Worcestershire County Council

# Agenda
## Pensions Committee

**Wednesday, 28 June 2023, 10.00 am**
**County Hall, Worcester**

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# DISCLOSING INTERESTS

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

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

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

**NB Your DPIs include the interests of your <u>spouse/partner</u> as well as you**

**WHAT MUST I DO WITH A DPI?**

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

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

**WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?**

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

**WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?**

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

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

Not normally. You must withdraw only if it:

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

**DON'T FORGET**

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

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# Pensions Committee
# Wednesday, 28 June 2023, 10.00 am, Council Chamber, County Hall, Worcester

| | | |
|---|---|---|
| **Membership:** | Cllr Elizabeth Eyre (Chairman), Cllr Karen Hanks, Cllr Adrian Hardman, Cllr Luke Mallett and Cllr Scott Richardson Brown | |
| | **Co-opted Members** | |
| | Jane Evans | Employee Representative |
| | Shane Flynn | Employer side |
| | Councillor Peter Stoddart | Herefordshire Council |

## Agenda




Agenda produced and published by Hazel Best, Assistant Director for Legal and Governance County Hall, Spetchley Road, Worcester WR5 2NP



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, 19 June 2023

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# PENSIONS COMMITTEE
# 28 JUNE 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 (PISC), 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 PISC meetings on 13 and 14 June 2023 and the Pension Board meeting on 6 June 2023. Please note that the Pension Board meeting was inquorate and was unable to take any decisions.

## Supporting Information

Links to the Pensions Investment Sub-Committee and Pension Board Minutes can be found below:
Agenda for Pension Board on Tuesday, 6th June, 2023, 10.00 am - Worcestershire County Council (moderngov.co.uk)
Agenda for Pension Investment Sub-Committee on Tuesday, 13th June, 2023, 2.00 pm - Worcestershire County Council (moderngov.co.uk)
Agenda for Pension Investment Sub-Committee on Wednesday, 14th June, 2023, 10.00 am - 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 Assistant Director for Legal and Governance) there are no background papers relating to the subject matter of this report.

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# PENSIONS COMMITTEE
# 28 JUNE 2023

# PENSION FUND UNAUDITED ANNUAL ACCOUNTS 2022/23

## Recommendation

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

   a) **The unaudited Pension Fund Annual Accounts 2022/23 (Appendix 1) 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 be noted acknowledging that these are below the materiality levels of the Fund.**

## Background

2. The annual report is a key communications channel between the fund and a wide variety of stakeholders and will be available at the Committee in October 2023. The report contains information relating to the Pension fund's unaudited annual accounts (which are part of the Annual Report) including the fund investments, administration, governance, valuations, accounts and membership.

## Legislative Requirements and Guidance

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

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

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

**Some Key Highlights are as follows:**

6. The key points to note on the accounts are as follows (figures in brackets relate to the equivalent 2021/22 position):

- The Fund had a revenue surplus of £4.9m before the net return on investments (deficit of £7.4m). This is mainly due to an increase in the number of members and the unwinding of several organisations prepaying their 3-year (2020/21 to 2022/23) employer deficit recovery contributions and 90% of their normal contributions in 2020/21 up to the next triennial valuation due to take effect from the 1 April 2023.

- Employers' contributions into the fund were £97.9m (£90.7m).

- Benefit payments increased by £7.0m (6.1%) to £122.6m (£115.6m) mainly due to an increase in pension payments reflecting the rise in the number of pensioners and an increase in lump sum payments.
- Management Expenses (which include fees pay to external investment managers) have decreased from £21.5m to £16.1m. The £5.4m decrease reflects the performance of actively managed funds during a challenging 2022. Also, the Fund's asset valuation increase (which results in increased management fees), has been lower this year than in the previous two.
- The Payments to and on account of leavers increased by £2.7m year on year to £12.7m (£10.0m). This figure varies each year due to a combination of the number of staff moving to employers outside the Fund and value of the pension these staff members have accrued, along with the impact of freedom and choice, which allows members to transfer to an external pension and access their benefits.
- Investment income of £37.9m (37.2m) increased mainly due to increased interest on cash deposits.
- The Fund incurred a surplus of £19.1m on investment returns compared to the surplus of £227.2m in 2021/22 which is a result of the continuing market and geopolitical challenges during 2022.
- The value of net assets as at 31 March 2023 is £3.609bn from £3.585bn in 2021/22. This represents an increase of £0.024bn.

7. As in the previous year's accounts, the Fund has included an estimate to reflect the possible impact of the McCloud judgement (Note 2) on the cost of paying LGPS benefits. The actuary has allowed for the impact of the judgement based upon the proposed remedy.

**Review of Level 3 Investments**

8. Grant Thornton our external auditors provided their Pension Fund Audit Plan for the year ending the 31 March 2023 and one of the key risks is the valuation of level 3 investments. The key reason being that **Level 3 assets** are financial **assets** and liabilities considered to be the most illiquid and hardest to value. A fair value for these **assets** cannot be determined by using readily observable inputs or measures, such as market prices or models.

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

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

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

12. The differences in valuation each year are normally below the Auditors materiality levels overall which is 1% of the Fund value as at the 31 March 2023 being £36.1m. Appendix 2 provides a comparison to the market valuations within the custodian report to those we expect the Fund managers to provide to our external auditors by the end of June 2023. This shows an estimated difference of £3.1m.

13. The key reason for the decreases in valuation will be the current challenging outlook in terms of asset valuations in particular market volatility and geopolitical factors. The Property and Infrastructure Managers all have professional independent valuers who value the Fund's assets every 6 months at the end of June and end of December. Therefore, the valuation increase would not have been reflected in the valuations provided to the custodian at the time of reconciling the Fund's overall assets at year-end.

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

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

## Supporting Information

- Appendix 1 – Unaudited Pension Fund Accounts 2022/23
- Appendix 2 - Review of the level 3 Fund investments

## 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.

# DRAFT
# Statement of Accounts 2022/23

# Table of Contents

# About the Accounts

## BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2022/2023 financial year and its position at year-end as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

### Explanatory Foreword and a Review of the Year 2022/23

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

### The Fund Account

Details the money received and spent within the Pension Fund during 2022/23.

### Net Assets Statement

Statement showing the Fund's financial position at 31 March 2023.

### Notes to the Fund Accounts

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

### Statement of Accounting Policies

These are shown against the relevant note.

The accounts have been prepared on a going concern basis.

# 1. Explanatory Foreword and a Review of the Year 2022/23

## Foreword by the Chief Financial Officer

Welcome to the Fund's 2022/23 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also administer the LGPS for members of other organisations which have made admission agreements with the Fund and designated bodies who have passed resolutions with Worcestershire County Council.

## Table 1 Aim and Purpose of the Fund

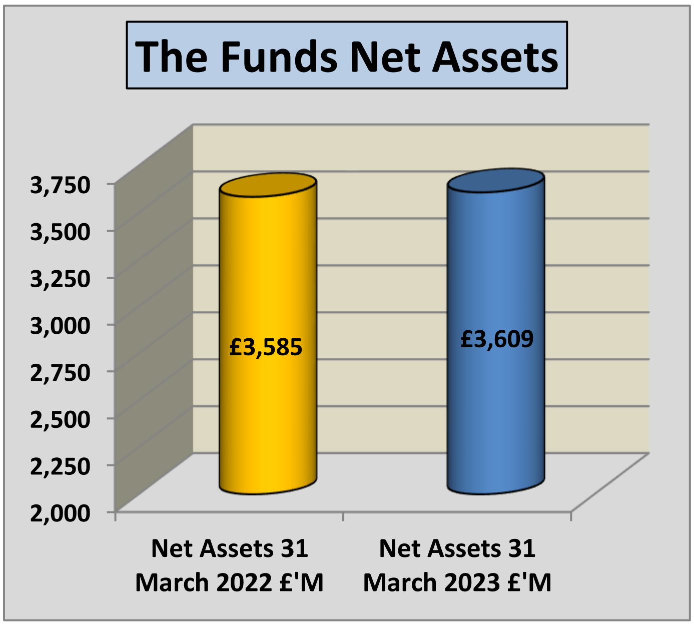
| | |
|---|---|
| **The aims of the Fund are to:** | |
| • | **Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost.** |
| • | **Manage employers' liabilities effectively.** |
| • | **Ensure that sufficient resources are available to meet all liabilities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

### Key headlines

- Chart 1 shows that the value of the Fund's net assets increased by £24.0 million from £3,584.6 million at 31 March 2022 to £3,608.6 at 31 March 2023:

- Income from contributions increased to £97.9 million, from £90.7 million, due largely to increased number of members and the final year of main employer 3-year contribution prepayments in 2021/22).

- Net investment returns decreased by £207.2 million compared to 2021/22 which was mainly due to volatility in financial markets during 2022 and geopolitical factors.



Contributions from staff and employers were less than the benefits paid as well as administration and management expenses in 2022/23 by £33.1 million. This was expected due to an increase in members and the unwinding of employers 3-year pension contributions prepayments.

- Chart 2 shows that during the year a surplus resulted on the Fund Account (aside from the net investments returns) totalling £4.9 million, an increase of £12.3 million from the 2021/22 deficit of £7.4 million.

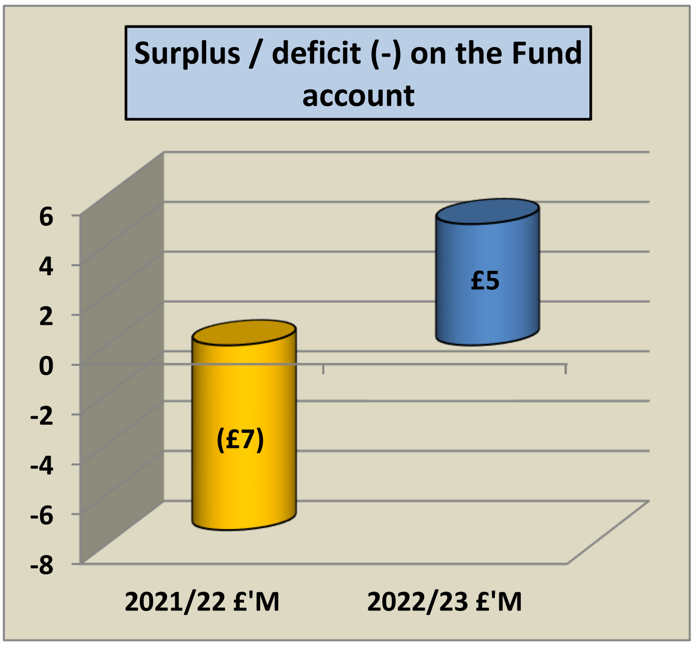



**Table 2 analysis of changes within the Fund's membership profile**

| | 31 March 2022 | 31 March 2023 | Change | Change % |
|---|---|---|---|---|
| Contributors to the Fund | 23,078 | 22,822 | -256 | -1.1 |
| Pensions paid | 20,273 | 21,062 | 789 | 3.9 |
| Deferred members | 23,248 | 23,855 | 607 | 2.6 |
| | **66,599** | **67,739** | **1,140** | **1.7** |

Table 2 above shows that the scheme membership has continued to grow. Active employer numbers have increased from 66,599 to 67,739 during 2022/23, due mainly to auto enrolment initiatives and an increase in the number of designated employers. Given the administrative challenges presented by this continued growth, the Fund regularly review its systems and processes and importantly, the way it engages with, and receives data from scheme employers.

### Pensions Administration

Throughout 2022/23 the Administration Team continued to work flexibly but maintained excellent performance monitoring achieving its average turnaround targets for all the twelve key performance indicators it measures. This is also set in a context whereby in 2022/23 the team processed its highest volumes.

| Activity / Process | Target turnaround (Working days) | 2021/22 average turnaround (Working days) | 2022/2023 average turnaround (Working days) |
|---|---|---|---|
| Joiners' notification of date of joining | 40 | 19 | 12 |
| Calculate and notify deferred benefits | 30 | 8 | 6 |

| Activity / Process | Target turnaround (Working days) | 2021/22 average turnaround (Working days) | 2022/2023 average turnaround (Working days) |
|---|---|---|---|
| Letter notifying actual retirement benefits | 15 | 2 | 2 |
| Letter notifying estimate of retirement benefits | 15 | 3 | 2 |
| Process and pay lump sum retirement grant | 23 | 10 | 12 |

| | 2021/22 | 2022/23 |
|---|---|---|
| Total Number of staff FTE | **22.3** | **39.6** |
| Admin Cost per member* | **£25.38** | **£23.09** |

'*' the lower administration costs per member in 2022/23 was mainly due to the timing of recruitment to the pensions administration team which occurred towards the end of the financial year. The increase in FTE in 2022/23 was due to an approved restructure of the Pensions Admin Team.

## Governance

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

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

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

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

## Management of the Fund's assets

The management of the Fund's assets is operated through fourteen specialist external managers with nineteen mandates in total. The Pensions Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Sub Committee, which includes an independent investment adviser.

The Fund's asset allocation is kept under regular review and the current long-term investment allocation includes investments in a wide variety of UK and overseas companies, corporate bonds, corporate private debt, property, and infrastructure. A strategic asset allocation review took place in December 2019 and was endorsed by the Pensions Committee in March 2020 and the following recommendations arising from the review continued to be progressed during 2022/23, and will continue over the medium term:

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

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

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

The 2019 strategic asset allocation review’s recommendation of a 20% commitment to 'alternatives including property' continued to be implemented during the 2022/23 financial year following investments into: -

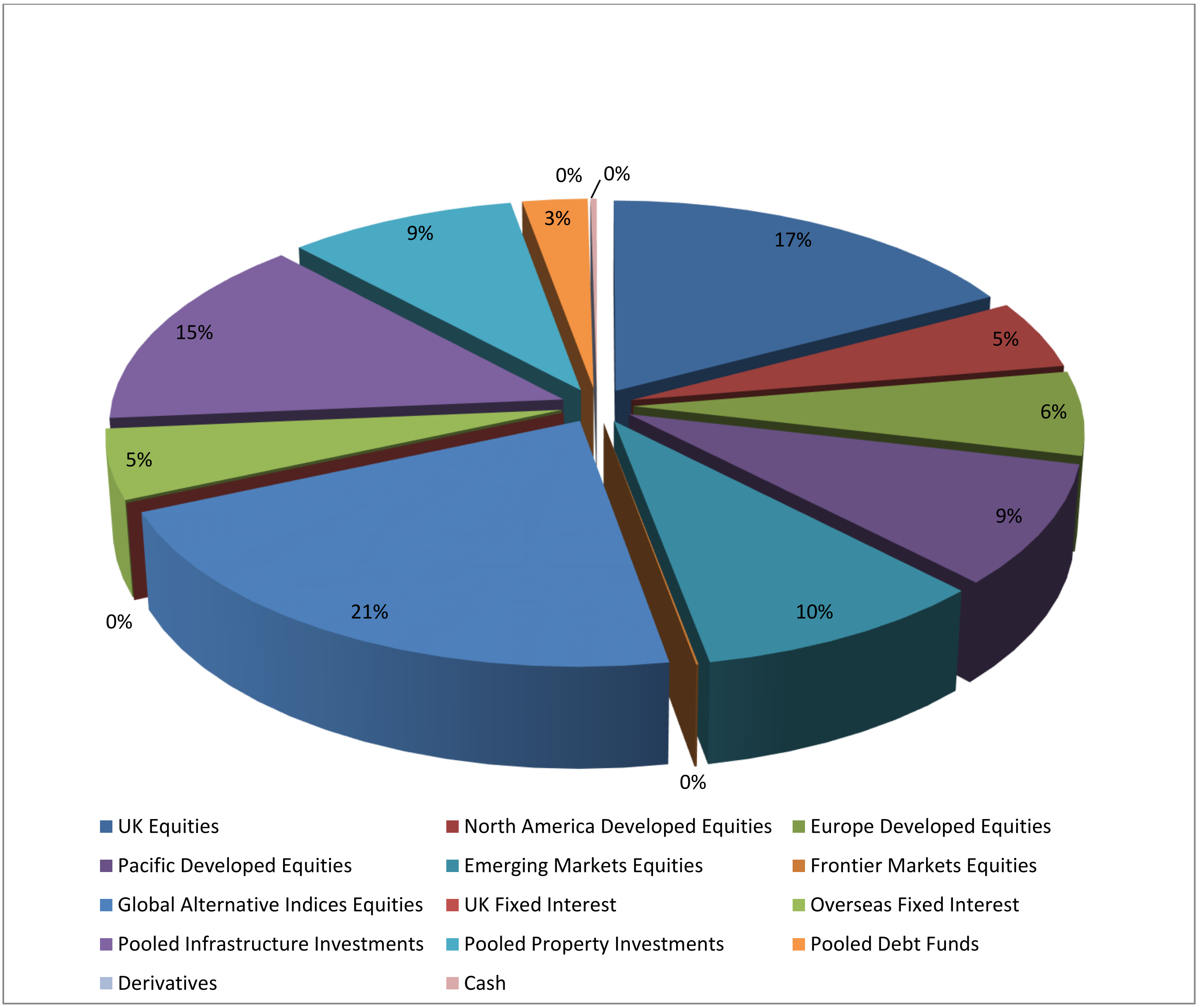
- Gresham House British Strategic Infrastructure Fund II: £38m.
- Gresham House Forestry Growth & Sustainability Fund: £22m.
- Gresham House Forestry Fund VI: £85m.
- First Sentier (Now Igneo) European Diversified Infrastructure Fund III: £8m.
- Stonepeak Infrastructure Fund III: £17m.
- Stonepeak Infrastructure Fund IV: £21m.

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

Given conditions in equity markets at the time, the Fund took the opportunity to exit the protection given by its equity protection vehicle managed by Schroders (formerly River & Mercantile). This was fully exited early November and the resultant £231m was reinvested back into the passive equity market cap funds on the 10 November 2022.

The following chart details the distribution of the Fund's assets as at 31 March 2023:

## Chart 3 Distribution of the Fund's Assets




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

The Fund has continually looked to develop and improve its approach to RI and conducted an ESG audit last year which included mapping the Fund's entire portfolio to the United Nations' sustainable development goals (SDGs). The Fund conducted its second annual ESG workshop for its Pensions Committee on the 8 February 2023 to review progress against the identified actions and was found to have made significant headway.

In January 2023 the Fund's latest annual Climate Risk Report delivered a view of the climate risk of the Fund's entire equity asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing Climate related Financial Disclosures for the third year.

The Fund was particularly pleased to see that our initial focus on transitioning out of our passive mandates with the greatest carbon footprint has resulted in the Fund's overall listed market portfolio now being 30.1% (28% in 2022) more carbon efficient than the benchmark. The Fund transitioned a further £200m (6% of its portfolio) from its passive mandates into active sustainable equity funds by May 2022.

The Fund recognises that its investments in private markets also have a significant role to play in addressing climate related issues. Building on existing assets in this space, the Fund maintained its commitment of £175m towards a forest and sustainability fund and £200m to a number of sustainable infrastructure and housing investments, evidenced by the investments illustrated above, which will have a long term environmental and social impact.

## Impact of Global Financial Market Volatility and Geopolitical Landscape

Ongoing discussions throughout the year have taken place with existing fund managers and our actuary to continue to consider and understand the implications of inflationary pressures and geopolitical instability on financial markets and the wider investment landscape. As detailed above the Fund had already taken steps to diversify some of its asset allocations from equities into property and infrastructure as well as implementing an equity protection strategy to guard against major market fluctuations. This helped cushion somewhat the initial impact on the Fund's market valuations, which then recovered, resulting in the decision to exit that strategy in November 2022. Excessive volatility in market risk is also managed through the diversification of the portfolio in terms of geographical and industry sectors and also individual securities. The Fund recognises that equity protection can play a key role in managing risk and is keeping it under constant review.

## LGPS Central Limited (LGPSC)

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

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

LGPSC has been in operation just over 5 years and the Fund has, by market value at 31 March 2023, 20% of its assets in LGPSC's Emerging Markets Equity Active Multi Manager Fund / Global Corporate Bonds Fund / Global All World Equity Climate Multi Factor Fund and Global Sustainable active equities. This increases to 59% when including the Pooling undertaken by the

‘Shire’ Pension Funds for passive equities just before LGPSC was formed which is included in the DLUHC pooling return.

## Management of the Fund's liabilities

The Funds’ funding strategy is kept under regular review by the Pensions Committee and the Fund's actuary assesses at three yearly intervals the Fund's assets and its liabilities. An actuarial valuation of the Worcestershire Pension Fund was carried out as at 31 March 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026. Key outcomes of the valuation at that point in time are detailed below:

- The Fund’s assets of £3,585 million represented 101% of the Fund’s past service liabilities of £3,562 million (the “Funding Target”) at the 31 March 2022 valuation date. This compares to the 90% funded position at the previous valuation at 2019.

- A common rate of contribution of 18.8% (2019: 17.5%) of pensionable pay per annum will be required from employers covering 2023-26. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. Different rates apply across fund employers based on specific factors.

To meet the requirements of the Regulations, the Fund has set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

**Phil Rook**

**Chief Financial Officer**

## 2. Fund Account (money received and spent during 2022/23)

**For the year ended 31 March 2023**

| 2021/22 £m | | Notes | 2022/23 £m |
|---|---|---|---|
| | **Dealings with members, employers and others directly involved with the Fund** | | |
| 90.7 | Contributions | 4 | 97.9 |
| 13.7 | Transfers in from other pension funds | 5 | 22.0 |
| **104.4** | | | **119.9** |
| (115.6) | Benefits | 6 | (122.6) |
| (10.0) | Payments to and on account of leavers | 7 | (12.7) |
| **(125.6)** | | | **(135.3)** |
| **(21.2)** | **Net additions / (withdrawals) from dealings with members** | | **(15.4)** |
| **(1.7)** | Administrative expenses | 8 | **(1.5)** |
| **(21.5)** | Management expenses | 9 | **(16.1)** |
| **(44.4)** | **Net additions / (withdrawals) including fund management and administrative expenses** | | **(33.0)** |
| | **Returns on investments** | | |
| 37.2 | Investment income | 10 | 37.9 |
| (0.2) | Taxes on income | 11 | 0.1 |
| 227.2 | Profit and (losses) on disposal of investments and Changes in the market value of investments | 12a & 15b | 19.1 |
| **264.2** | **Net return / (loss) on investments** | | **57.0** |
| **219.8** | **Net increase in the net assets available for benefits during the year** | | **24.0** |
| **3,364.8** | **Opening net assets** | | **3,584.6** |
| **3,584.6** | **Closing net assets** | | **3,608.6** |

Management expenses have decreased mainly due to redirecting some actively-managed investments to existing passive equity funds funds which by their nature have smaller management fees. In addition, due to the volatility in global equitiy markets during 2022, actively managed equity mandates where an element of management fees are based on investment performance, have attracted reduced fees.

# 3. Net Assets Statement for the year ended 31 March 2023 (showing the financial position at 31 March 2022 and 2023)

| 2021/22 | | Notes | 2022/23 |
|---|---|---|---|
| £m | | | £m |
| 1.4 | Long term Investment Assets | 12 | 1.4 |
| 2,960.1 | Investment Assets -Internally Managed | 12 &15 | 2,654.0 |
| 736.0 | Investment Assets -LGPSC Managed | 12 &15 | 893.6 |
| 13.0 | Cash Deposits | 12 | 8.7 |
| **3,710.5** | | | **3,557.7** |
| (167.1) | Investment Liabilities | 12 | (0.3) |
| 46.2 | Current Assets | 17 | 55.5 |
| 1.5 | Non-Current Assets | 18 | 1.7 |
| (6.5) | Current Liabilities | 19 | (6.1) |
| **3,584.6** | **Net assets of the Fund available to fund benefits at the period end** | | **3,608.6** |

These financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) is disclosed in the Actuarial Statement (Note 2 to the Accounts). Note 14 to the Accounts provide details on the fair value of assets.

**Financial assets** are included in the Net Assets Statement above on a fair value basis as at the reporting date apart from those financial instruments that are held solely for the payments of principal and interest (SPPI) such as cash and debtors which are measured at amortised cost. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account. The values of investments as shown in the Net Assets Statement have been determined as follows:

i) **Market-quoted investments** the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) **Fixed interest securities** fixed interest securities are recorded at net market value based on their current yields.

iii) **Unquoted investments** the fair value of investments for which market quotations are not readily available is determined as follows:

   a. **Valuations of delisted securities** are based on the last sale price prior to delisting, or were subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

b. **Securities subject to takeover offer –** the value of the consideration offered under the offer, less estimated realisation costs.

c. **Directly held investments** include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

d. **Investments in unquoted property and infrastructure pooled funds** are valued at the net asset value or a single price advised by the fund manager.

*e.* **Investments in unquoted listed partnerships** are valued based on the Fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines, updated at December 2022.*

iv) **Limited partnerships** fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) **Pooled investment vehicles** are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

**Financial Liabilities**
The Fund recognises financial liabilities at fair value as at the reporting date apart from those financial instruments that are held solely for the payments of principal and interest (SPPI) such as cash and debtors which are measured at amortised cost. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value or amortised cost of the liability are recognised by the Fund.

## 4. Notes to the Accounts (providing additional information for the Fund Account and Net Assets Statement)

These comprise of a summary of significant accounting policies against the relevant note as opposed to a prescribed list of accounting policies. Further information and detail of entries in the prime statements and other explanatory information and disclosures are as follows: -

## NOTE 1: DESCRIPTION OF FUND

**a) General**

The Fund is administered by Worcestershire County Council on behalf of their own employees, those of the Herefordshire Council, the District Councils, private sector admitted bodies with staff transferred under TUPE from the administering authority and other bodies in the county of Worcestershire and Herefordshire, other than teachers, police officers, and fire fighters.

In matters relating to the management of the Fund's assets the Pensions Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Sub Committee, which includes an independent investment adviser.

The Pensions Committee consists of County Councillors and an Employer and Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually, and pension administration issues are discussed at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pensions Committee.

The day-to-day management of the Fund's investments is divided between external investment managers who operate in accordance with mandates set out in the Fund's Investment Strategy Statement.

**b) Membership**

Organisations participating in the Fund include the following:

- Scheduled bodies which are automatically entitled to be members of the Fund. These include county councils, district councils, foundation schools / colleges and academies.

- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not for profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

- Designated bodies which are organisations that have passed resolutions with town or parish councils.

Membership details are set out below:

| | 31 March 2022 | 31 March 2023 | Diff |
|---|---|---|---|
| Number of employers | 208 | 198 | (10) |
| **Employee Members of the Fund** | | | |
| County Council | 7,467 | 7,433 | (34) |
| Other Employers | 15,611 | 15,389 | (222) |
| **Total** | **23,078** | **22,822** | **(256)** |
| **Pensioner Members of the Fund** | | | |
| County Council | 6,143 | 9,190 | 3,047 |
| Other Employers | 14,130 | 11,872 | (2,258) |
| **Total** | **20,273** | **21,062** | **789** |
| **Deferred Members of the Fund** | | | |
| County Council | 9,034 | 6,476 | (2,558) |
| Other Employers | 14,214 | 17,379 | 3,165 |
| **Total** | **23,248** | **23,855** | **607** |
| **Total Number of Members in the Fund** | **66,599** | **67,739** | **1,140** |

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

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by employee members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2023. Employee contributions are in addition to employer contributions which are set based on actuarial valuations. The last valuation conducted was at 31 March 2022. The common employer contribution rate for the Fund will be 18.8%.

### d) Pension Benefits

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website.

### Actuarial present value of promised retirement benefits

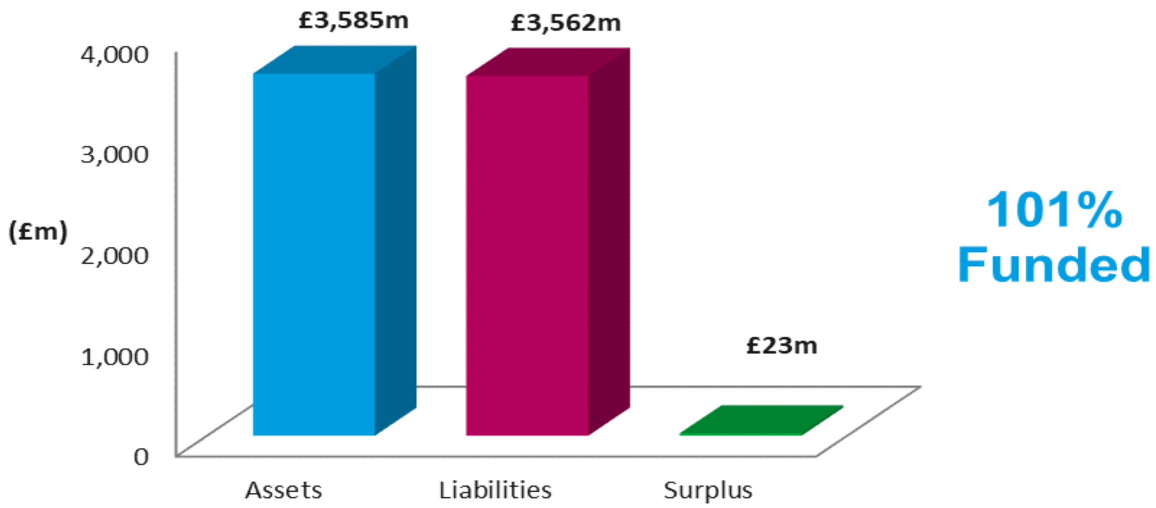
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2 below).

## NOTE 2: FUNDING ARRANGEMENTS AND ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

### Funding Arrangements

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013. An actuarial valuation of the Worcestershire Pension Fund was carried out as at 31 March 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026.

On the basis of the assumptions adopted, the Fund's assets of £3,585 million represented 101% of the Fund's past service liabilities of £3,562 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £23 million.




The valuation also showed that a Primary contribution rate of 18.8% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the 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 may be appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted was 12 years for employers in deficit and 14 years for employers in surplus, and the total initial recovery payment (the "Secondary rate" for 2023/26) was an addition of 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), although this varies year on year. Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2023.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

| | **For past service liabilities (Solvency Funding Target)** | **For future service liabilities (Primary rate of contribution)** |
|---|---|---|
| Rate of return on investments (discount rate) * | 4.60% per annum | 5.10% per annum |
| Rate of pay increases (long term) ** | 4.60% per annum | 4.60% per annum |
| Rate of increases in pensions in payment (in excess of GMP) | 3.10% per annum | 3.10% per annum |

** This is the discount rate for the "growth pot", and applies to the majority of employers. Certain employers have a more cautious investment strategy, and so a lower discount rate.*
*** A minimum of 4% p.a. over the 3 years to 31 March 2026 and then reverting to the long term rate.*

The next triennial actuarial valuation of the Fund is due as at 31 March 2025. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2026.

## The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014. The figures above allow for the impact of the judgment based on the proposed remedy.

## Impact of Covid 19 / Ukraine inflation?

The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The impact of COVID deaths over the period 2019/22 will be included in the actuarial gains / losses item above. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long-term impact.

The period-end above figures allow for the impact of actual known CPI at the accounting date as noted above. The period-end assumptions then allow for expected (market implied) CPI from that point.

## Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2023 (the 31 March 2022 assumptions are included for comparison):

| | 31 March 2022 | 31 March 2023 |
|---|---|---|
| Rate of return on investments (discount rate) | 2.8% per annum | 4.8% per annum |
| Rate of CPI Inflation / CARE benefit revaluation | 3.4% per annum | 2.7% per annum |
| Rate of pay increases* | 4.9% per annum* | 4.2% per annum** |
| Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation | 3.5% per annum | 2.8% per annum |

** This is the long term assumption. An adjustment has been made for the short term salary growth assumption in line with the 2019 actuarial valuation.*
*** This is the long term assumption. An adjustment has been made for the short term salary growth assumption in line with the 2022 actuarial valuation.*

The demographic assumptions are the same as those used for funding purposes:

- the start of period assumptions are based on the 2019 actuarial valuation assumptions (but updated to the 2021 CMI future improvement tables)
- the end of period assumptions are based on the updated assumption adopted for the 2022 actuarial valuation, with a long-term rate of life expectancy improvement of 1.5% pa.

Full details of the demographic assumptions are set out in the formal reports to the respective valuations.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

| Start of period liabilities | £5,148m |
|---|---|
| Interest on liabilities | £143m |
| Net benefits accrued/paid over the period* | £93m |
| Actuarial gains (see below) | -£1,726m |
| End of period liabilities | £3,658m |

*this includes any increase in liabilities arising as a result of early retirements.*

Key factors leading to actuarial gains above year are:

- **Change in financial assumptions:** Corporate bond yields increased significantly over the year, with a corresponding increase in discount rate to 4.8% p.a. from 2.8% p.a. In addition, there has been a reduction in long-term assumed CPI to 2.7% p.a. from 3.4%. In combination, these factors lead to a significant reduction in liabilities
- **Change in demographic assumptions:** As noted above, the assumptions have been updated to reflect the 2022 actuarial valuation assumptions. This acts to reduce the liabilities
- **Pension increases / high short-term inflation:** The figures allow for the impact of the April 2023 pension increase of 10.1%, along with the high levels of CPI since September 2023 (which will feed into the 2024 pension increase). As current inflation is higher than the long term assumption, this increases the liabilities
- **2022 actuarial valuation:** The year-end liabilities allow for the final 2022 valuation results, and so will allow for the difference between the assumptions and actual member experience over 2019/22. This will include factors such as the impact of actual pay increases awarded, actual rates of ill-health retirement, etc.

## GMP Indexation

The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.

**Paul Middleman**
**Mercers Ltd**
**Fellow of the Institute and Faculty of Actuaries**

**Laura Evans**
**Mercers Ltd**
**Fellow of the Institute and Faculty of Actuaries**

**Marcer Limited**
**May 2023**

## NOTE 3: EVENTS AFTER THE REPORTING DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. Management have reviewed and can confirm that there are no significant events after the reporting period.

It is anticipated that the future value of investments may continue to be exposed to increased market volatility as a result of COVID-19 and more recently the effects of the Russia / Ukraine conflict as well as inflation rises which may impact on the value of the Fund in the short to medium term; however, it is not possible to reliably estimate the financial impact of this on the position and performance of the Fund in future periods.

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

The Fund Accounts include more detail regarding the impact of COVID-19, the Russia / Ukraine conflict and inflation in the accompanying disclosure notes concerning Funding Arrangements and Accounting Assumptions and the Chief Financial Officer's foreword**.**

## NOTE 4: CONTRIBUTIONS RECEIVABLE

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund's actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets. The contributions received are detailed below: -

| | | 2021/22 | 2022/23 |
|---|---|---|---|
| **By Category** | | **£m** | **£m** |
| Employers | | | |
| | Normal contributions | 47.6 | 54.2 |
| | Deficit recovery contributions | 14.6 | 14.9 |
| | Augmentation contributions | 2.6 | 0.7 |
| | Additional contributions | 0.0 | 0.0 |
| Employees | | | |
| | Normal contributions | 25.6 | 27.8 |
| | Additional contributions | 0.3 | 0.3 |
| | | **90.7** | **97.9** |

| | 2021/22 | 2022/23 |
|---|---|---|
| **By authority:** | **£m** | **£m** |
| Worcestershire County Council | 11.2 | 13.8 |
| Scheduled bodies | 68.3 | 72.2 |
| Community admission bodies | 3.8 | 3.8 |
| Transferee admission bodies | 6.4 | 7.1 |
| Designated bodies | 1.0 | 1.0 |
| | **90.7** | **97.9** |

The increase in contributions in 2022/23 was due an increase in the number of members and the unwinding of a number of major employers previously paying three years of contributions upfront.

## NOTE 5: TRANSFERS IN AND FROM OTHER PENSION FUNDS

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with LGPS regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. Individual transfers in and from other pension funds are as follows: -

| | 2021/22 | 2022/23 |
|---|---|---|
| | **£m** | **£m** |
| Individual transfers | 13.7 | 18.1 |
| Bulk transfers | 0.0 | 3.9 |
| | **13.7** | **22.0** |

## NOTE 6: BENEFITS PAYABLE

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities. The benefits paid are as follows: -

| **By category:** | 2021/22 | 2022/23 |
|---|---|---|
| | **£m** | **£m** |
| Pensions | 95.5 | 100.3 |
| Commutations and lump sum retirement benefits | 17.4 | 19.7 |
| Lump sum death benefits | 2.7 | 2.6 |
| | **115.6** | **122.6** |

| By authority: | 2021/22 | 2022/23 |
|---|---|---|
| | **£m** | **£m** |
| Worcestershire County Council | 40.9 | 43.5 |
| Scheduled bodies | 61.2 | 65.4 |
| Admitted bodies | 1.7 | 1.7 |
| Community admission bodies | 7.1 | 7.7 |
| Transferee admission bodies | 4.1 | 3.7 |

| | | |
|---|---|---|
| Designated bodies | 0.6 | 0.6 |
| | **115.6** | **122.6** |

## NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2021/22 | 2022/23 |
|---|---|---|
| | £m | £m |
| Individual transfers | 10.0 | 12.7 |
| Group transfers | 0.0 | 0.0 |
| | **10.0** | **12.7** |

At year-end there were no potential liabilities in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions.

## NOTE 8: ADMINISTRATIVE EXPENSES

All administrative expenses are accounted for on an accruals basis. All staff costs of the Fund's administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

| | 2021/22 | 2022/23 |
|---|---|---|
| | £m | £m |
| Employee expenses | 0.6 | 1.0 |
| Support services | 0.5 | 0.8 |
| Actuarial services | 0.4 | 0.6 |
| Other expenses | 0.2 | (0.9) |
| | **1.7** | **1.5** |

The audit fee (included in support services above) for work completed by the Fund's external auditors for the year ended 31 March 2023 was £36,073 (31 March 2022: £32,473), 2.1% (31 March 2022: 1.8%) of total admin costs. A non audit service fee of £17,000 (31 March 2022: £8,500) included in support services above was incurred relating to IAS19 requirements. An additional non audit service fee of £6,500 (31 March 2022: £nil) relating to requirements associated with the latest triennial valuation is included within support services above.

## NOTE 9: MANAGEMENT EXPENSES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment and administration of the Fund to be charged against the Fund.

The Code of Practice does not require any breakdown of the Fund's administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

| | 2021/22 | 2022/23 |
|---|---|---|
| | £m | £m |
| **Oversight and Governance** | 0.4 | 0.5 |
| LGPSC* | 0.7 | 0.6 |
| **Investment Management Expenses** | | |
| Administration, management and custody fees | 20.4 | 15.0 |
| Other expenses | 0.0 | 0.0 |
| | **21.5** | **16.1** |

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

## NOTE 9A: INVESTMENT MANAGEMENT EXPENSES

Fixed income and equity investment managers' expenses are charged on a percentage basis of the market value of assets under management and therefore increase or reduce as the value of these investments change. Global custodian fees are agreed in the respective mandate governing their appointment.

The cost of obtaining investment advice from the Fund's independent investment adviser is included in oversight and governance. All investment management expenses are accounted for on an accruals basis. The management costs are as follows: -

| 2022/23 | Management Fees | Transaction Costs | Performance Related Fees | Total |
|---|---|---|---|---|
| | | | £m | £m |
| LGPS Central (Bonds) | 0.2 | 0.6 | 0.0 | **0.8** |
| LGPS Central (Emerging Markets) | 1.1 | 0.6 | 0.0 | **1.7** |
| LGPS Central (Global Climate Fund) | 0.1 | 0.4 | 0.0 | **0.5** |
| LGPS Central (Global Targeted Fund) | 0.2 | 0.1 | 0.0 | **0.3** |
| LGPS Central (Global Thematic Fund) | 0.3 | 0.0 | 0.0 | **0.3** |
| Nomura Asset Management UK Ltd | 0.4 | 0.3 | 0.0 | **0.7** |
| Legal & General Asset Management | 0.3 | 0.0 | 0.0 | **0.3** |
| Green Investment Bank | 0.6 | 0.0 | 0.0 | **0.6** |
| Hermes | 0.6 | 0.0 | 0.0 | **0.6** |
| Invesco | 0.9 | 0.0 | 0.0 | **0.9** |
| VENN | 0.7 | 0.0 | 0.0 | **0.7** |
| Walton Street | 0.2 | 0.0 | 0.0 | **0.2** |
| AEW | 0.1 | 0.0 | 0.0 | **0.1** |
| Stonepeak | 0.8 | 0.0 | 0.0 | **0.8** |
| Igneo (was First Sentier) | 0.9 | 0.0 | 0.0 | **0.9** |
| First Sentier EDIF III | 0.0 | 0.0 | 0.0 | **0.0** |
| Bridgepoint (was EQT) | 0.8 | 0.0 | 0.0 | **0.8** |
| Bridgepoint Fund III (was EQT) | 0.7 | 0.0 | 0.0 | **0.7** |

| 2022/23 | Management Fees | Transaction Costs | Performance Related Fees | Total |
|---|---|---|---|---|
| | | | £m | £m |
| River and Mercantile | 0.2 | 1.5 | 0.0 | **1.7** |
| Gresham Forestry | 0.6 | 0.0 | 0.0 | **0.6** |
| Gresham Forest Fund VI | 0.3 | 0.0 | 0.0 | **0.3** |
| Gresham (BSIF) | 0.0 | 0.0 | 0.0 | **0.0** |
| Gresham (BSIF II) | 1.5 | 0.0 | 0.0 | **1.5** |
| Closed Mandates & one off advisory fees | 0.0 | 0.0 | 0.0 | **0.0** |
| **Subtotal** | 11.5 | 3.5 | 0.0 | **14.9** |
| Custody Fees | | | | 0.1 |
| **Total Fees** | | | | **15.0** |

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

The £14.9m investment management expenses incurred in 2022/23 represent 0.41% or 41 basis points (bps) of the market value of the Fund's assets as at 31st March 2023 (0.57% or 57bps as 31 March 2022). The cash for pooled property investments, pooled infrastructure investment and equity protection strategy drawdowns was transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison.

The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the Fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature.

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £6.6 million to £14.9 million for 2022/23 (£13.0 million to £20.2 million for 2021/22). It is important to note that the application of the guidance does not represent an actual increase in costs, or a decrease in the Fund's resources to pay pension benefits.

## NOTE 10: INVESTMENT INCOME

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Income from other investments is accounted for on an accruals basis.

The changes in market value of investments during the year are recognised as income and comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

| | 2021/22 | 2022/23 |
|---|---|---|
| | £m | £m |
| Fixed interest securities | (0.3) | (0.2) |
| Equity dividends | 11.5 | 10.3 |
| Pooled property & infrastructure investments | 26.1 | 26.5 |
| Interest on cash deposits | (0.1) | 1.3 |
| Securities lending | 0.0 | 0.0 |
| | **37.2** | **37.9** |

## NOTE 11: TAXES ON INCOME

The Fund is a registered public service scheme under section (1) of schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

| | 2021/22 | 2022/23 |
|---|---|---|
| | £m | £m |
| Withholding tax – equities | (0.2) | 0.1 |
| | **(0.2)** | **0.1** |

## NOTE 12: INVESTMENTS

| | Market value 31 March 2022 | Market Value 31 March 2023 |
|---|---|---|
| | £m | £m |
| **Long term Investment Assets** | | |
| LGPS Central shares | 1.4 | 1.4 |
| | | |
| **Investment Assets -LGPS Central Managed** | | |
| Equites | 322.5 | 306.9 |
| Pooled investment vehicles | 207.1 | 402.7 |
| Fixed Interest Securities | 206.4 | 184.0 |
| | | |
| **Investment assets -WPF Managed** | | |
| Fixed interest securities | 190.4 | 0.0 |
| Equities | 332.9 | 328.5 |
| Pooled investment vehicles | 1,508.8 | 1,393.8 |
| Pooled property investments | 221.9 | 323.6 |
| Pooled infrastructure investments | 426.7 | 511.8 |
| Pooled debt Assets | 76.3 | 92.3 |
| Derivatives - futures | 198.7 | 0.0 |
| Derivatives - forward FX | 0.0 | 0.0 |
| Cash deposits | 13.0 | 8.7 |
| Investment income due | 4.4 | 3.7 |
| Amounts receivable for sales | 0.0 | 0.3 |
| **Total investment assets** | **3,710.5** | **3,557.7** |
| | | |
| **Investment liabilities** | | |
| Derivatives - futures | (167.1) | (0.0) |
| Derivatives - forward FX | (0.0) | (0.0) |
| Amounts payable for purchases | (0.0) | (0.3) |
| **Total investment liabilities** | **(167.1)** | **(0.3)** |
| | | |
| **Net investment assets** | **3,543.4** | **3,557.4** |

## NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

| | Market value 31 March 2022 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in market value during the year | Market value 31 March 2023 |
|---|---|---|---|---|---|
| - | £m | £m | £m | £m | £m |
| **Long-term Investment Assets** | | | | | |
| LGPS Central – Shares | 1.4 | 0.0 | 0.0 | 0.0 | 1.4 |
| | **1.4** | **0.0** | **0.0** | **0.0** | **1.4** |
| **Investment Assets -LGPS Central Managed** | | | | | |
| Fixed Interest Securities | 206.4 | 0.0 | (0.8) | (21.6) | 184.0 |
| Pooled investment vehicles | 207.1 | 201.3 | (1.1) | (4.6) | 402.7 |
| Equities | 322.5 | 0.0 | (1.7) | (13.9) | 306.9 |
| | **737.4** | **201.3** | **(3.6)** | **(40.1)** | **895.0** |
| **Investment Assets -WPF Managed** | | | | | |
| Fixed interest securities | **190.4** | 191.4 | (382.5) | 0.7 | **0.0** |
| Equities | **332.9** | 162.7 | (147.5) | (19.6) | **328.5** |
| Pooled investment vehicles | **1,508.8** | 231.7 | (375.5) | 28.8 | **1,393.8** |
| Pooled property investments | **221.9** | 127.1 | (30.4) | 5.0 | **323.6** |
| Pooled infrastructure investments | **426.7** | 106.0 | (49.8) | 28.9 | **511.8** |
| Pooled debt investments | **76.3** | 27.0 | (16.1) | 5.1 | **92.3** |
| | **3,494.4** | **1,047.2** | **(1,005.4)** | **8.8** | **3,545.0** |
| **Derivative contracts:** | | | | | |
| Futures | **31.6** | 343.4 | (381.2) | 6.2 | **(0.0)** |
| Forward currency contracts | **0.0** | 0.0 | 0.0 | 0.0 | **0.0** |
| | **3,526.0** | **1,390.6** | **(1,386.6)** | **15.0** | **3,545.0** |
| **Other investment balances:** | | | | | |
| Cash deposits | 13.0 | | | 4.1 | 8.7 |
| Investment income due | 4.4 | | | | 3.7 |
| Amount receivable for sales of investments | 0.0 | | | | 0.3 |
| Amounts payable for purchases of investments | 0.0 | | | | (0.3) |
| **Net investment assets** | **3,543.4** | | | **19.1** | **3,557.4** |

## Prior year comparators:

| | Market value 31 March 2021 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in market value during the year | Market value 31 March 2022 |
|---|---|---|---|---|---|
| - | £m | £m | £m | £m | £m |
| **Long-term Investment Assets** | | | | | |
| LGPS Central – Shares | 1.4 | 0.0 | 0.0 | 0.0 | 1.4 |
| | **1.4** | **0.0** | **0.0** | **0.0** | **1.4** |
| **Investment Assets -LGPS Central Managed** | | | | | |
| Fixed Interest Securities | **159.7** | 60.0 | (1.1) | (12.2) | 206.4 |
| Pooled investment vehicles | **0.0** | 212.8 | (0.1) | (5.6) | 207.1 |
| Equities | **402.4** | 0.0 | (43.1) | (36.8) | 322.5 |
| | **563.5** | **272.8** | **(44.3)** | **(54.6)** | **737.4** |
| **Investment Assets -WPF Managed** | | | | | |
| Fixed interest securities | **192.7** | 196.7 | (198.6) | (0.4) | **190.4** |
| Equities | **448.8** | 207.2 | (296.9) | (26.2) | **332.9** |
| Pooled investment vehicles | **1,518.7** | 263.4 | (489.2) | 215.9 | **1,508.8** |
| Pooled property investments | **160.7** | 75.6 | (18.2) | 3.8 | **221.9** |
| Pooled infrastructure investments | **332.6** | 63.4 | (33.9) | 64.6 | **426.7** |
| Pooled debt investments | **42.2** | 36.9 | (4.5) | 1.7 | **76.3** |
| | **3,259.2** | **1,116.0** | **(1,085.6)** | **204.8** | **3,494.4** |
| **Derivative contracts:** | | | | | |
| Futures | **4.2** | 47.4 | (42.8) | 22.8 | **31.6** |
| Forward currency contracts | **0.0** | 0.0 | 0.0 | 0.0 | **0.0** |
| | **3,263.4** | **1,163.4** | **(1,128.4)** | **227.6** | **3,526.0** |
| **Other investment balances:** | | | | | |
| Cash deposits | 13.6 | | | (0.4) | 13.0 |
| Investment income due | 5.3 | | | | 4.4 |
| Amount receivable for sales of investments | 0.0 | | | | 0.0 |
| Amounts payable for purchases of investments | 0.0 | | | | 0.0 |
| **Net investment assets** | **3,282.3** | | | **227.2** | **3,543.4** |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. The changes in purchases and sales in derivatives relate to transactions made within the equity protection strategy maintained by River and Mercantile.

