

**COUNCIL**  
**19 MAY 2022**

## **REPORTS OF COMMITTEES**

### **(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS COMMITTEE**

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#### **Pension Board and Pension Investment Sub-Committee (PISC) Minutes**

1. As set out in the Terms of Reference of the 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 3 March 2022 and the Board meeting on 7 March 2022.

#### **LGPS Central Limited (LGPSC) Update**

2. The PISC has agreed an investment of an indicative £30m per annum for the next 2 years into LGPSC infrastructure strategies subject to due diligence. The Fund is also in the process of transitioning around £200m into the LGPSC Global Sustainable Active Equity Fund for which LGPSC have appointed 3 managers with the Fund investing in 2 out of the 3 investment managers being Liontrust and Baillie Gifford.

3. The shareholders and company meeting took place on 22 February 2022 and the 8 partner funds, who have an equal shareholding, unanimously agreed the 2022/23 budget and business plan. The budget agreed for the financial year 2022/23 is £13.495m, compared to £12.355m in 2021/22, an increase of 9.2%. The costs of the company are shared out between the 8 partner funds based on a cost sharing model provided by LGPSC and agreed between the partner funds.

4. An interim Chief Legal Compliance and Risk Officer has been appointed and the recruitment process is now at the second stage of interviews for the permanent appointment to this post. LGPSC have also appointed a Communication Manager as well as a number of additional posts within the Responsible Investment and Environment team. The company have now moved into the new I9 building in Wolverhampton. The Committee has noted the LGPSC update.

#### **Pension Investment Update**

5. 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 PISC.

6. The Fund had an estimated funding level of 101% at the end of January 2022 and initial 2022 actuarial valuation discussions have begun with the actuary. However, the ongoing Ukrainian / Russian conflict has brought further significant volatility and this together with the continuing increases in inflation are most likely to impact on the overall funding levels over the next 3 to 6 months at least. At the time of writing this report, the Fund had less than 0.1% of its Fund value in Russian holdings and the PISC has agreed to disinvest in Russian holdings when it is able to do so. The Committee has noted the funding position compared to the investment performance.

7. Equity Protection is in place for the Fund's passive equity portfolios of approximately £1.1bn (including the Equity Protection valuation). The Eurostoxx50 (used as the measure for the Fund's European passive equities) Equity Protection was restructured on 24 March 2021. The FTSE (used as the measure for the Fund's UK passive equities) Equity Protection was restructured more recently on 16 September 2021, and the S&P500 (used as the measure for the Fund's US passive equities) Equity Protection was restructured on 29 December 2021. The level of protection still remains at 20% for any market downfall from the point at which the strategy is revised. The Committee has noted the update on the Equity Protection current static..

8. The Committee has noted the updates on Responsible Investment activities, Local Authorities Pension Fund Forum (LAPFF), Stewardship investment pooling, and the LGPSC report on the voting undertaken on the Funds behalf.

### **Investment Strategy Statement (ISS) and Climate Risk Strategy Update**

9. The LGPS Investment Regulations that came into effect from 1 November 2016 required all funds to publish a new ISS by 1 April 2017. The Fund's 2017 ISS was designed in collaboration with the seven other partner funds within LGPSC to ensure a consistent approach to investment beliefs and responsible investment beliefs. Under Regulation 7(6) and (7), the ISS must be kept under review and revised from time to time and at least every three years. The 2021 ISS enhanced and strengthened the Fund's stewardship and responsible investment (RI) areas. The changes took into account the Fund's Environmental, Social & Governance (ESG) audit, Sustainable Development Goals (SDG) mapping exercise and the first (2020) Climate Risk Report. The key amendment for 2022 is the addition of SDG 12, Responsible Consumption and Production to the Fund's existing investment beliefs. The Committee has agreed the Fund's 2022 Investment Strategy Statement (ISS).

10. An ESG review workshop was held with members of the Committee on 2 February 2022 which reviewed progress against the Committee's ESG recommendations in March 2021. The Committee has noted the Fund's ESG review workshop on 2 February 2022 and has agreed the recommended outcomes set out below:

- Add SDG 12 Responsible Consumption and Production to the Fund's existing investment beliefs within the ISS
- Look to engage more with the wider members of the pension fund to get their views on ESG matters
- Explore and agree an internal climate target for the pension fund during 2022.
- Explore further social impact investments and whether they can deliver market-rate, risk-adjusted returns

11. The development of a separate Climate Change Risk Strategy reflects the potential material effect of climate change on the assets and liabilities of the Fund. This has been updated to take on board the outcome of the ESG review workshop. The Committee has agreed the Climate Change Risk Strategy. The Committee has noted the Fund's 2nd annual Climate Risk Report. The Committee also approved the Funds 2nd 'Task Force on Climate related Financial Disclosures' (TCFD) Report.

## **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. The Committee has noted the Worcestershire Pension Fund (WPF) Business Plan as at 22 February 2022 and the Fund's achievements in the 2021 / 2022 LGPS year.

## **Worcestershire County Council Pension Fund Administration Budget 2022/23**

13. The Committee has approved the Fund's budget that includes investment management fees and totals £21.015m for 2022/23. This represents an increase of £2.629m (12.5%) from the original 2021/22 budget. The largest proportion of the budget (£18.029m) is allocated to investment managers' fees. These largely depend on the value of assets being managed and investment performance which in turn depends on market conditions. They also include fees for Equity Protection and compliance with the Cost Transparency Code initiative.

14. The Committee has noted the indicative budget allocations for 2023/24 and 2024/25. The Committee has noted that variations against budget will be monitored. The Committee has granted delegated authority to the Chief Financial Officer in consultation with the Chairman of the Committee to approve variations of up to £0.5m.

