status to the UK Stewardship Code, Climate Change Risk Strategy and Governance Compliance Statement.
- Provision of data for the triennial and interim actuarial valuations. The Chief Financial Officer will also negotiate over actuarial assumptions, set the appropriate funding target and associated recovery period.
- Preparing the Fund’s Annual Report and Accounts.
- Preparing the Fund’s annual and triennial budgets.
- Preparing and maintaining a Risk Register and monitoring key outstanding risks.
- Overseeing and administering the Pension Administration Advisory Forum arrangement and review regular Forum reports to consider and address outstanding member and employer issues and concerns.
- Administering the Pension Investment Sub Committee (ISC) arrangements and reviewing regular ISC reports to monitor performance of the Fund's assets.
- Deciding upon requests for admission of qualifying Community and Transferee Bodies and Scheduled and Designated Bodies wishing to join the Fund.
- Deciding upon key pension policy discretions that are the responsibility of the administering authority.
- Executing documentation relating to the implementation of new and existing investment mandates, independent investment adviser, performance measurement consultant, global custodian, actuary, and any other associated professional service providers.
- Quarterly monitoring of investment managers' performance for managers not presenting to the Pension Investment Sub Committee.
- The effective discharge of the pensions administration function, including the payment of pensions and collecting and reconciling of contribution income.
- Maintaining the Fund's accounting records.
- Preparing and maintaining the Investment Strategy Statement, including implementing changes to the strategic benchmark for asset allocation.
- Implementing and maintaining a knowledge and skills training plan for members of the Pensions Committee and Pension Investment Sub Committee.
- Advising the Pensions Committee.
- Implementing and maintaining the cash flow strategy for the Fund, which includes the transfer of cash to the Fund's global custodian to ensure cash is fully invested when available and the transfer of cash from the global custodian to pay pension liabilities as they fall due.

10. LGPS Central Limited (LGPSC)

10.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 formally introduced the concept of asset pooling. As a result of this, the Fund has joined with 8 other LGPS funds (Partner Funds) to form an asset pool, known as LGPSC.

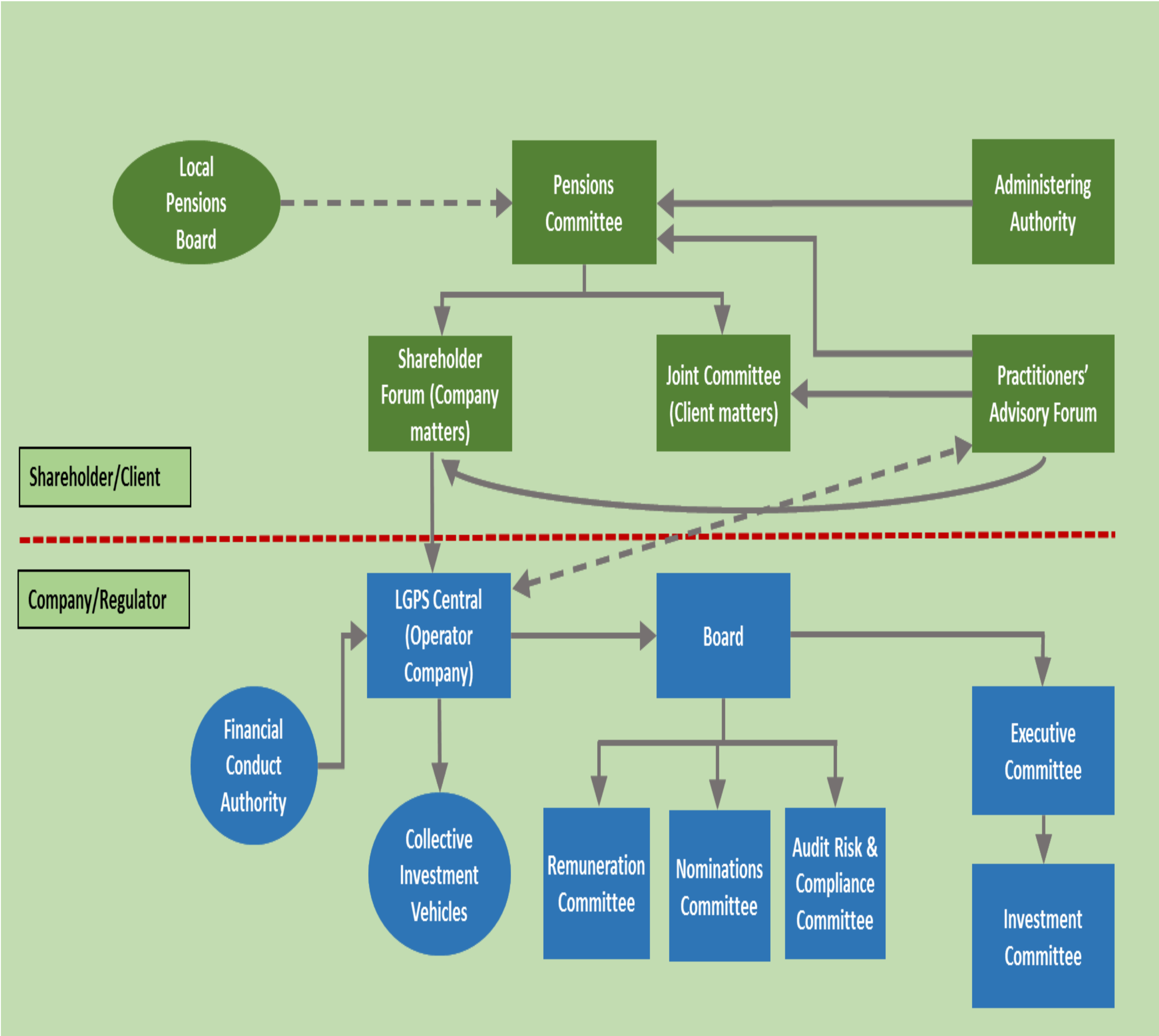
10.2 LGPSC is the company formed by the Partner Funds which is authorised as the operator of the Authorised Contractual Scheme (ACS), to provide investment services to the Partner Funds, by the Financial Conduct Authority (FCA). The company is therefore subject to the regulator's conduct of business rules and has established its internal governance framework to ensure strict adherence both to its regulatory obligations to the FCA and with the Companies' Acts.

10.3 It is important to note that the Councils of each of the Partner Funds retain their core duties and responsibilities as the administering authorities of their respective LGPS funds.

10.4 Asset allocation decisions remain with the Partner Funds. Manager selection for assets transitioned into the ACS and for assets managed under discretionary agreements by the Operator is the responsibility of LGPSC. Manager selection for the remainder of the pool's assets currently remains with the Partner Funds. The Operator is responsible for selecting the custodian for the assets in the ACS; the Partner Funds are responsible for selecting the custodian for the remaining assets.

10.5 The formation of LGPSC on 1 April 2018 has an impact on the roles of the Pensions Committee and the Pensions Investment Sub Committee. However, the impact will be gradual, as the transfer of the management activity to the new company progresses. Consequently, the existing governance arrangements and terms of reference need to run concurrently with new terms required to facilitate changes.

Governance Structure of LGPS Central Limited



10.6 The governance structure of LGPSC will allow Partner Funds to exercise control (both individually and collectively) over the pooling arrangements, not only as investors in the ACS but also as shareholders of the operator company.

10.7 The **LGPS Central Limited Joint Committee** has been set up in accordance with provisions of the Local Government Act 1972 to provide oversight of the delivery of the objectives of the pool, the delivery of client service, the delivery against the LGPSC business case and to deal with common investor issues.

10.8 The membership of the Joint Committee consists of one elected member from each Council within the LGPSC pool. The first meeting of the Joint Committee took place on 23 March 2018 and at that meeting it was agreed that a Trade Union representative would be appointed as a non-voting member of the Joint Committee to represent the scheme members across the Councils' pension funds.

10.9 Worcestershire County Council's representative on the LGPS Central Joint Committee will be either the Chair of the Pensions Committee or the Chair of the Pension Investment Sub Committee.

10.10 The primary role of the **Shareholders' Forum** is to oversee the operation and performance of LGPSC and to represent the ownership rights and interests of the shareholding Councils within the LGPSC pool. The Shareholders' Forum is independent of the company, and its meetings are distinct from company meetings. However, members of the Shareholders' Forum represent the Councils at company meetings. The Councils, as individual investors in the company, have put in place local arrangements to enable their shareholder representatives to vote at company meetings.

10.11 The Fund, as a shareholder in LGPSC, has equal voting rights alongside the other Partner Funds and unanimous decisions are required on certain reserved matters before the actions can be implemented. These are specified in the company's Shareholder Agreement and Articles of Association. Other matters, not directly related to the control of the company to manage its operation, are subject to a majority approval (75%).

10.12 Worcestershire County Council's representative on the Shareholders' Forum is the Chair of the Pensions Committee or the Chair of the Pension Investment Sub Committee.

10.13 The **Practitioners' Advisory Forum (PAF)** is a working group of officers appointed by the shareholding Councils within the LGPSC pool to support the delivery of the objectives of the pool and to provide support for the pool's Joint Committee and Shareholders' Forum. PAF seeks to manage the pool's conflicting demands and interests, either between the participating Councils or between the Councils (collectively) and the company, recognising that speaking with "one voice" reduces the duplication of costs and resources and maximises the benefits of scale. The PAF will also report back to Partner Fund's Pensions Committees on matters requiring their attention.

10.14 Worcestershire County Council's representatives on PAF are the Chief Financial Officer and the Head of Pension Investment and Financial Planning~~Finance Manager for Pension Investments and Treasury Management~~.

10.15 Terms of Reference have been approved for the Joint Committee, the Shareholders' Forum, and the Practitioners' Advisory Forum. These are "live" documents which are likely to evolve as the practical day to day experience of working within the LGPSC pool evolves.

11. Knowledge and Skills

11.1 The administering authority has regard to the legal requirements set out in the Local Government Pension Scheme Regulations, other relevant legislation and best practice guidance published by CIPFA and other professional and regulatory bodies in creating a knowledge and skills policy for the Fund, to ensure all those involved in the decision-making process receive relevant training in order to obtain the appropriate knowledge and skills to discharge their responsibilities effectively.

11.2 Committee members and appropriate administering authority officers complete an annual knowledge and skills self-assessment form. These are used to prepare annual training plans and a log of training undertaken is maintained by the administering authority. The annual training plans include a programme of external and internal training events designed to meet the requirements both of new members of the committee and the ongoing needs of existing members. These events are reported formally to members on an annual basis. Individual reports to authorise attendance by members at these events are put to the Chief Financial Officer on an event-by-event basis.

12. Governance Compliance Statement

12.1 LGPS Regulations require pension funds to issue a statement confirming the extent to which their governance arrangements comply with guidance issued by the Secretary of State. The statement below confirms the mechanism in place to satisfy each requirement

Ref.	**Principles**	**Compliance Status**	**Evidence of Compliance**
A	**Structure**		
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) and its Sub-Groups are set out in the Fund's Governance Policy Statement. The Governance Policy Statement was approved by Full Council
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Pensions Committee membership includes an employee and employer representative. Full membership details are set out in the Fund's Governance Policy Statement.

c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Pension Investment Sub Committee provides strategic advice to the Pensions Committee regarding the management of the Fund's assets. The Chairman of the Pensions Committee also sits on the Pension Investment Sub Committee to ensure effective communication. The Pensions Committee receives quarterly investment updates from the Pension Investment Sub Committee. A Pension Administration Advisory Forum has been established. The employer and employee representatives from the Pensions Committee attend the forum and there is a standing invitation for the Pension Board to attend the forum.
B	**Representation**		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-Scheme employers, e.g., admitted bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis).	Compliant	Membership of the Pensions Committee and Pension Investment Sub Committee include employer and employee representatives and an independent investment adviser. Full membership details are set out in the Fund's Governance Policy Statement. Expert advisors attend the Pensions Committee as required for the nature of the main decisions. For example, the actuary attends when the valuation is being considered, and the main investment advisor attends when a strategic asset allocation decision is being made. The investment advisor regularly attends Pension Investment Sub Committee meetings. All members are treated equally in terms of access to papers and to training that is given as part of the Committee process.
C	**Selection and role of lay members**		
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	The Pensions Committee has noted its terms of reference and the Fund's Governance Policy Statement. Minutes of Pensions Committee meetings are published on the Council's website. A detailed training programme is also provided to Committee members and Pension Investment Sub Committee members.

b.	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all Pensions Committee meetings. The Pensions Committee and Pension Investment Sub Committee are serviced by Legal and Democratic Services who invite members to declare any financial or pecuniary interest related to specific matters on the agenda. Members have also from December 2021 made declarations regarding conflicts of interest. Minutes of the Pensions Committee and Pension Investment Sub Committee meetings are published on the Council's website.
D	**Voting**		
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Voting rights are clearly set out in the Fund's Governance Policy Statement.
E	**Training / facility time / expenses**		
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Compliant	A policy on expenses is set out in the Council's constitution. The Fund's Governance Policy Statement sets out the number of Committee meetings required each year. The Fund has an approved Training Policy and programme.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels, or any other form of secondary forum.	Compliant	These polices apply to all committee members and this is clearly set out in the Fund's Governance Policy Statement and Training Policy and Programme.

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

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

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Worcestershire Pension Fund Policy on Representation ~~V3~~ dated ~~6 July~~9 February 202~~2~~3

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, reflecting the abilities and knowledge of the individuals in matters relating to the investment of the Fund's assets.

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

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 Pension Administration Strategy

PREFACE

This Pension Administration Strategy has been produced to:

- Set out the Local Government Pension Scheme (LGPS) roles and responsibilities of Worcestershire Pension Fund and our employers.
- Establish the levels of performance we and our participating employers are expected to achieve in carrying out their responsibilities.

Help us to help you: to administer the LGPS on behalf of our employers, we as the scheme administrator need our employers (in a manner that is data secure) to do a number of things including:

1. Provide us with **one named lead contact / account manager** who will liaise with us on behalf of their organisation, co-ordinating delivery of all LGPS requirements across their whole organisation (i.e. Finance Manager, Human Resources representative, Business Manager, Chief Executive, Payroll representative, etc.).
2. Maintain and supply us with an **Employer's contacts at my organisation Excel spreadsheet**.
3. **Calculate, notify and deduct employee contributions** for each employee in the LGPS (using a unique pensions identifier number for each employment) in accordance with the LGPS HR Guide (see: http://www.lgpsregs.org/resources/guidesetc.php) and the annual update issued by the LGA every March (see http://www.lgpsregs.org/bulletinsetc/bulletins.php).
4. By the 19th of the month following the month of deduction **remit to us all contributions,** including employer contributions) at the appropriate rate for the LGPS scheme year in question.
5. **Remit to us any additional pension contributions (APCs)** relating to their employees.
6. **Remit to Scottish Widows any additional voluntary contributions (AVCs).**
7. **Allocate trained resources** to supply us within the required timescales with:
   a. The various pension administration forms and spreadsheets that we require for each life event e.g. an address change that affects their employees.
   b. The various regular and ad hoc pay, service, contributions, and personal information that we require for their employees, for example past hours changes and service breaks to deliver the McCloud remedy.
8. **Publish and forward to us an up-to-date employer policy statement** for all employer discretions under the LGPS regulations.
9. Appoint an adjudicator to **handle appeals** in accordance with the LGPS regulations.
10. **Keep abreast of** the range of material we make available.

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CONTACT US

Website: www.worcestershirepensionfund.org.uk

By email: pensions@worcestershire.gov.uk

By post: Worcestershire Pension Fund, County Hall, Spetchley Road, Worcester, WR5 2NP

By phone: Find out who to contact

1. OUR RESPONSIBILITIES TO OUR EMPLOYERS AND MEMBERS

Our general responsibilities:

1. To comply with all relevant legislation and guidance (for example from The Pensions Regulator).
2. To apply the LGPS regulations in line with our Policy Statement on our LGPS discretions. NB we can recover costs from an employer where costs have been incurred because of that employer's level of performance in carrying out its functions, for example arising from members appealing their level of benefits after an employer has provided insufficient / incorrect data for us to apply the McCloud remedy.
3. To accurately record and update member records on the pension administration system.
4. To maintain a compliant website that provides stakeholders with a first port of call for all of their pensions information needs, so that they can make informed decisions. NB we will make it clear that we are not able to provide financial advice.
5. To invest in digitalisation to maximise self-service for our members and employers.
6. To maintain an appropriate range of up-to-date forms and guides.
7. To produce newsletters for all members at least annually.
8. To provide guidance on the secure submission of data.
9. To chase up information that we have asked for.
10. To agree timescales for dealing with bulk work / queries.
11. To appoint and manage appropriate specialist professional services organisations.
12. To review the Pension Administration Strategy annually in consultation with employers.

Governance – our responsibilities:

1. To operate with a Pensions Committee and a Pension Board including employer and employee representatives.
2. To deliver appropriate training for the members of the Pensions Committee and Pension Board.
3. To maintain a Risk Register.
4. To produce, operate according to and maintain a Governance Policy Statement.
5. To report any failures to The Pensions Regulator / Scheme Advisory Board.

6. To deliver complaints and Internal Dispute Resolution Procedures (IDRP) appeal procedures.

7. To comply with any audit requirements / recommendations.

Funding and investments – our responsibilities:

1. To set out a clear and transparent Funding Strategy Statement and consult with employers on this.

2. To manage employers' annual covenant reviews to help us to manage risk.

3. To produce and maintain the Fund's Investment Strategy Statement, Climate Change Risk Strategy and Climate-Related Financial Disclosures.

Field Code Changed

Field Code Changed

4. To appoint and manage LGPS Central Limited, and the Fund's other investment managers.

5. To monitor the performance of the Fund's assets.

6. To maintain our signatory status to the UK Stewardship Code 2020.

7. To produce responsible investment information to include information about climate change / climate risk monitoring and our Environmental, Social and Governance (ESG) audits.

8. To consult and inform employers which investment pot they have been allocated to and how this will be monitored / managed in future

Financial and data obligations – our responsibilities:

1. To allocate the contributions received correctly to each employee record.

2. To keep a log of contributions received from each employer.

3. To retain the right to charge interest at 7% for persistent and ongoing late payment in the following circumstances:

    a. If employer contributions (including deficit recovery payments) are overdue (if they are not received a month later than the due date specified).
    b. If any other payments are overdue (if they are not received by the due date specified).

4. To pass on any fines levied by third parties or additional costs for example arising from members appealing their level of benefits after an employer has provided insufficient / incorrect data for us to apply the McCloud remedy arising from employer performance.

5. To inform each employer of any new contribution bandings table in place from each April.

6. To inform employers of any rechargeable items e.g. actuarial fees as they become due / at the end of financial year.

7. To produce an Annual Report and Financial Statements.

8. To manage admission agreements / the processes for admitting new employers.

9. To manage the delivery of Financial Reporting Standards (FRS) / International Accounting Standards (IAS) information to employers.

10. To take account of covenant reviews in setting employer contribution rates.

11. To advise employers when strain costs / compensatory added years payments are due.

~~11.~~12. To retain the right to charge employers £100 per member for the additional administration costs associated with setting up shared cost additional voluntary contribution arrangements linked to salary sacrifice arrangements.

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Annual return, actuarial valuations when being undertaken and annual benefit statements – our responsibilities:

1. To process employer year end contribution returns within 1 month of receipt i.e. 31 May.

2. To produce annual benefit statements (ABS) for all employee and deferred members by 31 August.

3. To highlight annually if a member has exceeded their annual allowance and issue a Pension Savings Statement by 6 October.

4. To provide data to the Fund Actuary and Governments Actuary's Department to enable employer contribution rates to be accurately determined.

5. To provide an electronic copy of the actuarial valuation report and contributions certificate to each employer.

New starts – our responsibilities:

1. To accurately create member records on the pension administration system within 40 working days of notification from an employer of a new entrant to the LGPS.

Changes in circumstances for employee members – our responsibilities:

1. To accurately record and update member records on the pensions administration systems within 10 working days of completed notification.

Employee members – our responsibilities:

1. To update employee members' career average revalued earnings (CARE) accounts for the annual revaluation on 1 April.

Transfer in / out estimates – our responsibilities:

1. To provide transfer in information to the member within 10 working days of all information required being received.

2. To provide transfer out information within 10 working days of all information required being received.

Divorce estimates – our responsibilities:

1. Where a request for divorce information including a cash equivalent transfer value (CETV) is received from the member, or the Court, we will provide the member with a schedule of our charges and then issue the estimate within 45 working days of the receipt of the signed request from the member / receipt of the Court order.

Outsourcing estimates – our responsibilities:

1. To provide guidance to and the estimated fees (these are likely to be at least £5,000) that will be incurred by current employers participating in the LGPS who are considering outsourcing.

Actual retirements – our responsibilities:

1. To issue individual quotations / information within 15 working days after all information required to process a quotation has been received.

2. To issue employee members with a letter notifying them of their actual retirement benefits within 15 working days following receipt of the completed Leavers Form.

3. To issue deferred members with a letter notifying them of their actual retirement benefits within 15 working days following receipt of all documentation from the member.

Ill health retirements – our responsibilities:

1. To calculate and pay the benefits within 15 working days following receipt of all documentation.

2. To assist employers in discharging their responsibility to review Tier 3 ill health cases at 18 months.

3. ~~To assist employers to select an Independent Registered Medical Practitioner (IRMP).~~

4. To assist employers to understand the differences between the benefits paid on death in service and the benefits paid on death in retirement~~provide information on the options~~ for members who are terminally ill.

Members leaving employment before retirement – our responsibilities:

1. To provide members with Opt Out forms and information about going 50/50 / refunds / becoming deferred / transfers out.
2. To provide members becoming deferred with the options available to them within 30 working days of receipt of all the correct information from the employer via the Leavers Form.
3. To process and pay a refund within 10 working days to an eligible member following receipt of all relevant documentation.

Deferred members – our responsibilities:

1. To updated deferred members' benefits for the annual pensions increase award / annual CARE revaluation as appropriate.
2. To provide estimates of benefits that may be payable and any resulting employer costs within 15 working days of request.
3. ~~To select an Independent Registered Medical Practitioner (IRMP).~~

Death in service – our responsibilities:

1. To provide an initial letter of acknowledgement to the next of kin / informant within 5 working days following a notification of death.
2. To provide a letter notifying dependents of benefits within 10 working days following receipt of identification / certificates and relevant documentation.
3. To expedite the payment of any benefits in an appropriate and caring manner.

Additional voluntary contributions (AVCs), Additional Pension Contributions (APCs) and shared cost APCs (SCAPCs) – our responsibilities:

1. To appoint and manage an in-house AVC provider.
2. To direct members / employers to information on these options as requested.

Pensioners – our responsibilities:

1. To make payment of any lump sum within 23 working days of receipt of all relevant fully completed retirement forms and certificates from the member, or retirement date if later.

2. To pay pension payments on the last working day of each month following retirement unless this falls on a weekend or bank holiday when the payment will be made on the last working day before.

3. To pay LGPS benefits to their qualifying dependents.

4. To obtain annual life certificates from certain members e.g. those either resident overseas or with ongoing power of attorneys.

5. To pay Her Majesty's Revenue & Customs.

6. To increase pensions annually if appropriate.

7. To provide payslips / P60s.

Complaints / adjudication of disagreements – our responsibilities:

1. To appoint an adjudicator to deal with disagreements and in accordance with the regulations reply within 2 months or any extension provided by the regulations.

2. To acknowledge complaints within 10 working days of receipt of the completed documentation.

3. To review and provide updates to the member in a timely manner.

4. To notify the employer of decisions and / or appeals as requested.

5. To listen sympathetically to complaints and respond to them within 10 days.

Performance monitoring and reporting – our responsibilities:

1. We will report on our key performance indicators (KPIs) to the Pensions Committee and the Pension Board. This will provide a mechanism for service level review and recognition of best practice.

2. We will seek to work closely with employers to:

- Identify areas of poor performance.
- Provide the necessary training and development.
- To put in place appropriate processes to improve the level of service in the future.

Reporting breaches – our responsibilities:

1. To have procedures to be followed in relation to reporting breaches of the law to The Pensions Regulator.

2. To report data breaches to the Information Commissioner's Office (ICO).
3. To report all breaches to the Pensions Committee and the Pension Board.

2. EMPLOYERS' RESPONSIBILITIES

Employers' general responsibilities:

1. To support us in engaging with our members and prospective members, making it clear that Worcestershire Pension Fund is not able to provide financial advice.

2. To be familiar with the HR and Payroll guides available at http://www.lgpsregs.org/resources/guidesetc.php

3. To provide us with up to date and correct information e.g. re an employer's covenant as and when requested in accordance with our timescales and data protection / pensions regulations, retaining information about employees in line with our Personal Data Retention Guidance for Employers and our guidance about the McCloud remedy where if no data is available assumptions that employees could challenge would have to be made.

4. For larger bulk estimates, to make requests via the spreadsheet template provided by us and to give us as much notice in advance, for example when any redundancy exercises are planned.

5. To operate controlled, authorised processes and procedures.

6. To familiarise themselves with our:
    a. Policy Statement on Communications.
    b. Funding Strategy Statement, investment pots and arrangements for ceasing participation in the Fund.
    c. Governance Policy Statement.
    d. Investment Strategy Statement.
    e. Actuarial valuation report.
    f. Climate Change Risk Strategy
    g. Climate-Related Financial Disclosures

Field Code Changed

Field Code Changed

Field Code Changed

7. To comply with the Pensions Regulator's requirements of employers offering pensions to their employees, including automatic enrolment and data quality.

8. To publish and forward to us an up-to-date employer policy statement for all employer discretions under the LGPS regulations.

Financial and data obligations - employer responsibilities:

1. To calculate, collect and pay us no later than the 19th day of the month following the period of deductions:
    - All employee contributions deducted from payroll (excluding AVCs).
    - Employer contributions.
    - Any deficit lump sum payments due monthly.

2. To on the same day as making a~~accompany each~~ payment provide us with the ~~P~~Contribution Remittance Payover Form PCF1 spreadsheet and a monthly CARE spreadsheet~~1~~.

3. To pay all rechargeable items to the Fund on receipt of the invoice within the timescales specified.

4. To provide us with accurate member data, using the monthly CARE spreadsheet.

5. To provide us with the annual Covenant data we require.

Annual return, actuarial valuations when being undertaken and annual benefit statements - employer responsibilities:

1. To ensure we receive accurate year end information to 31 March through the Year End Spreadsheet by 30 April.

2. To submit accompanying paperwork detailing this together with payment or a formal request for a refund should there be any under / over payment discovered whilst reconciling.

3. To provide any additional information that may be requested to produce annual benefit statements for service up until 31 March in each particular year by the 30 April each year.

4. To ensure that all errors highlighted from the annual contribution and pensionable pay posting exercise are responded to and corrective action taken promptly.

New starts - employer responsibilities:

1. To ensure that pension information is included as part of any new employment induction process, in contracts of employment and appointment letters.

2. To ensure that all employees subject to contractual admissions are bought into the LGPS from their relevant start date.

3. To provide us with accurate new member data, using the ~~New~~ Pension Starter Form / interface within 4 weeks or at the members' start date or within 14 days of the first time the new employee is included on the employer's payroll run.

4. To provide each new employee with a link to our Guide to the LGPS and a ~~New~~ Pension Starter Form with their contract of employment.

5. To determine the appropriate contribution rate (whether individually or by an automated process on payroll) and as soon as is reasonably practicable, notify the employee of the contribution rate which is to be deducted from the employee's pensionable pay and the date from which the rate will become payable. It is for the employer to determine the method by which the notification is given to the employee, but the notification must contain a statement giving the address from which further information about the decision may be obtained. The notification must also notify the employee of the right to appeal, including the process and timescales involved. Furthermore, the correct employee contribution rate should be applied and (if

appropriate) adjusted throughout the year according to the employer's Policy Statement on discretions.

Important note: Where there is more than one contract of employment with the same employer, each membership shall be maintained separately and notified to us as above.

Changes in circumstances for employee members - employer responsibilities:

1. To ensure that we are informed of any changes in the circumstances of employees, by completing the Employer Notification of Changes relating to Pensionable Employment Form / Leavers Form / Ill Health Form / 50:50 cancel form / 50:50 Option Form / etc. within 4 weeks of the change. Changes include:
    a. Name.
    b. Marital status.
    c. NI number.
    d. Contractual hours.
    e. Any remuneration changes due to promotion and down grading.
    f. Full time equivalent pensionable pay according to the pre 2014 definition.
    g. Actual pensionable pay (including overtime/additional hours) in 100/100 and 50/50 according to the post 2014 definition (CARE).
    h. Employee contribution rate.
    i. Employee number and / or post number.
    j. Date joined LGPS (if adjusted).
    k. Confirmation of 50/50 or 100/100 entry.
    l. Additional Voluntary Contributions (AVC) contributions.
    m. Additional Pension Contributions (APC).
    n. Notification of Flexible Retirement.
    o. Address change.

2. To apply assumed pensionable pay (APP) for pension purposes during periods of reduced or nil pay as a result of sickness, injury, or relevant child related leave (i.e. ordinary maternity, paternity or adoption leave or paid shared parental leave and any paid additional maternity or adoption leave). **Important note:** If the employee receives no pay, employer contributions should still be paid.

3. To calculate and provide to the member the APP amount should an employee wish to purchase an Additional Pension Contributions (APC) or a Shared Cost Additional Pension Contribution (SCAPC) contract to buy back the pension 'lost' during the absence, **Important note:** before a period of absence employers must bring to the attention of the employee that they can buy back the 'lost' pension and also direct employees to the APC calculator at: https://www.lgpsmember.org/more/apc/index.php

Retirement estimates - employer responsibilities:

1. To submit a request using the Request for Estimate Form. Each form must be signed by an authorising officer.

2. To provide pay and other relevant information such as details of the maximum strain the employer can pay given other exit payments and whether the exit cap is

applicable requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests by an agreed timescale with us.

Transfer in / out estimates - employer responsibilities:

1. To submit a request.
2. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests by an agreed timescale with us.

Divorce estimates - employer responsibilities:

1. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests, by an agreed timescale with us.

Outsourcing estimates - employer responsibilities:

1. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests, by an agreed timescale with us.
2. Re staff transfers e.g. outsourcings, in line with our guidance notes on transfers of staff between our employers including academy conversions to ensure early notification / liaison with us when considering an outsourcing exercise which affects members / eligible members of the LGPS.

Actual retirements - employer responsibilities:

1. To within 5 working days submit the appropriate Leavers Form and details such as the maximum strain the employer can pay given other exit payments and whether the exit cap is applicable to us as soon as the information is available. N.B. The Leavers Form must be completed fully and be signed by an authorising officer, as it confirms the information required to enable the benefits to be calculated and the employer's decision as to the type of benefit that is to be paid to the member.
2. To include a reference in the retirement letter to remind employees to advise us directly if they subsequently move house so that we can maintain contact with the retired member.

Ill health retirements - employer responsibilities:

1. To determine whether an ill health benefit award is to be made, based on medical evidence and the criteria set in the LGPS regulations.

2. After obtaining an opinion from an ~~approved~~ Independent Registered Medical Practitioner (IRMP) on the appropriate Medical Certificate, determine which tier (1, 2, or 3) is to be awarded.

3. Submit the completed Medical Certificate and Leavers Form to us with all related paperwork and a copy of the notice letter issued to the member (which must confirm the level of ill health benefits awarded and the appeal information).

4. To keep a record of and at 18 months review all Tier 3 ill health retirements, arranging as appropriate a further medical certificate.

5. To notify us to recover any overpayment of benefits following a discovery of gainful employment.

6. To include a reference in the dismissal letter to remind employees to advise us directly if they subsequently move house, so that we can maintain contact with the retired member.

7. To consider taking out ill health liability insurance (IHLI).

Members leaving employment before retirement - employer responsibilities:

1. To notify us using the Leavers Form, ensuring all relevant information is included on the form, within 5 working days~~a reasonable time~~ of the members leave date.

2. To include a reference in the acknowledgement letter to remind employees to advise us directly if they subsequently move address so that we can maintain our contact with the retired member.

3. To send us notification of any eligible employees subject to automatic enrolment, who opt out of the LGPS within 6 weeks of joining.

4. To check the date on all Opt out forms is not earlier than the end of the current pay period.

Deferred members - employer responsibilities:

1. To keep adequate records of the following for members who leave the LGPS with deferred benefits, as early payment of benefits may be required:

   a. Name.
   b. Last known address.
   c. NI Number.
   d. Payroll number.
   e. Date of birth.
   f. Last job information including job description.
   g. Salary details.
   h. Date and reason for leaving.

2. To determine, following an application from the former employee to have their deferred benefits paid early, whether or not they are eligible for early payment on ill

health grounds in line with the criteria set in the relevant (NB these depend on date of leaving) regulations and after seeking suitable medical opinion from an IRMP.

3. To determine whether any actuarial reduction can be waived on compassionate grounds in accordance with the employer's Policy Statement on discretions.

Death in service - employer responsibilities:

1 To inform us immediately of an employee who has died – this can initially by telephone or email to enable us to calculate or cease benefits.

2 Any notification of death in service should within 5 working days be followed with the receipt of a completed Leavers Form.

Death of pensioner / deferred member - employer responsibilities:

1. Although employers have no responsibilities on the death of these members, it would be helpful if they could help when a dependent contacts them by advising the dependent to contact us.

Additional voluntary contributions (AVCs), Additional Pension Contributions (APCs) and shared cost APCs (SCAPCs) - employer responsibilities:

1. To communicate to employees the option of SCAPCs to cover periods of 'lost pensions' and the timeframe they must elect to purchase a SCAPC. **Important note:** Members must elect to make APCs within 30 days of returning to work following the absence, but employers have the discretion to extend this period. This should be laid out in the employer's Policy Statement on discretions.

Adjudication of disagreements – employer responsibilities

1. Under regulation 72 of the LGPS 2013 Regulations, any decisions made by an employer affecting an employee's rights to membership, or entitlement to benefits must be made as soon as is reasonably practicable and notified to the employee in writing including a reference to their right to appeal in line with regulation 73 of the LGPS regulations.