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in investment management expenses as per CIPFA guidance. Transaction costs include costs charged directly to the Fund such as fees, commissions, and other fees.
Transaction costs incurred during the 2022/23 year amounted to £3.7 million, (2021/22: £3.0 million). These transaction costs represent 0.09% or 9bps of the market value of the Fund's assets as at 31 March 2023 (0.8bps at 31 March 2022).

Indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not provided separately to the Fund.

## NOTE 12B: INVESTMENTS ANALYSED BY FUND MANAGER

The proportion of the market value of investment assets held by external fund managers at the year-end was:

| External Fund Manager | 2021/22 | | 2022/23 | |
|---|---|---|---|---|
| | £m | % | £m | % |
| LGPSC (Bonds) | 206.4 | 6 | 184.0 | 5 |
| LGPSC (Emerging Markets) | 322.5 | 9 | 306.9 | 9 |
| LGPSC (Global All World Climate Factor Fund) | 207.1 | 6 | 208.2 | 6 |
| LGPSC (Global Sustainable Active Equities) | 0.0 | 0 | 194.5 | 5 |
| JP Morgan Asset Management (Bonds) | 0.2 | 0 | 0.2 | 0 |
| JP Morgan Asset Management (Emerging Markets) | 1.5 | 0 | 1.6 | 0 |
| Nomura Asset Management UK Ltd | 365.8 | 10 | 355.5 | 10 |
| Schroder Investment Management | 1.4 | 0 | 1.5 | 0 |
| Legal & General Asset Management | 1,480.1 | 43 | 1366.8 | 38 |
| Green Investment Bank | 44.7 | 1 | 46.7 | 1 |
| Hermes (Fund I and II) | 103.6 | 3 | 91.0 | 3 |
| Invesco (Euro and a UK Property Fund) | 107.6 | 3 | 116.9 | 3 |
| VENN (Fund I & II) | 25.2 | 1 | 18.2 | 0 |
| Walton Street (Fund I & II) | 10.2 | 0 | 10.6 | 0 |
| AEW | 19.9 | 1 | 18.6 | 1 |
| Stonepeak (III & IV) | 134.9 | 4 | 174.2 | 5 |
| Igneo (II & III, was First Sentier) | 114.7 | 3 | 133.4 | 4 |
| Bridgepoint Fund II & III (was EQT) | 76.3 | 2 | 92.2 | 3 |
| River and Mercantile | 223.4 | 6 | 0.0 | 0 |
| WCC Managed Account | 5.4 | 0 | 5.4 | 0 |
| Gresham House (BSIF I & II) | 44.2 | 1 | 86.6 | 3 |
| Gresham House Forestry Growth & Sustainability | 42.5 | 1 | 54.6 | 2 |
| Gresham House Forest Fund IV | 0.0 | 0 | 84.7 | 2 |
| | **3,537.6** | **100** | **3,552.3** | **100** |

The above excludes £1.4m (2021/22: £1.4m) Invested in LGPSC and £3.7m (2021/22: £4.4m) of investment income due. The following investments represent more than 5% of the net assets of the Fund:

| Security | Market value 31 March 2022 £m | % of total Fund | Market value 31 March 2023 £m | % of total Fund |
|---|---|---|---|---|
| LGIM – UK Equity Index Pooled Fund | 556.1 | 15.7 | 608.0 | 17.1 |
| LGIM - Client Specific unitised Fund -STAJ | 352.6 | 10.0 | 354.2 | 10.0 |
| LGPS Central Emerging Market Equity Pool | 322.6 | 9.1 | 306.9 | 8.7 |
| LGIM – Europe (ex-UK) Index Pooled Fund | 216.1 | 6.1 | 221.8 | 6.3 |
| LGPS Central All World Equity Climate Factor Fund | 207.1 | 5.9 | 208.2 | 5.9 |
| LGPS Central Global Active Investment Grade Corporate Bond Fund | 206.3 | 5.8 | 184.0 | 5.2 |
| LGIM – North America Index Pooled Fund | 355.2 | 10.1 | 182.8 | 5.2 |
| River and Mercantile UK Gilts | 190.3 | 5.4 | 0.0 | 0.0 |

## NOTE 12 C STOCK LENDING

The Fund operates the practice of lending stock to a third party for a financial consideration. Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the Net Assets Statement to reflect the Fund's continuing economic interest of a proprietorial nature in those securities.

The total amount of stock lent at the year-end was £3.6 million (2021/22: £0.8 million). Counterparty risk is managed through holding collateral at the Fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £3.7 million (2021/22: £0.8 million) representing 105.0% of stock lent.

Income received from stock lending activities was £0.0 million for the year ending 31 March 2023 (2021/22: £0.0 million). This is included within the 'Investment Income' figure detailed on the Fund Account.

Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower. There are no liabilities associated with the loaned assets.

## NOTE 13A: ANALYSIS OF DERIVATIVES

During the year ending 31 March 2023, The Fund used derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund did not hold derivatives for speculative purposes.

The value of a futures contract is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

## Objectives and Policies for Holding Derivatives

The holding in derivatives was designed to hedge exposures to reduce risk in the Fund. Derivatives were used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives was managed in line with the investment management agreement between the Fund and its investment managers.

Due to the downward trends in equity market valuations at the time, the Fund took the opportunity to exit the protection of the hedge entered into during 2019/20. This was fully exited in early November and the funds were then reinvested back into the passive equity market cap funds on 10 November 2022.

### a) Futures

The Fund's investment managers hold cash balances to ensure efficient and timely trading when opportunities arise. The Fund's management did not want this cash to be 'out of the market' and so enabled several investment managers to buy and sell futures contracts which had an underlying economic value broadly equivalent to the cash held. The economic exposure represents the notional value of the stock purchased under futures contracts and is therefore subject to market movements. The portfolio cannot be geared to and must have the liquidity needed to cover open positions. Derivative receipts and payments represent the realised gains and losses on futures contracts.

### b) Forward Foreign Currency

To maintain appropriate diversification and to take advantage of overseas investment returns, the Fund's bond mandate targets outperformance against a global benchmark index. To reduce volatility associated with the fluctuating currency rates, the Fund has enabled the bond mandate investment manager to purchase and sell forward foreign currencies as a hedge.

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

## Futures

Outstanding exchange traded futures contracts are as follows:

| ASSETS | | Economic Exposure | Market Value 31 March 2022 | Economic Exposure | Market Value 31 March 2023 |
|---|---|---|---|---|---|
| **Type of future** | **Expiration** | **£m** | **£m** | **£m** | **£m** |
| UK Gilt exchange traded | Under one year | 0.0 | 0.0 | 0.0 | 0.0 |
| UK FTSE exchange traded option | Under one year | 0.0 | 138.4 | 0.0 | 0.0 |

| | | | | | |
|---|---|---|---|---|---|
| EUROSTOXX exchange traded option | Under one year | 0.0 | 21.4 | 0.0 | 0.0 |
| US S+P exchange traded option | Under one year | 0.0 | 38.9 | 0.0 | 0.0 |
| Overseas exchanged traded | under one year | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total assets** | | | **198.7** | | **0.0** |

| LIABILITIES | | Economic Exposure Value | Market Value 31 March 2022 | Economic Exposure Value | Market Value 31 March 2023 |
|---|---|---|---|---|---|
| **Type of future** | **Expiration** | **£m** | **£m** | **£m** | **£m** |
| UK Gilt exchange traded | Under one year | 0.0 | 0.0 | 0.0 | 0.0 |
| UK FTSE exchange traded option | Under one year | 0.0 | (98.7) | 0.0 | (0.3) |
| EUROSTOXX exchange traded option | Under one year | 0.0 | (29.0) | 0.0 | 0.0 |
| US S+P 500 exchange traded option | Under one year | 0.0 | (39.4) | 0.0 | 0.0 |
| Overseas exchanged traded | Under one year | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total liabilities** | | | **(167.1)** | | **(0.3)** |
| | | | | | |
| **Net futures** | | | **31.6** | | **(0.3)** |

## OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2023

| Settlement | Currency Bought | Local Currency Value | Currency Sold | Local Currency Value | Asset Value | Liability Value |
|---|---|---|---|---|---|---|
| | | £m | | £m | £m | £m |
| One to Six Months | JPY | (0.3) | USD | 0.3 | 0.0 | |
| One to Six Months | USD | (0.3) | JPY | 0.3 | | 0.0 |
| | | | | | **0.0** | **(0.0)** |
| **Net forward currency contracts at 31 March 2023** | | | | | | **0.0** |
| **<u>Prior year comparative:</u>** | | | | | | |
| **Open forward currency contracts at 31 March 2022** | | | | | **0.0** | **0.0** |
| **Net forward currency contracts at 31 March 2022** | | | | | | **0.0** |

## ANALYSIS OF CASH

Cash comprises demand deposits and cash equivalents; these include amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Please see Note 16 for further analysis of Cash Instruments.

| | 2021/22 | 2022/23 |
|---|---|---|
| **Cash** | **£m** | **£m** |
| Cash deposits | 5.3 | 4.7 |

| | | |
|---|---|---|
| Cash instruments | 7.7 | 4.0 |
| | **13.0** | **8.7** |

## NOTE 14: FAIR VALUE

## NOTE 14 A: BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| Market-Quoted Investments | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Fixed Interest Securities | Level 1 | Fixed interest securities are valued at net market value based on current yields | Not required | Not required |
| Pooled Equity Funds | Level 2 | Closing bid price where bid and offer prices are published; or the single price, as applicable | Net Asset Value (NAV)-based pricing set on a forward pricing basis and in the case of accumulation funds, reinvested income net of applicable withholding tax | Not required |
| Forward Foreign Exchange Derivatives | Level 2 | Market forward exchange rates at the year-end | Exchange rate risk | Not required |
| Derivatives - Futures | Level 2 | Option pricing model | Annualised volatility of counterparty credit risk | Not required |
| Property, Infrastructure and Debt Funds | Level 3 | Unit or security price as advised by Investment Manager or responsible entity | Funds share of net assets in limited partnership, using Financial | Valuations could be affected by material events occurring between the date of |

| | | | | |
|---|---|---|---|---|
| | | | Statements published by the manager as at the final day of the accounting period | the financial statements provided and the fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |

***Please see paragraphs under the Net Assets Statement for more detail of our basis for measurement for the above Financial Instruments.***

## NOTE 14 B: FAIR VALUE HIERARCHY

### Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

### Level 3

Financial instruments at Level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the Fund into levels 1 to 3, based on the level at which the fair value is observable:

| | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|---|---|---|---|---|
| **Values at 31 March 2023** | **Level 1** | **Level 2** | **Level 3** | |
| | **£m** | **£m** | **£m** | **£m** |
| **Fair Value Financial assets** | | | | |
| **Financial assets at fair value through profit and loss** | 823.4 | 1,796.5 | 927.7 | 3,547.6 |
| **Total fair value financial assets** | **823.4** | **1,796.5** | **927.7** | **3,547.6** |
| **Fair Value Financial Liabilities** | | | | |
| **Financial liabilities at fair value through profit and loss** | 0.0 | (0.3) | 0.0 | (0.3) |
| **Total fair value financial liabilities** | **0.0** | **(0.3)** | **0.0** | **(0.3)** |
| **Net fair value financial assets** | **823.4** | **1,796.2** | **927.7** | **3,547.3** |

| | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|---|---|---|---|---|
| **Values at 31 March 2022** | **Level 1** | **Level 2** | **Level 3** | |
| | **£m** | **£m** | **£m** | **£m** |
| **Fair Value Financial assets** | | | | |
| **Financial assets at fair value through profit and loss** | 1,056.6 | 1,914.6 | 724.9 | 3,696.1 |
| **Total fair value financial assets** | **1,056.6** | **1,914.6** | **724.9** | **3,696.1** |
| **Fair Value Financial Liabilities** | | | | |
| **Financial liabilities at fair value through profit and loss** | 0 | (167.1) | 0.0 | (167.1) |
| **Total fair value financial liabilities** | **0** | **(167.1)** | **0.0** | **(167.1)** |
| **Net fair value financial assets** | **1,056.6** | **1,747.5** | **724.9** | **3,529.0** |

## NOTE 14 C: SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described in Note 14a are likely to be accurate to within the following ranges. This sets out below the consequent potential impact on the closing value of investments held at 31 March 2023.

| Sensitivity Analysis | Valuation range | Value as at 31st March 2023 | Valuation Increase | Valuation Decrease |
|---|---|---|---|---|
| | +/- % | £m | £m | £m |
| **Pooled Investments - Property Funds** | 5.6% | 323.6 | 341.6 | 305.6 |
| **Pooled Investments - Infrastructure Funds** | 6.6% | 511.8 | 545.5 | 478.1 |
| **Pooled Investments - Debt Funds** | 5.6% | 92.3 | 97.4 | 87.2 |
| **Total** | | **927.7** | **984.6** | **870.8** |

The valuation for these asset classes are based on the volatility over three years of monthly investment returns. The return is based upon the market value and income and trades supplied by our underlying managers and grouped accordingly

### Reconciliation of Fair Value Measurements within Level 3

| Investment Movement | Pooled Investments – Property Funds | Pooled Investments – Infrastructure Funds | Pooled Investments - Debt Funds | Total |
|---|---|---|---|---|
| | £m | £m | | £m |
| **Market Value 1st April 2022** | **221.9** | **426.7** | **76.3** | **724.9** |
| **Transfers into Level 3** | 0.0 | 0.0 | 0.0 | **0.0** |
| **Transfers out of Level 3** | 0.0 | 0.0 | 0.0 | **0.0** |
| **Purchases and derivative Pymts** | 127.1 | 106.0 | 27.0 | **260.1** |
| **Sales and derivative receipts** | (30.4) | (49.8) | (16.1) | **(96.3)** |
| **Unrealised gains/(losses)** | 5.3 | 21.8 | 4.8 | **31.9** |
| **Realised gains/(losses)** | (0.3) | 7.1 | 0.3 | **7.1** |
| **Market value 31st March 2023** | **323.6** | **511.8** | **92.3** | **927.7** |

## NOTE 15: FINANCIAL INSTRUMENTS

## NOTE 15 A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

| Fair value through profit and loss | Financial Instruments at Amortised Cost | | Fair value through profit and loss | Financial Instruments at Amortised Cost |
|---|---|---|---|---|
| 2021/22 | 2021/22 | | 2022/23 | 2022/23 |
| | | | | |

| £m | £m | | £m | £m |
|---|---|---|---|---|
| | | **Financial assets** | | |
| | 1.4 | Other share capital | | 1.4 |
| **736.0** | | LGPS Central Managed | 893.6 | |
| **190.4** | | Fixed interest securities | 0.0 | |
| **332.9** | | Equities | 328.5 | |
| **1,508.8** | | Pooled investment vehicles | 1,393.8 | |
| **221.9** | | Pooled property investments | 323.6 | |
| **426.7** | | Pooled Infrastructure investments | 511.8 | |
| **76.3** | | Pooled Debt investments | 92.3 | |
| **198.7** | | Derivatives - Futures | 0.0 | |
| **0.0** | | Derivatives - Forward FX | 0.0 | |
| | 49.4 | Cash | | 41.2 |
| **4.4** | | Other investment Balances | 4.0 | |
| | 9.8 | Current assets | | 23.0 |
| | 1.5 | Non-current assets | | 1.7 |
| **3,696.1** | **62.1** | | **3,547.6** | **67.3** |
| | | **Financial liabilities** | | |
| **(167.1)** | | Derivatives - Futures | 0.0 | |
| **0.0** | | Derivatives - Forward FX | 0.0 | |
| **0.0** | | Other investment balances | (0.3) | |
| | (6.5) | Current liabilities | | (6.3) |
| **(167.1)** | **(6.5)** | | **(0.3)** | **(6.3)** |
| | | | | |
| **3,529.0** | **55.6** | | **3,547.3** | **61.0** |

## NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

| | | |
|---|---|---|
| **31 March 2022** | | **31 March 2023** |
| **£m** | | **£m** |
| | **Financial assets** | |
| **204.8** | Fair value through profit and loss | 8.8 |
| **(0.4)** | Financial Assets at Amortised Cost | 4.1 |
| | **Financial liabilities** | |
| **22.8** | Fair value through profit and loss | 6.2 |
| **227.2** | **Total** | **19.1** |

Fair value through profit and loss is the combination of realised and unrealised profit and loss. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## NOTE 16: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

In the course of every day operating, the Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk.

As detailed in the Investment Strategy Statement, the Fund holds equity and bond instruments in order to meet its investment objectives. The Fund's investment objectives and risk management policies are as follows.

1) The investment objective for the Fund is to: -
    a. ensure that sufficient assets are available to meet liabilities as they fall due.
    b. Maximise the return at an acceptable level of risk.

2) Risk management is mostly concerned with:
    a. avoiding the possibility of loss, or
    b. limiting a deficiency in the underlying Fund, or
    c. avoiding a contribution rate increase in the future.

### Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.
The objective of the Fund’s risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. There are three main types of market risk that the Fund is exposed to as at 31 March 2023:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Equity risk refers to the risk arising from the volatility in stock prices; this can be systematic risk, the risk due to general market factors and affects the entire industry, or unsystematic risk, which refers to the risk specific to a company that arises due to the company specific characteristics. Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. Foreign exchange risk arises because of fluctuations in the currency exchange rates.

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1,000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place. An equity protection strategy has also been implemented to protect against significant market falls in its passive equity portfolio.
Interest rate risk has been reduced through the holding of fewer bonds as a percentage of the Fund's total assets.

Foreign Exchange risk exists in relation to the Fund's overseas equity investments. The Fund runs un-hedged equity portfolios and therefore is subject to currency fluctuations. It is the Fund's view that in the long-run currency volatility trends to an average of nil against Sterling and therefore any hedging of currency would just be an additional cost to the Fund.

The Fund contracts Portfolio Evaluation Ltd to measure the Fund's investment returns and the absolute and relative risk for each portfolio independently. The Fund receives quarterly reports from Portfolio Evaluation Ltd listing returns and risk. The Fund's independent investment adviser also provides a yearly report to the Pension Investment Sub Committee, providing details of the Fund's risk and comparisons to other LGPS funds.

## Equity Risk Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's independent investment adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2022/23 reporting period:

| Asset Type | Potential Market Movements (+/-) |
|---|---|
| **Fixed interest securities** | 7.0% |
| **Global bonds** | 7.0% |
| **UK equities** | 12.5% |
| **Overseas equities** | 12.6% |
| **UK pooled investment vehicles** | 12.5% |
| **Overseas pooled investment vehicles** | 10.7% |
| **Global pooled investment vehicles** | 10.7% |
| **Emerging markets pooled equities** | 10.7% |
| **Pooled property investments** | 5.6% |
| **Pooled infrastructure investments** | 6.6% |
| **Pooled debt investments** | 5.6% |

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain the same.

If the market price of the Fund's investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in Note 12):

| Asset Type | Value as at 31 March 2023 | Percentage change | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £m | % | £m | £m |
| Cash and cash equivalents | 8.7 | 0.0 | 8.7 | 8.7 |
| Investment portfolio assets: | | | | |
| UK fixed interest securities | 0.0 | 7.0 | 0.0 | 0.0 |
| Overseas fixed interest securities | 0.0 | 7.0 | 0.0 | 0.0 |
| Global bonds | 184.0 | 7.0 | 196.9 | 171.1 |
| UK equities | 4.2 | 12.5 | 4.7 | 3.7 |
| Overseas equities | 322.8 | 12.6 | 363.5 | 282.1 |
| UK pooled investment vehicles | 608.0 | 12.5 | 684.0 | 532.0 |
| Overseas pooled investment vehicles | 407.1 | 10.7 | 450.7 | 636.5 |
| Global pooled investment vehicles | 756.9 | 10.7 | 837.9 | 675.9 |
| Emerging market pooled equities | 332.9 | 10.7 | 368.5 | 297.3 |
| Pooled property investments | 323.6 | 5.6 | 341.6 | 305.6 |
| Pooled infrastructure investments | 511.8 | 6.6 | 545.5 | 478.1 |
| Pooled debt investments | 92.3 | 5.6 | 97.4 | 87.2 |
| Net derivative assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment income due | 3.7 | 0.0 | 3.7 | 3.7 |
| Amounts receivable for sales | 0.3 | 0.0 | 0.3 | 0.3 |
| Amount payable for purchases | (0.3) | 0.0 | (0.3) | (0.3) |
| **Total** | **3,556.0** | | **3,903.1** | **3,208.9** |

## Prior-year comparators

| Asset Type | Value as at 31 March 2022 | Percentage change | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £m | % | £m | £m |
| Cash and cash equivalents | 13.0 | 0 | 13.0 | 13.0 |
| Investment portfolio assets: | | | | |
| UK fixed interest securities | 190.4 | 6.9 | 203.5 | 177.3 |
| Overseas fixed interest securities | 0.0 | 6.9 | 0.0 | 0.0 |
| Global bonds | 206.3 | 6.9 | 220.5 | 192.1 |
| UK equities | 4.5 | 15.4 | 5.2 | 3.8 |
| Overseas equities | 323.5 | 12.4 | 363.6 | 283.4 |
| UK pooled investment vehicles | 556.1 | 15.4 | 641.7 | 470.5 |
| Overseas pooled investment vehicles | 576.4 | 11.5 | 642.7 | 510.1 |
| Global pooled investment vehicles | 559.7 | 11.5 | 624.1 | 495.3 |
| Emerging market pooled equities | 351.2 | 11.5 | 391.6 | 310.8 |
| Pooled property investments | 221.9 | 2.7 | 227.9 | 215.9 |
| Pooled infrastructure investments | 426.7 | 5.2 | 449.1 | 404.3 |
| Pooled debt Investments | 76.3 | 2.7 | 78.4 | 74.2 |
| Net derivative assets | 31.6 | 0.0 | 31.6 | 31.6 |
| Investment income due | 4.4 | 0.0 | 4.4 | 4.4 |
| Amounts receivable for sales | 0.0 | 0.0 | 0.0 | 0.0 |
| Amount payable for purchases | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **3,542.0** | | **3,897.3** | **3,186.7** |

## Interest Rate Risk Analysis

The Fund's direct exposure to interest rate movements is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| Asset Type | Value as at 31 March 2022 | Value as at 31 March 2023 |
|---|---|---|
| | £m | £m |
| Cash and cash equivalents | 13.0 | 8.7 |
| Cash balances | 36.4 | 42.5 |
| Fixed interest securities | 190.4 | 0.0 |
| **Total** | **239.8** | **51.2** |

## Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Fund's performance reporting advisor, Portfolio Evaluation Limited, has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely to happen.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2023 of a +/- 100 basis points (BPS) change in interest rates:

| Asset Type | Carrying amount as at 31 March 2023 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 BPS | -100 BPS |
| | £m | £m | £m |
| **Cash and cash equivalents** | 8.7 | 8.8 | 8.6 |
| **Cash balances** | 42.5 | 42.9 | 42.1 |
| **Fixed interest securities** | 0.0 | 0.0 | 0.0 |
| **Total change in assets available** | **51.2** | **51.7** | **50.7** |

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

A 1% increase in interest rates will not affect the interest received on fixed income but will reduce their fair value and vice versa. Changes in interest rates do not impact the value of cash deposits / cash and cash equivalent balances but they will have a small effect on the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

## Currency Risk

The following table summarises the Fund's currency exposure:

| Currency exposure - asset type | Asset value as at 31 March 2022 | Asset value as at 31 March 2023 |
|---|---|---|
| | £m | £m |
| **Overseas quoted securities** | 323.5 | 322.8 |
| **Overseas pooled investment vehicles** | 576.4 | 407.1 |
| **Global pooled investment vehicles** | 559.7 | 756.9 |
| **Global bonds and pooled EM equities** | 557.5 | 516.9 |

| | | |
|---|---|---|
| **Overseas pooled property investments** | 104.5 | 90.8 |
| **Total overseas assets** | **2,121.6** | **2,094.5** |

Overseas bonds are 100% hedged to GBP as at 31 March 2023.

## Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's performance measurement provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 5.9% (as measured by one standard deviation).

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

An 6.5% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Currency exposure - asset type | Asset value as at 31 March 2023 | Change to net assets available to pay benefits | |
|---|---|---|---|
| | | **+5.9%** | **-5.9%** |
| | **£m** | **£m** | **£m** |
| **Overseas quoted securities** | 322.8 | 341.8 | 308.8 |
| **Overseas pooled investment vehicles** | 407.1 | 431.1 | 383.1 |
| **Global pooled investment vehicles** | 756.9 | 801.6 | 712.2 |
| **Global bonds and pooled EM equities** | 516.9 | 547.4 | 486.4 |
| **Overseas pooled property investments** | 90.8 | 96.2 | 85.4 |
| **Total change in assets available** | **2,094.5** | **2,218.1** | **1,970.9** |
| | | | |
| **Currency exposure - asset type** | **Asset value as at 31 March 2022** | **Change to net assets available to pay benefits** | |
| | | **+6.5%** | **-6.5%** |
| | **£m** | **£m** | **£m** |
| **Overseas quoted securities** | 323.5 | 344.5 | 302.5 |
| **Overseas pooled investment vehicles** | 576.4 | 613.9 | 538.9 |
| **Global pooled investment vehicles** | 559.7 | 596.1 | 523.3 |
| **Global bonds and pooled EM equities** | 557.7 | 594.0 | 521.4 |
| **Overseas pooled property investments** | 104.5 | 111.3 | 97.7 |
| **Total change in assets available** | **2,121.8** | **2,259.8** | **1,938.8** |
| | | | |

## Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. In essence the Fund's entire investment portfolio is exposed to some form of credit risk, except for the derivatives position, where the risk equates to the net market value of a positive derivative position. However, the selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Investment restrictions are listed in the contract held with the manager, which limit the amount of credit risk the manager is allowed to take and states an average credit rating with regards to bonds held that should be maintained.

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's independent investment adviser also provides a yearly report to the Pension Investment Sub Committee, providing details of the Fund's bond portfolio absolute and relative risk.

Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the Fund invests in Cash Instruments, which facilitate management of assets under custody, all liquidity funds chosen have an ‘AAA’ rating from a leading rating agency. Swap collateral is held to support our equity protection hedge.

The Fund's cash holding at 31 March 2023 was £51.2 million (31 March 2022: £49.4 million). This was held with the following institutions:

| Summary | Rating | Balances as at 31 March 2022 | Balances as at 31 March 2023 |
|---|---|---|---|
| | | £m | £m |
| **Cash Instruments** | | | |
| **BNY Mellon US Dollar Liquidity Fund** | AAA | 7.7 | 4.1 |
| | | | |
| **Bank deposit accounts** | | | |
| **The Bank of New York Mellon** | A-1+ | 5.3 | 4.6 |
| **Barclays Bank PLC – Notice Account** | A-1 | 0.0 | 10.0 |
| | | | |
| **Bank current accounts** | | | |
| **Barclays Bank PLC** | A-1 | 36.4 | 32.5 |
| **Total** | | **49.4** | **51.2** |

The above assets are held at amortised cost and are either liquid or very short dated securities in high-quality counterparties. Therefore, the expected loss is assessed as a trivial sum and no allowance has been set aside for this.

## Liquidity Risk

Market liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or to meet the financial obligations of the Fund as they fall due. The Fund's investment managers purchase quoted and tradable securities. Equities held are listed on major world stock markets and managers employed are highly experienced in equity trading. The liquidity risk relating to the bond holdings is monitored and managed by the bond manager on an on-going basis. The Council also takes steps to ensure that the Fund has adequate cash resources to meet commitments.

## NOTE 17: CURRENT ASSETS

| | 2021/22 | 2022/23 |
|---|---|---|
| | £m | £m |
| Contributions due from employer in respect of: | | |
| Employer | 6.4 | 7.3 |
| Members | 2.0 | 2.0 |
| | | |
| Cash balances | 36.4 | 42.5 |
| Other Debtors | 1.4 | 3.7 |
| | **46.2** | **55.5** |

The above assets are carried at amortised cost, other than cash balances and other debtors (see below), as the funds are due from Government institutions and therefore no allowance for expected losses has been set aside.

## NOTE 18: NON-CURRENT ASSETS

| | 2021/22 | 2022/23 |
|---|---|---|
| | £m | £m |
| *LGPSC capital advance treated as loan | 0.7 | 0.7 |
| **Reimbursement of lifetime tax allowances | 0.5 | 0.7 |
| Contributions from employers | 0.1 | 0.2 |
| Augmentation | 0.2 | 0.1 |
| | **1.5** | **1.7** |

*This was part of the regulatory capital required to set up the company LGPS Central Limited.
**This includes debtor in relation to the lifetime tax allowance limit, as the Fund pays all the tax upfront on behalf of the pensioner and is reimbursed from additional pension deductions over time.

## NOTE 19: CURRENT LIABILITIES

| | 2021/22 | 2022/23 |
|---|---|---|
| | £m | £m |
| Investment management expenses | (0.9) | (0.7) |
| Payroll and external vendors | (0.6) | (0.6) |
| Other expenses | (5.0) | (4.8) |
| | **(6.5)** | **(6.1)** |

## NOTE 20: RELATED PARTY TRANSACTIONS

### Worcestershire County Council

The Fund is administered by Worcestershire County Council. Consequently, there is a strong relationship between the Council and the Fund.

The Council incurred costs of £1.8 million in 2022/2023 (2021/2022: £1.4 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £11.5 million to the Fund in 2022/2023 (2021/2022: £11.2 million).

LGPSC has been established to manage investment assets on behalf of eight LGPS funds across the Midlands. It is jointly owned in equal shares by the eight Funds participating.

The Fund's share of LGPSC annual running costs of £0.7 million was charged to the Fund in 2022/2023 by LGPSC (£0.7 million in 2021/2022).

Worcestershire County Council, as the Admisistering Authority of the Worcestershire Pension Fund has guaranteed a share of the pension liability relating to employees of LGPS Central Limited that transferred into the company on creation. If this guarantee is called, this will be funded by the Fund.

### Key Management Personnel

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

| | 2021/22 | 2022/23 |
|---|---|---|
| | **£000** | **£000** |
| **Short term benefits*** | 81 | 106 |
| **Long term/ post-retirement benefits**** | 213 | 132 |
| | **294** | **239** |

*This is annual salary, benefits in kind and employer contributions.
**This is the accrued pension benefits, expressed as cash equivalent transfer value.

### Governance

The Pensions Committee Employer Representative, Employee Representative and Chief Financial Officer are active members of the Fund.

## NOTE 21: CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Outstanding capital commitments (investments) at 31 March 2023 totalled £332.9 million (31 March 2022: £488.4 million). Outstanding capital commitments are reduced due to the further drawdowns made during 2022, resulting in some investments becoming fully committed.

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in pooled property investments, pooled infrastructure investments and pooled debt investments. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of the original commitment.

## NOTE 22: CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts.

The Councils below have provided guarantees to a number of organisations that have been admitted to the Fund to fund any potential pension liability. The organisations with a pension liability more than £195,000 (which the Fund considers to be material for these purposes) are: -

- HALO Leisure (£1.273milllion), **Herefordshire Council.**
- Wychavon Leisure Community Association (£0.509million), **Wychavon District Council.**
- Bromsgrove District Housing Trust (£0.679 million), **Bromsgrove District Council.**
- Community Housing Group (£5.835 million), **Wyre Forest District Council.**
- FCC Environmental (£1.468 million), **Worcestershire County Council.**
- Freedom Leisure (£0.210 million), **Worcester City Council**.

There are a further 13 organisations with a pension liability less than £195,000. The Fund has considered various factors in determining the potential risk of having to fund any future liability, including risk of failure of the business and membership profile, and is satisfied that they do not represent a significant potential liability. There are also 17 organisations with a guarantee via pass through arrangements. As new contractors, these employers will all commence fully funded with no initial funding deficit. In line with the 'Initial pension guarantee' employers above, we are assuming that the active members would remain active on termination of the contract and be transferred back to the relevant school/academy or to the new service provider. On this basis, the amount for all these employers is reflected as nil for this year's accounts.

Three admitted body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

Note that the existing bonds and guarantees from the previous financial year have all been discussed with the actuary and updated where necessary.

## NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund provides an in-house AVC scheme for its members. In 2022/2023 some members of the Fund paid voluntary contributions and transfers to Scottish Widows and Utmost Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Fund Account in accordance with Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed as a note only.

The amounts administered under AVC arrangements are as follows:

| | 2021/22 | 2022/23 |
|---|---|---|
| | £m | £m |
| Contributions received | 0.2 | 0.2 |
| Investments purchased | 0.2 | 0.2 |
| Change in market value | 0.1 | 0.2 |
| Retirement benefits paid or transferred | (0.6) | (0.3) |

The combined value of the AVC funds as at 31 March 2023 was £3.0 million (31 March 2022: £2.9 million).

## NOTE 24: AGENCY SERVICES

The Fund pays discretionary awards to the former employees of Herefordshire County Council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

| | 2021/22 | 2022/23 |
|---|---|---|
| | £m | £m |
| **Payments on behalf of Herefordshire County Council** | 0.1 | 0.1 |
| | **0.1** | **0.1** |

## NOTE 25: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund's liabilities are calculated every three years by the actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 2. This estimate is subject to significant variances based on changes to the underlying assumptions.

There were no significant changes to the CIPFA code of practice on local authority accounting (the code).

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## NOTE 26: ASSUMPTIONS MADE ABOUT THE FUTURE AND ANY OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made considering historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the notes to the accounts as at 31 March 2023 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| **Actuarial present value of promised retirement benefits (Note 2)** | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, inflation, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. | The effects on the net pension liability of changes in individual assumptions can be measured. For instance:<br>● a 0.25% real investment return lower than assumed would result in an 4.4% increase in the pension liability, which is equivalent to £157m.<br>● a 0.25% increase in assumed earnings inflation would result in a 0.5% increase in the value of liabilities, which is equivalent to £19m.<br>● a 0.25% increase in assumed life expectancy would result in a 0.7% increase in the value of liabilities, which is equivalent to £26m. |

| | | |
|---|---|---|
| **Property and infrastructure valuations. (Level 3 investments)** | The Fund's directly held investment properties are valued at fair value by independent valuers in accordance with RICS valuation professional standards, whilst infrastructure investments are valued at fair value by independent experts. There is continuing uncertainty regarding the property and infrastructure valuations due to the time that it will take to fully realise the impact of geopolitical issues upon these illiquid assets as well as the concerns as to the current inflationary environment. The valuations have been updated based on the information available as at 31 March 2023 and may be subject to variations as further market information becomes available. Investments are valued each month as per the latest quarterly statements available to our custodian, which are usually received between 45 and 60 days after quarter end, +/- any activity post statement date. | The total value of indirect property investments in the financial statements is £323.6m (£221.9m in 2021/22). There is a risk that this investment may be under or overstated in the accounts.<br><br>The total value of direct infrastructure investments in the financial statements is £511.8m (£426.7m in 2021/22). There is a risk that this investment may be under or overstated in the accounts. |

## VALUATION OF INVESTMENTS LEVEL 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. As well as the details in the table above, further detail is provided in Notes 14a to c above.

## Independent auditor's report to the members of Worcestershire County Council on the pension fund financial statements of Worcestershire Pension Fund

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**Worcestershire Pension Fund Valuation 31st March 2023**

| | Level | 31.03.2023 Valuation provided to External Audit £'M | Custodian Report Valuation 31.03.23 | Difference between Custodian Rpt and Valuation provided to External Audit £'M | Variance % |
|---|---|---|---|---|---|
| Nomura Far East Developed | 1 | 358.2 | 355.5 | -2.7 | -0.75% |
| LGPS Central Emerging Markets | 1 | 306.9 | 306.9 | 0.0 | 0.00% |
| LGPS Central Global Sustainable Equity | 2 | 194.5 | 194.5 | 0.0 | 0.00% |
| **Actively Managed Equities** | | 859.6 | 856.9 | -2.7 | -0.31% |
| UK | 2 | 608.0 | 608.0 | 0.0 | 0.00% |
| North America | 2 | 182.8 | 182.8 | 0.0 | 0.00% |
| Europe – ex UK | 2 | 221.8 | 221.8 | 0.0 | 0.00% |
| **Passively Managed Equity Alternative Indices** | | 1012.6 | 1012.6 | 0.0 | 0.00% |
| LGPSC FTSE All World Climate Multi Factor Fund | 2 | 208.2 | 208.2 | 0.0 | 0.00% |
| MSCI World Quality TR Fund | 2 | 354.2 | 354.2 | 0.0 | 0.00% |
| **Passively Managed Equity Alternative Indices** | | 562.4 | 562.4 | 0.0 | 0.00% |
| | | | | | |
| Corporate Bond Fund - LGPS Central | 1 | 184.0 | 184.0 | 0.0 | 0.00% |
| Bridgepoint (was EQT) Mid Market Credit Fund II | 3 | 57.6 | 56.4 | -1.2 | -2.05% |
| Bridgepoint (was EQT) Mid Market Credit Fund III | 3 | 36.4 | 35.8 | -0.6 | -1.55% |
| **Fixed Income** | | 277.9 | 276.2 | -1.7 | -0.63% |
| | | | | | |
| **Actively Managed Alternative Assets** | | | | | |
| **Property** | | | | | |
| UK Property Fund Invesco | 3 | 50.2 | 51.8 | 1.6 | 3.19% |
| Euro Property Fund Invesco | 3 | 67.1 | 65.2 | -1.9 | -2.82% |
| UK Property Fund Venn | 3 | 2.8 | 3.0 | 0.2 | 7.14% |
| Euro & UK Property Fund Venn II | 3 | 15.7 | 15.2 | -0.5 | -3.01% |
| US Property Fund Walton St I and II | 3 | 10.0 | 10.6 | 0.6 | 5.60% |
| Gresham Forestry Growth & Sustainability Fund | 3 | 56.8 | 54.6 | -2.2 | -3.87% |
| Gresham House Forest Fund VI | 3 | 84.7 | 84.7 | 0.0 | 0.00% |
| Property Fund AEW | 3 | 18.6 | 18.6 | 0.0 | 0.00% |
| **Total Property** | | 305.9 | 303.7 | -2.2 | -0.72% |
| **Infrastructure** | | | | | |
| UK Infrastructure - Macquarie | 3 | 48.6 | 46.7 | -1.9 | -3.91% |
| UK Infrastructure - Hermes I & II | 3 | 91.7 | 91.0 | -0.7 | -0.76% |
| US Infrastructure Fund - Stonepeak Fund III & IV | 3 | 162.1 | 174.2 | 12.1 | 7.43% |
| Infrastructure Fund Igneo EDIF II & III | 3 | 139.6 | 133.4 | -6.2 | -4.47% |
| Infrastructure Fund - Gresham House BSIF I & II | 3 | 86.3 | 86.6 | 0.3 | 0.35% |
| **Total Infrastructure** | | 528.4 | 531.9 | 3.5 | 0.67% |
| Other residual Funds | 1 | 8.6 | 8.6 | 0.0 | 0.00% |
| **Total Fund Valuation** | | **3555.4** | **3552.3** | **-3.1** | -0.09% |
| | | | | | |
| **Total Level 3 Assets** | | **928.2** | **927.8** | **-0.4** | **-0.05%** |

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worcestershire county council

# PENSIONS COMMITTEE
# 28 JUNE 2023

# UK STEWARDSHIP CODE 2021 UPDATED 2023 SUBMISSION

**Recommendation**

1. **The Chief Financial Officer recommends that the 2021 Stewardship Code application for the Fund submitted on the 21 May 2023 be noted.**

**Background and update**

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

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

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

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

**Purpose and Principles of the Code**

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

7. The Fund's submission for Stewardship Code for the period 1 January – 31 December 2022 is attached as an Appendix and took on board the improvement areas identified by the FRC in our last submission (reported to Committee on the 13 October 2022). Applicants that effectively evidence how they apply the principles and meet the reporting expectations will be listed as signatories to the Code in the Summer 2023.

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

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

## Supporting information

- Appendix – Stewardship Code 2023 submission.

## Contact Points

Specific Contact Points for this report

Sherief Loutfy
Head of Pension Investments, Treasury Management & Banking
Tel: 01905 846908
Email: sloutfy@worcestershire.gov.uk

## Background Papers

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

Worcestershire Pension Fund

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

## 2023 Submission



Contact: Sherief Loutfy, Head of Pension Investments, Treasury Management & Banking
Email: SLoutfy@worcestershire.gov.uk
Tel: 01905 843103

# 1. Executive Summary

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

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

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

1.4 Specifically, the Fund recognises that financial markets will be impacted by climate change and by the response of climate change policy makers. Risks and opportunities related to climate change are likely to be experienced across the whole of the Fund's portfolio. Our current understanding of the development of climate-related measurements and disclosures is still at an early stage: for example, we are aware that there is considerable variability in the quality and comparability of carbon emission estimates and recognise that it will take time for companies to adapt to the changing regulatory and market environment.

1.5 The Fund has continually looked to develop and improve its approach to RI and climate related measurement by conducting an ESG Audit on 24 February 2021 which included mapping the Fund's portfolio to the United Nations' sustainable development goals (SDGs). The Fund conducted an ESG workshop for its Pensions Committee on the 8th February 2023 to review progress against last year's identified actions and the findings were noted and further actions were formally agreed at its Pensions Committee on the 22nd March 2023.

1.6 In January 2023 the Fund's third annual Climate Risk Report delivered a view of the climate risk of the Fund's entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing Climate related Financial Disclosures for the third year. The Fund was particularly pleased to see that our initial focus on transitioning out of our passive mandates with the greatest carbon footprint has resulted in the Fund's overall listed market portfolio now being 30.1% more carbon efficient than the benchmark and 13.6% lower than in 2020. To build on this the Fund transitioned a further £200m (6% of its portfolio) from its passive mandates into active sustainable equity funds during 2022.

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

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

## 2. Purpose and Governance

### Principle 1

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

### Purpose

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

2.2 The primary purposes of the Fund are to:

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

2.3 The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit over a 12-year time frame. As at the 31 March 2022 actuarial valuation the Fund was 101% funded.

### Strategy

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

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

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

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

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

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

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

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

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

2.11 The partner funds and LGPSC believe that identifying core themes helps direct engagement and sends a clear signal to companies of the areas that the partner funds and LGPSC are likely to be concerned with during engagement meetings. The Fund monitors closely the effectiveness of LGPSC and their work in this area to support the Fund in its ongoing requirements in the following ways:

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

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

2.13 During 2022, LGPSC supported the Fund in the preparation of the Fund's third Climate-related Financial Disclosures, ensuring alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). We consider this a critical in the Fund's ongoing management of climate risk and a direct way of translating our investment beliefs on climate change into action.

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

2.15 In order to broaden its stewardship activities, LGPSC appointed EOS at Federated Hermes as its stewardship provider, with the remit of engaging companies on ESG issues, and executing the LGPSC voting principles which are also the principles agreed by the Fund as set out in the ISS – 'shareholder voting' (see also Principle 12 **exercising rights and responsibilities** below).

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

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

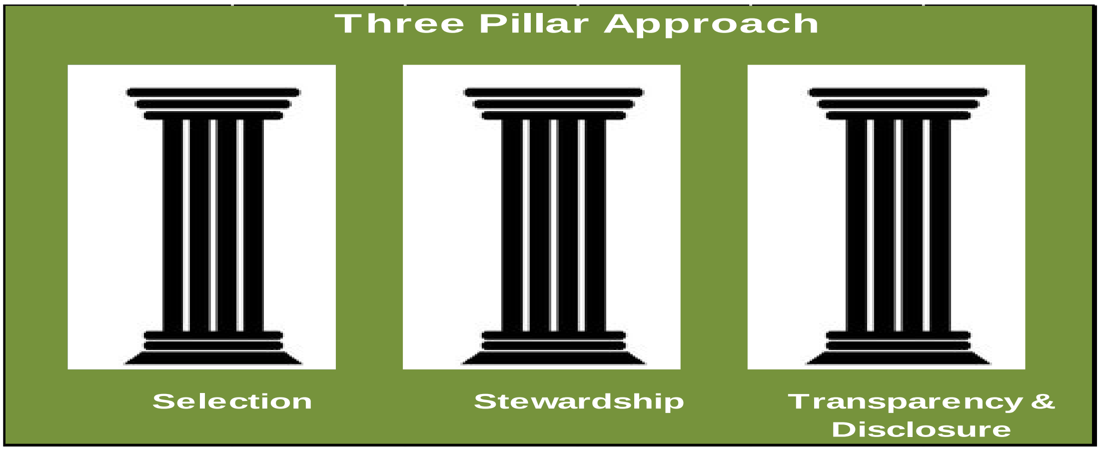
### Investment beliefs

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

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

2.19 As emphasised in 1.4 above, RI is a core part of the Fund's fiduciary duty, and we believe that effective management of financially material ESG risks supports the requirement to protect investment returns over the long term. The Fund's investment team seeks to understand relevant ESG factors alongside conventional financial considerations within the investment process, and the Fund's external investment managers are expected to do the same. Non-financial factors may be considered to the extent that they are not detrimental to the investment return. ESG factors include:


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




2.21 The Fund intends to realise these aims through actions taken on its three RI pillars, both before the investment decision (which we refer to as the **selection** of investments) and after the investment decision (the **stewardship** of investments). Actions will be taken with reference to an evidence base, using the best available objective data sets. We aim to be **transparent** to all stakeholders and accountable to our clients through regular **disclosure** of our RI activities, using best practice frameworks where appropriate. Some recent examples of how this has been applied are:

*Selection*

2.22 A key recommendation from the ESG audit approved by the Pensions Committee in March 2022 was for the Fund to continue to look at investing in a mix of sustainable equities and low carbon factor funds. The application of these beliefs has been demonstrated in 2022 by a number of investments and asset allocation actions as follows:

- A £150m investment of £50m per annum for next 3 years with Gresham House in their Forest Growth & Sustainability Fund

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

*Stewardship*

2.23 The Fund has continually looked to develop and improve its approach to RI and conducted an ESG Audit in February 2021 which included mapping the Fund's portfolio to the United Nations' sustainable development goals (SDGs). The Fund conducted an ESG workshop for its Pensions Committee on the 8 February 2023 to review progress against last year's identified actions and the findings were noted and further actions were formally agreed at its Pensions Committee on the 22nd March 2023.