## **Review of Training Policy and Programme**

15. The Committee has noted the Fund's Training Policy and Programme also known as the Skills & Knowledge Framework.

## **Risk Register**

16. No new risks have been identified and no residual risk scores have been increased or reduced following the quarterly review of the Risk Register. Mitigating actions have been updated for new measures and previous measures that have been completed / developed further / have changed timelines. The Committee has noted the 22 February 2022 Worcestershire Pension Fund Risk Register.

## **Pension Administration Strategy (PAS) including Policy Statement on Communications**

17. The PAS sets out the roles and responsibilities of the Fund and its employers. No comments were received from the Fund's employers on the proposed changes being introduced by the 2022 PAS. After the consultation the following wording was added to section 4 of the Fund's Policy Statement on Communications, specifically committing the

Fund to provide information about the Fund's approach to responsible investment / ESG (environmental, social and governance) / climate change issues: '(including information about the Fund's approach to responsible investment / ESG / climate changes issues)'. The key areas of proposed change are:

- Adding a responsibility for us to maintain our signatory status to the UK Stewardship Code 2020.
- Adding a responsibility for employers to familiarise themselves with investment pots and the arrangements for ceasing participation in the Fund.
- Adding references to employers being required to notify us specifically about address changes to their responsibilities regarding notifying us about changes in member circumstances.
- Adding a responsibility for employers to consider ill health liability insurance.

18. The Committee has approved the proposed changes to the existing April 2021 Worcestershire Pension Fund (WPF) Pension Administration Strategy (PAS) including the WPF Policy Statement on Communications.

### **Funding Strategy Statement (FSS)**

19. The LGPS regulations require the Fund to have an FSS and to keep it under review. The FSS sets out how each Fund employer's pension liabilities are to be met going forward.

20. In order to gain assurance that the Fund has a solid appeal process in place for employers challenging Deferred Debt Arrangements (DDA) / exit credits, independent legal counsel was sought from Addleshaw Goddard on the Fund's existing FSS, the Fund's Statement of Policy on its Discretions as an administering authority, the Fund's Appeals form, and the Fund's Making a formal representation for an exit credit payment document. The Fund's actuary, Mercer, was then asked to review Addleshaw Goddard's counsel. The outcome of the review was included in the final version of the FSS which was then sent out to employers for consultation, and no comments were received on the proposed changes.

21. The key changes to the 2021 FSS related to employers leaving the Fund and reviewing employer contributions between actuarial valuations. The Committee has agreed the February 2022 Funding Strategy Statement.

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

22. In addition to the actuarial valuation carried out by the Fund's Actuary, under the Public Service Pensions Act 2013, the Department for Levelling Up, Housing and Communities (DLUHC) is required to commission a "Section 13" valuation which will look at the 2019 valuation results for LGPS funds and check whether, in their opinion, the various funds have carried out their valuations in relation to 4 key areas: compliance, consistency, solvency, and long-term cost efficiency.

23. The Section 13 valuation is carried out by GAD who produce a report which analyses each of the 88 LGPS fund's valuation results from 2019. GAD have highlighted the progress made against the 2016 recommendations. GAD assessment was a positive outcome for the Fund, as all the assessments were green for the three tests around solvency and for the five tests on long-term cost efficiency (Deficit Recovery Period,

Required Return, Repayment Shortfall, Return Scope and Deficit Recovery Plan). The Committee has noted GAD's review.

## **Governance Review and Update**

24. In line with good practice, officers have reviewed the existing Governance Policy Statement and prepared a draft Governance Policy Statement February 2022. The changes proposed to the existing Governance Policy Statement relate to updated pension scheme numbers; Government Departments; policy reference documents; document links; job titles; representation on the LGPSC Joint Committee; and other minor textual amendments. As these changes are not significant, they will not need to be referred to Council for approval.

25. Reviews of the terms of reference (TOR) for the Pension Board, Pensions Committee and Pension Investment Sub Committee were undertaken in February 2022. As a result, the Pension Board's TOR will need to be updated to make reference to 'The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016' as well as some other minor textual changes. The Pensions Committee and PISC TOR will also need to be amended to reflect the changes made to the proposed draft Governance Policy Statement February 2022. As these changes are not significant, they will not need to be referred to Council for approval.

26. The Committee has approved the Governance Review and Update, in particular noting the changes to the Fund's Governance Policy Statement and the TOR for the Pension Board, Pensions Committee and PISC.

## **UK Stewardship Code Updated 2021 Draft Submission**

27. 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. There is also a separate set of six Principles for service providers – investment consultants, proxy advisors, data providers and others.

28. The Fund was successful in achieving signatory status to the Code, something which 64 organisations out of 189 organisations (made up of 147 asset managers, 28 asset owners including pension funds and insurers, and 14 service providers including data and information providers and investment consultants) applying to the Financial Reporting Council (FRC) did not achieve.

29. The Fund's draft (the next submission is due on the 30 April 2022) Code submission for the period 1 January – 31 December 2021 addresses the improvement areas identified by the FRC that would be required to retain Code signatory status. The Committee has noted the draft submission and agreed that the final version be circulated to members of the Committee for information.

30. The Committee has granted delegated authority to the Chief Financial Officer in consultation with the Chairman and Vice-Chairman of the Committee to approve the final version of the submission. The Committee has agreed that an update report be presented to its meeting on 28 June 2022.

## **Forward Plan**

25. The Committee has approved the Forward Plan.

**Cllr Adrian Hardman**  
**Vice-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 23 March 2022  
[Agenda for Pensions Committee on Wednesday, 23rd March, 2022, 2.00 pm -  
Worcestershire County Council \(moderngov.co.uk\)](#)