2. An employer must notify us of a decision made under Regulation 72. Every notification must:

   - Specify the rights under Stage 1 and Stage 2 of the appeals procedure quoting the appropriate regulations.

   - Specify the time limits within the appeal, under either stage, which apply.

   - Specify to whom an application for appeal must be made to. For first stage appeals this must be the nominated person of the employer who made the decision. For second stage appeals this will be the appointed person at the Administering Authority.

3. Employers must notify us of any first stage appeals they receive.
4. Each employer is required to nominate and name the person to whom applications under stage 1 of the Appeals Procedure should be made.

3. FURTHER INFORMATION

We administer the LGPS and as at 30~~1~~ September~~January~~ 2022 managed £3,391~~566~~ million of worldwide assets on behalf of about 190 employers and 66~~5~~,000 members.

As at 31 October~~January~~ 2022 we were 93~~101~~% funded.

We have a budget of £1.75m for pensions administration and have 27~~5~~ staff in our pension administration department. We work with the following:

AEW
Barclays
BNY Mellon
Bridgepoint
~~BSIF Housing and Infrastructure~~
~~First Sentier~~
Grant Thornton UK LLP
Gresham House
Hermes Investment Management
Igneo
Invesco Real Estate
Legal & General Investment Management
LGPS Central Limited
Mercer
MJ Hudson Allenbridge
Nomura Asset Management UK Ltd
Northern Trust
~~River & Mercantile~~
Scottish Widows
Stonepeak Infrastructure partners
UK Green Investment Bank
Venn Partners
Walton Street Capital, LLC

This Pension Administration Strategy has been prepared in accordance with LGPS regulations, see (reg 59): http://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php

Audit
We are subject to audit of our processes and internal controls. Employers are expected to fully comply with any requests for information from both internal and approved external auditors. Any subsequent recommendations will be considered and where appropriate implemented with employer cooperation.

Benchmarking
We will regularly monitor our costs and service performance by benchmarking with other administering authorities. Details of the costs of administration, quality measures and standards of performance will be published in our Annual Report and Financial Statements.

Data Protection Act 2018
We are a Data Controller as part of the Data Protection Act 2018 which incorporates the General Data Protection Regulation (GDPR). This means we store, hold, and manage personal data in line with statutory requirements to enable us to provide pension administration services. To enable us to carry out our statutory duty, we are required to share information with certain bodies, but will only do so in limited circumstances. More

information about how we hold data and who we share it with can be found in our Privacy Notice at www.worcestershirepensionfund.org.uk

Secure Data Transfer

We will follow Worcestershire County Council's (the Fund's Administering Authority) data security guidelines when sending any personal data, including its published data sharing policy. This means that member's personal data will only be transferred from one party to the other via an acceptable method specified by the Administering Authority which may include any of the following:

- Secure email.
- Paper forms signed by an authorising officer from the employer.
- Password protected Excel spreadsheets.
- Password protected portal.

FOR OFFICE USE ONLY:

Worcestershire Pension Fund Pension Administration Strategy
Version: V2~~Final~~ (~~following~~ of the third~~second~~ annual review)
Author: Chris Frohlich, Governance & Engagement Manager
Dated: 11 01 2023~~March 2022~~
To be s~~S~~igned o~~O~~ff at: Pensions Committee 23 03 2023~~2~~

Policy Statement on Communications

1 Introduction

We aim to produce clear communications in a plain English style that provide everyone with any interest in the Fund with ready access to all the information they need to make informed decisions.

We may make our communications available in languages other than English or in Braille or in other formats upon request to suit those with special needs.

We can be contacted in person, by letter, by phone or by email.

We aim to respond to all requests in a timely manner and by meeting the enquirer's information objectives.

We will collaborate with other Funds throughout the year to produce communications that benefit from shared expertise and cost saving.

We aim to continually develop our communications / the resource we devote to engagement.

Our flagship communications offering is our website at:
www.worcestershirepensionfund.org.uk

We aim to maintain a compliant website that provides stakeholders with a first port of call for all of their pension information needs, so that they can make informed decisions. NB we are not able to provide financial advice.

We aim to invest in digitisation to maximise self-service for our members and employers.

2 Communicating with employers

We will engage with our prospective and actual employers to:

- Explain our requirements of them.
- Define their information needs and expectations of us.
- Identify and deliver their training needs.

We will maintain an up to date Pension Administration Strategy.

We will maintain an Employers area on our website to provide regularly updated guidance / forms including monthly employer newsletters.

We will deliver a bi-annual employer forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters.

Of the 8 members of our Pension Board chaired by Cllr Roger Phillips there are 4~~2~~ employer representatives who scrutinise all Pensions Committee decisions and can take items for discussion to our Pensions Committee on behalf of employers.

The Pensions Committee of 8 chaired by Cllr Elizabeth Eyre has 1~~2~~ employer representative~~s~~.

3 Communicating with members

We will make available a range of publications / forms for prospective and actual scheme members including a Guide to the LGPS.

We will provide an annual benefit statement to our employee members and our deferred members by 31 August.

We will provide an annual newsletter to our employee members and an annual newsletter to our deferred members.

We will provide an annual newsletter, an annual payslip and a P60 to our pensioner members. We will also provide them with a pension payslip when there is a change of more than £1 per month net of tax in their pension.

Of the 8 members of our Pension Board there are 4~~3~~ member / trade union representatives who scrutinise all Pensions Committee decisions and can take items for discussion to our Pensions Committee on behalf of members.

The Pensions Committee of 8 has 1 member / trade union representative.

4 Communications with other stakeholders

Our Annual Report and Financial Statements are available from our website.

Our website will also provide up to date information about our governance, funding, investments (including information about our approach to responsible investment / ESG / climate changes issues), finances, and operations.

We will deliver appropriate communications to comply with and apply all relevant legislation / guidance (for example from The Pensions Regulator, The Local Government Association, Her Majesty's Revenue & Customs, The Local Government Pension Scheme Advisory Board, etc.).

We will deliver a training programme for members of our Pensions Committee and Pension Board.

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Version: V2~~Final~~ (~~following~~of the third~~second~~ annual review)
Author: Chris Frohlich, Governance & Engagement Manager
Dated: 11 01 2023~~March 2022~~
To be s~~S~~igned o~~O~~ff at: Pensions Committee 23 03 20232~~2~~

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Proposed objectives for WPF Investment advisor

Task	Current Position as at end of Dec 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 investment advisor has attended all the Pension Investment Sub Committee and Pensions Committee meetings.	• Attend all Pensions Committee and Pension Investment Sub-Committee meetings unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication. • Provide quarterly written reports to Committees in line with Committee timescales and reporting requirements, which include questions for Officers and Councillors to use at meetings with investment managers and a yearly review for publication in the Fund's annual report. Highlighting areas upon which members' attention should be focused. • Attend all quarterly review meetings with 'active' investment managers unless for unforeseen unavoidable circumstances and meeting attendance being agreed in
B. Monitoring the Fund's portfolios and considering and providing general advice on the desirability of retaining particular classes of assets or of changing them.	• Regular performance review meetings have been taken with all our investment managers at least half yearly and quarterly for our active investment managers. • The investment advisor 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 Dec 2022	KPI / Outcome
	• The investment advisor has helped to develop and shape the 2022 strategic asset allocation review which sets the Fund's asset allocation direction for the next 3 to 5 years and is to be agreed by Pensions Committee at the March 2023 meeting. The advisor supports the SAA quarterly update to Committee.	advance of Committee timetable publication. • Any areas of poor performance highlighted, challenged and solutions identified. • The Pensions and Pension Investment Sub Committees were satisfied with the value for money represented by the services.
C. Support the Fund with achieving timely and cost-effective implementation of the Fund's investment decisions, where appropriate considering the evolution of the LGPS Central pool.	• The investment advisor has attended meetings and provided guidance where the Fund is seeking to transition investments to the pool. • He has also signposted to additional technical advice required for the actual transition process. • 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 Pension Investment Sub Committee or the Fund's other service providers.	• Advice and support have been provided for an ESG audit and a climate risk review besides the regular support described above. The Advisor has	• 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 Dec 2022	KPI / Outcome
	supported the Funds ESG Annual Review that was provided to Committee members at an informal meeting on the 8th February 2023. • The Advisor 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 was provided for the Equity Protection strategy as part of the fortnightly meetings with the Fund manager. • The Conflicts register is updated at each quarterly Committee.	• Advisor's fee shared and updated at year end with open report of any additional fees earnt through advice. • Conflicts register updated at least half yearly, and upon any changes to the investment advisor as soon as they are known to that person.
E. Oversight of the relationship between the Fund and the pool, ensuring 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 LGPS Central where the Fund has invested unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication.

Task	Current Position as at end of Dec 2022	KPI / Outcome
		• Any areas of poor performance highlighted, challenged and solutions identified.
F. Support the fund in training, through transparent general advice.	• The investment advisor has provided training and helped source a number of training events.	• Pensions, Pension Investment Sub Committee and Pension Board satisfied with the quality and content of any training requested.
G. Ensure the Fund complies with relevant investment pensions regulations, legislation and supporting guidance, and reflects the policies approved by the Pensions Committee.	• There have been no instances of non-compliance with relevant regulations or policies.	• No instances of non-compliance with relevant regulations or policies.

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PENSIONS COMMITTEE
22 MARCH 2023

WORCESTERSHIRE COUNTY COUNCIL PENSION FUND ADMINISTRATION BUDGET 2023/24

Recommendation

1. The Chief Financial Officer recommends 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) She be granted delegated authority to approve variations of up to £0.5m.

Purpose of the report

2. This report seeks the Committee's approval for the 2023/24 for the Worcestershire County Council Pension Fund Administration Budget, as shown in the attached Appendix. The budget and Forecast Outturn for 2022/23 are also shown.

3. The Appendix also shows indicative budgets for the following two years 2024/25 and 2025/26. These budgets are indicative and incorporate the actions to meet the next Triennial valuation, the Investment Strategy and improved communication and engagement.

Background

4. To ensure good governance budgets are required to monitor the stewardship of the Fund's expenditure and financial plans assist in mitigating risks by allocating necessary resources to develop the service.

5. A number of services are required to ensure delivery of the Local Government Pension Scheme (LGPS) administering authority function. The Committee has ultimate responsibility for the procurement and monitoring of these services. It should be noted, however, that Worcestershire County Council, which is one of the employer bodies whose interests the Committee is responsible for, is at present also the provider of a number of these services.

Forecast outturn 2022/23

6. The attached Appendix shows the forecast outturn estimated to be £21.638m compared to a budget of £21.015m, an overspend of £0.623m. The main reasons for the variance are:

a) Investment management fees (increase of £0.621m) due to the increase in investments that have occurred towards the end of last year and May 2022 of this financial year. This has also meant an increase in transaction costs through the transition of assets to LGPSC active equities being more than were budgeted; and
b) Administration costs are forecast near enough to break even. There is a slight forecast overspend on Investment admin costs of £2k.

7. Excluding the uncontrollable costs of the management fees, this forecast overspend is within the £0.5m variation limit delegated to the Chief Financial Officer Committee and in line with the Administration budget reported to the October Committee where the variations were agreed.

Key features of the proposed 2023/24 budget

8. The budget now proposed for 2023/24 is £22.964m, an increase of £1.949m (9.3%) from the 2022/23 budget (see Appendix). The largest proportion of the budget (£19.817m) is investment managers' fees that depend on the value of assets being managed, and the investment return performance which depends on market conditions. Also, to comply with the Cost transparency code initiative this also includes all known transaction and associated costs.

9. The key reason for the increase in budget in the management fees are as follows:

a) The full year effect in 2023/24 of the investment in a number of new Funds (5) during 2022/23;
b) The increase in the Funds anticipated investment performance resulting in an increase in fees given most are based on the Net asset value; and
c) More transparency on the fees being charged from the submission of Fund managers cost transparency reports which provides greater detail on the costs of the investments.

10. The Fund's "controllable" budget (i.e. excluding investment management fees) is £3.147m, which is an increase of £0.161m (5.4%) net increase on the original budget. The key reasons for this decrease are:

a) An increase for investment administration and pension admin costs of £0.161m and the main reasons are:
    - £0.028m for increased ESG support.
    - £0.038m for increased admin costs such as the cost of the dispatch and postage relating to payslips and annual benefit statements.
    - £0.093m for increased governance and running costs of LGPS Central.
    - £0.027m for increased custodial services due to increasing valuation.
    - £0.030m reduced actuarial costs as not a triennial valuation year.

Summary

11. The budget attempts to maintain service standards, fulfil statutory requirements while developing areas in response to the scheme changes. Comparability of data is difficult between funds nationally due to different methodology of reporting costs.

12. The current budgeted 2022/23 Worcestershire Pension Fund administration costs are currently £26.06 per member. The proposed budget for 2023/24 will take these costs up to £26.19 per member (0.05% of the market value of the Fund's assets as at March 2022).

13. In terms of investment costs, the budget indicates spend of 55p per £1,000 (0.55% of market value as at March 2022) on managing its assets for 2022/23, including all pooled mandate costs

Risk Assessment

14. The Committee is asked to recognise that some costs, particularly investment fees, are dependent upon factors that are outside of the Council's control. As such fees may go up or down, depending on market conditions.

15. The approval of this budget is essential to continue the good governance of the Fund. When viewed in relation to the overall value of assets, these 'controllable' costs represent 0.08% of the total Fund value.

16. In line with good governance practice, officers are bringing budget monitoring reports back to Committee twice a year. In the interim, variations against budget will be monitored and if they become very significant, the Chief Financial Officer to the Pension Fund will approve variations to the budget and report these to the Committee retrospectively for ratification.

Contact Points

Rob Wilson
Pensions Investment, Treasury Management & Capital strategy manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Supporting Information

- Appendix detailing the 2022/23 Budget monitoring and proposed 2023/24 Budget with indicative budget allocations for 2024/25 and 2025/26

Background Papers

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

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Appendix 1

Pension Fund Administration Forecast Outturn 2022/23 with indicative budgets 2023/24 to 2025/26

2022/23 *Budget* £	2022/23 *Forecast Outturn* £	2022/23 *Variance*	*Description* £	2023/24 *Annual Change* £	2024/25 *Annual Change* £	2025/26 *Annual Change* £	Comments
			Fund Investment				
18,028,500	**18,649,400**	**620,900**	INVESTMENT MANAGEMENT FEES	**19,817,000**	**21,079,600**	**22,877,400**	*Includes LGPS central investment management Fees, Equity Protection and increasing commitment to Property & Infrastructure.*
160,200	160,200	0	Investment Administration Recharge	163,400	166,700	170,000	*Increased Investment support*
777,000	777,000	0	LGPS Central Governance and Running Costs contribution	870,000	840,400	874,000	*Increase in running costs of the company*
113,200	133,300	20,100	Investment Custodial and related services	140,000	147,000	154,400	*Slight increase in Custodial services due to increase in value of assets assets*
136,500	119,200	-17,300	Investment Professional fees	164,700	96,950	140,400	*ESG Audit planned for 2023.24 & Strategy advice 25/26*
43,500	42,800	-700	Performance Measurement	44,400	45,300	46,200	*CEM Benchmarking and increase in Portfolio Evaluation due to increase in investments and complexity of the benchmark reporting*
1,230,400	**1,232,500**	**2,100**	INVESTMENT ADMINISTRATION COSTS	**1,382,500**	**1,296,350**	**1,385,000**	
			Scheme Administration				
1,292,140	1,296,700	4,560	Pension scheme Administration recharge	1,330,500	1,387,700	1,447,700	*Increase due to Admin software requirement, increase in postage and printing costs for Benefit statements and payslips.Also staffing restructure full year implications in 2022.23 agreed at Dec 21 Committee*
410,000	410,000	0	Actuarial services	380,000	380,000	430,000	*Employer monitoring through Actuary system Pfaroe and Triennial valuation allowed for April 2025/26*
34,100	34,300	200	Audit	34,300	35,300	36,400	
10,000	5,000	-5,000	Legal Fees	10,000	10,000	10,000	
10,000	10,000	0	Committee and Governance recharge	10,000	10,000	10,000	
1,756,240	**1,756,000**	**-240**	SCHEME ADMINISTRATION COSTS	**1,764,800**	**1,823,000**	**1,934,100**	
2,986,640	**2,988,500**	**1,860**	GRAND TOTAL (Excluding Investment Mgt Fees)	**3,147,300**	**3,119,350**	**3,319,100**	
21,015,140	**21,637,900**	**622,760**	GRAND TOTAL (Including Investment Mgt Fees)	**22,964,300**	**24,198,950**	**26,196,500**	

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worcestershire countycouncil

PENSIONS COMMITTEE
22 MARCH 2023

ACTUARIAL VALUATION AND FINAL PENSION FUND STRATEGY STATEMENT (FSS)

Recommendation

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

Background

2. As detailed in the December 2022 report, every three years, in line with legislation, the Fund Actuary, Mercer, carries out a full Actuarial Valuation of the Fund to calculate how much the employers in the Scheme need to contribute going forward to ensure that its liabilities, the pensions due to current and future pensioners, will be paid as they fall due.

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

4. The FSS was agreed at Pension Committee on the 13 December 2022 and any further updates were delegated to Fund officers on the proviso that the FSS was not expected to change fundamentally in between now and when the actuarial valuation is signed off by the actuary on the 31 March 2023.

5. The updated FSS is provided at Appendix 1 and includes the following changes which have been shown via tracked changes.

- Additional wording Section 6 to explain the Climate Change analysis being performed.
- Additional wording in Appendix D to facilitate review of the termination policy for employers without a guarantor during times of extreme events, such as a material shift in market conditions or shift in economic/fiscal policy.
- Made some other small changes.

FSS Consultation Outcome

6. The consultation on the draft FSS was sent to Employers in November 2022 and they were asked to respond by 27 January 2023. The Fund received no responses to the proposed FSS and therefore the FSS provided to the December Committee together with those highlighted within this report will provide the final published FSS. It is worth reiterating the Key updates made to the FSS agreed in December 2022.

Key updates made to the FSS agreed at December 2022 Pension Committee

7. The key updates that were highlighted in the FSS provided in December 2022 are as follows:-.

CPI inflation assumption

8. A key assumption which drives the projected benefit cashflows (the Pension Fund liabilities) is the inflation rate. This is derived based on year-on-year projections based on market outlook and expectations from the Bank of England and represents the average inflation rate over a long period (50+ years). This is set by the Fund, based on advice from the Actuary and at this valuation the inflation assumption has increased to 3.1% p.a. at the valuation date which compares to 2.4% p.a. at the 2019 valuation. This reflects the increased inflation outlook at this valuation. The actual April 2023 increase to benefits is expected to be based on the September 2021 to September 2022 CPI inflation which was 10.1%. This is subject to confirmation by the Government. As part of the proposed valuation assumption we have also adjusted the benefit cashflows for the actual observed inflation over the 6 months from September 2021 to 31 March 2022.

Discount rate (average expected return) basis for past service liabilities (funding target)

9. A key assumption which drives the value of the Pension Fund liabilities (the future benefit payments) and therefore deficit is the discount rate. This is set by the Fund, based on advice from the Actuary, to reflect the overall investment return which the Fund expects to achieve on its assets over the long term with a suitable and necessary allowance for prudence. In terms of setting contributions, the relationship of the expected investment return on assets compared to the rate of expected future increases in benefit payments (i.e. CPI inflation) is critical (in other words we need to reflect the “real” investment return expected on the Fund assets)

10. The discount rate reflects the “real” expected asset return above the CPI baseline assumption when assessing the long-term solvency target. This is a challenge for this valuation given the current significant increase in inflation which increases the liabilities as the benefits are inflation linked and potentially reduces the “real return” on assets. A judgement is needed as to how persistent this period of higher inflation could be, with the risk that understating its duration in this valuation will transpire into higher contributions at the next valuation in 2025 taking into account the material volatility we have seen since the valuation date. This is to ensure the right balance between affordability and sustainability of employer contributions is struck.

11. The Actuary has proposed to reduce the expected level of real return above CPI by 0.15% from the 2019 valuation to CPI+1.50% per annum for the Growth pot, to maintain an appropriate level of prudence (as in the probability of achieving the discount rate). This results in a gross discount rate of 4.6% p.a. (3.1% + 1.5%) at the valuation date.

The Medium Pot and Cautions Pot have also been reviewed with proposed assumptions of CPI+1.25% per annum and Gilts+0.75% per annum, respectively.

Discount rate (average expected return) basis for future service liabilities

12. The future service liabilities (which determine an employer's Primary Contribution Rate) are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used to provide stability in the primary/future service contribution rate (as per the Regulations) and reflect the different characteristics of these liabilities.

13. As future service contributions are paid in respect of benefits built up in the future, the future service contribution rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

14. The Actuary's view is that the real return applied in 2019 could be too optimistic given the impact of inflation on investment returns and the challenging outlook since the valuation, and advises a discount rate of CPI +2.00% per annum be considered (a 0.25% reduction) for the Growth pot. This results in a gross discount rate of 5.1% p.a. (3.1% + 2.0%) at the valuation date. The Medium Pot and Cautions Pot have also been reviewed with proposed assumptions of CPI+1.75% per annum and Gilts+0.75% per annum, respectively.

Pay growth assumption (including increments)

15. Along with an employer's payroll, liabilities in relation to final salary benefits earned pre 2014 and the McCloud remedy are related to a members' final pay at retirement or leaving. The Fund therefore needs to make an assumption about future pay progression in the short and longer term. The long term pay growth is CPI+1.5% p.a. which is the same assumption as the 2019 valuation. In terms of short term pay growth over the 3 years from 1 April 2023, the intention is to adopt an average pay growth assumption option of 4% p.a. depending on employer category. Employers will be given the option which best suits their circumstances. For the purpose of the provisional results in paragraph 7 of this report we have used a 4% p.a. assumption for all employers

Demographic assumptions

16. The baseline and long-term trend in mortality has been adjusted to reflect the Fund's experience since 2019 and wider trends of the progression of life expectancy improvements. The analysis indicates that there has been a reduction in expected life expectancy versus the assumptions made at the 2019 valuation which has reduced the liabilities and future service rate.

17. The proposed assumption would result in an overall life expectancy at age 65 as follows for sample members (disclosed 2019 valuation life expectancies in brackets):

- Male pensioner currently age 65: 22.1 years (22.8 years)
- Male active member currently age 45: 23.7 years (24.5 years)
- Female pensioner currently age 65: 24.3 years (25.2 years)
- Female active member currently age 45: 26.4 years (27.2 years)

18. Some of the other demographic assumptions have also been changed at this valuation including the likelihood of leaving active service before retirement, the likelihood of a dependant’s pension being paid and the level of pension being commuted for cash by members upon retirement. All of these changes have marginally increased the liabilities and future service rate but not significantly compared to life expectancy and other factors

Recovery periods (surplus and deficit)
19. When determining an employer’s Secondary Contribution Rate we require a period over which to recover any deficit or run down any surplus to target full solvency i.e. a 100% funding level.

20. Where an employer is in deficit, there is a proposed reduction in the average deficit recovery period of 3 years, which is generally equivalent to a continuation of the 2019 deficit recovery plan. This would apply to employers, subject to covenant and affordability considerations as per the draft FSS. Where employers are in surplus (which is the majority at this valuation), the period over which the surplus can offset future contribution requirements will generally remain the same as the 2019 valuation (whether an employer was in deficit or surplus at that point). This approach supports the sustainability of future contributions along with the employers who choose to pay contributions above the minimum required as noted in paragraph 10

McCloud Judgment
21. The McCloud discrimination case relates to the protections provided to members close to retirement when the Fund benefits were changed in 2014, and the case determined that those not close to retirement should be afforded the same protections (subject to meeting certain criteria). The costs of the remedy were not included in the 2019 valuation balance sheet (as they were unknown) although the estimated cost of a potential remedy was allowed for in employer contributions where employers opted for this. The Government has now set out how the remedy should be treated at the 2022 valuation to ensure consistency (as the remedy Regulations have yet to be passed into law). Therefore in line with this recommendation, the Fund's approach has been to include amendments for all employers in the 2022 valuation to reflect the McCloud remedy when valuing past service liabilities. The McCloud benefit window ended on 31 March 2022 and so the judgement does not affect employer future service (Primary) contribution rates at the 2022 valuation.

Climate change funding level scenario analysis
22. An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate transition risks and physical risks on the potential funding outcomes. The impact of different scenarios at the whole Fund level versus the baseline (which assumes the funding assumptions are played out) is being considered as part of the valuation to ensure the funding strategy is sufficiently robust to the risks posed by climate change. This section of the FSS has been updated by the actuary on pages 19 and 20 of the attached FSS.

23. The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is currently sufficient in the context of the scenarios considered. However, any climate related impacts will potentially put significant stress on the funding plan, especially when taken into account

with other risk factors so the analysis will be further developed and be monitored over time. A summary of the output of the analysis will be set out in the Fund Actuary's report on the valuation

Other Fund policies

24. The only new policy in the 2022 FSS covers 'Notifiable Events'. It is best practice to have a defined set of notifiable events that employers are obliged to inform the Fund about as it may have a material effect on the covenant or the liability or membership profile. Whilst in most cases regular covenant updates will identify some of the key employer changes, under this new policy in some circumstances employers will be required to proactively notify the Administering Authority of any material changes. This policy sets out when this may happen and the notifiable events process.

25. The existing policies have all been reviewed. However, the majority of the content remains unchanged (except to reflect the 2022 valuation updates such as assumption and date changes etc.). We have also incorporated additional wording to allow flexibility to review the termination policy with the Fund Actuary in light of changes in market conditions and any review of fiscal or monetary policy by the Government or Bank of England, given the current gilt market volatility.

26. The final actuarial outcome for the whole Fund results (based on the proposed assumptions in the FSS) are a funding level of 100%, a surplus of £14m and a future service contribution rate of 18.8% of pay. The equivalent 2019 valuation results were a funding level of 90%, a deficit of £324m and average future service rate of 17.5% of pay. Overall the theoretical total average employer contributions are expected to fall at this valuation due to the improved funding position despite an increase in the future service rate. The outcomes will vary materially between employers although the major councils will broadly follow the total Fund

Initial draft of the 2022 Valuation rates and adjustment certificate

27. The actuary has provided an initial draft of the 2022 valuation rates and adjustment certificate (Appendix 2). Please note this will be a working draft and therefore subject to adjustment up to the point of sign off (31 March 2023), for any amendment to the employer contributions that may be agreed as well as confirmation of auditor requirements for certifying prepayment contributions. For this version, the actuary will currently use the same approach that was used for the 2019 valuation to certify a 3-year deficit lump sum prepayment i.e. certifying this as a 3-separate lump sum amounts in respect of each contribution year. The actuary will also ask the Committee to note there may be some further formatting changes and adjustment to the notes as they finalise the draft report.

Current negotiations taking place with Housing associations relating to deferred debt agreements and / or debt servicing agreements

28. Within the Funds FSS, the termination policy provides flexibilities for the Fund at its discretion to consider spreading exit payments over an agreed period and Deferred Debt Agreements (DDA).

29. The Fund's policy for spreading exit payments (referred to as payment plans) is as follows:

a) The default position is for exit payments to be paid immediately in full (adjusted for interest where appropriate) unless there is a risk sharing arrangement in place with a guaranteeing employer in the Fund whereby the exiting employer is not responsible for any exit payment; and
.
b) Exit payment spreading and DDAs will always be discussed with employers, whether at the employer's request or not. However, spreading an exit payment, or a DDA will only be agreed at the discretion of the Administering Authority, subject to the termination policy within the FSS.

30. If an employer wants the Fund to agree to spread an exit payment or a DDA, they must make a request in writing covering the reasons for such a request. The Administering Authority will assess whether the full exit payment is affordable, and whether it is in the interest of the Fund to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

31. Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be invoiced to the employer by the Fund or added to the contribution plan (for a DDA) or exit payment (where the exit payment is to be spread).

32. 3 Housing associations are currently looking to exit from the Fund and are in discussions regarding exploring spreading exit payments over an agreed period and / or Deferred Debt Agreements (DDA) with officers and our actuary.

Contact Points

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Supporting Information

- Proposed final Funding Strategy Statement (Appendix 1)
- Initial draft of the 2022 Valuation rates and adjustment certificate (Appendix 2)

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the background papers relating to the subject matter of this report are

Funding Strategy Statement Committee report December 2022

Worcestershire Pension Fund

FUNDING STRATEGY STATEMENT

Approved by Pensions Committee on ~~[DATE]~~22 March 2023

This Funding Strategy Statement has been prepared to set out the funding strategy for the Worcestershire Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local

Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Executive Summary

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

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

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

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

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

The results of the 2022 valuation show the liabilities to be ~~100~~101% covered by the current assets using the prudent assumptions set out in Appendix A. The Fund's long-term objective is to secure and maintain sufficient assets to cover all pension liabilities in the longer term. Deficit recovery / surplus offset periods vary by employer category. For employers in deficit, a maximum deficit recovery period of 12 years applies. For employers in surplus a maximum surplus spreading period of 15 years applies.

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

	Growth pot	**Medium pot**	**Cautious pot**
Funding liabilities discount rate:	4.60% p.a.	4.35% p.a.	2.45% p.a.
Future service discount rate:	5.10% p.a.	4.85% p.a.	2.45% p.a.
CPI price inflation	3.10% p.a.	3.10% p.a.	3.10% p.a.

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

58%.To help maintain stability of contributions in the future, the Fund has implemented a number of strategies to help manage risk:

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

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

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

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

Key elements of the funding strategy are as follows:

- To include appropriate margins to allow for the possibility of adverse events (e.g., material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives.
- Deficit recovery periods are determined by the Fund with the aim of recovering deficits as quickly as participating employers can reasonably afford given other competing cost pressures, taking into account the Fund's view of the employer's covenant and the risk to the Fund.
- The deficit recovery periods will be set by the Administering Authority with a maximum deficit recovery period of 12 years, although employers will be free to select any shorter deficit recovery period if they wish.
- Employers who are expected to have a shorter participation period e.g., closed to new entrants will generally have a shorter recovery period.
- Deficit recovery contributions will be expressed in £s.
- Similar principles are applied to employers who have a surplus of assets over liabilities where the surplus is being run off over a maximum period of 15 years as an offset to future service contributions.
- It is possible for employers to prepay their contributions for the full 3 years or annually at each April in return for a cash saving.
- The key financial assumption – the discount rate – is derived for each investment pot by considering the prudent long term expected return on the underlying assets. For the Growth and Medium Pot this is measured over and above assumed future Consumer Prices Index (CPI) inflation. For the Cautious Pot this is measured over and above gilt yields.
- The demographic assumptions for the whole Fund have been determined by carrying out a bespoke analysis of the Fund's membership along with a review of other LGPS funds.
- As part of the Fund's risk management framework, employer type, maturity, funding position, status and ongoing covenant strength will be considered by the Fund when allocating an employer to a specific investment pot.

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

Contents

Appendices

1. Introduction

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

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

BENEFITS

The benefits provided by the LGPS are specified in the governing legislation contained in the Regulations referred to above. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

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

CONTRIBUTIONS

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

Employer contributions and deficit recovery contributions are determined by in accordance with the Regulations.

PRIMARY RATE

The “Primary rate” for an employer is the contribution rate in the Fund Actuary's opinion required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and the employer’s covenant. This includes provision for ancillary death in service and ill health benefits (subject to any external insurance arrangement) and administration costs. 5

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

SECONDARY RATE

The "Secondary rate" is an adjustment that should, in the Fund Actuary's opinion, be made to the Primary rate to address any past service deficit or surplus. In addition, as part of the 2022 actuarial valuation. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

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

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

Contribution plans are normally determined as part of an actuarial valuation although in some circumstances they may be reviewed in between valuations in accordance with the Regulations.

2. Purpose of the FSS in policy terms

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

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

The purpose of this FSS is therefore:

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

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

3. Aims and purpose of the Fund

THE AIMS OF THE FUND ARE TO:

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

THE PURPOSE OF THE FUND IS TO:

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

4. Responsibilities of the key parties

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

KEY PARTIES TO THE FSS

The **Administering Authority,** through delegation to the Pensions Committee, should:

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

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

The **Individual Employers** should:

- When determining the final level of contributions payable at each valuation within the FSS parameters, ensure they consider the appropriate balance between contribution affordability in the short term and the sustainability of contributions in the longer term. An employer should ensure they understand the potential risk that contributions may increase if experience turns out worse than the actuarial assumptions adopted. This may lead to employers choosing to pay higher contributions than the minimum requirement under the FSS.

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

The **Fund Actuary** should:

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

5. Solvency Funding Target

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

SOLVENCY AND LONG-TERM EFFICIENCY

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

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

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

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY CONTRIBUTIONS

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

Underlying these assumptions are:

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

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

In considering this the Fund, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2023 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Fund, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2022 actuarial valuation:

The employer contributions will be expressed and certified as two separate elements:

- the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits, ancillary death in service, ill health benefits and administration costs.
- the Secondary rate: a schedule of lump sum monetary amounts over 2023/26 in respect of an employer's surplus or deficit (with the exception of the Town and Parish Council Group and any other employer at the sole discretion of the Adminstering Authority, where secondary contributions will be certified as a % of pensionable pay).

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to review from 1 April 2026 based on the results of the 2025 valuation.

Employers may also elect to make lump sum prepayments of contributions.

DEFICIT RECOVERY CONTRIBUTIONS

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Fund's view of the employer's covenant and risk to the Fund.

Deficit recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit recovery contributions in one lump sum either on an annual basis or a one-off payment. The Fund does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength.

The key principles when considering deficit recovery plans are as follows:

- The Fund will consider whether it is appropriate for deficit recovery contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain. This will be based on assessment of the employer covenant (including affordability of the existing funding plan) and any other relevant factors.

- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. This is to maintain (as far as possible) equity between different generations of taxpayers and to protect the Fund against the potential for an unrecoverable deficit. The deficit recovery period will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.
- Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Fund considers this to be warranted (see Deficit Recovery Assumptions in Appendix B). The average deficit recovery period adopted by all employers will be set out within the Fund Actuary's report. Employers will be notified of their individual deficit recovery contribution amounts as part of the provision of their individual valuation results. Where increases (or decreases) in employer contributions are required from 1 April 2023, following completion of the 2022 actuarial valuation, at the sole discretion of the Fund the increase (or decrease) from the rates of contribution payable in the year 2023/24 may be implemented in steps, over a maximum of 3 years, depending on affordability of contributions as determined by the administering authority. This will be notified to employers as part of the valuation process. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.
- As part of the process of agreeing funding plans with individual employers, the Fund will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities.
- It is acknowledged by the Fund that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Fund therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2023/2026. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.
- For those bodies identified as having a weaker covenant, the Fund will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans.
- Notwithstanding the above principles, the Fund, in consultation with the Fund Actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment (see Employers Leaving the Fund below).

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain (i.e. the increase in liability caused by paying a member's benefits early) by immediate capital payments into the Fund.

FUNDING FOR ILL HEALTH RETIREMENT COSTS

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment.

With the exception of any employers that have elected to take up ill-health liability insurance, the contributions payable over 2023/26 include an allowance for ill-health retirement costs (alongside those for voluntary early retirements). Where an ill-health retirement occurs, no additional contributions will be due immediately from the employer although any funding strain or profit will emerge following the subsequent actuarial valuation through increased/reduced deficit, depending on the difference in the funding cost of the ill health retirement (on the actuarial valuation assumptions) and the expected cost built into the contributions payable.

For those employers who have elected to take out ill-health liability insurance, they have the option to reduce their certified primary contribution rate by the ill health allowance included at the actuarial valuation. The employer will pay an additional premium to the insurer. Where an ill-health retirement occurs, no additional contributions will be due immediately from the employer and a payment will be received from the insurer. Any funding strain or profit will emerge following the subsequent actuarial valuation through increased/reduced deficit, depending on the difference in the updated funding cost of the ill health retirement (on the actuarial valuation assumptions) and the payment received from the insurer.

EMPLOYERS LEAVING THE FUND

The policy for employers who have a guarantor participating in the Fund:

Where an employer with a guarantor (including where there is a Pass Through arrangement – see Appendix C) leaves the Fund, the termination assessment will be calculated using a valuation funding basis which will take account of the exiting employer's investment pot. Further details are set out in the Termination Policy in Appendix D.

The residual assets and liabilities and hence any surplus or deficit will normally transfer back to the guarantor but in circumstances where an exiting employer is expected to still be responsible for the termination deficit or surplus, an exit payment/exit credit may be payable from/to the exiting employer.

Where there is a surplus and a risk sharing arrangement is in place the Administering Authority will decide whether an exit credit may be payable. This is subject to representation (as required under the Regulations from 20 March 2020) from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. If representation is not made to the satisfaction of the Fund, then the surplus will not be paid directly to the exiting employer following cessation (despite any other agreements that may be in place).

A similar approach will be taken where there is a deficit, where the default would be to collect the exit payment in the absence of the representation from the interested parties.

The information that will be required by the Fund from employers to make a determination on whether an exit credit should be paid where a risk sharing arrangement is in place or guarantee will be supplied to the interested parties at the appropriate time. A determination notice will be provided alongside the termination assessment from the Fund Actuary. The notice will cover the following information and process steps:

- Details of the employers involved in the process (e.g., the exiting employer and guarantor).
- Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority, and all other information provided to the Administering Authority and considered as part of the decision-making process. A key factor will be whether an exiting employer would have been responsible for a deficit.
- The final termination certification of the exit credit by the Fund Actuary.
- The Administering Authority's determination based on the information provided.
- Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority

Further information on the process for making a formal representation is available in the Fund's "Making a formal representation for an exit credit payment" document.

The policy for employers who do not have a guarantor participating in the Fund:

Where an employer with no guarantor leaves the Fund and leaves liabilities in the Fund, the termination assessment will be calculated using a discount rate based on a minimum risk investment strategy and a more prudent life expectancy assumption. Further details are set out in the Termination Policy in Appendix D. For the avoidance of doubt this will include an appropriate provision for potential costs of the McCloud case remedy as per the approach set out in this FSS.

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Fund Actuary).
- In the case of a deficit, the Fund would require the exiting employer to pay the exit payment to the Fund as a lump sum cash payment (unless agreed otherwise by the Fund at their sole discretion) following completion of the termination process and in line with the Regulations.
- The Fund can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Fund Actuary and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers.

  At the discretion of the Administering Authority, repayment plans over an agreed period or a Deferred Debt Agreement may be agreed subject to the Fund's policy in relation to flexibilities in recovering exit payments.

Further detail is available in the Termination Policy in **Appendix D**.

6. Link to investment policy and the Investment Strategy Statement (ISS)

The results of the 2022 valuation show the liabilities to be ~~[100~~101~~]~~% covered by the current assets.

In assessing the value of the Fund’s liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the “minimum risk” investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund’s assets in line with this portfolio would minimise fluctuations in the Fund’s funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of negative 1.4% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund’s liabilities at the valuation would have been significantly higher, resulting in a funding level of 58%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund’s pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The overall strategic asset allocation is set out in the Investment Strategy Statement (ISS).

Based on the investment strategy in the ISS and the Fund Actuary’s assessment of the return expectations for each asset class, this leads to an overall best estimate average expected return of 3.3% per annum in excess of CPI inflation as at the valuation date. For the purposes of setting funding strategy however, the Fund believes that it is appropriate to take a margin for prudence on these return expectations (i.e. to use an assumption that has a greater than 50% chance of being achieved) and this is expected under the Regulations and guidance. This margin, however, has been adjusted to take account of the risk management strategies implemented to reduce the volatility of returns within the investment strategy. In isolation, this allows a lower margin for prudence to be used than would otherwise be the case if these risk management strategies were not in place.

RISK MANAGEMENT

In the context of managing various aspects of the Fund's financial risks, the Fund has implemented a number of risk management techniques. The principal aim of these risk management techniques is to effectively look to provide more certainty of contribution outcomes within reasonable parameters.

In particular:

- Equity Protection - the Fund has implemented protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability (or even a reduction) in employer deficit recovery contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality). Further information in relation to the equity protection arrangement is available within the Fund's Investment Strategy Statement and Committee papers.

- Investment 'pots' – the Fund implemented alternative investment strategies with differential levels of investment risk with effect from 1 April 2020. The aim is to provide greater control over employers' exposure to investment risk (see Appendix F for further information). The pot an employer sits in will be reflected in the relevant employer's asset share, funding basis and contribution requirements.

CLIMATE CHANGE

An important part of the risk analysis underpinning the funding strategy will be for the Actuary to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation, an analysis of different climate change scenarios at the Whole Fund level ~~is being~~has been undertaken relative to the baseline position assuming that the funding assumptions are played out on a best estimate basis. The projections are meant to illustrate the different elements of risk under three climate change scenarios based on the current strategic allocation. The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions taken in relation to climate change. ~~In future t~~The actions taken (both historically and in future) by the Fund in relation to making its asset portfolio more sustainable will ultimately be set out in the separate Taskforce for Climate Change (TCFD) reports and analysis of the asset portfolio adopting similar (but not necessarily the same) scenarios although this can be over a different time period.

The analysis ~~will~~ considers a projection of the funding levels under the scenarios considered which are designed to illustrate the transition and physical risks over different periods depending on what actions are taken globally on climate change.

The key metrics are the relative impact on the funding level over the different time periods as this illustrates the impact of climate related market shocks on the funding plan and the analysis ~~will~~ provides the Fund with additional information regarding the resilience of the funding strategy and adequacy of prudence margins. Whilst the scenarios being considered are only three out of a considerable range of potential outcomes, it shows that climate change can have far reaching effects on the Fund.

The Actuary applies a nuanced approach to understand what is/is not priced into the markets in terms of transition and physical risks. They include assumptions about what is currently priced into markets, and later price in shocks when the markets account for future impacts (both physical and transition impacts). The three climate shock scenarios ~~being~~ considered are:

1. Rapid Transition - there is a sudden divestment across multiple securities in 2025 to align portfolios to the Paris Agreement goals, this will have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Average temperature increase stabilises at 1.5°C around 2050. In relative terms to the best estimate basis at the valuation date, this could have a detrimental impact on the funding level of 5% after 5 years as the larger transition risks manifest, 5% after 20 years and increasing to 8% after 40 years where the physical risks become more dominant.

2. Orderly Transition - political and social organisations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C. This scenario includes additional economic damage consistent with 1.8°C of average temperature rise – peaking in 2070. In relative terms this could have a detrimental impact on the funding level of 3% after 5 years as the transition risks are less impactful and 3% after 20 years. The impact after 40 years is 16% which is higher than the Rapid Transition scenario as the higher temperature rises begin to have a greater impact.

3. Failed Transition - The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events. In relative terms this could lead to a marginal increase in the funding level of 3% after 5 years which reflects the lower impact from transition risks (versus the market pricing) and a hugely detrimental impact of 22% after 20 years and 50% after 40 years which shows the material consequences of the physical risks from the significant temperature increases as time progresses.

The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is currently sufficient in the context of the scenarios considered. However, any climate related impacts will potentially put significant stress on the funding plan, especially when taken into account with other risk factors so the analysis will be further developed and be monitored over time. ~~A summary of the output of the analysis will be set out in the Fund Actuary's report on the valuation.~~

Other risks (e.g. longevity) will also be considered in future analysis but are expected to have a much lower impact than the financial market impacts. The expected impact on asset returns under different scenarios and timeframes will be shown in more detail in the separate valuation and TCFD reports.

7. Identification of risks and countermeasures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or deficit will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Fund has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Fund Actuary's formal valuation report includes quantification of some of the major risk factors. The risk mitigations are set out in the Fund's separate risk register which is included in the Committee papers.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Protection and risk management fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment fund managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation turning out to be significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle, and
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates or deficit recovery contributions (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation (including in each separate investment pot) is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

DEMOGRAPHIC

The demographic risks are as follows:-

- Future unanticipated changes in life expectancy (longevity)
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions (or level of ill-health insurance protection, where relevant)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. An external ill health insurance arrangement can also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members.

Whilst regulatory procedures are in place to ensure that ill-health retirements are properly controlled, employing bodies also need to recognise that unforeseen costs for them will arise in the event that the number of ill-health retirements were to exceed the assumptions made. Early retirements for reasons of redundancy and efficiency do not normally affect the solvency of the Fund because they are the subject of a direct charge.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employers should be doing everything in their power to minimise the number of ill-health retirements.**

With regards to increasing maturity (e.g., due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Fund regularly monitors its cashflow requirements and considers the impact on the investment strategy.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g., changes to the benefits package, retirement age, potential new entrants to Fund
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Pensions Committee and Pension Board) to make their views known to the Fund and to participate in the decision-making process. Previous versions of this FSS were consulted on prior to being approved at a Pensions Committee meeting, a practice that is being continued with this version.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Fund unaware of structural changes in employer's membership (e.g., large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Fund not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements, and
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Fund by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

8. Monitoring and review

The Fund has taken advice from the Fund Actuary in preparing this FSS and has consulted with the employers participating in the Fund.

The Fund will monitor the progress of the funding strategy and, if considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- Has been a significant change in market conditions, and/or deviation in the progress of the funding strategy.
- Have been significant changes to the Fund membership, or LGPS benefits e.g., resolution of the McCloud remedy.
- Have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy.
- Have been any significant special contributions paid into the Fund.
- Has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Fund considers that any action is required, the relevant employers will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

The structure and make-up of the investment pots will also be periodically reviewed between valuations based on the size and maturity of the liabilities within each pot. This will also allow for any movements of employers between the pots due to changes in funding position, covenant and also at the request of an employer.

A full review of this FSS will occur no less frequently than every 3 years, to coincide with completion of a full actuarial valuation.

Review of contributions

In line with the Regulations, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.

The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.

An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them and undertake to meet the costs.

Further information is set out within the policy in Appendix G.

The McCloud judgment

The Government have confirmed that this judgment will result in a remedy being implemented for the LGPS. Whilst proposals to address the specific discrimination have been set out in a written ministerial statement on 13 May 2021, the changes have not yet been made to the Regulations. However, the Department for Levelling Up, Housing & Communities (DLUCH) issued guidance which sets out how the McCloud case should be included within the 2022 valuation.

Appendix A

ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers who are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rates for the investment pots have been derived based on the expected return on the Fund assets based on the long-term strategy set out in the Investment Strategy Statement (ISS). The discount rates include appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below) for the Growth and Medium pots and in excess of Gilt yields for the Cautious pot.

These real returns will be reviewed from time to time based on the investment pot strategy, market outlook and the Fund's overall risk metrics. The discount rates will be reviewed as a matter of course at the time of a formal valuation or a formal employer rate review.

Growth investment pot

For employers in the Growth investment pot the discount rate at the valuation has been derived based on an assumed return of 1.5% per annum above CPI inflation i.e. a real return of 1.5% per annum and a total discount rate of 4.60% per annum.

Medium investment pot

For employers in the Medium investment pot the discount rate at the valuation has been derived based on an assumed return of 1.25% per annum above CPI inflation i.e. a real return of 1.25% per annum and a total discount rate of 4.35% per annum.

Cautious investment pot

For employers in the Cautious investment pot the discount rate at the valuation has been derived based on an assumed return of 0.75% per annum above Gilt yields and a total discount rate of 2.45% per annum.

Inflation
The inflation assumption will be taken to be the investment market's expectation for Retail Prices Index (RPI) inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

1. an allowance for supply/demand distortions in the bond market is incorporated, and
2. an adjustment due to retirement pensions being increased annually by the change in the Consumer Prices Index rather than the Retail Prices Index (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform).

The overall reduction to RPI inflation to arrive at the CPI inflation assumption at the valuation date is 0.8% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation. The change will then be implemented for the policies set out in this statement. The inflation assumption can be different in relation to the termination policy to reflect the required prudence based on the Actuary's advice.

Salary increases
In relation to benefits earned prior to 1 April 2014 (and 2014 to 2022 McCloud underpin), the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long-term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. The assumption used for an employer will be notified to them separately as part of the discussions but typically will be a minimum of 4% per annum until 31 March 2026.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Fund but as a minimum must be reasonable and practical. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension increases/Indexation of CARE benefits
Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g., some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy
The mortality in retirement assumptions are based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the

experience of the Fund. The mortality tables used are set out below, with a loading reflecting LGPS experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Fund Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2021 projections and a long-term improvement trend of 1.75% per annum.

As an indication of impact, assumed life expectancies at age 65 are:

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.1	24.3
Actives aged 45 now	23.7	26.4
Deferreds aged 45 now	23.3	25.9

For example, a male pensioner, currently aged 65, would be expected to live to age 87.1. Whereas a male active member aged 45 would be expected to live until age 88.7. This is a reflection of the expected improvement in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation
It has been assumed that, on average, 75% of retiring members will take the maximum tax-free cash available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up regardless of age.

Other Demographics
Following an analysis of Fund experience carried out by the Fund Actuary, the incidence of ill health retirements, death before retirement, withdrawal rates and the proportions married/civil partnership has been reviewed. The outcome of this analysis is that the assumptions for death before retirement, withdrawal and the proportions married/civil partnership have been updated in line with the recommendations from the Actuary. The assumption for ill health retirements remains in line with the assumption adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate.

Expenses
Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (the future accrual cost) as stable as possible, so this needs to be taken into account when setting the assumptions.

As future accrual contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. This reflects the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only, and therefore, these contributions will be invested for a longer period.

FINANCIAL ASSUMPTIONS – FUTURE ACCRUAL

The financial assumptions in relation to future accrual of benefits are not specifically linked to investment conditions as at the valuation date itself, and the following overall assumed real discount rates apply for each investment pot:

Growth investment pot

For employers in the Growth investment pot, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2.00% per annum above the long-term average assumption for consumer price inflation of 3.10% per annum. This leads to a discount rate of 5.10% per annum.

Medium investment pot

For employers in the Medium investment pot, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 1.75% per annum above the long-term average assumption for consumer price inflation of 3.10% per annum. This leads to a discount rate of 4.85% per annum.

Cautious investment pot

For employers in the Cautious investment pot the discount rate at the valuation has been derived based on an assumed return of 0.75% per annum above Gilt yields and a total discount rate of 2.45% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the asset share for each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the pot for the employer unless agreed otherwise between the employer and the Fund at the sole discretion of the Fund.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on the employer's investment pot.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2022 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.90% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate (Growth pot)	4.60% p.a.
Investment return/Discount Rate (Medium pot)	4.35% p.a.
Investment return/Discount Rate (Cautious pot)	2.45% p.a.
CPI price inflation	3.10% p.a.
Long Term Salary increases*	4.60% p.a.
Pension increases/indexation of CARE benefits	3.10% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate (Growth pot)	5.10% p.a.
Investment return/Discount Rate (Medium pot)	4.85% p.a.
Investment return/Discount Rate (Cautious pot)	2.45% p.a.
CPI price inflation	3.10% p.a.
Long Term Salary increases	4.60% p.a.
Pension increases/indexation of CARE benefits	3.10% p.a.

*Short term salary increases may also apply, and each employer will be notified of this separately. Typically this is a total pay increase of 4% p.a. until 31 March 2026.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Annuitant	Normal health	106% S3PMA_CMI_2021 [1.75%]
Annuitant	Normal health	100% S3PFA_M_CMI_2021 [1.75%]
Annuitant	Dependant	129% S3PMA_CMI_2021 [1.75%]
Annuitant	Dependant	114% S3DFA_CMI_2021 [1.75%]
Annuitant	Ill health	134% S3IMA_CMI_2021 [1.75%]
Annuitant	Ill health	182% S3IFA_CMI_2021 [1.75%]
Annuitant	Future dependant	129% S3PMA_CMI_2021 [1.75%]
Annuitant	Future dependant	114% S3DFA_CMI_2021 [1.75%]
Active	Normal health	110% S3PMA_CMI_2021 [1.75%]
Active	Normal health	99% S3PFA_M_CMI_2021 [1.75%]
Active	Ill health	242% S3IMA_CMI_2021 [1.75%]
Active	Ill health	321% S3IFA_CMI_2021 [1.75%]
Deferred	All	117% S3PMA_CMI_2021 [1.75%]
Deferred	All	106% S3PFA_M_CMI_2021 [1.75%]
Active / Deferred	Future dependant	126% S3PMA_CMI_2021 [1.75%]
Active / Deferred	Future dependant	114% S3DFA_CMI_2021 [1.75%]

Other demographic assumptions are set out in the Fund Actuary’s formal report.

Appendix B

EMPLOYER DEFICIT RECOVERY CONTRIBUTIONS AND SURPLUS OFFSET PLANS

If the funding level of an employer is above or below 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), an adjustment plan needs to be implemented such that the secondary contributions for each employer can be calculated. This adjustment plan requires a period over which to recover the deficit or run off any surplus i.e. the recovery period.

It is one of the Fund's key objectives that an employer will target 100% funding (e.g. full solvency) over an agreed period to maintain sustainability of contributions in the longer term subject to the affordability of the participating employers given other competing cost pressures, dependent on the Administering Authority's view of the employer's covenant and risk to the Fund. Based on the advice of the Actuary the assumptions and parameters in the FSS have be determined to try to achieve this but there is no guarantee that contributions will remain sustainable at future valuations. Employers therefore need to consider the balance between affordability of contributions in the short term and sustainability of contributions in the longer term (at subsequent actuarial valuations) in the context of their budgets now and in the future when determining the level of contributions. This could lead to an employer deciding to pay more than the minimum contributions determined under the FSS which would support future sustainability/stability of contributions at future valuations.

Deficit recovery contributions or surplus offsets will normally be expressed as £s amounts (~~with the~~ except~~ion of the Town and Parish Council's group~~ where total contributions ~~will~~ have been agreed to be expressed~~paid~~ as a % of pensionable pay at the sole discretion of the Administering Authority), and it is the Fund's objective that any funding deficit is eliminated within a timeframe determined by the Fund given its view on the participating employer's covenant and associated risk of delayed or non-payment to the Fund

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit recovery contributions in one lump sum either on annual basis or a one-off payment.

The approach to the determination of recovery periods is summarised below:

If an employer is in deficit:

Category	Default Recovery Period	Derivation
Fund Employers	12 years	Determined by reducing the period from the preceding valuation by at least 3 years (where appropriate)
Open Admitted Bodies	12 years	Determined by reducing the period from the preceding valuation by at least 3 years
Closed Employers	Lower of 12 years and the future working lifetime of the membership, subject to a minimum of 3 years	Determined by reducing the period from the preceding valuation and the membership of the employer
Employers with a limited participation in the Fund	Determined on a case-by-case basis, subject to a minimum of 3 years	Length of expected period of participation in the Fund

If an employer is in surplus:

Category	Default Recovery Period	Derivation
Fund Employers	15 years	Determined as the same period adopted for the last valuation
Open Admitted Bodies	15 years	Determined as the same period adopted for the last valuation
Closed Employers	Higher of 15 years and the future working lifetime of the membership	Determined by the membership of the employer
Employers with a limited participation in the Fund	Determined on a case-by-case basis, subject to a minimum of 3 years	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Fund may take into account some or all of the following factors:

- The size of the funding surplus or deficit,
- The business plans of the employer,
- The assessment of the financial covenant of the employer, and security of future income streams,
- Any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.

OTHER FACTORS AFFECTING THE EMPLOYER DEFICIT RECOVERY CONTRIBUTIONS

As part of the process of agreeing funding plans with individual employers, the Fund will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer deficit recovery period being acceptable to the Fund, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Fund that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with affordability issues that could seriously affect their ability to function in the future. The Fund therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2023/26. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Fund will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit recovery contribution must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Fund, in consultation with the Fund Actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

Appendix C

ADMISSION POLICY

INTRODUCTION

This document details the Fund's policy on the methodology for assessment of ongoing contribution requirements and admissions into the Fund. It supplements the general policy of the Fund as set out in the FSS.

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the Fund is kept as a live document and will be updated by the Fund as bodies are admitted to or leave the Fund.

ENTRY TO THE FUND

Unless agreed otherwise by the Fund, prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Fund. If the risk assessment and/or bond amount is not to the satisfaction of the Fund (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions. Some aspects that the Fund may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves.
- If the admitted body has an expected limited lifespan of participation in the Fund.
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

At the discretion of the Fund, where an admission is in respect of 10 or less LGPS posts the Admitted Body will be admitted to the Fund on a ‘Pass Through’ basis where the Admitted Body's ongoing contribution requirements are agreed between the Letting Employer and the Admitted Body, without an individual contribution assessment being carried out.

SECOND GENERATION OUTSOURCINGS FOR STAFF NOT EMPLOYED B Y THE SCHEME EMPLOYER CONTRACTING THE SERVICES T O AN ADMITTED BODY

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the main Councils, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a ‘Related Employer’ for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor.

“Related employer” is defined as “any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)”.

LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARA 8

Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a) a person who funds the admission body in whole or in part;

(b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(c) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

> (i) the transfer of the service or assets by means of a contract or other arrangement,

(ii) a direction made under section 15 of the Local Government Act 1999 (115) (Secretary of State's powers),

(iii) directions made under section 497A of the Education Act 1996 (116);

(d) a person who—

(i) owns, or

(ii) controls the exercise of the functions of the admission body; or

(iii) which is a provider of probation services under section 3 of the Offender Management Act 2007 (power to make arrangements for the provision of probation services) or a person with whom such a provider has made arrangements under subsection (3)(c) of that section.

In accordance with the above Regulations, the Fund requires a guarantee from the related employer. The related employer may seek a bond from the admitted body taking into account the risk assessment carried out by the Fund Actuary.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service (including those admitted on a Pass-Through basis) will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Fund. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the Fund Actuary. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund it must also be satisfied (along with the Fund) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Fund, the level of the bond amount will be subject to review on a regular basis. In the case of an Admission Body admitted on a Pass-Through basis, the requirement to carry out an assessment of the level of risk on premature termination of the contract may be waived at the agreement of the Fund and the Letting Employer who act as guarantor to the Admission Body.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer. Please see the Fund's Termination Policy for further details.

An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund the Fund may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions.

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions as detailed in the Fund's Termination Policy. This will substantially reduce the risk of an uncertain and potentially large exit payment being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular, the employing body's notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the notional investment returns generated by the investment strategy for the employer's investment pot. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Fund or depending on any case specific circumstances.

Appendix D

Worcestershire Pension Fund

TERMINATION POLICY, FLEXIBILITIES FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

INTRODUCTION

This document details the Fund's policy on the methodology for assessment of exit payments in the event of the cessation of an employer's participation in the Fund, spreading exit payments and Deferred Debt Agreements (DDA). It supplements the general policy of the Fund as set out in the FSS.

This methodology will be reviewed on a regular basis, in light of changes in market conditions and any review of fiscal or monetary policy by the Government or Bank of England.

TERMINATION OF AN EMPLOYER'S PARTICIPATION

Unless entering a DDA or where a Suspension Notice has been issued as the exiting employer is likely to have active members again within three years, an employer ceases to participate within the Fund when the last active member leaves the Fund. This includes where the employer ceases to be eligible for membership e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation.

When an employing body ceases to participate within the Fund for any reason, employees may transfer their past service benefits to another employer, either within the Fund or elsewhere. If this does not happen the employees will retain pension rights i.e. either deferred benefits or immediate retirement benefits within the Fund.

The Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund or elsewhere.

TERMINATION ASSESSMENTS

When an employing body ceases to participate within the Fund, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of liabilities in respect of the exiting employer's current and former employees along with a termination contribution certificate (a **termination assessment**). Any costs associated with the termination assessment will be payable by the exiting employer and will either be invoiced to the employer (or guarantor as appropriate) by the Fund or included by increasing the exit payment / reducing the exit credit by the appropriate amount.

The policy for employers who have a guarantor participating in the Fund:

If the exiting employer (including those admitted on a Pass-Through basis) has a guarantor within the Fund or a successor body exists to take over the exiting employer's liabilities, the Fund's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise. The costs associated with the termination assessment will be charged directly to the exiting employer unless the guarantor directs otherwise.

The amount of exit payment which the exiting employer is required to pay (if any) will be determined in accordance with the commercial agreement.

The residual assets and liabilities, and hence any surplus or deficit will normally transfer back to the guarantor of the exiting employer. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the guarantor, constitute a complete amalgamation of assets and liabilities with those of the guarantor.

In circumstances where an exiting employer is expected to still be responsible for all or part of an exit payment, an exit credit may not be payable to the exiting employer. This is subject to representation by all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor, in particular any 'risk-sharing' agreements that may exist. In line with the amending Regulations (**The Local Government Pension Scheme (Amendment) Regulations 2020**) the parties will need to make representation to the Fund if they believe an exit credit should be paid outside the policy set out above, or if they dispute the determination of the Fund.

The information required by the Fund from an exiting employer to exercise its discretion on whether an exit credit should be paid where a guarantee or risk sharing arrangement is in place, and a representation has been made, will be supplied to the interested parties at the appropriate time. A determination notice will be provided alongside the termination assessment from the Fund Actuary. The notice will cover the following information and process steps:

1) Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2) Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision-making process. A key factor will whether an employer is responsible for a deficit. This is subject to the information provided

and any risk sharing arrangements in place, as well as all other factors that the Administering Authority considers relevant.

3) The final termination certification of the exit credit by the Fund Actuary.
4) The Administering Authority's determination based on the information provided and all other relevant factors.
5) Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

Further information on the process for making a formal representation is available in the Fund's "Making a formal representation for an exit credit payment" document.

The policy for employers who do not have a guarantor participating in the Fund:

A termination assessment will be made based on a minimum risk funding basis. This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a deficit emerges in the future (after participation has terminated).

- In the case of a surplus, the Fund pays any exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Fund Actuary).

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Fund at their sole discretion) following completion of the termination process.

The Fund can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it taking into account the advice of the Fund Actuary.

The Fund currently groups Town and Parish Councils for contribution rate setting purposes. The Fund's policy is that, on termination of participation within the group, the termination assessment will be based on a simplified share of deficit/surplus approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit/surplus share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the body and the group as a whole, and then adjusting to the date of exit. The share of deficit/surplus will be assessed based on the ongoing valuation funding basis for the group as a whole at the last actuarial valuation. The adjustment to the date of exit will normally be made in line with the funding assumptions adopted for the group as at the last actuarial valuation unless the Fund Actuary and Fund consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.

In addition, for some Multi-Academy Trusts (MAT), a grouped approach has been taken with individual academies within a Trust no longer being separately identifiable on the Fund's administration system or for funding or contribution purposes. On termination of participation of one of the academies within such a MAT, the termination assessment will be based on a simplified share of deficit/surplus approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit/surplus share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the employees of the exiting academy and the MAT a whole, and then adjusting to the date of exit. The share of deficit/surplus will be assessed based on the ongoing valuation funding basis for the MAT as a whole at the last actuarial valuation. The adjustment to the date of exit will normally be made in line with the funding assumptions adopted for the MAT as at the last actuarial valuation unless the Fund Actuary and Fund consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.

Unless agreed otherwise by the Fund, any unfunded liability that cannot be reclaimed from the outgoing grouped body will be underwritten by the group/MAT and not all employers in the Fund. Following termination, the residual liabilities and assets in respect of that body will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the group/MAT.

Any costs associated with the termination assessment will be payable by the exiting employer and will either be invoiced to the employer by the Fund or included by increasing the exit payment / reducing the exit credit by the appropriate amount.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former employees' benefits to another LGPS Fund in England and Wales. In these cases, no termination assessment is required as there will no longer be any employer liabilities in the Fund. Therefore, a separate assessment of the assets to be transferred will be required. Any costs associated with the asset transfer will be payable by the exiting employer and will be invoiced to the employer by the Fund.

Allowing for the McCloud Judgment in termination valuations

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. When assessing a termination position a reasonable estimate for the potential cost of McCloud will be included within the termination assessment.

The allowance will be calculated in line with the treatment set out in the Funding Strategy Statement for all members of the outgoing employer using the termination assessment assumptions. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud once the final termination has been settled and payments have been made.

FUTURE TERMINATIONS

In many cases, termination of an employer’s participation is an event that can be foreseen, for example, because the organisation’s operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Fund becoming aware of such circumstances, it can amend an employer’s minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Fund that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. For example, on agreement with the employer, by moving the employer to a lower risk funding basis or a notional minimum risk funding basis. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Fund, or depending on any case specific circumstances.

MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2022) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Minimum risk assumptions	**31 March 2022**
Discount Rate	1.70% p.a.
CPI inflation	3.10% p.a.
Pension increases/indexation of CARE benefits	3.10% p.a.

These financial assumptions will be reviewed from time to time (see below).

All demographic assumptions will typically be the same as those adopted for the actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. This will be considered from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2.25% p.a. from 1.75% used in the 2022 valuation for ongoing funding and contribution purposes.

REVIEW OF THE TERMINATION POLICY

As set out above, for employers without a guarantor, the financial assumptions are currently related to the yields on Government debt (known as Gilts) adjusted based on actuarial advice. The principle of the termination policy and the assumptions used is to ensure (as far as possible) there is sufficient monies to pay all the benefits due in relation to the "orphan" members of the outgoing employer as otherwise the remaining employers would later have to fund this via their contributions at subsequent valuations. This is why the Fund take a more cautious view as set out in this policy. For other employers the policy is to use the appropriate ongoing funding assumptions if the orphaned liabilities are to be wholly subsumed by a guarantor in the Fund (once any exit payment is paid to/from the employer depending on the circumstances).

The policy and assumptions will be reviewed as a matter of course at each actuarial valuation but will also be reviewed regularly or in times of extreme events, such as a material shift in market conditions or shift in economic/fiscal policy, which will affect the assets or liabilities of the exiting employer. This is to ensure that the approach remains appropriate, given the risk associated with funding the orphaned liabilities left behind by an exiting employer is being passed to other Fund employers, and ultimately the tax payer. This means that the assumptions (both financial and demographic) can be changed if circumstances warrant it and this could mean that the discount rate may not be linked to the market yield on gilts in future or that the inflation assumption is further adjusted. An exiting employer would be informed of any change (and the rationale for the change) and the policy would be updated from time to time.

POLICY IN RELATION TO SPREADING EXIT PAYMENTS AND DEFERRED DEBT PAYMENTS (DDA)

The Fund's policy for spreading exit payments (referred to as payment plans) is as follows:

1) The default position is for exit payments to be paid immediately in full (adjusted for interest where appropriate) unless there is a risk sharing arrangement in place with a guaranteeing employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.

2) Exit payment spreading and DDAs will always be discussed with employers, whether at the employer's request or not. However, spreading an exit payment, or a DDA will only be agreed at the discretion of the Administering Authority, subject to the policy in this Appendix.

If an employer wants the Fund to agree to spread an exit payment or a DDA, they must make a request in writing covering the reasons for such a request. The Administering Authority will assess whether the full exit payment is affordable, and whether it is in the interest of the Fund to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements (see further below).

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be invoiced to the employer by the Fund or added to the contribution plan (for a DDA) or exit payment (where the exit payment is to be spread).

The following policy and processes will be followed in line with the principles set out in the statutory guidance dated 2 March 2021.

POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1) The Administering Authority will request updated financial information from the exiting employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided, then the default policy of immediate payment will apply.

2) Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit payment over a period of time. Depending on the length of the period and also the amount of the exit payment, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payment.

3) The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

4) The initial process to determine whether an exit payment should be spread may take up to 6 months from receipt of data, so it is important that employers who request to spread exit payment notify the Fund in good time.

5) If it is agreed that the exit payment can be spread then the Administering Authority will engage with the exiting employer regarding the following:

    a) The spreading period that will be adopted (this will be subject to a maximum of 5 years).
    b) The initial and annual payments due and how these will change over the period
    c) The interest rates applicable and the costs associated with the payment plan devised.
    d) The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account, etc.
    e) The responsibilities of the exiting employer during the exit payment spreading period including the supply of updated information and events which would trigger a review of the situation.
    f) The views of the Fund Actuary, covenant, legal and any other specialists necessary
    g) The covenant information that will be required on a regular basis to allow the payment plan to continue.
    h) Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances).