2.24 In January 2023 the Fund's third annual Climate Risk Report delivered a view of the climate risk of the Fund's entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing Climate related Financial Disclosures for the third year.

*Transparency & disclosure*

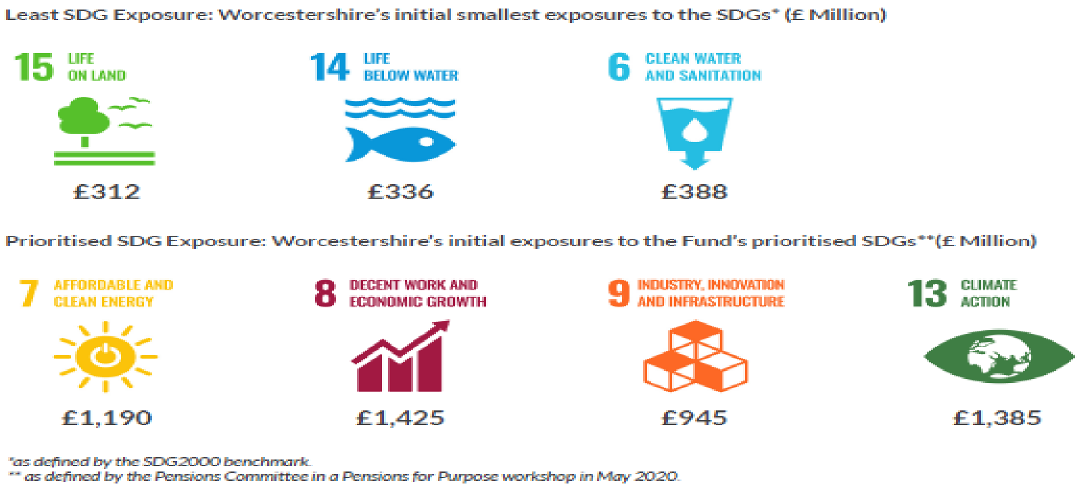
2.25 Starting in January 2020 the Fund has provided a training and workshop programme delivered by 'Pensions for Purpose' on RI, sustainable, impact and ethical investment, and the spectrum of capital for all its Pension Board, Pension Investment Sub Committee (PISC) and Pensions Committee members to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

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

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

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

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




2.27 These initiatives were reported to the March 2021 Pensions Committee at which a number of key recommendations and next steps / future plans were agreed which are publicly available for all our members. During 2022 the Fund has continued to develop these initiatives as detailed below. The Responsible Investment section of our website gives a good explanation of our ESG position.

**Culture**

2.28 As in 2021, an ESG 2022 review workshop was provided for members on 8 February 2023.It was delivered by 'Pensions for Purpose' to ensure consistency of approach. The review included:

- Reviewing progress against the ESG recommendations approved by the Pensions Committee in March 2022
- Focussed presentations from a US infrastructure manager and a corporate private debt manager on how effective their ESG strategies had been

- A presentation from LGPSC on the outcomes of the Fund's third Climate Risk report
- Commissioning a Climate Risk Report from LGPSC to review our progress. This is expected to be a recurrent exercise received by the Fund approximately every 2-3 years
- Discussions and debate on setting a carbon reduction target and the way forward for the next 12 to 18 months

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

| |
|---|
| SDG<br>The emphasis should remain a focus on the financial risk/return, rather than adding too many new goals. Any new goals should be compatible with existing beliefs. Responsible consumption as an SDG meets this criterion, and it was agreed to extend the Fund's beliefs to include this, in the belief that this will lead to better returns for the Fund over the long term. There is keen interest in Life on Land and Life below Water but with Biodiversity being an area where many asset managers are still developing their fund range, this might be something to return to in the next review where there will be more opportunities for the Fund to consider. |
| Stewardship code 2020<br>It was agreed that in 2023 more effort would be made to engage with members of the Fund, recognising that this is a challenge due to numbers. This would build on the 2022 online stewardship survey of pensioners by conducting a similar exercise amongst employee members. A virtual AGM might be something to consider in future and weaving in progress around climate action etc can be a very positive story to share with members. |
| Climate targets<br>During 2023 it would be good to explore an internal climate target for the Fund and speak to managers about how they would align to this target. Once established, this could then be rolled out publicly at a later date. Science-based targets on the whole fund with broad interim deadlines, would be preferred. |

## 3. Principle 2

**Signatories' governance, resources, and incentives support stewardship**

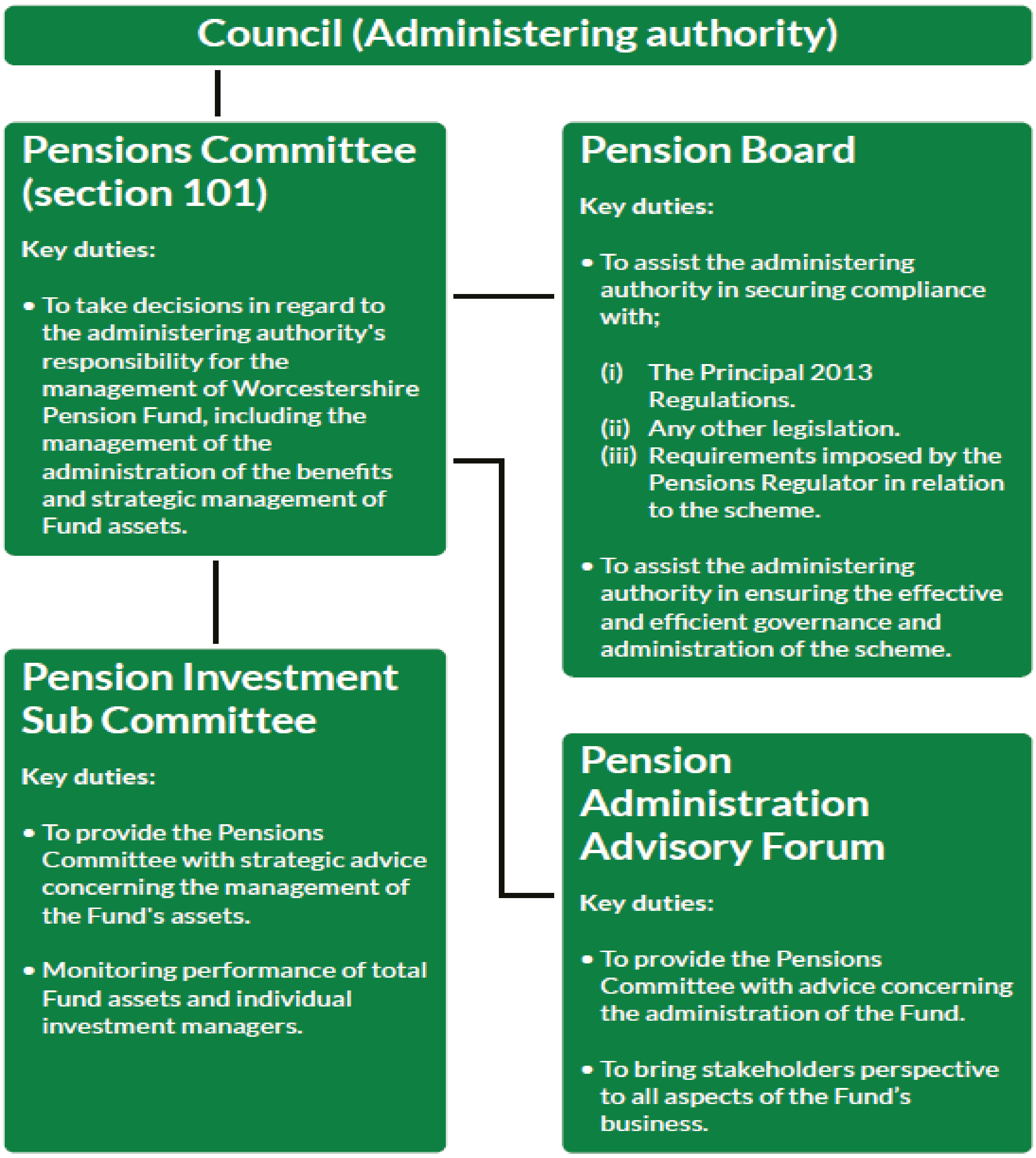
*Governance*

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

3.2 The Committee’s activities are overseen by the Pension Board. The Board’s role is ensuring the effective and efficient governance and administration of the Fund. This includes securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS.

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

Worcestershire Pension Fund Governance




3.4 The Committee is assisted by strategic investment advice from the Pension Investment Sub Committee (PISC) who are also responsible for investment performance monitoring and for identifying and approving investment in climate related opportunities. PISC also provide the Pensions Committee with strategic advice concerning the management of the Fund's assets. PISC comprises of 5 voting members being 4 Councillors and an employee representative from a relevant trade union.

*Stewardship Resourcing*

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

3.6 The Fund's day-to-day duties are delegated to the County Council's Chief Financial Officer who is supported by a Pensions Administration Team (39.6 FTEs) and a Pensions Investment Team (4 FTEs) who have many years of knowledge and experience in this area. Many have been with the Fund for over 15 years or more.

3.7 The Fund has long had a culture of inclusiveness with strong values and behaviours that are detailed on our intranet site. The Fund looks to keep its workforce well informed of how it integrates stewardship and investment decision-making via weekly meetings.

3.8 LGPSC's Responsible Investment & Engagement (RI&E) function supports the Fund's stewardship activities and reports regularly to the Partner funds RI&E working Group (The Fund is a representative). Their contribution has included work on: ESG integration, engagement, voting, the RI&E framework, the Climate Change Risk Strategy, the Climate Risk 2022 report, the TCFD report and ongoing guidance on the Fund's reporting against the Stewardship Code.

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

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

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

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

*Supporting Incentives*

3.13 LGPSC provides quarterly reporting for all funds managed by LGPSC, detailing how votes have been cast in different markets and a vote-by-vote disclosure for full transparency. Engagement and voting disclosures are also done specifically for listed securities held across Worcestershire Pension Fund portfolios. Our quarterly engagement, voting reports and policy / strategy statements are all available on the Fund's website in the Funding and investments area and are a standing item on the Pensions Committee agendas.

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

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

| |
|---|
| Pensions for Purpose with delivering support to our members through RI and impact investment workshops / training. A bespoke workshop discussed and debated the Fund's investment beliefs for a sustainable approach to investing and included an introduction to the 17 United Nations SDGs. As a result, members agreed to prioritise the SDGs detailed in Principle 1, as they considered they are likely to have the biggest sustainable investment impact. |
| Minerva with conducting an ESG audit and SDG mapping of the portfolio. It identified the holdings of the Fund's relationship (positive/ negative) to the 17 SDGs, highlighted the SDGs the Fund wanted to target and identified the risks and opportunities associated with the analysis. |
| LGPSC with completing a 3rd annual Climate Risk Report, Climate Change Risk Strategy and TCFD report. LGPSC also provided a Climate Risk Scenario report. |
| Pensions for Purpose with delivering support to our members through an ESG review workshop on 8th February 2023 looking at progress since the initial baseline audit and recommendations agreed at Pensions Committee in March 2022 and exploring further progress requirements over the next 12 to 18 months. Outcomes from the ESG workshop are illustrated above. |

3.16 In order to support good decision-making, the Fund applies the Scheme Advisory Board's Good Governance Principles and actions against these principles are reported quarterly to Board and Committee.

3.17 These principles cover six key areas including general governance matters, conflicts of interest, representation, knowledge and understanding, service delivery and compliance and improvement.

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

## 4. Principle 3

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

4.1 The Fund manages and mitigates conflicts of interest by:

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

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

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

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

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

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

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

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

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

4.10 LGPSC operates a one for eight RI service model. This ensures that LGPSC delivers a consistent level of service to all eight partner funds ensuring that no conflicts arise in terms of the level of support they get from the Responsible Investment Team. As an example, LGPSC provided Climate Risk Reports to all eight Partner Funds in the course of 2022. For the 2023 provision of the same service, LGPSC will follow the same delivery order as last year. This is to ensure consistency and fairness among Partner Funds and to avoid some receiving reports six months apart or others +14 months apart.

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

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

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

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

## Examples of addressing possible conflicts of interest

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

4.15 A member of the LGPSC Responsible Investment & Engagement (RI&E) Team serves on the Sustainable Investment Advisory committee of a well-known Sustainable Investment Manager. This relationship was always considered to be symbiotic, as it provides a development opportunity for the member of staff which benefits LGPSC, and it allows the local government pension perspective to be heard in the wider asset manager industry. Potential conflicts were considered from the outset, and it was agreed that should a situation arise whereby the manager in question applied for an LGPSC mandate, the RI&E team member would not be involved in the selection process. Unsurprisingly this manager put forward a mandate proposal when LGPSC was selecting managers for its Global Sustainable Equity Fund. LGPSC managed this potential conflict by ensuring that the employee in question was not involved in the selection process; neither the formulation of mandate requirements nor the manager assessment and scoring process. The selection process was established with precise and clear selection criteria and each manager was selected on their application alone. Furthermore, the process was constructed and executed by the Active Equities Team at LGPSC with input from the Director of RI&E. The application of this robust and independent process resulted in the asset manager in question being selected to manage one of the mandates within the fund structure. The employee in question will not have any involvement in the ongoing assessment of the manager post appointment in respect of ESG integration or stewardship. We consider that this process was managed in the best interests of our Partner Funds and their beneficiaries. The selection process ensured that the managers that matched the mandate criteria most closely and had a clear and demonstrable process delivered by an experienced and stable team, were selected.

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

### Voting

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

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

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

# 5. Principle 4

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

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

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

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

5.4 As part of our most recent strategic asset allocation review, the Fund commissioned a review of its investment strategy by Hymans Robertson LLP. Two key findings of their review were as follows:

- The Fund has a good mix of assets classes to generate growth but also to generate income
- Given the work the Committee has done in recent years to manage investment and other risks, no sizeable shifts in allocations were recommended

5.5 To mitigate and respond to risk, we regularly review our ISS, monitor the investment performance of our appointed managers, have a diversified portfolio, and review our qualified advisors' objectives regularly. Strategic asset allocation is reviewed quarterly by the Pension Investment Sub Committee. To mitigate risk of market volatility, we had equity protection arrangements in place for all our passive market cap equity funds which provided protection against a fall of up to 20% in market valuations whilst capturing as much of the upside as possible. Due to market conditions at the time, the Fund decided to exit that financial vehicle in early November 2022 and reinvest the proceeds into further passive equity funds.

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

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

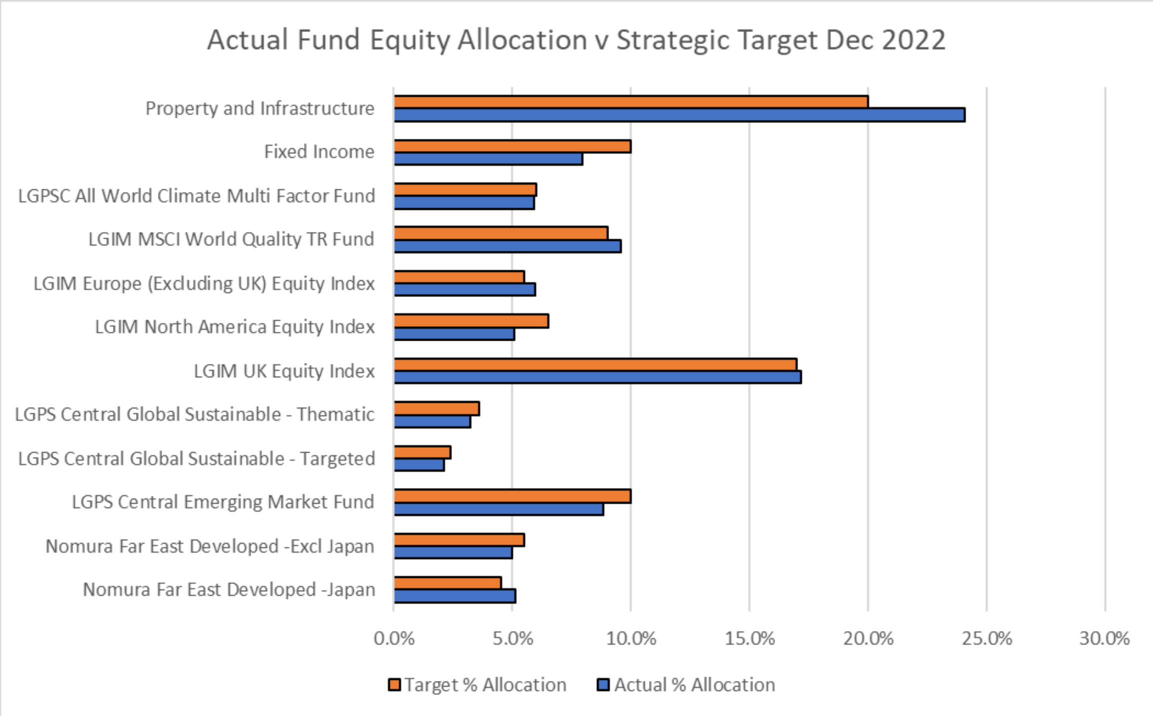
5.8 We continue to liaise with all our investment managers in response to the ongoing market volatility resulting from such as the continuing Russia / Ukraine conflict and increase in inflation. The Fund's diversified portfolio, equity protection policy and sound investment decisions helped cushion the Fund initially but at its worst COVID still had a significant valuation impact. Despite that, funding was at 101% on 31 March 2022 at the Fund's triennial valuation. This achievement is testament to the robust portfolio position and the strategy that is in place.

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

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

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

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




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

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

**Operational risks**

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

- **Transition risks of incurring unexpected costs** in relation to the transition of assets amongst managers. When carrying out significant transitions, the Fund takes professional advice and appoints a specialist transition manager to mitigate this risk when it is cost effective to do so.

- **Risks of a serious operational failure by asset managers and/or LGPSC**. These risks are managed by having robust governance arrangements with LGPSC and by quarterly monitoring of asset managers. Monthly meetings are held with LGPSC to ensure that the company is functioning as it should. A number of key performance indicators and the Risk Register are reviewed at least quarterly.

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

***Asset risks (the portfolio versus the SAAB)***

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

- **Concentration risks** that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives. This is managed by effective reporting and monitoring as specified in the 'systematic risk' above. It is also managed by constraining how far Fund investments deviate significantly from the SAAB by setting diversification guidelines and the SAAB strategic ranges. Also, the Fund invests in a range of investment mandates, each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters. These are monitored through the quarterly fund manager meetings and reports to Committee.  The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme Regulations

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

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

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

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

| Organisation | Remit |
|---|---|
| LGPS Central Limited | The Fund is a 1/8th owner of LGPSC which has identified four stewardship themes that are the primary focus of engagement. These themes are viewed as likely to be material to the Fund's investment objectives and time horizon, likely to have broader market impact, and to be of relevance to stakeholders. See further detail immediately below.<br><br>During 2022, LGPSC has been actively involved in several engagements across these themes. A selection of engagement cases is provided under Principles 9-11 below. |
| Federated Hermes | EOS at Federated Hermes is contracted by LGPSC to expand the scope of the engagement programme, especially to reach non-UK companies.<br>In 2022, EOS engaged with 833 companies on 3,443 environmental, social, governance, strategy, risk and communication issues and objectives. EOS takes a holistic approach to engagement and typically engage with companies on more than one topic simultaneously. . |
| Local Authority Pension Fund Forum | The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2022, LAPFF engaged 294 companies through more than 80 meetings across a spectrum of material ESG issues. |

**Stewardship themes**

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

- Economic relevance
- Ability to leverage collaboration
- Stakeholder interest

5.12 Identifying core themes that are material to the Partner Funds' investment objectives and time horizon, that are likely to have broader market impact, and that are perceived to be of relevance to stakeholders, helps us prioritise and direct engagement. We fully acknowledge that the spectrum of ESG risks is broad and constantly evolving. However, and in agreement with our LGPSC pool partners, we consider it appropriate to pursue these themes over a three-year horizon, at a minimum, while conducting annual reviews to allow for necessary adjustments or changes. This helps us build strong knowledge on each theme, seek, or build collaborations with like-minded investors, identify and express consistent expectations to companies on theme-relevant risks and opportunities, and to measure the progress of engagements. Furthermore, we take the view that engagement on a theme needs to happen at multiple levels in parallel: company-level, industry-level, and policy-level. With our long-term investment horizon, we take a whole-of-market outlook and changing the "rules of the game" through industry and policy dialogue is as important, if not more important, than individual company behaviour. In Section 6.9 below, we give a detailed overview of engagement activity and progress for each stewardship theme. In Section 6.10, we provide information on the annual review of stewardship themes that was carried out during 2022.

**Climate Risk Monitoring Service provided by LGPSC**

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

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

5.15 In 2022, LGPSC provided our second year of climate risk reporting and made several enhancements to the service to ensure it remained aligned to the latest industry developments and therefore delivered the best assessment on climate-related risk that LGPSC could provide to us and Partner funds. LGPSC particularly wanted to emphasise progress made against the findings of the first report to give funds a view on their direction of travel. The executive summary provides a summary of the methods we use to assess financially material climate-related risks and opportunities, alongside outlining the improvements LGPSC have made to the service.

5.16 Having recently completed the 2022 reporting cycle, LGPSC has conducted a review to identify further improvements to the service. Enhancements that have been made to the 2023 reports include:

- Inclusion of a 1.5°C scenario into the Climate Scenario Analysis
- Enhancing the company progress updates to demonstrate a more robust link between engagement and outcomes

- New additions to the suite of carbon risk metrics, reflecting the shift towards measuring alignment with Net Zero, such as % of portfolio with Net Zero targets, % of portfolio revenue derived from fossil fuels, % of portfolio revenue derived from clean technology and absolute carbon emissions/ financed emissions

5.17 We have used the findings of their CRRs to develop our Climate Change Risk Strategy covering governance, beliefs, objectives, strategic actions and reviews in relation to climate-related risk. Aside from strategy setting, the CRRs have also been used to facilitate our 3rd TCFD disclosure; formulate stewardship plans; conduct training sessions on climate change; initiate governance and policy reviews; and for exploring potential investments in sustainable asset classes.

5.18 In 2022, LGPSC continued to explore areas of convergence and commonality across each of the eight bespoke CRRs in order to facilitate collective action as a pool. They identified a number of recommendations that featured in all of the CRRs and worked in collaboration with all Partner Funds to crystallise these into specific pool-level workstreams. Examples of actions taken include holding a joint Partner Fund Responsible Investment Day, releasing an updated 2022 TCFD Report, and issuing a Net Zero Statement for LGPSC made with the full support of all eight Partner Funds.

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

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

5.20 Appendix 1 provides an overview of initiatives that LGSPC is an active member of, which includes a brief assessment of the efficiency of the initiative and outcomes during 2022.

**Policy engagements and consultation responses**:

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

5.22 Ahead of COP27, LGPSC signed the 2022 Global Investor Statement to Governments on the Climate Crisis. Drawing on evidence including the IPCC’s 6th Assessment Report and the IEA’s 2021 World Energy Outlook, the Statement recognised progress already made towards limiting the global temperature increase. However, it recognised that current targets, if implemented, would only reduce the predicted temperature rise from 2.7C to 2.1-2.4C. The Statement recognised the importance of investors using capital allocation and stewardship in order to support an effective and just transition. In order to achieve this, the Statement called on global governments to ensure national targets were aligned to a 1.5C scenario ahead of COP27. It also called for a scaling up of climate finance in order to help climate adaptation efforts, especially within developing countries. We were pleased to see that part of the final agreement reached at COP27 included the development of a “loss and damage” fund; an importance step forwards for the just transition and global climate adaptation efforts.

5.23 LGPSC responded to a consultation by the Department for Levelling Up, Housing and Communities that seeks views on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). We expressed support for the new requirement, noting that LGPSC has published two editions of our TCFD report as of response date. We consider that mandatory reporting will encourage more comprehensive reporting of emissions by Administrative Authorities. We do note that the financial cost associated with TCFD reporting in a manner consistent with the regulation proposed by DLUHC may be underestimated and we recognise that this might be challenging for some investors to achieve.

5.24 In May 2022, LGPSC co-signed a letter to the Secretary of State for Environment, Food and Rural Affairs to highlight our serious concerns regarding microfibre pollution and the systemic risks that it presents to the environment and to the market. The letter encouraged the UK Government to take a global leadership position and prioritise the recommendation of the All-Party Parliamentary Group on Microplastics, specifically to mandate the installation of microfibre filters in new washing machines by 2025. This letter was a culmination of 18 months of corporate engagement programme to encourage manufacturers to fit such filters, which highlighted the reluctance of manufacturers to voluntarily do so. As co-chair of the Finance for Biodiversity Foundation’s public policy and advocacy working group, EOS advocated for an ambitious Global Biodiversity Framework (GBF) to be agreed at COP 15. EOS focused on the need for the GBF to require public and private financial flows to be aligned with global biodiversity goals and targets. EOS attended international biodiversity negotiations virtually in August 2021, in Geneva in March 2022, and in Montreal in December 2022. At COP 15 the Kunming-Montreal Global Biodiversity Framework was adopted by almost 200 countries. This features a target to protect at least 30% of land and seas by 2030, and addresses key issues related to biodiversity loss, such as subsidies and the financing gap.

# 6. Principle 5

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

6.1 The Fund has considered the feedback received from its 2022 application in respect of Principle 5. Governance policies are subject to annual review, usually in March by both the Pension Board and Pension Committee. In addition to that, the Fund consults closely with the dedicated LGPSC RI Team and other partner funds within the pool to ensure its reporting is reasonable, balanced, and clear. Details of this continuous collaboration are reported to Pension Committee and Pension Board for their consideration and feedback. The Fund is fortunate to have Councillor Roger Philips, Chair of the Local Government Pension Scheme Advisory Board, as it's Chair of the Pension Board who has significant knowledge and understanding of the stewardship landscape.

6.2 Through its participation of the LGPSC RI Working Group, the Fund discusses trends and developments in RI with investor peers on a continuous basis, in particular with other LGPS pools. The Fund's Pension Committee and Board are both updated on the work of that working group.

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

6.4 The Fund has undertaken a fundamental review over the past 3 and a quarter years of its RI beliefs and policies to enable effective stewardship. Some of the key parts of this review have been detailed in Principle 2 above and include an ESG audit and an SDG mapping exercise. Pensions for Purpose (PfP), the Fund's independent investment advisor and LGPSC have provided external assurance on the review.

6.5 The Fund has also conducted its first specific ESG review workshop on 8 February 2023 aimed at reviewing the recommendations from the Pensions Committee in March 2022 as well as looking ahead at any further specific actions needed over the next 12 to 18 months. The actions were agreed at Pensions Committee on 22 March 2023.

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

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

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

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

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

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

6.11 LGPSC undertake an annual review of the effectiveness of the stewardship themes in close collaboration with Partner Funds. During 2022, LGPSC conducted a review through PAF RIWG discussions which resulted in the following adjustments:

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

**Description of themes in light of discussions with Partner Funds:**

| Theme | Discussions and review during 2022 |
|---|---|
| **Climate Change** | Climate change is regularly among the World Economic Forum's top five global risks, both in terms of likelihood and impact. Through both physical risks (e.g., increases in extreme weather events) and market risks (e.g., impact of carbon pricing or technology substitution), climate change impacts institutional portfolios. In addition, greater incidence of flooding, wildfires, chronic precipitation, sea level rise are already having profound societal consequences.<br><br>In the UK, campaign groups, governments and regulators are increasingly taking an interest in the extent to which investors are managing climate-related risks. This includes the Environmental Risk Audit Committee, Department of Work and Pensions, Financial Reporting Council, divestment campaign groups, and more. TCFD reporting will become mandatory for LGPS Funds in 2024. Investor best practice on climate change is emerging through the Institutional Investor Group on Climate Change (IIGCC) Net-Zero Investment Framework.<br><br>Biodiversity loss could reduce nature's ability to provide goods and services, including food, clean water and a stable climate. Tropical forests play an important role in tackling climate change, protecting biodiversity and ensuring ecosystem services. Forests alone absorb one-third of the $CO_2$ released from burning fossil fuels every year. During COP26 we have seen governments pledge to halt deforestation by 2030. Financial institutions, including LGPSC, have committed to engage with a view to eliminating commodity-driven |

| Theme | Discussions and review during 2022 |
|---|---|
| | deforestation by 2025 through engagement at policy and corporate levels. |
| **Plastics** | Plastic pollution is a global problem that is continually growing due to both an increase in consumerism and an increase in the number of plastics used to manufacture the things we use regularly. Some companies are starting to change the way they use these plastics and are actively taking steps to reduce waste.<br><br>As well as the negative effects on the planet, companies that purchase, use, or produce significant amounts of plastic could face regulatory tightening, more plastic taxes, and reputational damage as consumers and policymakers become more aware and mindful of the problem. It will be necessary to look at both shorter-term targets companies should strive for, in line with emerging best practices, as well as a longer-term vision for "zero leakage/waste" by 2050. LGPSC joined a call (on behalf of businesses and financial institutions) on United Nations member states to commit to the development of a global treaty on plastic pollution to commence early 2022. Agreement has since been found to negotiate a treaty. |
| ***Technology & disruptive industries risk***<br><br>**replaced by Human Rights** | The current technology theme is a sector-specific theme that covers several risks factors. LGPSC's engagements have primarily focused on human rights risks for tech sector companies, including social media content control. These areas have come under increased scrutiny from regulators and stakeholders more broadly including companies that advertise on social media platforms. We envisage continuing engagement with tech sector companies (Alphabet, Amazon, Apple, Facebook, Microsoft, and Twitter) on human rights risks including privacy and data protection; freedom of expression; disinformation and political discourse; and on discrimination and hate speech. We also know that weak labour rights in supply chains (especially in emerging markets), both in the technology sector and across other industries, can cause reputational damage that in turn risk undermining shareholder value over the long term.<br><br>We view it as feasible to adjust this theme to a broader Human Rights theme that would allow a greater focus on human and labour rights across companies and sectors. We would take as a starting point the UN Guiding Principles for Business and Human Rights, which also apply to investors. Ongoing engagements on Modern Slavery and related to the Israel/Palestine conflict would continue and would be captured under this theme. |

| Theme | Discussions and review during 2022 |
|---|---|
| **Tax - transparency and fair tax payment** | The trust an organisation builds with its stakeholders is of critical (though intangible) value. As a measure of an organisation's contribution to the economies it operates in, tax is a key dimension in building that trust.<br><br>Global corporate tax avoidance is estimated to cost governments $240 billion globally in foregone revenues each year. Companies with overly aggressive tax strategies could be storing up liabilities and could damage their reputation with key stakeholders. While many countries are providing various forms of tax relief to businesses during the COVID-19 pandemic, it seems reasonable for investors to expect companies to pay their fair share of tax. G20 leaders have recently agreed a corporate tax deal for minimum 15% corporate tax, which adds to the expectations for responsible tax behaviour. |

6.12 LGPSC carries out quarterly internal quality controls of engagement and voting data before this is shared with Partner Funds through regular Stewardship Updates. LGPSC's external stewardship provider, EOS at Federated Hermes, has its voting process independently assured on an annual basis.

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

| Actions agreed at March 2021 Committee | Action taken |
|---|---|
| • Challenge managers on holdings (particularly the top 10 to 20 in terms of value) that detract from the Fund's SDGs or carbon reduction aims, using a manager monitoring template as a method to do this<br>• Prioritise the most material / strategic exposure for dialogue on climate risk | Meetings with our fund managers to discuss the ESG aspect of the Fund's investments continued through 2022. Two key managers were invited to contribute to our ESG Workshop on 8 February 2023. As a result of engagement over the last two years, ESG now forms a distinct section of regular meetings with managers where performance and future issues are discussed. |
| • Ask managers to report on the portfolio's alignment to the Fund's agreed targeted SDG's and carbon risk metrics | |
| • Ask managers to present their TCFD report | |
| • See evidence of a strong investment thesis where the Fund may have concerns | |

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

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

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

6.15 The Fund continues to look to invest further in sustainable equities and low carbon factor funds. Agreed recommendations at the March 2022 Pensions Committee were:

| **Actions agreed at March 2022 Committee** | **Action taken** |
|---|---|
| To continue to aim to reduce the Fund's carbon metric whilst protecting or maintaining returns. Initial focus during 2021 was placed on "Factor" based portfolios. In 2022 the "Value" portfolio was considered and consolidated into the "Quality" portfolio, with LGIM, which has a lower carbon footprint | Consolidated circa £120m into the "Quality" portfolio with LGIM |
| To also take on board the existing offering of sustainable active equities that were being developed by LGPSC as an alternative to the West Midlands Framework | Transitioned £200m of assets into LGPSC sustainable equities in May 2022 |
| To take these suggested examples to the next Pension Investment Sub Committee for further consideration and debate | Completed and invested see above |

At the most recent Pensions Committee in March 2023, the Fund:

- Approved the update to its Climate Risk Strategy
- Agreed to undertake a review of the existing approach to the separation of leadership roles in relation its administering authority to determine adequacy.
- Agreed to consider setting and monitoring an internal carbon reduction target for its investment portfolio.

## INVESTMENT APPROACH (PRINCIPLES 6 TO 8)

## 7. Principle 6

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

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

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

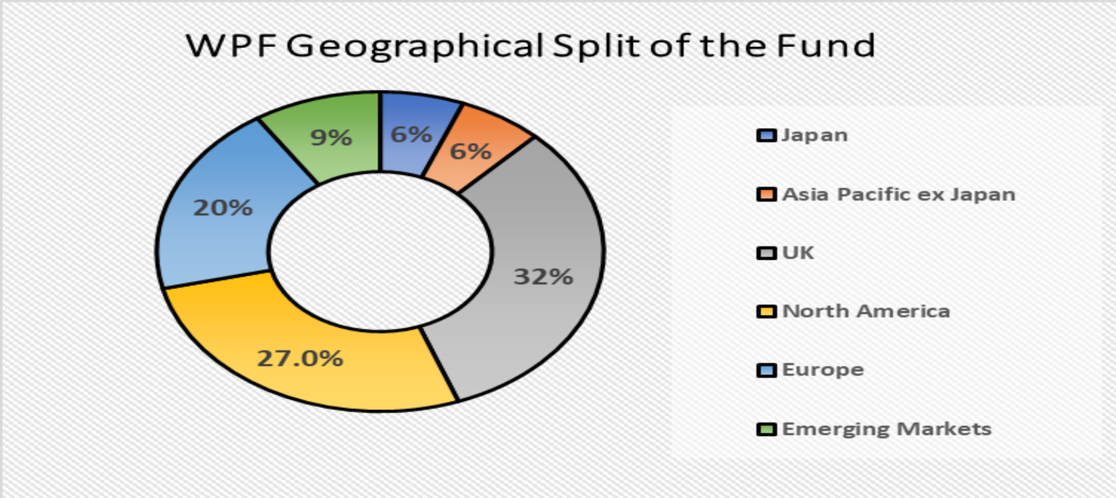
| Cashflow Management | 2022-23 £'M | 2021-22 £'M | 2020-21 £'M | 2019-20 £'M | 2018-19 £'M | 2017-18 £'M |
|---|---|---|---|---|---|---|
| Contributions receivable | 91.5 | 83.8 | 191.2 | 87.7 | 81.8 | 185.2 |
| Benefits Payable | -112.3 | -116.3 | -114.0 | -111.5 | -106.3 | -98.0 |
| Surplus / Deficit (-) | **-20.9** | **-32.5** | **77.2** | **-23.8** | **-24.5** | **87.2** |
| Investment income | 43.4 | 50.0 | 44.0 | 48.3 | 51.7 | 35.8 |
| **Net Cashflow** | **22.5** | **17.5** | **121.2** | **24.5** | **27.2** | **123.0** |

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

| | Growth | Medium | Cautious | |
|---|---|---|---|---|
| **Asset Allocation** | **%** | **%** | **%** | **Manager, Method & Performance Target** |
| **Actively Managed Equities** | | | | |
| Far East Developed | 10.0 | 5.0 | 0.0 | Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5% |
| Emerging Markets | 10.0 | 5.0 | 0.0 | LGPSC active global emerging markets equity mandates with BMO, UBS and Vontobel - FTSE - Emerging Market Index +2.0% |
| LGPSC Global Sustainable | 6.0 | 3.0 | 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 | 9.0 | 0.0 | Legal and General Asset Management - FTSE All Share Index |
| North America | 11.5 | 9.0 | 0.0 | Legal and General Asset Management - FTSE All World North America - Developed Series Index |

| | Growth | Medium | Cautious | |
|---|---|---|---|---|
| **Asset Allocation** | **%** | **%** | **%** | **Manager, Method & Performance Target** |
| 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:<br>60% STAJ - CSUF - STAJ MF36726/36727 (Quality Factor)<br>- 40% LGPSC All World Equity Multi Factor Climate Fund |
| **Fixed Income** | | | | |
| Fixed Income | 10.0 | 40.0 | 80.0 | - LGPSC Global Active Investment Grade Corporate Bond (Fidelity & Neuberger Berman) - Fund 50% GBP IG Corporate (Ex EM Issues) / 50 % Global IG Corporate ((ex IG Corporate & EM Issues) hedged to GBP +0.80%<br>- EQT Corporate Private Debt |
| **Actively Managed Alternative Assets** | | | | |
| Property & Infrastructure | 20.0 | 20.0 | 20.0 | Through a mix of Green Investment Bank, Invesco, Hermes, Walton Street and Venn Partners, Stonepeak, Firststate, AEW etc |
| **TOTAL** | **100.0** | **100.0** | **100.0** | |

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




7.5 The Fund does however recognise that it needs to widen its consultation with its members beyond the employee representatives on the Board, Committee and PISC to take their views on the Fund's ESG approach on board. During December 2022 a stewardship survey was conducted with the Fund's pensioners. That survey asked a series of questions, and some examples are:

- *Would you like your pension fund to invest even more into investments taking environmental and social purpose into account?*
- *The Fund supports the Paris agreement on Climate Change which aims for net zero by 2050. Please indicate which of the following statements most closely represents your view?*
- *Are you happy with the Fund's current stewardship of its £3bn+ of assets?*
- *The pension fund has prioritised the following SDGs. Which is the most important goal for you?*

7.6 The Fund provides a hard copy annual newsletter to all its members that includes information about the Fund and its investment / stewardship activities.

## About the Fund

Although we are only a medium-sized LGPS fund, we are proud of the work that we do to factor in responsible investment; environmental, social and governance (ESG); and climate change issues into our investment decisions.

On 1 September 2021 that work resulted in us being notified by the FRC that we were one of just 125 UK pension funds to have achieved signatory status to the UK Stewardship Code 2020. Also, in LGPS scheme year 2021 / 2022, we:

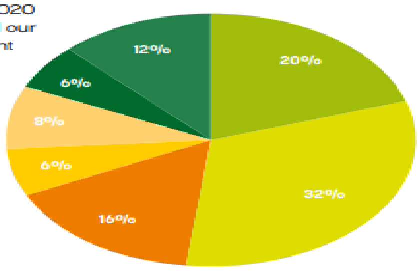
- Added *UN sustainable development goal (SDG)* 12 (Responsible Consumption and Production) to our investment beliefs.
- Completed our second annual *Climate Risk Report*.
- Asked our investment managers to present their Taskforce for Climate-related Financial Disclosure (TCFD) reports and to deliver carbon risk metrics on their portfolios.

Two headlines from our January 2022 *Climate Risk Report* are that we achieved a 17.77% carbon reduction in our total equities' portfolio between 29 May 2020 and 30 November 2021 and our total equities carbon footprint is 28.05% below blended benchmark.

In LGPS scheme year 2021 / 2022, we aimed to reduce our carbon footprint, whilst either maintaining or enhancing investment returns, by:

- Transitioning assets worth £220m into LGPS Central Limited's All World Equity Climate Multi Factor Fund.
- Investing £75m in Gresham House's British Strategic Investment Fund II which is mix of infrastructure and housing assets and £50m in a First Sentier European Diversified Infrastructure Fund. Both Funds have a requirement for each investment to deliver a positive environmental or social impact.
- Agreeing a £150m investment in Gresham House's Forestry Growth & Sustainability Fund.
- Investing £200m in LGPS Central Limited's Global Active Equity Sustainability Fund that is required to deliver a positive environmental and social impact.

Our member records reached an all-time high of 66,000 on 31 March 2022 when the Fund's value reached £3.5 billion, with an asset allocation of:




The 2022 newsletter for deferred members illustrates the Fund's approach to stewardship.

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

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

7.9 The Fund's employer and member stakeholders are represented on the Fund's Pensions Committee and Pension Board as per the Policy Statement on Communications.

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

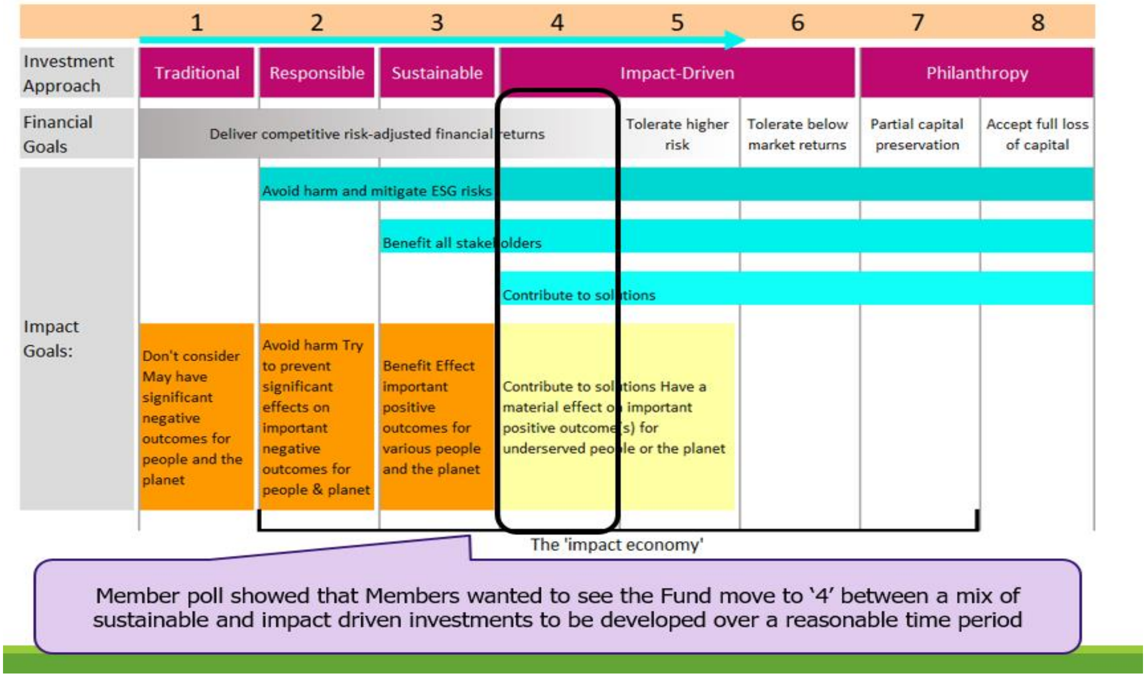
7.11 Our Annual Report and Financial Statements are available from our website and our website also provides up to date information about our governance, funding, investments, finances, and operations including a bespoke Funding and investments area.

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

# 8. Principle 7

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

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




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

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

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

8.5 The Fund focusses on the following targeted SDGs:

- SDG 3 Good Health and Well-being

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

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

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

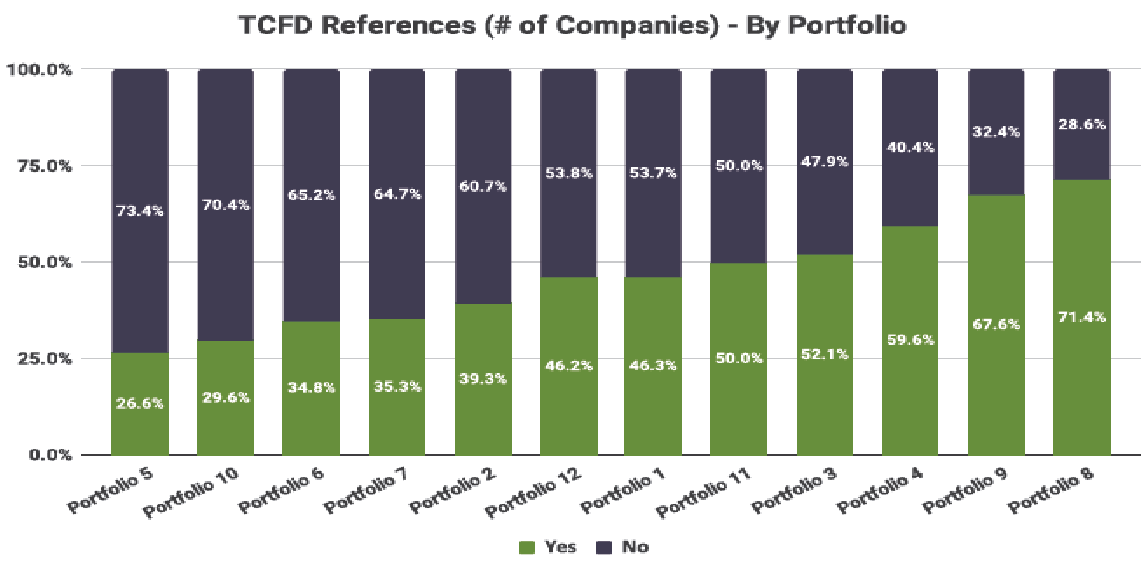
8.7 We use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of RI principles across our investment strategy to make better more informed investment decisions and encourage / influence better corporate practices that lead to value creation and good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

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

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

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

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




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

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

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

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

## LGPSC's RI Integrated Status tool

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

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

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

**Manager selection**

8.16 An assessment of RI&E is a core part of LGPSC's manager selection process. Typically, manager selection processes are done in three broad stages: standard questionnaire, request for proposal, and manager meetings, of which RI&E assessments feature in all three. In stages one and two, the RI&E Team draft questions for insertion and then score the managers based on their responses.
In both stages, a 10-15% weighting is attached to the RI&E questions to reflect the importance that LGPSC places on full ESG integration. A representative from the RI&E Team then attends all the manager meetings. A key objective in the assessment of a manager is whether the ultimate decision maker is engaged in the integration of ESG factors into his or her decision-making process. Managers will not be appointed unless they can demonstrate sufficient awareness of and ability to manage the risks posed by ESG factors.

**Case Study: Tendering for global sustainable equities mandates**

8.17 The most recent example of manager selection was the tendering process for the Global Sustainable Equities Fund, which was launched in May 2022. In close dialogue with our Partner Funds, we decided that the tendering for Global Sustainable Equities mandates would take the form of a three-sleeve approach encompassing broad, thematic and targeted offerings. LGPSC's Active Equities Team advertised for potential managers in June 2021.

