AGENDA ITEM 11

COUNCIL
10 NOVEMBER 2016

REPORTS OF COMMITTEES

(a) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS COMMITTEE

Pension Investment Update

1. The Committee has noted the Independent Financial Adviser's fund performance summary and market background.

2. The Committee has noted the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel, namely Nomura, JP Morgan – Emerging Markets and JP Morgan – Bonds.

3. The Committee has agreed to instruct Fund Officers to start fee discount negotiations with JP Morgan (Bonds) in light on their continued underperformance against the required +1.0% outperformance target.

Administering Authority – Administration Update

4. The Committee has noted the general update from the Administering Authority in relation to the Pension Fund Valuation 2016, 2016 Annual Benefit Statement, current Government consultations, admissions to the Fund, and the Admission Forum.

Actuarial Valuation – Government Actuary's Department (GAD) Section 13 Dry Run Report

5. Section 13 of the Public Service Pensions Act 2013 requires the Government Actuary to report on whether four main aims are achieved with regards to local fund valuations of the Local Government Pension Scheme (LGPS) from 2016: compliance, consistency, solvency and long-term cost efficiency.

6. GAD produced a 'dry run' report based on 2013 Actuarial Valuation results and identified that there are significant areas of inconsistency in local valuation reports' assumptions and methodology, which make meaningful comparison of valuation results unnecessarily difficult. To address this, GAD restated the results on two bases:

i) The standard basis established by the Scheme Advisory Board (SAB); and
ii) A market consistent basis derived by GAD.

7. Based on the SAB standard basis the Fund moves from 69% funded to 83% funded indicating that the Fund's actuary has correctly built prudence into the Fund's 2013 valuation assumptions.

8. The Fund scored 'green' indicating that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency with regards to existing or emerging risks, which include funding level, liability shocks and asset shocks.

9. The final assessment concerned long-term cost efficiency measures: deficit repaid, deficit period, required return, repayment shortfall, repayment pace, return scope and interest cover. These metrics were assessed on a standardised market-consistent basis. The Fund achieved a 'green' score on all measures except for deficit extension which scored amber. The Committee has noted the 'dry run' GAD Section 13 Report.

LGPS Central Update

10. The Committee has approved an amendment to the LGPS Central budget as a result of an increase in advisers' costs.

11. The Committee has agreed a maximum of £500,000 pool set-up cost budget spending be delegated to the Chief Financial Officer with a requirement to report back to the Committee for any required pool set-up cost spending above the £500,000 limit.

12. The Committee has agreed that the outcome of the allocation of the authorised Collective Investment Vehicle's Operator running costs negotiations be approved by the Committee before the Shareholders' Agreement and Inter Authority Agreement are finalised and sealed.

Green Investment Bank

13. Worcestershire County Council Pension Fund currently has surplus cash of £19.4m mainly as a result of upfront deficit contribution payments received from a number of fund employers and some recallable distributions from the fund's infrastructure and property managers. It is expected that a proportion of the surplus cash will reduce through to financial year-end. The interest that the fund can earn on the surplus cash through bank interest and money market fund investments is minimal compared to the returns achievable through investing in other asset classes.

14. Fund officers have consulted with the fund's Independent Financial Adviser and the Chair of the Pension Investment Advisory Panel and have concluded that extending the fund's commitment to infrastructure pooled funds is optimal, as it further diversifies the fund from its current 80% allocation to equities and opportunities in the bond and property markets are more limited in the current market environment. There is no impact on fund strategic asset allocation benchmarks.

15. The fund's two infrastructure mangers, Hermes and Green Investment Bank, were approached to determine current investment opportunities. The Hermes fund is

closed, although they will be opening a second fund in the near future. The Green Investment Bank fund is due to close at the end of September 2016 and there is an opportunity to invest prior to close. Bfinance have confirmed that there is no change to their score of Green Investment Bank and they have no concerns to report.

16. The Committee has approved a £10 million additional investment to the Green Investment Bank.

JP Morgan Bonds

17. Due to the current market environment, JP Morgan has indicated that it is unable to achieve its target excess return of 1% above benchmark. JP Morgan proposed that a target range of 0.5% to 1% above target is more achievable. The proposal also included a fee reduction.

18. Fund Officers met with JP Morgan to discuss their proposal. The Chief Financial Officer informed JP Morgan that the contracted target performance requirement of +1% would remain, as top performing managers had achieved this target and there would be a procurement issue if the target was changed at this stage. Following further discussions, JP Morgan agreed to further revise their fee proposal.

19. The Committee has approved a fee discount proposal for JP Morgan.

Mr R W Banks
Chairman

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Background Papers

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) the following are the background papers relating to the subject matter of this report:

Agenda papers for the meeting of the Pensions Committee held on 26 September 2016.