

## **COUNCIL**

### **11 NOVEMBER 2021**

## **REPORTS OF COMMITTEES**

### **(b) 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 meetings on 20 September and 21 September and the Board meeting on 17 September.

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

2. The Committee received a presentation from Joanne Segars, Chair and Mike Weston, Chief Executive of LGPS Central which set out an overview, details of recent activity and a look forward. There are no further transitions of the Fund's existing assets planned at this stage, but the Fund is presently looking at 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.

3. An update on Pooling progress for the LGPS Central has been jointly produced with the Partner Funds the 24 September. Whilst cost savings are a key focus area for the Partner Funds and LGPS Central Ltd, there remains a strong emphasis amongst all pool members on overall investment performance; ultimately it is the delivery of investment returns that will aid in stabilising employer contributions and ensuring that pensions can be paid to members as and when they fall due. There has been a like for like increase of assets under LGPS Central Ltd management/stewardship to £22.2bn at 31 March 2021 from £17.3bn at 31 March 2020 (July 2021: £24.1bn, July 2020: 19.5bn) (this includes assets invested directly in LPGA Central Ltd products, as well as those under discretionary and advisory agreements). The LGPS Central Pool will continue to adapt to the changing requirements of Funds but the focus remains on delivery of agreed levels of investment performance and developing the right products at the right time to meet the long-term strategic requirements of Partner Funds. The Committee has the LGPS Central Update and presentation.

#### **Pension Investment Update**

4. 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.

5. The last actuarial valuation was undertaken as at the 31 March 2019 and showed funding levels were 90% with a deficit of £295m. At the last Committee it was highlighted that there had been some significant volatility in the markets due mainly to the effects of 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. The recovery has continued up to June 2021 with an estimated funding level of 101%. However, it is most likely that the market volatility will continue which may impact on the overall funding levels. The next actuarial valuation is in 2023/24 but uses the Funds market valuation as at the 31 March 2022 and some initial discussions are taking place with the actuary. The Committee noted the funding position compared to the investment performance.

6. Equity Protection only covers the Fund's passive portfolio of approximately £1.1bn (including the Equity Protection valuation). A revised strategy was adopted that is more fluid and is aimed at capturing as much market upside as possible as well as protecting from significant downside market movements. Increased active management is required for these strategies and fortnightly monitoring meetings have taken place with River and Mercantile since September 2020. The Fund's structured equity has outperformed both the UK and Europe equity markets and underperformed against the US equity market which will largely be due to the sterling market performance over this period. However overall, the aggregated performance has been broadly neutral since inception. This proves that, to date, the revised strategy has worked for the Fund particularly as this is a risk mitigation strategy and is aimed chiefly at protecting the Fund's assets from a significant downfall in valuation. The Committee noted the update on the Equity Protection current static strategy and the historical performance.

7. The Committee noted the update on Responsible Investment activities, Local Authorities Pension Fund Forum (LAPFF) and Stewardship investment pooling. The Committee noted the update on the LGPS Central report on the voting undertaken on the Fund's behalf.

## **Business Plan**

8. 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 WPF Business Plan as at 8 September 2021.

## **Risk Register**

9. The review of the Risk Register by officers in August 2021 has resulted in the removal of risk WPF 32 (GMP rectification not completed in line with the Pensions Regulator's / our members' expectations) as the project has been completed successfully. No new risks were added to the Register. Mitigating actions have been updated in relation to new measures and previous measures that have been completed / developed further / have changed timelines. The Committee has noted the 8 September 2021 WPF Risk Register.

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

10. The Committee was made aware that it had not been possible to sign off the Statement of Accounts for the County Council and the Pension Fund at the meeting of the Audit and Governance Committee on 24 September 2021. The Committee has noted the update on the audited Pension Fund Accounts 2020/21.