8.18 Each of the 77 applications were read and marked in a fair, transparent, and consistent manner with support from the RI&E Director and the Investment Risk Manager. Eight applications, comprising three for each sleeve, were taken through to the final due diligence stage. This took place in September 2021 and consisted of 3-hour meetings for each manager. Meetings included a 1.5-2-hour presentation followed by breakout sessions in separate virtual meeting rooms which provided the team with further insight on focused areas such as RI&E and risk.

8.19 The presentations and interviews were scored by the team and resulted in three managers being selected to manage approximately £1bn. The funds launched in Q2 2022. The team conducted a procurement process to select a research provider that could assist us with the measurement and analysis of impact for these funds.

**Active equities and fixed income**

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

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

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

1) philosophy, people, and process

2) evidence of integration

3) engagement with portfolio companies

4) climate risk management

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

8.23 An example of LGPSC changing the RAYG rating occurred in Q2 2022. Going into 2022, one of their managers was downgraded to a 'Y' rating due to concerns around the lack of disclosure around ESG analysis on new additions to the fund. The issue persisted in Q1 2022 which prompted a warning that the RAYG rating will be downgraded to an 'A'. LGPSC reiterated their expectations for managers' ESG integration activities during our quarterly review meeting with the manager. Following this, the level of disclosure greatly improved in Q2 and Q3 2022. The manager now provides a summary of their analysis of ESG risks and opportunities of new additions and flags new ESG issues in current investee companies. LGPSC are able to gain greater confidence that ESG is integrated into their investment analysis.

**Cross-team interaction in development of new LGPSC funds**

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

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

**Case study: Launch of infrastructure debt**

8.26 The RI&E team collaborated closely with the Private Markets team to establish two infrastructure debt funds for LGPSC's Private Debt Real Asset sleeve. During the process, the RI&E team was granted complete access to the data room and the two chosen managers, who both have strong ESG credentials and are eager to collaborate with LGPSC to improve ESG integration in infrastructure debt. However, there are concerns about the effectiveness of engagement within the asset class, given the hold-to-maturity and long-tenured nature of the debt the fund will support. To address this, the managers and LGPSC have agreed to explore potential solutions and actively participate in establishing standards for the broader industry.

**Case study: Due diligence for targeted return funds**

8.27 Two years ago, LGPSC was asked by its Partner Funds to consider launching a targeted return sub-fund. This can be broadly described as a pooled investment fund in which the underlying strategies are liquid, are expected to produce (in combination) consistent positive returns and where the sub-fund does not behave like traditional investment markets such as equities and bonds. Many of the underlying strategies include a range of investments (including derivatives) that are designed to produce positive returns in both rising and falling markets. The asset mix contains some types of investment (such as bank loans, insurance-linked bonds, and hedging strategies) for which ESG integration is in its relative infancy. The RI&E Team has conducted due diligence into all of the strategies that are being considered and leveraged its knowledge around leading practice when assessing them. The manner in which ESG signals and data analytics are incorporated into managers' quant models and investment analysis has been considered, as well as whether the use of ESG Futures (where the weightings within the index are based on ESG scores) is relevant. Some of this due diligence was done via meetings with the senior representatives of the respective managers, where the LGPSC Investment Director and RI&E Manager were able to clarify any points around their integration, monitoring and stewardship. Special regard was given to intent and forward-looking plans to build out their current KPIs and metrics across all the ESG pillars. It was interesting to note that the managers were using an ESG overlay not just to mitigate risk but also in many instances as a value creation lever for generating better returns. All of them consider the increased integration of RI&E as an on-going project. It is expected that the sub-fund will be launched in H2 2023.

# 9. Principle 8

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

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

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

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

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

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

9.6 These are reviewed by our independent investment advisor, Philip Hebson, who attends all Pension Investment Sub Committee meetings. Our advisor's objectives were reviewed at the Pension Committee June 2022 and include assisting the Fund in the monitoring of its managers and producing a quarterly performance update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisor in compliance with CMA regulations and reports this to Committee every 6 months.

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

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

9.9 Since May 2021 we have placed a specific focus on ESG as part of the quarterly performance reviews with all of our fund managers. Irrespective of the type of asset class were asked the same questions as follows:

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

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

***c)*** *Please share your current thinking (if any) on the relevance of the UN SDGs to the portfolio.*
- *Do you use an ex-ante framework for assessing whether potential and existing investments are net contributors to certain SDGs, and if any are net detractors to others?*

- *How do you establish some impartial basis for this determination?*
- *If you do not use an SDG-informed approach, what challenges and opportunities would you see in adopting an SDG approach to this fund or a future version of it?*

In addition, on 8 February 2023 we conducted an ESG workshop where two key fund managers were invited to present to the Pensions Committee to demonstrate their ESG credentials and provide updates on strategy.

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

Table 2: Qualitative Assessment

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

Table Key:
A: Strength of house-level ESG governance and orientation.
B: Portfolio disposition or potential for high ESG achievement.
C: Portfolio disposition or potential for contribution to the Fund's chosen SDGs.
D: Quality of ESG management using best practice in real assets (private debt for Manager G)
E: Participation in and performance in benchmarking and standards.
F: A high-level qualitative assessment on individual assets held in infrastructure funds for their potential to contribute to the Fund's chosen SDGs.
G: Assess the pool's policy on investment manager Selection, Appointment and Monitoring (SAM).

9.11 The aim will be to conduct this as an annual process and be able to map progress over time and work with our respective fund managers to improve their ESG integration where required.

9.12 The Fund receives Internal Control Reports from managers and our custodian every year and these are reviewed by officers of the Fund annually. Quarterly performance meetings are also held with our actuary.

9.13 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which has enabled us to develop our approach to shareholder engagement and responsible investment. Collective engagement through LAPFF enables us to maximise our influence.

9.14 Officers of the Fund regularly attend LAPFF business meetings, which include presentations from expert speakers and detailed updates on engagement and policy work. Furthermore, our membership of LAPFF enables us to benefit from their voting alerts service which highlights companies with material corporate governance failings. Full details of the alerts can be viewed on the LAPFF website in the members' area.

9.15 We participate in LGPS Central Limited for our active mandates. It is our ESG adviser and its approach is detailed in its Responsible Investment and Engagement Framework.

9.16 Whilst LGPS Central Limited does quarterly ESG update reports which can be found on its website, we monitor our engagement with companies and how the proxy voting of these investments is cast, reporting this to Pensions Committee meetings using geographical, and company name analyses.

9.17 We have appointed Legal & General Investment Management to manage our passive equity mandates. It believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces an LGIM quarterly ESG Impact Report.

9.18 From an asset allocation point of view, it appears to us preferable to think about ESG impact strategies within the already well-established asset classes rather than as a standalone bucket.

**Further detail of LGPSC monitoring of managers' ESG integration & stewardship**

9.19 External fund managers are monitored in order to ensure the ongoing application and efficacy of their approaches to RI and stewardship. Managers' report on a regular basis to LGPSC in respect of how engagement activities have been discharged during the period in review.

9.20 Engagement undertaken by LGPSC's external managers in 2022 has been comprehensive and robust. Several of these managers hold sizeable positions in their highest conviction portfolio holdings, giving them excellent access to company management which they used effectively to drive company change. On any occasions where the level of engagement disclosure was unsatisfactory, or where the link between an engagement and subsequent investment decision-making was not clear, fund managers were marked down during our RAYG rating review and LGPSC discussed its concerns in the quarterly meetings.

9.21 In 2022, LGPSC's external managers conducted 272 direct engagements with companies held in the Global Equity Active Multi-Manager Fund, Emerging Market Equity Active Multi-Manager Fund and Global Sustainable Equity Fund, which were launched during the same year. Below are two case studies of engagements undertaken by their managers.

**Thermo Fisher, Schroders, LGPSC Global Equities Active Multi Manager Fund**

**Objective:**

Learn more about Thermo Fisher's approach to human rights due diligence and commercial controls.

**Sector:**

Medical Equipment

**ESG Topics Addressed:**

Human rights

**Issue / Reason for Engagement:**

Human rights engagement regarding genetic sequencing

**Scope and Process / Action Taken:**

Schroders participated in an ESG engagement with Thermo Fisher regarding their current human rights due diligence and commercial controls around sale of genetic sequencers in China.

**Outcomes and next steps:**

The company confirmed they have stopped selling genetic sequencers in Xinjiang, but also to all police bureaus across the country. Regarding enhanced human rights due diligence, Thermo Fisher now require due diligence into end customers and use of their products, with distribution being terminated if customers violate Thermo Fisher's requirements. The company has incorporated similar policies into other regions where similar risks could arise. Following this engagement, Schroders were comfortable that Thermo Fisher had sufficiently addressed its concerns.

**Chinese communications company, Vontobel, LGPSC Emerging Markets Equities Active Multi Manager Fund.**

**Objective:**

Ensure the company is not undermining civil liberty and freedom of expression by going beyond the requirements of Chinese law regarding censorship.

**Sector:**

Communications

**ESG Topics Addressed:**

Digital rights and freedom of expression

**Issue / Reason for Engagement**

The company was downgraded to Fail for the UNGC Principle 2 on grounds of complicity of human right abuses. As Chinese companies must abide by Chinese laws which require platform providers to censor content and messages.

**Scope and Process / Action Taken:**

In the first engagement, the company shared that they are considering becoming a UNGC signatory and sought Vontobel's input on next steps. Vontobel suggested they publish a transparency report, a policy on government requests, and establish a human rights due diligence process. In the second call, the company informed Vontobel that they have published a privacy policy user service agreement and law enforcement data request handling procedures on its media platforms. Vontobel steered their focus back towards freedom of expressions and human rights. The company shared that they are working on increasing disclosure in the upcoming ESG Report.

**Outcomes and Next Steps:**

In the next meeting, Vontobel will review the new ESG report and share their opinions. Meanwhile, they have taken the lead investor role in a collaborative engagement with the company and will soon establish goals and milestones for that engagement.

### Fixed income

9.22 LGPSC views engagement with fixed income issuers as essential and value accretive, both via information gains and via the potential to influence company management. LGPSC observes this belief when selecting and onboarding managers. LGPSC looks for evidence of robust issuer engagement and any manager unable to provide this is marked down. Once appointed, LGPSC monitors engagements undertaken by fixed income managers during quarterly meetings. They seek to determine whether the manager is fulfilling the level of engagement that was pitched, and challenge accordingly if the response is unsatisfactory. These discussions subsequently feed into LGPSC's manager scoring system.

9.23 LGPSC consider their fixed income managers to have conducted meaningful and effective engagement in 2022. Throughout the year, LGPSC's external managers conducted 260 direct engagements with companies held in the Global Active Investment Grade Corporate Bond Multi Manager Fund, Global Active Emerging Market Bond Multi Manager Fund and Multi Asset Credit Fund. Below are three case studies of engagements their managers have undertaken on our behalf.

**Vale, Western Asset, LGPSC Multi Asset Credit Fund.**

**Objective:**

Express concerns regarding risk of stranded assets embedded in thermal coal, alongside just transition considerations relating to the company's socioeconomic role in the region.

**Sector:**

Mining

**ESG Topics Addressed:**

Climate risk and just transition.

**Issue / Reason for Engagement:**

Management of stranded asset risk while considering the just transition.

**Scope and Process / Action Taken:**

Western Asset met with the company on several occasions to discuss the issues outlined above.

**Outcomes and next steps:**

During follow-up meetings Western Asset learned that the company bought additional shares from a main shareholder to simplify the ownership structure of their coal assets. We received confirmation that they are looking for a responsible partner to take over their operations and honour their socioeconomic commitments to the region. A year later, the company confirmed that they had sold their thermal coal asset, concluding the two-year long engagement.

**Vale, Western Asset, LGPSC Multi Asset Credit Fund.**

**Objective:**

Ensure that Vale are taking appropriate measures to manage risks associated with stranded assets, and also ensure the company is taking just transitions considerations into account alongside the socioeconomic role the company has.

**Sector:**

Mining

**ESG Topics Addressed:**

Climate risk and just transition.

**Issue / Reason for Engagement:**

During the initial engagement Vale owned thermal coal assets in Mozambique. This exposure concerned Western Asset due to the embed stranded asset risks. Western Asset were also concerned with the company's Just Transition considerations and the socioeconomic role the company has in the region.

**Scope and Process / Action Taken:**

Western Asset met with the company on several occasions to express their concerns and to understand what progress the company was making in these areas.

**Outcomes and next steps:**

**Anheuser-Busch InBev S.A., Neuberger Berman, LGPSC Corporate Bond Fund**

**Objective: To encourage the company to** establish and publicly disclose its ESG objectives around smart agriculture goals, water stress, circular packaging, product portfolio, and diversity and inclusion.

**Sector:** Consumer Discretionary

**ESG Topics Addressed:** Disclosure of ESG and diversity objectives.

**Issue/Reason for Engagement:** The Anheuser-Busch InBev S.A.'s Company's ESG reporting practices lagged sector peers, making it difficult to analyse and benchmark performance on material metrics.

**Scope and process/actions taken:** Neuberger Berman undertook due diligence with the members of company's Treasury team and the Head of Sustainability**.** Neuberger Berman sought to educate the issuer on the importance of disclosing key metrics such as water intensity and diversity performance.

**Outcomes and next steps:** Following this engagement, Anheuser Busch published its first ever standalone ESG report and implemented our feedback on publicly disclosing more detailed information around water sourcing and geographic priority areas. While this is a positive outcome, Neuberger Berman are continuing to engage with the issuer for even greater disclosure on additional information and goals regarding diversity and inclusion.

**Future developments to the manager monitoring**

9.24 LGPSC have undertaken a three-yearly review in 2022 of our active equity and fixed income managers. While they attend regular monitoring meetings, these reviews will include a deep dive of the managers RI processes so LGPSC can ensure their ESG integration remains best practice. LGPSC have also designed a net zero-focused questionnaire and distributed it to each manager to track their approach to climate change. The questionnaire's purpose is to gauge whether their current roster of funds can naturally align with their net zero target, or if specific adjustments are necessary to achieve this goal.

9.25 In the private markets space, LGPSC intend to continue their private equity RI&E reviews. This practice has also been rolled out to our private debt, infrastructure and property investments once these are finalised. In the co-investments space, we intend to work with our General Partners (GPs) the first time it is used GPs to improve the quality of data being disclosed. As part of this, LGPSC has recently become a supporter of the ESG Data Convergence Project, an initiative which aims to standardise ESG data across the private equity industry, and eventually the private debt industry, by providing one set of metrics for companies to report against. We contacted all of our GPs to identify whether they have joined or intend to join this project and will work with our GPs over the next year to encourage participation, or the adoption of similar policies.

9.26 This structure is further evidence of LCPSC's commitment to integrating RI across investment teams and our belief that RI is not just a prerogative of the RI&E team, it is something that all colleagues need to embrace if we are to realise the benefits in full.

9.27 LGPSC holds, at minimum, one client service review meeting per year with EOS to discuss overall satisfaction with their services, any issues over the last period; alongside engagement and voting trends and voting policy reviews. However, we meet more frequently during the year to discuss specific votes and engagements and we find this ongoing dialogue to be extremely helpful particularly during proxy voting season. The EOS Team also attend our quarterly Practitioners' Advisory Forum (PAF) RI Working Group meetings, which gives our Partner Funds the opportunity to ask specific questions about engagements and prioritisation. Further to this, there are multiple touchpoints for clients to review EOS' activities, by way of regular reporting (client portal, quarterly and annual reporting) and opportunities to provide feedback, for instance through EOS' semi-annual client conference which hosts client-only discussion forum.

9.28 The RI&E Team undertakes an annual review of EOS' services to provide assurance to the Investment Committee that the Stewardship Provider, EOS at Federated Hermes, is delivering sufficiently against the terms of the contract. This document is issued to and approved by the Investment Committee on an annual basis.

9.29 Summary for 2022 review:

- Provider has given generally strong and value-adding services to LGPSC, including close dialogue during voting season related to LGPSC's Voting Watch List
- Provider has given direct support to Partner Funds through participation at all PAF RI Working Group meetings during the year

9.30 The table below provides an example of KPI reviews held during 2022.

| *KPI Area* | *KPI Review* |
|---|---|
| *Global engagement* | Engaged 833 companies, with a regional and thematic breakdown. |
| *Engagement quality* | At least one milestone was moved forward for 55% of current engagement objectives. |
| *Voting coverage* | Made voting recommendations at 3,443 meetings, with a regional breakdown. |
| *Client service* | Majority of queries to EOS were dealt with in less than 48 hours. |
| *Complaint handling* | No formal complaints escalated during 2022. |
| *Client service meeting* | Several meetings held pre, during and post voting season 2022 relating to planning of voting season and overall feedback on EOS' services. |
| *Reporting punctuality* | Reporting has generally been on schedule. Several instances of incomplete reports, however these were duly ratified once raised by LGPS Central. |
| *Reporting quality* | Overall good quality. |
| *Team stability* | Staff turnover during 2022 was just below 23%. Following a peak of 32% in 2021, it appears that turnover is beginning to normalise, returning to previous years' figures (10% in 2020 and 19% in 2019). |

## ENGAGEMENT (PRINCIPLES 9 TO 11)

## 10. Principle 9

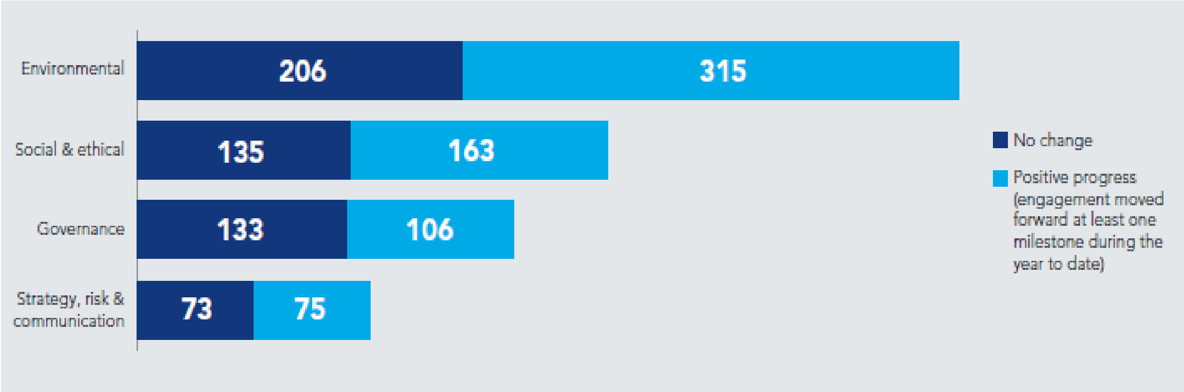
**Signatories engage with issuers to maintain or enhance the value of assets.**

10.1 Alongside LGPSC's direct engagements, we have several partners that engage with companies on our behalf: EOS at Federated Hermes (stewardship provider to LGPSC) and LAPFF. Through these partnerships, our Fund was able to engage more than 1,000 companies on material ESG related issues in the course of 2022. Below they give further detail and examples to some of these engagements.

10.2 During 2022 LGPSC continued engagement on four, core stewardship themes: climate risk, plastic pollution, responsible tax behaviour and tech sector risks. See Principle 5 for further detail on how these themes have been identified. **Appendix 2** provides details of the stewardship strategy, measures of success, engagement highlights and case study for each of the 4 Themes.

10.3 Most of these engagements were conducted by EOS who engaged with 833 companies on 3,477 environmental, social, governance, strategy, risk and communication issues and objectives. EOS takes a holistic approach to engagement and typically engage with companies on more than one topic simultaneously. Over 35% of engagements centred around governance issues, and close to 30% involved discussions on environmental issues. 2,128 of the issues and objectives engaged in 2022 were linked to one or more of the UN Sustainable Development Goals (see below). At least one milestone was moved forward for about 55% of EOS' engagement objectives during the year. The figures below describe how much progress has been made in achieving the milestones set for each engagement.

**Progress against engagement objectives in 2022**




**Engagement supporting the UN Sustainable Development Goals**


10.4 LGPSC and all their Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2022, LAPFF engaged 294 companies, sent over 150 correspondences, attended over 80 meetings and 9 annual general meetings across a spectrum of material ESG issues. In these engagements, LAPFF saw 133 instances of improvements or change in progress.

**Engagement on themes and issues outside of Stewardship Themes**

10.5 **Diversity:** LGPSC is a member of the Employers Network for Equality & Inclusion, and we participate in a number of work streams of the Diversity Project promoting good practice on flexible working, ethnicity, working families and an early careers programme (mentoring potential graduates from socially disadvantaged communities). When selecting external managers for LGPSC investment mandates, we expect both good in-house diversity across the organisation, *and* we expect that the manager integrates diversity in their ESG assessments of companies they invest in. Diversity is one element of our broader assessment of a given manager's culture and ethos, and we view strong diversity across gender, culture and ethnicity as indicative of overall strong governance. We support the newly established Asset Owner Diversity Charter and will use the toolkit provided through the charter to assess managers' approach and processes to enable diversity and inclusion throughout their organisations and value chains.

10.6 **Modern slavery:** LGPSC have developed a Modern Slavery Statement, not as a legal requirement, but with a view to applying leading practice, as a company, as an investor engaging companies and in our procurements. We currently assess external managers' compliance with the Modern Slavery Act in the selection process. The procurements follow the Official Journal of the EU (OJEU) process that is adopted by all English public sector entities, but dates from the time the UK was part of the EU. We continue to be a part of an investor collaboration engaging FTSE 350 companies on Modern Slavery Act compliance. We do not currently ask investee companies to voluntarily comply with the Modern Slavery Act if they fall below the revenue threshold. However, we still view it as appropriate to set a high standard for ourselves as a Company as well as to protect our stakeholders from any reputational risk. We perceive the level of modern slavery related risk to our business as low from the outset and will develop a proportionate approach to this which covers all parts of the business.

## 11. Principle 10

**Signatories, where necessary, participate in collaborative engagement to influence issuers**

11.1 LGPSC has continued active involvement in several strong investor collaborations that pursue better corporate standards across ESG issues, including for several stewardship themes, during 2022. The pool has also supported theme-relevant industry standards and benchmarks, which clarify investor expectations of companies and provide a mechanism for measurement of progress. For a list of initiatives that LGPSC actively supports and engages with, refer to Appendix 1.

11.2 Examples of collaborative initiatives of particular importance to LGPSC's stewardship effort in 2022 are as follows:

**Tax transparency and responsible tax behaviour**

**Experian Ltd.**

**Theme:** Responsible tax behaviour

**Objective:**

We aim for positive interactions at senior levels of target companies encouraging robust tax governance and acknowledgement of lack of tax transparency as a business risk, along with commitments to strategies or targets to manage those risks.

**Engagement**:

Following engagement with LGPS Central and a group of four other European investors, Experian published its first standalone tax report in 2022. We expect companies to disclose tax-relevant Country-by-Country-Reporting (CBCR), which would facilitate our analysis of their tax behaviour. The report should show jurisdiction-wise activities of a company and disclose how the activities correspond to tax paid. The underlying aim is to ensure that multinational enterprises are taxed where their economic activities take place, and value is created.

We commend Experian for taking this important step to provide shareholders and wider stakeholders an overview of their approach to tax and how the company manages its tax affairs in an easily explained and accessible format. In feedback to Experian, we have suggested that they consider using the Global Reporting Initiative (GRI) Tax Standard 207, which covers key elements that should be included in tax reporting such as approach to tax, tax governance/controls/risk management, stakeholder engagement and CBCR. We think that the company is well on its way to meet core elements of the standard, while there is further scope related to CBCR.

**Outcome:**

We appreciate the company's effort in disclosing a tax contribution report. Experian has found our collective feedback constructive and has expressed its plans to take our feedback into account in their tax report next year.

**Engagement on deforestation-related risks**

**Lowe's Companies Inc.**

**Theme:** Deforestation risk

**Objective:**

We are a part of a recently established investor collaboration, Finance Sector Deforestation Action Group, that focuses specifically on commodity-driven deforestation. We aim to engage with portfolio companies that have exposure to such commodities like wood, palm oil, soy, beef, pulp, and paper to better map and mitigate deforestation in their supply chain.

**Engagement:**

We engaged with the **second-largest hardware retailer in the U.S., Lowe's Companies Inc**. on their efforts to understand and mitigate commodity driven-deforestation in their supply chain, as well as human rights considerations of indigenous people.

We welcome Lowe's commitment to transparency on their forestry footprint and wood sourcing practices through a stand-alone Forestry Report (published December 2022). Lowe's published its first wood policy in 2000, has partnered with World Wildlife Fund (WWF) and last year set a net zero goal across its value chain by 2050 in accordance with guidelines from the Science Based Targets initiative (SBTi).

**Outcome:**

Lowe's stated that Forest Stewardship Council (FSC) and other certification carries an administrative burden and increases costs, leading to a reduced demand. For traceability in its supply chain, Lowe's has a vendor code of conduct and carries out periodic supplier audits. However, a few suppliers show reluctance to disclose their wood sourcing as they think it would hamper their competitiveness, but the company is engaging with them to resolve this issue. Lowe's will be putting a grievance mechanism on its website, which strengthens the company's commitment towards human rights.

## Engagement on diversity

Theme: Diversity

Objective: We view diversity as integral to sound decision making and we believe that the most effective Boards of companies include a diversity of skills, experiences, and perspectives. Strong diversity across gender, culture and ethnicity is furthermore indicative of overall strong governance, and something we will encourage for companies across sectors and markets.

Engagement: Japanese boards have one of the lowest proportions of female representation in developed markets and as a member of the 30% Investor Club we very much welcome recent developments with the 30% Investor Club opening a 30% Investor Club Chapter in Japan in May 2019. Over the last 24 months, we have together with fellow 30% Investor Club members, and led by Royal London Asset Management, engaged a selection of Japanese companies to encourage better diversity and to seek more disclosure on diversity-related policies and practices.

Outcome: We have ongoing dialogue with 6 Japanese companies and have held 2 meetings during 2022, including with an industrials sector company that places importance on diversity across the organisation but faces challenges in some regards. The company has a board of

10 members with only one female director. The investor group expects to follow up with the company on having a specific board diversity policy and to encourage a greater degree of board training/mentoring that could allow a wider pool of candidates to be considered.

**LAPFF collaborative engagement example**

11.3 In addition to the support provided directly via LGPSC there are examples provided through LAPFF of the supported engagement activities undertaken. Recent examples can be found in the LAPFF 2022 fourth quarter report.

## 12. Principle 11

**Signatories, where necessary, escalate stewardship activities to influence Issuers.**

12.1 The responsibility for day-to-day interaction with companies is delegated to fund managers and LGPSC, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statement of adherence to the Stewardship Code and may include the following activities:

- Additional meetings with management
- Intervening jointly with other institutions – e.g., fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGMs
- LGPSC escalation
- Writing a letter to the board or meeting the board
- Submitting resolutions at general meetings and actively attending to vote
- Divestment of shares

12.2 Occasionally, the Fund may choose to escalate activity directly, principally through engagement activity by the LAPFF (see escalation example above in Principle 10) or via LGPSC. When this happens the Chairman of the Pensions Committee, in communication with the Vice Chairman and Chief Financial Officer to the Fund will decide whether to participate in the proposed activity.

12.3 Any concerns with the managers are added for discussion in the Pension Investment Sub Committee agenda and where there are specific concerns, the relevant managers will be invited to discuss concerns.

12.4 The Fund employs the services of an independent investment advisor, who, along with officers of the Fund, closely monitors the performance of the Fund's managers. The investment advisor will attend Committee meetings and assist the Committee in the questioning of the managers and in the discussions that follow, helping the Committee by providing any guidance they need to help them to make the right decisions for the Fund's interests. Further details are contained within the ISS which is available on the Fund's website.

12.5 Our advisor's objectives were reviewed at the Pensions Committee in June 2022 and include assisting the Fund in the monitoring of its managers and producing a Quarterly Performance Update for Committee which provides an overview of manager performance and raises any corporate, social or governance issues for consideration by the Committee. The Fund also monitors the performance of its investment advisor in compliance of CMA regulations and reports this to Committee every 6 months.

12.6 The Fund has only divested from shares in the past on the grounds of investment performance and has principally used engagement to influence companies through fund managers to escalate activity. However, as part of the ESG audit, the Fund included the potential to disinvest where appropriate within its agreed ISS. It highlighted that, whilst this was not currently the Fund's policy, it could be considered in the future if a particular manager or company was not making any attempt to comply with our Fund's stated policies.

12.7 A large proportion of the Fund's assets are invested in passive pooled products managed by Legal & General Investment Management (LGIM) and are voted according to the voting policies of LGIM. An escalation example is detailed below:

**LGIM escalation example**

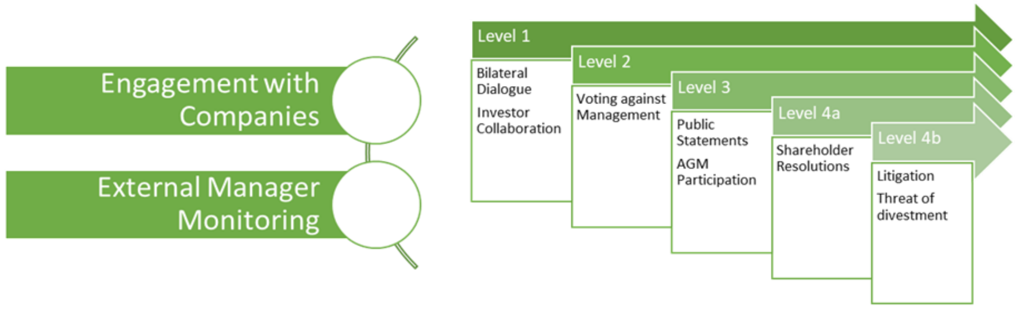
12.8 LGIM's longstanding climate engagement programme, the Climate Impact Pledge, is linked to tangible voting and engagement sanctions and was introduced in 2016. It launched its revised Climate Impact Pledge 2.0 in October 2020 to make its targeted engagement programme even more ambitious. Details of LGIM's Climate Impact Pledge score can be accessed here. Please also refer to the LGIM's Climate Impact Pledge: the 2022 results (pages 12-19) which outlines key areas of focus and a sanction list of companies that have persistently fallen short of its minimum standards or have been included due to a lack of response to its engagement requests.

12.9 As 2022 goes on, it will continue to press companies to establish robust decarbonisation strategies, with granular interim roadmaps out to 2050, to accompany their public announcements. Ultimately, however, the momentum behind the net-zero transition is unmistakeable: the percentage of companies setting ambitious decarbonisation targets has almost doubled in a year. Even where companies do not yet have net-zero aligned transition plans in place, practices are improving. The number of companies sanctioned for not meeting its minimum expectations has decreased by over 35% since 2021.

**LGPSC escalation example**

12.10 The stewardship themes that it has identified as priority areas for engagement are all long-term and systemic in nature. Against that backdrop, it will often use escalation tactics to enhance the chances of achieving long-term engagement outcomes. However, a decision to escalate, and the form or sequence of subsequent escalation will be particular to the engagement in question. Examples of how it might escalate include, but are not limited to:

- Additional meetings with the management or the directors of an investee company
- Escalating the dialogue from the executive to the board of directors or from one board member to the Chair and/or a more amenable board member, in line with LGPSC's escalation strategy detailed below:




- Collaboration with fellow investors and/or with partnership organisations
- Public statement
- Voting against management, e.g., against the annual report, the appointment of directors or the auditors
- Co-filing shareholder resolutions
- Attendance and raising questions at the company AGM

12.11 Through LGPSC's involvement in collaborative engagement projects, like Climate Action 100+ (CA100+), we are continuously assessing the need for escalation depending on individual companies' response to expectations from investors. Due to the nature and complexity of the transition challenge, there is also an element of "moving target" which means that both investors and companies need to be ready to step up ambition. As of the end of 2022, CA100+ has now released three iterations of its Benchmark Framework, which allows for an evaluation of company progress against Paris alignment on key parameters including short-, medium-, and long-term targets; decarbonisation strategy; capex plans, and climate governance.

**Examples of escalation of engagement during 2022**

12.12 Following a thorough assessment of the potential risks and benefits associated with supporting the claim, LGPSC provided a copy of a recent engagement with Shell to the Court as evidence of its concerns. This escalation was made in recognition of the significant overlap between the points raised in the Client Earth claim and its own engagement objectives for dialogue with Shell.

**Shell Plc**

**Theme:** Climate Change

**Objective:** We expect companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. We also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

**Engagement:** In November 2022 LGPS Central sent a letter to the Chair of the Board at Shell, outlining why we voted against the company's Energy Transition Strategy in the 2022 AGM. The letter outlined the strategy's misalignment with the Paris Agreement; a lack of targets which would facilitate the achievement of the Strategy; and questioned whether Shell's capital expenditure plans are genuinely aligned with a 1.5˚C temperature rise scenario. Following receipt of this letter, a 1-1 meeting was scheduled between LGPSC and the head of Investor Relations at Shell.

This meeting allowed a detailed discussion on Shell's climate strategy, highlighting the risks and opportunities the company has focussed on ahead of the energy transition. We were happy to hear that Shell recognises the key role it must play in addressing climate risk on a global level and were encouraged by the company's progress in decreasing its oil production. However, Shell expressed a reluctance to set absolute short- and medium-term Scope 3 targets for its upstream emissions. Shell also stressed the fact that it believes it is currently a leader in the global transition, and that now the responsibility must shift towards governments and consumers to continue progress towards net zero.

**Outcome:** We very much appreciate Shell's desire to have a meaningful and open dialogue with its shareholders, and it is clear that Shell is a sector leader in the climate transition. However, significant doubts remain regarding the feasibility and robustness of Shell's transition strategy, evidenced by a lack of meaningful targets which detail how Shell will achieve its long-term goals. We are therefore considering further engagement or escalation in early 2023. In February 2023, the environmental charity ClientEarth filed a derivative claim against the Board of Directors at Shell, stating that the Board is mismanaging climate risk, evidenced by an insufficient Energy Transition Strategy and a fundamental misalignment with the goals of the Paris Agreement.

12.13 Below is an example of LGPSC's engagement with DEFRA relating to policy on plastic pollution.

**Policy dialogue with UK Department of Environment, Food and Rural Affairs (DEFRA)**

**Theme:** Plastic pollution (microfibres)

**Objective:**

Through a microplastics engagement project led by First Sentier Investors, we seek to encourage domestic and commercial washing machine manufacturers to add filter technology as standard to all new washing machines produced by the end of 2023. This is to help combat microplastics pollution to the environment, a problem caused in large proportion by synthetic textiles which release microfibres (a type of microplastic) when washed. A first round of engagements with 13 target companies commenced in 2021. One company, Arcelik, has launched a machine under the Grundig brand with a filter fitted as standard in the UK (Fibrecatcher).

**Engagement:**

As an escalation to the engagements, LGPSC co-signed a letter with First Sentier Investors and LGIM, on behalf of 29 investors with £5 billion AUM, to the ministers at DEFRA. In the letter, we emphasised our support for the recommendations of the "All Party Parliamentary Group on Microplastics" issued in 2021, specifically to mandate the installation of microfibre filters in new washing machines by 2025. We also highlighted Alberto Costa MP's Microplastic Filters (Washing Machines) Bill that would allow the government to take this legislation forward appropriately.

**Outcome:**

The letter was sent in May 2022. We will seek direct dialogue with ministers at DEFRA and monitor the legislation, alongside further engagements with companies. [Next steps – checking wording with First Sentier]

**Expectations on external managers to escalate on our behalf**

12.14 LGPSC expects managers to be ready to escalate any engagement where there is lack of progress relative to engagement objectives, on any material ESG topic. During 2022, LGPSC asked managers to give particular attention to companies' climate transition, or lack thereof, in line with the Paris Accord. This is part of a broader discussion with external managers around the implementation of net zero targets.

**Stellantis, CTI, LGPSC Multi Asset Credit Fund**

**Objective:**

Improve climate-related disclosures.

**Sector:**

Automotive

**ESG Topics Addressed:**

Strategy and business model; transparency and disclosure; climate change.

**Issue / Reason for Engagement:**

Company slow to publish publicly release details on its climate ambition, strategy, and management.

**Scope and Process / Action Taken:**

CTI engaged with Stellantis six times in 12 months on climate change. Main asks include an ambitious net zero target and BEV strategy.

**Escalation strategy:**

Repeated engagements with different people in the company, including the Head of Sustainability, the Strategy Lead, and the CFO.

**Outcomes and next steps:**

Following these escalations, the company has unveiled a strategy plan to achieve net zero by 2038 across its entire value chain and cut emissions intensity by 50% by 2030. It also includes a sales target of 100% BEV passenger cars in Europe by 2030. This year CTI will focus on shifting from climate targets to strategy, climate lobbying and sustainable sourcing.

**Orpea, Mirova, LGPSC Global Sustainable Equity Fund**

**Objective:** Improve the social aspects of the business which had been the subject of controversies.

**Sector:** Residential Care

**ESG Topics Addressed:** Social issues and governance.

**Issue/Reason for Engagement**: Mirova has a long history of successful engagement with Orpea related to processes implemented to address serious social risks. Following allegations made against the company during early 2022, this engagement and the expectations of the company have been radically strengthened.

**Scope and Process/Action Taken:** Mirova sent a letter to the President of the Board regarding specific points related to potential social risks as well as Mirova's expectations of the company. The company responded stating it was willing to consider Mirova's demands and committed to answer concerns. Mirova was able to escalate this engagement, and arranged two meetings, the first with the CEO and Board members and the second with CSR representatives. Mirova shortly followed up, arranging a further three meetings with the company, firstly meeting the recently appointed Transition Manager - HR Strategy. Mirova also had a meeting with current CEO, future CEO and Board members, where they discussed proposed AGM resolutions. In May 2022, financial malpractices from Orpea's former management were revealed. Mirova immediately advocated for a change of management and a new board.

**Outcomes and Next Steps:** Following this engagement, at the company's AGM the new CEO expressed its commitment to transition the company towards more consideration of residents and employees. Unfortunately, in conjunction with an unexpected conciliation plan, which would leave Mirova with less leverage over the company, and since Mirova had no guarantee that Orpea was going to align on social issues which had dominated the engagements, Mirova decided to divest from Orpea.

## 13. Principle 12

**Signatories actively exercise their rights and responsibilities**

13.1 The Fund has considered the feedback received from its 2022 application in respect of Principle 12. The Fund does make its ESG, and RI beliefs known to its property and infrastructure Managers. The Fund also communicates its expectations of them during each performance review meeting where a dedicated section of the meeting is allocated to stewardship matters. An example of such collaboration is illustrated by a video publication with one of its Fund Managers as a result of the Fund's forestry investment. In addition, the Fund invited key asset managers to its ESG workshop on 8 February 2023. The Fund intends to extend this to property and infrastructure asset managers over the current year.

13.2 LGSPC have recently begun rolling out RI&E reviews to property and infrastructure investments. The Fund has communicated its eagerness to work with them to improve the quality of data being disclosed. As part of this, LGPSC has recently become a supporter of the ESG Data Convergence Project, an initiative which aims to standardise ESG data across the private equity industry, and eventually private debt industry, by providing one set of metrics for companies to report against. They have contacted all of their GPs to identify whether they have joined or intend to join this project and will work with them over the next year to encourage participation, or the adoption of similar policies.

13.3 This structure is further evidence of LCPSC's commitment to integrating RI across Investment Teams and our belief that RI is not just a prerogative of the RI&E Team, it is something that all colleagues need to embrace if we are to realise the benefits in full

13.4 The Pensions Committee has agreed that LGPSC will, via Hermes EOS, vote shares in certain discretionary and all pooled funds on the Fund's behalf. These votes are executed in line with LGPSC's published Voting Principles. The Fund believes that the advantage of a consistent signal and working collectively through the pool will have a positive influence on company behaviour. LGPSC also provides regular updates on our targeted stewardship themes: climate change, single-use plastic, technology & disruptive industries, and tax transparency.

13.5 As described in Principle 10 we monitor our engagement with companies and how the proxy voting of these investments is cast, reporting this to Pensions Committee meetings using geographical, and company name analyses. Over the year EOS voted at 3,443 meetings, on 42,538 resolutions and attended 66 AGMs. An example of the voting and engagement statistics provided is detailed below.

13.6 We ask LGPSC to utilise all levers to influence corporate behaviour across our equity and fixed income investments. Voting is a core part of our overall stewardship effort as a shareholder in investee. Equally, exercising rights and responsibilities as fixed income holders is of key importance. During 2022, we increased our exposure to private markets further. LGPSC in liaison with partner funds continue to work with private market partners to identify key performance indicators that are relevant for the underlying asset, and which we would request reporting against.

**Voting approach and objectives**

13.7 **High-level objectives:** LGPSC views voting as a core component of its stewardship efforts on our behalf. In a long-term perspective, all voting activities it undertakes aim to:

1) support the long-term economic interests of our stakeholders

2) ensure boards of directors are accountable to shareholders

3) encourage sustainable market behaviour across companies and sectors

13.8 **Principles-based approach**: We take a principles-based approach to voting and are guided by LGPSC's established Voting Principles. At high level, we expect companies to:

- Adhere to essential standards of good governance for board composition and oversight.
- Be transparent in their communication with shareholders.
- Remunerate executives fairly.
- Protect shareholder rights and align interests with shareholders.
- Promote sustainable business practices and consider the interests of other stakeholders.

13.9 **Scope of voting**: To send a unique voting signal to investee companies LGPSC votes all its shares - whether externally or internally managed - according to one set of Voting Principles. While the ultimate voting decision rests with LGPSC, we have a procedure through which we capture intelligence and recommendations from external fund managers.

13.10 **Stock-lending:** LGPSC has an active securities lending programme. During 2021, it considered options for restriction on securities lending to bolster its overall stewardship and voting impact. Based on dialogue with its Partner Funds, alongside discussions in-house at Investment Committee and Operations, Risk, Compliance and Administration Committee, it revised the securities lending policy with effect from 2022. The revision means that it fully restricts certain securities from lending at the start of voting season. This is to ensure that it maximises our voting impact, e.g., in relation to critical, ongoing engagements that it expects to escalate through shareholder resolutions or other forms of voting (e.g., votes against Board members). This is to eliminate the risk of not being able to recall all our shares ahead of the meeting. Among critical engagements are companies identified as high-risk relative to climate change through Partner Fund Climate Risk Reports and that sit within the scope of Climate Action 100+. It considered the cost implications of excluding all companies in its Voting Watch List from lending and concluded that a more targeted approach would be the most proportionate and efficient response. This targeted approach entails a restriction of lending on a sub-set of companies that we view as critical engagements ahead of each voting season. Ahead of voting season 2022, 12 companies on its Voting Watch List (of 50 companies) were restricted from lending. The restriction was lifted at the end of AGM season. This change has guaranteed that we are able to vote all the shares we hold for certain companies in the portfolio

13.11 **Voting reinforcing engagement**: As far as possible, we aim to use voting to reinforce and promote ongoing engagements, whether carried out directly through LGPSC, through collaborative initiatives or through our external stewardship provider EOS at Federated Hermes. This means that we regularly raise issues concerning environmental sustainability, including climate change, and broader social issue like human rights risk oversight and management through our voting. Many votes against management concern good governance (board composition, board oversight and skill sets, remuneration etc.) – these votes are often an expression of underlying concerns with lack of expertise and or/oversight at board level on issues like climate change or human rights. We also know that strong governance increases the likelihood of companies dealing well with environmental and social risks. During April – June 2022 (high voting season) we saw a record number of proposals filed by shareholders. Social issues rose up the agenda whilst climate remained a keen topic for investors. Many of these shareholder proposals got very strong or even majority support.

13.12 **Transparency**: LGPSC'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 its voting activities is provided in Stewardship Updates three times a year (covering the first three quarters of the calendar year). Secondly, it provides an annual summary of its voting activities, as part of the Annual Stewardship Report, and thirdly, it 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.

**Voting strategy**

13.13 **Ensuring that Voting Principles are applied**: LGPSC has set up a structure whereby EOS at Federated Hermes provides it with voting recommendations based on its Voting Principles which are input on the ISS voting platform prior to the vote deadline. The voting recommendations are then cast as voting instructions if there is no further intervention, except in the case of share-blocking votes. It currently holds just under 3,000 companies through its ACS equities funds. With this voting structure, it has confidence that votes are cast according to LGPSC Voting Principles across a voting universe that under no circumstance could be checked manually at each individual company level. In minority cases where a company we are engaging and/or that the Local Authority Pension Fund Forum has issued a voting alert for falls outside EOS' main engagement, we often consult ISS research directly

13.14 **Voting Watch List**: It is not feasible to do in-depth research into all proxies that will be voted at each of the companies LGPSC holds through its ACS equity funds. To prioritise, it has established a "Voting Watch List" annually that consists of approximately 50 companies which cover larger holdings and/or core engagements in and outside of Stewardship Themes. Votes at these companies will be given particular scrutiny ahead of the AGM. While it is not feasible to attend all these companies' AGMs, it aims to attend AGMs virtually (if permissible) for core Climate Action 100+ engagements and for any company with which it has filed a shareholder resolution. The Voting Watch List serves a further purpose, in allowing us to test whether our votes are generally cast in alignment with our Voting Principles.

**Interaction with EOS at Federated Hermes:**

13.15 Ahead of each voting season, LGPSC shares its Voting Watch List with EOS to ensure that we receive a more detailed analysis to substantiate their voting recommendations for companies on this list ahead of relevant AGMs. We will seek ad-hoc interactions/meetings with EOS regarding core engagements, where either they or we would like further input from the other ahead of a vote.

13.16 **Interaction with external managers**: It is our intention to capture intelligence and recommendations from active equity fund managers relative to key holdings and/or contentious voting issues. To achieve this:

- LGPSC meets with each external manager annually ahead of the voting season for a dedicated voting-related discussion.
- External managers will be kept up to date on any changes to LGPSC Voting Principles, and vice-versa.
- We will share with each external manager LGPSC's Voting Watch List with an explicit incentive to communicate their views on companies on this list that are held in their portfolio.
- We may reach out on an ad-hoc basis in cases where we would like to elicit views on contentious issues in core holdings or key engagements that can supplement views from EOS.

**Credit Suisse Group AG**

**Theme:** Climate Change

**Objective:** Appointed managers are expected to integrate relevant, material social and environmental risk factors in their portfolio construction. Credit Suisse is held in one of our active equity mandates.

**Engagement:** LGPSC, along with eleven institutional investors who collectively manage €2.18 trillion, have jointly submitted a climate resolution to Credit Suisse. Before submitting the resolution, we had communicated with the fund manager to inform them of the possibility of doing so. We also explained why we felt the need to escalate our engagement and asked for their opinion on the bank's level of climate risk management. We considered the manager's response and decided to proceed with the escalation.

**Outcome**: Several rounds of engagement with Credit Suisse, led by co-filers ShareAction and Ethos Foundation, has led to the bank making several commitments in the weeks ahead of its AGM. However, LGPSC believed the bank did not address several requests that were made in the resolution, including disclosing its capital markets fossil fuel activities. The co-filers unanimously decided to keep the resolution on the AGM ballot, making it the first climate-related shareholder resolution at a Swiss bank. The resolution received support from 18.52% of shareholders and a further 4.27% abstained.

**Voting highlights and outcomes 2022**
**Proportion of shares voted during 2022**

13.17 Based on our voting set-up with EOS at Federated Hermes – whereby EOS' voting recommendations (aligned with LGPSC's Voting Principles) are cast as voting instructions for all shares – we can ensure that all shares are indeed voted. There are occasions where a vote is not cast due to for instance share blocking or a non-standard voting procedure. However, these are very limited instances.

