Worcestershire Pension Fund

Annual Report and Financial Statements

for the year ending 31 March 2022

Find out more online:
www.worcestershirepensionfund.org.uk

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1. Chair’s Foreword

1. Chair's Foreword

Welcome to the annual report for the Worcestershire Pension Fund ('the Fund') for the year ending 31 March 2022.

On behalf of the Pensions Committee, I am pleased to introduce an annual report which looks back on a scheme year in which the most notable achievements were:

- Coping with COVID: we maintained a business-as-usual service despite having to work from home.
- Achieving signatory status to the UK Stewardship Code 2020.
- Delivering an ongoing funding position on 31 March 2022 of 100% thanks to investment returns for the year of 6.7% due to the continued market rally, but the start of the Ukraine/Russia conflict and worries regarding inflation did impact on market valuations towards the end of March 2022.
- Being one of the first funds to invest in forestry with our £50m commitment to Gresham House's Forest Growth & Sustainability LP in each of the next three years.
- Reviewing our pension administration resourcing.
- The Fund transitioned out of a very carbon intensive passive equity fund and invested £200m in a climate multi-factor fund in November 2021. This fund tilts away from companies that are carbon intensive or own fossil fuel reserves, and tilts towards companies that generate green revenues.
- The Fund also Invested £125m in November 2021 into an infrastructure funds with strategic objectives that combines return generation and a positive contribution to environmental and social challenges.
- The Funds 2nd Climate Risk Strategy Report showed that the Fund's Total Equities portfolio is 28.05% in 2021 (23.75% in 2020) more carbon efficient than the benchmark. This means that, on average, for every £m of economic output companies produce, the Fund's investee companies emit 28.05% fewer greenhouse gas emissions than the companies in the index.

Picking out some highlights, the Committee agreed:

- The February 2022 review of the Fund's progress against the ESG audit recommendations that were agreed at Committee on the 16 March 2021.
- Restructuring the Fund's equity protection strategy.
- Our actions in response to the proposals made by the Scheme Advisory Board's Good Governance project.
- An updated Funding Strategy Statement.
- To committing £30m to LGPS Central Limited infrastructure vehicles for the next two years.
- LGPS Central Limited's (LGPSC) Strategic Business Plan & Budget for 2022/23.
- In March 2022 the 2nd years Climate Risk strategy and a Taskforce for Climate related Financial Disclosures (TCFD) report were agreed.

Scheme membership has also continued to grow and is now 66,599.

As readers will be aware, the Fund primarily exists to pay pensions. This core activity of pension scheme administration was again delivered successfully throughout the year. From a Fund management perspective, it is worth noting that the increase in pensioners since 2009 reflects the fact that people are living longer these days. This in turn means that the Fund needs to have more money available for longer to meet the 'guaranteed pension for life' promises made to its pensioners compared to what was needed in the past.

The year saw the total employers who were contributing to the Fund decrease from 202 to 183 which was mainly due to a number of schools merging together as multi academy trusts, thus being treated as one employer, rather than as individual school employers as they were previously as well as a reduction in outsourcing arrangements.

Whilst this annual report by its nature looks back on 2021/2022, our quarterly rolling Business Plan is provided at each Pensions Committee meeting. It reviews our ongoing progress in our key target areas and towards achieving our aspirations. It details our latest investment performance v benchmark and our latest performance against our target turnarounds for our key pension administration processes.

I'd like to finish my foreword by thanking all new and continuing members of the Committee, the Chair and members of the Pension Board, our advisers, staff at the Fund and our employers for all their continuing hard work for the Fund and its members.

Councillor Elizabeth Eyre Chair

Worcestershire Pension Fund Pensions Committee

2. Management & Financial Performance

2. Management & Financial Performance

Scheme management and advisors on 31 March 2022

Administering Authority: Worcestershire County Council
Address: County Hall, Spetchley Road, Worcester WR5 2NP
Scheme Manager: Michael Hudson LLB (Hons), LLM, CPFA Chief Financial Officer

Pensions Committee on 31 March 2022

Representative	Meetings attended					Training received				
	29/06	08/10	08/12	02/02	23/03	03/06	20/07	21/09	02/12	09/02
Cllr E Eyre (Chair)	✔	✔	✔			✔	✔	✔	✔	
Cllr A Hardman (Chair) *	✔	✔	✔				✔	✔	✔	
Cllr L Mallett			✔							
Cllr T Marsh*	✔						✔	✔	✔	
Cllr S Richardson- Brown	✔	✔	✔			✔	✔			
J Evans – Unison (Employee Representative)			✔							
S Flynn (Employer Representative)	✔	✔	✔			✔		✔	✔	

Pension Board on 31 March 2022

Representative	Meetings attended			Training received				
	17/09	17/11	07/03	03/06	20/07	21/09	02/12	09/02
Roger Phillips (Chair)	✔	✔		✔		✔	✔	
Cllr Paul Harrison	✔	✔				✔		
Steven Howarth	✔	✔		✔		✔		
Andrew Lovegrove	✔	✔		✔	✔	✔		
Lucy Whitehead		✔		✔		✔		✔
Kim Wright		✔		✔		✔		

The Chair of the Pension Committee Councillor Elizabeth Eyre also attends the Board.

Notes:

(1) The training on 3 June was a welcome to the Pensions Committee induction.

(2) The training on 8 June was on our annual report.

(3) The 20 July training was on how an LGPS employee member can improve their lot.

(4) The training on 10 August covered our statement of policy on our discretions.

(5) The training on 21 September was on investment in infrastructure / property / private debt.

(6) The training on 14 October covered stewardship.

(7) The training on 2 December was on being an LGPS employer .

(8) The training on 8 Feb was on the 31 March 2022 actuarial valuation and how this feeds into funding strategy (risk / asset allocation / investment pots) admissions / bulk transfers.

Pension Investment Sub-Committee on 31 March 2022

Councillor A I Hardman (Chair)
Councillor E Eyre
Councillor K Hanks
Councillor T Marsh
Mrs D Duggan – Unison
Michael Hudson LLB (Hons), LLM, CPFA Chief Financial Officer
Rob Wilson, Finance Manager – Pensions and Treasury Management

LGPS Central Limited Shareholder Representative

Councillor A I Hardman

Investment managers on 31 March 2022

AEW
Bridgepoint (was EQT)
Igneo (was First Sentier) Investments
Gresham House Alternative Asset Management & Investment
Hermes Investment Management
Invesco Real Estate
Legal & General Investment Management LGPS Central Ltd
Macquarie Group Ltd (was UK Green Investment Bank)
Nomura Asset Management UK Ltd
River & Mercantile
Stonepeak Infrastructure partners
Venn Partners
Walton Street Capital, LLC

Global custodian (2021/2022)

BNY Mellon (Northern Trust for assets managed by LGPSC)

Independent investment adviser (2021/2022)

M J Hudson

Actuary

Mercer Human Resource Consulting

Environmental Social Governance (ESG) Adviser
LGPS Central Limited

Bankers
Barclays

Auditors to the Fund
Grant Thornton UK LLP

Legal adviser
Worcestershire County Council

In-house AVC providers
Scottish Widows and Utmost Life

LGPS Central Ltd
Mike Weston Chief Executive

Pension Administration Advisory Forum
All employers were invited to the 22 April 2021 and 19 October 2021 forums.

3. Risk Management

3. Risk Management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods for controlling or responding to them.

The Fund has a dedicated Risk Register that is regularly reviewed by the leadership team and updated quarterly. The Pensions Committee receives regular updates on the key risks facing the Fund and the latest Risk Register is reported to each regular Committee meeting.

Each risk is initially assigned a score designed to reflect the likelihood of it occurring and impacts faced by the Fund if it were to occur.

Risks are then categorised against a series of mitigations designed to reduce the likelihood and/or impact.

Risks are colour coded and assigned a red, amber or green status according to the degree of risk posed.

On 31 March 2022 the Fund's most significant risks were after taking into account mitigating actions and controls:

- Mismatch in asset returns and liability movements, leading to exposure to risk or missing investment opportunities or increasing employer contributions.
- Being reliant on LGPS Central delivering its forecasted cost savings, leading to paying too much in fees / investment under performance.
- Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure, leading to increase in liabilities.
- Future change to LGPS regulations or other legislation, leading to increase in administrative complexity or failure to comply with The Pensions Regulator.

A new risk relating to the potential impact of climate change that could lead to investment under performance has been added to the Risk Register and reported to the June 2021 Committee.

The nature and extent of risks arising from financial instruments are detailed in note 16 of the accounts further on in this document.

LGPS Central Limited

There is a separate risk register relating to investment pooling which the Practitioner Advisory Forum, the main Partner Fund working group, maintains. The LGPS Central Joint Committee oversees the risk register to ensure risks are logged and mitigating actions put in place. LGPS Central Ltd, the pooling delivery company, maintains its own risk register, which is overseen by the company board.

Systems of internal control

The Fund's Statement of Accounts and Annual Report are subject to an external audit by Grant Thornton that provides a separate opinion for both the accounts and the annual report. Grant Thornton also conducts a number of interim audits throughout the year to test the design effectiveness of the Fund's internal controls.

In addition to external audit, the Fund receives regular reviews from the Council's Internal Audit department who test the internal control systems and processes employed. Internal Audit obtains assurance on the internal control environment through a series of audits of key areas.

4. Financial Performance

4. Financial Performance

Triennial valuation

Every three years the Fund commissions a formal valuation from the Fund's actuary which produces two key outputs.