6) Note that proposed exit payment spreading will always be discussed with the employer, whether at the employer's request or not. Once the Administering Authority has reached its decision, the arrangement (where applicable) will be documented, and any supporting agreements will be included.

DEFERRED DEBT ARRANGEMENT

As opposed to paying the exit payment (immediately or spread over an agreed period of time) an employer may request to utilise the "Deferred Debt Agreement" (DDA) facility at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority. An employer who enters into a DDA will continue to participate in the Fund with no contributing members.

The following process will determine whether the Fund will agree to enter into a DDA:

1) The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided, then a DDA will not be entered into by the Administering Authority.

2) Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit payment that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Fund Actuary, covenant and legal advisor where necessary).

3) The initial process to determine whether a DDA should apply may take up to 6 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.

4) If the Administering Authority's assessment confirms that the potential exit payment is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a DDA using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered:

    - What security the employer can offer whilst the employer remains in the Fund. In general, the Administering Authority won't enter into a DDA unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery plan and other funding arrangements.
    - The investment strategy that would be applied to the employer e.g. the growth, medium or cautious pot strategy which could support the arrangement.

- Whether an upfront cash payment should be made to the Fund initially to reduce the potential future exit payment.
- What the updated Secondary rate of contributions would be required up to the next valuation.
- The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
- The advice of the Fund Actuary, covenant, legal and any other specialists necessary.
- The responsibilities that would apply to the employer while they remain in the Fund.
- What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the Secondary rate of contributions (e.g. provision of security).
- The circumstances that would trigger a variation in the length of the DDA (if appropriate), including a cessation of the arrangement e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months. Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
- Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will make a final decision on whether it is in the best interests of the Fund to enter into a DDA with the employer and confirm the terms that are required.

5) For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the agreed triggers are met.

6) The costs associated with the advice sought and drafting of the DDA will be borne by the employer and will be invoiced to the employer by the Fund or included in the contribution plan (depending on the circumstances).

Appendix E

COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the Fund relative to the size of the employer's operating cashflow
- The relative priority placed on the Fund compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contributions for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks, and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1) Parental Guarantee and/or Indemnifying Bond.
2) Transfer to a more prudent actuarial basis (e.g. the termination basis).
3) Shortened deficit recovery periods and increased cash contributions.
4) Managed exit strategies.
5) Contingent assets and/or other security such as escrow accounts.

Appendix F

Worcestershire Pension Fund

INVESTMENT POT RISK MANAGEMENT POLICY

In the context of managing aspects of the Fund's financial risks, the Fund has implemented a range of "investment" pots for employers (with effect from 1 April 2020) which exhibit different levels of investment risk based on alternative underlying investment strategies. The three available investment pots are called:

- The Growth pot;
- The Medium pot; and
- The Cautious pot

This strategy will be reviewed periodically as part of the governance of the Fund's overall risk management framework. This policy should be considered alongside the Fund's Covenant Assessment and Monitoring Policy

INVESTMENT STRATEGIES

The current Fund investment strategy will apply to the "Growth pot". The "Medium pot" and "Cautious pot" will provide reduced levels of investment risk, which may be appropriate particularly for those employers that are considering leaving the Fund.

The strategic allocation for the Fund as a whole and for each of the investment pots is set out in the Investment Strategy Statement.

The investment strategy underlying each investment pot will be reviewed formally at each actuarial valuation along with the overall Fund investment strategy. This will also allow for any movements of employers between the investment pots due to changes in funding position, covenant and also at the request of an employer.

In addition, a high-level health check will be performed annually allowing for market changes and outlook as well as underlying changes in the maturity and profile of the liabilities of the employers within each pot. However, a formal review may be undertaken mid-valuation if there is a material shift of employers between pots and/or material shift in the funding position in order to more efficiently manage the overall risk.

The investment pots will be managed within the overall Fund investment strategy as far as possible. If any investment options are unavailable, and are deemed to be desirable, then the Fund will consider obtaining access to these options through the LGPS Central Limited pool or potentially directly.

EMPLOYER ALLOCATIONS

The allocations of employers to investment pots will be reviewed in detail alongside the actuarial valuation every 3 years. The Fund will take into account the following employer factors when considering overall risk and allocating an employer to a specific pot:

- Employer type e.g. tax raising body, academy, admitted body.
- Employer ongoing covenant strength incl. any guarantee or security.
- Employer size, maturity and funding position.
- Employer status e.g. open/closed to new members and objectives.

If, based on a covenant assessment carried out by the Fund, an employer is deemed to have a weak covenant, or is expected to exit the Fund in the near future, the Fund reserves the right to move an employer (typically following discussions with that employer) into either the Medium or Cautious investment pot to provide some protection against deterioration in funding position for the employer and the Fund as a whole. Any orphaned liabilities, once an employer exits the Fund, will generally be automatically moved into the Cautious investment pot as these liabilities have no sponsoring employer and are ultimately underwritten by all employers within the Fund.

As part of a triennial valuation, any employer can elect to move to a lower risk investment strategy to reduce their level of investment risk exposure and the potential volatility in their future funding position.

The choice of investment pot will be reflected in each employer’s asset share, funding basis and contribution requirements. It dictates the financial assumptions used to determine the employer’s contribution requirements. The relevant discount rate used for valuing the present value of liabilities is determined based on the notional investment strategy for the relevant investment pot’s investment strategy. This is expressed as an expected return over CPI for the Growth and Medium pots and as an expected return of Gilt yields for the Cautious pot.

The above employer factors will be monitored regularly between actuarial valuations and the allocation to a specific investment pot may be reviewed between actuarial valuations in the following circumstances:

- Material change in certain types of employers’ funding position
- Material change in an employer’s status or covenant

- Request from an employer to move investment pots, subject to the agreement of the Fund.

Appendix G

Worcestershire
Pension Fund

REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

In line with the Regulations that came into force on 23rd September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1) The Administering Authority may review the contributions of an employer where it appears likely to the Administering Authority that there has been a significant change to the liabilities of an employer.
2) The Administering Authority may review the contributions of an employer where it appears likely to the Administering Authority that there has been a significant change in the employer’s covenant.
3) An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (or changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation. However, changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a contribution review would not be undertaken close to next actuarial valuation date, except in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.

- However, where there has been a material change in covenant, a review will be considered on a case-by-case basis to determine if a contribution review should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if any of the following scenarios appear likely to the Administering Authority. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1) **Significant changes in the employer's liabilities**

This includes but is not limited to the following scenarios:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:

i. Restructuring of an employer
ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
iii. A bulk transfer into or out of the employer
iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not using ill-health liability insurance) or, large numbers of withdrawals

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total of the employer's liabilities at the previous triennial funding valuation.

Any review of the contributions will normally only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

2) Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.
b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
c) The Fund becoming (or ceasing to be) subordinate behind other creditors of the employer such as banks or other pension funds.
d) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately, and the Administering Authority will set out the requirements (an example of the notifiable events framework is set out in Appendix H).

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. Note that employers are required to support any reasonable information request to allow the Fund to effectively monitor changes in covenant. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contributions would include consideration of the updated funding position both on an ongoing and termination basis (if applicable) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions (see further comments below):

- The contributions changing or staying the same depending on the conclusion and/or;
- Security to improve the covenant to the Fund and/or;
- If appropriate, a change in the investment strategy for the employer.

PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intention to review contributions. Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of an employer's restructuring plans. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Fund Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and/or administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in membership data is expected to have a material impact on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contributions, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (e.g. the Growth pot, Medium pot or Cautious pot) in line with the Funding Strategy Statement.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change.
- Whether the Secondary contribution rate should be adjusted including whether the length of the deficit recovery period adopted at the previous valuation remains appropriate. The remaining deficit recovery period from the last valuation would be the maximum period adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Fund Actuary).

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor, then the guarantor would be consulted as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contributions. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review. This may, for example, be for an employer to be made to confirm annually that there has been no change to their circumstances that would have a detrimental impact on their covenant and in the interim, should any such change occur, the expectation is that they inform the Fund immediately, in line with the notification requirements in the above section.

Appendix H

Worcestershire Pension Fund

NOTIFIABLE EVENTS FRAMEWORK

The Fund regularly monitors the covenant of its employers. Whilst in most cases the regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to notify the Administering Authority of any material changes. This is in keeping with the guide that The Scheme Advisory Board recently published (‘A Guide for Administering Authorities’) in which is recommended that Administering Authorities should include a notifiable events process within its policies.

It is considered to be in the best interests of the employer to inform the Fund of any notifiable events that occur. This will enable the Fund to work with the employer to find an effective solution, particularly in times of change or financial distress and keep the interests of the employer, the Fund, the members and a guarantor (if one exists) in mind. Early engagement is always more effective and efficient for all parties than retrospective steps.

By not informing the Fund of a notifiable event, it may be seen as a deliberate act to hide the information or delay the Fund from taking action. If the Fund becomes aware of an event that has not been openly communicated as part of this policy, they reserve the right to implement one or more of the actions set out below without the consent of the employer.

In the case of guaranteed employers this policy applies to both the employer and the guarantor.

A notifiable event is any event or circumstance that, in the judgement of the Fund, could materially affect one or more of the following:

- the employer’s basis for continued participation in the Fund
- the employer’s ability to pay its ongoing contributions to the Fund*
- the employer’s ability to pay its termination debt to the Fund in the event of ceasing to participate in the Fund*

* These conditions would also apply where an employer and the Fund has entered into a Deferred Debt Agreement allowing continued participation as a Deferred Employer with no contributing members.

This policy sets out a list of typical events that, if they apply, must be notified to the Fund within a reasonable time period. The list is not exhaustive and may be modified from time to time. The Fund would deem 10 working days to be reasonable in the majority of cases. In some cases, notification prior to the event occurring may be required and this is detailed within the relevant sections below. The Fund will ensure that all information is treated as confidential.

EVENTS THAT MUST BE NOTIFIED TO THE FUND

The Fund considers any change that would be detrimental to either the employer's ability to finance their pension obligations or the ongoing viability of the employer to be 'material' and 'significant'.

Typical events that must be notified to the Fund include the following:

1) Significant changes in the employer's membership / liabilities

This includes but is not limited to the following scenarios, where applicable:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
   i. Restructuring of the employer involving significant changes in staffing
   ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)*
   iii. A bulk transfer of staff into the employer, or out of the employer to another pension scheme*
   iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or large a number of member withdrawals*
   v. A decision which will restrict the employer's active membership in the future*

b) Two or more employers merging including insourcing and transferring of services*

c) The separation of an employer into two or more individual employers*

d) Concerns of fraudulent activity that may include pensions aspects

*In these examples, the Fund requires prior notification of events at least 14 days before commencement of staff consultation regarding proposed changes to members' pensions. The Fund will ensure that all information is treated as confidential.

2) Significant changes to the employer covenant

i. Significant changes in the employer's financial strength / security

A material change in an employer's immediate financial strength or longer-term financial outlook. This includes but is not limited to the following scenarios (where applicable):

a. An employer's forecasts indicate reduced affordability of contributions.
b. A significant reduction in funding (e.g. reduction in grants, central government funding or other income stream)

c. Provision of security to any other party including lenders and alternative pension arrangements
d. Impairment of security, bond or guarantee provided by an employer to the Fund against their obligations
e. The sale or transfer of significant assets, where the net book value or sale value exceeds 10% of the employer's net assets
f. A material increase in gearing (i.e. taking on additional debt in order to finance its operations)
g. The employer has defaulted on payments
h. There has been a breach of banking (or other) covenant or the employer has agreed a waiver with the lender
i. The employer's officers are seeking legal advice in the context of continuing to trade and/or potential wrongful trading
j. An employer becomes insolvent

ii. A change in the employer's <u>circumstances</u>

This includes but is not limited to the following scenarios, where applicable:

a. A merger of the employer with another organisation
b. An acquisition by the employer of another organisation or relinquishing control
c. An employer commences the wind down of its operations or ceases to trade
d. A material change in the employer's business model
e. A change in the employer's legal status (to include matters which might change qualification as a scheme employer under the LGPS Regulations)
f. The employer becoming aware of material suspected / actual fraud or financial irregularity
g. The employer becoming aware of material legal or court action against them
h. There has been suspension or conviction of senior personnel
i. Regulatory investigation and/or sanction by other regulators
j. Loss of accreditation by a professional, statutory or regulatory body

In the examples set out above, the Fund requires prior notification of these events (e.g. at the time that there has been a decision in principle rather than once the event has happened). The Fund will ensure that all information is treated as confidential.

WHAT INFORMATION SHOULD BE PROVIDED TO THE FUND?

The information required will vary depending on the situation that has arisen. The first step will be to email or call the Fund to notify them of the event that has occurred.

WHAT ACTION WILL THE FUND TAKE ONCE NOTIFIED?

Where one of the listed events occurs, the Fund will enter into discussion with the employer to clarify details of the event. If necessary, advice will be taken from the Fund Actuary, legal or a covenant specialist advisors. Depending on the outcome of the Fund's review of the situation, potential actions that may be taken as a result are as follows:

a. No further action required
b. More detailed request for further information and ongoing monitoring
c. The Fund will review the documentation provided and respond on next steps
d. A review of employer contributions
e. A review of the recovery period used to calculate secondary contributions
f. A review of the employer's investment bucket
g. A review of the termination position and discussions with the employer as to how this may be addressed
h. A review of any deferred debt agreements if applicable

Employers will kept informed of all steps throughout the process.

Appendix I

GLOSSARY

50/50 Scheme:
In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

Actuarial valuation:
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contributions with the Fund to fund the cost of new benefits and make good any existing deficits as set out in the separate FSS. The asset value is based on market values at the valuation date.

Administering Authority:

The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies:
A specific type of employer under the "LGPS" who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark:
A measure against which fund performance is to be judged.

Best estimate assumption:
An assumption where the outcome has a 50/50 chance of being achieved.

Bonds:
Loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career average revalued earnings scheme (CARE):
With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Cautious investment pot:
An investment strategy linked to income generating assets which target a minimum return above gilt yields, allowing for default, reinvestment risk and any other reasonable margins of prudence deemed appropriate.

Contingent assets:
Assets held by employers in the Fund that can be called upon by the fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

Covenant:
The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI:
Acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS have been linked to the annual change in CPI since April 2011.

CPIH:
An alternative measure of CPI which includes owner occupiers’ housing costs and Council Tax (which are excluded from CPI).

Deferred Debt Agreement (DDA):
A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA

Deficit:
The extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions). The deficit in relation to an employer is the extent to which the value of the past service liabilities for which the employer is liable exceeds the value of the appropriate part of the Fund’s assets.

Deficit recovery period:
The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount rate:
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's cost of future accrual:
The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employer's investment pot:
The investment strategy which applies to an employer being either the Growth pot, the Medium pot or the Cautious pot.

Employing bodies:
Any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities:
Shares in a company which are bought and sold on a stock exchange.

Equity protection:
An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit credit:
The amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Exit payment:

The amount payable by an exiting employer to the Fund in the case where the exiting employer is determined to be in deficit at the point of cessation based on a termination assessment by the Fund Actuary.

Fund Actuary: The Actuary appointed to the Fund as required under statute.

Fund / Scheme employers:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency level:
The ratio of the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

Funding Strategy Statement (FSS):
This is a key governance document that outlines how the administering authority will manage employer’s contributions and risks to the Fund.

Government Actuary's Department (GAD):
The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Growth investment pot:
A predominantly growth asset biased investment strategy targeting long term additional outperformance above CPI inflation. Further information is available in the Investment Strategy Statement.

Guarantee / guarantor:
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment pot:
This describes the portion of assets invested in one of the three investment strategies.

Investment strategy:
The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer:
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities:
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS:
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.
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Mandatory scheme employers:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers. For example, these include councils, colleges, universities and academies.

Maturity:
A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Medium investment pot:
An alternate investment strategy available to employers who wish to reduce investment risk to some extent compared to the Growth investment pot but still target long term additional outperformance above CPI inflation. Further information is available in the Investment Strategy Statement.

Members:
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis:
An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed, less an appropriate margin to reflect the risk being transferred from the employer to the Fund on termination. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities:
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Pass through:
Arrangement whereby the risks of participating in the LGPS are retained by the Letting Employer with the Admission Body's contributions being a reflection of the rate of the Letting Employer (subject to any specific adjustment required under the separate contractual arrangement).

Percentiles:
Relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions:
When there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling:
Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment:

The payment by employers of contributions to the Fund earlier than that certified by the Fund Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present value:
The value of projected benefit payments, discounted back to the valuation date.

Primary rate:
The contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

Profile:
The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent assumption:
An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate:
A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the Fund Actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

Real return or real discount rate:
A rate of return or discount rate net of (CPI) inflation.

Recovery plan:
A strategy by which an employer will make up a funding deficit over the deficit recovery period.

Scheduled bodies:
Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary rate:
The adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund, plus any provision made by an employer in respect of the estimated cost of McCloud.

Section 13 Valuation:
In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency funding target:
An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Surplus:
The extent to which the value of the Fund's assets exceeds the value of the Fund's past service liabilities. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions). The surplus in relation to an employer is the extent to which the value of the appropriate part of the Fund's assets exceeds the value of the past service liabilities for which the employer is liable.

Valuation funding basis:
The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.
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Report on the actuarial valuation as at 31 March 2022

DRAFT

Worcestershire Pension Fund

31 March 2023

A business of Marsh McLennan

Contents

Section 1

Introduction

This report is addressed to the Administering Authority of the Worcestershire Pension Fund ("the Administering Authority") and is provided to meet the requirements of Regulation 62 of the Local Government Pension Scheme Regulations 2013 (as amended) ("the Regulations"). It describes the factors considered by the Administering Authority when carrying out the actuarial valuation as at 31 March 2022 and the decisions reached as a result.

The purpose of the actuarial valuation is for the Administering Authority to determine:

1. The expected cost of providing the benefits built up by members at the valuation date (the "liabilities"), and compare this against the funds held by the Fund (the "assets").
2. The contributions needed to cover the cost of the benefits that active members will build up in the future and other costs incurred in running the Fund (the 'Primary Contribution Rate').
3. An appropriate plan for achieving a 100% solvency funding level if the Fund has more/less assets than liabilities. This plan will cover the amounts which will need to be paid (the 'Secondary Contribution Rate') and the timeframe over which they will be paid ('the Recovery Period').

Signature		
Name	Paul Middleman	Laura Evans
Qualification	Fellow of the Institute and Faculty of Actuaries	Fellow of the Institute and Faculty of Actuaries
Date	[31 March 2023]	

This report uses various technical terms. These are explained in more detail in the explanatory boxes which appear throughout this report, and in the Glossary at Appendix I.

This report has been prepared in accordance with Technical Actuarial Standards TAS 100: Principles for Technical Actuarial Work and TAS 300: Pensions which are issued by the Financial Reporting Council. The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Fund and determining a contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor do we accept liability to the Administering Authority if the information provided in this report is used for any purpose other than that stated. The report may be disclosed to members and others who have a statutory right to see it. It may also be disclosed to any participating employer and, if the Administering Authority and Mercer consent, it may be disclosed to other third parties.

Section 2

Funding Strategy – Key Elements

Fundamental to the valuation results is the funding strategy adopted by the Fund. This funding strategy is set out in a specific document (the Funding Strategy Statement or FSS for short) which is one of the Administering Authority's key governance documents for the Fund. In essence, the FSS sets out an overview of the approach to be used for the actuarial valuation. Amongst other things it outlines the assumptions, both economic and demographic, to be used in calculating the value of the liabilities built up, the contributions required to correct any funding shortfall or surplus, and the contribution rate required to fund the benefits for future service. It also sets out the strategy for making good any funding shortfall, in particular how any shortfall is expected to be financed in terms of the balance between future contributions and future investment returns, and the period over which any surplus or shortfall is expected to be recovered.

> The FSS is the Administering Authority's key governance document in relation to the actuarial valuation. It sets out the funding policies adopted, the actuarial assumptions used, and the timescales over which deficits will be paid off. Employers are consulted about the FSS as part of the actuarial valuation process.

The principal elements of the funding strategy adopted for this actuarial valuation are as follows:

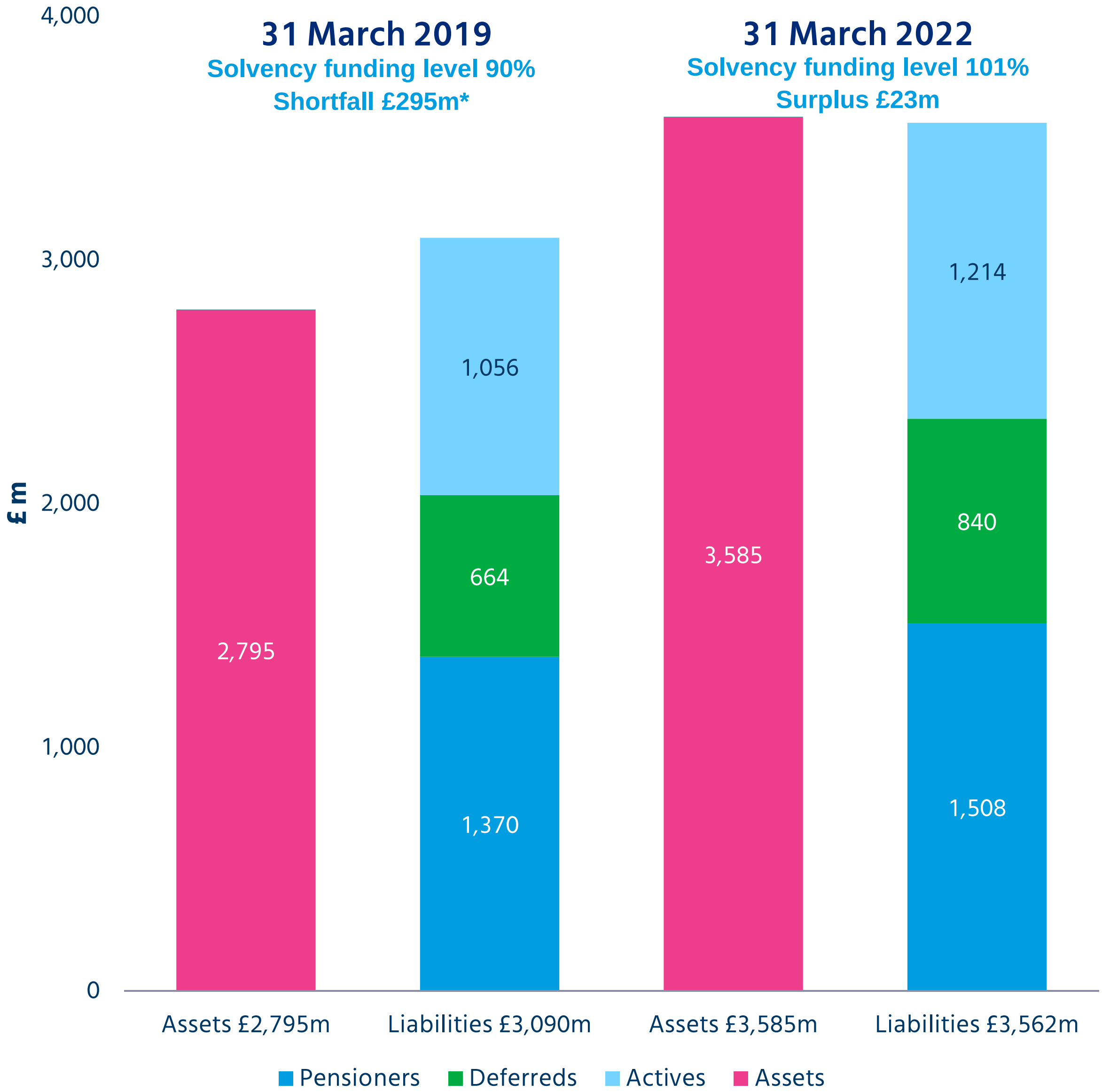
- The McCloud judgment (see Appendix D for details) – we have carried out a stand-alone estimate of the cost of the McCloud judgment, and the results of this at whole Fund level are shown in Section 2 of this report. The past service liabilities at the valuation date include an estimated allowance for the proposed McCloud remedy. As the remedy end date is 31 March 2022, the Primary Contribution Rate effective from 1 April 2023 does not include an allowance for McCloud.
- Assumed rate of future long term average CPI inflation – 3.1% p.a., based on the yields available on gilts and index-linked gilts of appropriate duration less an adjustment of 0.8% p.a. (reflecting an average RPI/CPI structural gap and an inflation risk premium)
- Real investment returns over and above CPI for past service – 1.5% p.a. at a whole Fund Level, based on the anticipated real returns achievable on the Fund's expected long-term investment strategy with a suitable margin for prudence. In the context of managing aspects of the Fund's financial risks, the Fund has a choice of "investment" pots to offer to employers which exhibit differential levels of investment risk based on alternative underlying investment strategies. There are three alternative investment pots: the Growth pot (real investment return 1.5% p.a.), the Medium pot (real investment return 1.25% p.a.) and the Cautious pot (investment return measured as 0.75% per annum above Gilt yields)
- Real investment returns over and above CPI for future service – 2.00% p.a. at a whole Fund level, based on the anticipated real returns achievable on future invested contributions. The assumptions for each pot are: Growth pot, real investment return 2.00% p.a. and Medium pot, real investment return 1.75% p.a. At present there are no ongoing employers participating in the Cautious pot.

- Future pay growth – minimum of 4% p.a. over the 3 years to 31 March 2026 and then 1.5% p.a. over and above CPI in the longer term.
- Baseline life expectancy based on a scheme-specific mortality study.
- Future mortality improvements based on the CMI 2021 model with a long-term improvement trend of 1.75% p.a.
- Allowance for known observed CPI inflation between 1 September 2021 and 31 March 2022 to refine the estimate of the 2023 pension increase order and liability cashflows.
- Where in deficit, existing recovery period target reduced by 3 years (from an average of 15 years to 12 years), or change in average future working lifetime for closed employers, subject to a minimum of 3 years.
- Where in surplus, the recovery period will remain unchanged from 2019 for most employers. There are exceptions to this and, where applicable, this will be detailed in the individual employer schedules. The FSS sets out the circumstances in which this might vary from one employer to another.

Section 3
Key results of the funding assessment

Solvency funding position

The table below compares the assets and liabilities of the Fund at 31 March 2022. Figures are also shown for the last valuation as at 31 March 2019 for comparison.



**2019 position excludes the estimated impact of the proposed McCloud remedy. Allowing for this would have increased the 2019 deficit to £324m.*

> The LGPS Regulations require the contributions to be set so as to secure the Fund's solvency and long-term cost efficiency. In this context solvency means being able to meet the liabilities as and when they arise, with long-term cost efficiency meaning that contribution levels should not be set so as to give rise to additional costs at a later date. In practice, contribution levels have been set so as to target a solvency funding level of 100%, based on the funding parameters outlined in Section 2 above.

The chart shows that **at 31 March 2022 there was a surplus of £23m** against the Fund's solvency funding target. An alternative way of expressing the position is that **the Fund's assets were sufficient to cover 101% of its liabilities** – this percentage is known as the solvency funding level of the Fund.

At the previous valuation at 31 March 2019 the shortfall was £295m, equivalent to a solvency funding level of 90% (£324m and 90% respectively including provision for the estimated cost of the McCloud judgment). The key reasons for the changes between the two valuations are considered in Section 4.

The liability value at 31 March 2022 shown in the chart above is known as the Fund's "solvency funding target". The solvency funding target is calculated using assumptions that the Administering Authority has determined are appropriate having consulted with the actuary, and are also set out in the FSS.

Further details of the way in which the solvency funding target has been calculated are set out in Appendix A.

Primary Contribution Rate

> The "Primary rate" of the employers' contribution is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs.

The valuation looks at the normal employer contribution rate required to cover the cost of the benefits (including death benefits and expenses) that will be built up over the year after the valuation date (the "Primary Contribution Rate"). A summary of the assumptions used is provided in Appendix A.

The table below gives a breakdown of the Primary Contribution Rate at 31 March 2022 and also shows the corresponding rate at 31 March 2019 for comparison. In calculating the average Primary Contribution Rate we have not made any allowance for future members to opt for the 50:50 scheme. Active members pay contributions to the Fund as a condition of membership in line with the rates required under the governing Regulations (see Appendix D).

PRIMARY CONTRIBUTION RATE	% of Pensionable Pay	
	31 March 2019	**31 March 2022**
Normal Contribution rate for retirement and death benefits	23.5	24.8
Allowance for administrative expenses	0.4	0.4
Total normal contribution rate	23.9	25.2

PRIMARY CONTRIBUTION RATE	% of Pensionable Pay	
Average member contribution rate	6.4	6.4
Primary contribution rate*	17.5**	18.8

** In line with updated CIPFA guidance, the 2019 Primary Contribution Rate is the weighted average of the individual employer Primary Contribution Rates as derived based on their individual circumstances (e.g. whether or not they are closed to new entrants).*

***2019 rate excludes contributions paid by employers to cover the accruing costs of McCloud up to the remedy end date of 31 Match 2022 (where employers elected to make provision at the 2019 valuation)*

Correcting the imbalance – Secondary Contribution Rate

The funding objective as set out in the 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 "Secondary rate" of an individual employer's contribution is an adjustment to the Primary Contribution Rate to reflect any past service deficit or surplus, to arrive at the rate the employers are required to pay.

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 for employers in deficit is 12 years, and for employers in surplus is 14 years. The total initial recovery payment (the "Secondary rate" for 2023/24) is an addition of 0.6% of salaries - approximately £2.7m per annum in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS.

The McCloud Judgment

As described in Section 1 of this report, we have carried out a stand-alone estimate of the cost of the McCloud judgment. We estimate that the cost is an increase in past service liabilities at the valuation date of £40 million. This represents 1.1% of total past service liabilities and is included in the 2022 liability figure above. Provision for these estimated McCloud costs has been included within the Secondary Contribution Rate shown above and in the corresponding Secondary Contribution Rate for each individual employer.

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government published a consultation in July 2020 including a proposed remedy for the LGPS. This is likely to result in increased costs for some employers. We are expecting remedial regulations to take effect from October 2023, with a retrospective effect back to April 2014 in England and Wales and a remedy end date of 31 March 2022.

Section 4

Experience since last valuation

Summary of key inter-valuation experience

The last actuarial valuation was carried out with an effective date of 31 March 2019. With effect from 1 April 2014 the scheme's benefit structure changed from a Final Salary Scheme to a Career Average Revalued Earnings (CARE) Scheme, and the 2016 actuarial valuation took these changes into account.

The outcomes from the valuation are determined both by the assumptions adopted for the future, and the Fund's historic experience relative to assumptions made in the past. In this section we consider the effect of the Fund's experience over the last three years.

The average Pensionable Salary increase for the Fund members who were in service for the whole of the inter-valuation period was 3.9% per annum.

Pensions in payment (in excess of Guaranteed Minimum Pensions (GMPs) were increased as guaranteed under the Fund as follows:

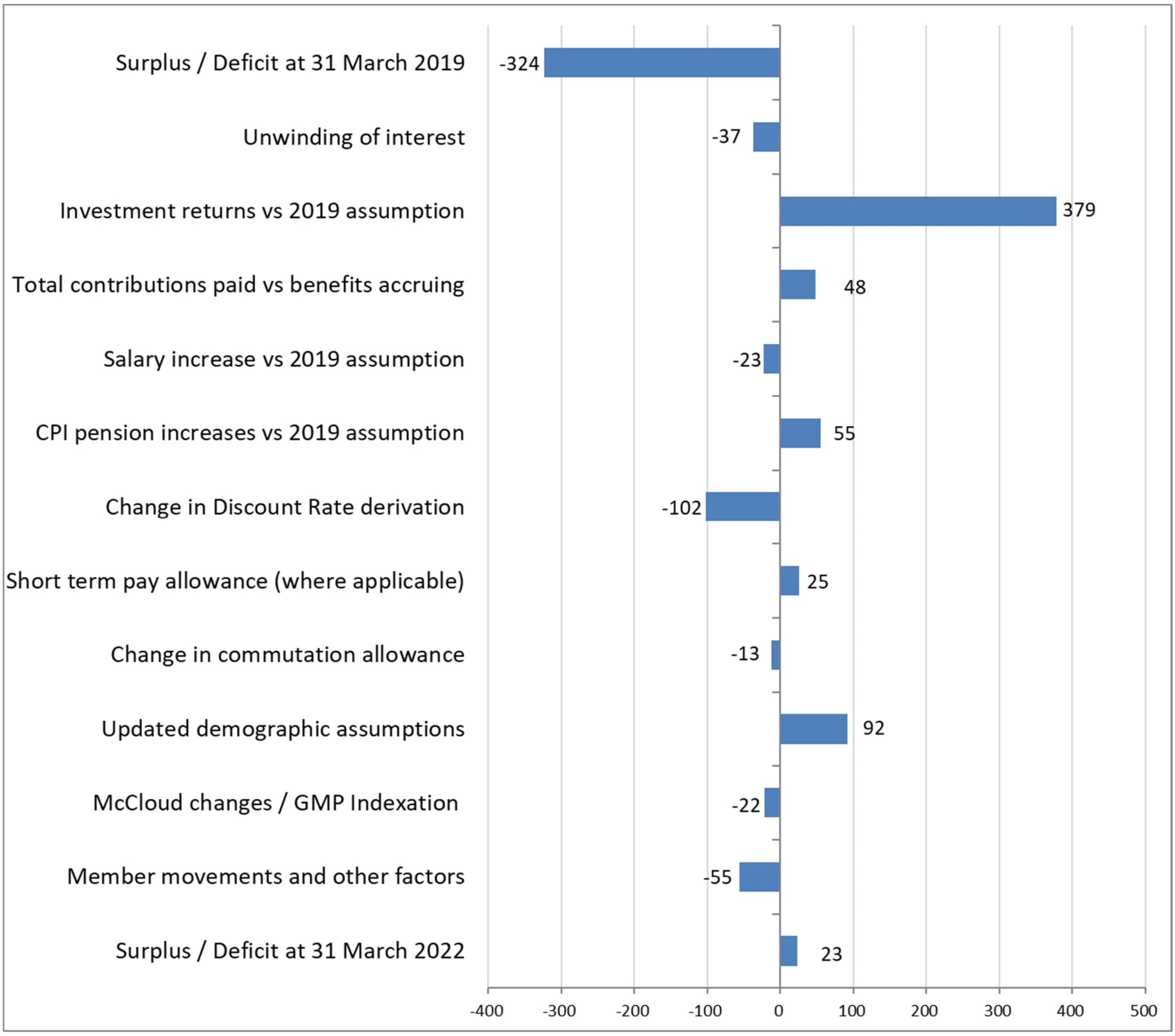
4. April 2020 1.7%
5. April 2021 0.5%
6. April 2022 3.1%

Over the inter-valuation period, benefit inflation has averaged 1.8% p.a. Over the three years to 31 March 2022 the gross investment return on the Fund's assets has averaged 7.9% per annum, meaning that the average real return over CPI inflation has been about 6.1% p.a.