13.18 The 2022 shareholder meeting season saw social issues rise up the agenda with resolutions on issues ranging from animal welfare to paid sick leave and reproductive rights. With soaring inflation eroding purchasing power, investors pressed for living wages for struggling workers through actions like the shareholder resolution at Sainsbury's AGM. 2022 was also the second year for formal shareholder votes on companies' responses to climate change, with a steep rise in management say on climate proposals, including for Anglo American, Barclays, BP and Rio Tinto. Glencore, Shell and Total Energies were among companies that also offered shareholders the opportunity to vote on the progress achieved on climate transition plans presented to the 2021 AGM.

**2022 voting statistics**

- Voted at 3,443 meetings
- 42,538 resolutions
- Attended virtual AGM of Shell
- EOS attended 66 AGMs on our behalf, including 13 shareholder meetings and asked questions at eight of these, including BP, Volkswagen, BMW, Royal Bank of Canada, Bank of Nova Scotia, Siemens Energy and Canadian Imperial Bank of Commerce

- EOS made a statement and co-filed a shareholder resolution at Berkshire Hathaway
- Voted against management and abstaining, for one or more resolutions at 62.2% of meetings

### 13.19 Continued momentum for investor engagement and voting on climate change, and more emphasis on deforestation risk

- 58 Say-on-climate votes, up from 18 such votes during 2021 vote season, asking investors to approve transition plans or providing an annual update on already-approved plans
- LGPSC continues to take a robust approach to assessing these plans and voted against a number, which we considered to be not fully aligned to 1.5°C scenario, including plans proposed by **BP, Rio Tinto, Glencore, Shell,** and **Barclays**
- Companies that clearly indicated that alignment with 1.5C was the goal, with a more developed plan to be put to a further vote, such as at **NatWest** and **Amundi**, received our support
- Alongside Say-on-climate votes, we saw many climate-related shareholder proposals. It was encouraging to see some companies support such proposals, including **Caterpillar** for a report on long-term greenhouse gas targets aligned with Paris (95% support) and **Boeing** for a report on a net-zero by 2050 ambition (89% support)
- We supported climate-related shareholder proposals at three power utilities and two financial groups in Japan, including **J-Power** and **Sumitomo Mitsui Financial Group,** which garnered well above 20% support
- We voted against directors or relevant proposals at 292 companies, up from 144 companies in 2021, due to concerns about insufficient management of climate-related risks
- We co-filed a shareholder proposal asking **Credit Suisse** to provide further disclosures on the company’s strategy to align with the 1.5°C goal of the Paris Agreement, specifically with respect to the banks’ strategy to reduce its exposure to fossil fuel assets
- We opposed the directors responsible at companies that were the poorest performers on the Forest 500 assessment, which targets companies that are most exposed to deforestation risks. This led us to oppose the directors responsible at retailer **TJX** and food manufacturer **Kikkoman**

- We voted on climate transition across oil and gas, construction, aviation, and consumer goods – all passed with support ranging from 88% to 99%.

### 13.20 Social issues proposals on the rise

- Record numbers of shareholder proposals at major US companies, including many on social issues such as paid sick leave, reproductive rights, unionisation, and animal welfare
- At retailer **TJX**, we supported a shareholder proposal to adopt and publicly disclose a policy that all employees, part-and full-time, accrue some paid sick leave that can be used after working at TJX for a reasonable probationary period. The proposal received 33% support showing that shareholders increasingly view paid sick leave as a basic human right

- At **Meta**, we supported several shareholder resolutions including requests for a report on the enforcement of policies to moderate problematic content; a human rights impact assessment of targeted advertising; and a report on the trade-offs between privacy rights and child protection
- More Civil Rights Audit (CRA), Racial Equity Audit (REA) and Racial Justice Audit shareholder proposals were filed, including at **Apple, Chevron, Wells Fargo,** and **Johnson & Johnson**. In general, such proposals urged boards to oversee a third-party audit analysing the adverse impacts of companies' policies and practices on the civil rights of stakeholders
- We opposed directors on human rights grounds, including companies' being in clear breach of applicable regulatory human rights responsibilities or those outlined in the UN Guiding Principles on Business and Human Rights. These included **Telefonaktiebolaget LM Ericsson**, due to various alleged compliance breaches and insufficient remedial actions, **Grupo Mexico**, due to spills of toxic waste and heavy metals in rivers adjacent to its mines, and **Meta**, due to the spread of problematic content on its platforms

13.21 **Diversity and inclusion**

- We voted against **2,920 proposals due to diversity concerns**, versus 2,693 proposals in 2021. Along with this, we encouraged greater representation of **women and ethnic minorities on boards and leadership positions**
- In the **US**, we expect women and ethnic minorities to make up at least 40% of the board at the largest companies, with a minimum of 30% gender diversity in line with our support for the 30% Club. As a result, we opposed 1,033 proposals for insufficient gender and ethnic diversity. This included companies like **Berkshire Hathaway**, **NextEra,** among others
- In **Europe**, we opposed the nomination committee chair for poor board gender diversity at mining companies like **Antofagasta** and **Fresnillo**
- We were pleased to see immense **progress by FTSE 100** companies in meeting minimum standards of **ethnic representation** on UK boards. In the **UK** in general, we opposed 19 proposals due to insufficient diversity at board level and below, versus 37 proposals in 2021
- In **Brazil**, the B3 Brazilian Stock Exchange proposed a new listing rule related to gender diversity. However, it falls short of our expectations that companies have at least one woman and one ethnically diverse member on the board or the executive committee from 2025
- In **Japan**, there was progress on gender diversity in companies like **Chubu Electric Power** and **Seven & i.** However, other companies like **Toyota Industries, Canon** are lagging, and we voted against the responsible directors and EOS are engaging with them on the same on our behalf
- Legal requirements are tightening in **South Korea, Malaysia and Hong Kong** and we were pleased to see progress at companies such as **Geely Automobile**, where board gender diversity reached 30% after several years of engagement on this topic
- At **AIA Group** and **Ping An Insurance**, we supported directors by exception to recognise their progress in reaching a level of diversity that is just below our minimum expectations. However, we voted against at **Beijing Enterprises**, **China Mengniu Dairy**, and **China Resources Beer**

13.22 **Remuneration**

- We **voted against 65% of pay proposals**, as we saw a resurgence in some executive pay packages
- In **North America**, we opposed 78% of say-on-pay proposals as the practices across the region remained materially misaligned with our principles. In the **UK**, we opposed 17% of remuneration policy proposals versus 23% in 2021. While in **Europe**, we pushed for greater shareholdings for executives, and improving disclosure where this was lacking or where pay awards were substantial, either through salary increases or incentive scheme opportunities
- At **Netflix**, we voted against executive pay and the compensation committee chair, alongside around 73% of shareholders who rejected this pay proposal
- At **GSK** we were not supportive of a remuneration policy that continues to increase the variable pay opportunity far in excess of our policy limits. We also noted a duplication of metrics across the bonus scheme and long-term incentive plan (LTIP), which we generally do not support as it rewards executives twice for the same performance
- We **opposed pay at Meta, ExxonMobil, Chevron, JPMorgan Chase,** and others where we view the quantum of pay as too high, without adequate disclosure of additional value for long-term shareholders when paying the CEO significantly above the labour-market median

## Voting outcomes

13.23 Below is a selection of significant votes related LGPSC's stewardship themes

**Case Study: General Mills**

**Theme:** Plastic pollution

**Objective:** Plastics pollution is one of LGPSC's stewardship themes and on our behalf it leverages collaboration opportunities to deliver progress in the form of reduction, re-use and replacement of fossil-fuel based plastics in the economy. Voting is engagement led, and it will consider co-filing or supporting shareholder resolutions that relate to better risk management (reduce plastic use, reduce plastic waste, increase recycling, invest in relevant R&D).

**Vote decision and rationale:** LGPSC supported a shareholder proposal at General Mills' 2022 AGM on Absolute Plastic Packaging Use Reduction. The proposal required the company to report absolute reduction in its use of plastic packaging. In the company's 2022 Global Responsibility Report, it has set a 2030 goal for 100 percent of its packaging to be recyclable or reusable, and it reports that 89 percent of its packaging by weight currently meets this goal. It is also a major investor in Myplas, a flexible film recycling facility which opened in spring 2023.

However, the company is lagging its peers like Kellogg's and Mondelez International, which have established goals to reduce absolute plastic use and have joined the Ellen MacArthur New Plastics Economy Global Commitment. Multiple states in the US have started enacting legislation requiring companies to be responsible for post-consumer package waste handling and describes adopting minimum recycled content standards.

We believe that additional disclosure from General Mills as per the proposal would assist shareholders to assess the risk management with regards to its plastic packaging.

**Outcome**: This resolution passed with 56.5% votes which signifies the concerns of shareholders related to plastic packaging risks that the company faces. Following up on the same (in early 2023), our stewardship provider EOS was a part of a collaborative engagement with General Mills, and it was welcoming to know that the company is prioritising this issue. General Mills is a signatory of the UK and French plastic pact and has a commitment to have 100% recyclable or reusable packaging by 2030. However, General Mills explained about technological challenges for its plastic commitments.

**Case Study: Meta**

**Theme:** Human rights

**Objective:** We ask companies to make adequate disclosures of their human rights policies, as well as to follow best practices to ensure that those policies are effectively implemented. For technology companies, we require that they manage a broad spectrum of human rights related risks diversity and inclusion, freedom of expression, data protection, content moderation and other industry-specific issues.

**Vote decision and rationale:** At the AGM of Meta in 2022, we supported several shareholder resolutions that in our view will enhance the companies' ability to manage and mitigate material human rights risks that are directly linked to its business strategy and operations. These included requests for a report on the enforcement of policies to moderate problematic content; a human rights impact assessment of targeted advertising; and a report on the trade-offs between privacy rights and child protection.

On our behalf, EOS participated in a joint investor call with the chief diversity officer and the head of human rights and asked about eliminating emotional bias from artificial intelligence. As the company's revenue is highly corelated with the amount of clicks, likes, and shares, we asked how its algorithms determine the dissemination of paid and labelled political content throughout its user base and address any related "echo chamber" effects. The company also discussed its progress with statistics of its five-year representation targets set in 2019. We encourage Meta to acknowledge tensions between freedom of expression and issues like hate speech, bullying, misinformation, as well as to enhance its child safety practices to also include protection from mental health, device addiction, and other emerging issues.

**Outcome:** We welcome Meta taking actions to enhance disclosure on human rights through publication of a standalone Human Rights Report (July 2022). However, there could be more disclosure on whether its business model contributes to the spread of problematic content on its platforms. In EOS' view, the report falls short of the highest standard for user privacy rights. Meta acknowledges significant interest from investors on the human rights impacts of the metaverse, which LGPSC has expressed directly to the company in a letter after the AGM in May. Meta has improved disclosure on children's rights, which we requested, but we still lack metrics and targets that show the effectiveness of its substantial efforts.

**Case Study: Microsoft Corporation**

**Theme:** Responsible tax behaviour and tax transparency

**Objective:** We recognise the importance of companies being accountable for and transparent about their tax practices. We expect portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting.

**Vote decision and rationale:** We supported a shareholder proposal at the 2022 AGM requesting Microsoft's Board of Directors to issue a tax transparency report, at reasonable expense and excluding confidential information, in accordance with the Global Reporting

Initiative (GRI), including country-by-country reporting. Country-by-country reporting would amongst others help ensure that multinational enterprises are taxed where their economic activities take place, and value is created, rather than shifted away and reported in a low tax jurisdiction. According to the proponents of the proposal, the practice of profit shifting by corporations costs the US Government approximately $70-$100 billion annually. Microsoft does provide extensive tax information in the company's reporting in the US through Form 10-K in the Annual Report and many of the company's subsidiaries file statutory reports that are publicly available. This means that there should is negligible increased reporting burden in order to comply with the GRI Tax Standard. In October 2022, KPMG published results of a survey of the disclosure practices of the world's biggest 250 companies by revenue and stated that 78% of the G250 companies adopt the GRI Standards for reporting (up from 73% in 2020).

**Outcome:** The proposal failed to pass but received a significant 23% support from shareholders. Microsoft expects to comply with the EU public country-by-country reporting requirements as required effective for fiscal year 2025. Microsoft is on LGPSC's Voting Watch List, and we look forward to monitoring the situation. Our stewardship provider EOS is engaging with Microsoft on this and in a meeting in early 2023, the company said that it is awaiting relevant EU and OECD regulation, stating that it is confident that it pays more taxes. EOS is seeking further dialogue with Microsoft on this issue, and we look forward to continuing monitoring the situation.

**Case Study: Barclays Plc**

**Theme:** Climate change

**Objective:** We expect companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. We also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

**Vote decision and rationale:** Barclays published its updated climate strategy, targets and progress report for an advisory vote at its AGM on 4 May 2022. Following an analysis of the report as well as a review of our long-standing engagement with the bank, LGPSC decided to vote against the resolution. While Barclays has taken some positive steps on climate, our analysis shows that the bank has yet to fully align with a 1.5C trajectory. We were concerned with the bank's target ranges for emissions intensity for several high emitting sectors which in our view were not aligned with IEA NZE and may not lead to absolute emission reductions. The bank's planned exit from US coal power generation is also later than the limit set by IEA NZE. Further, our analysis shows that despite setting a reasonably robust net zero ambition, some of Barclays' restrictive sector policies (e.g., on financing for oil sands production) are insufficient making the bank an outlier among European peers. Given our own net zero ambition, we believe that supporting the "Say on Climate" vote would run counter to our ambition and send the wrong signal to our stakeholders.

**Outcome:** Following the AGM, we sent a letter to Barclays explaining why we voted against their Climate Strategy, Targets and Progress 2022 report and subsequently engaged on the same alongside a group of other investors. We appreciate Barclays' positive approach towards engagement. While the company initially set a 2035 timeline for phasing out financing of US thermal coal power generation, we greatly welcome their recent commitment to prepone this deadline from 2035 to 2030. This took effect at the time of Barclays' 2022 year-end climate update and aligns with the company's approach in the UK and the EU. We will continue our engagement with the company on their climate transition efforts, including on targets to reduce absolute emission in the period to 2030.

### Fixed income – exercise of rights and responsibilities

13.24 We expect all our fixed income managers to fully exercise their rights and responsibilities. We provide below an example of how our external managers approach this.

| |
|---|
| **J Power, Amundi, LGPSC Emerging Market Debt**<br><br>**Objective:**<br><br>Co-lead an AIGCC collaborative engagement with J Power to improve its climate strategy.<br><br>**Sector:**<br><br>Electric Utilities<br><br>**ESG Topics Addressed:**<br><br>Climate change; coal policy; transparency and disclosure.<br><br>**Issue / Reason for Engagement:**<br><br>Ensure the responsible and timely phase out of coal.<br><br>**Scope and Process / Action Taken:**<br><br>As co-leader of an AIGCC collaborative engagement, Amundi co-filed three resolutions aiming to improve the J Power's climate strategy.<br><br>**Outcomes and next steps:**<br><br>The three proposals garnered 25.8%, 18.1%, and 18.9% respectively. |

### Private Markets

13.25 We expect all our private markets managers to fully exercise their rights and responsibilities. We provide below an example of how our external managers approach this.

**Project Goethe, Benjamin de Rothschild Infrastructure Debt Generation (BRIDGE) V, 2021 Infrastructure Debt Fund**

**Objective:**

Improve sustainability performance of the company through the setting of Sustainability Performance Target (SPT) KPI's.

**Sector:**

Telecom

**Issue / Reason for Engagement:**

BRIDGE place a large emphasis on the ESG and sustainability aspects of their portfolio and will utilise ESG focused ratchets to incentivise portfolio companies to improve various ESG metrics.

**Scope and Process / Action Taken:**

Project Goethe provided financing for a fibre optic roll out in underserved areas in Germany. Fibre optic helps bridge the digital divide through providing improved connectivity and contributes to socio-economic development in these areas. This financing identifies 3 themes each with a KPI, setting a SPT. Achieving or falling short of the SPT results in a negative or positive adjustment of the interest rate margin respectively. The three KPIs cover: reduction in scope 1, 2 and 3 GHG emissions, fibre network coverage and employee satisfaction / quality of employment in these rural areas.

**Outcomes and Next Steps:**

This method of utilising ESG focused ratchets allows BRIDGE to continue incentivising companies to pursue ESG targets after the initial deal has been signed. The initial test date took place on the 31st of December 2022, from here the company has 135 days to deliver the KPI compliance certificate, from there the new interest rate will take affect within 3 business days.

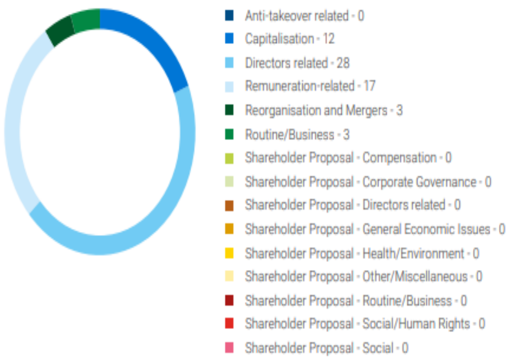
13.26 Our passive pooled products managed by LGIM are voted according to the voting policies of LGIM. LGIM believes in using its scale and influence to bring about real, positive change to create sustainable investor and produces (see the penultimate paragraph) a quarterly ESG impact report that includes a regional voting summary. The Pensions Committee is satisfied that LGIM's approach to shareholder voting is sufficiently robust and aids in the delivery of the Fund's RI objectives. LGIM's voting policy is based on a set of corporate governance principles. Previous engagement with an investee company also determines the manner in which voting decisions are made and cast. Voting activity is combined with direct engagement with the investee company to ensure that the investee company fully understands any issues and concerns that LGIM may have and to encourage improvement. LGIM utilises the voting information services of ISS and Institutional Voting Information Services (IVIS) to conduct thorough analysis and research on investee companies. An example of the voting undertaken by LGIM from their 2022 annual report 'Active ownership – global engagement to deliver positive change is detailed below.

# Regional updates

## UK - Q4 2022 voting summary

| Proposal category | Total for | Total against | Total abstentions |
|---|---|---|---|
| Anti-takeover related | 56 | 0 | 0 |
| Capitalisation | 262 | 12 | 0 |
| Directors related | 543 | 28 | 0 |
| Remuneration related | 106 | 17 | 0 |
| Reorganisation and Mergers | 25 | 3 | 0 |
| Routine/Business | 270 | 3 | 0 |
| Shareholder Proposal - Compensation | 0 | 0 | 0 |
| Shareholder Proposal - Corporate Governance | 0 | 0 | 0 |
| Shareholder Proposal - Directors Related | 0 | 0 | 0 |
| Shareholder Proposal - General Economic Issues | 0 | 0 | 0 |
| Shareholder Proposal - Health/Environment | 0 | 0 | 0 |
| Shareholder Proposal - Other/Miscellaneous | 0 | 0 | 0 |
| Shareholder Proposal - Routine/Business | 0 | 0 | 0 |
| Shareholder Proposal - Social/Human Rights | 0 | 0 | 0 |
| Shareholder Proposal - Social | 0 | 0 | 0 |
| Total | 1262 | 63 | 0 |

### Votes against management




### Number of companies voted for/against management


During 2022, LAPFF provided its members with 18 voting recommendations for a selection of companies on themes such as remuneration, board composition, climate change, human rights and other issues that were perceived as contentious/critical to a company's good ESG management. LGPSC provided Partner Funds with its view of resolutions up for vote that were covered by LAPFF's recommendations. In the majority of cases (80%), LPGSC took a similar view to LAPFF. Any difference in view was explained to the Fund and other Partner Funds, with the opportunity for Partner Funds to seek further clarifications on LGPSC's voting intention.

## Appendix 1

## Overview of initiatives that LGSPC is an active member of

The table below is a list of organisations and initiatives that LGPSC is an active member of and includes a brief assessment of the efficiency of the initiative and outcomes during 2022.

| ***Organisation/Initiative Name*** | ***About the organisation/initiative*** | ***Efficiency and outcomes*** |
|---|---|---|
| PRI | Largest RI-related organisation globally. Helps with research, policy influence and collaborative engagement. During 2022, LGPSC Head of Stewardship has been a member of the PRI Plastics Working Group and the PRI Tax Working Group. | PRI is a standard bearer of good practice for RI. LGPSC has been a member of PRI since inception of the pool. We view LGPSC's active participation in PRI through submission of an annual report and through membership of PRI Working Groups as clearly value-adding to ongoing RI development and pursuit of Stewardship Theme engagements |
| IIGCC<br><br>(Institutional Investor Group on Climate Change) | Influential asset owner and asset manager group. Useful for climate change research and policy influence. During 2022, LGPSC Head of Stewardship has been a member of the Corporate Programme Advisory Group. | IIGCC's corporate engagement and policy engagement programmes are both highly value-adding to LGPSC's work on climate change on behalf of all Partner Funds. It has a clear purpose and seems attentive to member needs and input. IIGCC engages broadly with stakeholders, for example with policy makers in the lead-up to COP27 |
| Cross-Pool RI Group within LGPS | Collaboration group across the LGPS pools and funds. Includes funds and pool operators. LGPSC Head of | This is a good forum to allow discussion between like-minded investors, who operate in the same regulatory environment and with similar expectations |

| | | |
|---|---|---|
| | Stewardship was Vice Chair of the group during 2022. | from Partner Funds and beneficiaries, on RI topics of interest and/or urgency, including net zero commitments for investors, human rights risks, biodiversity etc. |
| The Local Government Pension Scheme Advisory Board<br>Local Government Pensions<br>SAB<br>England and Wales | LGPSC Head of Stewardship is a member of an RI Advisory Group to SAB that was formed at the start of 2022. Discussions are held on RI relevant policies and standards that will have direct or indirect implications for LGPS funds and pools | Discussions during 2022 have centred around themes such as just transition, impact investing and DLUHC's plan to require TFCD-aligned reporting across LGPS Pools and Funds. |
| Transition Pathway Initiative<br>(TPI)<br>Transition Pathway Initiative | Analysis of companies based on their climate risk management quality and their carbon performance. TPI analysis (by research team at LSE Grantham Research Institute on Climate and the Environment) is highly regarded and carries industry influence. LGPSC Head of Stewardship was a member of the TPI Steering Committee during H2 2021, and since October 2021 a member of the Board to the newly formed TPI Limited. Her role as Board member to TPI Limited will be taken over by LGPSC CEO after her departure. | TPI is a highly useful tool that LGPSC uses directly to inform engagement and voting on behalf of Partner Funds. We view very positively TPI's close collaboration with CA100+ during 2020 and 2021 in the roll-out of the Benchmark Framework which allows evaluation of company progress against Paris alignment on key parameters (targets, actions, disclosures).<br>In 2022, TPI established the Global Climate Transition Centre, an independent, authoritative source of research and data on the progress of the financial and corporate world in transitioning to a low-carbon economy. The TPI Centre's analysis considers corporate climate governance and carbon emissions. |

| | | |
|---|---|---|
| CDP | CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. | Our membership of CDP is in support of ongoing work for carbon emissions reporting across companies and sectors, and to tap into analysis and research. We welcome CDP's work on deforestation, including a "Forest champions programme", which we aim to tap into for our current and future engagement on deforestation. |
| 30% Club Investor Group | Investor group engaging both UK listed equities and increasingly companies abroad, on gender diversity.<br><br>LGPSC has been a member since inception of our Company | This forum has a clear target and allows for discussion, learning and direct engagement with like-minded peers on an ongoing critical governance issue. Throughout 2022, a sub-set of 30% Club Investor Group members, including LGPSC, has engaged in the Japanese market. |
| BVCA<br><br>British Private Equity and Venture Capital Association | UK trade body for private equity. | This forum is very useful for deal flow information. It also runs discounted training courses which helps build knowledge. |
| LAPFF<br><br>Local Authority Pension Fund Forum | Engagement with companies in the UK and abroad, assisting LGPS funds with sustainable and ethical investment challenges. | LAPFF has conducted engagements that is complimentary to LGPSC's stewardship theme engagement effort, for instance in reaching out to communities affected by the collapse of Brumadinho tailings dam operated by Vale and BHP. |

| | | |
|---|---|---|
| Climate Action 100+ | Engagement collaboration of more than 700 investors with a combined $68 trillion assets under management. Engaging 166 companies on climate risk that are responsible for 80% of global industrial GHG emissions. LGPSC Head of Stewardship is a member of the Mining and Metals Sector Group. | This is a targeted and robust investor collaboration which LGPSC views as highly value adding relative to climate change risk management. The 2021 CA100+ Benchmark Framework, with scores published in March 2022 and updated in October 2022, embeds structure and rigour to assessments of companies against a Paris trajectory |
| Investor Forum | High quality collaborative engagement platform set up by institutional investors in UK equities.<br><br>LGPSC has been a member since inception of our Company. | LGPSC co-sponsored an Investor Forum coordinated plastic pellet prevention project during 2020-2021. The overarching goal of this project is to help companies achieve and maintain zero pellet loss across their pellet handling operations.<br><br>The first industry standard specification for plastic pellet handling was published in July 2021 |

**Appendix 2**

# Stewardship themes: climate risk, plastic pollution, responsible tax behaviour and tech sector risks showing the Stewardship Strategy, measures of success, engagement highlights and case study for each[1]

## Climate risk stewardship theme

**Stewardship strategy**: Engagement is done through key collaborative initiatives including CA100+, Institutional Investor Group on Climate Change (IIGCC) and the Transition Pathway Initiative (TPI).

**Measures of success**: We assess progress against the underlying objectives of the CA100+ engagement project, and against improvements on TPI score for management quality and carbon performance. Our aims are:

- To lead or be in the focus group of at least five CA100+ company engagements over the next year, prioritising engagements that overlap with companies that are identified as high risk within Partner Fund Climate Risk Reports
- To see progress in the CA100+ Benchmark Framework (launched March 2021)
- To see improvements on TPI score for management quality in key engagements
- To see improvements on TPI score for carbon performance in key engagements

**Engagement highlights during 2022**
During 2022 the following engagement highlights were achieved

- 547 companies engaged on 1022 climate-related issues and objectives with progress on 378 specific objectives.

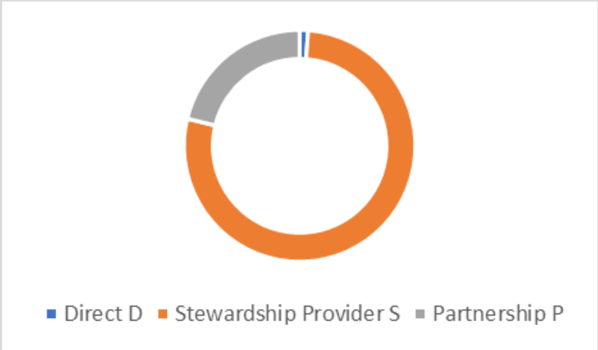
- Following a surge in climate transition plan disclosure, alongside a corresponding increase in “Say on Climate” votes at corporate AGMs, these areas have become an area of focus for CA100+ co-leads, including LGPS Central, in their climate related engagements. LGPS Central voted against climate-related resolutions at the AGMs for Shell, BP and Glencore. We followed up the votes at Shell’s AGM with a letter to the Chair of the Board detailing our rationale for the vote.

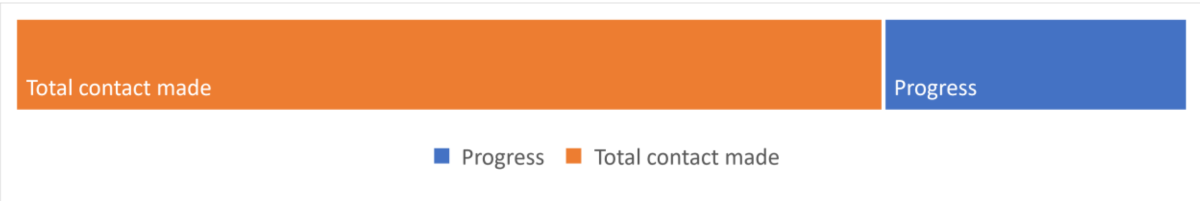
- Provided evidence to the Court as Shell’s Board of Directors were sued by ClientEarth for their mismanagement of climate risk.

- Examples of these engagements carried out by EOS include repeatedly meeting with management at BP to challenge their climate strategy. EOS also made a statement at the company’s AGM.

- EOS also engaged with TotalEnergies, having determined that the company’s climate strategy remained materially below their sector-specific expectations. EOS escalated their concerns by pre-declaring their intention to recommend a vote against the company’s climate change progress report. EOS also met with the CEO at Total's headquarters in Paris.

- In the mining sector "Say on Climate" votes were also common in 2022. In engagement ahead of the votes, EOS discussed different approaches to targeting Scope 3 emission reductions with Anglo American and Rio Tinto.




## Climate engagement case

**Glencore**

**Theme:** Climate change

**Objective:**

We expect companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. We also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

**Engagement:**

We sent a letter to the CEO of Glencore from LGPS Central, outlining concerns that led us to vote against Glencore's climate progress report at the 2022 AGM. Glencore's total carbon footprint is highly correlated with coal production. We take the view that the company should seek alignment with the International Energy Agency's (IEA) NZ2050 coal pathway rather than an overall fossil fuel pathway. Based on Glencore's current disclosures, we are concerned that Glencore's current plans to reduce coal production over the next decade appear inconsistent with a 1.5C trajectory. In a letter to Glencore's CEO in December 2022, signed by eight investors including LGPS Central, we reiterated this concern asking for clarification on the expansionary capital expenditure for thermal coal and whether this is consistent with a 1.5C trajectory.

**Outcome**: Glencore has responded to the letters stating that the company will provide further detail in the upcoming 2022 report against the climate strategy, and that they welcome our feedback to these disclosures. In December 2022, Glencore decided to withdraw a coal project in Australia from the current approvals process. We are seeking a meeting with the company to discuss how this will affect Glencore's achievement of climate targets and the responsibly managed decline of coal assets, alongside other issues raised.

## Plastic pollution stewardship theme

**Stewardship strategy**: We will leverage investor collaboration opportunities for instance through the PRI Plastics WG and Investor Forum's Marine Plastic Pollution project. Voting will be engagement led, and we will e.g., consider co-filing or supporting shareholder resolutions that relate to better risk management (reduce plastic use, reduce plastic waste, increase recycling, invest in relevant R&D).

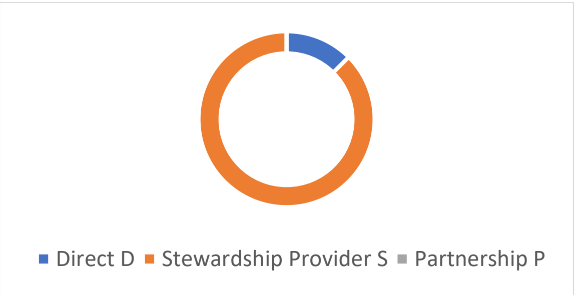
**Measures of success were**:

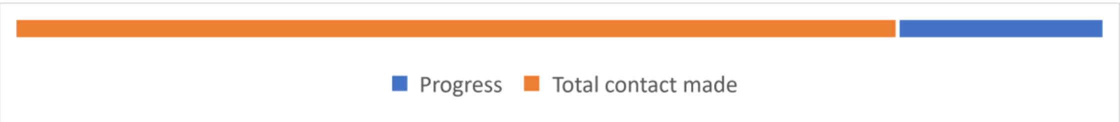
- We aim for positive interactions at senior levels of target companies and acknowledgement of plastic as a business risk, along with commitments to strategies or targets to manage those risks.
- We aim to lead or be part of at least five plastics-related company engagements over the next financial year.
- We aim to support investor expectations – e.g., as expressed by the PRI Working Group – in dialogue with companies

**Engagement highlights during 2022 were:**

- 43 companies engaged on 56 plastics and circular economy related issues and objectives, with progress on 15 specific objectives.
- LGPSC continues to participate in a collective engagement on microfibres. As part of this engagement, LGPSC co-signed a letter to the Secretary of State for Environment, Food, and Rural Affairs to highlight concerns over the risk posed by microfibre pollution, recommending the government mandate the installation of microfibre filters in all new washing machine filters from 2025.
- During the first half of 2022, LGPSC engaged with 7 companies regarding the use of plastic packaging. Each of the manufacturers in the engagement program had the tackling of plastic pollution high on the agenda.

This engagement led to a recognition of the need for government intervention, which prompted one of the collaborators to invite investors to support the "business statement for a legally binding UN Treaty on plastic pollution". 37 institutional investors have now signed that statement.



**Case study**

| |
|---|
| PRI PLASTICS WG (SUB-GROUP) – ENGAGEMENT WITH SIX PACKAGING COMPANIES<br><br>Theme: Plastic pollution<br><br>Objective: Engagement project with six packaging companies, asking these to reduce, re-use and replace fossil-fuel based plastics in their packaging products.<br><br>Engagement: Meetings have been held with senior management at Amcor (Australia), Berry Global (US), Huhtamaki Oyj (Finland), LyondellBasell (US), Mondi (UK) and Sealed Air (US). We have asked for more transparency on materials used, (more ambitious) targets for the use of more sustainable and circular materials, and ESG performance indicators in executive remuneration. Companies have responded positively to our asks e.g., by introducing SASB reporting standards providing more insight into materials used. Overall, dialogues have been very constructive. All companies have set plastic reduction/recycling/reuse targets which show ambition. We have also seen progress with companies on adding ESG related KPIs in remuneration. We would like to see removal of plastics and use of alternative materials scaled up.<br><br>Outcome: This engagement project will now be closed after two years due to steady progress by these packaging companies. While we would like to see greater ambition (short/medium-term |

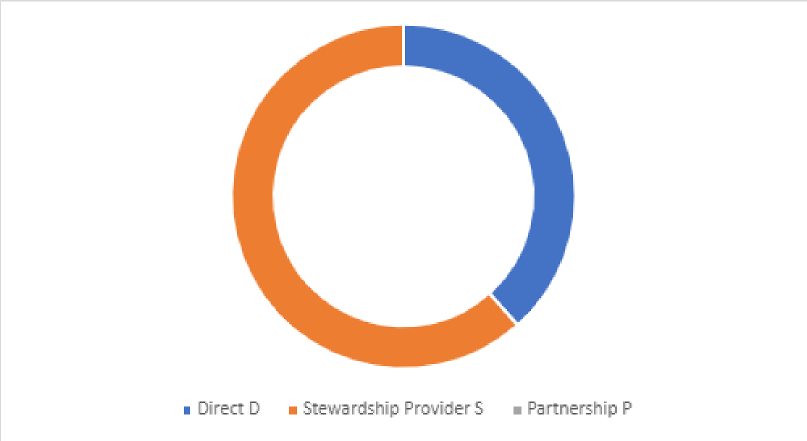
## Responsible tax behaviour stewardship theme

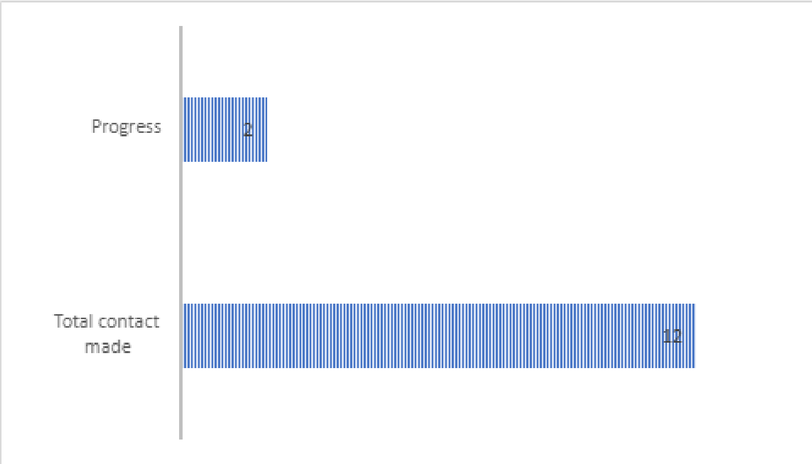
**Stewardship strategy**: We will leverage investor collaboration opportunities for instance through PRI Tax Investor Working Group and a Tax Roundtable (led by NBIM (Norway) and APG (Netherlands). Voting will be engagement led, and we will e.g., consider co-filing or supporting shareholder resolutions that relate to better risk management (through tax policy, board oversight, country-by-country reporting).

**Measures of success were**:
- We aim for positive interactions at senior levels of target companies and acknowledgement of lack of tax transparency as a business risk, along with commitments to strategies or targets to manage those risks
- We aim to lead or be part of at least five tax-related company engagements over the next financial year
- We aim to support investor expectations – e.g., as expressed by the GRI tax standard and the UK Fair Tax Mark – in dialogue with companies

**Engagement highlights during 2022 were:**
- 11 companies engaged on 13 tax related issues and objectives, with progress on two specific objectives.
- LGPS Central as part of a group of institutional investors previously engaged with Barrick Gold regarding their tax policy and transparency. Since March 2021 this collaboration group has provided feedback to Barrick Gold on their Tax Contribution Report.
- LGPS Central as part of a collaboration lead by PRI engaged with Experian, to provide feedback regarding their 2022 tax report.

- LGPS Central and other institutional investors signed a letter to GlaxoSmithKline, attempting to initiate a dialog with the company to better understand their tax strategy.
- LGPS Central joined the PIRC and CICTAR Initiative on Responsible Corporate Tax. The initiative aims to facilitate active, collaborative engagements with multinationals on tax transparency and responsible tax. In May 2020 PIRC published a tax brief outlining the expectations of the companies.



## Case study

**Amazon.com, Inc.**

**Theme:** Responsible Tax Behaviour

**Objective:** We recognise the importance of companies being accountable for and transparent about their tax practices. We expect portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting.

Through our engagement with companies on tax, we aim to support investor expectations – e.g., as expressed by the GRI tax standard and the UK Fair Tax Mark – in dialogue with companies.

**Engagement:**

In March 2022, in support of a shareholder proposal at **Amazon** asking for tax transparency, we signed a letter to the US Securities and Exchange Commission (SEC), alongside over 100 other investors. The company had earlier in January 2022 written to the SEC requesting approval for the shareholder resolution to be excluded from voting at the AGM.

**Outcome:**

The SEC ruled in favour of the shareholders and hence the proposal was put to a vote. **This represented one of the first times the regulator granted a shareholder request on tax matters**. The proposed tax transparency report had to be in line with the Global Reporting Initiative's (GRI) Tax Standard. We voted in favour of this resolution, and it received 17.5% shareholder support which is reflective of shareholder concerns.

**Barrick Gold**

**Theme:** Responsible Tax Engagement

**Objective:** We recognise the importance of companies being accountable for and transparent about their tax practices. We expect portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting. Through our engagement with companies on tax, we aim to support investor expectations – e.g., as expressed by the GRI tax standard and the UK Fair Tax Mark – in dialogue with companies.

**Engagement:** In April 2022, Barrick Gold published their inaugural tax report. While the report represented a positive step forward for the company in terms of tax transparency, there were some areas which we felt could be further improved. In particular, these included the potential for country-by-country tax reporting, as well as further details regarding subsidiaries which are registered in low tax jurisdictions.

**Outcome:** This is an ongoing engagement, with investors providing annual feedback to the company. In 2023 Barrick Gold released their new tax report, prompting a new round of investor

## Human Rights stewardship theme

**Stewardship strategy**: We will leverage investor collaboration opportunities for instance the New Zealand Crown-owned investors' coalition aimed at eliminating terrorist and violent extremist content online. Voting will be engagement led, and we will e.g., consider co-filing or supporting shareholder resolutions that relate to better risk management on social media content control and human rights risks.

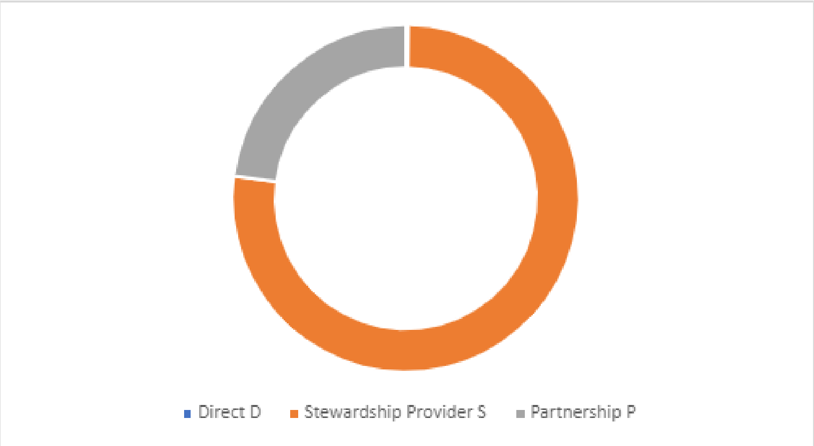
**Measures of success were**:

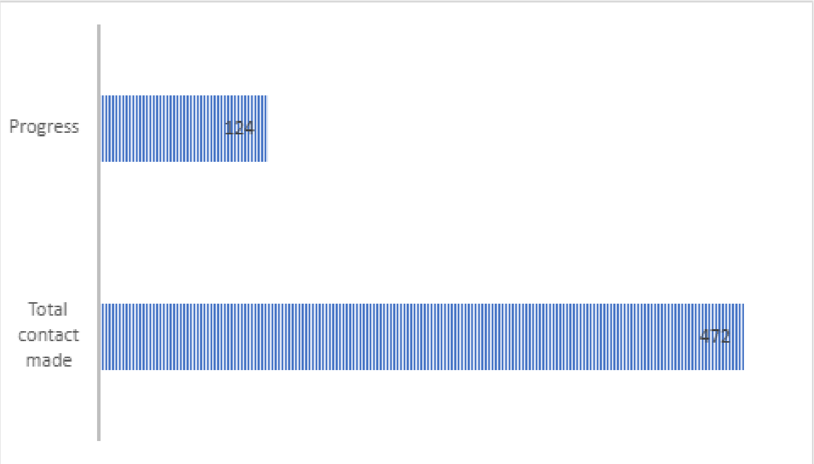
- We aim for positive interactions at senior levels of target companies and acknowledgement of relevant risk factors.
- We seek Board oversight of human rights risk; company policy to respect human rights; relevant measures to manage human rights risks integrated into corporate business strategy, risk management and reporting; engagement with stakeholders and grievance mechanisms.
- We expect strategies for responsible business conduct should follow the UN Guiding Principles for Business and Human Rights, where applicable.
- We encourage improvements in benchmarks such as Ranking Digital Rights and the Workforce Disclosure Initiative (WDI).

**Engagement highlights during 2022 were**

- 277 companies engaged on a range of 427 broader human rights risks. Progress was seen in 124 cases against specific objectives and three engagements were concluded during the year.
- LGPS Central have collaborated with the Swedish Council on Ethics and other institutional investors to conduct engagement with tech giants with the aim of strengthening their management of human rights risks and impacts.

- Prior to this collaboration we were able to engage with Meta during September 2022. During this engagement several issues were discussed, including Meta's first human rights policy report.
- LGPS Central met with ITV to discuss their Modern Slavery Statement.
- LGPS Central were also able to meet with Tritax during July 2022, to discuss their approach to modern slavery.



## Case study

**ITV Plc**

**Theme: Modern Slavery**

**Objective:**

Over the last two years, LGPSC has been a member of a collaborative investor-initiative convened by Rathbones Group Plc (Rathbones) that has successfully encouraged laggard **FTSE 350 companies** to meet the reporting requirements of Section 54 of the Modern Slavery Act 2015. According to the Act, companies with a turnover of more than £36 million per year must publish a modern slavery statement and ensure that the statement is approved by the board; signed by a director; and reviewed annually and published on the company's UK website. We engage with companies for which we would like to get in-depth understanding of their approach to modern slavery risks, including modern slavery governance, policies, and mitigation.

**Engagement:**

Alongside Rathbones Group Plc, we held a meeting with **ITV plc** discussing the company's management of modern slavery risks. We discussed ITV's corporate governance process and asked whether there are any plans to link modern slavery targets to executive pay. We also discussed the company's practices on whistleblowing, past whistleblowing instances due to modern slavery, training, and the company's collaboration efforts to tackle the issue. We also asked the company about its supply chain and oversight for its suppliers, including identification of high-risk suppliers and conducting unannounced audits.

**Outcome:**

We appreciate ITV's commitment to mitigate modern slavery risk. The company is compliant with the Modern Slavery Act and has published its sixth Modern Slavery Act Transparency Statement. In terms of modern slavery risk governance, the company's General Counsel is the executive sponsor and heads the steering committee which meets on ad-hoc basis. The new Chair is also the chair of another company, which is generally more exposed to modern slavery, bringing relevant experience for robust risk management. ITV also provides appropriate modern slavery training to staff. The company has disclosed a comprehensive procurement policy 2021, stating that the company conducts supplier-risk mapping, due diligence questionnaires and periodic assessments.

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worcestershire
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# PENSION COMMITTEE
# 28 JUNE 2023

# PENSION INVESTMENT UPDATE

## Recommendation

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

   a) **The Independent Financial Adviser's fund performance summary and market background be noted (Appendices 1 and 2);**

   b) **The update on the Investment Managers placed 'on watch' by the Pension Investment Sub Committee be noted;**

   c) **The funding position compared to the investment performance be noted;**

   d) **The update on the Equity Protection current strategy be noted;**

   e) **The update on Responsible Investment activities, Local Authorities Pension Fund Forum (LAPFF) (Appendix 3) and Stewardship investment pooling be noted; and**

   f) **The update on 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 Financial Adviser has provided a Fund performance summary and a brief market background update at Appendix 1 up to the end of March 2023 together with the following supporting information.

- Portfolio Evaluation overall Fund Performance Report up to the end of March 2023 (Appendix 2)

The market background update is provided to add context to the relative performance and returns achieved by the Fund's investment managers.

3. The Committee also receives regular updates regarding 'on watch' managers and will receive recommendations in relation to manager termination in the event of a loss of confidence in managers by the Pension Investment Sub Committee (Appendix 1).

## Property and Infrastructure Commitments

4. The table below highlights the total commitments to the end of March 2023 being £990million and the amount that has been drawn, i.e., the capital invested being £769million (78%). 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 Mar 2023 £m | % |
|---|---|---|---|
| Total Commitment Property Investments | 391 | 313* | 80% |
| Total Commitment Infrastructure Investments | 599 | 456 | 76% |
| | | | |
| **Total** | **990** | **769** | **78%** |

** 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, 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. The last actuarial valuation was undertaken as at the 31 March 2022. The Fund had a funding level of 101% (90% 31 March 2019) as at the end of March 2022.

*Market turmoil*

7. 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.

8. 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 elevated rate of inflation and increasing interest rate horizon will continue in the short term, the recent asset allocation review focussed on adjusting the investment strategy 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 | Mar-23 |
|---|---|---|---|---|---|---|
| Assets £'M | 1,952 | 2,795 | 2,612 | 3,367 | 3,585 | **3,547 |
| Liabilities £'M | 2,606 | 3,090 | *3,243 | *3,404 | 3,585 | *3,749 |
| **Surplus (-) / Deficit** | **654** | **295** | **631** | **37** | **(0)** | **202** |
| **Estimated Funding Level** | **75%** | **90%** | **81%** | **99%** | **101%** | **96%** |

* *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**

9. 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.

10. 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.

11. 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**

12. Table 3 below shows the asset allocations as at 31 March 2023 against the Strategic Asset Allocation targets agreed by Committee in June 2020 and updated on the 8 December 2021 to take into account the investment in Global Sustainable equities. This highlights that our overall investment in equities is **68.8%** (71.4% as at June 2022) (including the equity protection) compared to the revised strategic asset allocation target of 70%.