Firstly, it quantifies the ongoing funding level, i.e. the level to which the Fund's pension liabilities for the accrued benefits of current employees, deferred pensioners and pensions in payment are matched by the market value of the Fund's assets. A funding level of less than 100% implies that there is a deficit between the Fund's assets and liabilities at that date.

Secondly, it also sets the rate at which employers should contribute to the Fund for the following three years along with any deficit recovery payments.

The table summarises the funding position on the 31 March 2019 compared to the funding position at the last formal valuation on 31 March 2016.

Summary valuation results

£m	31 March 2016 | £m	31 March 2019 | £m
Total past service liability	2,606	3,090
Fund assets	1,952	2,795
Surplus / (deficit)	(654)	(295)
Funding level	**75%**	**90%**

On 31 March 2022 we estimate that the Fund was 100% funded.

To meet the requirements of the regulations, we have set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

In tandem with the actuarial valuation the actuary helps us to produce a Funding Strategy Statement that is available from our website. This focuses on the pace at which future benefits will be funded and on practical measures to ensure that employers pay for their own liabilities.

Contribution rates

Members' contributions are set at a rate which covers only part of the cost of accruing benefits after the valuation date. Employers pay the balance of the cost of delivering future benefits to members.

At the 2019 actuarial valuation a common rate of contribution of 17.5% of pensionable pay per annum was set for employers from 1 April 2020. However, these range over individual employers from 13.6% to 26.8%.

As the actuary assessed the particular circumstances of each employer, including the strength of its covenant and its individual membership experience within the Fund, the actuary applied individual adjustments to each employer to reflect these circumstances.

This resulted in a higher contribution rate than the baseline percentage and/or an annual cash contribution at a fixed amount being set for many employers.

The next actuarial valuation and review of the Funding Strategy Statement will be carried out as at 31 March 2022, with any changes to employers' contribution rates being implemented with effect from 1 April 2023. Our Funding Strategy Statement is available in Appendix A and the 2019 Actuarial Valuation Report is on our website.

Analytical review of Fund Account and Net Assets Statement

The following table provides a brief overview of the major movements in the Fund Account and Net Assets Statement for the financial year 2021/2022. The full Statement of Accounts is included from page 55 of this report.

Fund Account category	2020/21 £m	2021/22 £m	Notes
Net contributions	87.9	(44.4)	Mainly due to key Fund employers paying their contributions for 20/21 to 22/23 up front
Return on investments	631.5	264.2	Mainly due to the continued market rally, but the start of the Ukraine/Russia conflict and worries regarding inflation did following the significant impact on market valuations towards the end of March 2022.
Net increase in the fund	**719.4**	**219.8**	

Operational expenses – comparison of 2021/22 forecast to actual

	2021/22 budget £000	2021/22 actual £000	2021/22 variance £000
Administration / oversight & governance			
Employees	791	717	(74)
Supplies & services	231	159	(72)
Actuarial fees	360	378	18
Investment advisor expenses	88	80	(8)
IT costs	393	376	(17)
External audit fees	34	32	(2)
LGPSC governance & running costs	735	712	(23)
Other expenses *		164	164
Legal fees	52	46	(6)
Total	**2,684**	**2,664**	**(20)**
Investment management			
External fund managers	15,286	17,188	1,902
Transaction costs	2,000	3,041	1,041
Custodian	111	108	(3)
Total	17,397	20,337	2,940
Overall Total	**20,081**	**23,001**	**2,920**

The main reason for the overspend on external fund managers is due mainly to diversifying asset allocation into property and infrastructure assets where management fees tend to be higher and the increased market Fund valuation. The transaction costs increase was mainly due to the restructure of the Equity Protection Strategy relating to out passive market cap investments. This is not only aiming to manage the risk and protecting returns in times of significant downturn in valuations, but also seeking to capture as much upside as possible.

* Write off of historic financial exchange variances written off to General expenses.

Administration and management costs per member past 5 years

Process	2017/18	2018/19	2019/20	2020/21	2021/22
Investment management expenses					
Total cost (£'m)	8.9	11.9	14.4	17.3	20.4
Total membership (Nos)	60,336	62,254	63,635	64,770	66,599
Cost per member (£)	**148**	**191**	**226**	**267**	**306**
Administration costs					
Total cost (£'m)	0.8	1.1	1.5	2.0	1.7
Total membership (Nos)	60,336	62,254	63,635	64,770	66,599
Cost per member (£)	**13**	**18**	**24**	**31**	**26**
Oversight and governance costs					
Total cost (£'m)	0.1	0.1	0.1	0.9	1.1
Total membership (Nos)	60,336	62,254	63,635	64,770	66,599
Cost per member (£)	**1.7**	**1.6**	**1.6**	**13.9**	**17**
Total cost per member (£)	**162.7**	**210.6**	**251.6**	**311.9**	**348**

The increase in oversight and governance is due to allocating the LGPSC pool governance and running costs which were previously included as part of the investment management expenses. Without this the costs are as in previous years, but this is due to payback by 2034.

The published comparative data for 2020/21 for total administration costs were £24 per member), governance & oversight costs are on average £12 per member compared to Worcestershire £31 per member(45th out of 77 pension funds in England and £13.90 per member respectively (43rd out of the 77 pension funds in England). For investment management the average is £238.00 compared to Worcestershire £267 per member (40th out of the 77 pension funds in England).

The table below outlines the Fund's performance for key financial variables for the past 5 years

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'m	£'m	£'m	£'m	£'m
Contributions and Benefits					
Contributions receivable*	185.2	81.8	87.5	201.2	90.7
Individual Transfers**	10.4	12.9	12.9	29.0	13.7
Total contributions & transfers in	**195.6**	**94.7**	**100.4**	**230.2**	**104.4**
Benefits Payable	-98.0	-106.3	-111.9	-112.6	(115.6)
Payments to and on account of leavers	-8.8	-8.7	-11.2	-9.5	(10.0)
Total Benefits paid and transfers out	**-106.8**	**-115.0**	**-123.1**	**-122.1**	**(125.6)**
Management & Admin expenses	**-9.8**	**-13.1**	**-16.0**	**-20.2**	**(23.2)**
Sub Total	**79.0**	**-33.4**	**-38.7**	**87.9**	**(44.4)**
Return on Investments					
Investment income	35.8	50.2	47.9	28.7	37.0
Change in market value of investments	105.3	77.5	(159.1)	602.8	227.2
Net return on investments	**141.1**	**127.7**	**-111.2**	**631.5**	**264.2**
Net increase in the Fund during the year	**220.1**	**94.3**	**-149.9**	**719.4**	**219.8**

* The contributions receivable are higher in 2020/21 due to some larger employers paying their contributions 3 years in advance.

** The increase in transfers 2020/21 was due to a large employer transfering into the Fund.

3-year forecast management expenses 2022/23 to 2024/25

	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000
Administration / oversight & governance			
Pension scheme administration recharge	1,292	1,331	1,370
Actuarial services*	410	360	360
Audit	34	35	36
Legal fees	10	10	10
Committee and governance recharge	10	10	10
Total	**1,756**	**1,746**	**1,786**
Investment administration costs			
Investment administration recharge	777	808	840
LGPS central governance & running costs	160	163	167
Investment custodial and related services	113	116	118
Investment professional fees	136	162	91
Performance measurement	44	44	45
Total	**1,230**	**1,293**	**1,261**
Investment management			
External fund managers**	18,100	19,000	19,900
Transaction costs	2,000	2,000	2,000
Total	**20,100**	**21,000**	**21,900**
Overall Total	**23,086**	**24,039**	**24,947**

* Actuarial Fees are higher in 2022/23 due to this being a valuation year.

** External Managers fees are subject to market valuations.

5. Administration Report 2021/22

5. Administration Report

As usual, paying pensions, processing retirements, processing deaths, processing refunds, delivering our year end and issuing annual benefit statements were our major administration deliverables. New employers, employer restructures and delivering training for Pensions Committee and Pension Board members also required significant resource.

We deliver our service using:

- The Altair pensions administration system.
- Our stand-alone website that had 25,400 visits in 2021/2022.
- Dedicated resource for each member requirement.
- Monthly employer newsletters and online training.
- Computer hardware, software and the County Council's computer network.

We have arrangements in place to ensure the accuracy and confidentiality of personal data. The Fund conforms with Worcestershire County Council's (WCC) breach notification process and WCC's data policy, for example through the use of data encryption and password protection. Systems are reviewed by internal and external audit and set up in line with data protection regulations. A complete address update is done regularly by employers. Mitigating processes include the Business Continuity Plan (BCP), data breach, addresses being checked by a dedicated checker and communication taking place with member/employer before a payment is made.

The major one-off and annually recurring administration large pieces of work or projects that we undertook during the year included:

- The annual employer covenant assessment.
- Guaranteed Minimum Pension (GMP) rectification.
- Providing data for The Pensions Regulator (TPR) / the LGPS Scheme Advisory Board / for the Occupational Pension Schemes survey.
- Annual benefit statements for employee and deferred members.
- Pensioner P60s and pay slips.
- Financial Reporting Standard (FRS) information to employers.
- Pension Savings Statements.
- Improving the quality of data held and actions required to improve it.
- Newsletters for employee, deferred and pensioner members.