In addition to the published pension increase orders, we have made allowance for known observed CPI inflation over the period 1 September 2021 to 31 March 2022 as this will be reflected in the April 2023 pension increase order.

Reasons for the change in funding position since the last actuarial valuation

The shortfall at the last valuation date, including the McCloud reserve was £324m. The chart below sets out the main reasons for the change in the shortfall between 31 March 2019 and 31 March 2022 (figures shown in £m).



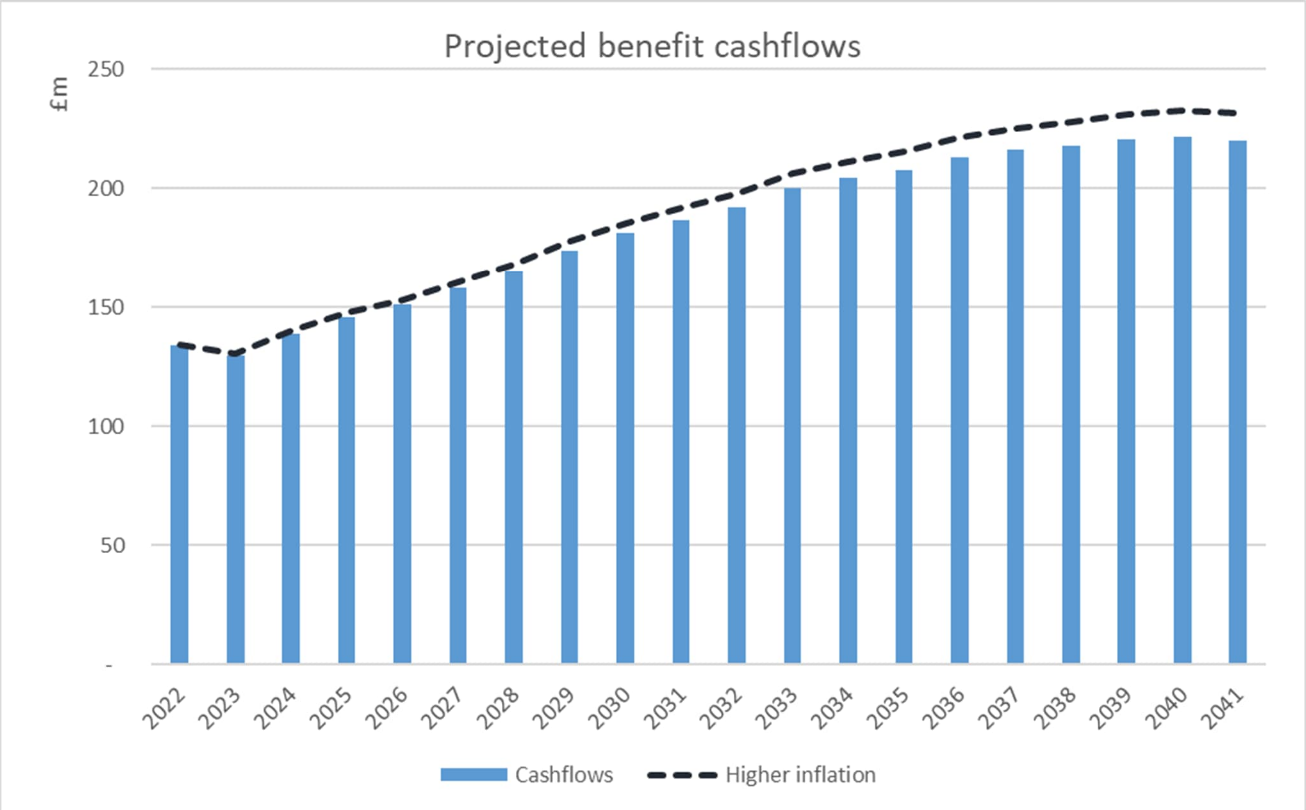
Section 5

Cash flows, risks and alternative funding positions

Benefit cash flows

The projected benefit cash flows which result from applying the assumptions as set out in Section 2 are shown in the chart below. The additional trendline sets out how those total projected benefit cash flows would change if we were to assume inflation of 0.25% p.a. higher than the assumption of 3.1% p.a. used for the actuarial valuation. Over the 20 years following the valuation date, the extra benefit payments which would result from the extra 0.25% p.a. inflation assumption are projected to be £112m.

> The actuarial valuation process is principally concerned with projecting all the expected benefit cash flows into the future, and then converting them into present day values by discounting them to allow for assumed future investment returns. The chart shows those projected cash flows, and also illustrates how sensitive they are to the future inflation assumption.



Projected funding position at next actuarial valuation

As part of this valuation, the Administering Authority has set an average recovery plan of approximately 12 years for employers in deficit and 14 years for employers in surplus (this means an average period to 100% solvency funding level is c13 years). The next actuarial valuation will take place with an effective date of 31 March 2025. If experience up to that date were to be in line with the assumptions made for this current actuarial valuation and contributions are paid at the agreed rates or amounts, there would be a surplus at 31 March 2025 of £29m (excluding any costs in relation to the McCloud judgment), equivalent to a funding level of 101%.

Material risks faced by the Fund

The Fund is subject to some potentially material risks that are, to an extent, outside the Administering Authority's control, but could affect the funding level and ultimately the employer contribution requirements. Any material worsening of the funding level will mean more contributions are needed (either at an increased rate or at the same rate over a longer period) to be able to provide the benefits built up in the Fund – unless experience acts in other ways to improve the funding level. Examples of such risks, and how the Administering Authority manages them, are:

> Funding a defined benefit pension scheme such as the LGPS which is open to new members is by its nature uncertain, and involves some level of risk. The principal funding risks are investment (e.g. whether the Fund earns the desired level of long-term real returns) and demographic (e.g. whether longevity of members is longer or shorter than anticipated). In practice, the key is whether such risks can be managed and mitigated.

- If an Employer becomes unable to pay contributions or to make good deficits in the future, the Fund's assets will be lower than expected and the funding level will be worse than expected. The Administering Authority regularly monitors the financial strength of the Employers so that actions can be taken to mitigate (but not fully remove) the risk.

- If future investment returns on assets are lower than assumed in the valuation, the Fund's assets will be lower, and the funding level worse, than expected. The Administering Authority has a process in place to monitor investment performance quarterly, and it reviews the Fund's investment strategy alongside each actuarial valuation. The Fund has also put in place a strategy of "equity protection", which offers some protection to the Fund's asset values in the event of an equity market fall. In addition, the Fund has a choice of investment pots to offer to employers which exhibit different levels of investment risk (based on alternative underlying investment strategies).

- If improvements in life expectancy are greater than assumed, the cost of benefits will increase because members are living longer than expected. This will mean the funding level will be worse than expected. The Administering Authority regularly reviews the Fund's experience and ensures that the assumptions it makes about members' life expectancy take the most recent information available into account.

- If members make decisions about their options which increase the Fund's liabilities, the funding level will be worse than expected. An example would be if members commute less pension for cash than is being assumed. The Administering Authority reviews the Fund's experience at each valuation to ensure that their treatment of member options remains appropriate.

Post valuation date experience and contribution sustainability

The valuation results and employer contributions shown in this report are assessed as at 31 March 2022. We have seen substantial financial markets volatility as a combination of the COVID19 pandemic; the Russia Ukraine conflict and spikes in short/medium term inflation. This potentially has far-reaching consequences in terms of funding and risk which will need to be kept under review. Our view is that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. In particular, we have considered these factors when deciding on the final assumptions to adopt and also highlighted to employers the potential risks around contribution sustainability. The position should 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.

Sensitivity of funding position to changes in key assumptions

The value placed on the Fund's liabilities is critically dependent on the assumptions used to carry out the calculations. If future experience differs from the assumptions the Administering Authority has used after consulting with the Employers, then the projected future funding level will be different from the level described above.

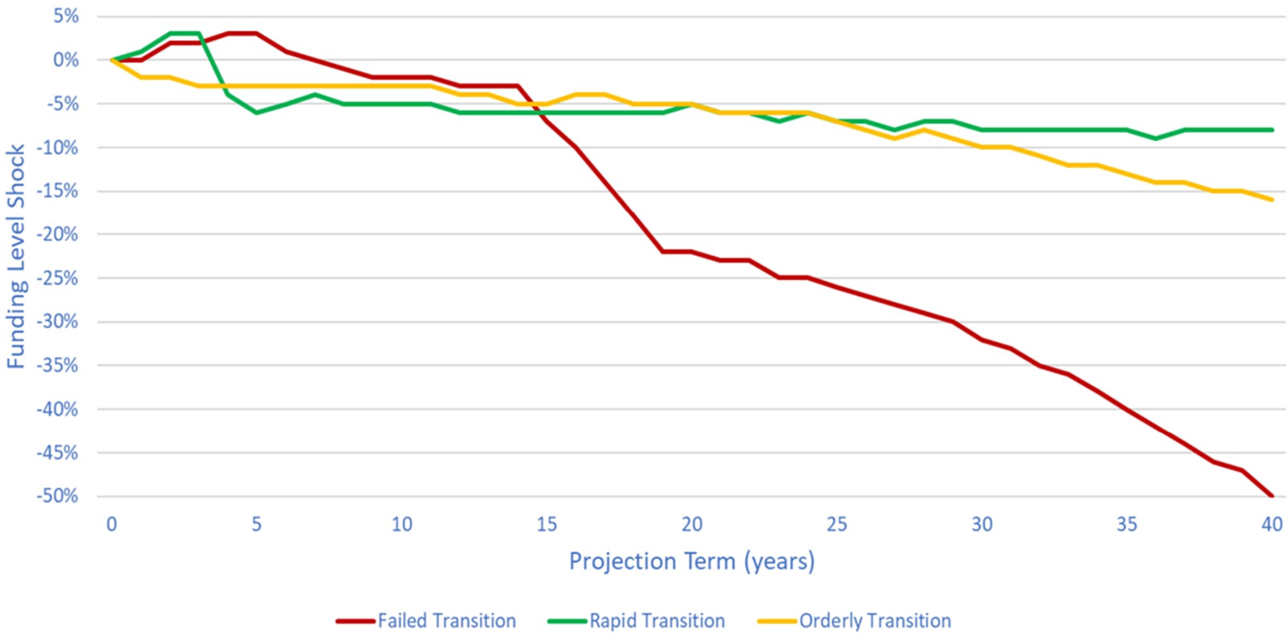
To illustrate how sensitive the funding level is to experience being different from assumed, the table below shows how the valuation results at 31 March 2022 would have differed given small changes in the key assumptions.

Assumption change	Reduction (increase) in surplus at 31 March 2022 (£m)	Resultant surplus (deficit) at 31 March 2022 (£m)
Original solvency funding position	-	23
Real investment return 0.25% lower than assumed	157	(134)
Pensionable Salary growth 0.25% higher than assumed	19	4
Long term improvement rate in life expectancy increased by 0.25% per annum	26	(3)
Assets fall by 25%	896	(873)

Climate Change

Climate change has the potential to be a material financial risk to the Fund – whether that be the costs of moving to a low carbon economy, the cost of physical damages caused as a result of climate change or even as a result of litigation/regulation to address past practices. Climate change is expected to affect most if not all of the risks highlighted above, however, the extent of and interaction between these impacts are uncertain. As part of the valuation the Fund considered the relative impact on funding over time of the following climate change scenarios and a summary of the output is set out below (the key assumptions underpinning these scenarios is included in Appendix A). The scenarios shown are not meant to be predictors of the impact of Climate Change but are meant to show the risks associated with the transition risks (short term) and physical risks (long term) of three different scenarios. Further detail on the analysis has been provided to the Administering Authority in our separate advice report and the information provided here is a summary of that report. The potential risks associated with Climate change have been considered when setting the assumptions in this report. The three scenarios considered are as follows:

- Rapid transition - Policy and technology developments come together to deliver the rapid reduction in emissions to limit heating to below 1.5°. There are material transition costs associated with this that reduce returns.
- Orderly transition - Emission reductions begin immediately with support from technological development. Policy is designed to support transition while controlling transition costs.
- Failed transition - Transition is limited and not co-ordinated. Emissions continue to rise. Transition risks are very small but significant physical risks come in to play.



Mercer supports limiting warming to 1.5 degrees Celsius but recognises that given the current warming trajectory, based on existing policies and actions, this pathway may represent a short term shock to investment portfolios. Investors should position their portfolios to a low carbon transition whilst also understanding the potential impact of physical damages.

Minimum risk funding position

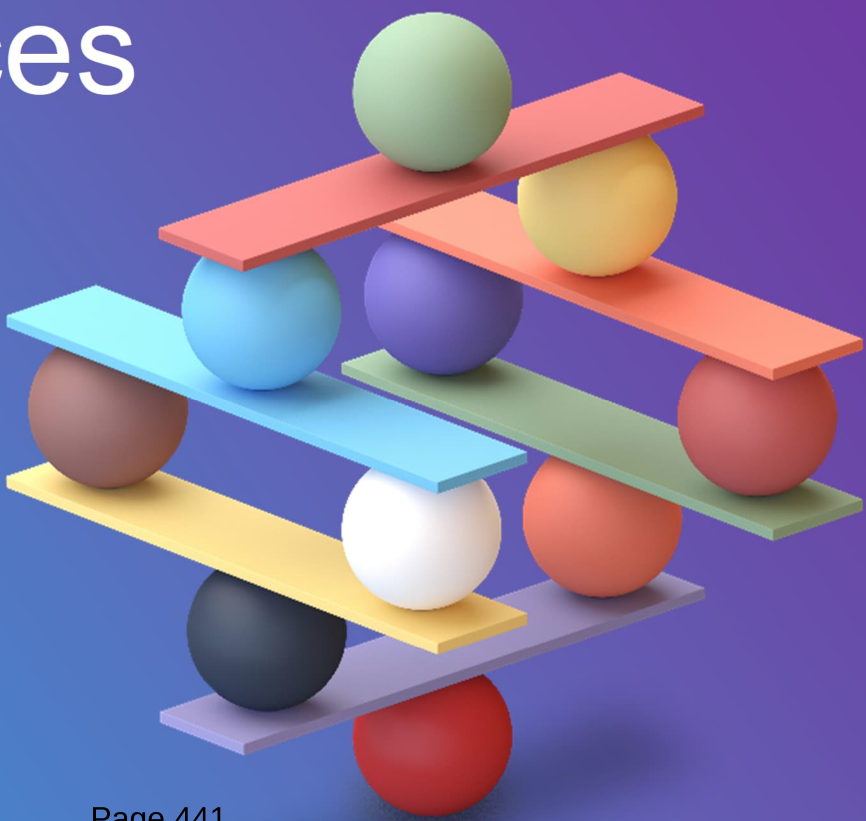
In assessing the value of the Fund's liabilities (the solvency funding target), allowance has been made for investment returns as described in Appendix A, taking into account the investment strategy adopted by the Fund, as set out in the Fund's Investment Strategy Statement (ISS).

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which attempts closely to match the liabilities and provide a high level of certainty in future investment returns above CPI inflation. This represents a "minimum risk" investment position. Such a portfolio would consist mainly of a mixture of long-term index-linked and fixed interest gilts. Investment of the Fund's assets in line with the minimum risk portfolio would minimise fluctuations in the Fund's minimum risk funding level between successive actuarial valuations but would result in much higher employer contributions (all other things equal).

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments. In this event the value of the Fund liabilities would have increased substantially, to £6,108m, and the funding level would have reduced correspondingly to 59%. If the actuarial assumptions are borne out in practice and contributions are paid in line with the Rates and Adjustment Certificate for all employers, the projected funding level on this basis at the next actuarial valuation would be slightly lower at 55% due mainly to the run off of surplus assets on an ongoing basis.

The value of the liabilities on the ongoing solvency funding target assumptions was £3,562m, which is £2,546m less than the value on the minimum risk basis. The funding plan is therefore making a prudent allowance for future investment returns of £2,546m over and above those available from the notional minimum risk investment portfolio to support the funding of member benefits along with contributions payable. This is an indication of the expected return built into the funding strategy for the Fund as a whole.

Appendices



Appendix A
Assumptions

How the benefits are valued

In order to calculate the liabilities, there is a need to make assumptions about various factors that affect the cost of the benefits provided by the Fund – for example, how long members will live, or the future level of inflation. The table below explains the key assumptions being made in the valuation.

Assumption	Why it is important and how it impacts on the liabilities
Discount rate	The majority of benefits in a pension fund are paid many years in the future. In the period before the benefits are paid, the Administering Authority invests the funds held by the Fund with the aim of achieving a return on those funds. When calculating how much money is needed now to make these benefit payments, it is appropriate to make allowance for the investment return that is expected to be earned on these funds. This is known as "discounting". The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculation reflects this by placing a lower value on the liabilities if the "discount rate" is higher.
Inflation	Pensions in payment increase in line with Consumer Price Inflation (CPI). Salary growth is also normally linked to price inflation in the long term. A higher inflation assumption will, all other things being equal, lead to a higher value being placed on the liabilities.
Pensionable Salary growth	Benefits earned prior to 1 April 2014 for active members are based on their salaries immediately before retirement, so it is necessary to make an assumption about future Pensionable Salary growth. The higher this assumption, the higher the value placed on the liabilities for active members.
Life expectancy	Pensions are paid while the member (and potentially their spouse or partner) is alive. The longer people live, the greater is the cost of providing a pension. Allowing for longer life expectancy therefore increases the liabilities.

The liabilities of the Fund are calculated by projecting forward all of the future benefit cash flows and discounting them back to the effective date of the valuation, using these assumptions. For example, the liability for a single pensioner is calculated by estimating the amount of each pension payment they will receive in the future, multiplying by the probability that the member will still be alive by the date of each payment, and then discounting each payment back to the effective date of the valuation using the appropriate discount rate, and then summing up all of these discounted amounts. The liabilities for the whole Fund are calculated by summing the liabilities for each of the individual members.

Financial assumptions used to calculate the solvency funding target

The table below summarises the key financial assumptions used in the calculation of the solvency funding target at whole Fund level and those used for the 31 March 2019 actuarial valuation. Section 1 of this report sets out how these assumptions might vary from one employer to another.

Financial assumptions	31 March 2019	31 March 2022
Discount rate	4.05% p.a.	4.60% p.a.
Price inflation (CPI)	2.4% p.a.	3.1% p.a.
Salary increases (short term) for selected employers	2.0% p.a. for 4 years	4% p.a. for 3 years
Salary increases (long term)	3.90% p.a.	4.6% p.a.
Pension increases in payment:	2.4% p.a.	3.1% p.a.

> Our analysis of expected future real investment returns uses a Monte Carlo simulation (stochastic) model, based on 4,000 simulations. Within the overall analysis we specify and calibrate a range of economic and asset class models. Our analysis uses an asset correlation matrix to help generate each stochastic simulation. The model includes estimates for long-term expected returns and inflation along with volatilities each asset class and inflation.

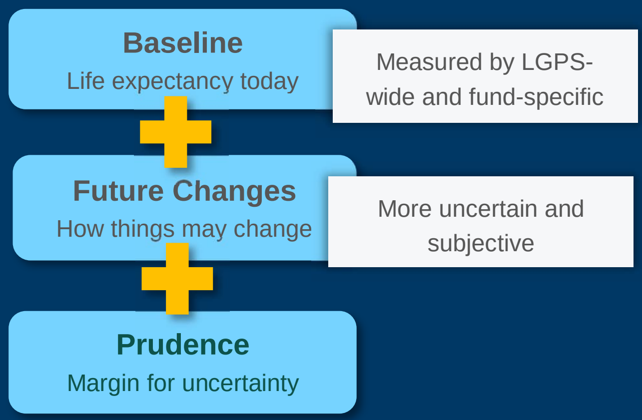
The key financial assumption is the expected long term investment return above CPI inflation as this is usually the principal factor which determines the long term cost to employers via their contributions. In determining this we consider first the long term real returns (i.e. returns above CPI) which the Fund's investment strategy can be expected to deliver based on market outlook at the valuation date taking into account the projected cashflow position of the Fund. This analysis then helps us recommend and agree with the Administering Authority on a suitably prudent assumption for the valuation discount rate based on the investment strategy, any risk management framework in place, and reasonably allowing for the likely changes in investment strategy as the Fund matures. In order to consider the level of prudence we look at the likelihood of the expected real return from the Fund's assets exceeding the assumption made. We measure this by considering the percentile expected return from the analysis. A return assumption higher than the 50th percentile return from the analysis can be deemed to be prudent and retain margins to provide some protection against increases in contributions at future valuations.

At this actuarial valuation the real discount rate which we have used is 1.5% p.a., which is the 72nd percentile return from our analysis. At the previous valuation the real discount rate used was 1.65% p.a., which at the time was the 64th percentile.

Demographic assumptions used

Post-retirement Mortality

There are two separate decisions on mortality assumptions:
- The baseline table for the current rates of mortality; and
- The allowance for future improvements.



Mortality (or life expectancy) tables are typically made up of three elements: a baseline table (equivalent to the expected current mortality), an allowance for future improvements, and a margin for prudence. Very few pension funds are large enough for them to be able to determine a bespoke set of baseline assumptions based purely on the fund's own membership experience. Typically, the life expectancy assumptions are set by benchmarking a fund's membership profile and mortality experience against larger external datasets. For this actuarial valuation, we have benchmarked the Fund's membership profile and experience against the "S tables" published by the CMI. We have applied weightings and age ratings as appropriate to adjust the standard tables so as to arrive at assumptions which are appropriate for the Fund. We have generally used the S3PA tables ("middle" tables for females), other than for female dependants where the S3DA tables have been used. At the 2019 actuarial valuation the S3PA tables were used (S3DA tables for female dependants).

The weightings and age ratings applied to the above are set out in the table below.

Current Status	Retirement Type	2019 weighting/age rating	2022 weighting/age rating
Annuitant	Normal Health	99% males, 91% females	106% males, 100% females
	Dependant	131% males, 91% females	129% males, 114% females
	Ill Health	118% males, 130% females	134% males, 182% females
	Future Dependant	126% Males, 108% Females	129% Males, 114% Females
Active	Normal Health	104% males, 92% females	110% males, 99% females
	Ill Health	120% males, 142% females	242% males, 321% females
Deferred	All	128% males, 107% females	117% males, 106% females
Active/ deferred	Future Dependant	133% Males, 115% Females	126% Males, 114% Females

A weighting applied to an actuarial table has the effect of increasing or reducing the chance of survival at each age, which increases or reduces the corresponding life expectancy. Similarly, an age rating applied to an actuarial table has the effect of assuming that beneficiaries have a life expectancy equal to those older (or younger) than their actual age.

Future improvements are assumed to follow the CMI 2021 model with a 1.75% p.a. long-term improvements trend (Sk = 7.5, with all other parameters core, i.e. zero initial improvements parameter and no allowance for 2020 or 2021 data).

At the 2019 actuarial valuation the CMI 2018 model with 1.75% p.a. long-term trend was used.

The mortality assumptions used for the 31 March 2022 valuation result in the following life expectancies.

	Years
Life expectancy for a male aged 65 now	22.1
Life expectancy at 65 for a male aged 45 now	23.7
Life expectancy for a female aged 65 now	24.3
Life expectancy at 65 for a female aged 45 now	26.4

Pre-retirement Mortality

The following mortality tables (together with any appropriate weightings and age ratings) have been adopted for mortality rates in the period up to retirement.

	31 March 2019	31 March 2022
Base Table	DxL08 tables with adjustments of 80% (male) 50% (female) to reflect the Fund's membership profile	DxL08 tables with adjustments of 80% (male) 70% (female) to reflect the Fund's membership profile
Allowance for Future Improvements	CMI_2015 [1.5%]	CMI_2021 [1.75%]

Commutation

Members have the option to commute part of their pension at retirement in return for a lump sum at a rate of £12 cash for each £1 per annum of pension given up. Following an analysis of the take-up rates, it has been assumed that, on average, retiring members will take 75% of the maximum tax-free cash available at retirement. This is slightly less than the assumption at the 2019 actuarial valuation, which was equivalent to members taking about 80-85% of the maximum tax-free cash available.

> Retirement lump sums are less costly for the Fund to provide than the alternative pension, as members receive only £12 of each £1 p.a. of pension given up. If members take the cash sum option at a higher rate than has been assumed then this will normally lead to an improvement in the funding level.

Early retirement

For those members who are entitled to receive their accrued benefits (or part of those benefits) prior to the Fund's normal pension age, a proportion of the active membership is assumed to retire in normal health prior to age 65, as set out below:

If members take early retirement to a greater extent than has been assumed then this will typically lead to a worsening of the funding level. This is because many members are able to take substantial parts of their benefits from age 60 without them being reduced for early payment.

	% retiring per annum	% retiring per annum
Age	Males	Females
60	10	20
61	8	15
62	8	15
63	8	15
64	8	15
65	100	100

The appropriate early retirement factors applied to the relevant tranche of benefits are in line with the Government Actuary's Department (GAD) guidance.

Ill health retirement

A small proportion of the active membership has been assumed to retire owing to ill health. As an example of the rates assumed, the following is an extract from the decrement table used:

The level of ill-health retirement benefit provided for a member falls into one of three "tiers", depending on whether and when the member might be expected to resume gainful employment. Tier 1, for example, is on the basis that the member is unlikely to be able to do so before Normal Pension Age. Full details are set out in the LGPS Regulations and associated guidance.

	% retiring per annum	**% retiring per annum**
Age	Males	Females
35	0.03	0.03
45	0.09	0.09
55	0.41	0.36

The proportion of ill health early retirements falling into each tier category, split by males and females, has been assumed to be as set out below:

	Tier 1	Tier 2	Tier 3
Males	75%	12.5%	12.5%
Females	75%	12.5%	12.5%

Withdrawal

This assumption relates to those members who leave the scheme with an entitlement to a deferred pension or transfer value. It has been assumed that active members will leave the Scheme at the following sample rates:

	% leaving per annum	% leaving per annum
Age	Males	Females
25	20.25	22.38
35	5.09	6.27
45	2.54	3.89

In relation to pre 2014 benefits, deferred benefits tend to be less costly for the Fund to provide than if the member had remained in the Fund until retirement. If the number of members leaving the Fund is greater than expected then this will typically lead to a slight improvement in the funding level.

Partners' and Dependants' Proportions

It has been assumed that the proportions of members below will on death give rise to a dependant's pension (spouse's and partner's), and that spouses/partners of female (male) members are three years older (younger), on average than the member.

	% spouse/partner	% spouse/partner
Age	Males	Females
25	43	51
35	69	68
45	72	68
55	74	68
65	76	62

If more members than assumed have partners then this will lead to an increase in the number of dependants pensions coming into payment over and above that expected. This would lead to a worsening of the funding level.

Assumptions used to calculate the Primary Contribution Rate

The cost of future accrual (the Primary Contribution Rate) has been calculated using the same actuarial assumptions as used to calculate the solvency funding target and recovery plan as set out above except that the financial assumptions adopted are as described below.

The financial assumptions for assessing the future service contribution rate should take account of the fact that contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date.

The financial assumptions in relation to future service (i.e. the Primary Contribution Rate) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of:

- 2.00% per annum for the Growth pot. This represents a reduction of 0.25% per annum compared to the 2019 valuation, which increases the estimated cost of providing LGPS benefits. With a long term average assumption for price inflation of 3.1% per annum, this gives rise to an overall discount rate of 5.1% p.a. (the corresponding discount rate at the 2019 actuarial valuation was 4.65% p.a,)
- 1.75% per annum for the Medium pot. This gives rise to an overall discount rate of 4.85% p.a.
- At present there are no ongoing employers participating in the Cautious pot.

Nevertheless, it is instructive to consider the assumption against the long term real returns (i.e. returns above CPI) which the Fund's investment strategy can be expected to deliver based on the current market outlook. At this actuarial valuation the real discount rate used was 2.00% p.a., which is the 66th percentile return from our analysis. At the previous valuation the real discount rate used was 2.25% p.a., which at the time was at the 60th percentile.

Climate Change modelling

The ongoing funding level includes implicit allowance for climate change to the extent that this is expected and priced in to markets. We have illustrated how other climate change scenarios could impact on the projection of funding level in section 4.

Modelling Assumptions – cumulative return impacts

	Failed Transition	Rapid Transition	Orderly Transition
Asset Class	30/06/2022		
	40 Years	40 Years	40 Years
MSCI World Equity	-38.10%	-7.00%	-10.30%
Emerging Markets Equity	-45.70%	-6.30%	-8.20%
MSCI ACWI ESG Equity	-40.30%	-2.30%	-8.70%
MSCI Paris Aligned Equity	-39.80%	1.40%	-8.10%
Multi asset credit	-1.50%	-5.40%	-1.40%
Absolute Return Fixed Income	-1.00%	-3.10%	-1.30%
Global Investment Grade Credit	-2.10%	-2.40%	-1.30%
UK Sovereign Bonds	-0.80%	1.00%	0.30%
Global Senior Private Debt	-4.40%	-2.60%	-2.90%
Global Private Debt	-2.80%	-8.40%	-3.70%
Cash	-5.70%	2.00%	-0.90%
Listed Infrastructure	-21.00%	-22.30%	-26.50%
UK Real Estate	-38.90%	0.90%	-4.50%
Private Equity	-48.90%	-1.60%	-11.10%
ESG Private Equity	-51.60%	0.60%	-10.30%
Sustainable Infrastructure	-35.80%	0.70%	-4.70%
Hedge Fund	-5.70%	2.00%	-0.90%

Appendix B
Summary Membership Data

The membership data is summarised in the table, with figures at the previous valuation shown for comparison.

Data in relation to members of the Fund were supplied by the Fund's administrator on behalf of the Administering Authority. The accuracy of the data provided has been relied on. While reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently, Mercer does not accept any liability in respect of its advice where it has relied on data that is incomplete or inaccurate.

	31 March 2019	31 March 2022
Active members		
Number	22,485	22,398
Total Pensionable Salaries (£000s p.a.)	362,000	401,835
Average Pensionable Salary (£ p.a.)	16,100	17,941
Average age (pension weighted)	50.5	51.1
Deferred pensioners (including undecideds)		
Number	24,049	26,910
Total deferred pensions revalued to valuation date (£000s p.a.)	36,629	44,902
Average deferred pension (£ p.a.)	1,523	1,669
Average age (pension weighted)	49.7	50.7
Pensioners (including dependants)		
Number	18,094	20,306
Total pensions payable (£000s p.a.)	87,355	98,591
Average pension (£ p.a.)	4,828	4,855
Average age (pension weighted)	71.4	72.2

Appendix C

Assets

The market value of the Fund's assets was £3,584,600,000 on the valuation date.

The Administering Authority's investment strategy is to proportion the Fund's assets by asset class as shown in the table below. The investment strategy varies by investment pot, the investment strategy for the Growth pot is included in the table below. Detailed of the other strategies are set out in the Fund's policy documents. The actual distribution of assets will vary over time due to changes in financial markets. The table also shows the distribution of Whole Fund assets (which is a combination of all the Investment Pots) at the valuation date.

	Investment strategy	Actual market value of assets at 31 March 2022	
	%	£000s	%
LGPS Central Shares		1,400	0.0
Fixed Interest Securities	10	396,800	11.1
Equities	70	2,570,000	71.7
Pooled Investments	20		
— **Property**		221,900	6.2
— **Infrastructure**		426,700	11.9
— **Debt assets**		76,300	2.2
Cash		17,400	0.5
Investment Liabilities		(167,100)	-4.7
Current Assets/liabilities		39,700	1.1
Non-Current assets		1,500	0.0
Total	100	3,584,600	100

The Administering Authority also holds additional voluntary contributions (AVCs) which are separately invested. These assets have been excluded from the market value shown as they exactly match the value of the benefits they cover.

The details of the assets at the valuation date and the financial transactions during the inter-valuation period have been obtained from the audited accounts for the Fund.

Appendix D
Benefit Summary

The benefits valued within our calculations are those in force at the effective date of the valuation. Full details of these can be found in the Local Government Pension Scheme Regulations 2013 (as amended). The principal details are as follows:

The Local Government Pension Scheme Regulations 2013 (http://www.legislation.gov.uk/uksi/2013/2356/contents/made)

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (http://www.legislation.gov.uk/uksi/2014/525/contents/made)

Directions made by the Treasury under Section 59A of the Social Security Pensions Act 1975 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/761639/Treasury_Direction_under_section_59A_Social_Security_Pensions_Act_1975.pdf). We have made no allowance for the possibility that the directions may be extended to require the LGPS to become responsible for increases to GMPs for members reaching State Pension Age after 5 April 2021.

The Fund is also responsible for paying and, where appropriate, recharging to employers the benefits arising from the award of compensatory added years (CAY) of service on premature retirement. Unless these CAY benefits have been converted into "funded" benefits, they are normally recharged to the relevant employer (together with associated pension increases), and so are excluded from the valuation.

