

**COUNCIL**  
**15 JULY 2021****REPORTS OF COMMITTEES****(a) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS COMMITTEE**

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**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 Pension Board has requested that their deliberations be reported to the Committee. The Committee noted the minutes of the PISC meeting on 10 June and the Board meeting on 16 June.

**Pension Investment Update**

2. The Committee has noted the independent investment 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 be noted.

3. The last actuarial valuation was undertaken as at the 31 March 2019 and showed that funding levels were 90% with a deficit of £295m. At the last Committee, it was highlighted that there had been some recent significant volatility in the markets due mainly to the effects of the Coronavirus which has since been found to be unprecedented. This had a significant impact on the March 2020 estimated funding levels, with a recovery by September 2020 and the funding level has continued to recover up to 99% in March 2021. However, it is most likely that the market volatility will continue over the ensuing months which will impact on the overall funding levels. The Committee has noted the funding position compared to the investment performance.

4. The Equity Protection Strategy only covers the Fund's passive Market Cap portfolio of £1.1bn (including the Equity Protection Valuation). A revised Equity Protection Strategy was introduced in September 2020. The revised strategy is more fluid to capture as much market upside as possible as well as protecting from significant downside market movements. This required increased active management than the previous strategies and fortnightly monitoring meetings have taken place with River and Mercantile since September 2020. Both the Eurostoxx50 and the S&P500 equity funds have been restructured since the last Committee meeting. The Committee has noted the update on the current static strategy.

5. The Committee has noted the update on responsible investment activities, Local Authorities Pension Fund Forum (LAPFF) and stewardship. The Committee has noted the update on the LGPS Central report on the voting undertaken on the Fund's behalf.

### **Local Government Pension Scheme (LGPS) Central Update.**

6. There are no further transitions of the Funds existing assets planned at this stage, but the Fund is presently looking at the LGPS Central Global Sustainable Active Equity Fund and All World Climate Factor Passive Fund as potential future investments. The Fund is still looking at potential infrastructure investments with LGPS Central, but only investment of £25m has been provided to date. The next pipeline and overarching strategy is awaited.

7. The LGPS Central budget and Strategic Business Plan for 2021/22 was agreed at the LGPS Central general meeting by all partner funds on the 10 February 2021. A key focus for the Fund from the Business Plan was to have discussions with the Director of Responsible Investment and Engagement to understand how LGPS Central can support the Fund in achieving its recommendations within the Environmental, Social and Governance (ESG) and Sustainable Development Goals (SDG) Audit report. This is progressing well through the Responsible Investment Working Group which is seeking to agree the level of service provision required in the future.

8. The Chief Compliance and Risk Officer, the Head of Client Services and Stakeholder Relations and the Communication Officer are leaving and LGPS Central are looking to appoint suitable replacements. The Committee expressed concern about the lack of an appointment to the position of Chief Compliance and Risk Officer. The Committee has noted the LGPS Central update.

### **Pension Fund Unaudited Accounts 2020/21**

9. The key points to note on the accounts are as follows:

- a) The Fund had a revenue surplus of £87.9m before the net return on investments (deficit £38.7m in 2019/20). This is mainly due to 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; and
- b) Employers' contributions into the Fund were £201.2m (£87.5m in 2019/20).

10. The Committee has noted the unaudited accounts 2020/21.

11. Grant Thornton, the Fund's external auditors provided their Pension Fund Audit Plan for the year ending the 31 March 2021 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. The Fund's level 3 investments mainly relate to property and infrastructure investments and the Corporate private debt investment with Bridgepoint. The Finance Manager for Investment and Treasury Management and the Fund's independent investment advisor meet quarterly with all the Funds 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 the Pension Investment Sub Committee on a quarterly basis. The Committee has noted and approved the review of the level 3 investments.

## **Business Plan**

12. 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. .

13. The Committee has noted the Worcestershire Pension Fund Business Plan as at 8 June 2021 which included in particular the addition of project 34 (Progress the Fund's RI journey) to the Business Plan's appendix; and the removal of project 8 (Enveloping procurement) from the Business Plan's appendix following its completion.

## **Risk Register**

14. The Risk Register is kept under regular review and, following the June 2021 review by officers, the residual risk score of WPF20 - Staff leaving or going on long term absence – has been increased from 30 (amber) to 50 (red). The residual risk score of WPF 02 - Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members – has been increased from 15 (green) to 30 (amber). A new risk WPF 33 - Climate change - with a gross risk score of 60 and a residual risk score of 40 (amber) was added to the Register.

15. Mitigating actions have been updated for new measures (e.g. applying for signatory status to the UK Stewardship Code 2020 and the FSS employer consultation reflecting new legislation allowing for more flexibility in reviewing contributions between actuarial valuations and in the financial arrangements available to an employer wanting to leave the Fund); and previous measures that have been completed / developed further / have changed timelines. The Committee has noted the 8 June 2021 Worcestershire Pension Fund Risk Register.

