

COUNCIL
12 NOVEMBER 2020**REPORTS OF COMMITTEES****(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS COMMITTEE**

Pension Board and Pension Investment Sub-Committee Minutes

1. 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. In addition, the Pensions Board has requested that their deliberations be reported to the Committee. The Committee noted the Minutes of the PISC meetings on 16 and 17 September and the Board meeting on 18 September.

LGPS Central Update

2. The LGPS Central budget and Strategic Business Plan for 2020/21 has now been agreed at £11.728m, an increase limited to RPI. LGPS Central have been looking to build resources in the Private Markets team to facilitate the launch of new sub-funds, manage Partner Funds' legacy assets, generate investment cost savings and develop the internal investment capability for the collective benefit of Partner Funds. LGPS Central have appointed Ian Brown to the position of Head of Private Markets. A new Passive Portfolio Manager, Andrew Allison will also start shortly to add resilience and capacity to the team. Michael Marshall, who was the Director for Responsible Investment and Engagement has left LGPS Central. Interviews are currently in process for his replacement and the Committee will be kept updated on the appointment progress. The Committee has noted the LGPS Central update.

Pension Investment Update

3. The Committee has noted the Independent Financial Adviser's fund performance summary and market background. The Committee has noted the update on the Investment Managers placed 'on watch' by the Pension Investment Sub-Committee.

4. The last actuarial valuation was undertaken as at the 31 March 2019 showed the funding levels were 90% with a deficit of £295m. It was previously reported that there had been some recent significant volatility in the markets due mainly to the effects of the Coronavirus pandemic which has since been found to be unprecedented. This had a significant impact on the March 2020 estimated funding levels, with a slight recovery in April 2020 and has continued to recover up to August 2020. However, it is most likely that the market volatility will continue over the ensuing months which will potentially impact on the overall funding levels. The Committee has noted the funding position compared to the investment performance.

5. The original Equity Protection mandate expired on 7 August and it was agreed to continue the Equity Protection for a further 12 months on the S&P500 (for our US Passive equity Fund) and the FTSE100 (for our UK Passive equity Fund) and 18 months for the Eurostoxx50 (for our European Passive equity Fund). The revised strategy is more fluid and will require increased active management than the previous strategies that were implemented. Fortnightly monitoring meetings have been instigated with River and Mercantile. The Committee has noted the update on the Equity Protection current static Strategy.

6. The Committee has noted the update on Responsible Investment activities and Stewardship investment pooling and the Stewardship code. The Committee has noted the update on the LGPS Central report on the voting undertaken on the Funds behalf.

7. An Environment, Social and Governance procurement exercise was conducted early September through the Norfolk framework which had 6 potential service providers. 'Minerva' were appointed and an initial meeting took place on the 30 September 2020. Minerva are also currently conducting a similar exercise for Surrey County Council who have been contacted to learn from the experience that they are currently going through. The Committee has noted the update on the development of a Climate Risk Monitoring Platform and the Environment, Social and Governance procurement exercise.

8. The Committee also noted that a climate risk scenario report relating specifically to the Fund will be provided by LGPS Central and reported to the working group set up to review the findings on the 20 October 2020 with a view to reporting to the December Pensions Committee

Business Plan

9. The Business Plan is reviewed and updated quarterly to deliver an extra management / governance tool to: help officers to manage the Fund's activities; and assist the Pensions Committee to ensure the ongoing management and development of the Fund is in line with longer term policy, objectives and strategy. The Committee has noted the Worcestershire Pension Fund Business Plan as at 7 September 2020.

Risk Register

10. The Risk Register is kept under regular review and, following the officer review in September, no risks were amended and no new risks were added to the Register. The review noted that the gross (45) / residual (30) scoring of WPF 24 (Employers having insufficient skilled resources to supply our data requirements); of WPF 07 (Future change to LGPS regulations or other legislation) at 75 / 20; and of WPF 30 (Failure to maintain the quality of our member data) at 50 / 25 may require changing as our understanding of the impact of McCloud becomes clearer. The review noted that the scores of WPF 07 may also require changing following the government's response to its 'Restricting exit payments in the public sector' consultation.

11. The Committee has requested that Risk Reference WPF 08 – failure to appoint suitable investment managers and review their performance/market/contracts and WPF10 Being reliant on LGPS Central delivering its forecasted cost savings - be reviewed to make more explicit reference to the risk associated with the failure of LGPS Central to meet its performance targets relating to both of these risks. The Committee has noted the Risk Register as at 7 September 2020.

Pension Fund Audited Annual Report and Accounts 2019/20

12. The Committee was made aware that the Audit and Governance Committee was not able to sign off the Accounts at its meeting on 2 October 2020 due to the Engagement Manager for Grant Thornton being unable to attend the Committee meeting due to ill-health. The Committee has noted the unaudited Statutory Financial Statements for the Pension Fund for the year ended 31 March 2020. Subsequent to the meeting, the external auditor has issued an unqualified opinion and with no other issues or changes to those reported to Committee, the County Council Statutory Accounts 2019/20 and Worcestershire County Council Pension Fund Accounts 2019/20 were published on 27 October 2020.

13. The Annual report has not been finalised and therefore was not available at the meeting. The Committee noted that the Annual Report would be available for approval at the December Committee meeting.

Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2020/21

14. The forecast outturn for the Pension Fund is estimated to be £13.962m compared to a budget of £13.519m, a difference of £0.443m. The main reason for the variance is investment management fees (increase of £0.279m) due to some commitments to Property and Infrastructure being drawn earlier than originally anticipated. An increase above budget for investment professional fees (£0.075m) has also been incurred for the ESG Procurement and £0.060m for the set up and monitoring of Employer covenant and risk management with the actuary. This is within the £0.5m variation limit delegated to the Chief Financial Officer.

15. The budgeted Worcestershire Pension Fund administration costs are currently £20.55 per member for 2020/21. In terms of investment costs, the budget indicates spend of 46p per £1,000 (0.46% of market value as at March 2020) on managing its assets for 2020/21, including all pooled mandate costs. The Committee has noted the variation to the Pension Fund Administration Budget, including manager fees, for 2020/21 shown in the Appendix totalling £13,961,700.

Training Update

16. The Committee has noted the feedback from the Induction training and specific training events that have been undertaken since the last Committee meeting. Due to the continued impact of COVID-19, shorter but more regular training sessions may be included in the quarterly meetings. The Committee has noted the proposed training events plan for the next year up until April 2021.

Forward Plan

31. The Committee has noted the Forward Plan.

Mr P Middlebrough
Chairman

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 Assistant Director for Legal and Governance), 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 9 October 2020.

<https://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=391&Year=0>