The benefits that will emerge from money purchase AVCs paid by members, and SCAVCs paid by employers, and the corresponding invested assets in respect of these AVCs and SCAVCs, have been excluded from the valuation.

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Following the Lloyds Bank case in 2018, HM Treasury has issued a consultation on equalising and indexation of GMPs in all the public service pension schemes, including the LGPS, and discussions are ongoing about the extent of any inequalities and how these might be addressed.

The valuation makes no allowance for removal of these inequalities. It is consequently possible that additional funding will be required for equalisation once the law has been clarified. It is recommended that the Administering Authority seek further legal advice if it is concerned about this issue.

The McCloud Judgment

The McCloud judgment in the LGPS refers to the legal decisions (initially by the Employment Appeal Tribunal and then ratified by the Court of Appeal) in the Sargeant/McCloud cases for the Fire and Judiciary pension arrangements. The Court ruled that transitional protections afforded to older members when these schemes were amended constituted unlawful age discrimination. Remedial action, in the form of benefit changes for these schemes, is therefore required.

Although the above cases did not relate directly to the LGPS, the LGPS also put in place protections for older members as part of the reforms which came into effect from 2014. For the LGPS these took the form of an underpin, where older members would get the better of the benefits payable under the new and old schemes.

The Government published a consultation in July 2020 including a proposed remedy for the LGPS. This is likely to result in increased costs for some employers. We are expecting remedial regulations to take effect from October 2023, with a retrospective effect back to April 2014 in England and Wales and a remedy end date of 31 March 2022.

Following discussions with the Administering Authority, in order to consider a reasonable provision for the potential costs in employer contributions we have assumed that the eventual remedy will be that the underpin which applies to older members will also be extended to apply to younger members who joined the Fund before 1 April 2012 (the cut-off date for the protections to apply). More specifically we have agreed with the Administering Authority to:

- Estimate the underpin benefits for active members for service after 31 March 2014 (when the new scheme took effect) up to 31 March 2022.
- Compare this to the actual post 31 March 2014 benefits accrued up to 31 March 2022.
- Calculate the cost for each member as the value of the underpin benefits less the value of the actual benefits (ignoring members where the value of the actual benefits is higher).
- Sum these costs across all active members to give the impact of the underpin for each employer.

We have calculated this cost across all benefits (including deferred benefits for active members who are assumed to leave the scheme before retirement in the future).

At this stage, as the data was not readily available for the valuation we have not calculated any costs for members who had already left service or retired as at 31 March 2022. Given the nature of the underpin we expect any costs for this group of members to be immaterial at whole Fund. We also believe the approach applied to active members and the assumptions underlying the actuarial valuation contain prudential margins which are sufficient to cover the vast majority of such costs for the affected employers.

Appendix E

Analysis of membership experience

The analysis below compares the actual experience over the 3 year period with the assumptions used for the 2022 valuation.

	Actual	Expected	%
Ill Health Retirements	128	202	63
Withdrawals	7,662	2,263	339
Pensioner Deaths	1,632	1,538	106

Note that actual withdrawals can include members moving to another LGPS Fund, bulk transfers and also transfers under the special transfer club terms.

Appendix F

Valuation Dashboard as agreed by Scheme Advisory Board

2022 Past service funding position - local funding basis	
Funding level (assets/liabilities)	101%
Funding level (change since last valuation)	+11%
Asset value used at the valuation (£m)	3,585
Value of liabilities (£m)	3,562
Surplus (deficit) (£m)	23
Discount rate – past service	4.6 % p.a.
Discount rate – future service	5.1% p.a.
Assumed pension increases (CPI)	3.1% p.a.
Method of derivation of discount rate, plus any changes since previous valuation	See Appendix A
Assumed life expectancies at age 65	
Average life expectancy for current pensioners - men currently age 65	22.1
Average life expectancy for current pensioners - women currently age 65	24.3
Average life expectancy for future pensioners - men currently age 45	23.7
Average life expectancy for future pensioners - women currently age 45	26.4

The basis for the purposes of the LGPS Scheme Advisory Board funding position (the "SAB basis") is a set of assumptions determined by the SAB. Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. We are happy to supply further details of the SAB basis as requested.

Past service funding position - SAB basis (for comparison purposes only)	
Market value of assets	3,585
Value of liabilities	3,178
Funding level on SAB basis (assets/liabilities)	113%
Funding level on SAB basis (change since last valuation)	+11%
Contribution rates payable	
Primary contribution rate	18.8%
Secondary contributions:	
Secondary contributions 2023/24 (£m)	2.7
Secondary contributions 2024/25 (£m)	2.5
Secondary contributions 2025/26 (£m)	2.6
Giving total expected contributions:	
Total expected contributions 2023/24 (£m figure based on assumed payroll)	85.1
Total expected contributions 2024/25 (£m figure based on assumed payroll)	88.4
Total expected contributions 2025/26 (£m figure based on assumed payroll)	92.1
Assumed payroll (cash amounts in each year)	
Total assumed payroll - 2023/24 (£m)	437
Total assumed payroll - 2024/25 (£m)	456
Total assumed payroll - 2025/26 (£m)	475
Average employee contribution rate (% of pay)	6.4%
Employee contributions (£m based on assumed payroll of £437m)	28

Deficit recovery and surplus spreading plan:	2022 valuation	2019 valuation
Latest deficit recovery period end date	2035	2035
Earliest surplus spreading period end date	2026	2026
The time horizon end date (where this methodology is used by the fund's actuarial advisor)	n/a	n/a
The funding plan's likelihood of success (where this methodology is used by the fund's actuarial advisor)	n/a	n/a
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	0%	0%
Additional information		
Percentage of total liabilities that are in respect of Tier 3 employers	TBC	
Included climate change analysis/comments in the 2022 valuation report	Yes	

Appendix G

Rates and Adjustments Certificate issued in accordance with Regulation 62

Name of fund	Worcestershire Pension Fund

Primary Contribution Rate

I hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1 April 2023 is 18.8% of pensionable pay. The primary rate of contribution for each employer for the three year period beginning 1 April 2023 is set out in the attached schedule.

Secondary Contribution Rate

I hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1 April 2023 is an **addition** of the following:

2023/24 £0.6 million plus 0.5% of pensionable pay (projected to be £2.7m in total)

2024/25 £0.3 million plus 0.5% of pensionable pay (projected to be £2.5m in total)

2025/26 £0.3 million plus 0.5% of pensionable pay (projected to be £2.6m in total)

The secondary rate of contribution for each employer for each of the three years beginning 1 April 2023 is set out in the attached schedule. The above secondary rates, and the secondary rates for each employer, where appropriate include a provision for the costs of the McCloud judgment, and for some employers to pay contributions towards early retirement costs, in each case as set out in the notes to Appendix H.

Contribution amounts payable

The total contribution payable for each employer is the total of the primary and secondary rates as detailed in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically or at intervals agreed with the Administering Authority) unless otherwise noted in the schedule.

Further adjustments

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of £nil.

The individual employer contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of the McCloud judgment remedy as set out in this report and/or any benefit costs being insured with a third party or parties including where the third party or parties participate in the Fund.

In cases where an element of an existing Scheme employer's surplus or deficit is transferred to a new employer on its inception, the Scheme employer's secondary contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme employer and the new employer to reflect this, on the advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contributions.

Regulation 62(8)

In order to maintain solvency of the Fund, and in accordance with Regulation 62(8) of the regulations, we have calculated the contributions that should be paid into the fund over the period 1 April 2023 to 31 March 2026 in order to maintain the solvency of the Fund.

The assumptions underpinning the calculation of the contribution rates included in this certificate are set out in the Funding Strategy Statement and summarised in Appendix A of the Fund Actuary's report on the 31 March 2022 Actuarial Valuation. These assumptions determine our estimate of the number of members (and associated pensions and liabilities) who will become entitled to a pension under the provisions on the LGPS.

Unless noted on the schedule to this Certificate in Appendix H, no allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature:

Name:	Paul Middleman	Laura Evans
Qualification:	Fellow of the Institute and Faculty of Actuaries	Fellow of the Institute and Faculty of Actuaries
Date of signing:	[31 March 2023]	

Appendix H
Schedule to the Rates and Adjustments Certificate dated [31 March 2023]

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Scheme Employers								
Bromsgrove DC	18.9%		(£100,500)	(£105,100)	(£110,000)	18.9% less £100,500	18.9% less £105,100	18.9% less £110,000
Combined Police	17.9%		(£173,500)	(£181,500)	(£189,800)	17.9% less £173,500	17.9% less £181,500	17.9% less £189,800
Hereford & Worcester Fire Civilians	18.9%		£34,400	£36,000	£37,600	18.9% plus £34,400	18.9% plus £36,000	18.9% plus £37,600
Hereford College Of Arts	19.7%	2	£72,380	£0	£0	19.7% plus £72,380	19.7%	19.7%
Herefordshire Council	18.8%		£475,300	£497,200	£520,000	18.8% plus £475,300	18.8% plus £497,200	18.8% plus £520,000
Herefordshire, Ludlow & North Shropshire College	20.9%		£702,800	£735,100	£768,900	20.9% plus £702,800	20.9% plus £735,100	20.9% plus £768,900
Malvern Hills DC	17.6%	3	(£195,550)	(£204,550)	(£213,930)	17.6% less £195,550	17.6% less £204,550	17.6% less £213,930
Redditch BC	19.6%		£568,000	£594,100	£621,500	19.6% plus £568,000	19.6% plus £594,100	19.6% plus £621,500
Regulatory Services	20.5%		£36,200	£37,900	£39,600	20.5% plus £36,200	20.5% plus £37,900	20.5% plus £39,600

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
South Worcester Revenue & Benefits	20.5%		(£287,400)	(£300,600)	(£314,400)	20.5% less £287,400	20.5% less £300,600	20.5% less £314,400
Town and Parish Councils	20.2%		(£6,600)	(£6,900)	(£7,200)	20.2% less £6,600	20.2% less £6,900	20.2% less £7,200
University Of Worcester	17.4%		(£51,000)	(£53,300)	(£55,800)	17.4% less £51,000	17.4% less £53,300	17.4% less £55,800
Warwickshire College Group	19.8%		£44,100	£46,100	£48,300	19.8% plus £44,100	19.8% plus £46,100	19.8% plus £48,300
Worcester City Council	19.1%		£254,900	£266,600	£278,900	19.1% plus £254,900	19.1% plus £266,600	19.1% plus £278,900
Worcestershire County Council	19.0%		-1.7%	-1.7%	-1.7%	17.3%	17.3%	17.3%
Wychavon DC	19.1%		£292,700	£306,200	£320,200	19.1% plus £292,700	19.1% plus £306,200	19.1% plus £320,200
Wyre Forest DC	19.5%	3	£386,800	£404,600	£423,180	19.5% plus £386,800	19.5% plus £404,600	19.5% plus £423,180
Academies								
Alvechurch Academy (WCC)	17.3%		£42,300	£44,200	£46,300	17.3% plus £42,300	17.3% plus £44,200	17.3% plus £46,300
Ashperton Academy	18.0%		£5,100	£5,300	£5,600	18.0% plus £5,100	18.0% plus £5,300	18.0% plus £5,600
Aspire Free School Trust	19.7%	3	£23,960	£25,030	£26,200	19.7% plus £23,960	19.7% plus £25,030	19.7% plus £26,200
Astwood Bank Academy	21.6%		£15,000	£15,700	£16,400	21.6% plus £15,000	21.6% plus £15,700	21.6% plus £16,400
Avon Reach (Pershore Academy)	19.8%		£189,600	£198,300	£207,400	19.8% plus £189,600	19.8% plus £198,300	19.8% plus £207,400

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Badsey First Academy	18.7%		£18,100	£18,900	£19,800	18.7% plus £18,100	18.7% plus £18,900	18.7% plus £19,800
Barrs Court Special School (Accordia Academy Trust)	16.0%		£65,400	£68,400	£71,600	16.0% plus £65,400	16.0% plus £68,400	16.0% plus £71,600
Bengeworth Academy	19.8%		£60,300	£63,100	£66,000	19.8% plus £60,300	19.8% plus £63,100	19.8% plus £66,000
Bishop Perowne	20.3%		£31,000	£32,400	£33,900	20.3% plus £31,000	20.3% plus £32,400	20.3% plus £33,900
Black Pear Trust (Carnforth Fairfield Worcs)	18.6%		£29,300	£30,600	£32,100	18.6% plus £29,300	18.6% plus £30,600	18.6% plus £32,100
Black Pear Trust (Hollymount Academy)	18.5%		£37,000	£38,700	£40,500	18.5% plus £37,000	18.5% plus £38,700	18.5% plus £40,500
Black Pear Trust (St George'S Kidderminster)	21.8%		(£2,600)	(£2,700)	(£2,800)	21.8% less £2,600	21.8% less £2,700	21.8% less £2,800
Black Pear Trust (The Orchard School/Sidemoor)	19.5%		(£4,000)	(£4,200)	(£4,400)	19.5% less £4,000	19.5% less £4,200	19.5% less £4,400
Black Pear Trust (Upper Arley)	17.0%		(£4,300)	(£4,500)	(£4,700)	17.0% less £4,300	17.0% less £4,500	17.0% less £4,700
Bordesley MAT	19.5%	3	£87,310	£91,320	£95,530	19.5% plus £87,310	19.5% plus £91,320	19.5% plus £95,530
Brockhampton Academy	18.5%		£1,500	£1,600	£1,600	18.5% plus £1,500	18.5% plus £1,600	18.5% plus £1,600
Brookfield School	17.8%		£39,700	£41,500	£43,400	17.8% plus £39,700	17.8% plus £41,500	17.8% plus £43,400

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Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Burghill Academy	17.0%		£3,500	£3,700	£3,800	17.0% plus £3,500	17.0% plus £3,700	17.0% plus £3,800
Burley Gate (DH MAT)	17.0%		£13,900	£14,500	£15,200	17.0% plus £13,900	17.0% plus £14,500	17.0% plus £15,200
Canon Pyon Academy	17.5%		£9,600	£10,000	£10,500	17.5% plus £9,600	17.5% plus £10,000	17.5% plus £10,500
Central Learning Partnership T/A Kingfisher	17.0%		£20,600	£21,500	£22,500	17.0% plus £20,600	17.0% plus £21,500	17.0% plus £22,500
Central Learning Partnership T/A Newbridge	18.7%		£9,000	£9,400	£9,800	18.7% plus £9,000	18.7% plus £9,400	18.7% plus £9,800
Central Learning Partnership T/A Riversides	15.5%		£25,300	£26,500	£27,700	15.5% plus £25,300	15.5% plus £26,500	15.5% plus £27,700
Central Learning Partnership Vale Of Evesham	18.3%		£217,800	£227,800	£238,300	18.3% plus £217,800	18.3% plus £227,800	18.3% plus £238,300
Central RST	19.5%		£63,000	£65,900	£68,900	19.5% plus £63,000	19.5% plus £65,900	19.5% plus £68,900
Chantry Academy	21.5%	3	£48,590	£50,840	£53,190	21.5% plus £48,590	21.5% plus £50,840	21.5% plus £53,190
Christopher Westhead Academy	20.2%		£42,700	£44,700	£46,700	20.2% plus £42,700	20.2% plus £44,700	20.2% plus £46,700
Continu Plus Academy	16.6%		£16,700	£17,500	£18,300	16.6% plus £16,700	16.6% plus £17,500	16.6% plus £18,300

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Coppice Academy	19.9%		£32,000	£33,500	£35,000	19.9% plus £32,000	19.9% plus £33,500	19.9% plus £35,000
Dow MAT	20.3%		£266,600	£278,900	£291,700	20.3% plus £266,600	20.3% plus £278,900	20.3% plus £291,700
Droitwich High Academy	21.0%	3	£99,830	£104,430	£109,220	21.0% plus £99,830	21.0% plus £104,430	21.0% plus £109,220
Dyson Perrins Academy	20.2%		£75,200	£78,700	£82,300	20.2% plus £75,200	20.2% plus £78,700	20.2% plus £82,300
Eastnor Academy (DH MAT)	21.0%		£3,200	£3,300	£3,500	21.0% plus £3,200	21.0% plus £3,300	21.0% plus £3,500
Emmaus Catholic Mac (St Nicholas Owen MAC)	19.2%		£131,600	£137,700	£144,000	19.2% plus £131,600	19.2% plus £137,700	19.2% plus £144,000
Endeavour	18.9%		£25,000	£26,200	£27,400	18.9% plus £25,000	18.9% plus £26,200	18.9% plus £27,400
Fairfield High School	19.8%		£44,300	£46,300	£48,500	19.8% plus £44,300	19.8% plus £46,300	19.8% plus £48,500
Fourstones Mat	19.8%		£131,400	£137,400	£143,800	19.8% plus £131,400	19.8% plus £137,400	19.8% plus £143,800
Hanley Castle Academy	20.3%	3	£109,510	£114,590	£119,780	20.3% plus £109,510	20.3% plus £114,590	20.3% plus £119,780
Heart Of West Mercia MAT	19.2%		(£93,000)	(£97,300)	(£101,800)	19.2% less £93,000	19.2% less £97,300	19.2% less £101,800
Heart Of Worcestershire College	19.6%		£483,700	£506,000	£529,200	19.6% plus £483,700	19.6% plus £506,000	19.6% plus £529,200
Hereford Academy Ltd (DH MAT)	20.5%		£38,900	£40,700	£42,600	20.5% plus £38,900	20.5% plus £40,700	20.5% plus £42,600

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Hereford Marches Federation Of Academies	19.6%	3	£13,000	£13,590	£14,280	19.6% plus £13,000	19.6% plus £13,590	19.6% plus £14,280
Holmer Academy	19.3%		£12,000	£12,600	£13,100	19.3% plus £12,000	19.3% plus £12,600	19.3% plus £13,100
Holy Trinity	16.9%		£5,100	£5,300	£5,600	16.9% plus £5,100	16.9% plus £5,300	16.9% plus £5,600
Honeybourne Academy	18.9%		£9,700	£10,100	£10,600	18.9% plus £9,700	18.9% plus £10,100	18.9% plus £10,600
John Kyrle Academy	19.9%		£98,500	£103,000	£107,800	19.9% plus £98,500	19.9% plus £103,000	19.9% plus £107,800
John Masefield High School	21.7%		£57,900	£60,600	£63,300	21.7% plus £57,900	21.7% plus £60,600	21.7% plus £63,300
Kingstone Academy	20.1%	2	£119,660	£0	£0	20.1% plus £119,660	20.1%	20.1%
Lady Hawkins Academy	19.5%		£11,500	£12,000	£12,600	19.5% plus £11,500	19.5% plus £12,000	19.5% plus £12,600
Lickhill Primary Academy	17.5%		£11,800	£12,300	£12,900	17.5% plus £11,800	17.5% plus £12,300	17.5% plus £12,900
Llangrove Academy	20.9%	3	£5,870	£6,160	£6,450	20.9% plus £5,870	20.9% plus £6,160	20.9% plus £6,450
Lugwardine Primary Academy Trust	16.7%		(£800)	(£800)	(£900)	16.7% less £800	16.7% less £800	16.7% less £900
Marden Primary Academy	20.0%		£12,300	£12,900	£13,500	20.0% plus £12,300	20.0% plus £12,900	20.0% plus £13,500
Matchborough First Academy	19.1%		£23,900	£25,000	£26,100	19.1% plus £23,900	19.1% plus £25,000	19.1% plus £26,100

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Mercian Educaton Trust Academy	19.3%		£91,600	£95,800	£100,200	19.3% plus £91,600	19.3% plus £95,800	19.3% plus £100,200
Mordiford Academy	18.3%		£6,400	£6,700	£7,000	18.3% plus £6,400	18.3% plus £6,700	18.3% plus £7,000
Nunnery Wood Academy	18.4%		£47,900	£50,100	£52,400	18.4% plus £47,900	18.4% plus £50,100	18.4% plus £52,400
Oasis Community Learning	16.3%		£40,200	£42,000	£44,000	16.3% plus £40,200	16.3% plus £42,000	16.3% plus £44,000
Our Lady Of The Magnificat MAC	20.2%		£157,600	£164,800	£172,400	20.2% plus £157,600	20.2% plus £164,800	20.2% plus £172,400
Perrywood (Griffin School Trust)	21.0%		£30,800	£32,200	£33,700	21.0% plus £30,800	21.0% plus £32,200	21.0% plus £33,700
Prince Henry's Academy	20.7%		£44,300	£46,300	£48,500	20.7% plus £44,300	20.7% plus £46,300	20.7% plus £48,500
Queen Elizabeth Academy	19.6%		(£4,700)	(£4,900)	(£5,100)	19.6% less £4,700	19.6% less £4,900	19.6% less £5,100
Regency High Academy	17.6%		£92,000	£96,200	£100,700	17.6% plus £92,000	17.6% plus £96,200	17.6% plus £100,700
Ridgeway Academy	17.1%		(£6,100)	(£6,400)	(£6,700)	17.1% less £6,100	17.1% less £6,400	17.1% less £6,700
Rivers Multi Academy Trust	19.1%		£315,800	£330,300	£345,500	19.1% plus £315,800	19.1% plus £330,300	19.1% plus £345,500
Severn Academy Educ Trust (Stourport On Severn)	18.9%		£224,600	£234,900	£245,700	18.9% plus £224,600	18.9% plus £234,900	18.9% plus £245,700

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Shires Mat (Webheath Academy)	21.2%		(£2,700)	(£2,800)	(£3,000)	21.2% less £2,700	21.2% less £2,800	21.2% less £3,000
South Bromsgrove High Academy	20.2%		£89,200	£93,300	£97,600	20.2% plus £89,200	20.2% plus £93,300	20.2% plus £97,600
St Marys Broadway	22.8%		£12,000	£12,600	£13,100	22.8% plus £12,000	22.8% plus £12,600	22.8% plus £13,100
St Marys Evesham	20.2%		£17,700	£18,500	£19,400	20.2% plus £17,700	20.2% plus £18,500	20.2% plus £19,400
St Michaels (DH MAT)	21.1%		£22,200	£23,200	£24,300	21.1% plus £22,200	21.1% plus £23,200	21.1% plus £24,300
St Paul's C Of E Primary	22.0%		£15,700	£16,400	£17,200	22.0% plus £15,700	22.0% plus £16,400	22.0% plus £17,200
St Thomas Cantilupe (DH MAT)	21.1%		£9,100	£9,500	£10,000	21.1% plus £9,100	21.1% plus £9,500	21.1% plus £10,000
Stanley Road (Perry Hall MAT)	18.7%		£64,300	£67,300	£70,400	18.7% plus £64,300	18.7% plus £67,300	18.7% plus £70,400
Steiner Academy	20.8%		(£5,400)	(£5,600)	(£5,900)	20.8% less £5,400	20.8% less £5,600	20.8% less £5,900
Stretton Sugwas Academy	19.7%	3	£13,100	£13,690	£14,370	19.7% plus £13,100	19.7% plus £13,690	19.7% plus £14,370
Suckley Academy	20.2%		£3,500	£3,700	£3,800	20.2% plus £3,500	20.2% plus £3,700	20.2% plus £3,800
Tenbury (DH MAT)	22.6%		£26,100	£27,300	£28,600	22.6% plus £26,100	22.6% plus £27,300	22.6% plus £28,600
Tenbury High Ormiston	19.2%	2	£146,660	£0	£0	19.2% plus £146,660	19.2%	19.2%

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
The Chase Academy	18.5%	3	£102,270	£106,970	£111,860	18.5% plus £102,270	18.5% plus £106,970	18.5% plus £111,860
The Hill Trust	20.3%	3	£49,280	£51,530	£53,870	20.3% plus £49,280	20.3% plus £51,530	20.3% plus £53,870
The Spire C Of E (St Johns Middle Academy)	18.8%		£20,800	£21,800	£22,800	18.8% plus £20,800	18.8% plus £21,800	18.8% plus £22,800
The Spire C Of E (St Johns Primary)	19.1%		£31,700	£33,200	£34,700	19.1% plus £31,700	19.1% plus £33,200	19.1% plus £34,700
The Spire C Of E (St Matthias Academy)	22.4%		£12,500	£13,100	£13,700	22.4% plus £12,500	22.4% plus £13,100	22.4% plus £13,700
The Spire C Of E (Witton Middle School)	20.0%		(£11,700)	(£12,200)	(£12,800)	20.0% less £11,700	20.0% less £12,200	20.0% less £12,800
The Villages MAT	19.7%		£121,000	£126,600	£132,400	19.7% plus £121,000	19.7% plus £126,600	19.7% plus £132,400
Tudor Grange (Redditch)	21.2%		£46,100	£48,200	£50,400	21.2% plus £46,100	21.2% plus £48,200	21.2% plus £50,400
Tudor Grange Academy (Perdiswell)	19.5%		(£7,500)	(£7,800)	(£8,200)	19.5% less £7,500	19.5% less £7,800	19.5% less £8,200
Tudor Grange Academy (Worcester)	19.5%		£54,400	£56,900	£59,500	19.5% plus £54,400	19.5% plus £56,900	19.5% plus £59,500
Victoria Trust MAT (Birchen Coppice Academy)	18.2%		£48,600	£50,800	£53,200	18.2% plus £48,600	18.2% plus £50,800	18.2% plus £53,200
Victoria Trust MAT (Foley Park Academy)	19.5%		£46,400	£48,500	£50,800	19.5% plus £46,400	19.5% plus £48,500	19.5% plus £50,800

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Walkwood Academy	20.2%		£10,000	£10,500	£10,900	20.2% plus £10,000	20.2% plus £10,500	20.2% plus £10,900
Whitecross Academy	19.3%		£40,500	£42,400	£44,300	19.3% plus £40,500	19.3% plus £42,400	19.3% plus £44,300
Wigmore Academy	18.6%		£13,300	£13,900	£14,600	18.6% plus £13,300	18.6% plus £13,900	18.6% plus £14,600
Woodrush Academy	17.9%		£72,900	£76,300	£79,800	17.9% plus £72,900	17.9% plus £76,300	17.9% plus £79,800
Community Admission Bodies								
Bromsgrove Housing Trust	22.1%		(£64,400)	(£67,400)	(£70,500)	22.1% less £64,400	22.1% less £67,400	22.1% less £70,500
Connexus Homes Ltd	19.5%		(£214,900)	(£224,800)	(£235,100)	19.5% less £214,900	19.5% less £224,800	19.5% less £235,100
Encore Enterprises Ltd	24.1%		(£200)	(£200)	(£200)	24.1% less £200	24.1% less £200	24.1% less £200
FCC Environment	24.6%		(£60,700)	(£63,500)	(£66,400)	24.6% less £60,700	24.6% less £63,500	24.6% less £66,400
Herefordshire Community Leisure Trust (Halo)	18.4%		(£18,700)	(£19,600)	(£20,500)	18.4% less £18,700	18.4% less £19,600	18.4% less £20,500
Malvern Hills Conservators	22.4%	3	£74,200	£77,630	£81,150	22.4% plus £74,200	22.4% plus £77,630	22.4% plus £81,150
Platform (Fortis Living)	22.0%		£248,900	£260,300	£272,300	22.0% plus £248,900	22.0% plus £260,300	22.0% plus £272,300
Sports Partnership	22.5%	3	(£2,740)	(£2,840)	(£3,030)	22.5% less £2,740	22.5% less £2,840	22.5% less £3,030
The Community Housing Group	22.1%		£318,800	£333,500	£348,800	22.1% plus £318,800	22.1% plus £333,500	22.1% plus £348,800

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Wychavon Leisure Community	21.3%		(£17,000)	(£17,800)	(£18,600)	21.3% less £17,000	21.3% less £17,800	21.3% less £18,600
Transferee Admission Bodies								
Action For Children	25.5%		(£83,800)	(£87,700)	(£91,700)	25.5% less £83,800	25.5% less £87,700	25.5% less £91,700
AIP Aylestone	19.2%		(£200)	(£200)	(£200)	19.2% less £200	19.2% less £200	19.2% less £200
AIP Class Catering	23.4%		£0	£0	£0	23.4%	23.4%	23.4%
Arete Outdoor Centre	20.8%	2	£840	£0	£0	20.8% plus £840	20.8%	20.8%
Aspire Living Ltd	23.2%		(£2,800)	(£2,900)	(£3,100)	23.2% less £2,800	23.2% less £2,900	23.2% less £3,100
Aztec	22.3%		(£2,300)	(£2,400)	(£2,500)	22.3% less £2,300	22.3% less £2,400	22.3% less £2,500
Balfour Beatty	24.5%		(£1,057,500)	(£1,106,100)	(£1,157,000)	24.5% less £1,057,500	24.5% less £1,106,100	24.5% less £1,157,000
Bam (Bromsgrove PFI)	24.7%		(£6,000)	(£6,300)	(£6,600)	24.7% less £6,000	24.7% less £6,300	24.7% less £6,600
Bellrock Property Facilities	25.8%		(£3,500)	(£3,700)	(£3,800)	25.8% less £3,500	25.8% less £3,700	25.8% less £3,800
Boundless Outdoors (Malvern OEC)	20.3%		£1,000	£1,000	£1,100	20.3% plus £1,000	20.3% plus £1,000	20.3% plus £1,100
Capita (IBS Schools)	21.2%		(£18,500)	(£19,400)	(£20,200)	21.2% less £18,500	21.2% less £19,400	21.2% less £20,200

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Caterlink (Perdiswell)	24.7%		(£3,800)	(£4,000)	(£4,200)	24.7% less £3,800	24.7% less £4,000	24.7% less £4,200
Caterlink Ltd (TG Redditch)	26.6%		(£2,300)	(£2,400)	(£2,500)	26.6% less £2,300	26.6% less £2,400	26.6% less £2,500
Caterlink Ltd (TG Worcester)	21.3%		(£2,700)	(£2,800)	(£3,000)	21.3% less £2,700	21.3% less £2,800	21.3% less £3,000
Computer Systems In Education Ltd	29.2%		(£2,700)	(£2,800)	(£3,000)	29.2% less £2,700	29.2% less £2,800	29.2% less £3,000
Innovate Services Ltd (NWHS)	25.5%		(£7,500)	(£7,800)	(£8,200)	25.5% less £7,500	25.5% less £7,800	25.5% less £8,200
Jacobs	23.8%		(£153,900)	(£161,000)	(£168,400)	23.8% less £153,900	23.8% less £161,000	23.8% less £168,400
Kidderminster District Youth Trust	17.9%		£500	£500	£500	17.9% plus £500	17.9% plus £500	17.9% plus £500
Kindred - Ridgecrest Cleaning (Bishop Perowne)	24.5%		(£500)	(£500)	(£500)	24.5% less £500	24.5% less £500	24.5% less £500
Liberata	23.8%		(£482,200)	(£504,400)	(£527,600)	23.8% less £482,200	23.8% less £504,400	23.8% less £527,600
Malvern Catering Dines Green	21.4%		(£200)	(£200)	(£200)	21.4% less £200	21.4% less £200	21.4% less £200
Millbrook Healthcare	24.5%		(£3,200)	(£3,300)	(£3,500)	24.5% less £3,200	24.5% less £3,300	24.5% less £3,500
NHS Redditch Broms CCG	26.4%		(£5,300)	(£5,500)	(£5,800)	26.4% less £5,300	26.4% less £5,500	26.4% less £5,800

Employer	Primary rate 2023/24 to 2025/26	Notes	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Ringway	23.8%		(£62,300)	(£65,200)	(£68,200)	23.8% less £62,300	23.8% less £65,200	23.8% less £68,200
Rubicon Leisure	18.7%		(£44,700)	(£46,800)	(£48,900)	18.7% less £44,700	18.7% less £46,800	18.7% less £48,900
Severn Arts	24.2%		(£700)	(£700)	(£800)	24.2% less £700	24.2% less £700	24.2% less £800
Shaw Healthcare Ltd	25.6%		(£176,600)	(£184,700)	(£193,200)	25.6% less £176,600	25.6% less £184,700	25.6% less £193,200
Sports & Leisure Management	20.9%		£800	£800	£900	20.9% plus £800	20.9% plus £800	20.9% plus £900
Timberdine Nursing & Rehab Unit	28.1%		(£600)	(£600)	(£700)	28.1% less £600	28.1% less £600	28.1% less £700
TTB Contracts (Dines Green)	25.5%		£0	£0	£0	25.5%	25.5%	25.5%
TTB Contracts (Great Malvern)	23.2%		(£100)	(£100)	(£100)	23.2% less £100	23.2% less £100	23.2% less £100
TTB Contracts (St Andrews)	20.6%		£100	£100	£100	20.6% plus £100	20.6% plus £100	20.6% plus £100
Wealdon Leisure (Freedom Leisure)	22.0%		(£4,600)	(£4,800)	(£5,000)	22.0% less £4,600	22.0% less £4,800	22.0% less £5,000
Worcester Community Trust	26.5%		(£12,300)	(£12,900)	(£13,500)	26.5% less £12,300	26.5% less £12,900	26.5% less £13,500
Worcestershire Children First	17.1%		(£649,400)	(£679,300)	(£710,500)	17.1% less £649,400	17.1% less £679,300	17.1% less £710,500

Important notes to the Certificate:

1. The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS.

2. The employer has chosen to pay their required secondary rate over three years as one payment. Cash payments in respect of the total £ lump sums are payable by 30 April 2023. The amounts shown each year have been reduced to reflect the early payment.

3. The employer has chosen to pay each year's required secondary rate as one payment each year. These annual cash payments in respect of the total £ lump sums are payable by 30 April of the year in which they are due. The amounts shown each year have been reduced to reflect the early payment.

