

Minutes of the Pensions Committee

Council Chamber, County Hall, Worcester

Wednesday, 28 June 2023, 10.00 am

Present:

Cllr Elizabeth Eyre (Chairman), Shane Flynn, Cllr Adrian Hardman,
Cllr Scott Richardson Brown and Councillor Peter Stoddart

Also attended:

Adam Pruszynski, a member of the Pension Board was also in attendance.

Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 22 March 2023 (previously circulated).

The Chairman welcomed Cllr Peter Stoddart to the Committee.

447 Apologies/Named Substitutes (Agenda item 1)

Apologies were received from Cllrs Karen Hanks, Luke Mallett and Roger Phillips (as Chairman of the Pension Board)

448 Declarations of Interest (Agenda item 2)

None.

449 Public Participation (Agenda item 3)

None.

450 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minute of the meeting held on 22 March 2023 be confirmed as a correct record and signed by the Chairman.

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

Philip Hebson, the Fund's Independent Investment Advisor highlighted the comments made by PEL at the meeting of the Pension Investment Sub-Committee concerning the Fund's benchmarking arrangements. The current benchmarking arrangements for Private Markets were not entirely fit for purpose. The full life return benchmark did not properly reflect the early life of investments when investment returns were limited, potentially for a prolonged period. The issue was made worse by the use of CPI for the infrastructure benchmark, given the impact that the rising rate of CPI would have on the ability of the Fund to achieve this benchmark through the life of the investment.

In response to a query, Philip Hebson indicated that it was possible for the Fund to change the benchmark methodology. Ideally any changes should be introduced before the next financial year.

Sherief Loutfy, Head of Pension Investments, Treasury Management and Banking added that benchmarking was an issue that PEL had been reviewing. PEL would be handing over their advisory role to Hymans at the end of 2023, so it would be sensible to seek their advice on benchmarking before then.

In response to a query about the use of cash as a benchmark, Philip Hebson indicated that a lot of funds did use cash as a benchmark. However, this Fund had never been fully drawn down with its investments and therefore cash had not been considered as an appropriate option.

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

452 Pension Fund Unaudited Annual Accounts 2022/23 (Agenda item 6)

The Committee considered the Pension Fund Unaudited Annual Accounts 2022/23.

RESOLVED that:

- a) The unaudited Pension Fund Annual Accounts 2022/23 (Appendix 1 to the report) be approved;**
- b) The process on how level 3 investments are shown at fair value in the final accounts be noted;**
- c) The level 3 investments reflected a fair assessment of value at the time the draft accounts were provided to the auditors be agreed; and**

- d) The differences in valuation of level 3 investments reflected in Appendix 2 to the report be noted acknowledging that these are below the materiality levels of the Fund.

453 UK Stewardship Code 2021 Updated 2023 Submission (Agenda item 7)

The Committee considered the submission.

In the ensuing debate, the following points were made:

- The Chairman recognised the considerable amount of work involved in the submission and thanked officers on behalf of the Committee
- The Stewardship Code submission was a very technical piece of work but could perhaps be made easier to read. Sherief Loutfy recognised that the document could be presented in more user-friendly way. The Fund now had a better understanding of what was required from the FRC and could adjust the submission accordingly. The amount of evidence required by the FRC had increased and he recognised the input of LGPSC and LGIM in providing important technical information. The outcome of the submission was expected from FRC in October 2023
- There was a significant amount of work involved with the submission of the updated Code. Had the take-up rate amongst other funds improved? Sherief Loutfy responded that he could not comment on the national take-up rate but the opinion of pooling partners had generally been that the amount of work involved did not justify the outcome. Philip Hebson indicated that the Fund's success in achieving signatory status to the Code had received positive feedback and the Fund was seen as a leader in this area. The 2023 submission was the 3rd iteration of the Code and more Funds were signing up. It was resource-intensive exercise which was an issue for some Funds however there would eventually be a tipping point where those Funds not signed up would be considered outliers
- The fact that this Fund was at the forefront of establishing good governance by signing up to this Code was welcomed.

RESOLVED the Stewardship Code application for the Fund submitted on the 21 May 2023 be noted.

454 Pension Investment Update (Agenda item 8)

The Committee considered the Pension Investment Update.

In the ensuing debate, the following points were made:

- Sherief Loutfy explained that the findings of the Government's consultation on Governance and Reporting of climate risks would be available in December 2024. However, the Government had changed the reporting emphasis to natural capital accounting with the

introduction of the Taskforce for Nature-Related Financial Disclosures (TNFD) with more of a focus on forestry and biodiversity

- It was queried whether this Fund's investment in forestry through the Gresham House portfolio would help the Fund meet its TNFD obligations. Sherief Loutfy responded that this investment could help towards the Fund's aims of being carbon neutral
- In response to a query, Sherief Loutfy confirmed that the Fund would be procuring equity protection. It was important that the adopted equity protection strategy should be able to react at speed to changes in the market and that officers had a good working relationship with the managers in whatever company was appointed
- In response to a request, Sherief Loutfy undertook to amend Table 3 relating to Strategic Asset Allocation targets in future reports to provide an indication of the direction of travel.