Internal Disputes Resolution Procedure (IDRP)

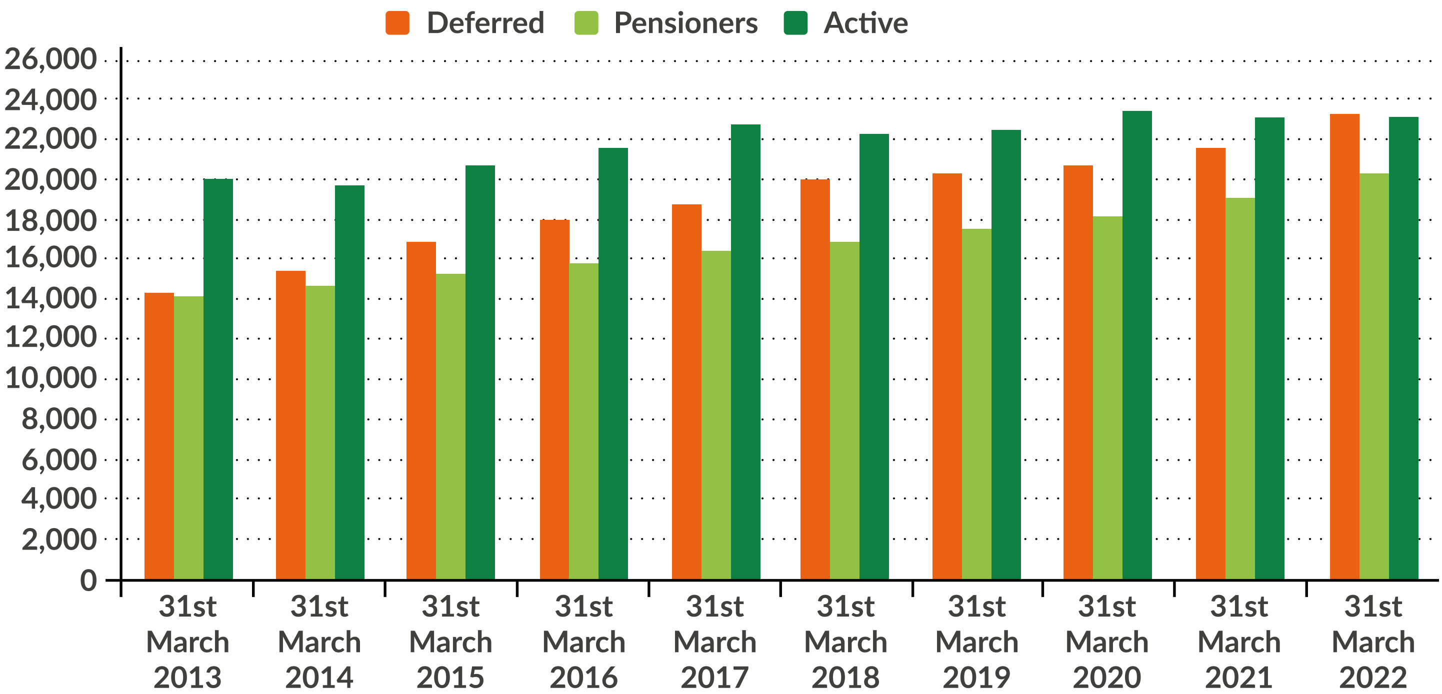
There are times when members, employers and the Fund may find themselves in disagreement about a pensions issue. The first approach in these situations is for those involved to talk to each other to reach resolution. However, should this not prove possible, the Fund has an IDRP. Our appeals procedure is detailed on our website.

Policy Statement on Communications

The Policy Statement provides an overview of how the Fund will communicate with its stakeholders. An effective communications strategy is vital for the Fund to meet its objective of providing a high quality and consistent service. Scheme communications are a critical activity; they are the external face of the Fund and provide a key link with its stakeholders. The Fund continuously looks at ways to enhance its communication offering to the various audiences and the Policy Statement is reviewed annually with a revised version will be published following any material change. Our Policy Statement on Communications is at Appendix B below.

Membership and employer movement and Scheme complexity

The Fund continues to experience a year-on-year increase in the number of members across all categories (active, deferred and pensioners).



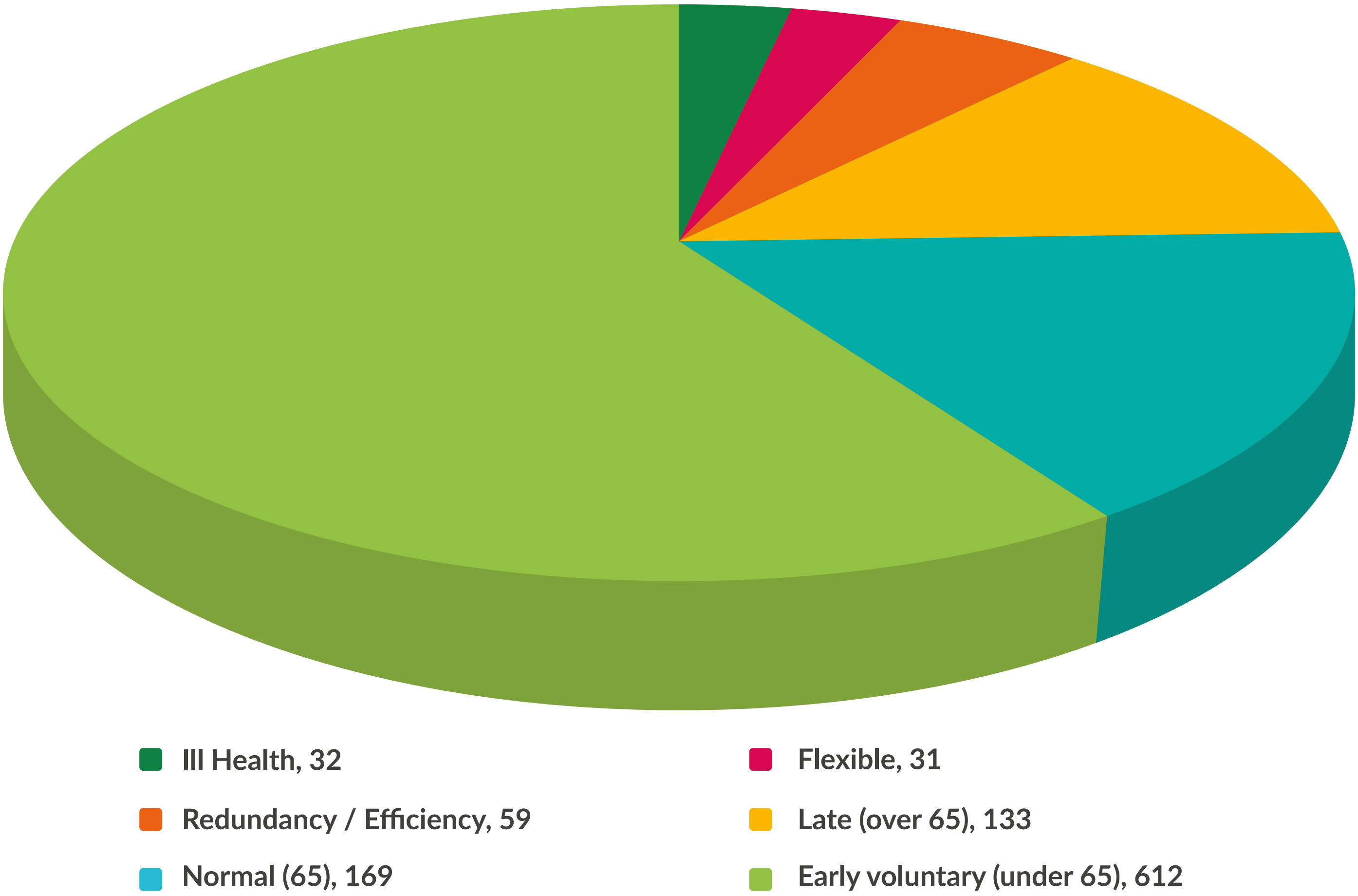
The table below summarises the age ranges of the membership over the three categories of active, deferred and pensioner on 31 March 2022:

Age group	Active	Pensioner*	Deferred	Total	%
0-20	220	115	11	346	0.52
21-25	1,177	18	221	1,416	2.13
26-30	1,464		902	2,367	3.55
31-35	2,037		1,912	3,954	5.94
36-40	2,345	11	2,498	4,854	7.29
41-45	2,715	28	2,879	5,623	8.44
46-50	3,374	61	3,814	7,248	10.88
51-55	3,949	196	4,802	8,947	13.43
56-60	3,377	1,143	4,321	8,840	13.27
61-65	1,975	3,347	1,646	6,968	10.46
66-70	373	4,718	190	5,280	7.93
71-75	72	4,523	46	4,642	6.97
76-80		2,928	5	2,933	4.4
81-85		1,765		1,765	2.65
86-90		987		987	1.48
90+		431		431	1.48
Total	**23,078**	**20,273**	**23,248**	**66,599**	**100.00%**

* Pensioner column includes dependants.

Retirements during 2021/22

There were 1,036 retirements during 2021/22 as summarised in the chart below:



The Fund has 208 contributing employers whose employees are members of the LGPS:

	Active on 31/03/2022
Scheduled bodies	111
Designated bodies	31
Admitted bodies	66
Total	**208**

Notes:

- Scheduled (in the regulations) bodies are organisations whose employees qualify to become members of the LGPS by right. These include county councils, district councils, foundation schools/colleges and academies.
- Designated bodies are organisations that have passed resolutions with town or parish councils to offer the LGPS to their employees.
- Admitted bodies are organisations that fall into none of the previous 2 categories. Admitted bodies are voluntary/charitable bodies and other organisations to whom local government employees have been transferred under the outsourcing of local government services whose staff can, at the discretion of their employer, become members of the LGPS.