4. With the agreement of the Administering Authority employers in the Growth Pot may opt to pay any element of their employer contributions in advance instead of monthly amounts, with either all three years being paid in April 2023 or payment being made earlier than due in the year in question. The cash amounts payable will be reduced in return for this early payment as follows:

   - 2024/25 payments made in April 2023 will be reduced by 6.52% (i.e. the above amounts will be multiplied by 0.9348)
   - 2025/26 payments made in April 2023 will be reduced by 10.63% (i.e. the above amounts will be multiplied by 0.8937)
   - Payments made annually in advance will be reduced by 2.22% (i.e. the above amounts will be multiplied by 0.9778)

5. With the agreement of the Administering Authority employers in the Medium Pot may opt to pay any element of their employer contributions in advance instead of monthly amounts, with either all three years being paid in April 2023 or payment being made earlier than due in the year in question. The cash amounts payable will be reduced in return for this early payment as follows:

   - 2024/25 payments made in April 2023 will be reduced by 6.19% (i.e. the above amounts will be multiplied by 0.9381)
   - 2025/26 payments made in April 2023 will be reduced by 10.10% (i.e. the above amounts will be multiplied by 0.8990)
   - Payments made annually in advance will be reduced by 2.11% (i.e. the above amounts will be multiplied by 0.9789)

6. Where % contributions are being paid in advance, for these cases the employer will need to estimate in advance the pensionable pay for the entire period (subject to an agreed adjustment with the Administering Authority) and a balancing adjustment to reflect the actual pensionable pay over the period would be made at the end of the period (no later than 30th April as appropriate following the year-end). Consideration will be required for employers in surplus as at 31 March 2022, where any surplus offset would be made up front before any reduction for early payment is applied. Further information on the policy for prepayments can be provided by the Fund upon request. It should be noted that only certain employers will be able to pay their primary rate in advance due to the operational complexity.

7. Where the secondary rate is a £ deduction to the primary rate due to an employer being in surplus, the total annual contributions payable by each employer will be subject to a minimum of £nil i.e. no monies can be refunded to an employer whilst they participate in the Fund.

8. The above secondary contributions include provision for the estimated effect of the McCloud judgment based on the proposed remedy. Whilst it is possible that the Fund may require additional contributions from employers at that point in time if the McCloud remedy is substantially different from that currently anticipated, based on the Administering Authority's current knowledge and understanding of the likely outcome it believes that requiring such additional contributions is an unlikely outcome. In the event that additional contributions are required, this certificate will then be updated to reflect these changes. Any contribution changes will take effect from a date to be determined by the Administering Authority.

9. The solvency funding target for this employer has been calculated using a real investment return above CPI assumption of 1.25% p.a. (i.e. the funding strategy for the Medium Investment Pot) and similarly the primary rate has been calculated using a real investment return of 1.75% p.a.

Appendix I

Glossary

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differs from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer Covenant: the degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. It is normally the same as an employer’s Primary Contribution Rate under the Regulations.

Employer’s Primary Contribution Rate: the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant. The Primary

Contribution Rate for the whole Fund is the weighted average (by payroll) of the individual employers' Primary Contribution Rates.

Employer's Secondary Contribution Rate: an adjustment to the Primary Rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary Rate may be expressed as a percentage adjustment to the Primary Rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary Rate is specified in the Rates and Adjustments Certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary Rates. Secondary Rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

Equities: shares in a company which are bought and sold on a stock exchange.

Funding Strategy Statement (FSS): This is a key governance document that outlines how the administering authority will manage employer's contributions to the Fund.

Guaranteed Minimum Pension (GMP): This part of a member's pension which was earned between 6 April 1978 and 5 April 1997 and which replaces part of that member's State Scheme benefits in respect of that period.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

McCloud Judgment: This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

Past Service Liabilities: this is the present value of the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

Percentile: A method of ranking a series of outcomes. For example, a 10th percentile outcome means that only 10% of results would be expected to be as good as or better than the 10th percentile and 90% of results would be expected to be worse.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Primary rate of the employers' contribution: the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and guidance requires the assumptions adopted for an actuarial valuation overall to be prudent.

Real Return or Real Discount Rate: a rate of return or discount rate net of CPI inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period", as set out in the Funding Strategy Statement.

SAB Funding Basis or SAB Basis: a set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2019 was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculated the Fund's solvency funding position and contribution outcomes for employers.

Solvency/Funding Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the past service liabilities assessed on the ongoing concern basis.

Surplus Buffer: Requires part of the surplus to be held back to act as a cushion against future adverse experience (reflecting the current market uncertainty). Aids with future stability for long term employers.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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PENSIONS COMMITTEE
22 MARCH 2023

LOCAL GOVERNMENT PENSION SCHEME (LGPS) CENTRAL UPDATE

Recommendation

1. **The Chief Financial Officer recommends the LGPS Central update be noted.**

Background

2. The government set out in 2014 its approach and reasoning (Opportunities for collaboration, cost savings and efficiencies) for asset pooling with responsibility for asset allocation staying with the 90 administering authorities. Worcestershire Pension Fund (WPF) in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) set up a collective investment vehicle called LGPS Central. The Company was authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1 April 2018.

3. LGPS Central has been in operation since the 1 April 2018 and several the local authorities have transitioned some of their existing asset allocations to be managed by the company. WPF transferred its Active Emerging Market funds into the LGPS Central's Global Active Emerging Market managed mandate in July 2019, its Active Corporate Bond Fund into the LGPS Central 'Global active Investment Grade Corporate Bond Fund in March 2020, a £200m investment into the LGPSC All World Climate Factor Passive Fund in November 2021 and more recently £200m to a Global sustainable active equity Fund.

Transition of existing Assets and investment in LGPSC investment products

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

5. The Fund transferred its Active Emerging Market funds into the LGPS Central's Global Active Emerging Market managed mandate in July 2019. This is now subject to a 3-year review which is being conducted by LGPSC. This fund's performance has not been particularly good since inception being -1.0% which is 4.90% below its target as at the end of December 2022 and we await the review findings and recommendations.

Next Company Annual General Meeting on meeting 28 February 2023

6. The next company meeting is on the 28 February and this will mainly cover the Strategic Business Plan and Budget for 2023/24.

7. A number of dedicated meetings with representatives from the company, shareholders, Chief Officers and Fund officers have been undertaken using the same set of principles that were used to agree the LGPSC budget and Strategic Business Plan for 2022/23 with the last meeting with PAF and Shareholders being on the 6 January 2023.

8. At the Pension Committee meeting on the 8 February, the draft LGPSC 2023/24 Budget & Business Plan attached as Appendix 1 details the proposed budget put forward totalling £15.154m (page 13) including a vacancy factor of £357k, being a 12.3% increase on the previous year. Excluding the vacancy factor the budget would be £15.511m an increase of 14.9%. Brief details of the reasons for the proposed increase are also provided.

LGPSC Proposed Strategic Business Plan (SBP) 2023/24
9. The proposed LGSPC 2023/24 strategic business plan is attached as an Appendix. The key focus areas are in line with the previous year and further narrative from LGPSC is provided below:-

FIGURE 2: LGPS CENTRAL FOCUS AREAS

Effective management of assets
10. Actions which aim to improve performance across all LGPSC funds; management information framework which demonstrates how LGPSC adds value from its oversight of external managers; working with Partner Funds on Private Markets asset allocation decisions , commitment timings and fund mandates; discussions with Partner Funds to explore whether and how LGPSC may be able to return capital, after cumulative breakeven is achieved during 2023/24.

Transitioning new assets into the pool
11. Ensure all new products included in 2022/23 business plan are launched during 2023/24 (subject to continuing Partner Fund needs); launch of additional Private Markets funds to meet Partner Fund Strategic Asset Allocation (SAA) needs; increase portfolio management efficiency and risk reduction through use of derivatives in discretionary Gilts mandate; review and evolve current funds (primarily through 3/5 year review processes).
Responsible Investment & Engagement (RI&E)

12. Continuing integration and reporting of RI&E as an element of delivering investment performance; continuous improvement of the RI&E service for Partner Funds (streamlining Climate Risk Monitoring methodology to improve speed and efficiency of Climate Risk Reporting & Taskforce for Climate related Financial Disclosures (TCFD) report production, Partner Fund training sessions and white papers on key RI&E topics & ad hoc support); continue to support Partner Funds on developing their journey to a Net Zero future; roll out offerings based on capabilities of the Environmental Social Governance (ESG) Tool; expansion of RI&E reporting to reflect evolving industry best practice.

Strengthen (Grow) Partner Fund relationship

13. Building out a clear client service model based around professional financial services Business-2-Business expectations; exploring with Partner Funds whether the capabilities built at LGPSC can provide additional support to key Partner Fund stakeholders; collaboration with Partner Funds to identify any additional collective services/solutions that LGPSC could provide; re-energise discussions around Central Pool Shared Objectives based on longer term partner Fund/Committee aspirations for LGPSC.

Operational resilience

14. Procurement and implementation of Private Markets/Admin Systems; review cost sharing model; review of management information, internal data and client report; implement realigned Legal, Compliance & Risk structure and resourcing.

Recruitment and retention

15. Development of a clear 'People Strategy' to reinforce recruitment, retention, development, succession and D&I plans (to include both financial and non-financial initiatives); sharing the development of potential options for medium term retention strategies, building on the remuneration review process agreed with Partner Funds, peer group comparisons, longer term retention planning to drive performance and reinforce stability; improved dialogue between LGPSC & Shareholders to address staff retention issues.

Worcestershire Pension Fund existing Shareholders view

16. Our Shareholder has been supportive of the LGPSC proposed budget detailed in paragraph 8 above as the primary focus of the Company should be to enhance and achieve the targeted investment returns. This means recruiting and retaining quality staff and having to compete with its 'peers' in terms of salary and employment conditions to do this.

Updated Estimated Cost savings model

17. The Cost Savings Model was provided to the Committee in January 2022 and this has been updated as at the end of September 2022 and used for the Pooling submission to Department for Levelling Up, Housing & Communities (DHULC). Each Cost Savings Model is based on Assets Under Management (AUM) at different dates (**£33bn** to **£58bn**).

18. Table 1 below, indicates that total forecast savings have increased to **£339m** between 2018-19 and 2033-34, albeit a sizeable proportion of these savings (**£66m** or **19%)** are now generated directly by the Partner Funds themselves through the development of collaborative procurement frameworks and fee negotiations with legacy managers.

Table 1: Forecast Cost Savings model updated September 2022

Partner Fund	CSM 2020 £ Million	CSM 2022 £ Million	*Change £ Million*	LGPSC Average Bps TER Gross Saving	LGPSC Average Bps TER Net Saving	*LGPSC Gross Savings Usage*
WPF	16,522	9,484	*(7,038)*	16.3	2.9	*82.2%*
Forecast Cumulative Savings	**268,505**	**339,618**	***71,113***	**15.1**	6.6	*56.3%*

19. As shown in table 1 above, LPGSC forecast net savings equate to **6.6bps**; The forecast net savings are extremely sensitive to changes in relative performance, with a relatively modest ±25bps change in performance either reducing or increasing net savings by around **£760m.**

20. At a recent meeting Shareholders approved the appointment of 2 replacement non-executive directors.

Staffing

21. LGPSC have managed to recruit to their key posts although it remains a highly competitive recruitment market with principle candidate concerns around Remuneration and benefits packages and Location & flexible working.

Practitioner Advisory Forum (PAF) Working Groups

17. 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)

18. The Partner Funds have also established an Internal Audit working group which provides a co-ordinated approach to enable the Joint, 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

19. 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.

1. Month 1 (Jan, Apr, Jul, Oct) – Product Development & Responsible Investment.

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

20. 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 February 2023)**
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*

21. The products to be developed in 2022/23 were collectively agreed by Partner Funds at their next SAA Day on the 16 September 2021. As most sub-funds, which have targeted the higher levels of assets under management (AUM), have now been launched or in progress, the focus will ensure that these are delivered.

22. There was a further SAA Day planned on the 15 September 2022 and the initial requests to the company which will help form actions in the 2023/24 Strategic Business Plan were as follows:

<u>Category A – Ongoing Priorities</u>

1. Performance of existing products
2. Continuous RI&E Enhancements / Scope 3 and Private Markets Reporting etc
3. Products in development
   - Targeted Return
   - Direct Property
   - Indirect Property (overseas & residential)
   - Schroders Equity pathway (NPF)
   - Infrastructure - JPM investment transfers

<u>Category B – 2023/24 Priorities</u>

1. Private Credit – review availability of a fund vehicle for 2023/24
2. Private Equity - review availability of a fund vehicle for 2023/24
3. Carbon Targets / Metrics (TCFD etc) – scope and potential for alignment across Partner Funds.

Contact Points

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Supporting Information
LGPSC Budget and strategic business plan 2023/24 - Appendix

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 8 February 2023
- LGPS Central business case submission to government 15 July 2016.

LGPS Central Limited

2023/24 Business Plan & Budget

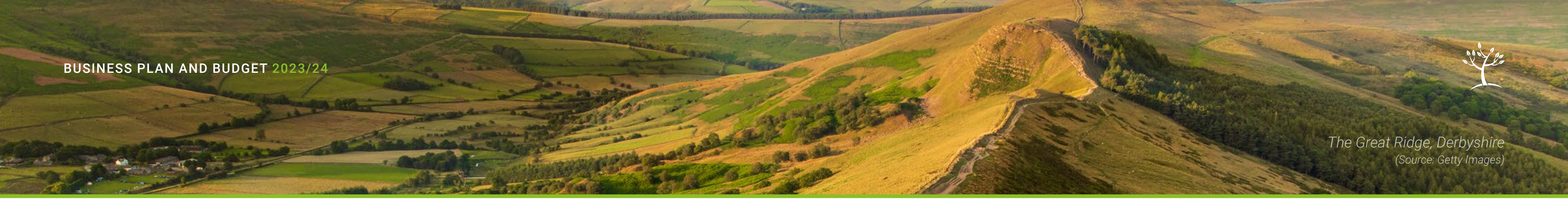
JANUARY 2023

lgpscentral.co.uk

Contents

Front Cover Image: *Morning mist in the Peak District* *(Source: Getty Images)*

Background Image: *Aerial view of rural road in Shropshire* *(Source: Getty Images)*


The Great Ridge, Derbyshire
(Source: Getty Images)

CHAIR'S STATEMENT

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Joanne Segars
Chair

As we head towards the fifth anniversary of LGPS pooling, it's a good time to reflect on just how far we've come together at LGPS Central. Today, we stand as a company responsible for just under £30bn of assets, operating across a broad range of asset classes in private and public markets supported by an expert team of 80 colleagues.

That's no mean feat against a difficult backdrop - the COVID 19 pandemic, volatile market conditions, and unprecedented pressure on local government finances to name but three. We've been able to achieve all that by working together – the Company and Partner Funds as both Clients and Shareholders – with a strong focus on delivering good returns, good value and good governance.

During the current year we have kept a careful focus on performance; onboarded over £2bn of assets; launched 4 new funds; voted at 2,806 company annual general meetings; helped our Partner Funds meet their ESG reporting requirements; supported our colleagues in a return to work at our new headquarters at i9; and welcomed our third cohort of graduate trainees.

As chair of the Company, and indeed its first officer, I am very proud of what we've achieved together. But the job is far from done and we recognise that we've got further to go.

This year our focus will therefore be on:

1. The effective management of Partner Fund assets
2. Transitioning new assets into the Pool
3. Responsible investment and engagement
4. Growing Partner Fund relationships
5. Operational resilience
6. Recruitment, Motivation and Retention

That will mean us delivering further improved performance of the existing assets for which we are responsible; helping Partner Funds meet their strategic asset allocations with the addition of a targeted return fund and an indirect property fund and continuing our focus on developing our private markets offering. On responsible investment and engagement, we will continue to evolve what we do, including improving our reporting and Climate Risk Monitoring, which will be important in the face of the ever-growing scrutiny of pension fund activity in this area. We will continue to enhance our operational resilience so that Partner Funds as Clients can have confidence in our systems and processes and that as Shareholders you can be confident that risk is well managed. Finally, as we've said before, as a Company, our only asset is our people. So we must ensure that we can recruit, retain and motivate our colleagues to have long-term futures with us through the development of a medium-term retention policy.

As we enter our fifth year we also need to look to the medium term. Just as any business – and indeed local authority – would, we need to look beyond the imperatives for simply the next financial year. As Chair, I believe this is essential if we are to leverage the potential of pooling, and the benefits of scale, for all our Partner Funds. We have set out in this Business Plan early thoughts on some of the areas for consideration. But the Board is clear that we will need to develop and build these medium-term aspirations together, around a set of shared aspirations. I look forward to these discussions during the course of 2023.

The work programme for 2023/24 has been informed by the helpful discussions that have taken place with Partner Fund representatives since last summer and the Board's assessment of what's required to run the Company successfully, safely and compliantly in the interests of Shareholders. I would like to thank Partner Funds for their engagement.

The Board has considered carefully the budget required to support this work. For the 2023/24 financial year, our operating budget will be £15.2m, an increase of 12.3% on the previous year. This puts our operating budget at under 5 basis points (based on the projected assets under our stewardship for the year) and is a number that's been broadly consistent since our inception, and with the growth in assets under stewardship. The Board believes this represents good value for money and demonstrates our focus on delivering for Partner Funds.

We have a busy year ahead, but I know that by working together we can achieve much to support the delivery of pensions to the one million members covered by the Central Pool. I look forward to working with you.

J. Segars.

Joanne Segars
Chair
LGPS Central Limited

Spaghetti Junction, West Midlands
(Source: Getty Images)

Birmingham, West Midlands
(Source: Getty Images)

CEO'S OUTLOOK

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Mike Weston
CEO

As we look forward to our sixth year of operations, our focus remains on supporting and delivering to the key needs of our Partner Funds.

These key needs were confirmed over 2022 as being to deliver:

- the investment performance our Clients need to support the payment of benefits to members
- improvements in service quality and efficiency
- the new funds and services that our Clients have asked for
- great value for money in everything we do for Partner Funds as Clients and tangible ownership benefits for Partner Funds as Shareholders

The business plan activity and budget have been developed with these priorities in mind against the backdrop of volatile markets and acute awareness of the financial constraints that local authorities are operating under. This business plan builds upon previous years' progress, anchoring activity to the six key themes that are familiar, along with outlining in detail key business initiatives that will support in the delivery to Partner Funds.

We have sought to be very open with Shareholders about the challenges the business faces and the Board's plans to solve these challenges; extensive information has been provided to the Practitioners Advisory Forum (PAF) and Shareholders setting out the rationale and the thought process that has been undertaken. At all times the Board has sought to balance the need for obtaining best value for our Shareholders with the need to invest in the business so that we can deliver against our Clients' key needs.

Our 23/24 operating budget is £15.2m which is an increase of 12.3% from the prior year. This maintains LGPSC's operating budget at around 5 basis points based on projected assets under stewardship over the year. In future, with additional scale, we have the potential to provide further additional value for money for Clients and Shareholders.

We look forward to continuing to work with our Partner Funds over the 2023/24 year and are committed to exploring further with Partner Funds the medium-term objectives for the Central Pool and the supporting business strategy for LGPS Central Limited.

Mike Weston
Chief Executive Officer
LGPS Central Limited

SUMMARY OF KPIs

KPI performance focusses management attention to two key areas; investment performance and staff turnover. Full details of 2022/23 performance to date is included in Appendix 1.

FIGURE 1: SHAREHOLDER KPIS – 31 DECEMBER 2022

KPI CATEGORY / BUSINESS PLAN OBJECTIVES	NO. OF KPIs	RAG STATUS FOR EACH KPI					
Legal Duty	2	G	G				
Investment Management Business Essentials	6	G	R	G	G	A	G
Client Service	2	G	-				
Internal Business Management	4	R	G	G	G		

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KEY AREAS OF FOCUS

For transparency and consistency, LGPS Central will continue to anchor activity around the six key themes.

FIGURE 2: LGPS CENTRAL FOCUS AREAS

In addition to specific business plan objectives for the year we highlight potential areas of further discussion around medium terms aims of the LGPS Central pool.

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FOCUS AREA 1

Effective management of assets

23/24 OBJECTIVE	VALUE DELIVERED TO PARTNER FUNDS
Focus on actions which aim to further improve performance across all LGPS Central funds – including reviews to test mandate design and product construction resilience	Getting funds on track to mandated target returns supports Partner Funds achieving original objectives
Clear management information framework which demonstrates how LGPSC adds value from its oversight of external managers including manager updates	Clear understanding of LGPSC role to enable communication with stakeholders and to further inform Partner Fund decision making
Working with Partner Funds on Private Markets asset allocation decisions, commitment timings and fund mandates	Reduction of start-up and ongoing operating costs
Discussions with Partner Funds to explore whether and how LGPSC may be able to return capital after cumulative breakeven is achieved during 2023/24	Financial benefit to Partner Funds in challenging financial environment

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MEDIUM TERM AREAS FOR DISCUSSION

- Increase LGPSC understanding of Partner Fund SAA trajectories, the development of individual scheme liability and cash flow profiles to ensure future LGPSC capabilities are focused on providing solutions for developing Partner Fund needs
- Continuing refinement of internal processes for portfolio construction, investment risk analysis and performance attribution to continuously improve manager oversight value add

FOCUS AREA 2

Transitioning new assets into the pool

23/24 OBJECTIVE	VALUE DELIVERED TO PARTNER FUNDS
All new products included in the 2022/23 business plan will be launched during 2023/24 (subject to continuing Partner Fund needs) • Targeted Return Fund • Indirect Property (Overseas & Residential)	Directly meeting Strategic Asset Allocation (SAA) and product development needs
Launch of additional Private Markets Funds to meet Partner Fund SAA needs • Private Equity (additional Direct and Co-Investment vintage funds), Private Credit (Lower returning direct lending)	Directly meeting SAA and product development needs
Increase portfolio management efficiency and risk reduction through the use of derivatives in discretionary Gilts mandates	Improved risk adjusted returns
Review and evolve current funds (primarily through 3/5 year review processes)	Ensure existing LGPSC funds remain suitable for additional, future Partner Fund asset transitions, particularly around investment performance and evolving RI&E expectations

MEDIUM TERM AREAS FOR DISCUSSION

- Prepare for potential outcomes of DLUHC pooling consultation

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FOCUS AREA 3
Responsible investment & engagement

23/24 OBJECTIVE	VALUE DELIVERED TO PARTNER FUNDS
Continuing integration and reporting of RI&E as an element of delivering Investment Performance	Enable key Partner Fund stakeholders to better understand how we view RI&E as an income generator and risk mitigator to facilitate greater support
Continuous improvement of the RI&E service for Partner Funds • Streamlining the Climate Risk Monitoring methodology to improve the speed and efficiency of CRR and TCFD report production • Partner Fund training sessions and white papers on key RI&E topics and ad-hoc support	Improved information provision to Partner Funds and increased internal efficiency
Continue to support Partner Funds on developing their journey to a Net Zero future	Enable Partner Funds to measure the position, progress and make more informed decisions on how to achieve Net Zero aims
Roll out of offerings based on capabilities of the ESG Tool • Impact scoring for GSE portfolios • Improved consistency and granularity of external manager oversight to support investment performance • Increased support for existing product evolution and future product development	Supporting the delivery of investment performance
Expansion of RI&E Reporting to reflect evolving industry best practice	Visible demonstration that Partner Funds and Central Pool maintain leading position on topic important to scheme members

MEDIUM TERM AREAS FOR DISCUSSION

- Increased collaboration with RI&E teams in other Pools to reduce costs/improve efficiencies/ develop LGPS centres of excellence

FOCUS AREA 4
Grow partner fund relationships

23/24 OBJECTIVE	VALUE DELIVERED TO PARTNER FUNDS
Further development of the clear client service and stakeholder engagement model based around professional financial services Business-2-Business expectations including: • Requests responded to within an agreed time frame • Service measured within regular quarterly and pulse surveys • Process and communication agreed around how issues are reported to Clients/Shareholders • Ongoing hybrid/face to face engagement • Service catalogue available across all functions/ teams in LGPS Central	Provide clarity to Partner Funds how we interact as a service provider to better manage expectations around the timely delivery of information and services
Exploring with Partner Funds whether the capabilities built at LGPSC Ltd can provide additional support to key Partner Fund stakeholders	Providing additional consultancy / advisory support to Partner Funds, assisting discussions with Pension Committee and external consultants
Collaboration with Partner Funds to identify any additional collective services/solutions that LGPSC could provide	Collective services which can benefit partner funds working together e.g. cash management / treasury
Re-energise discussions around Central Pool Shared Objectives based on longer-term Partner Fund/ Board aspirations for LGPS Central Ltd	Clarity and consensus of Shared Objectives will facilitate and streamline delivery of Partner Fund/ Board aspirations

MEDIUM TERM AREAS FOR DISCUSSION

- Are there any opportunities for LGPSC resources to support the investment activities of Shareholder local authorities?

FOCUS AREA 5

Operational resilience

23/24 OBJECTIVE	VALUE DELIVERED TO PARTNER FUNDS
Procurement and implementation of Private Markets Admin Systems	Improves the control, monitoring, and growth of Private Markets fund range to meet Partner Fund SAA needs and ensures that costs are controlled, and risks constrained
Review the Cost-Sharing Model	Value proposition of products and services clearly visible, so that Partner Funds have a clearer view of what they are paying for, so that they are able to make more informed decisions
Review of Management Information, Internal Data and Client Reporting to improve consistency, accuracy and efficiency of production	Partner Funds receive the quality of information and analysis they need when they need it, in a 'pass-it-on' format, and that it is right first time. Eliminate unnecessary information and free up resources
Implement realigned Legal, Compliance & Risk structure and resourcing	More efficient and effective control, oversight and reduction of risk of regulatory infringements Growth of internal capability provides increasing scope for future cost savings

MEDIUM TERM AREAS FOR DISCUSSION

- Exploring how LGPSC Ltd may be able to support the resilience of Partner Fund pension scheme operations given current resourcing constraints

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FOCUS AREA 6

Recruitment, motivation and retention

23/24 OBJECTIVE	VALUE DELIVERED TO PARTNER FUNDS
Further development of the People Strategy to reinforce recruitment, retention, development, succession and D&I plans (to include both financial and non-financial initiatives)	A properly resourced LGPSC as service provider which can deliver on key objectives around investment performance and service delivery
Sharing the development of potential options for medium-term retention strategies, building on the remuneration review process agreed with Partner Funds, peer group comparisons, longer-term retention planning to drive performance and reinforce stability	Managing expectations in line with the sector to support retention and performance delivery; ultimately focussed on having the right people in the right roles to deliver key objectives around investment performance and service delivery
Improved dialogue between LGPSC Ltd & Shareholders to address staff retention issues	A better understanding of key reasons for turnover and actions being taken to address this

MEDIUM TERM AREAS FOR DISCUSSION

- Collective aspirations around future scale and capability of the organisation

2023/24 BUDGETARY IMPACT

As LGPS Central and the wider pooling environment continue to evolve, we remain focused on delivering to Partner Funds' needs through our key focus areas.

Most of the activity required to deliver the objectives within the 2023/24 business plan can be considered within our current areas of operation; our focus here is to continue to work effectively and efficiently to ensure that our operations deliver value for money for our Partner Funds.

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Some areas of focus require additional business initiatives to help support the effective and efficient delivery of the necessary products and services to meet current demands and challenges. These line up against each of the key focus areas as set out below. Further details of these business initiatives are set out on this page.

	FOCUS AREA 1	FOCUS AREA 2	FOCUS AREA 3	FOCUS AREA 4	FOCUS AREA 5	FOCUS AREA 6
Focus Area	Effective management of assets	Transitioning new assets into the pool	Responsible investment & engagement	Grow partner fund relationships	Operational resilience	Recruitment, motivation & retention
Business initiative	Accessing and delivering private market opportunities		Keeping responsible investment & engagement at the core of how we invest		Effectively managing legal, compliance & risk	
	Maintaining a talented and engaged workforce					

To allow the Board to deliver the 2023/24 business plan, the operating budget will be £15.2m. This is an increase of 12.3% from the prior year. This puts LGPSC's operating budget at under 5 basis points (based on projected assets under stewardship over the year).

Accessing and delivering Private Market opportunities

Partner Funds continue to place a high priority on increasing strategic allocations to Private Markets, as growth in this area has been significant and is expected to continue in the future. With a significant amount of assets committed by Partner Funds, it's crucial that these resources can be effectively deployed across multiple investment managers. Investing in the appropriate skills and tools is vital to ensure effective deployment of funds, with appropriate oversight to minimise risk and take into account the input of both the Funds and their Advisors.

Keeping responsible investment & engagement at the core of how we invest

LGPS Central is dedicated to staying at the forefront of Responsible Investment within the sector by utilising the available skills of our team and tools to fully integrate responsible investment into our investment approach. We strive to make well-informed decisions that are in line with the evolving regulatory landscape. By maximizing the use of platforms such as the recently procured ESG Tool, we aim to enhance the information and insights provided to Partner Funds, leading to more effective decision making.

We will continue to develop our strategy for a practical pathway to Net Zero, using the specialist skills within our team to shape plans for the company and Partner Funds.

Effectively managing legal, compliance and risk

Legal, Compliance and Risk play a crucial role in every aspect of our business at all levels. After a comprehensive review led by the new Chief Legal, Compliance and Risk Officer, all areas of activity have been thoroughly evaluated; this review concluded that the current structure has to evolve to eliminate gaps at senior levels, key person dependencies, and to support juniors on steep learning curves. As a single, critical combined function LGPS Central has developed a future structure plan to build in operational resilience and offer other high-end value-add for the long-term success of the business and the pool. Through the use of junior recruitment, organic development of existing staff, and selective outsourcing, we are introducing key person cover and incentivising existing staff to access the benefits of continuity. This new structure will help us to better manage risks for our Partner Funds, both as Shareholders and Clients.

Maintaining a talented and engaged workforce

To enable us to deliver the investment returns our Partner Funds require, we must maintain a talented and engaged workforce. Our rolling employee turnover rate reached 30% over 2022/23. This high rate of turnover is not sustainable against our ultimate goal of achieving long-term investment returns, and fundamentally undermines our ability to deliver across all focus areas. Therefore, we need to invest in a way that allows us to recruit, retain, reward and motivate the best talent within LGPS Central.

A market benchmarking exercise was undertaken in 2022 to get a better understanding of any potential systematic issues with our reward structure: external pay advisors were engaged to undertake detailed role mapping and pay benchmarking against similar investment management firms which highlighted significant gaps between the market and LGPS Central reward structure. Management strongly believes that this gap needs to be addressed to support long-term employee engagement and resilience.

This external peer group benchmarking of renumeration data has been used to inform management decisions around market alignment of salaries.

BUDGET

	2022/23 BUDGET £	2023/24 DRAFT BUDGET £	INCREASE/ (DECREASE) £	INCREASE/ (DECREASE)	EXAMPLES OF LINE ITEMS	FURTHER NARRATIVE
EMPLOYEE PAY COSTS	7,164,000	8,036,000	872,000	12.2%	Salary, Pension and National Insurance Contributions	Reflects internal restructures, promotions, pay award at 1 April 2023 and salary alignment
OTHER EMPLOYEE COSTS	332,000	386,000	54,000	16.3%	Training, Recruitment, Life Assurance, Payroll Services, Screening	Reflects increased training costs and recruitment costs
PREMISES	154,000	257,000	103,000	66.9%	Rent, Service Charges, Utilities, Cleaning	Reflects end of rent-free period in i9
TRAVEL AND SUBSISTENCE	130,000	133,000	3,000	2.3%	Travel Subsistence, Hotels and Conference Expenses	
OTHER SUPPLIES AND SERVICES	175,000	177,000	2,000	1.1%	Bank Charges, Corporate Subscriptions, Stationery, Postage, Equipment	
PROFESSIONAL FEES	1,479,000	1,782,000	303,000	20.5%	Tax and Legal Advice, Internal and External Audit, Insurance, Voting Services, Climate and ESG Reporting	Reflects increase in legal and tax advisor costs reflecting increase in Private Markets vehicles in 2023. Provision for increase in insurance premiums
INFORMATION TECHNOLOGY	1,744,000	2,108,000	364,000	20.9%	IT infrastructure, Bloomberg, Website, Various IT Systems	Reflects changes in £:$ exchange rate and additional Bloomberg services
FCA FEES	42,000	62,000	20,000	47.6%	Fees Payable to the FCS	
INVESTMENT RESEARCH	322,000	247,000	(75,000)	(23.3%)	Investment Research Agreements	Reduced given services provided via Bloomberg
LICENCES	8,000	3,000	(5,000)	(62.5%)	SEDOL Licence	
DEPRECIATION	39,000	41,000	2,000	5.1%	Depreciation of Fixed Assets (i9)	
SUB TOTAL	**11,589,000**	**13,232,000**	**1,643,000**	**14.2%**		
AUM-DRIVEN COSTS						
INFORMATION TECHNOLOGY	48,000	26,000	(22,000)	(45.8%)	Private Markets Administration System	Reflects move to outsourcing of admin system which is charged directly to partnerships
MIDDLE OFFICE SERVICES	876,000	886,000	10,000	1.1%	Middle Office Services Provided by Northern Trust	
LICENCES	982,000	1,010,000	28,000	2.9%	Index Licence Fees	
SUB TOTAL	**1,906,000**	**1,922,000**	**16,000**	**0.8%**		
GRAND TOTAL	**13,495,000**	**15,154,000**	**1,659,000**	**12.3%**		

APPENDIX 1

KEY PERFORMANCE INDICATORS As at 31 December 2022

CATEGORY	KPI		RED	AMBER	GREEN	31 DEC 2022
Legal Duty	1	**FCA reportable breaches**	>0	-	0	G
	2	**Material Control Measure Breaches (including Cyber disruption)**	>0	-	0	G
Investment Management Business Essentials	3	**On track to complete the development of new funds detailed in 2022/23 business plan (including those outstanding from 2021/22 business plan) subject to continued Client demand**	<3 funds launched	3 – 4 funds launched	5 funds launched	G
	4	**Percentage (by number) of Actively Managed Funds with performance equal or exceeding mandate target since inception (Public and Private markets)**	Less than 75% active funds ahead of benchmark	75% or more active funds ahead of benchmark	75% or more active funds ahead of mandate target	R
	5	**Tracking error for ACS Passive Funds within mandate targets**	25bps for UK, 50bps for global - out of range		25bps for UK, 50bps for global - within range	G
	6	**Completion of 3 year reviews of in-scope LGPSC pooled investment funds**	Not on track		Green - On track	G
	7	**Client progress with Net Zero (Alignment of Net Zero targets across the Pool)**	Curve of progress (external)		Curve of progress (external)	A
	8	**Continuing LGPSC Ltd Stewardship Code Accreditation and support for any Partner Funds who wish to apply for their own Stewardship Code accreditation**	Not compliant		Compliant	G

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CATEGORY	KPI		RED	AMBER	GREEN	31 DEC 2022
Client Service	9	Investment fund performance reports	<80%	99-80% Amber	100% Green	G
	10	Annual Client survey				Annual client surveys replaced by quarterly and pulse surveys. This has been removed from the KPIs f/y 2022/23
Internal Business Management	11	Staff Turnover Rate (rolling 12 months%)	Higher annual turnover than benchmark of 15% (median) for financial services		Lower annual turnover than benchmark of 15% (median) for financial services	R
	12	A One Central team which reflects the demographic diversity of the Central region in which we are based	Significant movement away from current breakdown (towards imbalance)		Within range of current breakdown or moving towards more balanced workforce	G
	13	LGPS Central management of budgeted operating costs, (measured by the projected annual spend as a proportion of total AUM) quarter on quarter	Increasing costs directly as a result of additional expenses incurred (i.e. not as a result of increased AUM)	Increasing costs as a result of increasing AUM / Decreasing costs solely as a result of increase in AUM	Decreasing costs as a result of reducing overall operating costs incurred	G
	14	Deliver the Business Plan within budget to contribute to the delivery of cost savings	No		Yes	G

APPENDIX 2

REGULATORY CAPITAL STATEMENT 2023/2024

Summary

Having reviewed its current position and the expected implications of its plans for the forthcoming financial year on its regulatory capital requirement, LGPS Central Limited believes that the level of regulatory capital currently held continues to be sufficient, and that therefore no further contributions are required from Partner Funds at the present time.