RESOLVED that:

- a) The Independent Investment Advisor's fund performance summary and market background be noted (Appendices 1 and 2 in the report);**
- b) The update on the Investment Managers placed 'on watch' by the Pension Investment Sub Committee be noted;**
- c) The funding position be noted;**
- d) The update on Equity Protection be noted;**
- e) The update on Responsible Investment activities, Local Authorities Pension Fund Forum (LAPFF) (Appendix 3 in the report), strategic allocation, and Stewardship be noted be noted; and**
- f) The update on Taskforce for Climate-related Financial Disclosures (TCFD) Consultation be noted.**

455 LGPS Central Update (Agenda item 9)

The Committee considered the LGPS Central (LGPSC) Update.

Sherief Loutfy introduced the report and made the following points:

- Private equity – Representatives of the Fund had received a presentation from Gresham House on their private equity offer but had not yet engaged with LGPSC
- Emerging Markets – LGPSC had shortlisted 3 investment managers (Lazard, Pictet and Robeco) for the vacant 3rd manager position in the portfolio and were now in the due diligence phase. This Fund had an observer role in the process
- A number of partner funds were becoming increasingly concerned about the poor performance by LGPSC particularly in Emerging Markets and were questioning whether the underperformance since inception

would ever be recovered. Leicestershire Pension Fund had taken the decision to exit the Emerging Markets Fund. The current approach adopted by this Fund was to await the outcome of the appointment process for the 3rd Emerging Markets manager and the conclusion of the 3-year review. However, the exit of Leicestershire from this Fund gave cause for concern

- Another matter of concern amongst a number of partner funds (including this Fund) was the level of exposure to China within the Emerging Markets Fund.

In the ensuing debate, the following points were made:

- In response to a concern, Sherief Loutfy undertook to investigate whether there could be any financial implications for the Fund should all partners decide to withdraw from the LGPSC Emerging Markets Fund
- Philip Hebson indicated that a face-to-face meeting had been arranged with a representative of the West Midlands Fund in order to understand their views on the performance of LGPSC
- The concern of partner funds about the recovery of performance from inception had been exacerbated by the multi-manager model because it was highly improbable that all three managers would outperform the benchmark at any given time, meaning that it was likely that there would always be at least one investment manager dragging down performance
- Philip Hebson indicated that the outcome of the 3-year review would be awaited before any decision was taken on the Emerging Markets Fund to see if LGPSC had taken on board any of this Fund's views. The exit of Leicestershire would clearly have an impact on this decision.

RESOLVED that the LGPSC update be noted.

456 Business Plan (Agenda item 10)

The Committee considered the Business Plan.

Richard Sultana, Head of Pensions Administration introduced the report and made the following points:

- There was currently one appeal at stage two of the appeals process and the Committee would be notified of the outcome in due course
- Work was underway at expanding KPI reporting with a particular focus on the member experience and employer performance
- Internal Audit were currently reviewing the Fund's procedures, with a particular focus on the creation of a more streamlined member access process through a member self-service portal
- Progress had been made with the recruitment of staff. Focus was now on recruiting staff within the Governance and Engagement team. It should be noted that recruitment and retention of staff at team leader level was an issue nationally.

In the ensuing debate, the following points were made:

- Some members would have great difficulty in being able to access self-service for a variety of reasons. Richard Sultana commented that an approach needed to be agreed so that members could be asked whether they wished to opt into self-service or opt out
- In response to a query, Richard Sultana confirmed that working from home had not had a negative impact on the recruitment or retention of staff
- In response to a query, Richard Sultana explained that the reference in the Business Plan to the assumed Consumer Prices Inflation of +2.4% was set as part of the 2022 actuarial valuation.

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

457 Training Update (Agenda item 11)

The Committee considered the Training Update.

The Committee were informed that Amanda Lewis would be retiring from her position of Membership Manager in October 2023 after over 30 years' service. The Committee thanked Amanda for her many years of service to the Fund.

RESOLVED that the Worcestershire Pension Fund Training Update be noted.

458 Risk Register (Agenda item 12)

The Committee considered the Risk Register.

Richard Sultana introduced the report and commented:

- Apprenticeships were being introduced at entry level to provide exposure for new members of staff across the whole administration system
- Risk WPF 23 in respect of an employer not being able to make their contribution. At present, discussions were taking place with three housing associations about exiting the scheme through the Debt Spreading Agreement (DSA) arrangements
- Risk WPF 20 in relation to insufficient staffing resources had been identified as a red risk. This risk would be downgraded as soon as all staff were adequately trained and the Committee would be kept updated on progress.

In response to a query, Richard Sultana confirmed that a reference to the risks associated with recruitment and retention issues within LGPSC would be included in the next iteration of the Risk Register. Sherief Loutfy added that at present, LGPSC seemed to have their recruitment and retention issues under

control so it was not seen as a significant risk. LGPSC were also currently in the process of updating their own Risk Register.

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

459 Governance Update (Agenda item 13)

The Committee considered the Governance Update.

In the ensuing debate, the following points were made:

- In response to a query about cyber security, Richard Sultana explained that this area was included in PASA accreditation. Only two other funds had achieved this accreditation. The accreditation would help feed into any future peer reviews or plans for the pooling of the administration function
- Concern was raised about potential conflict of interests between the role of Section 151 Officer for the Council and LGPS Senior Officer. Officers would investigate whether any changes were necessary to the Constitution to implement any future differentiation of these roles to ensure that the Council's governance arrangements were compliant with good governance.

RESOLVED that the Worcestershire Pension Fund Governance Update be noted.

460 Forward Plan (Agenda item 14)

RESOLVED that the Forward Plan be noted.

The meeting ended at 12.00 Noon.

Chairman