Our performance

The Fund benchmarks its administration performance against CIPFA benchmarks as outlined in the table below. The Fund achieved 100% compliance. We measure how we perform against our target turnarounds for our key processes:

Activity / process	Average turnaround achieved (working days) 2020/2021	Average turnaround achieved (working days) 2021/22	Target turnaround (working days)
Joiners notification of date of joining	25	19	40
Process and pay refund	**4**	**4**	**10**
Calculate and notify deferred benefits	13	8	30
Letter notifying actual retirement benefits	**4**	**2**	**15**
Letter notifying amount of dependant's benefits	3	3	10
Letter acknowledging death of member	**3**	**3**	**5**
Letter detailing Cash Equivalent Transfer Value (CETV) for divorce	2	2	45
Letter notifying estimate of retirement benefits	**4**	**3**	**15**
Letter detailing transfer in quote	3	2	10
Process and pay lump sum retirement grant	**15**	**10**	**23**
Letter detailing transfer out quote	3	3	10
Letter detailing PSO implementation	**n/a**	**4**	**15**

We continue to monitor this and improve our data capturing of the information against the CIPFA benchmarks.

Detailed below are the number of each case type processed in the year and the percentage achieved within the KPI.

Activity / process	Number processed 2021 / 2022	% Processed within KPI 2021 / 2022
Joiners notification of date of joining	4246	89
Process and pay refund	489	98
Calculate and notify deferred benefits	1408	95
Letter notifying actual retirement benefits	512	100
Letter notifying amount of dependant’s benefits	210	98

Activity / process	Number processed 2021 / 2022	% Processed within KPI 2021 / 2022
Letter acknowledging death of member	433	79
Letter detailing cash equivalent transfer value (CETV) for divorce	130	100
Letter notifying estimate of retirement benefits	1486	100
Letter detailing transfer in quote	485	99
Process and pay lump sum retirement grant	1023	99
Letter detailing transfer out quote	382	97
Letter detailing Pension Sharing Order (PSO) implementation	8	100

The administration team comprises of 22.3 full time equivalent (FTE) staff. The Fund therefore has a ratio of one full time equivalent member of the team for every 2,982 Fund members.

In 2021/2022 we had no data breaches, 1 Internal Dispute Resolution Procedure (IDRP) which was a Stage 2 and 1 complaint.

Value for money

At £1.70m our administration costs for 21/22 were £0.3m less than the previous year as 2020. 21 incurred some one off costs. Based on published comparative data available for 2020/21 our cost per member is £23.60 (ranked 37th out of 86 Pension Funds in England & Wales).

In 2021/22 our administration team of 22.3 FTE achieved the average CIPFA benchmark turnaround target for all 12 standard processes.

In line with guidance from The Pension Regulator (TPR), we measured the quality of our data on 5 October 2021.

The percentage of member records passing ALL tests required by The Pensions Regulator was:

- Common data 95% (our 2020 score was 94.7%).
- Scheme-specific data 98.7% (our 2020 score was 93.6%).

The percentage (2020 previous year in brackets) of our member records without a single 'common data' failure was 92.4% (92.2%).

In the core list of TPR 'common data' tests our pass rates were: National Insurance Number 100% (100%); Name 100% (100%); Sex and Date of Birth 100% (100%); Date Commenced and Normal Retirement Date 99.9% (99.9%); Status 100% (100%); and Address 95.1% (94.8%).

The percentage of our member records without a single 'scheme-specific data' failure was 91.2% (86.3%).

In the core list of TPR 'scheme-specific data' tests our pass rates were Member Benefits 99.9% (99.9%); Member Details 99.9% (99.9%); CARE benefits 98.0% (94.0%); HMRC 100% (99.9%); and Contracted Out 98.5% (90.8%).

Looking ahead, we are committed to delivering an even more modern and efficient value for money service.

6. Investment Policy & Performance

6. Investment Policy & Performance

Investment management

Subject to the LGPS regulations on allowable investments, the Fund may invest in a wide range of assets including quoted equity, government bonds, corporate bonds, money markets, traded options, financial futures/derivatives and alternative strategies including infrastructure/property pooled funds.

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. Our Investment Strategy Statement is available at Appendix C.

The Pensions Committee has responsibility for the investment strategy of the Fund but has established a Pension Investment Sub-Committee and delegated oversight of its implementation to the Chief Financial Officer. The Committee regularly reviews the Fund's investment management arrangements. In broad terms at 31 March 2022 the Fund's strategic allocation was to be invested 70% in equities, 10% in fixed income and 20% in property/alternatives. The Fund's assets are managed day to day by the Fund's appointed specialist, external investment managers.

Target asset allocation

The table below shows the actual distribution of assets across the main asset categories. This changes year on year as a result of the target asset allocation, the performance of the underlying asset classes, managers' performance, and rebalancing.

Strategic Actual and Target Asset Allocations

Asset class	Actual portfolio weight	Actual portfolio weight	Target portfolio weight
	31.03.21	31.03.22	31.03.22
Total Equities	**78.5%**	**74.4%**	**70.0%**
Total Actively Managed Equities	**26.3%**	**19.7%**	**20.0%**
Far East Developed	14.0%	10.5%	10.0%
Emerging Markets	12.3%	9.2%	10.0%
Total passively managed equities – market capitalisation indices	**31.0%**	**38.7%**	**35.0%**
United Kingdom	12.1%	19.1%	20.5%
North America	12.5%	12.2%	8.0%

<table>
<tr><th>Asset class</th><th>Actual portfolio weight</th><th>Actual portfolio weight</th><th>Target portfolio weight</th></tr>
<tr><th></th><th>31.03.21</th><th>31.03.22</th><th>31.03.22</th></tr>
<tr><td>Europe ex UK</td><td>6.4%</td><td>7.4%</td><td>6.5%</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Passively managed equities – alternative indices</td><td>15.2%</td><td>16.0%</td><td>15.0%</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Equity Protection Strategy</td><td>6.0%</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Total fixed interest</td><td>6.2%</td><td>7.5%</td><td>10.0%</td></tr>
<tr><td>Actively managed bonds & corporate private debt</td><td>6.2%</td><td>7.5%</td><td>10.0%</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Total actively managed alternative assets</td><td>15.3%</td><td>18.1%</td><td>20.0%</td></tr>
<tr><td>Property</td><td>4.7%</td><td>5.8%</td><td rowspan="2">20.0%</td></tr>
<tr><td>Infrastructure</td><td>10.6%</td><td>12.3%</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>TOTAL</td><td>100.0%</td><td>100.0%</td><td>100.0%</td></tr>
</table>

The Equity Protection Strategy applies to the passively managed equities – market capitalisation indices. In 2021/22 this equated to 6.2% and has been pro rated over the passively managed equities.

There are still a number of undrawn capital commitments related to property and infrastructure. These take a number of years and are being funded from disinvestments in the equity portfolio to meet the strategic target allocations.

Details of the largest equity investments on at 31 March 2022

Top 10 direct equity investments	Market value of holding on the 31st March 2022 (£)	Percentage of total fund assets
Apple	33,209,001	1.02%
Taiwan Semicon Man TWD10	**32,755,360**	**1.00%**
Microsoft	30,897,079	0.95%
Tencent Holdings	28,972,800	0.89%
Unilever	**17,874,745**	**0.55%**
AstraZeneca	**16,683,095**	**0.51%**
Samsung Electronics	16,296,948	0.50%
Amazon	**14,793,504**	**0.45%**
Sony Corporation	14,774,027	0.45%
HDFC Bank	**14,727,840**	**0.45%**

Report of the Independent Investment Advisor

A good year but with a nasty sting in the tail

There is rarely, if ever, a dull moment in investments and 2021-22 was no exception. The implications of Brexit started to manifest themselves as the country started to reopen followed the renewed Covid-19 related lockdowns and restrictions. The hospitality industry in particular faced a perfect storm as supply chain issues added to staff shortages and social distancing rules. Even the renewable energy sector had issues, as although pricing and demand had recovered from 2020, the wind didn't blow, and the sun didn't shine! The financial year ended with focus on the tragic events unfolding in Ukraine and the implications of that. If Putin wanted to find out who his friends are, he has now found out that he doesn't have many and those that he does have are a pretty unsavoury bunch. The good news is that although there is a huge economic price to pay in terms of inflated energy and commodity prices in the short term, there is a clear widespread determination to remove the reliance on Russian supplies, potentially hastening the move away from fossil fuels in particular. It should be stressed that the Russian people are victims as well, because ultimately they will also pay a heavy economic price as a result of Putin's murderous folly.

My reference in the title to this generally having been a good year relates to the absolute value of the Fund and that the Funding Level ended the year at approximately 100%, despite the slight fall in value over the final quarter. Markets continued upwards during 2021 with the total value of the Worcestershire Pension Fund at 31 December 2021 reaching £3.5bn, compared to £3.28bn at the end of March 2021. The value of the Fund at the year end of 31 March 2022 saw a small decline to £3.3bn, reflecting the economic concerns created by the invasion of Ukraine. The Fund underperformed its bespoke benchmark performance target over the last year by -2.2%. While at face value this is disappointing and reflects the asset mix (including investments that are still in the development stage), in general terms the Fund has performed satisfactorily, as evidenced by the increase in value. The Fund has performed inline or ahead of benchmark over the three, five and ten year periods.

The main contributor to the increase in Fund value has been the equity allocation, although it should be noted that our active Far East and Emerging Markets detracted from that. Our Infrastructure and Property investments continue to build momentum as they move from the development phase through to maturity.