## **Good Governance Review and Objectives of the Fund's Investment Advisor**

16. At the Committee meeting in December 2019, a report was provided on Governance. It was highlighted that strong governance of the Fund has always been paramount, and with the collapse of several private sector funds, alongside the set-up of the pension pools, the need to maintain strong governance has never been more important.

17. Because of this, there were two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator (TPR) looking at how to strengthen governance. A proposal to strengthen the Pension Board as a first step of the review was agreed. The SAB published their findings on phase III of the project on the 23 February 2021. The Phase III Report builds on the recommendations agreed in 2019 with further input from a range of scheme stakeholders. The agreed actionPlan comprises:

- a) Those matters that would fall to MHCLG to implement, either by amending scheme regulations or producing statutory guidance;

- b) Those matters that would fall to the Board and other bodies to implement - subject to the actions in 1 being taken by MHCLG; and
- c) Actions to identify and promote existing best practice that the Board can take forward regardless of the outcome of the above.

18. The SAB must now wait to see how MHCLG responds to the Board's proposal. The Fund will look to compare the actions in phase II compared to the latest recommended actions in Phase III and look to provide an update at the next Committee meeting in September 2021. The Committee noted the latest update on the Scheme Advisory Board (SAB) 'Good Governance' review and Worcestershire Pension Fund 'Good Governance' position statement. The Committee also noted the update against the objectives for the Fund's independent investment advisor.

### **Draft Funding Strategy Statement (FSS) Policy Update**

19. The purpose of the Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward. The last FSS was agreed by Committee in December 2019 and took on board the actuarial valuation of the Fund by Mercer. In between the triennial period, the FSS needed to be reviewed to take on board changes in regulations.

20. In March, the Committee were notified of a number of proposed employer flexibilities covering updates to the termination policy and a new contributions flexibilities policy in light of the new Regulations that came into force on 23 September 2020. The Regulations required these policies to be included in the FSS.

21. The Committee were provided with the background and details of the proposed changes to be consulted on with employers which related to an updated Termination Policy and a new Employer Contributions Review Policy. The Fund received one response from Community Housing Group who suggested that DDAs should be an option for employers even if the exit debt is theoretically affordable. After discussions with the Fund's actuary, it is felt that there is sufficient flexibility within the original proposed FSS to take on board their suggestion. However, it should be noted that upfront payment of the exit debt (the existing approach) will remain the default option when an employer terminates.

22. The Committee has noted the consultation that was sent to employers on proposed changes to the Funding Strategy Statement (FSS) and the feedback from the consultation on the proposed changes to the Termination Policy re Deferred Debt Agreements and deficit spreading arrangements. The Committee has approved the revised FSS taking on board the changes in the consultation.

### **Government Actuary Department (GAD) Pension Review update**

23. GAD have carried out an initial review on the 2019 valuation results and the Fund's actuary Mercer were required to provide the GAD with additional information in relation to their Section 13 assessment for England and Wales LGPS funds. This analysis has now been completed. GAD have sought and replied to the Fund actuary's comments ahead of finalising their analysis. The actuary has been informed that GAD are unlikely to publish the liability shock analysis.

24. The Fund has not breached any of the GAD's 8 triggers and as far as the actuary is aware there will be no further engagement needed with the GAD other than to check that the information being used is correct. However, the actuary will confirm if further engagement with the Fund is required. The Committee noted the Government Actuary Department (GAD) Pension Review update.

### **UK Stewardship Code 2020**

24. 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. The 12 Principles apply to asset owners and asset managers. They are grouped under these headlines: Purpose and governance; Investment approach; Engagement; and Exercising rights and responsibilities.

25. LGPS Central have provided support and advice to those partner funds who wished to submit in the first tranche. After consultation and feedback from the Chair of the Pensions Committee, the Chief Financial Officer and the Fund's independent investment advisor, the Fund submitted its application on the 30 April 2021. LGPS Central and West Midlands Pension Fund also submitted their application. The FRC are expecting to provide a 'Yes or No' as to whether the application has been successful during July 2021. The Committee has noted the requirements for the revised UK Stewardship Code and Worcestershire Pension Fund's submission.

### **Training Update and the Pension Board's 'Deep Dive' Programme**

26. The Committee has noted the training update and the Pension Board's 'deep dive' programme. The Committee requested that additional training be arranged in respect of investing in property and infrastructure and debt.

### **Internal Audit Plan**

27. A report was provided to Pensions Committee in June 2020 which detailed an extract of the current Internal Audit plan for 2020/21 to 2022/23 that related to pensions. The Plan has been updated to cover pension administration and pensions investment. Any recommendations from these audit plans are reported to the Audit and Governance Committee and monitored on a regular basis. The Committee has noted the Internal Audit Plan.

### **Forward Plan**

28. The Committee has noted the Forward Plan.

**Cllr Elizabeth Eyre**  
**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 29 June 2021.

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