

COUNCIL
14 JULY 2022

REPORTS OF COMMITTEES

(a) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS COMMITTEE

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 meetings on 13 and 14 June 2022 and the Board meeting on 7 June 2022.

LGPSC Central Limited (LGPSC) Update

2. The Committee received a presentation from Gordon Ross of LGPSC which covered the following areas: Company Update; Staffing & Recruitment; Investment Funds; Russian situation; and looking forward.

3. The PISC had agreed an indicative £30m per annum investment for the next 2 years into LGPSC infrastructure products subject to due diligence. The Fund transitioned £201m on 3 May 2022 into the LGPSC Global Sustainable Equity Active Fund for which LGPSC have appointed 3 managers. The PISC on 24 November 2021 agreed to invest with 2 out of the 3 managers being Liontrust (£121.0m) and Baillie Gifford (80.0m). The final transition costs were £0.972m equating to 0.483% (48.3 basis points). Four partner Funds including the Fund have transitioned assets into the LGPSC Global Sustainable Equity Active Fund totalling £1.009bn.

4. LGPSC have managed to recruit a Chief Legal Compliance & Risk Officer, Struan Fairbairn who will be starting mid-September which is a key post for the company. However, over the last few months LGPSC has seen a number of postholders hand in their notice whilst at the same time have been successful in recruiting to a number of posts. The company have now moved into the new I9 building in Wolverhampton. The Committee has noted the LGPSC update and presentation.

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 100% as at the end of March 2022 and initial 2022 valuation discussions have begun with the actuary. The continuing rise in inflation will be a key issue and potentially have a major impact on the Fund's liabilities. Also, the ongoing Ukrainian / Russian conflict together with the cost-of-living increases has brought further significant market volatility and these, 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. Disinvestment in Russian holdings has now been completed and holdings would have been written down to a nil value in most cases. The Committee has noted the funding position compared to the investment performance.

7. Equity Protection of approximately £1.1bn (including the Equity Protection valuation) is in place for the Fund's passive equity portfolios. The revised Equity Protection Strategy is more fluid and is aimed at capturing as much market upside as possible as well as providing protection from significant downside market movements. The recent restructuring of the strategy has benefited the Fund by \$19.1m. The level of protection still remains at 20% for any market downfall from the point at which the strategy is revised. The ongoing requirement for the Equity Protection Strategy will be considered as part of the strategic asset allocation review during 2022. The Committee has noted the update on the current Equity Protection Strategy.

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.

9. An early opportunity had arisen for the Fund to increase the diversification of its investment in the Gresham House Forestry Fund VI. The Committee has therefore agreed to increase the Fund's commitment to the Gresham House Forestry Fund VI from £75m to £85m.

Pension Fund Unaudited Annual Accounts 2021/22

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

- The Fund had a revenue deficit of £7.4m before the net return on investments
- Employers' contributions into the fund were £90.7m
- Benefit payments increased by £3.0m (2.7%) to £115.6m
- Management expenses (which include fees pay to external investment managers) have increased from £18.2m to £21.5m
- The Payments to and on account of leavers increased by £0.5m year on year to £10.0m
- Investment income of £37.2m increased mainly due to increased dividends paid as a result of the recovery from the impact of Covid-19
- The Fund incurred a surplus of £227.2m on investment returns compared to the surplus of £602.8m in 2020/21
- The value of net assets as at 31 March 2022 is £3.5846bn from £3.3648bn as at 31 March 2021. This represents an increase of £0.2198bn.

11. As in the previous year's accounts, the Fund has included an estimate to reflect the possible impact of the McCloud judgement on the cost of paying LGPS benefits. The actuary has provided some costings of the potential effect of McCloud as at 31 March 2022, based on the individual member data as supplied to them for the 2019 actuarial

valuation and this results in an additional liability for past service liabilities of broadly £29 million and an increase in the primary contribution rate of 0.6% of pensionable pay per annum. The Committee has approved the Pension Fund Unaudited Annual Accounts 2021/22.

12. 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.

13. The Committee has noted the process on how level 3 investments are shown at fair value in the final accounts. The Committee has agreed that the level 3 investments reflected a fair assessment of value at the time the draft accounts were provided to the auditors. The Committee has noted the differences in valuation of level 3 investments acknowledging that these are below the materiality levels of the Fund.

Business Plan

14. 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 25 May 2022.

Risk Register

15. The latest review has identified no new risks to add to the Risk Register and the residual risk score for WPF 34 which relates to Inflation has been increased from 25 to 50. 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 25 May 2022 Worcestershire Pension Fund Risk Register.

Governance Update

16. In preparation for Department for Levelling Up, Housing and Communities' (DLUHC's) response to the recommendations from Scheme Advisory Board's (SAB's) Good Governance project, the Fund has drafted two new policies in relation to representation and conflicts of interest. As part of the latest reviews of the Fund's Business Plan and Risk Register, the County Council's IT department have looked at the pensions administration system's supplier's Cyber Security Review 2022 and concluded that it is in line with best practice.

17. The Committee has noted the Governance Update and approved the proposed Policy on Representation and Policy on Conflicts of Interest. The Committee has also requested that an updated pension administration structure be included in a future Committee report.

UK Stewardship Code

18. 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 was on a voluntary basis.

19. The Fund submitted its 2020 application and received notification from the FRC that the Fund (along with several LGPS funds) had 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) applying to the Financial Reporting Council did not achieve. LGPSC and West Midlands Pension Fund were also successful Code signatories.

20. FRC provided feedback on the Fund's submission in a number of areas under each of the 12 principles of the Code where the FRC required improvement for future submissions to remain a Code signatory. The Committee noted that the next submission (covering the period 1 January – 31 December 2021) was sent on the 30 April 2022.

Training Update

21. The Committee has noted the Training Update.

Forward Plan

25. The Committee has approved the Forward Plan.

Cllr Elizabeth Eyre
Chairman

Contact Points

Specific Contact Points for this report

Simon Lewis, Committee Officer

Tel: 01905 846621

Email: slewis@worcestershire.gov.uk

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 28 June 2022

[Agenda for Pensions Committee on Tuesday, 28th June, 2022, 10.00 am - Worcestershire County Council \(moderngov.co.uk\)](#)