## **Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2021/22 and updated Indicative Budget 2022/23 and 2023/24**

11. The forecast outturn is estimated to be £18.401m compared to a budget of £12.331m, a difference of £6.070m and is mainly due to a forecast overspend against the Investment Management fees budget of £6.055m. This is the largest proportion of the budget and largely depends on the value of assets being managed and investment return performance.

12. The Fund's "controllable" budget (i.e. excluding investment management fees) is £2.628 m and is showing a forecast overspend of £0.015m. This is due to some forecast increased actuary costs and pensions administration due to workload, offset by some anticipated underspend in our custodian fees and investment advisory fees. The Committee has noted the variation to the Pension Fund Administration Budget, including manager fees, for 2021/22 shown in the Appendix totalling £18,401,026 and the indicative budgets for 2022/23 and 2023/24.

13. The Committee has agreed that the Investment Managers Fees budget be revised to the forecast outturn of £15,757,500. This would result in an overall proposed budget of £18,385,900.

## **Training and 'Deep Dive' Programme Update**

14. An informal meeting of the Chairs of Committee / Board / Investment Sub Committee was held on 6 September. The Committee has approved its recommendations as follows:

- a) Not to introduce Hymans Robertson's (or another supplier's) online training platform;
- b) Continuing the existing approach that was agreed at the training session on 18 January 2021 of separate (to meetings), recorded, online, one-hour, preceded by pre-dive information in the case of deep dives, regular training sessions / deep dives that are arranged one at a time following a discussion at the preceding event to identify the preferred topic for the next event;
- c) Conducting a fresh training needs assessment of members of Committee / Board / Investment Sub Committee;
- d) Undertaking a knowledge assessment of Fund officers; and
- e) Reviewing the Fund's training policy in the light of the results from carrying out recommendations (c) and (d) above to include the production of a master list of topics that officers would aim to cover over a training cycle.

## **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. Compliance with the Code was on a voluntary basis. The Fund submitted its application and received notification from the Financial Reporting Council (FRC) that the Fund (along with several LGPS funds) have 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) who applied to the Financial Reporting Council did not achieve.

25. FRC have provided feedback on the Fund's submission quoting that "Your report is clear and engaging, and effectively demonstrates application of most of the principles and reporting expectations of the Code in the reporting period". There are a number of areas under each principle where the FRC require improvement for future submissions to remain a code signatory and the next submission is due on the 30 April 2022.

26. The Committee has noted the Fund's outcome for the revised UK Stewardship Code 2020 submission and the areas requiring improvement.

### **Good Governance Update**

27. The Scheme Advisory Board's (SAB) Good Governance project was established in June 2018 to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance. On 8 February 2021 (SAB) agreed that the Good Governance – Final (Phase 3) Report should be published and that the Chair should submit the Action Plan to the Local Government Minister for consideration. The Final (Phase 3) Report adds detail (including example organisational structures, governance KPIs and a governance compliance statement) about how to comply with the 17 detailed proposals agreed in 2019 by incorporating further input from a range of scheme stakeholders.

28. The Action Plan consists of formal requests from SAB to the Ministry for Housing Communities and Local Government (MHCLG) and other bodies to implement the recommendations from the project together with actions for the SAB which are either dependent on or regardless of the outcome of those requests.

29. Whilst the response from MHCLG is awaited, the Committee received an update on the preparations to not only take account of what has been doing in response to the Phase II report but also The Pension Regulator's publication of an interim response to its recent consultation on its new single code of practice adding responsibilities / timelines for the actions identified in our May 2021 position statement and the extra actions that the Fund has identified will likely be needed to demonstrate good governance after analysing the extra detail contained in the Phase 3 Report.

30. The Committee has noted the update on the LGPS Scheme Advisory Board's (SAB's) Good Governance project and the Worcestershire Pension Fund Position Statement: Good Governance 31 08 2021.

### **Forward Plan**

31. 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 8 October 2021.  
[Agenda for Pensions Committee on Friday, 8th October, 2021, 10.00 am -  
Worcestershire County Council \(moderngov.co.uk\)](#)