The workload to implement changes to the asset allocation was considerable and can be seen as two connected but differing projects. The first was the ongoing project to increase the allocation to the Alternatives portfolio (up to 20% from 15%) in a cost effective manner and to bring that to a conclusion. While continuing to work with our colleagues at LGPS Central towards a longer term objective that would see them fulfilling the Fund's investment requirements, in the short term it has made sense to utilise our existing asset management relationships to facilitate our current objectives. The Pension Investment Sub Committee (PISC) approved additional investments with First Sentier (now Igneo), Stonepeak, and Gresham House (BSIF Infrastructure II). After a thorough due diligence process, which included getting very wet in a Scottish forest, an innovative new investment programme was initiated with Gresham House Forestry funds. In addition, a provisional allocation was made to the LGPS Central Infrastructure Fund. Work was also undertaken to seek appropriate means to bring the actual allocation to Fixed Income closer to the strategic allocation (10%). Again, using existing relationships, a further investment was made with Bridgepoint (Private Debt) and a small additional allocation was made to the LGPS Central Corporate Bond Fund.

The second project was the work commissioned by the Pensions Committee to manage Environmental, Social and Governance (ESG) and Climate issues in a more proactive manner across all of the Fund investments continued, by investigating possible alternatives to the current passive mandates that would incorporate a greater focus on ESG considerations, while maintaining or enhancing returns in a risk-controlled manner. The PISC had several sessions exploring some of the options, particularly focusing on those currently available, or in development, from LGPS Central and LGIM. Consideration was also given to some active Sustainable Investment management options, both with LGPS Central and through the West Midlands Sustainable Equities framework of managers. The decision was taken to switch the Fundamentally Weighted (Value) passive element into the LGIM Quality companies portfolio and to transition the Low Volatility element of the LGIM Alternative Factors portfolio to the LGPS Central All World Climate Multi Factor Fund, these transitions took place in October and November 2021 respectively. These elements contained the highest exposures to carbon within the Fund, so this clearly demonstrates that that decisive action is following on from the research and discussions that have taken place over the last two years. Following due consideration at the PISC meeting in November, it was agreed that 15% of the value of the passive market capitalisation portfolio would be transitioned to the LGPS Central Global Sustainable Investment Fund, managed by Liontrust and Baillie Gifford.

While some might question the way in which the Fund is taking a proactive approach to investing in a more sustainable manner, the balanced method that is being adopted should provide reassurance that solid due diligence principles are being applied to all potential investments. Some of the investment proposals that we have seen and have followed through to implementation are genuinely exciting and show that the Fund is in many ways at the forefront of developing solutions to ESG and climate change challenges. More details are available on the Fund website.

As part of the high standards that the Fund is seeking to attain on ESG compliance, it is wonderful to be able to report that the Fund's application to be a signatory to the UK Stewardship Code was accepted in September. The submission required a lot of work on the part of officers, Rob Wilson in particular. There is further work required to maintain this status, but it does establish the Fund amongst a select group of LGPS Funds and Pools that have achieved the required standard.

Although this statement has been made in a number of previous reports it is once again worth repeating that the Fund is a member of LGPS Central, which will ultimately be responsible for managing most Fund investments for Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire Pension Funds. For the time being the Fund retains the responsibility for monitoring their existing managers and making short term changes to the management arrangements as necessary. Worcestershire Pension Fund will retain responsibility for asset allocation decisions, which research shows forms the major part of the contribution to Fund performance over time. Crucially the Fund will also still be responsible for meeting the liabilities to our members, namely paying their pensions, which thankfully increase in line with the CPI each year.

Philip Hebson
Independent Investment Advisor
September 2022

Investment monitoring and performance

The Pension Investment Sub-Committee monitors external managers' performance and makes investment manager and asset allocation recommendations. The Fund does not automatically rebalance mandates in line with the long-term investment policy as set out in the Investment Strategy Statement. Therefore, portfolio weights may vary compared to their long-term strategic total Fund weight. The Fund's actual asset valuations across UK, Non-UK and Global on 31 March 2022 are shown below.

Asset class	UK £m	Non-UK £m	Global £m	Total £m
Equities	560.6	1,251.2	559.6	2,371.4
Bonds	190.4		206.3	396.7
Pooled property	117.4	104.5		221.9
Pooled infrastructure	182.2	244.5		426.7
Pooled debt		76.3		76.3
Cash and cash equivalents	17.4			17.4
Other*	31.6			31.6
Total	**1,099.6**	**1,676.5**	**766**	**3.542.0**

*The other refers to our derivatives within the Equity Protection mandate.

The Fund's investment performance is measured quarterly by Portfolio Evaluation Ltd against a number of benchmarks. The table below details the Fund's actual performance against these benchmarks over the 1 year, 3 years and 5 years to 31 March 2022.

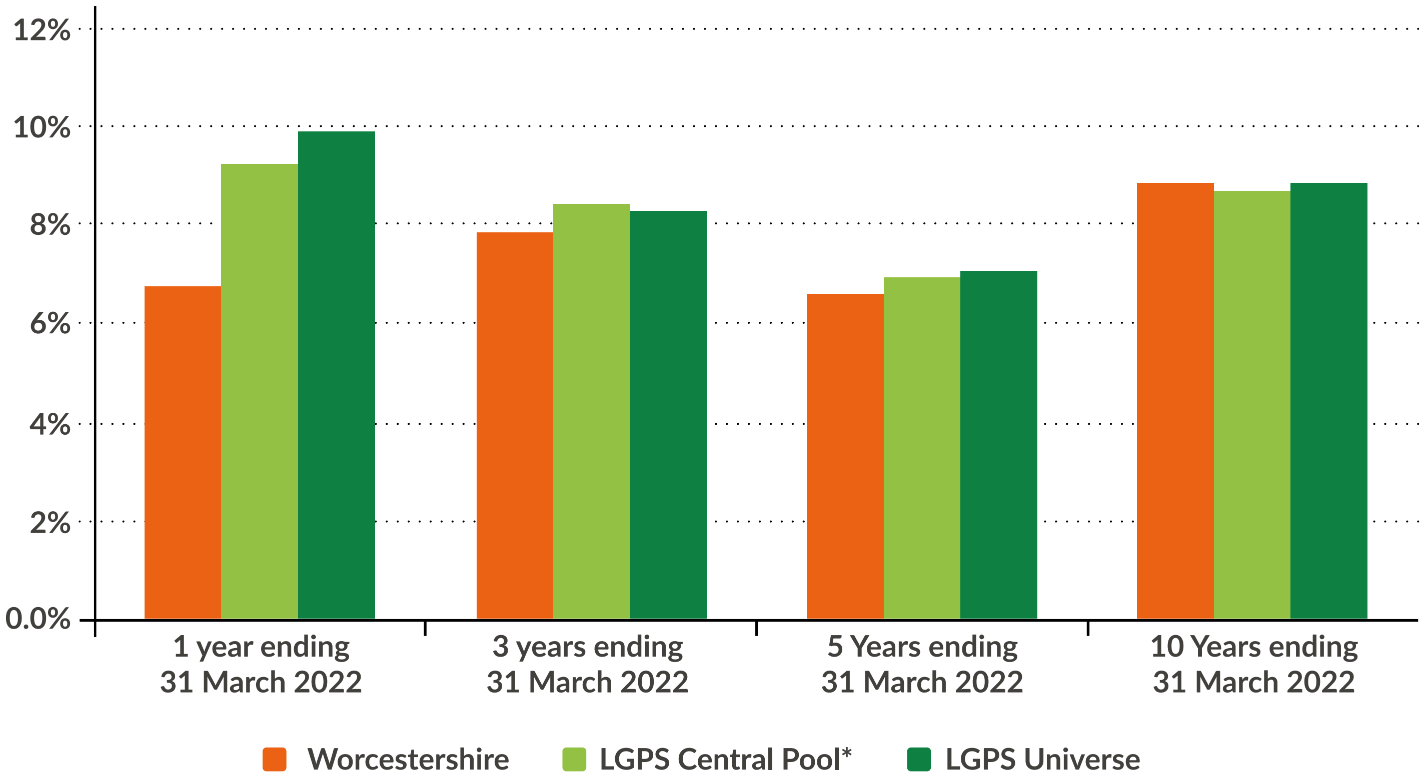
Asset Class	1 year Actual	1 year Benchmark Return	3 year Actual	3 year Benchmark	5 year Actual	5 year Benchmark
	Return	Return	Return	Return	Return	Return
	%	%	% p.a.	% p.a.	% p.a.	% p.a.
Active equities	-6.8	-2.3	5.8	6.5	5.2	5.6
Passive equities	14.3	13.7	11.2	10.0	8.8	8.0
Alternative passive equities	11.7	12.6	10.4	11.1	9.0	9.6
Bonds	-5.2	-4.9				
Pooled private debt	-0.7	6.0	6.3	6.0		
Pooled property	5.9	17.0	2.6	10.4	4.0	9.0
Pooled infrastructure	14.7	11.4	9.1	9.5	8.0	9.0
TOTAL FUND	**6.7**	**8.9**	**7.9**	**7.8**	**6.7**	**6.7**

Fund performance by Asset Class

The Fund produced a return of 6.7% for the year to 31 March 2022, which gave an underperformance against the benchmark of 2.2%. The Fund's performance continued to be strong over the 5-year period compared to the benchmark.