Purpose

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The purpose of this statement is to provide Partner Funds with information about LGPS Central Limited's regulatory capital requirement for the forthcoming financial year, in line with the requirements of the Shareholders' Agreement (section 4.6).

Background

As an FCA-regulated entity, LGPS Central Limited is required under regulations to hold a minimum level of capital in order to protect against the financial impact of adverse risk events that could arise either within the Company or its operating environment, and thereby strengthen the financial resilience of the Company.

In 2022, the new Internal Capital Adequacy and Risk Assessment (ICARA) regime was introduced, replacing the former ICAAP. This sets out the framework that the company uses in setting its minimum level of capital, the Own Funds Threshold Requirement. Similarly to the ICAAP, this is based on a combination of assets under management (AUM) and the company's own evaluation of certain risk events.

In January 2018, the eight share-holding Partner Funds of LGPS Central Limited provided capital for the Company in a combination of equity and debt, as set out in Table 1. Each partner fund contributed the same amount in total: £2 million.

Part of the capital was advanced in the form of debt for tax planning reasons (because interest payments are tax-deductible whereas dividend payments are not), with the ratio of debt to total capital, approximately 30%, being that which the project's tax advisors felt the maximum likely to be acceptable to HMRC. However, due to their role as LGPS pension provider to the Company, West Midlands Pension Fund were legally unable to provide borrowing and so acquired preference shares instead, with a coupon equivalent to that of the debt.

TABLE 1 – CAPITAL PROVIDED BY PARTNER FUNDS IN JANUARY 2018

PARTNER FUND	'B' ORDINARY SHARES £000	'C' PREFERENCE SHARES £000	DEBT £000	TOTAL £000
CHESHIRE	1,315	-	685	2,000
DERBYSHIRE	1,315	-	685	2,000
LEICESTERSHIRE	1,315	-	685	2,000
NOTTINGHAMSHIRE	1,315	-	685	2,000
SHROPSHIRE	1,315	-	685	2,000
STAFFORDSHIRE	1,315	-	685	2,000
WEST MIDLANDS	1,315	685	-	2,000
WORCESTERSHIRE	1,315	-	685	2,000
TOTAL	**10,520**	**685**	**4,795**	**16,000**

In-Year Monitoring

During the current financial year, the Company has kept its regulatory capital requirement under continuous review, including formal monthly reporting of the requirement with reference to available assets. This monitoring has included forecasts of the regulatory capital requirement and available assets over the next three financial years, taking into account planned activities, in particular anticipated future fund launches. Regular monitoring and scrutiny of the in-year position has been performed by the Board.

This monitoring has confirmed that at all times throughout the year to date, available assets have been sufficient to meet the regulatory capital requirement.

Current and Forecast Regulatory Capital Position

The following table summarises the position with regard to regulatory capital as at the end of September 2022, as well as forecasts for the next three financial year-ends.

TABLE 2 – ACTUAL AND PROJECTED REGULATORY CAPITAL POSITION SEPTEMBER 2022 TO MARCH 2026

	30 SEPT 2022 ACTUAL £000	31 MAR 2023 FORECAST £000	31 MAR 2024 FORECAST £000	31 MAR 2025 FORECAST £000	31 MAR 2026 FORECAST £000
K-FACTOR REQUIREMENT	5,478	5,826	6,331	6,503	6,640
FIXED OVERHEAD REQUIREMENT	3,246	3,246	3,374	3,789	3,978
PERMANENT MINIMUM CAPITAL	75	75	75	75	75
OWN FUNDS REQUIREMENT (HIGHEST OF ABOVE THREE)	**5,478**	**5,826**	**6,331**	**6,503**	**6,640**
ADDITIONAL OWN FUNDS (K-OTHER)	240	240	240	240	240
TOTAL ASSESSMENT A	**5,718**	**6,066**	**6,571**	**6,743**	**6,880**
WIND-DOWN: ASSESSMENT B	4,569	4,569	4,938	5,123	5,301
OWN FUNDS THRESHOLD REQUIREMENT (HIGHER OF A AND B)	**5,718**	**6,066**	**6,571**	**6,743**	**6,880**
AVAILABLE ASSETS	12,321	12,321	12,870	13,549	14,262
REGULATORY CAPITAL HEADROOM	**6,603**	**6,255**	**6,299**	**6,806**	**7,382**

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As the table above demonstrates, there were sufficient available assets to meet the regulatory capital requirement at September 2022, and the medium-term forecasts indicate that projected available assets will continue to be sufficient to meet projected regulatory capital requirements until at least March 2026.

The company will investigate and propose a long-term plan, including dividend policy and the recognition of the pensions guarantee asset alongside the transfer pricing work already completed, to increase the balance sheet efficiency of LGPS Central Limited.

Conclusion

In light of the medium-term projections of LGPS Central Limited's regulatory capital requirement and available own funds, which fully reflect the Company's plans for the forthcoming financial year and the medium-term, including its financial projections, the Company has concluded that the current level of regulatory capital, as provided by Partner Funds in January 2018, continues to be sufficient and that therefore no further injection of capital is required at this stage.

Recommendation

That the Shareholders approve that partner fund capital be maintained at the current level (£16 million in total) and in the current structure (as set out in Table 1).

APPENDIX 3

SHAREHOLDER FINANCIAL REPORTS

Projected Profit and Loss Accounts

	2022/23 FORECAST £000	2023/24 FORECAST £000
INCOME FROM SERVICES	13,951	16,150
EXPENDITURE		
- ANNUAL BUDGET	(13,103)	(15,154)
- IRRECOVERABLE VAT	(60)	(75)
TOTAL EXPENDITURE	(13,163)	(15,229)
OPERATING PROFIT	**788**	**921**
INTEREST RECEIVABLE	114	360
INTEREST PAYABLE (INC. PREF DIVS)	(264)	(360)
PROFIT BEFORE TAX	**638**	**921**
CORPORATION TAX	(89)	(242)
NET PROFIT AFTER TAX AND INTEREST	**549**	**679**
ACTUARIAL GAINS AND (LOSSES)	-	-
TOTAL COMPREHENSIVE INCOME	**549**	**679**
DIVIDENDS PAYABLE	-	-
RETAINED PROFIT/(LOSS)	**549**	**679**
RETAINED PROFIT/(LOSS) BROUGHT FORWARD	(3,679)	(3,130)
RETAINED PROFIT/(LOSS) CARRIED FORWARD	**(3,130)**	**(2,451)**

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Projected Balance Sheets

	31 MAR 22 ACTUAL £000	31 MAR 23 FORECAST £000	31 MAR 24 FORECAST £000
RIGHT-OF-USE ASSETS	1,237	1,088	952
FIXED ASSETS	253	213	173
TRADE AND OTHER RECEIVABLES	9,800	3,488	4,038
CASH AND CASH EQUIVALENTS	38,489	14,510	15,178
TOTAL ASSETS	**49,779**	**19,299**	**20,341**
TRADE AND OTHER PAYABLES	(32,269)	(1,092)	(1,263)
TAX PAYABLE	-	(89)	(242)
BORROWING	(6,438)	(6,444)	(6,438)
OTHER FINANCIAL LIABILITIES	(827)	(880)	(925)
POST-EMPLOYMENT BENEFITS	(3,404)	(3,404)	(3,404)
TOTAL LIABILITIES	**(42,938)**	**(11,909)**	**(12,272)**
NET ASSETS	**6,841**	**7,390**	**8,069**
CALLED-UP SHARE CAPITAL	10,520	10,520	10,520
RETAINED LOSSES	(3,679)	(3,130)	(2,451)
TOTAL EQUITY AND RESERVES	**6,841**	**7,390**	**8,069**

Projected Cash Flow Statements

	2022/23 FORECAST £000	2023/24 FORECAST £000
INCOME RECEIVED	20,263	15,600
EXPENDITURE PAID	(44,164)	(14,882)
INTEREST RECEIVED	114	360
INTEREST PAID (INC. PREF DIVS)	(192)	(321)
CORPORATION TAX	-	(89)
NET CASH FLOW	**(23,979)**	**668**
OPENING CASH	38,489	14,510
CLOSING CASH	**14,510**	**15,178**

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LGPS Central Headquarters, i9

LGPS Central Limited

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PENSIONS COMMITTEE
22 MARCH 2023

TRAINING UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the Board reviews the Worcestershire Pension Fund Training Update including the Training Policy and Programme (Appendix 1) and the Training Plan (Appendix 2).**

Background

2. The Committee approved the Fund's Training Policy & Programme at its meeting on 23 March 2023.

3. Since then the training delivered by Fund Officers to members (and selected, invited Fund Officers) has included:

- An ESG / responsible investment workshop on 8 February 2023.
- A training / information session from Gresham House on 3 October 2022 on private equity.
- A training / information session from Mercer on 22 June 2022 on the 2022 actuarial valuation.
- A 'Does what we are paying our investment managers represent value for money?' session delivered by CEM Benchmarking on 13 May 2022.

4. In addition, all new members (Tony Miller on 14 02 2023 and Adam Pruszynski on 14 02 2023) have been provided with an induction to the Board / Committee, and members have been made aware of:

a) **The LGA's training programme;**
b) The annual LGPS Governance Conference in Cardiff on 19/20 January 2023; and
c) **The PLSA's trustee training**.

5. Looking ahead, once we have backfilled her existing duties with the new recruits that we have appointed as part of the restructure of pensions administration, our newly appointed Training Officer will be 100% focussed on training, and this will be first time that we have had resource dedicated to training of our staff, elected members and employers.

6. The attached Training Plan summarises the training work that we plan to progress. Its cornerstone for pensions administration staff is using a buddy system and using an internal Skills Matrix to highlight the progress being made in delivering resilience in pensions administration by identifying knowledge and knowledge gaps for our staff.

7. Members will note the plans to conduct a further (the last one was conducted in October 2021) Training Needs Analysis.

8. Following a review of the Fund's Risk Register, progress in developing mitigating actions for four risks will henceforth be reported in our Training Updates, so that members can assess whether further mitigating actions are appropriate:

a) WPF 02 Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members;
b) WPF 03 Failure of officers to maintain a sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix.
c) WPF 21 Failure of business continuity planning; anm
d) WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

9. Progress in mitigating the four risks since the last quarterly Board / Committee cycle has included:

a) Rolling out the WCC Finance workforce plan in January;
b) Officers participating in various scheme / industry groups / fora to keep up to date on pensions issues. These have included attending The Pensions; Regulator's webinars on Pensions Dashboards and on pension scams. Officers have also been continuing to review specialist publications;
c) Collecting Life Certificates from our overseas pensioners and our pensioners with power of attorneys in place; and
d) Reviewing our Training Policy and Programme.

Supporting information

- Appendix 1 - Training Policy and Programme
- Appendix 2 - Training Plan February 2023

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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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Worcestershire Pension Fund

Introduction

Responsibility for training rests with Worcestershire County Council's CFO.

The Fund maintains a formal and comprehensive training policy for the effective acquisition and retention of knowledge and skills for those responsible for management, delivery, governance and decision making in the LGPS as it:

- Recognises that effective decision making can only be achieved where those involved have the requisite knowledge and skills.
- Seeks to operate in line with the Myners Review, CIPFA's Knowledge and Skills Framework and CIPFA's Code of Practice.
- Seeks to deliver the 'knowledge and understanding' proposals of the LGPS Scheme Advisory Board (SAB)'s Good Governance project.

Formal training programme for members

The Fund's formal training programme for members of its Pensions Committee / Pension Board / Pension Investment Sub Committee will consist of a minimum of four sessions each year.

The sessions will be recorded to allow any non-attendees to access the knowledge imparted at their own pace.

The sessions will be delivered by Fund Officers supported by the Fund's investment managers, independent investment advisor, actuary, and other experts / specialists where appropriate.

Other training for members

Members will be made aware of any relevant seminars and conferences that are offered by industry wide bodies.

Members will be encouraged to be familiar with The Pensions Regulator's Trustee code of practice for public sector schemes and made aware of The Pensions Regulator's Trustee toolkit.

Fund Officers will remind members that they are available to assist with each member's individual training requirements.

New members will be invited to attend an induction session with Fund Officers and be supplied with a welcome information pack.

Background knowledge will also constantly be developed through presenting the Fund's rolling quarterly Business Plan at each Committee and Board meeting. Papers on key issues affecting the LGPS and on developments at the Fund will also be tabled at each Committee and Board meeting.

Training for Fund Officers

The Fund will undertake a knowledge assessment of Fund Officers once the new structure for pensions administration is in place and use this to develop training for its Officers.

The Fund will continue to provide financial and time off support for Fund Officers who wish to obtain a qualification from the Chartered Institute of Payroll Professionals.

The Fund will invite selected Fund Officers to member training sessions.

The Fund will introduce a requirement for its s151 Officer to undertake LGPS relevant training as part of the Officer's CPD requirements to ensure good levels of knowledge and understanding are maintained.

Monitoring training

A log will be maintained of all training offered and undertaken and a report on training will be included in the Fund's annual report.

An annual review of training, the proposed training plan for the year ahead (see below for the master list of possible topics) and the Fund's Training Policy will be undertaken by Fund Officers with the Chairs of the Fund's Pensions Committee, Pension Investment Sub-Committee and Pension Board.

Members will be asked to feedback on the content and delivery of all training using feedback forms.

At each training session attendees will be counselled on what to cover at the next session.

The Fund's training will be on the agenda of each quarterly Board and Committee meeting.

The Fund will use TNAs to identify areas to deliver training in and will update its existing TNAs to reflect any post June 2021 changes in CIPFA guidance.

Proposed master list of topics to include in the Fund's member training programme

1. Investing in equities
2. Fixed interest investment
3. Investing in alternative assets such as infrastructure and property
4. Investing in private equity
5. Investing in private debt
6. Investment strategy / risk
7. Responsible investment / stewardship / climate change
8. Funding strategy
9. LGPS Central Limited
10. What the LGPS provides members with
11. Pension administration processes and key performance indicators (KPIs) e.g. annual benefit statements / paying pensions / processing retirements / year end
12. The Fund's governance and associated documents i.e. Funding Strategy Statement, Risk Register, Business Plan, Governance Policy Statement, Policy Statement on Discretions, Pension Administration Strategy, SAB Good Governance Project Positioning Statement
13. LGPS employers
14. Annual accounts and annual report

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This Training Plan summarises the training work that we plan to progress in 2023 /2024.

It is very much a work in progress, as our newly appointed Training Officer is not able to spend much time on training until we have backfilled her existing duties with the new recruits that we have appointed as part of the restructure of pensions administration.

Training of our elected members

We plan to conduct a further (the last one was conducted in October 2021) Training Needs Analysis to inform our training programme for elected members.

Meantime all new elected members will be provided with an induction to the Board / Committee, be asked to suggest areas that they would welcome training on at the end of each training session and will be made aware of the LGA's training programme.

Training of our employers

We plan to survey employers on what they think about the material in the Employers area of our website and more widely about what matters to them / our training / processes / service.

On 15 March we are running a Pension Overview session for WCC and WCC Schools HR teams.

Training of pensions administration staff

We plan to use our Pensions Administration Skills Matrix to highlight the progress being made in delivering resilience in pensions administration by identifying knowledge and knowledge gaps for our staff.

We plan to support our existing staff who have been promoted into new roles within our new pensions administration structure by mentoring them and delegating activities more than we have historically. A buddy system along the lines of the following would form the basis of this:

- A new Pension Business Support learning from an experienced Pension Business Support

- An experienced Pension Business Support (at least 50% competency rating) learning an area from an experienced Pensions Assistant – learning the process but eventually taking an element of this work i.e. part of their alphabet split once they are feeling confident to start processes on their own with their buddy reviewing (25% and above on the skills matrix competency)

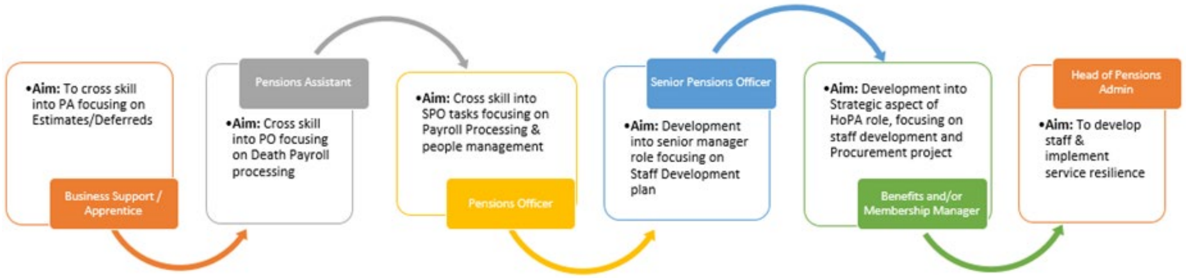
- A Pensions Assistant learning an area, reflective of what they are doing with the Pension Business Support, from an experienced Pensions Officer. Again once they are at 50% competency, the Pensions Officer could start to move to working with the Senior Pensions Officer

- A Senior Pensions Officer working with their manager to improve their knowledge and development using the time 'gained' from the support received from the

Pensions Officer. This could, for example, be around LTA / AA or on 121s or on staff development plans or on / monitoring annual objectives being progressed

- Managers working on specific aspects of the Head of Pensions Administration work to support development and resilience in this area. An example might be working on the pensions administration system or legal services procurements alongside the Head of Pensions Administration

- For example:



We plan to encourage personal development by supporting study for professional qualifications, by encouraging attendance at online seminars or user groups.

We plan to use using monthly 121s to encourage staff to take full ownership of their activities, to flesh out the areas that staff would be interested in gaining experience in, and to identify any areas that staff need further support on.

Specific initiatives that we plan to progress include:

- Building a bespoke apprentice programme for our new Business Support Officer recruits
- Building a bespoke induction programme for our new recruits
- Enhancing the existing training notes for our staff working on processing new members of the Fund
- Enhancing the existing training notes for our staff working on processing transfers
- Enhancing the existing training notes for our staff working on processing employee members who become deferred
- Enhancing the existing training notes for our staff working on processing aggregations of LGPS service
- Enhancing the existing training notes for our staff working on processing employers' CARE returns
- Enhancing the existing training notes for our staff working on processing the year end employer returns
- Producing bespoke training for new projects like Member Self Service or Pensions Dashboards or delivering the McCloud remedy
- Producing bespoke training for any future upgrades to our pensions administration system

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PENSIONS COMMITTEE
22 MARCH 2023

RISK REGISTER

Recommendation

1. **The Chief Financial Officer recommends that February 2023 Worcestershire Pension Fund Risk Register be noted.**

Background and update

2. The Risk Register is kept under regular review and, following the Feb 2023 review by Officers, an updated Register is attached as an Appendix.

3. The review resulted in the re-grouping of existing risks into two risk areas: Investment / Funding and Administration.

4. The review resulted in the number of risks being included in the Register being reduced from 32 to 16.

5. The 5 risks that have been removed are:

a) WPF 10 Being reliant on LGPS Central Limited delivering its forecasted cost savings;
b) WPF 31 Pandemic affecting our staff / our employers' Payroll or HR staff / staff at payroll providers who provide services to us or our employers;
c) WPF 09 Being reliant on LGPS Central Limited's investment approach;
d) 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; and
e) WPF 25 Fraud by scheme members.

6. The 2 risks that have been combined with another risk are:

a) WPF 16 Failure of investment adviser to deliver the services contracted. This risk has been included in a reworded WPF 08 Failure to appoint suitable investment managers / advisers and review their performance / markets / contracts; and
b) WPF 18 Failure of existing pension admin system to deliver the services contracted. This risk has been included in a reworded WPF 19 Failure to have an appropriate pensions admin system.

7. 5 risks will henceforth be covered in the Governance Update:

a) WPF 26 Fraud by staff;
b) WPF 15 Failure of the actuary to deliver the services contracted;

c) WPF 01 Failure of governance arrangements to match up to recommended best practice;
d) WPF 17 Failure of custodian to deliver the services contracted; and
e) WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy.

8. 4 risks will henceforth be covered in the Training Update:

a) WPF 02 Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members;
b) WPF 03 Failure of officers to maintain a sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix;
c) WPF 21 Failure of business continuity planning; and
d) WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

9. The review added no new risks. The review resulted in no increases or increases to risk scores.

10. Mitigating actions have been updated for:

a) **new measures** e.g. the ESG / responsible investment workshop on 8 February and rolling out the WCC Finance workforce strategy.

b) **previous measures that have been completed / developed further / have changed timelines** e.g. the 2022 Actuarial Valuation Report and the updated Funding Strategy Statement / Investment Strategy Statement / Pension Administration Strategy.

Supporting information

- Appendix - WPF Risk Register Feb 2023

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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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Risk Register

As at Feb 2023

About this Risk Register

The following colour coding is used for the 16 residual risk scores:

- Red > = 45 (03 risks)
- Amber >= 25 but < 45 (8 risks)
- Green < 25 (5 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 27 10 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 16 risks logged in this register are in highest Residual Risk Score order (shown in brackets):

1. WPF 12 Mismatch in asset returns and liability movements.(50)
2. WPF 20 Having insufficient resources in pensions administration. (50)
3. WPF 34 Inflation. (50)
4. WPF 23 Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure. (40)
5. WPF 07 Future change to LGPS regulations or other legislation, for example from government legislation on minimum normal pension age or exit payments. (40)
6. WPF 33 Climate change. (40)
7. WPF 24 Employers having insufficient skilled resources to supply our data requirements. (40)
8. WPF 11 Failure to pool assets using LGPS Central Limited. (30)
9. WPF 06 Fair Deal consultation proposals being implemented. (30)
10. 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. (25)
11. WPF 08 Failure to appoint suitable investment managers and review their performance / markets / contracts. (25)
12. WPF 19 Failure to have an appropriate pensions admin system. (25)
13. WPF 30 Failure to maintain the quality of our member data. (15)
14. WPF 13 Liquidity / cash flow is not managed correctly. (15)
15. WPF 14 Failure to exercise proper stewardship of our assets. (15)
16. WPF 29 Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline. (5)

WPF Risk Register Feb 2023 Risk Area (risk owned by)	Risk number (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
INVESTMENT / FUNDING							In this risk area the Pension Investment Sub Committee supported by advice from our independent investment adviser monitors market conditions; emerging legislation that could affect us (such as our asset allocation, climate change, and asset pooling); and the performance of our investment managers. The Pensions Committee and Officers supported by advice from our investment adviser review our key governance documents that include our Climate Change Risk Strategy, Funding Strategy Statement, Investment Strategy Statement along with quarterly risk, return and ESG analyses of our investments. 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. The LGPSC Partner Fund Investment Working Group meets monthly with LGPSC to explore new investment opportunities and to discuss and monitor performance / the strategy agreed by LGPSC shareholders.			
INVESTMENT / FUNDING	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	The Fund maintains a well diversified portfolio. We have reviewed our Investment Strategy Statement and will present proposed changes for approval by the Pensions Committee on 22 March 2023. Whole Fund and individual employer funding positions / contribution rates, actuarial valuation assumptions and mortality / morbidity experience have been reviewed as part of the as at 31 03 2022 actuarial valuation and its report will be presented for approval by the Pensions Committee on 22 March 2023. ideas are always encouraged by Officers who also carry out peer group discussions.	25	2	50

WPF Risk Register Feb 2023 Risk Area (risk owned by)	Risk number (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
INVESTMENT / FUNDING	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 liquidity	25	2	50	We monitor our funding position quarterly and our cashflow monthly. We are primarily an investor in equities that via dividends have historically maintained real rates of return. We also invest in assets whose returns move with inflation e.g. infrastructure, real estate, and index-linked Government bonds. As part of the actuarial valuation as at 31 March 2022 we have amended our inflation assumptions. We intend to develop the investment pots further to provide greater inflation protection.	25	2	50

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WPF Risk Register Feb 2023 Risk Area (risk owned by)	Risk number (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
INVESTMENT / FUNDING	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	We have consulted employers on some changes to our Funding Strategy Statement that will go forward to the Pensions Committee on 22 March. 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). In setting the term of deficit recovery periods and employer at actuarial valuations, we aim to keep employer contributions as stable and affordable as possible. 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 analyse selected employers' financial metrics using Mercer's Pfaroe tool. We have employer grouped investment strategies.	20	2	40
INVESTMENT / FUNDING	WPF 33 (Chief Financial Officer)	Climate Change	Investment under-performance	20	3	60	We task LGPSC with producing an annual climate risk report which we used to target managers which have a high carbon footprint to see what measure they are taking to reduce their carbon output. We ran an ESG / responsible investment workshop on 8 February for Board, Committee, and Investment Sub-Committee members. We have invested in LGPSC's All World Climate Multi Factor Fund. We produce 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 Feb 2023 Risk Area (risk owned by)	Risk number (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
INVESTMENT / FUNDING	WPF 11 (Chief Financial Officer)	Failure to pool assets using LGPS Central Limited.	Lack of compliance with legislation / government guidance.	25	3	75	Formal transition of assets to LGPSC 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 also transitioned assets to LGPSC's All World Climate Multi Factor Fund and Sustainable Equities Active Fund.	15	2	30
INVESTMENT / FUNDING	WPF 08 (Chief Financial Officer)	Failure to appoint suitable investment managers / advisers and review their performance / markets / contracts.	Investment underperformance / regulatory non-compliance / paying too much in fees.	25	3	75	We place managers on watch as appropriate. We review our investment managers' internal control reports and report any significant exceptions to the Chief Financial Officer. Objectives for our independent investment adviser are reviewed and reported to Committee every 6 months.	25	1	25
INVESTMENT / FUNDING	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 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 Risk Register Feb 2023 Risk Area (risk owned by)	Risk number (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
INVESTMENT / FUNDING	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 in 2021, we have retained our status in 2022 and will work on the areas the FRC identified that we could improve on for our 2023 application. We have reviewed the responses from a Nov 2022 online pensioners questionnaire about our stewardship. We participate in LAPFF and other groups. We ran an ESG / responsible investment workshop on 8 February for Board, Committee, and Investment Sub-Committee members.	15	1	15
ADMINISTRATION							In this risk area we have restructured and increased our headcount to 32 to provide resilience in our ability to deliver business as usual / our KPIs; to be able to respond to the increasing number of issues facing LGPS funds; and to move forward the things that we have not been able to but would have liked to. For example, we now have a dedicated Training Officer and Projects Officer to focus on those areas exclusively.			

WPF Risk Register Feb 2023 Risk Area (risk owned by)	Risk number (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
ADMINISTRATION	WPF 20 (Chief Financial Officer and Head of Pensions Administration)	Having insufficient resources in pensions administration.	Insufficient staff resource or remaining staff not having the skills to do their areas of work.	25	2	50	We have rolled out the WCC Finance workforce strategy and have developed a skills matrix to give us a high level understanding of where there are areas in which we need to focus on to ensure that we have the right resilience in place across the service. We are using it to take a look at where work currently sits and whether it can be redistributed to other areas. We are having to implement a phased transition for staff who have secured new roles in the service to ensure business continuity. We have found our recruitment activities are constrained by the LGPS market where demand for staff is high and 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. Absences are managed in line with Worcestershire County Council's attendance policy. Exit interviews / questionnaires are used to explore the reason for anyone leaving.	25	2	50

WPF Risk Register Feb 2023 Risk Area (risk owned by)	Risk number (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
ADMINISTRATION	WPF 24 (Head of Pensions Administration)	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. We have, in preparation for delivering the McCloud remedy to our members, advised our employers that, unless they provide any further employee data about hours / service breaks, we will implement the remedy using what they have supplied us with to date. Following our annual employer consultation and internal review, we will be presenting an updated Pension Administration Strategy for Committee approval on 22 March. We support employers with monthly newsletters / an area on our website / employer fora. We have a 'Pensions Development Pathway', an employers 'How to' and a 'What the Fund expects from its employers' calendar. We have a ‘Transfers of staff between our employers / academy conversions’ guidance note and accompanying Excel spreadsheet and information for employers on ill health retirements. Checking individual records at points of significant transaction is undertaken.	20	2	40

WPF Risk Register Feb 2023 Risk Area (risk owned by)	Risk number (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
ADMINISTRATION	WPF 07 (Chief Financial Officer and Head of Pensions Administration)	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 advised employee and deferred members about the plans to increase the minimum normal pension age through their 2022 newsletter. We have strengthened our DDA appeals process. We have added Pensions Dashboards to our list of projects. We have, in preparation for delivering the McCloud remedy to our members, advised our employers that, unless they provide any further employee data about hours / service breaks, we will implement the remedy using what they have supplied us with to date. 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.	20	2	40
ADMINISTRATION	WPF 06 (Chief Financial Officer and Head of Pensions Administration)	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 Risk Register Feb 2023 Risk Area (risk owned by)	Risk number (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
ADMINISTRATION	WPF 28 (Head of Pensions Administration)	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	Our pensions administration system is Cloud based. Our staff undertake WCC mandatory training. WCC has 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 review our pensions administration system supplier's annual Cyber Security reviews, probing about what they have been doing to keep the cloud / our data / our login arrangements / sending (bulk / individual) emails from Altair safe; what new threats they have popped mitigations in place for; what recent changes or patches have been made to their disaster recovery arrangements; evidencing (perhaps via internal or external audits) the things that they have done recently to keep up to date; and 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.	25	1	25

WPF Risk Register Feb 2023 Risk Area (risk owned by)	Risk number (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
ADMINISTRATION	WPF 19 (Head of Pensions Administration)	Failure to have an appropriate pensions admin system.	Inability to pay pensions / reputational or financial loss / staff downtime / loss of service delivery / data loss.	25	3	75	Our existing pensions administration system supplier's contract runs to 30 April 2024. It does not include add-ons widely used by other LGPS funds like i-Connect (middleware for the transmission of data from employers to us electronically) or Member Self Service (online access for members to their pension record). We are assessing the best way to address this and are liaising with WCC's procurement team to ensure compliance. We have looked into the market for pension administration systems and contacted other funds who have recently been through the process. As the National LGPS Framework for pension admin systems confirms Heywood are an approved supplier, we have independent validation of our supplier. We attend our supplier's user groups.	25	1	25
ADMINISTRATION	WPF 30 (Head of Pensions Administration)	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 have received the results of our 2022 NFI data matching and have completed the exercise only having 2 matches overall. 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.	15	1	15

WPF Risk Register Feb 2023 Risk Area (risk owned by)	Risk number (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
ADMINISTRATION	WPF 29 (Head of Pensions Administration)	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	We are consulting our employers on changes to our existing Policy Statement on Communications. The 2022 deferred annual benefit statements / newsletters and the 2022 employee annual benefit statements / newsletters were issued by 31 August. In Nov we despatched our fourth annual pensioner newsletter.	5	1	5

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PENSIONS COMMITTEE
22 MARCH 2023

FORWARD PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Committee comment on and approve the Forward Plan.**

2. The forward plan was presented to the last Committee meeting to highlight the key areas that are anticipated to be reported in the future. The Forward Plan was approved and was to be reviewed at each Committee meeting. This is attached as an Appendix and Committee are asked to comment and approve the plan.

Supporting Information

Appendix – Forward Plan

Contact Points

Specific Contact Points for this report
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Background Papers

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

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Pensions Committee Proposed Forward Plan

Appendix 1

Pension committee Items	28/06/2023	12/10/2023	13/12/2023
LGPS Central Update	Y	Y	Y
Pension investment Update	Y	Y	Y
Business Plan update (includes Admin) and Monitoring (includes KPI's)	Y	Y	Y
Pension fund Unaudited Annual Accounts	Y		
Pensions Final External Audit Report on Annual Report		Y	
Pension fund Budget Monitoring		Y	
Government Actuary Dept review update		Y	
Members Training	Y	Y	Y
Equity Protection update		Y	
Risk Register	Y	Y	Y
internal Audit Report	Y		
Local pension Board updates including such areas as Regulatory Scheme Advisory Board (SAB) updates	Y	Y	Y
Stewardship Code Compliance Statement		Y	
SAB Good Governance review monitoring and CMA objectives for independent Investment Advisor	Y		Y

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