13. 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.

**Table 3 Strategic Asset Allocation targets**

| Actual Fund as at 31 March 2023 | | 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 | 5.5% | LGPSC Global Sustainable | 6.0% |
| **Passively Managed Equities – Market Capitalisation Indices** | **28.5%** | **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 | 6.2% | Europe ex UK | 5.5% |
| **Passively Managed Equities – Alternative Indices** | **15.8%** | **Passively Managed Equities – Alternative Indices** | **15.0%** |
| Quality Factor | 9.9% | Quality Factor | 9.0% |
| LGPSC Climate Factor | 5.9% | LGPSC Climate Factor | 6.0% |
| **Equity Protection** | | | |
| **Total Equities** | **68.6%** | **Total Equities** | **70.0%** |
| | | | |
| **Fixed Interest** | **7.8%** | **Fixed Interest** | **10.0%** |
| Actively Managed Bonds &<br>Corporate Private Debt | 5.2%<br>2.6% | Actively Managed Bonds &<br>Corporate Private Debt | 6.0%<br>4.0% |
| **Actively managed Alternative Assets** | **23.7%** | **Actively managed Alternative Assets** | **20.0%** |
| Property | 8.6% | Property & Infrastructure | 20.0% |
| Infrastructure | 15.1% | | |
| **TOTAL** | **100%** | **TOTAL** | **100%** |

**Responsible Investment (RI) Activities**

14. 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.

15. 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)

16. 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.

17. The attached quarterly engagement report (January to March 2023) Appendix 3 features LAPFF company engagements and their records of their collaborative engagements, community meetings, policy responses, and media coverage. The key feature is climate change.

18. 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**

19. 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.

20. The Fund's 2023 submission to the Stewardship Code 2020 is being prepared and is currently undergoing its final internal review. It is expected that the Fund will meet the 31 May 2023 deadline for submission.

21. 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***

22. 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**

23. 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). Details of Q4 2022/23 voting disclosures can be found [here].

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

24. 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.

25. The proposals under the consultation are similar to the new requirements that came into force for private sector pension funds from 1 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.

26. The consultation closed on 24 November 2022. The Fund did not submit a response as it has similar views to those of LGPS Central and a number of partner funds in the Pool who themselves submitted returns. The Scheme Advisory Board have also submitted a response which can be found on the following link SAB DLUHCClimateRiskReportingresponse.

27. Authorities' first reports based on the findings are due by December 2024 covering the 2023/24 scheme year.

28. 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.

## Contact Points

Specific Contact Points for this report

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Head of Pension Investments, Treasury Management & Banking
Tel: 01905 843103
Email: sloutfy@worcestershire.gov.uk

## Supporting Information

- Independent Financial Adviser summary report (Appendix 1)
- Portfolio Evaluation Overall Fund Performance Report (Appendix 2)
- LAPFF Quarterly Engagement Report January to March 2023 (Appendix 3)

## 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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REPORT PREPARED FOR

# Worcestershire Pension Fund

June 2023

**Philip Hebson**
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## Independent Investment Advisor's report for the Pension Committee meeting

## 28 June 2023

## Worcestershire Pension Fund

**Quarter to end March 2023**

### Summary and Market Background

The value of the Fund in the quarter rose to £3.553bn, an increase of £119m compared to the end December value of £3.434bn. The Fund produced a return of 2.7% over the quarter, which was 0.5% behind the benchmark. The main reason for the underperformance was attributed to the Property and Infrastructure mandates. Over a 12-month period the Fund recorded a negative relative return against the benchmark of -0.5% (1.2% v. -1.7%). Performance over three years against the benchmark has dipped to -1.4%. The Fund has performed at or near the benchmark over the five- and ten-year periods, details of which can be found in Portfolio Evaluation Limited's report.

As already reported, the equity protection strategy in its current form has been liquidated. 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 is unlikely to be in place until Q4.

With the Triennial Actuarial Valuation successfully completed which has not shown anything that is unexpected or that would require major changes in the Fund's investment strategy, attention turned to the Strategic Asset Allocation review. The main items that needed 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 process of evolution to keep the Fund in good shape should continue, the details of that are contained within the Strategic Asset Allocation review, to ensure that we have sufficient liquidity along with the right mix of investments to diversify risk and to meet the longer-term objectives.

In summary, these are the recommendations contained in the Strategic Asset Allocation review, which was approved by the Pensions Committee on 22nd March.

Exposure to China

To seek that we do not allocate to China within the Nomura Mandate and that this then be left to the Fund Manager to allocate this proportion of the Fund over other areas within the existing mandate.

Performance of LGPSC Emerging Markets

That the Fund awaits the outcome of the 3-year Emerging Markets review being undertaken by LGPSC before deciding what action to take on this mandate.

Passive equity allocation

To increase the Fund's passive market allocation by 5% to the US and reduce the UK allocation by 5%.

Investment in private equity

Allocate up to 5% of the Funds Strategic asset allocation (SAA) to Private Equity (PE), within the alternatives sleeve alongside Property & Infrastructure, and that this be built up steadily over the strategic asset allocation period from equities.

Equity protection

That officers look to procure a segregated Equity Protection strategy mandate so that it is available to the Fund as and when required.

Confirm re-up policy

Although this is normal practice for the Fund, our investment strategy does not explicitly specify this. It should be stressed that this will be on a case-by-case basis, being mindful of allocation size/ scale in relation to the Fund.

Income-generating assets

That the Fund continues to explore opportunities to deploy capital in alternative assets with an income focus to ensure that a continued long term cashflow solution is in place.

Liquidity waterfall

The Fund will establish a collateral waterfall to ensure liquidity requirements are met and only use this liquidity waterfall for one off / very short-term liquidity needs and that this should be undertaken with dynamic monitoring so that income is only released to match current requirements, to prevent a build-up of cash to unnecessarily high levels.

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.

Performance during Q1 2023 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 continuing recovery in values for the public market assets, and although on a wider basis property and infrastructure values suffered some falls, our mix of investments fared relatively very well. Although the impact of inflation on the cost of living continues 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 had a good quarter, with Nomura (Pacific) showing an outperformance of 1.1% and LGPS Central (Emerging Markets) outperformed by 1.2%, with all three managers contributing to that (although UBS did not achieve the target return). It is good to see a positive contribution in Q1 from the LGPS Central Global Sustainable Active Funds, with the Targeted strategy outperforming by 3.0% and the Thematic strategy by 1.2%. LGPS Central (Corporate Bonds) slightly underperformed the benchmark, by -0.2%. The total property fund showed an underperformance against our own benchmark of -3.2%, which is a relatively good position given the hiatus seen in property in general during Q1. In the context of the long-term nature of the Fund's investment strategy these times of weakness are not significant detractors from overall performance.

The alternative passive strategies outperformed the passive equities by 0.3% (0.1% v. -0.2%). Active equities also outperformed passive equity, by 1.5% (1.3% v. -0.2%). Out of the passive geographies Europe was again the winner (8.8%), with North America (4.7%) next, with the UK (3.1%) being the laggard this time.

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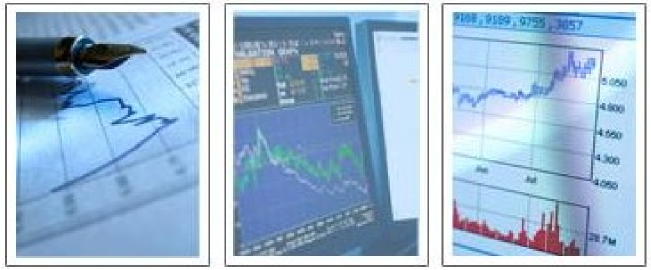


Specialists in Investment Risk and Return Evaluation

Quarterly Risk and Return Analysis
Total Fund

# Worcestershire County Council Pension Fund

Period ending 31st March 2023

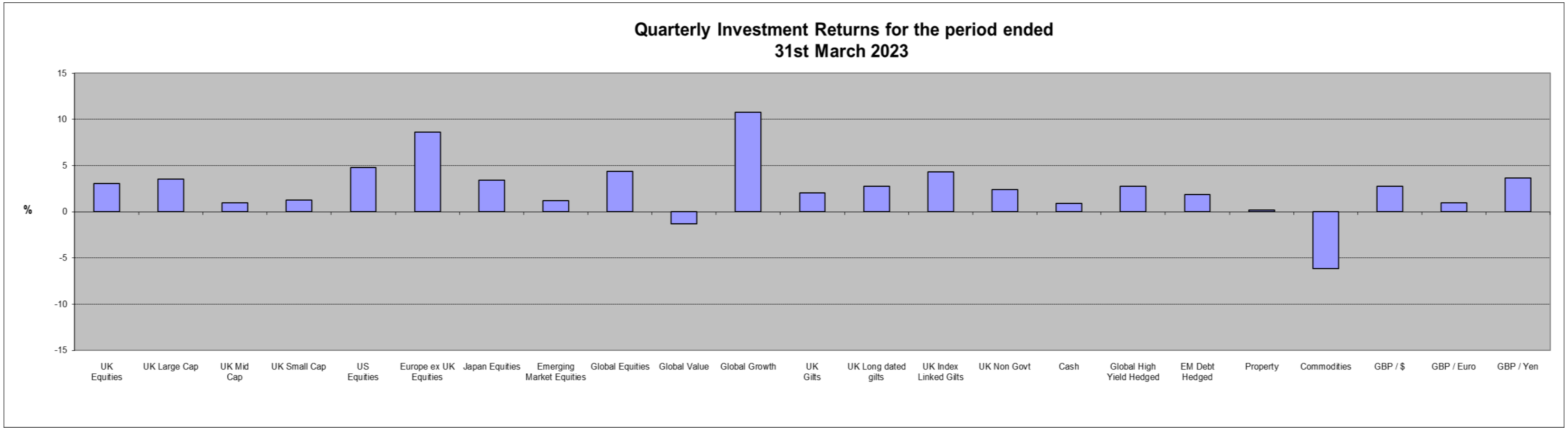


# Contents

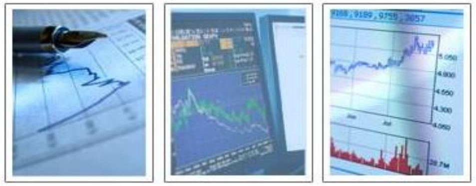
# Portfolio Evaluation Ltd Market Commentary Q1 2023 (Sterling)

Q1 2023 witnessed key equity markets, corporate bonds, many gilt markets, and property rising. Commodities was the key loser. Sterling also continued to strengthen; however, over the year the strong dollar / weak sterling and the weight of USD assets in the global indices has impacted GBP returns. For the quarter within global equity sectors the majority have had positive returns except for Energy, Healthcare, Utilities, and Information Technology which had significant negative returns. The year ended March 2023 has seen mixed results with some asset classes generating positive returns (led by UK equities, European equities and Commodities) and some negative returns (led by bond asset classes and property). This reflects the struggles investors have had digesting high inflation, central bank tightening, the war between Ukraine and Russia, energy supply problems, tightening labour markets, COVID and output falling in China (this now appears to have changed). Over the three-year period (since the first lockdown) equity markets and commodities have had strong positive return whilst most bond asset classes have had negative returns.  Over the one and three- year periods we have seen value stocks outperform growth stocks, but over Q1 Growth has outperformed value equities.

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.



PORTFOLIO EVALUATION LIMITED



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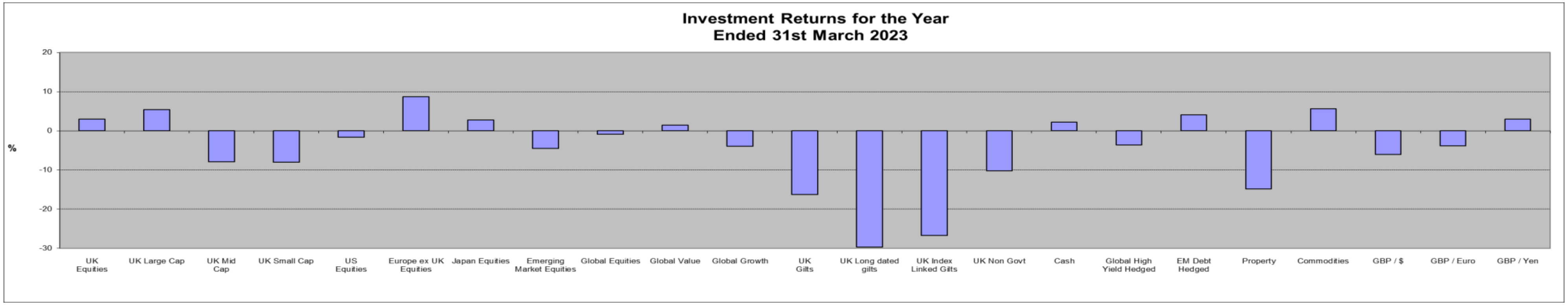


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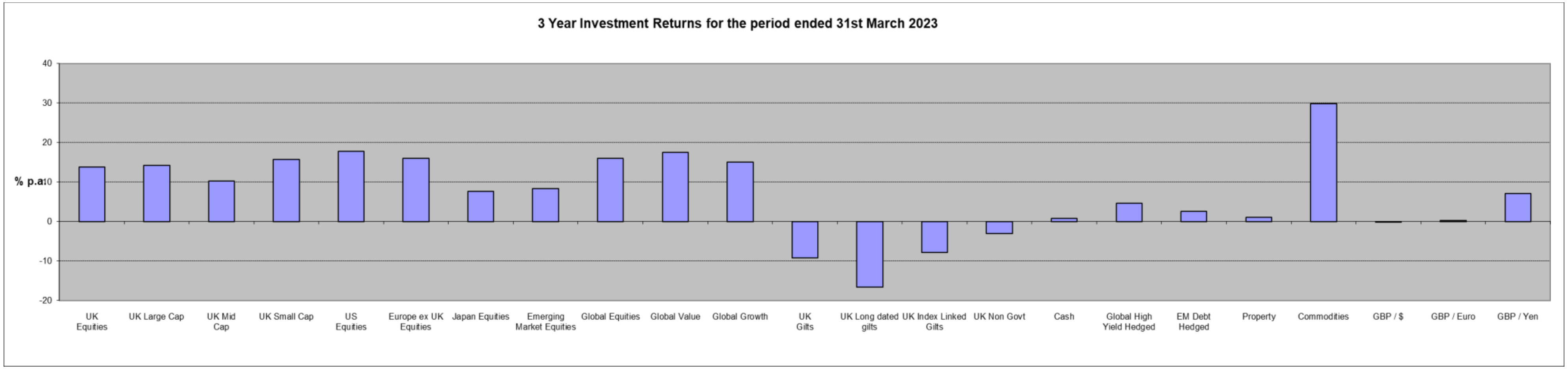
It appears that going into 2023 many investors are apprehensive. Many investors feel that the era of low interest rates fuelling markets has ended. Although inflation rates have reduced, they remain stubbornly high, and growth will reduce. Many market commentators expect the U.S. and Europe to escape recession. However, they do expect interest rate rises albeit at a slower pace than in 2022 and to peak this year. Risk within asset classes and correlations has increased over the year. The outlook for market risk is uncertain.




**<u>For further information</u>** If you would like further information about the topics contained in this newsletter or would like to discuss your investment performance requirements please contact Nick Kent or Deborah Barlow (e-mail: nick.kent@portfolioevaluation.net) or visit our website at www.portfolioevaluation.net. Please note that all numbers, comments, and ideas contained in this document are for information purposes only and as such are not investment advice in any form. Please remember that past performance is not a guide to future performance.

# Worcestershire County Council Pension Fund - Commentary
# Period ending 31st March 2023

**QUARTERLY SUMMARY:** **Worcestershire County Council Pension Fund Return: 2.7%** **Benchmark Return: 3.2%** **Excess Return: -0.5%**

- This quarter has been quiet as regards new fund investments. The final cash from the R&M EPO was transferred out. Significant investments were made into the Gresham House Forestry Growth & Sustainability Fund and the Gresham House BSIF II Infrastructure Fund (allowing for reporting lags).

- The Fund and its benchmark have both generated positive returns, but the Fund has underperformed its benchmark by -0.5% excess.

- Equity returns outperformed the benchmark due to the Active Pool as all four portfolios in the Pool outperformed their benchmarks (the LGPSC Global Sustainable Equity Active Targeted Fund, the LGPSC Sustainable Equity Active Thematic Fund, the Nomura Far East portfolio, and the LGPSC EMM). The passive equity pool performed broadly in line with the benchmark (as expected) as did the Total Alternatives Equity Pool. Additionally Total Fixed Income outperformed its benchmark. The primary areas of underperformance have been generated by Property and Infrastructure asset classes. It should be noted that the positive appreciation of sterling versus the US dollar has been a negative contributor to the Fund.

- Within the primary asset classes, equity assets were the highest returning generators over the quarter at 4.3%. Fixed Income Assets had a return of 2.4%. Infrastructure assets had a return of -1.8% whilst Property assets generated the lowest return of -2.3%. Within equities, the Alts Pool had the highest return of 5.7%, the Passive Pool had a return of 4.6% (approximately in line with the benchmark) and the Active Pool had a return of 3.2%.

- The Fund remains underweight Total Fixed Income and is overweight equities primarily due to the overweight exposure to UK equities. Property and Infrastructure are in line with their strategic weights. The Fund underperformed the benchmark primarily due to Property and Infrastructure. Total Fixed Income and Asset Allocation were neutral contributors to excess return. Equity assets were a positive influence on excess return.

- The benchmark structure continues to influence excess return as, although the weight to Fixed Income and some equity portfolios is fixed, it is necessary to neutralise the asset allocation weights of property and Infrastructure to be in line with their asset class weights within The Fund. Any residual is allocated to largely to the UK passive portfolio but the LGPSC Global Sustainable Equity Active Targeted Fund, the LGPSC Sustainable Equity Active Thematic Fund are also impacted by the rebalancing process.

- The latest valuation data supplied by Bridgepoint, Green Investment Bank, Gresham House, Hermes, Invesco – UK Property Fund, Stonepeak Partners III, VENN and Walton Street is lagged by three months and was for periods ending June 2022 whilst the Gresham House Forestry Funds and the Stonepeak Partners Fund IV have lags of 6 months.

**YEAR SUMMARY:** **Worcestershire County Council Pension Fund** **Return: 1.2%** **Benchmark Return: 1.7%** **Excess Return: -0.5%**

- The Fund and its benchmark have generated positive returns, but the Fund has underperformed its benchmark by -0.5% excess. The underperformance has been primarily generated by equity assets, and by the performance of the Fixed Income assets which underperformed. The Infrastructure Pool slightly underperformed whilst the Property Pool 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 Active Equity Fund. The highest positive contributors to excess return were the EPO and Property assets.

- Infrastructure assets generated the highest return of 12.8% followed by Property with a return of 9.9%. Equity assets were the next highest return generators over the year and excluding the overlay generated a return of -0.3% whilst Fixed Income generated the lowest return with a return of -6.5%. Within equities the Passive Pool was the highest return generator followed by the Alternatives Pool and finally the Active Pool (generating returns of 2.6%, 0.3% and -4.8% respectively), all of them underperformed their benchmarks. Fixed Income assets had a return of -6.5% underperforming by -3.5%.

**THREE YEAR SUMMARY:** **Worcestershire County Council Pension Fund** **Return: 9.6% p.a.** **Benchmark Return: 11.0% p.a.** **Excess Return: -1.4% p.a.**

- Over the three-year period, the Fund has generated a positive return of 9.6% p.a. and has underperformed 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 decreased 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:** | **£3.6bn** |

# Total Fund Overview
# Worcestershire CC Pension Fund
# Report Period: Quarter Ending March 2023

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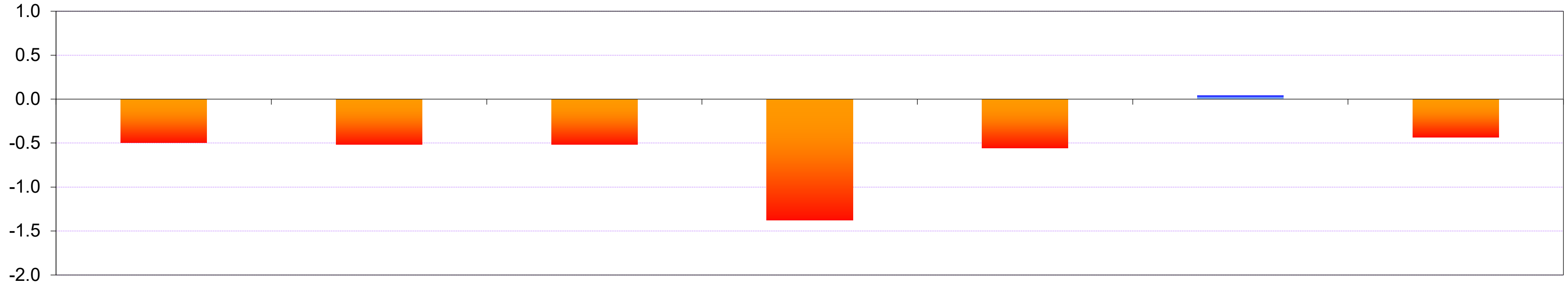
## Excess Return Analysis (%)




| | QTR | Fin YTD | 1 Yr | 3 Yr | 5 Yr | 10Yr | Since Mar 87 (p.a.) |
|---|---|---|---|---|---|---|---|
| Excess Return | -0.5 | -0.5 | -0.5 | -1.4 | -0.6 | 0.0 | -0.4 |
| Portfolio Return | 2.7 | 1.2 | 1.2 | 9.6 | 5.8 | 7.5 | 7.8 |
| Benchmark Return | 3.2 | 1.7 | 1.7 | 11.0 | 6.3 | 7.4 | 8.2 |

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

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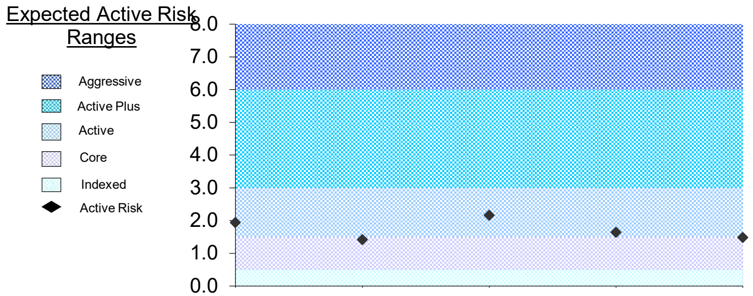
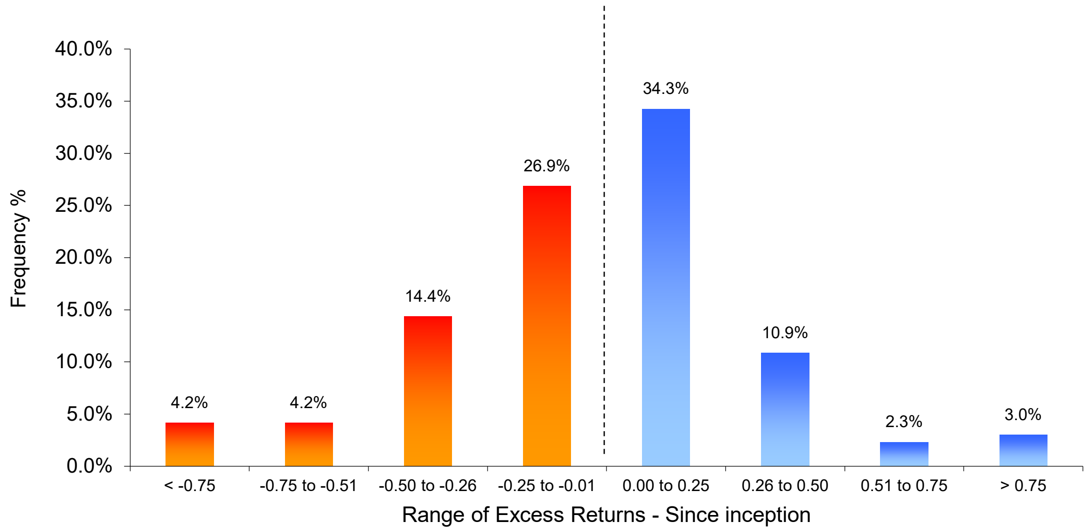
## Ex-Post Active Risk Analysis (%)




| | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Mar 87 |
|---|---|---|---|---|---|
| Active Risk | 1.9 | 1.4 | 2.2 | 1.6 | 1.5 |
| Portfolio Risk | 8.0 | 7.6 | 8.0 | 8.3 | 12.2 |
| Benchmark Risk | 8.8 | 7.9 | 9.3 | 8.8 | 12.1 |

## Excess Return Consistency Analysis




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

# Attribution to Total Fund Excess Return Analysis
# Worcestershire County Council Pension Fund for
# Quarter Ended 31st March 2023

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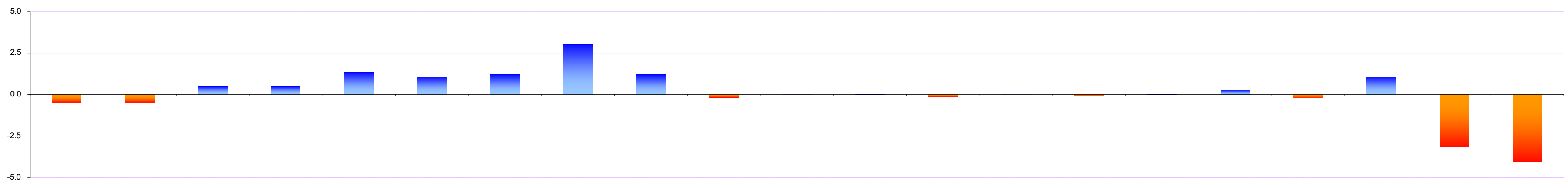
**Market Value: £3.6bn**

Returns Summary (%)

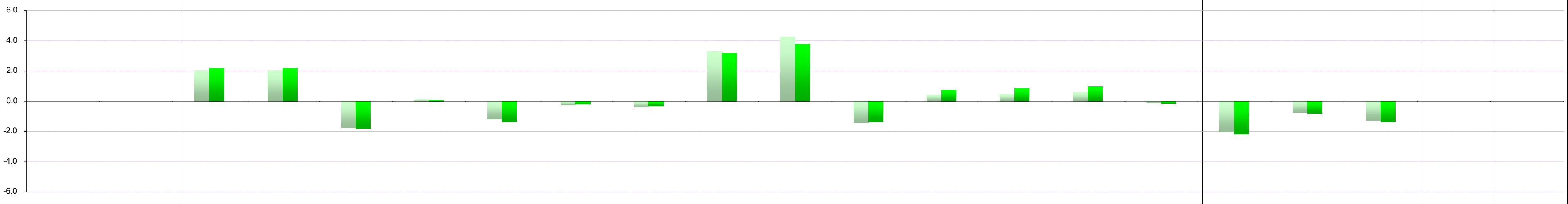


| | Total Fund | Total Fund ex Overlay | Total Equity | Total Equity ex Overlay | *Total Active* | Far East Dev - Nomura | EMM - LGPSC | Glb Sust Active Targeted - LGPSC | Glb Sust Active Thematic - LGPSC | *Total Passive* | UK - L&G | North American - L&G | Europe ex UK - L&G | *Total Alts* | MSCI Wld Qual - L&G | AW Passive Climate Factor Fund - LGPSC | Total Fixed Income | Corporate Bonds - LGPSC | Corporate Debt | Total Property | Total Infra |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Excess Return | **-0.5** | **-0.5** | **0.5** | **0.5** | **1.3** | 1.1 | 1.2 | 3.0 | 1.2 | **-0.2** | 0.0 | 0.0 | -0.1 | **0.1** | -0.1 | 0.0 | **0.3** | -0.2 | **1.1** | **-3.2** | **-4.0** |
| Portfolio Return | **2.7** | **2.7** | **4.3** | **4.3** | **3.2** | 3.0 | 1.4 | 7.4 | 5.5 | **4.6** | 3.1 | 4.7 | 8.8 | **5.7** | 7.6 | 2.7 | **2.4** | 2.4 | **2.5** | **-2.3** | **-1.8** |
| Benchmark Return | **3.2** | **3.2** | **3.8** | **3.8** | **1.8** | 1.9 | 0.2 | 4.3 | 4.3 | **4.7** | 3.1 | 4.6 | 8.9 | **5.7** | 7.7 | 2.7 | **2.2** | 2.6 | **1.5** | **0.8** | **2.2** |

Asset Allocation Summary (%)

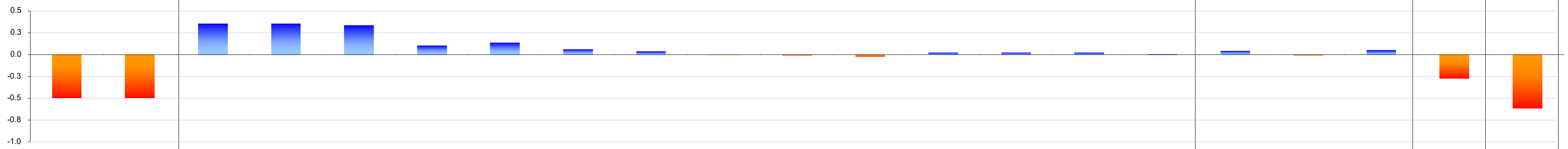
Net Exposure Start

Net Exposure End



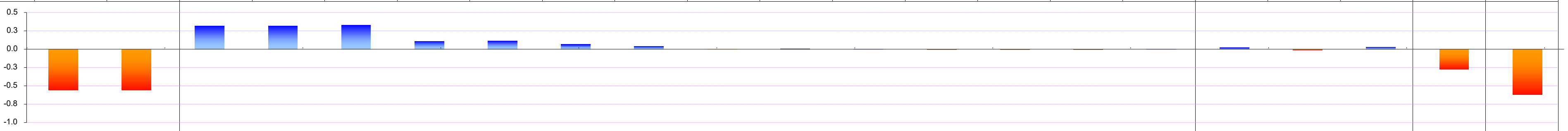
| | Total Fund | Total Fund ex Overlay | Total Equity | Total Equity ex Overlay | *Total Active* | Far East Dev - Nomura | EMM - LGPSC | Glb Sust Active Targeted - LGPSC | Glb Sust Active Thematic - LGPSC | *Total Passive* | UK - L&G | North American - L&G | Europe ex UK - L&G | *Total Alts* | MSCI Wld Qual - L&G | AW Passive Climate Factor Fund - LGPSC | Total Fixed Income | Corporate Bonds - LGPSC | Corporate Debt | Total Property | Total Infra |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Portfolio Start | **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 | **8.0** | 5.2 | **2.7** | **8.6** | **15.5** |
| Portfolio End | **100.0** | **100.0** | **68.5** | **68.5** | **24.2** | 10.1 | 8.6 | 2.2 | 3.3 | **28.5** | 17.1 | 5.1 | 6.2 | **15.8** | 10.0 | 5.9 | **7.8** | 5.2 | **2.6** | **8.6** | **15.1** |
| Benchmark Start | **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 | **10.0** | 6.0 | **4.0** | **8.6** | **15.5** |
| Benchmark End | **100.0** | **100.0** | **66.3** | **66.3** | **26.0** | 10.0 | 10.0 | 2.4 | 3.6 | **25.3** | 13.3 | 6.5 | 5.5 | **15.0** | 9.0 | 6.0 | **10.0** | 6.0 | **4.0** | **8.6** | **15.1** |

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 | Total Fixed Income | Corporate Bonds - LGPSC | Corporate Debt | Total Property | Total Infra |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Excess Return | **-0.5** | **-0.5** | **0.4** | **0.4** | **0.3** | 0.1 | 0.1 | 0.1 | 0.0 | **0.0** | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | 0.0 | **0.0** | 0.0 | **0.0** | **-0.3** | **-0.6** |

| | 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 | Total Fixed Income | Corporate Bonds - LGPSC | Corporate Debt | Total Property | Total Infra |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Asset Allocation | **0.1** | **0.1** | **0.0** | **0.0** | **0.0** | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | 0.0 | **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 | Total Fixed Income | Corporate Bonds - LGPSC | Corporate Debt | Total Property | Total Infra |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Stock Selection | **-0.6** | **-0.6** | **0.3** | **0.3** | **0.3** | 0.1 | 0.1 | 0.1 | 0.0 | **0.0** | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | 0.0 | **0.0** | 0.0 | **0.0** | **-0.3** | **-0.6** |

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.

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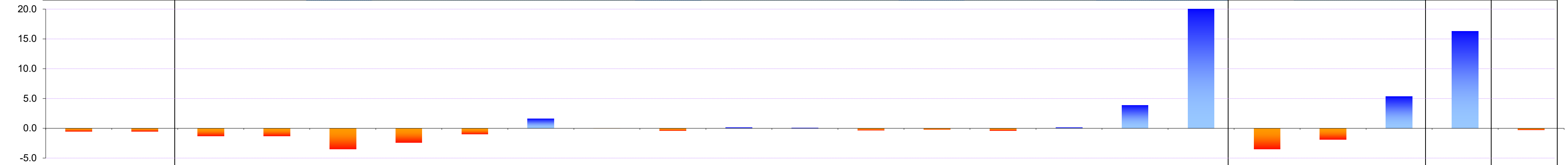
# Attribution to Total Fund Excess Return Analysis
# Worcestershire County Council Pension Fund for
# Year Ended 31st March 2023



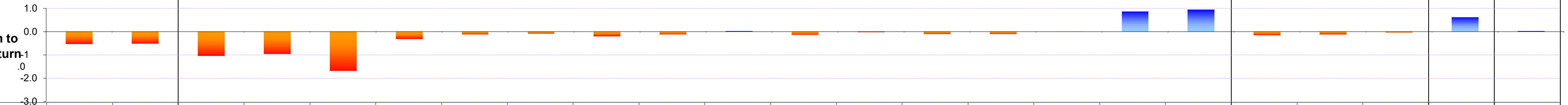
**Market Value: £3.6bn**

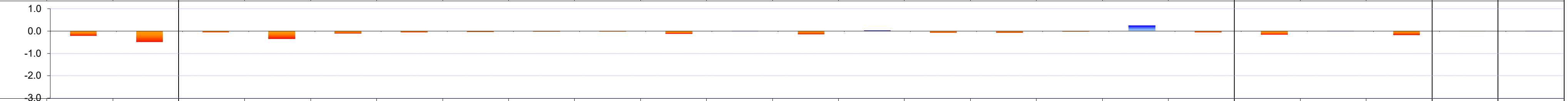
**Returns Summary (%)**

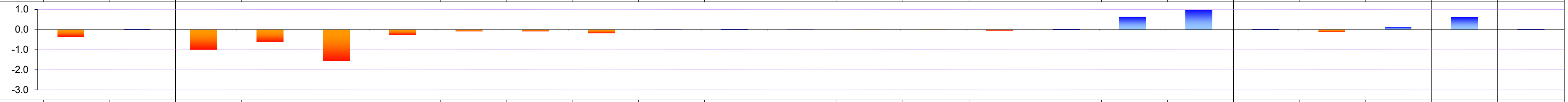


**Asset Allocation Summary (%)**

**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 | -0.5 | -0.5 | -1.3 | -1.3 | -3.5 | -2.4 | -1.0 | 1.6 | 0.0 | -0.4 | 0.1 | 0.0 | -0.3 | -0.2 | -0.4 | 0.1 | 3.9 | 20.0 | -3.5 | -1.9 | 5.3 | 16.3 | -0.3 |
| Portfolio Return | 1.2 | 0.9 | 0.0 | -0.3 | -4.8 | -3.0 | -4.9 | 3.5 | 1.9 | 2.6 | 3.0 | -2.5 | 8.1 | 0.3 | 0.1 | 0.6 | 3.9 | 20.0 | -6.5 | -10.8 | 11.3 | 9.9 | 12.8 |
| Benchmark Return | 1.7 | 1.4 | 1.3 | 1.0 | -1.3 | -0.6 | -3.9 | 1.9 | 1.9 | 3.0 | 2.9 | -2.5 | 8.5 | 0.5 | 0.5 | 0.4 | 0.0 | 0.0 | -3.1 | -9.0 | 6.0 | -6.4 | 13.0 |
| Portfolio Start | 100.0 | 99.1 | 74.4 | 73.5 | 19.8 | 10.5 | 9.2 | 0.0 | 0.0 | 32.3 | 15.9 | 10.2 | 6.2 | 16.0 | 10.1 | 5.9 | 6.4 | 5.5 | 7.5 | 5.9 | 1.6 | 5.8 | 12.3 |
| Portfolio End | 100.0 | 100.0 | 68.5 | 68.5 | 24.2 | 10.1 | 8.6 | 2.2 | 3.3 | 28.5 | 17.1 | 5.1 | 6.2 | 15.8 | 10.0 | 5.9 | 0.0 | 0.0 | 7.8 | 5.2 | 2.6 | 8.6 | 15.1 |
| Benchmark Start | 100.0 | 100.0 | 71.9 | 71.9 | 20.0 | 10.0 | 10.0 | 0.0 | 0.0 | 36.9 | 22.4 | 8.0 | 6.5 | 15.0 | 9.0 | 6.0 | 0.0 | 0.0 | 10.0 | 6.0 | 4.0 | 5.8 | 12.3 |
| Benchmark End | 100.0 | 100.0 | 66.3 | 66.3 | 26.0 | 10.0 | 10.0 | 2.4 | 3.6 | 25.3 | 13.3 | 6.5 | 5.5 | 15.0 | 9.0 | 6.0 | 0.0 | 0.0 | 10.0 | 6.0 | 4.0 | 8.6 | 15.1 |
| Excess Return | -0.5 | -0.5 | -1.0 | -1.0 | -1.7 | -0.3 | -0.1 | -0.1 | -0.2 | -0.1 | 0.0 | -0.1 | 0.0 | -0.1 | -0.1 | 0.0 | 0.9 | 0.9 | -0.1 | -0.1 | 0.0 | 0.6 | 0.0 |
| Asset Allocation | -0.2 | -0.5 | -0.1 | -0.3 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | -0.1 | 0.0 | -0.1 | -0.1 | 0.0 | 0.2 | 0.0 | -0.2 | 0.0 | -0.2 | 0.0 | 0.0 |
| Stock Selection | -0.4 | 0.0 | -1.0 | -0.6 | -1.6 | -0.3 | -0.1 | -0.1 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 1.0 | 0.0 | -0.1 | 0.1 | 0.6 | 0.0 |

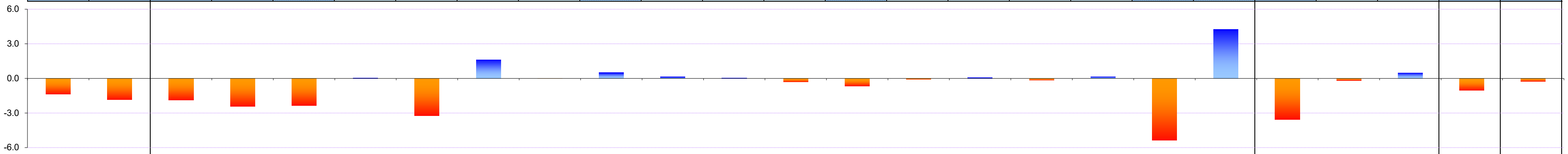
Net Exposure Start
Net Exposure End

# Attribution to Total Fund Excess Return Analysis - Annualised
## Worcestershire County Council Pension Fund
## for 3 Year Period Ended 31st March 2023

PORTFOLIO EVALUATION LIMITED

**Market Value: £3.6bn**

**Returns Summary (%)**

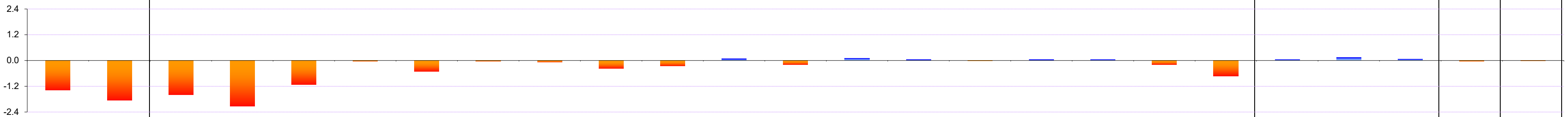



| | Total Fund | Total Fund ex Overlay | Total Equity | Total Equity ex Overlay | *Total Active* | Far East Dev - Nomura | EMM - LGPSC | Glb Sust Active Targeted - LGPSC | Glb Sust Active Thematic - LGPSC | *Total Passive* | UK - L&G | North American - L&G | Europe ex UK - L&G | *Total Alts* | RAFI Fdmntl 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 | Total Property | Total Infra |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Excess Return | **-1.4** | **-1.8** | **-1.9** | **-2.4** | **-2.4** | 0.0 | -3.2 | 1.6 | 0.0 | **0.5** | 0.1 | 0.0 | -0.3 | **-0.7** | -0.1 | 0.1 | -0.2 | 0.1 | **-5.4** | **4.2** | **-3.6** | -0.2 | **0.5** | **-1.0** | **-0.3** |
| Portfolio Return | **9.6** | **9.9** | **10.9** | **11.3** | **7.7** | 9.9 | 6.1 | 3.5 | 1.9 | **16.5** | 13.9 | 18.6 | 15.7 | **12.7** | 32.0 | 15.8 | 16.3 | -1.5 | **-5.4** | **4.2** | **-5.4** | -0.7 | **7.0** | **4.4** | **10.6** |
| Benchmark Return | **11.0** | **11.8** | **12.8** | **13.8** | **10.1** | 9.9 | 9.4 | 1.9 | 1.9 | **16.0** | 13.8 | 18.5 | 16.0 | **13.3** | 32.1 | 15.8 | 16.5 | -1.7 | **0.0** | **0.0** | **-1.8** | -0.5 | **6.5** | **5.5** | **10.9** |

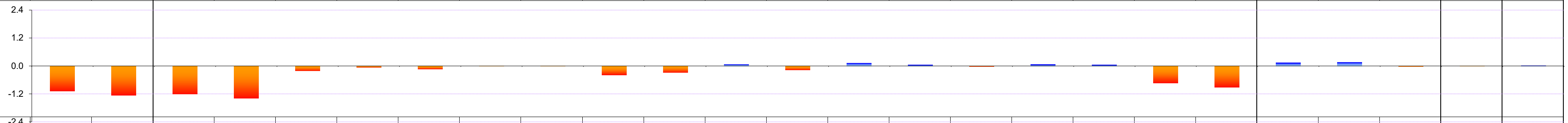
**Asset Allocation Summary (%)**


| | 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 | Total Property | Total Infra |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Portfolio Start | **100.0** | **99.2** | **75.7** | **74.8** | **23.4** | 12.5 | 10.9 | 0.0 | 0.0 | **28.0** | 11.0 | 11.0 | 6.0 | **14.9** | 5.1 | 4.5 | 5.3 | 0.0 | **9.4** | **8.6** | **6.5** | 5.5 | **1.0** | **6.4** | **11.4** |
| Portfolio End | **100.0** | **100.0** | **68.5** | **68.5** | **24.2** | 10.1 | 8.6 | 2.2 | 3.3 | **28.5** | 17.1 | 5.1 | 6.2 | **15.8** | 0.0 | 0.0 | 10.0 | 5.9 | **0.0** | **0.0** | **7.8** | 5.2 | **2.6** | **8.6** | **15.1** |
| Benchmark Start | **100.0** | **100.0** | **72.2** | **72.2** | **24.0** | 12.0 | 12.0 | 0.0 | 0.0 | **38.2** | 17.7 | 11.0 | 9.5 | **10.0** | 3.3 | 3.3 | 3.3 | 0.0 | **0.0** | **0.0** | **10.0** | 8.4 | **1.6** | **6.4** | **11.4** |
| Benchmark End | **100.0** | **100.0** | **66.3** | **66.3** | **26.0** | 10.0 | 10.0 | 2.4 | 3.6 | **25.3** | 13.3 | 6.5 | 5.5 | **15.0** | 0.0 | 0.0 | 9.0 | 6.0 | **0.0** | **0.0** | **10.0** | 6.0 | **4.0** | **8.6** | **15.1** |

**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 | Total Property | Total Infra |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Excess Return | **-1.4** | **-1.8** | **-1.6** | **-2.1** | **-1.1** | 0.0 | -0.5 | 0.0 | -0.1 | **-0.4** | -0.3 | 0.1 | -0.2 | **0.1** | 0.0 | 0.0 | 0.0 | 0.0 | **-0.2** | **-0.7** | **0.1** | 0.1 | **0.1** | **0.0** | **0.0** |




| | Total Fund | Total Fund ex Overlay | Total Equity | Total Equity ex Overlay | *Total Active* | Far East Dev - Nomura | EMM - LGPSC | 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 | Total Property | Total Infra |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Asset Allocation | **-1.1** | **-1.3** | **-1.2** | **-1.4** | **-0.2** | -0.1 | -0.1 | 0.0 | 0.0 | **-0.4** | -0.3 | 0.1 | -0.2 | **0.1** | 0.0 | 0.0 | 0.1 | 0.0 | **-0.7** | **-0.9** | **0.1** | 0.2 | **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 | Total Property | Total Infra |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Stock Selection | **-0.3** | **-0.7** | **-0.4** | **-0.7** | **-0.9** | 0.0 | -0.4 | 0.0 | -0.1 | **0.0** | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | 0.0 | 0.0 | 0.0 | **0.5** | **0.2** | **-0.1** | 0.0 | **0.1** | **0.0** | **0.0** |