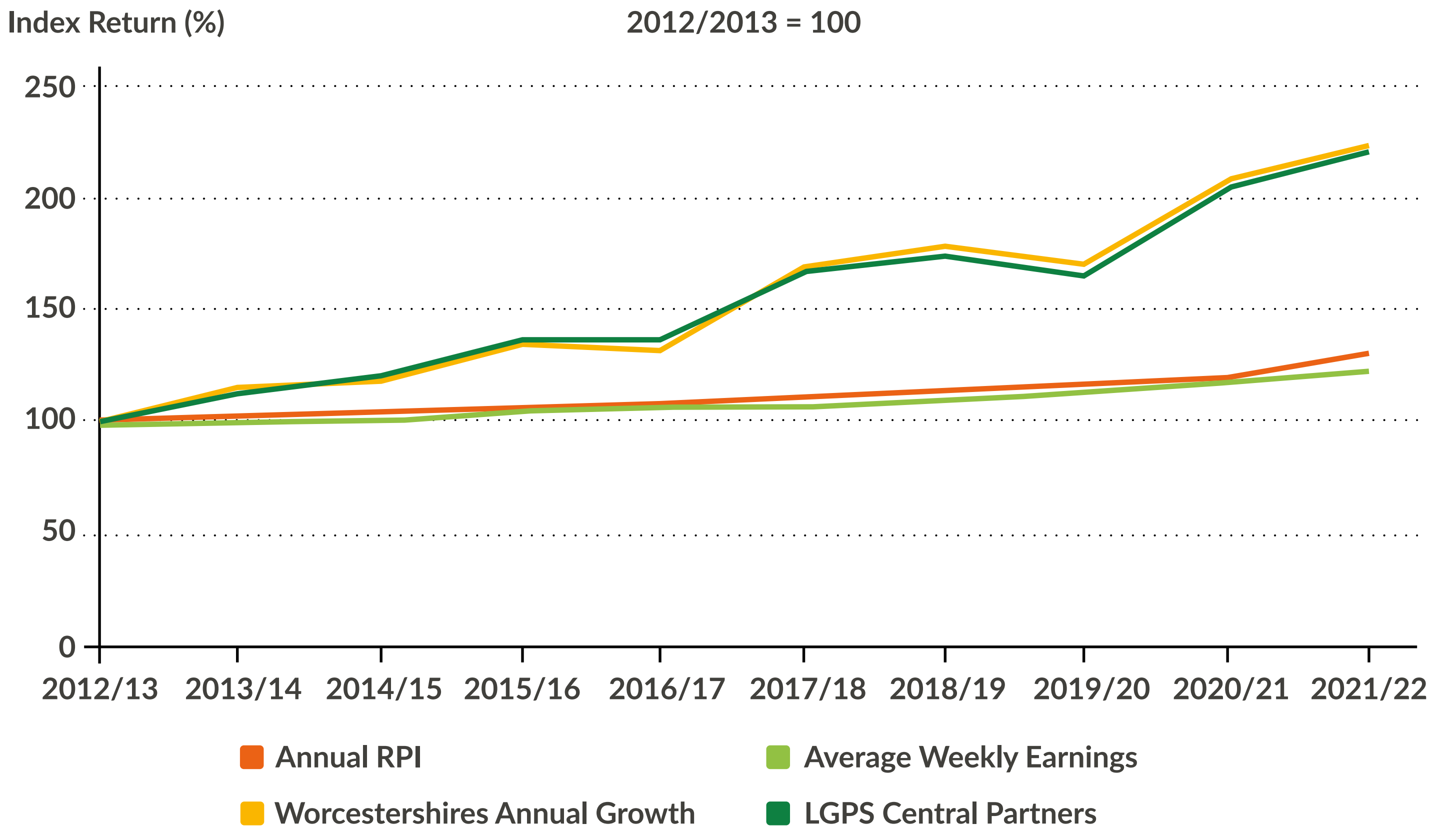
Performance was worse than the LGPS universe and LGPSC pool partners over 1 year. The Fund also slightly underperformed both the LGPS universe and LGPSC Pool over 3, 5 periods but outperformed over the 10-year period.

Comparison of average annual performance of the Fund with the LGPSC partners' median return and the LGPS universe



The following chart tracks the cumulative impact of long-term Fund performance since 2011/12 relative to the following key measures, the LGPS Central partners, the Retail Prices Index (RPI) and annual average weekly earnings.

Fund's



Investment fees

The Fund generally has an ad-valorem fee scale applied in respect of the investment management services it receives. This is generally accepted practice for passive tracking mandates and is easily understood.

A performance-related fee basis is sometimes set if it is believed to be in the overall financial interests of the Fund, particularly for active mandates where higher fees are paid for more consistent outperformance of market indices. The approach taken varies depending on the type of investment and the target being set.

The Fund reports in line with the CIPFA requirements under the Transparency Code and requires its investment managers to provide sufficient information to fulfil these requirements. The table below shows the fees paid to managers in each asset class as at the 31st March 2022.

Asset class	Management fees £'000	Performance & other Fees £'000	Total fees £'000
Fixed interest securities	500	100	600
Equities	1,200	400	1,600
Pooled property	1,600		1,600
Pooled infrastructure	10,700		10,700
Private debt	1,000		1,000
LGPSC	1,800	2,600	4,400
Other	400		400
TOTAL FUND	**17,200**	**3,100**	**20,300**

Custodial arrangements

Custody of the Fund's assets is provided by the Global Custodian, BNY Mellon Asset Servicing, or for assets managed by LGPSC Northern Trust.

In addition to the custodian's role in the safe-keeping of the Fund's total assets, the custodian also provides services in relation to settlement and income collection, the exercise of voting rights and the execution of corporate actions in conjunction with investment managers. The appointment of a global custodian also secures an independent confirmation of the Fund's assets and their value.

Asset pooling

The Fund is a partner Fund of LGPS Central Limited (LGPSC) pool and costs were incurred by all the partner funds under a cost sharing agreement with our contribution being as follows:

	At 1 April 2021 £000	Recharges in year £000	Settled in year £000	At 31 March 2022 £000
Governance costs		219		
Operator costs		368		
IMMC		109		
Product development costs		72		
Sub total	**131**	**768**	**(733)**	**166**

LGPSC set-up costs are detailed below. As the pool only launched in 2018, the information provided reflects the start-up nature of LGPSC: the level and complexity of the disclosures will increase in later years.

LGPSC set-up costs

£000	2018/19 direct £000	2018/19 indirect £000	2018/19 total £000	Cumulative 2014/15 to 2018/19 Total £000
Set-up costs				
Recruitment	-	-	-	27
Procurement	-	-	-	2
Professional fees	-	-	-	187
IT	-	-	-	97
Staff costs	-	-	-	142
Other costs				
Premises	-	-	-	49
Staffing-related costs	-	-	-	5
Travel and expenses	-	-	-	1
Training and events	-	-	-	1

£000	2018/19 direct £000	2018/19 indirect £000	2018/19 total £000	Cumulative 2014/15 to 2018/19 Total £000
FCA Fees	-	-	-	1
General Admin Costs	-	-	-	2
Set-up costs before funding	**-**	**-**	**-**	**514**
Share Capital	-	-	-	1,315
Debt	-	-	-	685
Other Costs	-	-	-	-
Set-up costs after funding	**-**	**-**	**-**	**2,514**
Transition fees				
Taxation (seeding relief)				
Other transition costs				
Transition Costs				

Although guidance from CIPFA has not provided a set definition of indirect costs, it is likely that the set-up costs captured to date relate to direct costs (i.e. either incurred directly by LGPSC or recharged by Partner Funds to LGPSC).

£000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Cumulative £000
Set-up costs before funding	**-**	**-**	**95**	**419**	**-**	**514**
Set-up costs after funding	**-**	**-**	**95**	**2,419**	**-**	**2,514**
Transition costs						

LGPSC Investment Management Expenses Charged to Partner Funds

	£000	Direct £000	Indirect £000	Total £000	Bps Charge £000
1	Ad valorem	1,656		1,656	25.52
2	Performance	-		-	-
3	Research	-		-	-
4	PRIIPS compliance	-		-	-
5	Other (provide details)	-		-	-
	Management Fees	**1,656**	**-**	**1,656**	**25.52**
6	Commissions	433		433	6.67
7	Acquisition/issue costs	-		-	-
8	Disposal costs	-		-	-
9	Registration/filling fees	-		-	-
10	Taxes and stamp duty	523		523	8.06
11	Other (provide details)	-		-	-
	Implicit costs	1,240		1,240	19.11
	Transaction costs	**2,196**	**-**	**2,196**	**33.84**
					-
12	**Custody/Depositary**	**108**		**108**	**0.29**
13	**Other (provide details)**				**-**
	Fund accounting	19		19	0.29
	Transfer agent	3		3	0.05
	External audit	5		5	0.08
	Performance reporting	7		7	0.11
	Transaction charges	36		36	0.55
	MACS fees	1		1	0.02
	Total costs	**4,031**		**4,031**	**62.11**

Fund's Assets Under Management & Performance By Product within the LGPS Central Pool

£000	AUM At 1 April 2021 £m	AUM At 31 Mar 2022 £m	One Year Gross Performance %	One Year Net Performance %	Passive Benchmark Used	One Year Passive Index %
Emerging Market Equity	402	323	-11.54%	-11.98%	FTSE Emerging Markets Index	-4.71%
Corporate Bonds	160	206	-5.53%	-5.62%	ICE BofAML Sterling Non-Gilt Index 50%; ICE BofAML Global Corporate Index 50%	-5.29%
Climate Factor Fund	-	207	14.09%	14.06%	FTSE All-World Climate Balanced Comprehensive Factor Index	13.73%
ACS Sub-Funds	562	736				
Total	**562**	**736**				

Statement of responsible investment

The Fund is a long-term investor aiming to deliver a sustainable pension fund for all stakeholders.

