

COUNCIL
17 JANUARY 2019**REPORTS OF COMMITTEES****(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS
COMMITTEE**

Equity Protection

1. A static options hedge solution was implemented to provide equities downside protection through to the next actuarial valuation. This was implemented for a period of 18 months to cover the period to the next actuarial valuation in 2019, at which stage a further review could be undertaken, in-line with the actuarial valuation process, to optimise the solution and align the equities protection to the Fund's funding strategy.
2. The Committee has noted a presentation by representatives of River and Mercantile which provided an update to the existing Equity Protection Strategy and outlined potential future options for Equity Protection.

Administering Authority – Administration Update

3. Independent Transition Management (ITM) Limited had been appointed to undertake the Fund's reconciliation and rectification exercise. ITM have confirmed that all discrepancies have now been investigated and the remaining queries arising have been raised with HMRC. The Committee has noted the update on the Guaranteed Minimum Pension (GMP) Reconciliation exercise.
4. As part of the reconciliation exercise, the Committee has reviewed the options available with regard to dependant pensioners for whom the linked deceased member had contracted-out service but where HMRC's records state that there is no qualifying spouse. The options available were either to accept the Administration Record (and keep the GMP in payment), or accept the HMRC record (and set the GMP to zero). The Committee has supported the option to accept the Administration Records for Dependants ineligible for GMP.
5. The Committee has noted the general update from the Administering Authority in relation to Data Quality, Funding Strategy Statement – Exit Credits, Future of Pension Scheme, Administration Strategy, and Covenant Review.

Pension Investment Update

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

7. The Committee has noted the update on the Investment Managers who continue to be placed 'on watch' by the Pension Investment Advisory Panel, namely JP Morgan – Emerging Markets and JP Morgan – Bonds.

8. The Committee has noted the update on the Property and Infrastructure commitments and the cashflow management.

9. The last actuarial valuation undertaken at the 31 March 2016 showed that the fund was 75% funded with a £654m deficit at this point. Mercers (the Fund's actuary) have provided an estimated update on a 'like for like' basis using the same assumptions as at the last valuation. At the end of August 2018 this showed that the fund was estimated to be 99% funded with a deficit of £19m. Whilst this is good news, it is necessary to be cautious particularly around the asset valuations being subject to market fluctuations which would decrease the funding level and increase the level of deficit. The market volatility in October 2018 was highlighted to Committee and that this had reduced the estimated funding level to be around 95%. The Committee has noted the funding position compared to the investment performance and that this will be included in future reports.

Government Actuary Department (GAD) Pension Review Fund Update

10. GAD has produced a report which analyses each LGPS Fund's valuation results from 2016. The GAD assessment applies six tests around solvency, and seven tests on long-term cost efficiency. Funds can be assessed as green, amber or red on each of them. Although there are seven tests on long-term efficiency, they are more or less measuring the same thing which is simply whether GAD believes the level of employer contributions is sufficient.

11. When GAD carried out their initial review on the 2016 valuation results Worcestershire County Council Pension Fund received one amber flag which was in relation to its funding level being 84.4% using the 2016 data.

12. A formal response was sent to GAD explaining that the funding levels of the Fund were now close to 100% funded at the end of 2017/18 and that number of investment strategy changes had been undertaken such as reducing equity investments, increasing Property and Infrastructure investments and the implementation of an Equity Protection Strategy. It was pleasing to see that this was taken on board by GAD in their final report under the section 'Scheme Advisory Board Funding level'. The Committee has noted the Government Actuary Department (GAD) Pension Review update.

Risk Register

13. Of the risks identified in the risk evaluation table, nine risks are currently listed as having a residual risk score rated as 'amber', which indicates an outstanding medium level risk to the Fund. Four of the eight risks have associated mitigating actions that are currently being undertaken by the Fund but remain a medium risk. These risks relate to ensuring the Fund has sufficient assets to pay liabilities as they fall due, whilst maintaining as nearly constant employer contributions as possible. The Fund mitigates these risks through triennial strategic asset allocation reviews, regular reviews of active external asset manager performance and the

implementation of a Funding Strategy Statement following triennial Actuarial Valuations. Although the remaining five 'amber' risks have outstanding actions associated with them, the report detailed actions that were in progress to mitigate these risks.

14. The Committee has noted the updated Risk Register and in particular, the amber risks identified in the risk evaluation table.

Stewardship Compliance Statement

15. 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 is currently on a voluntary basis. The Fund is not currently a signatory of the FRC Stewardship Code. The Committee has reviewed and agreed the Stewardship Compliance Statement.

16. The Fund adopts a policy of risk monitoring and engagement with companies with sub-optimal governance of financially material Responsible Investment issues, in order to positively influence company behaviour and enhance shareholder value; influence that would be lost through a divestment approach. The Fund extends this principle of “engagement for positive change” to the due diligence, appointment and monitoring of external fund managers. The Committee has noted the Responsible Investment activities.

17. The Local Authority Pension Fund Forum (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. The Committee has agreed that the key areas of the LAPFF quarterly engagement report be included in the Committee's future pension's investment updates.

18. The Fund is part of LGPS Central pooled Fund and is actively exploring opportunities to enhance its stewardship activities. 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 issues Quarterly Stewardship Reports to demonstrate progress on matters of investment stewardship

Forward Plan

19. The Committee has approved its forward plan and noted that further reports on the Equity Protection Strategy would be brought to its March and June 2019 meetings.

LGPS Central Update

20. The next fund to transition across after Global equities is the Emerging Markets active equities. Worcestershire Pension Fund currently has mandates with JP Morgan

and Schroder's. Pre-Qualification Questionnaires (PQQ's) have been completed and Request for Proposals (RFP) to appropriate managers was sent out at the end of October 2018.

21. The LGPS Central business case is due to be rerun and this first planned rerun will take into account the full details of the revised cost share agreement and the proposed sub-fund structure. The update will be reported to Committee as soon as it is available. A company called Simplitium was due to be procured by LGPS Central on behalf of the partner funds with a prime aim to track through costs and savings overall and for each individual partner fund since inception of the company. However this has now fallen through and alternative solutions are being sought.

22. The Committee has received a presentation from Jason Fletcher, Chief Investment Officer and Callum Campbell, Head of Client Services and Investor Relations of LGPS Central and noted the updated arrangements.

23. The Committee received an update on the appointment of the Chief Executive which was planned to be in place by the end of December 2018 and the Committee would be informed of future progress

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 28 November 2018.