**Manager Return Analysis**
**Worcestershire County Council Pension**
**Fund for Period Ended 31st March 2023**

**Market Value: £3.6bn**

| | Benchmark | Incep Date | Market Value (£m) | Weight | QTR | | | Year To Date | | | 1 Year | | | 3 Year | | | 5 Year | | | 10 Year | | | Since Inception | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | PF | BM | ER | PF | BM | ER | PF | BM | ER | PF | BM | ER | PF | BM | ER | PF | BM | ER | PF | BM | ER |
| **Total Equity Fund** | **Client Specific Weighted Index** | **Mar-16** | **2,434.7** | **68.5** | **4.3** | **3.8** | **0.5** | **0.0** | **1.3** | **-1.3** | **0.0** | **1.3** | **-1.3** | **10.9** | **12.8** | **-1.9** | **6.0** | **6.5** | **-0.5** | | | | **9.1** | **9.0** | **0.0** |
| **Total Equity Fund ex Overlay** | **Client Specific Weighted Index** | **Mar-16** | **2,434.7** | **68.5** | **4.3** | **3.8** | **0.5** | **-0.3** | **1.0** | **-1.3** | **-0.3** | **1.0** | **-1.3** | **11.3** | **13.8** | **-2.4** | **6.0** | **7.1** | **-1.1** | | | | **8.9** | **9.4** | **-0.6** |
| *Total Active Equity Fund* | Client Specific Weighted Index | Mar-16 | 859.2 | 24.2 | 3.2 | 1.8 | 1.3 | -4.8 | -1.3 | -3.5 | -4.8 | -1.3 | -3.5 | 7.7 | 10.1 | -2.4 | 2.1 | 3.9 | -1.8 | | | | 7.8 | 8.4 | -0.6 |
| Nomura Far East Developed Fund | Worcs Nomura FT AW A P & FT AW J | Feb-03 | 357.8 | 10.1 | 3.0 | 1.9 | 1.1 | -3.0 | -0.6 | -2.4 | -3.0 | -0.6 | -2.4 | 9.9 | 9.9 | 0.0 | 3.9 | 4.2 | -0.3 | 7.1 | 6.6 | 0.5 | 9.3 | 9.2 | 0.1 |
| Nomura Far East Developed Fund - 01.08.21 | Worcs Nomura FT AW A P & FT AW J | Aug-21 | 357.8 | N/A | 3.0 | 1.9 | 1.1 | -3.0 | -0.6 | -2.4 | -3.0 | -0.6 | -2.4 | | | | | | | | | | -2.5 | -0.8 | -1.8 |
| LGPSC Emerging Markets Fund | FTSE All World Emerging Market Index | Jul-19 | 306.9 | 8.6 | 1.4 | 0.2 | 1.2 | -4.9 | -3.9 | -1.0 | -4.9 | -3.9 | -1.0 | 6.1 | 9.4 | -3.2 | | | | | | | -0.6 | 1.8 | -2.4 |
| LGPSC Global Sustainable Equity Active Targeted Fund | FTSE All World Index | May-22 | 77.4 | 2.2 | 7.4 | 4.3 | 3.0 | | | | | | | | | | | | | | | | 3.5 | 1.9 | 1.6 |
| LGPSC Global Sustainable Equity Active Thematic Fund | FTSE All World Index | May-22 | 117.1 | 3.3 | 5.5 | 4.3 | 1.2 | | | | | | | | | | | | | | | | 1.9 | 1.9 | 0.0 |
| *Total Passive Equity Fund* | Client Specific Weighted Index | Mar-16 | 1,013.1 | 28.5 | 4.6 | 4.7 | -0.2 | 2.6 | 3.0 | -0.4 | 2.6 | 3.0 | -0.4 | 16.5 | 16.0 | 0.5 | 9.1 | 8.2 | 0.9 | | | | 10.3 | 9.7 | 0.6 |
| L&G UK Equity Fund | FTSE All Share Index | Dec-15 | 608.4 | 17.1 | 3.1 | 3.1 | 0.0 | 3.0 | 2.9 | 0.1 | 3.0 | 2.9 | 0.1 | 13.9 | 13.8 | 0.1 | 5.1 | 5.0 | 0.1 | | | | 7.1 | 6.9 | 0.2 |
| L&G North American Equity Fund | FTSE All World North American Index | Dec-15 | 182.8 | 5.1 | 4.7 | 4.6 | 0.0 | -2.5 | -2.5 | 0.0 | -2.5 | -2.5 | 0.0 | 18.6 | 18.5 | 0.0 | 13.8 | 13.7 | 0.1 | | | | 15.0 | 15.0 | 0.0 |
| L&G Europe Ex UK Equity Fund | FTSE Developed Europe Ex. UK Index | Dec-15 | 221.9 | 6.2 | 8.8 | 8.9 | -0.1 | 8.1 | 8.5 | -0.3 | 8.1 | 8.5 | -0.3 | 15.7 | 16.0 | -0.3 | 7.9 | 8.2 | -0.2 | | | | 10.1 | 10.3 | -0.2 |
| *Total Alternatives Fund* | 20% RAFI/40% MSCI WL Min/40% MSCI WL Qual | Mar-16 | 562.5 | 15.8 | 5.7 | 5.7 | 0.1 | 0.3 | 0.5 | -0.2 | 0.3 | 0.5 | -0.2 | 12.7 | 13.3 | -0.7 | 8.8 | 9.4 | -0.6 | | | | 10.3 | 10.8 | -0.5 |
| L&G MSCI World Quality Fund | MSCI World Quality Total Return Net Index | Dec-15 | 354.3 | 10.0 | 7.6 | 7.7 | -0.1 | 0.1 | 0.5 | -0.4 | 0.1 | 0.5 | -0.4 | 16.3 | 16.5 | -0.2 | 14.1 | 14.2 | -0.1 | | | | 15.0 | 15.1 | -0.1 |
| LGPSC All World Passive Climate Factor Fund | FTSE AW Climate Bal Com Factor Net | Nov-21 | 208.2 | 5.9 | 2.7 | 2.7 | 0.0 | 0.6 | 0.4 | 0.1 | 0.6 | 0.4 | 0.1 | | | | | | | | | | -1.5 | -1.7 | 0.1 |
| **Total Fixed Income Fund** | **60% LGPSC Corp Index & 40% Absolute Return +6%** | **Apr-21** | **277.2** | **7.8** | **2.4** | **2.2** | **0.3** | **-6.5** | **-3.1** | **-3.5** | **-6.5** | **-3.1** | **-3.5** | | | | | | | | | | **-5.4** | **-1.8** | **-3.6** |
| *Total Corporate Bond Fund* | LGPS Corporate Bond Index | Mar-20 | 184.0 | 5.2 | 2.4 | 2.6 | -0.2 | -10.8 | -9.0 | -1.9 | -10.8 | -9.0 | -1.9 | -2.0 | -1.9 | -0.2 | | | | | | | -0.7 | -0.5 | -0.2 |
| LGPSC Corporate Bond Fund | LGPS Corporate Bond Index | Mar-20 | 184.0 | 5.2 | 2.4 | 2.6 | -0.2 | -10.8 | -9.0 | -1.9 | -10.8 | -9.0 | -1.9 | -2.0 | -1.9 | -0.2 | | | | | | | -0.7 | -0.5 | -0.2 |
| *Total Corporate Debt Fund* | Absolute Return +6% | May-18 | 93.2 | 2.6 | 2.5 | 1.5 | 1.1 | 11.3 | 6.0 | 5.3 | 11.3 | 6.0 | 5.3 | 6.9 | 6.0 | 0.9 | | | | | | | 9.3 | 6.1 | 3.2 |
| Bridgepoint Direct Lending II GBP | Absolute Return + 6.5% | May-18 | 57.0 | 1.6 | 3.3 | 1.6 | 1.7 | 11.6 | 6.5 | 5.1 | 11.6 | 6.5 | 5.1 | 7.0 | 6.5 | 0.5 | | | | | | | 9.3 | 6.6 | 2.8 |
| *Bridgepoint Direct Lending II EURO* | *Absolute Return + 6.5%* | *May-18* | *64.2* | *N/A* | *2.2* | *1.6* | *0.6* | *5.6* | *6.5* | *-0.9* | *5.6* | *6.5* | *-0.9* | *5.2* | *6.5* | *-1.3* | | | | | | | *8.8* | *6.6* | *2.2* |
| Bridgepoint Direct Lending III GBP | Absolute Return +6% | Jan-22 | 36.2 | 1.0 | 1.3 | 1.5 | -0.2 | 11.7 | 6.0 | 5.7 | 11.7 | 6.0 | 5.7 | | | | | | | | | | 9.3 | 4.8 | 4.5 |
| *Bridgepoint Direct Lending III EURO* | *Absolute Return +6%* | *Jan-22* | *40.8* | *N/A* | *0.2* | *1.5* | *-1.3* | *6.6* | *6.0* | *0.6* | *6.6* | *6.0* | *0.6* | | | | | | | | | | *5.3* | *4.8* | *0.5* |
| **Total Property Fund** | **60% MSCI UK & 40% Abs Ret +7.5%** | **Mar-16** | **305.5** | **8.6** | **-2.3** | **0.8** | **-3.2** | **9.9** | **-6.4** | **16.3** | **9.9** | **-6.4** | **16.3** | **4.4** | **5.5** | **-1.0** | **4.5** | **6.1** | **-1.6** | | | | **6.1** | **6.4** | **-0.3** |
| *Total UK Property Fund* | Absolute Return +9% | Jul-18 | 51.6 | 1.5 | -2.0 | 2.2 | -4.2 | 11.7 | 9.0 | 2.7 | 11.7 | 9.0 | 2.7 | 7.0 | 9.0 | -2.0 | | | | | | | 6.6 | 9.0 | -2.4 |
| Invesco UK Property Fund | Absolute Return +9% | Oct-18 | 46.6 | 1.3 | -1.9 | 2.2 | -4.1 | 15.2 | 9.0 | 6.2 | 15.2 | 9.0 | 6.2 | 6.8 | 9.0 | -2.2 | | | | | | | 3.8 | 9.0 | -5.2 |
| Venn UK Property Fund | Absolute Return +9% | Jul-15 | 5.0 | 0.1 | -2.8 | 2.2 | -4.9 | -1.3 | 9.0 | -10.3 | -1.3 | 9.0 | -10.3 | 3.4 | 9.0 | -5.6 | 5.7 | 9.0 | -3.4 | | | | 8.8 | 9.1 | -0.3 |
| Walton Street US Property Fund - GBP | Absolute Return +6.5% | Feb-16 | 1.4 | 0.0 | -6.2 | 1.6 | -7.8 | 23.2 | 6.5 | 16.7 | 23.2 | 6.5 | 16.7 | 7.4 | 6.5 | 0.9 | 6.7 | 6.5 | 0.2 | | | | 10.8 | 6.3 | 4.4 |
| *Walton Street US Property Fund - USD* | *Absolute Return +6.5%* | *Feb-16* | *1.7* | *N/A* | *1.0* | *1.6* | *-0.6* | *9.7* | *6.5* | *3.2* | *9.7* | *6.5* | *3.2* | *4.0* | *6.5* | *-2.5* | *4.3* | *6.5* | *-2.2* | | | | *7.4* | *6.3* | *1.1* |
| Walton Street US Property Fund II - GBP | Absolute Return +7% | Jun-19 | 9.8 | 0.3 | -5.1 | 1.7 | -6.8 | 22.8 | 7.0 | 15.8 | 22.8 | 7.0 | 15.8 | 10.6 | 7.0 | 3.6 | | | | | | | 9.3 | 7.0 | 2.3 |
| *Walton Street US Property Fund II - USD* | *Absolute Return +7%* | *Jun-19* | *11.8* | *N/A* | *2.1* | *1.7* | *0.4* | *9.6* | *7.0* | *2.6* | *9.6* | *7.0* | *2.6* | *7.4* | *7.0* | *0.4* | | | | | | | *7.1* | *7.0* | *0.1* |
| Invesco European Property Fund - GBP | Absolute Return +6.5% | Feb-16 | 66.4 | 1.9 | -2.1 | 1.6 | -3.6 | 1.8 | 6.5 | -4.7 | 1.8 | 6.5 | -4.7 | 1.3 | 6.5 | -5.2 | 1.9 | 6.5 | -4.6 | | | | 4.5 | 6.4 | -1.9 |
| *Invesco European Property Fund - EURO* | *Absolute Return +6.5%* | *Feb-16* | *75.6* | *N/A* | *-1.1* | *1.6* | *-2.7* | *0.9* | *6.5* | *-5.6* | *0.9* | *6.5* | *-5.6* | *2.5* | *6.5* | *-4.0* | *2.6* | *6.5* | *-3.9* | | | | *3.5* | *6.4* | *-2.9* |
| Venn Property Debt Fund II - GBP | Absolute Return +6% | Aug-20 | 15.9 | 0.4 | 4.7 | 1.5 | 3.2 | 10.2 | 6.0 | 4.2 | 10.2 | 6.0 | 4.2 | | | | | | | | | | -62.0 | 5.6 | -67.7 |
| *Venn Property Debt Fund II - EURO* | *Absolute Return +6%* | *Aug-20* | *18.0* | *N/A* | *1.6* | *1.5* | *0.1* | *5.0* | *6.0* | *-1.0* | *5.0* | *6.0* | *-1.0* | | | | | | | | | | *-61.4* | *5.6* | *-67.0* |
| Gresham House Forestry Growth & Sustainability Fund | Absolute Return +6% | Dec-21 | 56.8 | 0.5 | -9.3 | 1.5 | -10.8 | -9.8 | 6.0 | -15.8 | -9.8 | 6.0 | -15.8 | | | | | | | | | | -11.4 | 5.0 | -16.4 |
| Gresham House Forestry Fund VI | Absolute Return +5.5% | Oct-22 | 84.7 | 1.6 | 0.0 | 1.3 | -1.3 | | | | | | | | | | | | | | | | -0.4 | 2.7 | -3.1 |
| AEW Property Fund | UK RPI +4% | Oct-17 | 18.9 | 0.5 | -1.5 | 2.8 | -4.3 | -4.6 | 17.5 | -22.1 | -4.6 | 17.5 | -22.1 | 1.6 | 11.9 | -10.3 | 3.2 | 9.7 | -6.5 | | | | 3.1 | 9.4 | -6.3 |
| **Total Infrastructure Fund** | **70% UK CPI +5.5% & 30% Abs Return +10%** | **Mar-16** | **535.8** | **15.1** | **-1.8** | **2.2** | **-4.0** | **12.8** | **13.0** | **-0.3** | **12.8** | **13.0** | **-0.3** | **10.6** | **10.9** | **-0.3** | **8.5** | **10.0** | **-1.5** | | | | **8.6** | **9.4** | **-0.8** |
| Green UK Infrastructure Fund | Absolute Return +7.6% | Apr-15 | 48.6 | 1.4 | 2.9 | 1.8 | 1.1 | 16.2 | 7.6 | 8.6 | 16.2 | 7.6 | 8.6 | 12.0 | 7.6 | 4.4 | | | | | | | 7.9 | 7.6 | 0.3 |
| Gresham House BSIF Housing and Infrastructure | Absolute Return +8% | May-20 | 49.7 | 1.4 | -4.5 | 1.9 | -6.5 | 6.4 | 8.0 | -1.6 | 6.4 | 8.0 | -1.6 | | | | | | | | | | 8.2 | 8.0 | 0.2 |
| Gresham House BSIF II Infrastructure Fund | Absolute Return +9% | Jan-22 | 37.1 | 0.7 | 3.4 | 2.2 | 1.2 | -6.3 | 6.7 | -12.9 | -6.3 | 6.7 | -12.9 | | | | | | | | | | -5.1 | 5.3 | -10.4 |
| Hermes UK Infrastructure Core Fund | Absolute Return +8.4% | May-15 | 46.6 | 1.3 | -5.8 | 2.0 | -7.8 | -5.9 | 8.4 | -14.3 | -5.9 | 8.4 | -14.3 | -0.9 | 8.4 | -9.3 | 0.9 | 8.4 | -7.5 | | | | 4.0 | 8.4 | -4.4 |
| Hermes UK Infrastructure Fund II | Absolute Return +8.5% | Jun-18 | 45.4 | 1.3 | -10.4 | 2.1 | -12.4 | -5.6 | 8.5 | -14.0 | -5.6 | 8.5 | -14.0 | -4.7 | 8.5 | -13.2 | | | | | | | -2.2 | 8.6 | -10.7 |
| Stonepeak Infrastructure Core Fund III - GBP | Absolute Return +12% | Jan-18 | 134.9 | 3.8 | -6.7 | 2.9 | -9.6 | 20.4 | 12.0 | 8.4 | 20.4 | 12.0 | 8.4 | 17.4 | 12.0 | 5.4 | 19.2 | 12.0 | 7.2 | | | | 15.0 | 12.0 | 3.0 |
| *Stonepeak Infrastructure Core Fund III - USD* | *Absolute Return +12%* | *Jan-18* | *162.2* | *N/A* | *0.5* | *2.9* | *-2.4* | *7.8* | *12.0* | *-4.2* | *7.8* | *12.0* | *-4.2* | *14.1* | *12.0* | *2.1* | *16.9* | *12.0* | *4.9* | | | | *13.0* | *12.0* | *1.0* |

| | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Stonepeak Infrastructure Core Fund IV - GBP | Absolute Return +12% | Jan-22 | 34.2 | 1.0 | 10.1 | 2.9 | 7.2 | 24.2 | 12.0 | 12.2 | 24.2 | 12.0 | 12.2 | | | | | | | | | | 19.0 | 9.5 | 9.5 |
| *Stonepeak Infrastructure Core Fund IV - USD* | *Absolute Return +12%* | *Jan-22* | *38.1* | *N/A* | *1.3* | *2.9* | *-1.5* | *0.6* | *12.0* | *-11.4* | *0.6* | *12.0* | *-11.4* | | | | | | | | | | *0.5* | *9.5* | *-9.1* |
| First Sentier EDIF II GBP | Absolute Return +9% | Jun-18 | 131.9 | 3.7 | 3.7 | 2.2 | 1.5 | 16.1 | 9.0 | 7.1 | 16.1 | 9.0 | 7.1 | 16.5 | 9.0 | 7.5 | | | | | | | 11.3 | 9.1 | 2.2 |
| *First Sentier EDIF II EURO* | *Absolute Return +9%* | *Jun-18* | *150.1* | *N/A* | *4.6* | *2.2* | *2.5* | *12.1* | *9.0* | *3.1* | *12.1* | *9.0* | *3.1* | *16.8* | *9.0* | *7.8* | | | | | | | *11.0* | *9.1* | *1.9* |
| First Sentier EDIF III GBP | Absolute Return +8% | Nov-22 | 7.5 | 0.2 | -2.0 | 1.9 | -3.9 | | | | | | | | | | | | | | | | 3.7 | 3.3 | 0.5 |
| *First Sentier EDIF III EURO* | *Absolute Return +8%* | *Nov-22* | *8.5* | *N/A* | *-1.0* | *1.9* | *-3.0* | | | | | | | | | | | | | | | | *3.4* | *3.3* | *0.1* |
| **Worcestershire CC Total Fund ex Overlay** | | **Mar-87** | **3,553.2** | **100.0** | **2.7** | **3.2** | **-0.5** | **0.9** | **1.4** | **-0.5** | **0.9** | **1.4** | **-0.5** | **9.9** | **11.8** | **-1.8** | **5.8** | **6.8** | **-1.0** | **7.4** | **7.7** | **-0.3** | **7.8** | **8.3** | **-0.5** |
| **Worcestershire CC Total Fund** | | **Mar-87** | **3,553.2** | **100.0** | **2.7** | **3.2** | **-0.5** | **1.2** | **1.7** | **-0.5** | **1.2** | **1.7** | **-0.5** | **9.6** | **11.0** | **-1.4** | **5.8** | **6.3** | **-0.6** | **7.5** | **7.4** | **0.0** | **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 March 2023

**Market Value: £3.6bn**

| | 31st December 2022 | | Net | Total | Total | 31st March 2023 | |
|---|---|---|---|---|---|---|---|
| | Market Val (£000s) | Exposure (%) | Investment (£000s) | Income (£000s) | Gain/Loss (£000s) | Market Val (£000s) | Exposure (%) |
| **Total Equity Fund** | **2,333,617** | **67.9** | **-36** | **0** | **101,142** | **2,434,723** | **68.5** |
| **Total Equity Fund ex Overlay** | **2,333,617** | **67.9** | **-36** | **0** | **101,142** | **2,434,723** | **68.5** |
| *Total Active Equity Fund* | 832,927 | 24.3 | 0 | 0 | 26,251 | 859,178 | 24.2 |
| Nomura Far East Developed Equity Fund | 347,328 | 10.1 | 0 | 0 | 10,506 | 357,834 | 10.1 |
| LGPSC Emerging Markets Fund | 302,613 | 8.8 | 0 | 0 | 4,263 | 306,876 | 8.6 |
| LGPSC Global Sustainable Equity Active Targeted Fund | 72,034 | 2.1 | 0 | 0 | 5,322 | 77,356 | 2.2 |
| LGPSC Global Sustainable Equity Active Thematic Fund | 110,953 | 3.2 | 0 | 0 | 6,159 | 117,113 | 3.3 |
| *Total Passive Equity Fund* | 968,765 | 28.2 | 0 | 0 | 44,291 | 1,013,056 | 28.5 |
| L&G UK Equity Fund | 590,057 | 17.2 | 0 | 0 | 18,311 | 608,367 | 17.1 |
| L&G North American Equity Fund | 174,659 | 5.1 | 0 | 0 | 8,126 | 182,786 | 5.1 |
| L&G Europe Ex UK Equity Fund | 204,049 | 5.9 | 0 | 0 | 17,854 | 221,903 | 6.2 |
| *Total Alternatives Fund* | 531,888 | 15.5 | 0 | 0 | 30,600 | 562,488 | 15.8 |
| L&G MSCI World Quality Fund | 329,189 | 9.6 | 0 | 0 | 25,075 | 354,263 | 10.0 |
| LGPSC All World Passive Climate Factor Fund | 202,699 | 5.9 | 0 | 0 | 5,526 | 208,225 | 5.9 |
| *River & Mercantile Equity Protection Fund* | 36 | 0.0 | -36 | 0 | 0 | 0 | 0.0 |
| *River & Mercantile Equity Protection Fund ex Overlay* | 36 | 0.0 | -36 | 0 | 0 | 0 | 0.0 |
| **Total Fixed Income Fund** | **273,355** | **8.0** | **-1,844** | **0** | **5,654** | **277,166** | **7.8** |
| *Total Corporate Bond Fund* | 179,681 | 5.2 | 0 | 0 | 4,299 | 183,980 | 5.2 |
| LGPSC Corporate Bond Fund | 179,681 | 5.2 | 0 | 0 | 4,299 | 183,980 | 5.2 |
| *Total Corporate Debt Fund* | 93,674 | 2.7 | -1,844 | 0 | 1,355 | 93,186 | 2.6 |
| Bridgepoint Direct Lending II | 57,887 | 1.7 | -2,177 | 0 | 1,285 | 56,995 | 1.6 |
| Bridgepoint Direct Lending III | 35,787 | 1.0 | 333 | 0 | 71 | 36,191 | 1.0 |
| **Total Property Fund** | **294,155** | **8.6** | **18,560** | **1,391** | **-7,246** | **305,469** | **8.6** |
| *Total UK Property Fund* | 54,506 | 1.6 | 0 | 0 | -2,929 | 51,578 | 1.5 |
| Invesco UK Property Fund | 47,682 | 1.4 | 0 | 199 | -1,098 | 46,585 | 1.3 |
| Venn UK Property Fund | 6,824 | 0.2 | -1,737 | -94 | -94 | 4,993 | 0.1 |
| Walton US Property Fund | 1,540 | 0.0 | 0 | 0 | -96 | 1,444 | 0.0 |
| Walton US Property Fund II | 9,893 | 0.3 | 0 | 532 | -102 | 9,792 | 0.3 |
| Invesco European Property Fund | 68,357 | 2.0 | 0 | 569 | -1,973 | 66,385 | 1.9 |
| Venn Property Debt Fund II | 12,887 | 0.4 | 2,451 | 0 | 602 | 15,940 | 0.4 |
| Gresham House Forestry Growth & Sustainability Fund | 42,969 | 1.3 | 17,846 | 0 | -4,013 | 56,802 | 1.6 |
| Gresham House Forestry Fund VI | 0 | 0.0 | 0 | 0 | 84,670 | 84,670 | 2.4 |
| AEW Property Fund | 19,332 | 0.6 | 0 | 186 | -472 | 18,860 | 0.5 |
| **Total Infrastructure Fund** | **533,334** | **15.5** | **17,562** | **1,518** | **-15,097** | **535,800** | **15.1** |
| Green UK Infrastructure Fund | 48,187 | 1.4 | -982 | 0 | 1,419 | 48,624 | 1.4 |
| Gresham House BSIF Housing and Infrastructure | 49,818 | 1.5 | 2,156 | 0 | -2,259 | 49,715 | 1.4 |
| Gresham House BSIF II Infrastructure Fund | 21,834 | 0.6 | 14,528 | 0 | 746 | 37,107 | 1.0 |
| Hermes UK Infrastructure Core Fund | 49,446 | 1.4 | 0 | 0 | -2,860 | 46,586 | 1.3 |
| Hermes UK Infrastructure Fund II | 50,599 | 1.5 | 0 | 0 | -5,241 | 45,358 | 1.3 |
| Stonepeak Infrastructure Core Fund III | 144,709 | 4.2 | 1,212 | 931 | -11,068 | 134,854 | 3.8 |
| Stonepeak Infrastructure Core Fund IV | 34,100 | 1.0 | 648 | 277 | -596 | 34,153 | 1.0 |
| First Sentier EDIF II | 126,993 | 3.7 | 0 | 310 | 4,915 | 131,908 | 3.7 |
| First Sentier EDIF III | 7,648 | 0.2 | 0 | 0 | -153 | 7,495 | 0.2 |
| **Cash Fund** | **0** | **0.0** | **0** | **0** | **0** | **0** | **0.0** |
| **Worcestershire CC Total Fund ex Overlay** | **3,434,462** | **100.0** | **34,243** | **2,909** | **84,453** | **3,553,157** | **100.0** |
| **Worcestershire CC Total Fund** | **3,434,462** | **100.0** | **34,243** | **2,909** | **84,453** | **3,553,157** | **100.0** |

Note: Cashflow into cash reflects sum of portfolio contributions minus net investments. It is assumed that cash for the Fund is held outside of the invested assets and is therefore withdrawn from the Total Fund

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Quarterly Engagement Report

January-March 2023

Local Authority Pension Fund Forum

# Say on Climate, Brazil, Volvo, Constellation Brands, Water Stewardship

## COMPANY ENGAGEMENTS


# Say on Climate

**Objective**: Despite the financial risks that climate change poses to investors, shareholders do not have a specific vote at AGMs on a company's approach to transitioning to net zero. This is an issue that LAPFF has raised with companies including through a joint letter ahead of the 2022 AGM season. Since then, HM Treasury has established the UK Transition Plan Taskforce, which is developing a 'gold standard' for climate transition plans. A central principle of transition plans is that they should be integral to a company's overall strategy. Yet despite such developments shareholders are generally not given a 'Say on Climate' vote at AGMs to approve their climate plans.

To address this gap, LAPFF, alongside Sarasin & Partners, CCLA, and the Ethos Foundation, wrote to the FTSE All-Share (excluding investment trusts) requesting that boards provide shareholders with the opportunity to support their greenhouse gas emission reduction strategy by putting an appropriate resolution on the AGM agenda.

**Achieved:** The letter highlighted the importance of the issue with companies across the FTSE All-Share. Some companies responded by stating that they were planning to have an annual Say on Climate vote while others noted that there would be a vote every three years to approve their triennial climate plan. However, most companies said that they did not intend to hold Say on Climate votes, with many outlining their climate plans and noting their engagement with shareholders.

Alongside raising the issue with the companies, the letter received coverage in the press which widened awareness of the role a Say on Climate could play in supporting companies' transition to net zero.

**In Progress:** Although some companies have committed to Say on Climate votes they are in a minority. LAPFF will continue to engage with companies so that shareholders can express their views specifically about climate strategies – something which will become more important with the introduction of transition plans and as the financial risks of climate change become even clearer.

## Rio Tinto

**Objective:** LAPFF joined Rio Tinto's full year results call ahead of the company's April AGM to understand better how Rio Tinto is integrating environmental, social, and governance considerations into its operations, and issued a voting alert ahead of the April AGM. LAPFF then attended a meeting with Rio Tinto Chair, Dominic Barton.

**Achieved:** LAPFF was pleased to hear that Rio Tinto has had yet another fatality-free year. It was also good to see that the company has concluded a number of agreements with Indigenous groups and continues to focus on partnerships, co-design, and co-management with affected communities. It would have been useful to have more discussion on community relationships in relation to the company's Oyu Tolgoi, Jadar, and Simandou projects, as well as some of the remaining engineering challenges at Oyu Tolgoi.

On the climate side, Rio Tinto's commitment to making climate a strategic objective is welcome. It appears that more work on Scope 3 emissions is needed. Recognising the importance of Rio Tinto's minerals for a green transition, LAPFF is also keen to hear more from the company on its plans for a just transition. LAPFF probed these issues in more detail in the meeting with Mr. Barton.

**In Progress:** LAPFF will continue to engage both the company and its affected stakeholders, including workers and community members, to assess progress in both the human rights and climate areas because LAPFF deems this range of engagement and issues financially material.

# COMPANY ENGAGEMENTS


## McDonald's

**Objective:** LAPFF has been pushing for McDonald's to publicly disclose the findings of a water risk assessment and physical risk scenario analysis undertaken by the company in 2020. In order for investors to fully understand the water-related risks facing the company, the disclosure should provide information relating to how the findings inform timebound and quantifiable mitigation efforts for key commodities and regions.

**Achieved:** LAPFF met with McDonald's as part of a coalition of investors to discuss the company's approach to managing environmental risks across its agricultural supply chain. The 2020 water risk assessment used the WRI Aqueduct Water Risk tool to identify high risk areas, but the company has, to date, failed to release the results. LAPFF requested that the company disclose the findings to facilitate a better understanding of the material risks.

McDonald's was also questioned about updating its emissions reduction targets, following the release of the Science-Based Target initiative's (SBTi) FLAG guidance. The company has committed to reducing greenhouse gas emissions (GHG) by 36percent by 2030 from a 2015 base. This is an absolute target that covers Scopes 1, 2 and 3 emissions, the latter including upstream emissions from operational waste and downstream emissions from delivery-related waste and franchisee operations.

To achieve SBTi verification, the new FLAG guidance requires a commitment to eliminate deforestation from agricultural supply chains by 2025, which would require an acceleration of existing commitments.

**In Progress:** McDonald's has been identified by the Valuing Water Finance Initiative as a company with significant exposure to water-related risks and therefore included the company in the 203 VWFI benchmark. This benchmark will be used by LAPFF to measure company performance and the extent to which disclosure on the issue improves.

## Constellation Brands

**Objective:** LAPFF wanted Constellation Brands to set timebound, contextual targets, goals or policies to address the impacts on water availability in water scarce areas across the sections of the value chain, for which water is most material.

**Achieved:** LAPFF Executive member John Anzani met with the US-listed beverage manufacturer to discuss its approach to water stewardship. This engagement followed on from an introductory meeting held in 2022 in which the company had committed to undertaking a water risk assessment covering its entire value chain. Constellation Brands subsequently conducted an initial assessment, and as a result highlighted a number of facilities operating in regions of high water stress. LAPFF encouraged the company to set targets that would prevent it from negatively impacting water availability in water-scarce areas across its value chain.

**In Progress:** As part of the Valuing Water Finance Initiative LAPFF is a co-lead investor for Constellation Brands. The company has been included in the 2023 VWFI benchmark, owing to the impact it has on freshwater resources. This benchmark will be used by LAPFF to measure company performance, with the expectation that a meaningful target is set to help mitigate impact on regions of high water stress.

## Volvo

**Objective:** The acceleration in moving to electric vehicles is being seen globally, as auto manufacturers seek to meet net zero targets and reduce the carbon footprint in the life cycle of their vehicles. In this vein, LAPFF sought to meet some heavy goods vehicle (HGV) manufacturers to discuss their role in this transition.

**Achieved:** LAPFF met with Volvo to discuss its approach to climate change and a net zero transition. The company provided a promising dialogue, giving an in-depth overview of its approach.

**In Progress:** As legislation tightens in Europe with the Corporate Sustainability Due Diligence Directive, companies will

# COMPANY ENGAGEMENTS

have to do further due diligence on their supply chains and will need to ensure greater oversight of their supply chains. LAPFF continues to impress upon vehicle manufacturers the benefits of transparent reporting and enhanced due diligence, whilst seeking to better understand how companies are managing a just transition.

## Pay Letters

**Objective:** How companies distribute capital and reward both their executive directors and wider workforce is important information for investors. In January, the Financial Times published an article looking at real term pay cuts in the FTSE100 but cited a few companies that had paid wage increases to their lowest pay staff above soaring inflation.

**Achieved:** LAPFF wrote to BT, Vodafone, and Kingfisher, as companies that provided salary increases for their lowest paid members of staff above that of inflation. LAPFF seeks to better understand the considerations around these increases as well as to discuss executive remuneration in the context of the cost-of-living crisis.

**In Progress:** Kingfisher has responded to LAPFF's request for engagement and a meeting is being organised for the second quarter of 2023.

## Occupied Palestinian Territories

**Objective:** LAPFF members remain concerned about the investment risks associated with companies operating in the Occupied Palestinian Territories (OPT). LAPFF maintains a position that companies considered to have business activities in this area should commission independent human rights risk impact assessments, given that operating in a conflict zone carries heightened human rights, and consequently, business risks.

**Achieved:** LAPFF wrote to four companies on its target engagement list which it deems to have not engaged in a meaningful manner (or not engaged at all): Mizrahi Tefahot Bank, Isarel Discount Bank, and Bank Hapoalim. LAPFF wrote to all four regarding voting considerations at their respective 2023 AGMs. The Forum is now in dialogue with Bank Leumi.


**In Progress:** LAPFF will monitor these engagements and consider voting alerts for LAPFF members accordingly.

## Chipotle

**Objective:** LAPFF has engaged with Chipotle Mexican Grill (Chipotle) on its approach to water stewardship since 2019. The initial engagement objective was met during 2022, with the company undertaking an ingredient level water risk assessment to identify areas of water stress within the supply chain. The risk assessment found that a significant percentage of the company's suppliers operate in areas of high water stress. Given the degree of exposure Chipotle has to water risk, LAPFF now considers it imperative the company utilise the results of this risk assessment to set time-bound and context-based targets for water use, focusing on regions it has identified as water stressed from its operations.

**Achieved:** During March, LAPFF met with Chipotle to discuss the outcome of its water risk assessment undertaken in 2022. This was a direct response to the resolution co-filed by the Greater Manchester Pension Fund, a LAPFF member fund, in 2020. The company had made some notable progress, including the completion of a water stress evaluation for the current state of its supply chain, forecasting the impact of water stress to 2040, and developing a mitigation roadmap to establish water stewardship throughout its operations.

**In Progress:** LAPFF is the lead investor for Chipotle as part of the Valuing Water Finance Initiative. During 2023, Chipotle will be benchmarked against peers on its approach to water stewardship. LAPFF will leverage the findings of the benchmark in order to work with the company to develop relevant water use targets and to utilise the results of this risk assessment to set time-bound and context-based targets for water use, focusing on regions it has identified as water stressed from its operations.

## Nestlé

**Objective:** As one of the largest food and beverage companies in the world, Nestlé has a crucial role to play in many parts of its operations, on issues such as the climate crisis, plastics, nutrition, human rights, and a fair and just transition.

**Achieved:** Chair Paul Bulcke hosted a roundtable with investors in March. He provided a high-level overview of the company's financial and ESG strategies before taking questions from investors. LAPFF asked about the company's approach to reducing Scope 3 emissions, which as demonstrated in its reporting has a large focus on regenerative farming. The company also talked about a fair and just transition in its net zero roadmap, as well as plastics, ShareAction's Healthy Markets campaign (which LAPFF also supports), and executive compensation.

**In Progress:** LAPFF will continue to monitor Nestlé's progress in these areas and will continue to support ShareAction's Healthy Markets engagement as it progresses.

# COLLABORATIVE ENGAGEMENTS

## COLLABORATIVE ENGAGEMENTS

### SHARE: Amazon

**Objective:** Amazon has faced criticism in the press for not upholding adequate standards and practices on freedom of association. LAPFF has also heard from Amazon workers on various investor calls about their concerns relating to Amazon's practices on freedom of association. Consequently, LAPFF signed a joint investor letter initiated by Canadian shareholder organisation, SHARE, requesting that Amazon take steps to meet the requests on freedom of association set out in SHARE's shareholder resolution to Amazon's 2022 AGM.

**Achieved:** LAPFF last year recommended a vote in favour of the SHARE resolution. The company provided what was in LAPFF's view a less than satisfactory response. Notably, in LAPFF's view, the company has completely misconstrued the definition of freedom of association to meet its own interests rather than the standards set out in international labour law. For example, Amazon has cited its compliance with US labour law, which has notoriously poor standards on freedom of association. Over the course of its existence the ILO Committee on Freedom of Association has heard 44 cases against the US and/or individual US states for their laws and practices on this topic.

**In Progress:** LAPFF's attempts to meaningfully engage with Amazon have failed. In the past, LAPFF has participated in The Big Tent group of investors that have sought meaningful engagement with the company, and LAPFF will seek to continue to engage through this group to obtain progress in this area.

### PRI Advance

**Objective:** LAPFF is pleased to have been selected to join the Principle for Responsible Investment (PRI) Advance working groups for Anglo American and Vale. The initiative is aimed at improving human rights standards in the mining and renewable energy industries.

LAPFF recognises the leverage that collaborative engagements can bring to its own engagements, which are themselves collaborative. Given LAPFF's extensive work over the last few years on mining and human rights, LAPFF's aim is to help create investor leverage to improve human rights performance at Anglo American and Vale. In LAPFF's experience, improved human rights performance create the conditions for sustainable long-term shareholder returns.

**Achieved:** LAPFF has now participated in the initial meetings for both the Anglo American and Vale groups. These meetings were structured to identify short, medium, and long-term objectives for the engagements with each company.

It was interesting to hear the different ideas and objectives within each of the groups. It is clear that each working group will structure itself quite differently and will be tailored to a given company's characteristics and challenges. However, members of both groups seemed equally enthusiastic and keen to make progress, so LAPFF is optimistic that this initiative will help to improve human rights practices within the mining industry.

**In Progress:** LAPFF will continue to work with other investor members in each working group to solidify company objectives, engage with the companies selected for the programme, and liaise with stakeholders affected by the companies' operations.

### CA100+: General Motors

**Objective:** LAPFF is a member of the CA100+ transport group which is engaging with the largest emitters from the automotive sector. Road transportation is a major contributor to global emissions, the industry faces tightening regulation on emissions standards and some countries have set dates after which the sales of new petrol vehicles will be banned. As such, investors are seeking to ensure that car companies are managing these risks by setting targets and taking action to shift production to electric vehicles.

**Achieved:** LAPFF participated in a CA100+ collaborative meeting with General Motors. The meeting covered the impact of the Inflation Reduction Act in the US, GM's targets and how GM is planning on reaching its ambitions. The company plans to have capacity in excess of one million EV units in both North America and China by 2025.

**In Progress:** LAPFF will continue to engage carmakers on their targets, plans, investment, and delivery of targets as well as their approach to public policy engagement.

### Asia Research and Engagement (ARE): MUFG and UOB

**Objective:** LAPFF continues to support company engagements in Asia's financial markets, focusing on carbon and coal

A General Motors EV1 electric car

# COLLABORATIVE ENGAGEMENTS

risks at financial institutions, as well as coal-exposed power companies.

**Achieved:** LAPFF joined collaborative calls with both Mitsubishi UFJ Financial Group (MUFG) and United Overseas Bank (UOB). ARE's continued dialogue with Asia's financial institutions provides in-depth conversations about company climate approach and provide valuable insight into how the companies are approaching carbon reduction measures.

**In Progress:** LAPFF will continue to engage through the ARE, with regular meetings being held each quarter.

## Initiative for Responsible Mining Assurance (IRMA)

**Objective:** During engagements with electric vehicle manufacturers on their approach to responsible mineral sourcing and supply chain due diligence, IRMA has come up in conversation with many of these companies. LAPFF sought a meeting with IRMA to discuss their certification standard for industrial scale mine sites.

**Achieved:** LAPFF met with Aimee Boulanger, IRMA's Executive Director, and Rebecca Burton, IRMA's Director of Corporate Engagement, to discuss IRMA's standard in greater depth. LAPFF was subsequently invited to, and attended, a finance sector deep dive, held in-person at Anglo Americans office.

**In Progress:** Both of these meetings with IRMA provided insight into the value of greater due diligence at mine sites and how this can be achieved, in particular through effective multi-stakeholder engagement. It has provided talking points and considerations for engagements with a range of industries going forward, including the mining sector and auto-manufacturers which are being engaged by LAPFF.

## Valuing Water Finance Initiative (VWFI)

LAPFF Executive member John Anzani facilitated the first VWFI Task Force meeting of the year. LAPFF is a founding member of the initiative and currently co-chairs the initiative. The meeting was attended by institutional investors from around the world to discuss updates and progress of the initiative to date. With both company engagement and benchmarking work streams making good progress, LAPFF is well positioned to be at the forefront of driving positive change in this area in 2023.

## Investor Initiative for Responsible Care: EU Commissioner

**Objective:** LAPFF is a member of the Investor Initiative for Responsible Care a coalition of 138 responsible and long-term investors in the care sector with $4.4 trillion in assets under management. The coalition has been established to address specific investment risks within the sector including around staffing, safety, wages, freedom of association and quality of care. These risks were very apparent in events over the past year at Orpea, the listed French care provider. The group is seeking to engage companies both regarding disclosure but also improving their practices.

**Achieved:** LAPFF has written to two Real Estate Investment Trusts (REITs) seeking clarification around data and metrics as part of a group initiative to request such information from other care providers and REITs. Alongside engagement with companies, the group has also been engaging public policymakers, including a meeting with the EU Commissioner responsible for care this quarter. The meeting came off the back of a new EU care strategy, and discussions focused on how implementation of the strategy could support the aims of responsible investors in the sector to improve care quality and employment standards to help deliver sustainable returns.

**In Progress:** LAPFF will continue to participate in the initiative and engage care providers, REITs operating in the sector and where relevant with policymakers.

## Follow This

**Objective:** As an activist investor, Follow This has been filing shareholder resolutions at the oil and gas majors' AGMs since 2016. Having recommended votes in favour of two Follow This resolutions in 2022, at both the Shell and BP AGMs, LAPFF sought a meeting with Follow This representatives to discuss the organisation's ongoing work.

**Achieved:** LAPFF met with Mark Van Baal, founder of Follow This, to discuss the organisation's plans for development, both in the immediate future and looking further forward.

**In Progress:** Follow This has published its resolutions for 2023 and will be considered for voting alerts throughout the year.

## Market Forces

**Objective:** LAPFF has met with Market Forces a number of times over the past couple of years. It is an environmental advocacy project which primarily focuses on financial institutions, although it has published guidance for other sectors.

**Achieved:** After recommending votes in favour of Market Forces' resolutions at Barclays and Rio Tinto AGMs in 2021, LAPFF met with representatives from the organisation to discuss plans for development in 2023.

**In Progress:** LAPFF will monitor Market Forces' resolutions and work as the year progresses.

## Taskforce on Social Factors

LAPFF is a member of the Taskforce on Social Factors that has been established by the DWP. The taskforce chaired by Luba Nikulina from IFM has been established to look at how investors can best address and manage social factors, including by identifying reliable data and metrics.

The main objectives of the Taskforce are to:

- Identify reliable data sources and other resources, which could be used by pension schemes to identify, assess, and manage financially material social risks and opportunities.
- Monitor and report on developments relating to the International Sustainability Standards Board (ISSB) and other international standards.
- Develop thinking around how trustees can identify, assess, and manage the financial risks posed by modern slavery and supply chain issues.

The taskforce was established by DWP

# COLLABORATIVE ENGAGEMENTS


Construction workers in Doha, Qata

following a consultation on the issue. LAPFF responded to the consultation highlighting the importance of social factors in our work and outlining some of the engagements that the Forum has undertaken on social issues for over three decades. The taskforce is comprised of people from the industry and, alongside the DWP, includes observers from the Financial Conduct Authority, Financial Reporting Council, HM Treasury and the Pensions Regulator.

## 30% Investor Club

**Objective:** LAPFF continues to support the 30% Club Investor Group, a coalition of investors pushing for women to represent at least 30% of boardroom and senior management positions at FTSE-listed companies. The group has extended its remit globally and has been engaging in different markets, encouraging companies to join regional charters and looking at other aspects of diversity in company practices.

**Achieved:** LAPFF joined two collaborative engagements this quarter, with Otsuka Corporation and Marubeni Corporation. Both are domiciled in Japan, and neither are currently members of the Japanese 30% Club charter. Whilst they have some way to go in their approaches to gender diversity at board and executive level, both companies provided promising outlooks regarding their approach to supporting women throughout their organisations.

**In Progress:** The Group is continuing to extend its outreach to companies outside of the UK and is looking at regional considerations for other markets. LAPFF is part of the Group's Global Workstream subgroup and will be contributing to engagements throughout the year.

## Rathbones Votes Against Slavery

**Objective:** Rathbones undertakes an annual analysis of compliance by FSTE350 companies with section 54 of the Modern Slavery Act. LAPFF views compliance of this piece of legislation as an indicator of how seriously a company takes modern slavery in its operations. The engagement seeks compliance from those that currently do not meet this standard.

**Achieved:** LAPFF co-signed letters to 29 companies sent by Rathbones. At the time of publication, this engagement has brought about compliance from 14 of the companies approached, with a number in the process of making changes.

**In Progress**: LAPFF will monitor compliance levels as the engagement progresses and will join collaborative calls during the year to further explore company approaches to modern slavery.

## New York City Comptroller: Migrant Child Labour

**Objective:** An investigative report published by the New York Times in February 2023 provided evidence that a collection of US companies may be profiting from the use of American suppliers that illegally employ underage migrant

# POLICY ENGAGEMENTS

children. Ensuring that companies have controls and processes in place to manage such risks and hold suppliers accountable is an investment imperative for LAPFF.

**Achieved:** LAPFF co-signed a letter to this group of companies seeking a response and further detail on the allegations around the use of child labour.

**In Progress:** LAPFF will monitor the response and will support engagements as appropriate.

## CONSULTATION RESPONSES

### Transition Plan Taskforce

**Objective:** In 2022, HM Treasury launched the Transition Plan Taskforce (TPT) with the objective of developing the gold standard for climate transition plans. The UK government and the Financial Conduct Authority are involved with the Taskforce with the intention that they will draw on the recommendations to strengthen disclosure requirements.

Done in the right way, transition plan disclosures could enable investors to better understand a company's approach to decarbonising their business model. They are also designed to help companies and investors with regard to developing plans that are integral to company's overall strategy. Given their potential importance, LAPFF responded to a TPT consultation regarding its draft disclosure framework.

**Achieved:** In LAPFF's previous TPT response, the Forum recommended that just transition implications should be included in the TPT's guidance. It was welcome that just transition issues were included in the draft disclosure framework. LAPFF welcomed this development but considered there to be further scope to integrate these just transition factors across the framework.

LAPFF's response stated that if it was to be a gold standard and in line with UK government policy then transition plans would need to be consistent with a 1.5°C scenario. To ensure consistency and comparability between transition plans, the response also called for a focus on absolute rather than relative emission reductions and greater clarity on definitions of Scope 3 emissions and what is meant and included within the 'value chains' concept.

**In Progress:** LAPFF will where possible continue to engage with the TPT, including around the issue of further integrating the just transition into its recommendations.

## LAPFF WEBINARS

### All-Party Parliamentary Group

The LAPFF-supported All-Party Parliamentary Group for Local Authority Pension Funds held a meeting on affordable housing and the LGPS. The meeting came off the back of government calls for the LGPS to increase local investment and the chancellor has stated that the government will consult on requiring LGPS funds to consider illiquid asset investment opportunities. There have also been other calls for the LGPS funds to scale up place-based investment and invest more in social and affordable housing.

To discuss the issues, the speakers at the meeting, chaired by Clive Betts MP, were Cllr John Gray (Vice-Chair, Local Authority Pension Fund Forum); Paddy Dowdall (Assistant Executive Director at Greater Manchester Pension Fund); Helen Collins (Head of Affordable Housing, Savills); and John Butler (Finance Policy Lead, National Housing Federation).

The discussion covered housing investments that LGPS funds were already making as well as some of the barriers to doing more. The meeting highlighted challenges of scaling up investment in affordable or social housing without additional government funding as well as issues around scale and the lack of investible projects.