Worcestershire County Council as the administering authority has a fiduciary duty to act in the best long-term interests of the Fund's employers and scheme members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

Responsible investment is a fundamental part of the Fund's overarching investment strategy as set out in the Investment Strategy Statement.

The Fund is committed to ensuring that the companies in which it invests have good corporate governance, adopt a responsible attitude towards the environment and adopt high ethical standards. The Fund is a signatory to the UK Stewardship Code 2020.

Policies adopted

The Fund adopts a positive engagement approach with the companies in which it invests in order to promote high standards of corporate governance. It believes that this will help to raise standards across all markets and that this is in the long-term interests of the Fund and its stakeholders.

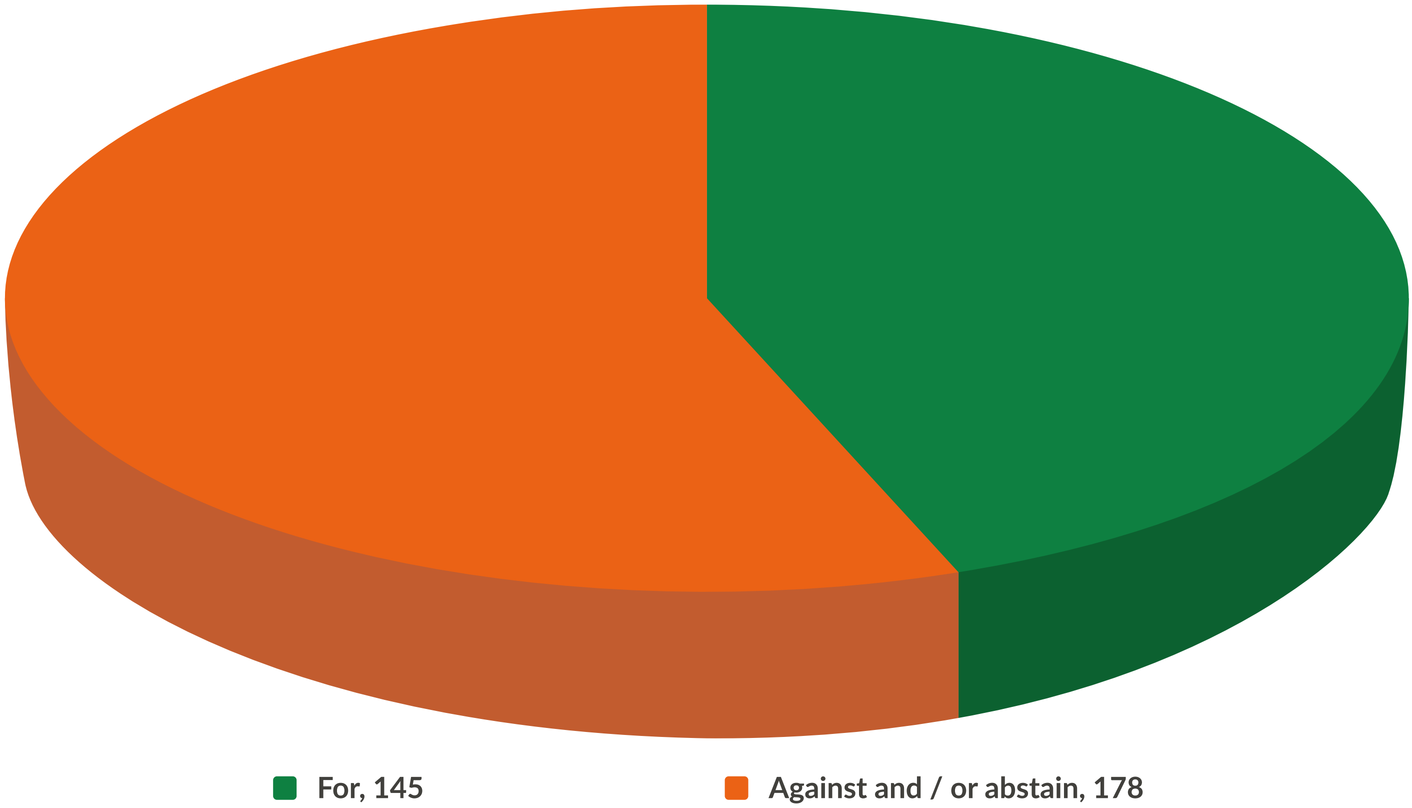
Investment performance is monitored on a quarterly basis and the Fund expects investment managers to engage with companies to address concerns affecting performance.

The Fund believes that the greatest impact on behaviour can be achieved when working together with others. It is a member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act collectively with other local authorities on corporate governance issues. The Forum currently has over 80 member funds representing assets of more than £350 billion. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

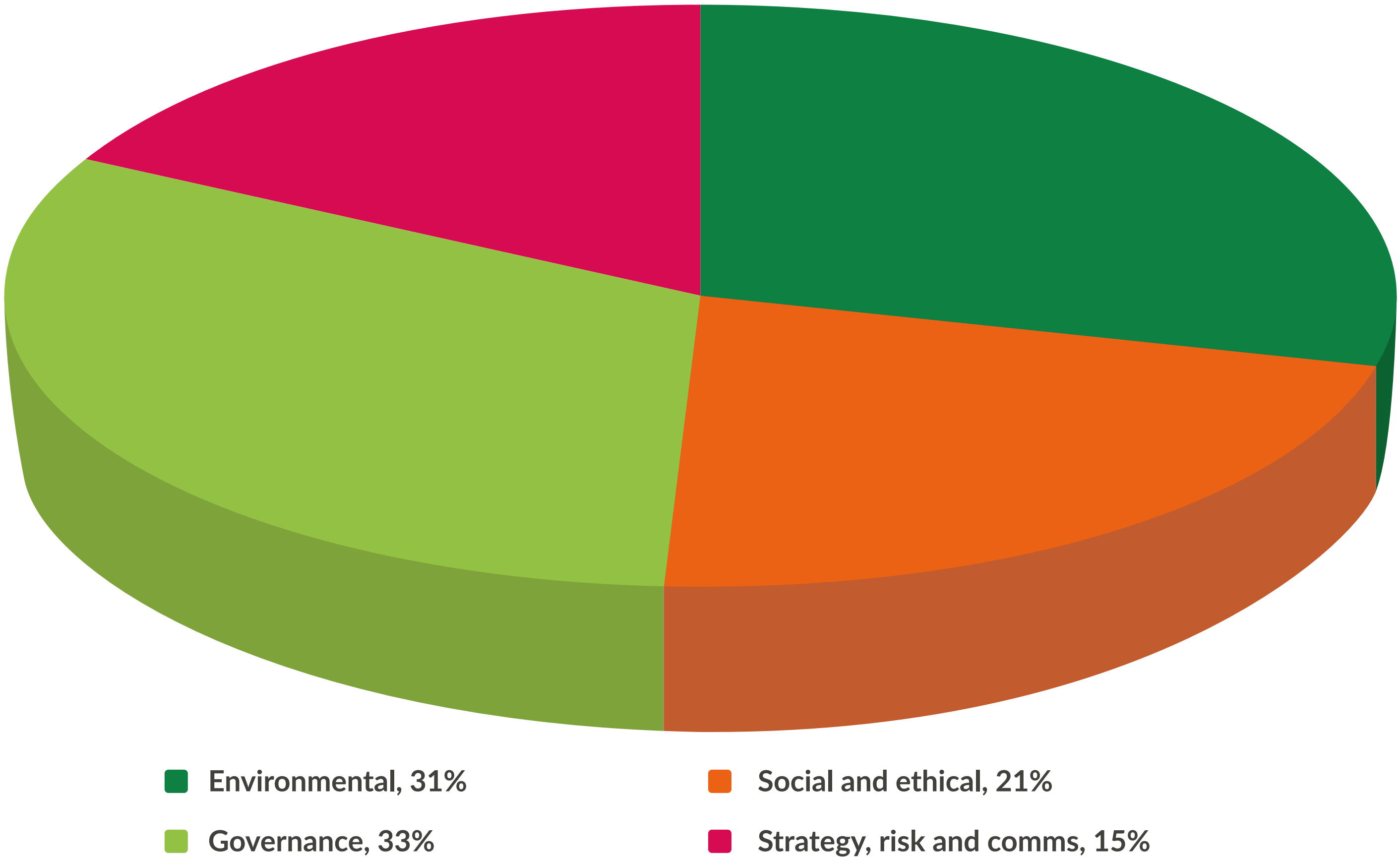
The Fund continues to exercise its ownership rights by adopting a policy of voting stocks it holds. The Fund believes that it is beneficial to take the voting decisions away from our active fund managers and have the votes executed in line with LGPSC's voting principles which are in line with our own. This enables improved monitoring and reporting to the Pensions Committee. Wherever practicable votes must be in accordance with industry best practice as set out in the combined code of corporate governance with a clear focus on enhancing long-term shareholders value.

In order to ensure that the governance practices employed by the Fund's investment managers are aligned to that of the Fund, investment managers' quarterly performance reports are required to include specific briefing in corporate governance detailing all votes cast on the Fund's behalf as detailed in the charts below.