## MEDIA COVERAGE

### Water Risk

ESG Investor: Investors Seek to Turn the Tide on Water Risk

### Say on Climate

IPE: Investors call for voting on 'Say on Climate'
Pensions Age: LAPFF calls for shareholder vote on greenhouse emissions
ESG Investor: Investors demand 'Say on Climate' at FTSE Listed Firms
Net Zero Investor: Investors demand vote on climate transition plans at FTSE firms
Investment Week: Shell directors sued over 'flawed' climate plan
Lexology: Investors step up pressure on boards to keep pace with climate targets in upcoming AGM season
The MJ: Public sector pension funds call for 'Say on Climate' vote
The Actuary: Public-sector pension funds seek carbon vote
ESG Investor: New Ideas, Better Teamwork in Pursuit of Paris Goals
Local Gov: Public sector pension funds call for 'Say on Climate' vote

### LAPFF Executive

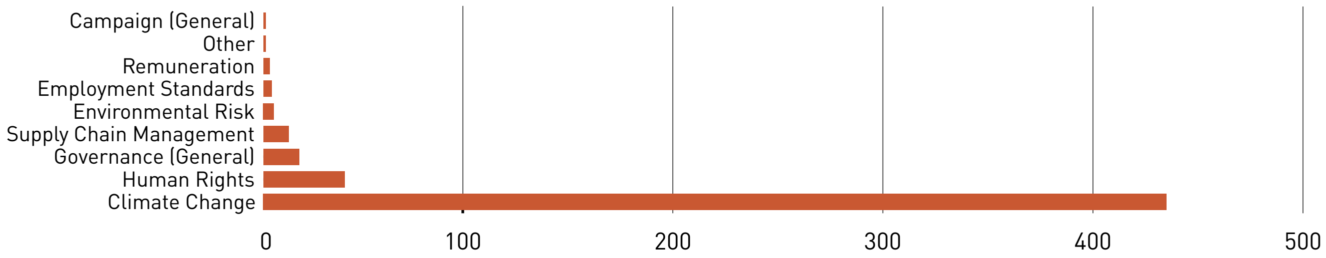
Local Government Chronicle: Rodney Barton receives LGC Investment lifetime achievement award

### Social Factors

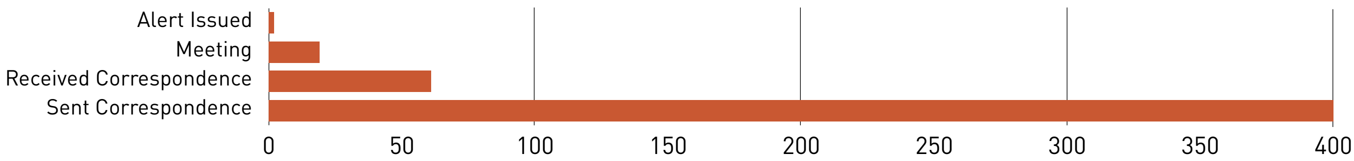
Pensions Age: Taskforce on Social Factors launched with DWP support
Professional Pensions: DWP launches social factors taskforce for industry
ESG Clarity: UK pensions social taskforce launches to address data gap
Pensions and Investments: UK task force sets out to help asset owners with social considerations

# ENGAGEMENT DATA

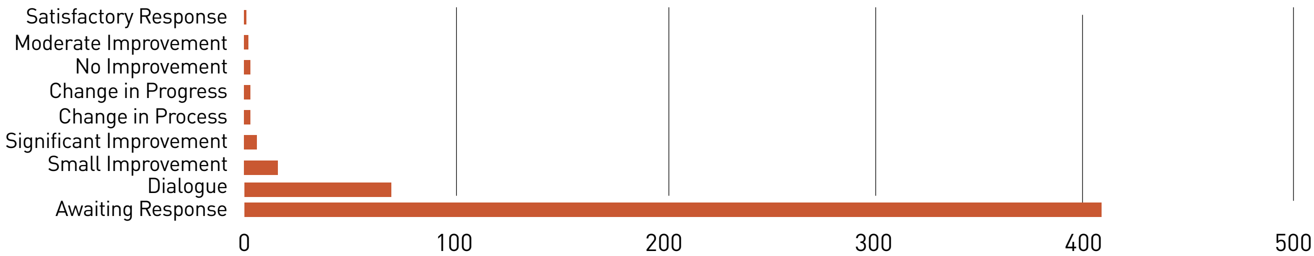
## ENGAGEMENT TOPICS



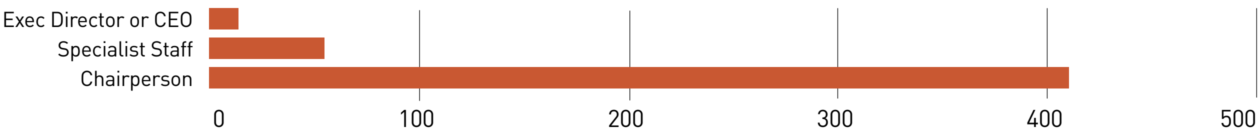

## ACTIVITY



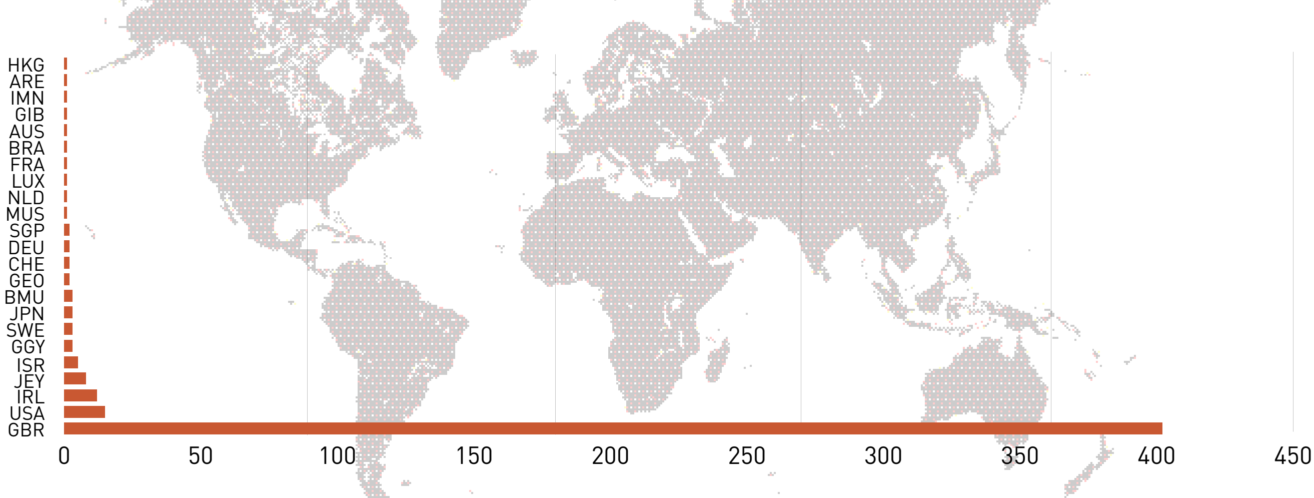

## MEETING ENGAGEMENT OUTCOMES



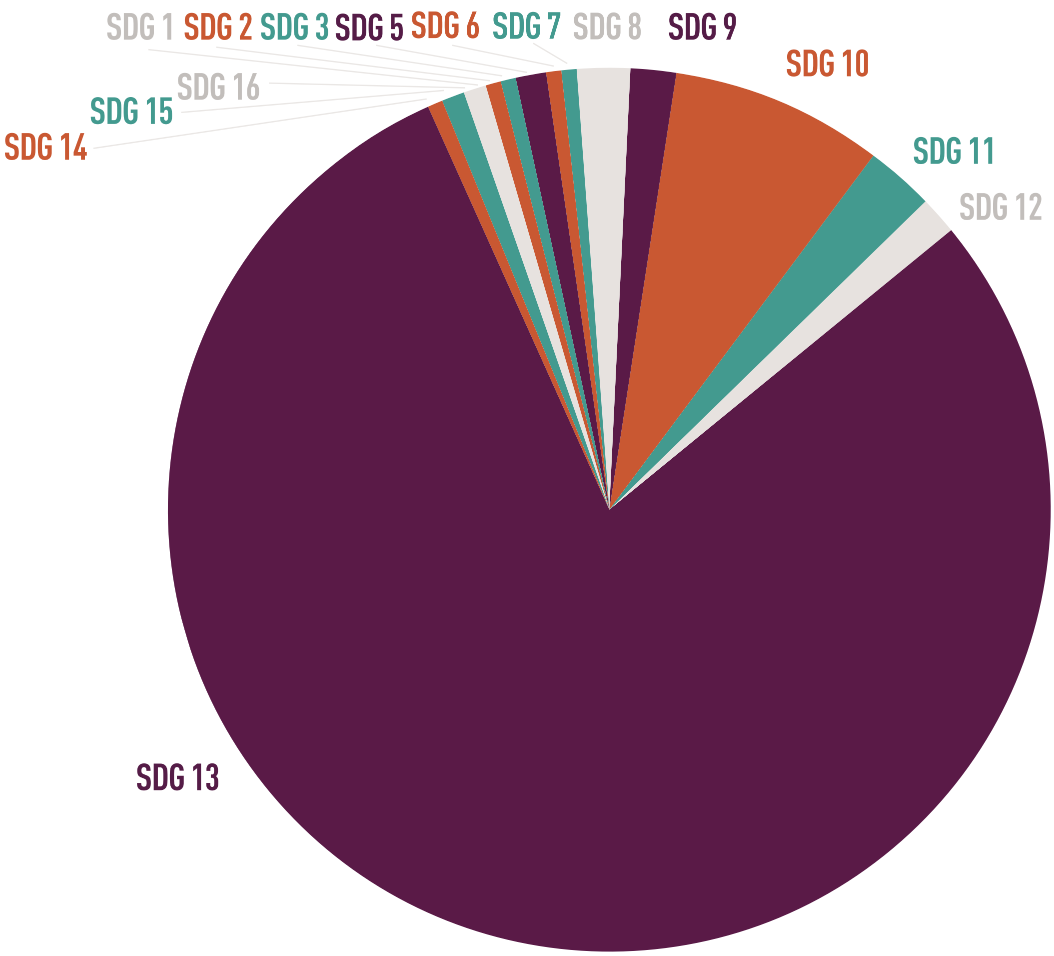

## POSITION ENGAGED




## COMPANY DOMICILES



# ENGAGEMENT DATA




| LAPFF SDG ENGAGEMENTS | |
|---|---|
| SDG 1: No Poverty | 1 |
| SDG 2: Zero Hunger | 3 |
| SDG 3: Good Health and Well-Being | 3 |
| SDG 4: Quality Education | 0 |
| SDG 5: Gender Equality | 5 |
| SDG 6: Clean Water and Sanitation | 4 |
| SDG 7: Affordable and Clean Energy | 3 |
| SDG 8: Decent Work and Economic Growth | 10 |
| SDG 9: Industry, Innovation, and Infrastructure | 9 |
| SDG 10: Reduced Inequalities | 38 |
| SDG 11: Sustainable Cities and Communities | 10 |
| SDG12: Responsible Production and Consumption | 7 |
| SDG 13: Climate Action | 426 |
| SDG 14: Life Below Water | 3 |
| SDG 15: Life on Land | 4 |
| SDG 16: Peace, Justice, and Strong Institutions | 4 |
| SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development | 0 |

# COMPANY PROGRESS REPORT

397 companies were engaged over the quarter. This number includes 368 letters sent to the FTSE All Share on presenting a climate transition plan to shareholders for approval at their AGMs. Letters were not sent to investment trusts. Excluding this engagement, LAPFF engaged with 54 companies.

| Company/Index | Activity | Topic | Outcome |
|---|---|---|---|
| ADIDAS AG | Sent Correspondence | Human Rights | Awaiting Response |
| AIA GROUP LTD | Meeting | Climate Change | Awaiting Response |
| AIRTEL AFRICA PLC | Received Correspondence | Governance (General) | Dialogue |
| AMAZON.COM INC. | Sent Correspondence | Human Rights | Awaiting Response |
| ASSOCIATED BRITISH FOODS PLC | Sent Correspondence | Human Rights | Awaiting Response |
| BANK HAPOALIM B M | Sent Correspondence | Human Rights | Awaiting Response |
| BANK LEUMI LE-ISRAEL BM | Sent Correspondence | Human Rights | In Dialogue |
| BARCLAYS PLC | Sent Correspondence | Climate Change | Awaiting Response |
| BERKSHIRE HATHAWAY INC. | Sent Correspondence | Human Rights | Awaiting Response |
| BIFFA PLC | Received Correspondence | Governance (General) | Significant Improvement |
| BRITVIC PLC | Meeting | Campaign (General) | Dialogue |
| BT GROUP PLC | Sent Correspondence | Remuneration | Awaiting Response |
| CENTAMIN PLC | Received Correspondence | Governance (General) | Change in Progress |
| CHIPOTLE MEXICAN GRILL INC | Meeting | Environmental Risk | Small Improvement |
| CLS HOLDINGS PLC | Sent Correspondence | Governance (General) | Awaiting Response |
| CONSTELLATION BRANDS INC. | Meeting | Environmental Risk | No Improvement |
| DIRECT LINE INSURANCE GROUP PLC | Received Correspondence | Governance (General) | Dialogue |
| DRAX GROUP PLC | Received Correspondence | Environmental Risk | Small Improvement |
| FORD MOTOR COMPANY | Sent Correspondence | Human Rights | Awaiting Response |
| FRASERS GROUP PLC | Sent Correspondence | Governance (General) | Awaiting Response |
| GENERAL MILLS INC | Sent Correspondence | Human Rights | Awaiting Response |
| GENERAL MOTORS COMPANY | Meeting | Climate Change | Change in Process |
| GENUIT GROUP PLC | Received Correspondence | Governance (General) | Significant Improvement |
| GRAFTON GROUP PLC | Received Correspondence | Governance (General) | Significant Improvement |
| HENNES & MAURITZ AB (H&M) | Sent Correspondence | Human Rights | Awaiting Response |
| HILL & SMITH PLC | Received Correspondence | Governance (General) | Dialogue |
| ICADE | Meeting | Employment Standards | Dialogue |
| ISRAEL DISCOUNT BANK LTD | Sent Correspondence | Human Rights | Awaiting Response |
| JBS SA | Sent Correspondence | Human Rights | Awaiting Response |
| JD SPORTS FASHION PLC | Received Correspondence | Governance (General) | Significant Improvement |
| JTC PLC | Received Correspondence | Governance (General) | Change in Progress |
| KINGFISHER PLC | Sent Correspondence | Remuneration | Awaiting Response |
| MARUBENI CORP | Meeting | Diversity Equity and Inclusion | Small Improvement |
| MCDONALD'S CORPORATION | Meeting | Supply Chain Management | No Improvement |
| MITSUBISHI UFJ FINANCIAL GRP | Meeting | Climate Change | Dialogue |
| MIZRAHI TEFAHOT BANK LTD | Sent Correspondence | Human Rights | Awaiting Response |
| NCC GROUP PLC | Received Correspondence | Governance (General) | Significant Improvement |
| NESTLE SA | Meeting | Climate Change | Small Improvement |
| NEXT PLC | Sent Correspondence | Human Rights | Awaiting Response |
| OTSUKA CORPORATION | Meeting | Diversity Equity and Inclusion | Small Improvement |
| PEPSICO INC. | Sent Correspondence | Human Rights | Awaiting Response |
| RIO TINTO PLC | Alert Issued | Climate Change | Dialogue |
| RPS GROUP PLC | Received Correspondence | Governance (General) | Dialogue |
| SHELL PLC | Sent Correspondence | Climate Change | Awaiting Response |
| STANDARD CHARTERED PLC | Sent Correspondence | Climate Change | Awaiting Response |
| STARBUCKS CORPORATION | Alert Issued | Social Risk | Dialogue |
| THE KRAFT HEINZ COMPANY | Meeting | Other | No Improvement |
| TP ICAP GROUP PLC | Received Correspondence | Governance (General) | Significant Improvement |
| UNILEVER PLC | Sent Correspondence | Human Rights | Awaiting Response |
| UNITED OVERSEAS BANK LTD | Meeting | Climate Change | Moderate Improvement |
| VIDENDUM PLC | Received Correspondence | Governance (General) | Change in Progress |
| VODAFONE GROUP PLC | Sent Correspondence | Remuneration | Awaiting Response |
| VOLVO AB | Meeting | Environmental Risk | Dialogue |
| WALMART INC. | Sent Correspondence | Human Rights | Awaiting Response |

# 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
Hillingdon 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 Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands 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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# PENSION COMMITTEE
# 28 JUNE 2023

# LGPS CENTRAL LIMITED (LGPSC) UPDATE

**Recommendation**

1. **The Chief Financial Officer recommends the Pension Committee note the LGPSC update.**

**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 ninety administering authorities. Worcestershire Pension Fund in collaboration with eight other local authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire, Nottinghamshire, and West Midlands Integrated Transport Authority) set up a collective investment vehicle called LGPSC that was authorised to operate as an alternative investment fund manager (AIFM) and became formally operational from the 1 April 2018.

3. Several LGPSC local authorities have transitioned some of their existing assets into funds managed by LGPSC. We terminated our existing emerging market mandates and invested funds into LGPSC's Emerging Market Fund in July 2019. We terminated our existing active corporate bond mandates and invested funds into LGPSC's Corporate Bond Fund in March 2020. We made a £200m investment in LGPSC's All World Passive Climate Factor Fund in November 2021 and made a £200m investment in LGPSC's Global Sustainable Equity Active Targeted Fund / Global Sustainable Equity Active Thematic Fund.

**Transition of existing assets and investment in LGPSC investment products**

4. The Pension Investment Sub Committee has agreed an indicative £30m per annum for the next 2 years into LGPSC infrastructure funds subject to due diligence.

5. The 3-year review being conducted by LGPSC of its Emerging Market Fund is still in progress. Due to the poor performance of this fund since inception (-0.6% which is 2.40% below its target as at the end of March 2023), LGSPC are in the process of replacing Columbia Threadneedle Investments with another manager. At a previous update meeting we have continually communicated our dissatisfaction with the multi-manager approach of this fund. We await further engagement with LGPSC on this matter.

**LGPSC meetings**

6. LGPSC held an EGM on 10 May. At that meeting, LGPSC announced to partner funds that Chief Executive Officer (CEO) Mike Weston had left the company with immediate effect. Due to legal constraints, a specific reason was not given. However, it was confirmed that there had been no financial impropriety.

7. At the same meeting, the non-executive directors urged partner funds to consider a 2-year extension for the existing chairperson.

8. The next LGPSC AGM is scheduled for 26 September 2023 and is likely to cover the CEO and Chair positions.

***Responsible Investment & Environmental (R &E) framework***

9. Following a March Board meeting, an update to LGPSC's RI&E Framework and Voting Principles was agreed. The LGPSC RI&E team reviews its Voting Principles annually, ahead of voting season. A summary of the changes is as follows:

a) RI&E governance is added and is to be aligned with Task Force on Climate-related Financial Disclosures (TCFD) disclosure;
b) The Investment Beliefs section is to be renamed to Responsible Investment Beliefs;
c) A clause related to the annual review of LGPSC's Voting Principles by the Board has been added that formalises the escalation process;
d) A section dealing with systematic risks has been added to re-enforce LGPSC's commitment to Environmental, Social and Governance (ESG) themes, notably by:
    i. The addition of modern slavery, diversity, equity & inclusion to the Human Rights section.
    ii. The addition of a subsection focussed on biodiversity and deforestation;
e) Voting principles have been extended to advocate robust gender and ethnic diversity; and
f) Climate-related disclosure expectations have been updated to add new principles for disclosure on gender pay, deforestation-related risks, human rights and modern slavery-related risks, as well as tax transparency.

***Staffing***

10. Notwithstanding the unexpected recruitment of a new CEO and the potential search for a new chairperson, LGPSC are seeking to add an additional headcount to the Client Services Team.

***Practitioner Advisory Forum (PAF) working groups***

11. PAF has a number of work groups which have met regularly and aim to work closely with LGPSC to ensure that all the partner funds' requirements are met. These are:

- Governance Working Group (meeting monthly and chaired by Worcestershire).
- Investment Working Group (IWG) (meeting monthly).
- Responsible Investment Working Group (Now part of IWG and discussed quarterly).
- Finance Working Group (meeting as and when required).

12. 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. Two separate audits are taking place, one focusing on investments (led by Leicestershire) and the other, recently concluded, on governance (led by Worcestershire).

13. Recent PAF focus has involved a strategic review of the future of pooling. A session was held in Birmingham on 3 May which was aimed at identifying the strengths, weaknesses, opportunities, and threats to the pool. The discussion was a positive one

with partner funds and LGPSC representatives sharing compatible views. A follow-up session is planned for 20 June.

***Investment Working Group***

14. 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; and
3. Month 3 (Mar, Jun, Sep, Dec) – strategy and new products.

15. Recent product development has focussed on multi-asset credit, UK residential property and overseas indirect property.

16. Partner funds are reviewing their pooled asset allocations. Staffordshire are collating evidence on the 15 March Budget announcements and will circulate so that each can populate a template which can be considered against the potential requirements.

**Contact Points**

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Head of Pensions Investment, Treasury Management & Banking
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Email: sloutfy@worcestershire.gov.uk

**Background Papers**

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

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# PENSIONS COMMITTEE
# 28 JUNE 2023

# BUSINESS PLAN

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**Recommendation**

1. **The Chief Financial Officer recommends that the Worcestershire Pension Fund Business Plan as at May 2023 be noted.**

**Background and update**

2. A rolling, quarterly Business Plan is produced and no matters have been identified that need to be escalated.

3. The average target turnaround for April 2023 and the LGPS year 2022 / 2023 for all twelve pensions administration KPIs has been met.

4. A scoping exercise of internal systems controls and existing workflows is being undertaken alongside the Council's Internal Audit team. A plan will be formulated and brought to future meetings with an update on progress.

5. In respect of the systems procurement exercise, work is underway with the procurement team to complete the relevant documents to be submitted shortly to the Council's Commercial Board.

6. The process of completing documentation to sign up for the LGPS National framework has begun to enable the procurement of actuarial services, in conjunction with the Council's procurement team.

7. The Fund has successfully recruited to the post of Governance Lead, Systems & Projects Lead, Project Officer (that was an internal appointment) and to one of the vacant Pension Business Support positions as an apprenticeship through the Council. The remaining four vacancies are being held intentionally to support ongoing training needs within the team.

8. The Fund's key projects are on schedule for completion.

**Supporting information**

- Appendix - Business Plan May 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.

# Business Plan

As at May 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 not had to report anything to The Pensions Regulator since the last quarterly, rolling Business Plan.

III. In 2022 / 2023 we had 2 data breaches (starter information sent to wrong member and an incorrect email placed on a member record, both due to manual error), 8 IDRPs, an FOI (about our AVC provider), and 0 complaints.

IV. Our Fund performance for the quarter to 31 03 2023 of 2.7% was 0.5% below the benchmark that was 3.2%.

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 were updated by the 2022 actuarial valuation on 1 April 2023 by the figures shown in brackets: 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 03 2023 of 1.2% was 0.5% below the benchmark that was 1.7%. Over the 3 years to 31 03 2023 our 9.6% p.a. was 1.4% p.a. below the benchmark of 11.0% p.a.

1.6 The Fund's investment portfolio excluding cash of £51m as at 31 March 2023 totalled £3,553m, and its solvency funding level was 96.2%.

1.7 Relative to the benchmarks for our sectors we have achieved the 3-year p.a. returns shown in the right column of the table below:

| Sector (market value) | Benchmark | Performance p.a. over the 3 years to 31 March 2023 v benchmark |
|---|---|---|
| **Active equities (£859m)** | Bespoke | 7.7% (2.4% below benchmark) |
| **Passive equities (£1,013m)** | Bespoke | 16.5% (0.5% above benchmark |
| **Alternatives (£562m)** | 20% RAFI / 40% MSCI WL Min / 40% MSCI WL Qual | 12.7% (0.7% below benchmark) |
| **Fixed Income (£273m)** | 60% LGPSC Corp Index / 40% Absolute Return +6% | Not available as only invested Apr 2021 |
| **Property (£305m)** | 60% MSCI UK / 40% Abs Ret +7.5% | 4.4% (1.0% below benchmark) |
| **Infrastructure (£535m)** | 70% UK CPI +5.5% / 30% Abs Return +10% | 1.6% (10.3% below benchmark) |

1.8 As PEL, our existing supplier of risk and return analyses, will cease trading by the end of June, we have been in negotiations to source an alternative supplier. It is envisaged that Hyman's Robertson will take over the existing PEL business, providing us with a like-for-like service.

1.9 The Fund's 2023 submission to retain signatory status to the 2020 UK Stewardship Code is currently in its final draft stages. Cold reviews have been conducted by Officers and our independent investment advisor. The latest draft is undergoing final review with the Pensions Committee Chair. The collaboration with LGPSC, our key ESG and RI partner, has continued as part of this latest submission.

1.10 The fund's draft Financial Statements are currently at the early stages of production due to the timing of account finalisation by the Fund's custodian. System entries are planned to cease by 15 May 2023. At that point we will have a confirmed set of accounts upon which to produce a set of Financial Statements.

1.11 Completion of the Fund's Annual Report will run in parallel to that of the Financial Statements and draft updates / supporting narrative have been prepared.

1.12 We are finalising the process of re-procuring our independent investment adviser.

1.13 We are on schedule for all payments (for example to HMRC) and monitoring (for example cashflow) activities.

1.14 There are no issues with managing / reconciling the custodian accounts for investments including transactions, tax doc, cash controls, etc.

## 2 THE LATEST ON ADMINISTRATION

<u>Actuarial services procurement:</u>
Our current provider of actuarial services' contract expires at the end of October 2023. We are preparing the preliminary documents to begin the process of tendering for these services using the LGPS National Framework.

<u>Dashboards:</u>
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 PLSA webinar on 20 April.

Work is continuing within the projects team to review the data which has been identified to be used as 'member matching data'. This will ensure that we are meeting compliance in respect of our data quality.

Data quality:
An extract of our data on 17 November 2022 using Insights has revealed that the quality of our data remains at a high level when compared to the 5 October 2021 extract.

The percentage of member records passing ALL tests required by The Pensions Regulator was:
- Common data 95.4% (our 2021 score was 95%)
- Scheme-specific data 98.3% (our 2021 score was 98.7%)

In the core list of TPR 'common data' tests our pass rates were: National Insurance Number 99.95% (100%); Name 100% (100%); Sex and Date of Birth 100% (100%); Date Commenced and Normal Retirement Date 100% (99.9%); Status 100% (100%); and Address 93.5% (94.8%).

In the core list of TPR 'scheme-specific data' tests our pass rates were: Member Benefits 99.6% (99.9%); Member Details 99.5% (99.9%); CARE benefits 98.7% (98.0%); HMRC 99.8% (100%); and Contracting Out 98.8% (98.5%).

We will be developing a data improvement policy and plan to resolve the issues identified and how we will manage data held going forward.

Employer changes:
We were made 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 on 1 November 2022.
- 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 joining The Shires MAT on 01 09 2022.
- Far Forest Lea Memorial Primary joining 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.
- 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.
- Lewis Cleansing St Mary's terminating.
- Premier Support Services joining as a new employer.

- Brookfield joining Mercian Education Trust from 1 April 2023.
- The Chantry High School and John Kyrle High School & Sixth Form Centre will be joining the Heart of Mercia Multi Academy Trust on 1 September 2023.
- Kindred (previously Ridge Crest Cleaning Services) (Bishop Perowne) leaving on 31 March 2013.

Engagement:
In the LGPS year 2022 / 2023 our website was visited 80,317 times, with those visits resulting in 87,848 pages being viewed. The respective figures in 2021 /2022 were 44,567 and 66,100.

On 3 May we issued an invitation to participate in an online survey to our employer contacts to strengthen our understanding of what is important to them and to improve how we can support them going forward. The bottom line from the 14 responses to date is that they rate the service we provide as 3.57 out of 4 stars where the options are to choose 1 star, 2 stars, 3 stars and 4 stars. The content of our new website is rated 3.43 out of 4 stars, and its look and feel is rated 3.5 out of 4 stars.

4 of our employers are on risk for ill health liability insurance.

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

Governance:
A Governance Update is tabled at Board / Committee meetings covering our activities and the risks facing us in this area. The key take-aways are that WCC have appointed a new CFO and Heywood's annual (2022) cyber risk review has passed muster.

Following a discussion with WCC Internal Audit we will be reviewing several of our current workflow processes and internal systems controls. We have currently scoped the project by focusing on the workflows which deliver our KPI information.  Further updates on progress will be shared at subsequent board and committee meetings.

KPIs:
We measure our performance against CIPFA industry standard targets for our key pension administration processes.

As detailed below in April 2023 and for the full LGPS year 2022 / 2023, we met our average target turnaround for all 12 of our key measured processes.

In April 2023 were 38 deaths, 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 41. 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 Apr 2023 | % Processed within KPI in Apr 2023 | Av turnaround (working days) in Apr 2023 | Target turnaround (working days) | Full year 2022 / 2023 average number processed per month |
|---|---|---|---|---|---|
| Joiners notification of date of joining | 271 | 99 | 9 | 40 | 331 |
| Process and pay refund | 44 | 89 | 8 | 10 | 68 |
| Calculate and notify deferred benefits | 158 | 98 | 8 | 30 | 164 |
| Letter notifying actual retirement benefits | 37 | 100 | 2 | 15 | 45 |
| Letter notifying amount of dependant's benefits | 8 | 100 | 1 | 10 | 17 |
| Letter acknowledging death of member | 38 | 95 | 2 | 05 | 41 |
| Letter detailing CETV for divorce | 2 | 100 | 1 | 45 | 10 |
| Letter notifying estimate of retirement benefits | 122 | 100 | 2 | 15 | 122 |
| Letter detailing transfer in quote | 8 | 100 | 3 | 10 | 52 |
| Process and pay lump sum retirement grant | 112 | 100 | 12 | 23 | 99 |
| Letter detailing transfer out quote | 23 | 91 | 10 | 10 | 43 |
| Letter detailing PSO implementation | 0 | n/a | n/a | 15 | 0 |

| Activity / Process | Number processed for full year 2022 / 2023 | % Processed within KPI for full year 2022 / 2023 | Av turnaround (working days) for full year 2022 / 2023 | Target turnaround (working days) |
|---|---|---|---|---|
| Joiners notification of date of joining | 3979 | 94 | 15 | 40 |
| Process and pay refund | 826 | 93 | 5 | 10 |
| Calculate and notify deferred benefits | 1968 | 99 | 7 | 30 |
| Letter notifying actual retirement benefits | 546 | 99 | 2 | 15 |
| Letter notifying amount of dependant's benefits | 205 | 98 | 3 | 10 |
| Letter acknowledging death of member | 493 | 79 | 4 | 05 |
| Letter detailing CETV for divorce | 128 | 100 | 2 | 45 |
| Letter notifying estimate of retirement benefits | 1471 | 99 | 3 | 15 |
| Letter detailing transfer in quote | 634 | 98 | 2 | 10 |
| Process and pay lump sum retirement grant | 1188 | 100 | 14 | 23 |
| Letter detailing transfer out quote | 524 | 96 | 3 | 10 |
| Letter detailing PSO implementation | 2 | 100 | 4 | 15 |

The number of flexible retirements processed over the last 3 years, using data from the Insights reporting tool, are: 2022: 21; 2021: 11; 2020: 2; and 2019: 3.

In 2022 /2023 we wrote off 10 cases (for £171.67; £198.03; £162.82, £144.35; £106.87; £502.86; £189.18; £163.19; £103.16; and £115.50).

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:
On 6 April DLUHC published its **response** to its consultation on the changes required to the LGPS to address the discrimination outlined in the McCloud judgment. There are some areas where DLUHC has delayed decisions, including aggregation and flexible treatment, pending a further consultation. The intention is that the final regulations will come into force on 1 October 2023, with backdated effect from 1 April 2014.

Pensions administration system procurement:
We are progressing with the procurement of the pensions administration system, working with the WCC procurement team to submit the relevant completed documentation to the June WCC Commercial Board for approval.

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 recruited successfully to the following positions: Governance Lead, Systems & Projects Lead, Project Officer (that was an internal appointment) and one of the vacant Pension Business Support positions offering an apprenticeship.

We currently have the following vacancies across the service to recruit to: Communication & Training Lead, Governance Officer, Pensions Officer and Business Support.

Training:
A separate report is tabled at Board / Committee meetings covering our activities and the risks that we face in this area.

**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 May 2023 | Started | Jun 23 | Jul 23 | Aug 23 | Sep 23 | Oct 23 | Nov 23 | Dec 23 | Jan 24 | Feb 24 | Mar 24 | Apr 24 | May 24 | Jun 24 | Jul 24 | Aug 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 | | | | | | | | Cttee | | signed off | 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 | | | | | | | | | | | | scheduled |
| **18 TPR Annual return /survey** | | | | | | | Annual | | | | Survey | | | | | | scheduled |
| **19 CEM investment benchmarking (31 07 23)** | | | Annual | | | | | | | | | | | | Annual | | 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 | | | √2022 actuarial valuation |
| **32 Reprocure pension admin system (30 04 2024)** | May-20 | | | | | | | | | | | | | | | | Aiming to take approval for re-procurement to Commercial Board June 23 |
| **10 Pension Administration Strategy review (01 04 24)** | | | | | | | | | | consult | Cttee | publish | | | | | √2023 |
| **13 Review data quality** | | | | | | Insight results | | | | | | | | | | | scheduled |
| **25 Revalue CARE accounts (30 04 2024)** | | | | | | | | | | | | System config. | | | | | √2023 |
| **26 Provide FRS info** | | Millbrook | Coll | Ac | | | | admit bods | | | Sch | | | Millbrook | Coll | Ac | √ to date and scheduled |
| **3 Branding and digital strategy (MSS)** | Oct-18 | | | | | | | | | | | | | | | | website redesign completed |
| **20 Monitor employer covenants / pots / conts** | | Cttee | | | | Cttee | | Cttee | ask ers | | Cttee | reset ercont s | | Cttee | | | Pfaroe in place and 'All about investment pots' updated |
| **21 Deferred annual benefit statements (31 08 23)** | | Annual | Q manag | | | | | | | | | | | Annual | Q manag | | on schedule: newsletter and statement drafted |
| **22 Employee annual benefit statements (31 08 23)** | | | | Annual | Q manag | | | | | | Y/End | | | | | Annual | on schedule |
| **23 Pensioner P60s (30 04 24)** | | Q manag | | | | | | | | | | | Annual | Q manag | | | √2023 |
| **24 Payslips reflecting pension increase (30 04 24)** | | | | | | | | | | | | Annual | | | | | √2023 |
| **27 Pension Savings Statements (06 10 23)** | | | | | | Annual | | | | | | | | | | | scheduled |
| **29 Pensioner newsletter / life cert (30 11 23)** | | | | | | | Annual | | | | | | | | | | 2023 scheduled |
| **28 /30 Good Governance incl TPR** | TBD | Cttee | | | | Cttee | | Cttee | | | Cttee | | | Cttee | | | new WCC CFO appointed |
| **33 McCloud** | Aug-20 | Cttee | | | | Cttee | | Cttee | | | Cttee | | | Cttee | | | |
| **5/6 Review of Asset Allocation / ISS (31 05 23)** | | Cttee Sub | | | Sub | Cttee | Sub | Cttee | | | Cttee | | | Cttee Sub | | | ISS 2023 completed |
| **9 Increase assets managed by LGPS Central Limited** | Feb-19 | Cttee Sub | | | | Cttee | | Cttee | | | Cttee | | | Cttee Sub | | | looking into infrastructure / private equity / 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** | | | CFH Docmail | | | Mercer | | | | | Legal | | | | CFH Docmail | | Started actuarial services procurement May 2023 |

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worcestershire county council

# PENSIONS COMMITTEE
# 28 JUNE 2023

# TRAINING UPDATE

**Recommendation**

1. **The Chief Financial Officer recommends that the Worcestershire Pension Fund Training Update be noted.**

**Background**

2. The Committee reviewed the Fund's **Training Policy & Programme** at its meeting on 22 March 2023.

3. Since then the Fund's Training Officer has passed over some of her previous duties to our new members of staff and moved to working two days a week on training.

4. The Head of Pensions Administration and the Training Officer provided Worcestershire County Council's HR department with a training session on their employer responsibilities in the LGPS.

5. The Training Officer has been developing an induction (to Worcestershire Pension Fund) course for new members of staff and produced training notes on aggregation (of previous benefits with current LGPS benefits).

6. Following the March 2023 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; and
d) WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

7. Progress in mitigating the four risks since the last quarterly Board / Committee cycle has included Officers participating in various scheme / industry groups / fora to keep up to date on pensions issues. These have included attending a PLSA webinar on Pensions Dashboards on 20 April. Officers have also been continuing to review specialist publications.

**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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# PENSIONS COMMITTEE
# 28 JUNE 2023

# RISK REGISTER

**Recommendation**

1. **The Chief Financial Officer recommends that the Pension Board reviews the May 2023 Worcestershire Pension Fund Risk Register.**

**Background and update**

2. The Risk Register is kept under regular review and, following the May 2023 review by officers, and an updated Risk Register is attached as an Appendix.

3. Following the February 2023 review of the Register that resulted in the number of risks being included in the Register being reduced from 32 to 16. 5 risks are being covered in the Governance Update and 4 risks are being covered in the Training Update.

4. The May 2023 review added no new risks and resulted in no increases or increases to risk scores.

5. Mitigating actions have been updated for:

    a) **new measures** e.g. Following a discussion with WCC Internal Audit we will be reviewing several of our current workflow processes and internal systems controls. We have currently scoped the project by focusing on the workflows which deliver our KPI information; and

    b) **previous measures that have been completed / developed further / have changed timelines** e.g. We have recruited to the Governance Lead, Systems & Projects Lead, Project Officer (that was an internal appointment) and one of the vacant Pension Business Support positions and had the annual reviews of our governance material approved by Committee. The Council's IT team have confirmed that Heywood's annual (2022) cyber risk review has passed muster.

**Supporting information**

- Appendix - WPF Risk Register May 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.

# Risk Register

As at May 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 Feb 2023 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 May 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 (in areas 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: Shareholders meetings and the Practitioners Advisory Form (PAF) meetings 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. Our Investment Strategy Statement 2023 was approved 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 was approved 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 May 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 |

| WPF Risk Register May 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 consulted employers on some changes to our Funding Strategy Statement that were approved by the Pensions Committee on 22 March 2023. 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 another ESG / responsible investment workshop on 8 February 2023 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 May 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 asset-transition procedures are in place. We are monitoring developments following the Budget on 15 Match 2023. 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 May 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 34 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 to focus on that area. | | | |

| WPF Risk Register May 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. Although we have recruited to the Governance Lead, Systems & Projects Lead, Project Officer (that was an internal appointment) and Pension Business Support positions, 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 May 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. Regular quarterly meetings between WCC HR Lead, Head of Pensions Admin and Liberata Service Delivery Lead are in place to ensure that open communication takes place with issues that arise and to monitor improvements. 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, our updated Pension Administration Strategy was approved by Committee. 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 May 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 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. Additonal resource has been added to this area to ensure service resilience and knowledge is increased. | 15 | 2 | 30 |

| WPF Risk Register May 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 May 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 | An annual review of data against TPR categories is conducted. 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 May 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 | After consulting our employers, our 2023 Policy Statement on Communications was approved by Committee on 22 March 2023. We are on schedule for issuing the 2023 deferred annual benefit statements / newsletters and the 2023 employee annual benefit statements / newsletters by 31 August. | 5 | 1 | 5 |
| [redacted] | | | | | | | | | | |

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worcestershire county council

# PENSIONS COMMITTEE
# 28 JUNE 2023

# GOVERNANCE UPDATE

**Recommendation**

1. **The Chief Financial Officer recommends that the Worcestershire Pension Fund Governance Update be noted.**

**Background**

2. The Fund has been updating its Business Plan and Risk Register, its key operational / planning / management documents, quarterly since March 2019.

3. Following the March 2023 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 made in preparation for Scheme Advisory Board's (SAB's) Good Governance proposals being taken forward by the Department for Levelling Up, Housing and Communities (DLUHC) (See Appendix 1). It should be noted that there are a number of actions for the new Chief Financial Officer to address once in post; and
b) Benchmarking our Governance Compliance Statement (see Appendix 2).

5. It is also worth noting that:

a) Heywood's annual (2022) cyber risk review has passed muster; and
b) Following a discussion with the Council's Internal Audit team, several of the current workflow processes and internal systems controls will be reviewed. The project is currently being scoped by focusing on the workflows which deliver the KPI information. Further updates on progress will be shared at subsequent Board and Committee meetings.

## Supporting information

- Appendix 1 - Good Governance Position Statement May 2023
- Appendix 2 – Benchmarking our Governance Compliance Statement

## 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 Updated Position Statement: Good Governance** May 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<br><br>We have benchmarked our Governance Compliance Statement against Appendix 2 of the Phase 3 Report | CF / TBD<br><br>Benchmark our Governance Compliance Statement against the Guidance once it has been issued and in the meantime against peer funds' statements annually, re which the 2022 peer fund benchmarking has been completed |

| Good Governance proposal | Current position | Identified actions (that are owned by # / with a target delivery date of #) |
|---|---|---|
| | The 22 March 2023 Pensions Committee approved our updated Governance Policy Statement following the annual review of the existing (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 | Our 2022 Policy on Conflicts of Interest was re-approved for 2023 at the 22 March 2023 Pensions Committee meeting, following an annual review of the 2022 version<br><br>Elected members' (not officers') conflicts of interest are declared at the start of each Pensions Committee and Pension Board meeting.<br><br>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 | Our 2023 Policy on Representation was approved at the 22 March 2023 Pensions Committee meeting, following an annual review of the 2022 version<br><br>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 | Our 2022 Training Policy and programme, was re-approved for 2023 at the 22 March 2023 Pensions Committee meeting, following an annual review of the 2022 version<br><br>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 | We have a new s151 | CFO / TBD<br><br>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 #) |
|---|---|---|
| | | |
| 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 a Training Policy and Programme and review it annually: at the 22 March 2023 Pensions Committee meeting the 2022 version was re-approved for 2023, following an annual review of the 2022 version<br><br>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<br><br>The s151 Officer also delegates to the Head of Finance (Corporate) matters requiring a purely County Council decision | CFO / TBD<br><br>Publish a matrix that meets the requirements. 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 the Pensions Committee approved 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 | CF/ TBD<br><br>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. The Fund has purchased Altair Insights, and we are recruiting a Governance Lead and 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 | CFO / TBD<br><br>We are continually reviewing our structure and recruiting to the vacant roles in the pensions administration structure |

| 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<br><br>IGR reports to be assessed by a SAB panel of experts | We do not currently do this | CFO / TBD<br><br>Prepare for IGRs. Awaiting more info |
| F.2 LGA to consider establishing a peer review process for LGPS funds | We do not currently do this | CFO / TBD<br><br>Prepare for the process and investigate external benchmarking like PASA. Awaiting more info |

Note: in the last column CF = Chris Frohlich

**Good Governance A3 benchmarking** V1 dated 21 03 2023

| |
|---|
| **Governance Compliance Statement** ( reg 55 ) An administering authority must prepare a written statement setting out…whether delegates…to a committee…frequency…of meetings…whether those representatives have voting rights…the extent to which…complies…and details of the…pension board |
| **Bedfordshire Pension Fund**<br><br>Home (bedspensionfund.org)<br><br>- Bedford Borough Council<br><br>The 2022 annual report does not have a GCS or GPS but has a 'Legal Framework & Administration' section and refers to a GPS on the Fund's website and a GCS that I could not find at Fund policies (bedspensionfund.org). |
| **Gloucestershire Pension Fund**<br><br>Local Government Pension Scheme (LGPS) - Gloucestershire County Council<br><br>Browse Meetings, 2023 (gloucestershire.gov.uk)<br><br>The 2022 annual report has a combined GP&CS that the Fund's website displays and uses the table approach that we use. |
| **Norfolk Pension Fund**<br><br>Home \| Norfolk Pension Fund<br><br>CMIS > Committees > Pensions Committee<br><br>The draft 2022 annual report has a GCS that uses the table approach that we use and a GSS that is also on the Fund's website. |
| **Oxfordshire Pension Fund**<br><br>The Oxfordshire Pension Fund \| Oxfordshire County Council<br><br>Browse Meetings, 2023 \| Oxfordshire County Council<br><br>The draft 2022 annual report has a GPS that is also on the Fund's website (dated June 2017) along with a GCS that uses the table approach that we use and is dated June 2014. |
| **South Yorkshire Pension Fund**<br><br>South Yorkshire Pensions Authority > Members (sypensions.org.uk)<br><br>Browse meetings - Pensions Authority - South Yorkshire Pensions Authority<br><br>An GCS is included in the 2022 annual report and uses the table approach we use. In addition, the annual report includes an annual governance statement that details arrangements for ensuring compliance with each of the 7 Core Principles set out in the 2016 CIPFA/SOLACE guidance, Delivering Good Governance in Local Government: Framework. |

| |
|---|
| **West Midlands Pension Fund**<br><br>West Midlands Pension Fund - West Midlands Pension Fund (wmpfonline.com)<br><br>Browse meetings - Pensions Committee :: Wolverhampton City Council (moderngov.co.uk)<br><br>The June 2022 GCS that is linked to from the 2022 annual report uses a narrative approach followed by the table approach we use. |
| **West Yorkshire Pension Fund**<br><br>Home page of West Yorkshire Pension Fund (wypf.org.uk)<br><br>Bradford Council - Committee structure (moderngov.co.uk)<br><br>The 2022 annual report has a GCS that is also on display on the Fund's website (dated January 2016). |
| **Worcestershire Pension Fund**<br><br>Worcestershire Pension Fund<br><br>Browse meetings - Pensions Committee - Worcestershire County Council (moderngov.co.uk)<br><br>We include our GCS in our 2022 annual report and display our GPS on our website. |

worcestershire county council

# PENSIONS COMMITTEE
# 28 JUNE 2023

# FORWARD PLAN

## Recommendation

1. **The Chief Financial Officer recommends that the Committee comment and approve the Forward Plan.**

2. The forward plan was presented to the last Committee meeting to highlight the key areas that are anticipated to be reported in the future. The Forward Plan was approved and was to be reviewed at each Committee meeting. This is attached as an Appendix and Committee are asked to comment and approve the plan.

## Supporting Information

Appendix – Forward Plan

## Contact Points

Specific Contact Points for this report
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## Background Papers

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

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## Pensions Committee Proposed Forward Plan

**Appendix 1**

| Pension committee Items | 12/10/2023 | 13/12/2023 | Feb 2024 | Mar 2024 |
|---|---|---|---|---|
| LGPS Central Update | Y | Y | Y | Y |
| LGPS Central Budget and Business Plan | | | Y | |
| Annual investment Strategy Statement (Include Climate Risk Strategy and TCFD Report) | | | | Y |
| Pension investment Update | Y | Y | Y | Y |
| Business Plan update (includes Admin) and Monitoring (includes KPI's) | Y | Y | Y | Y |
| Pension fund Unaudited Annual Accounts | | | | |
| Pensions Final External Audit Report on Annual Report | Y | | | |
| Pension fund Budget Monitoring | Y | | | |
| Pension fund Admin Budget for Approval | | | | Y |
| Government Actuary Dept review update | Y | | | |
| Asset Allocation Review | | | | Y |
| Members Training | Y | Y | Y | Y |
| Equity Protection update | Y | | | |
| Risk Register | Y | Y | Y | Y |
| internal Audit Report | | Y | | |
| Local pension Board updates including such areas as Regulatory Scheme Advisory Board (SAB) updates | Y | Y | Y | Y |
| Stewardship Code Compliance Statement | | | | |
| SAB Good Governance review monitoring and CMA objectives for independent Investment Advisor | Y | | Y | |

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