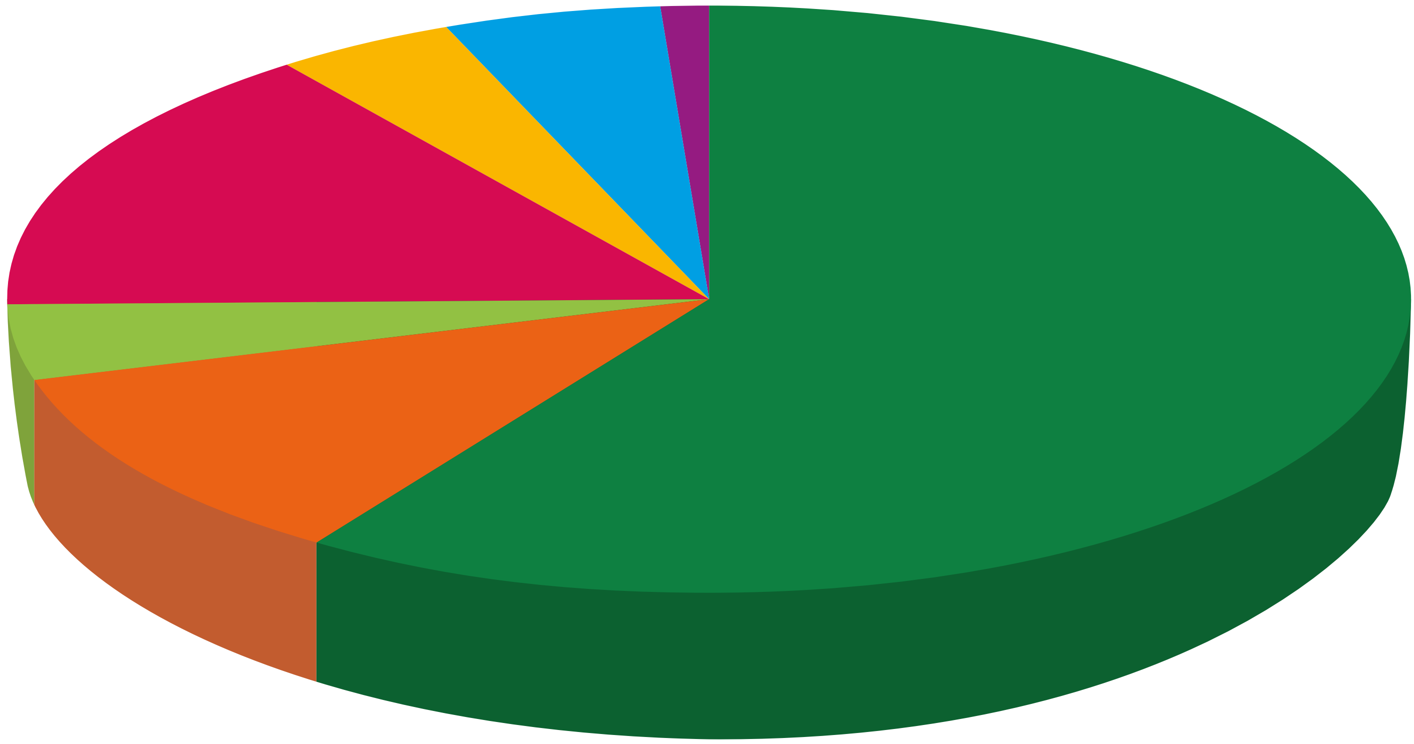
Meeting where Resolutions made



Engagement with 323 Companies



Issues on which we recommended voting against or abstaining on resolutions



REVIEW OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) in 2021

As detailed in last year's annual report the Fund commissioned a company called Minerva to conduct an Environment Social and Governance (ESG) audit of the Fund and be able to map all the Funds' investments to the United Nations Sustainable Development Goals (SDGs). This was to establish a baseline for the Fund as to where we are and help formulate future strategic actions required for the Fund's investment approach. Further details of the outcome can be found in last year's report and on the Fund website.

A key outcome was to prioritise the following SDGs that the Fund considered are likely to have the biggest investment impact. At a Fund ESG review in February 2022 it was agreed to add SDG 12 Responsible consumption & Production to the Funds existing investment beliefs within the Investment Strategy Statement. There are now 6 specific SDG's that are targeted by the Fund from an investment and ESG perspective.

- SDG 9. Industry, Innovation & Infrastructure (covers off 11 sustainable cities)
- SDG 7. Clean Energy (covers off 6 clean water and sanitation)
- SDG 8. Decent Work & Economic Growth
- SDG 13. Climate Action
- SD3 Health & Wellbeing
- SDG 12 Responsible consumption & Production

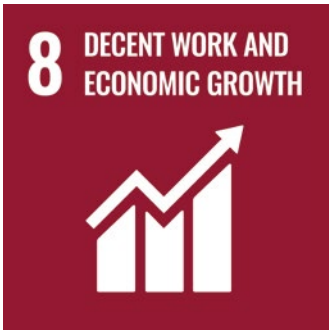
The Fund intends to conduct an SDG mapping of the Fund every 3 years.SDG 2000.

Minerva used the World Benchmarking Alliance (WBA) SDG2000 to measure the alignment between the Fund's investments and the SDGs. The WBA SDG 2000 measures and ranks 2000 of the world's most influential companies in respect of SDGs. These are seen as global companies that are likely to have the greatest potential to help deliver the SDGs.

The illustration below shows the Funds exposure to the prioritised SDGs.

Prioritised SDG Exposure: Worcestershire's intial exposures to the Fund's prioritised SDGs (£ Million)**

£1,190



£1,425

£945

£1,385

£1,439

£1,323

*as defined by the SDG2000 benchmark.
**as defined by the Pensions Committee in a Pensions for Pupose workshop in May 2020.

Climate Risk Report

The Fund also its 2nd specific Climate Risk report from LGPS Central which was reviewed alongside the findings from the ESG Audit.

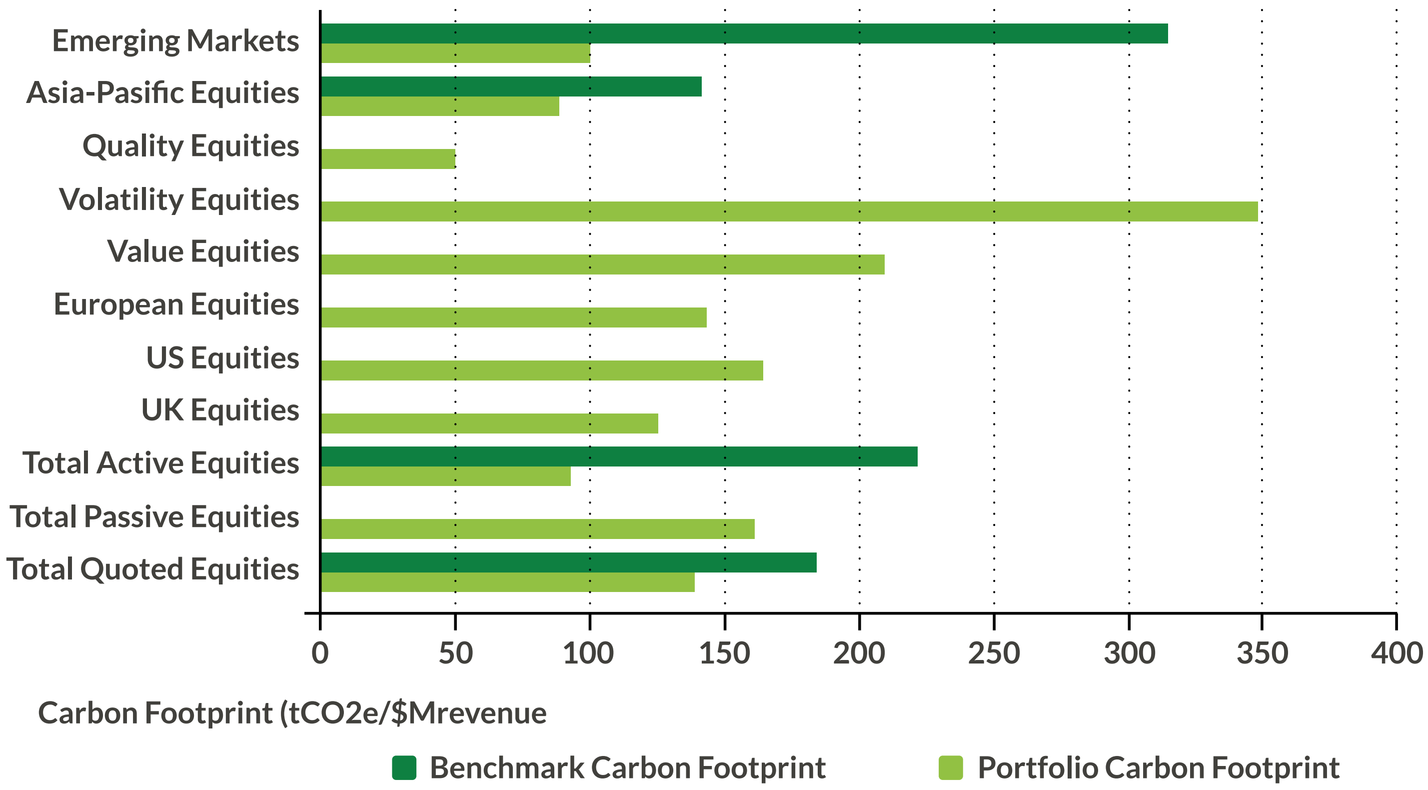
The Fund recognises that Climate related risk is very real and can impact the Fund both negatively and positively, depending on our approach to managing that risk. There is sector and stock specific risk in being invested in those areas that include fossil fuels, as they decline in usage, whereas investing in new more environmentally friendly areas, such as renewable energy, can enhance our investment returns.

The warmer the planet becomes, the risks increase much further, which at the simplest levels include substantial flooding of low lying areas globally with all the negative implications that flow from that.

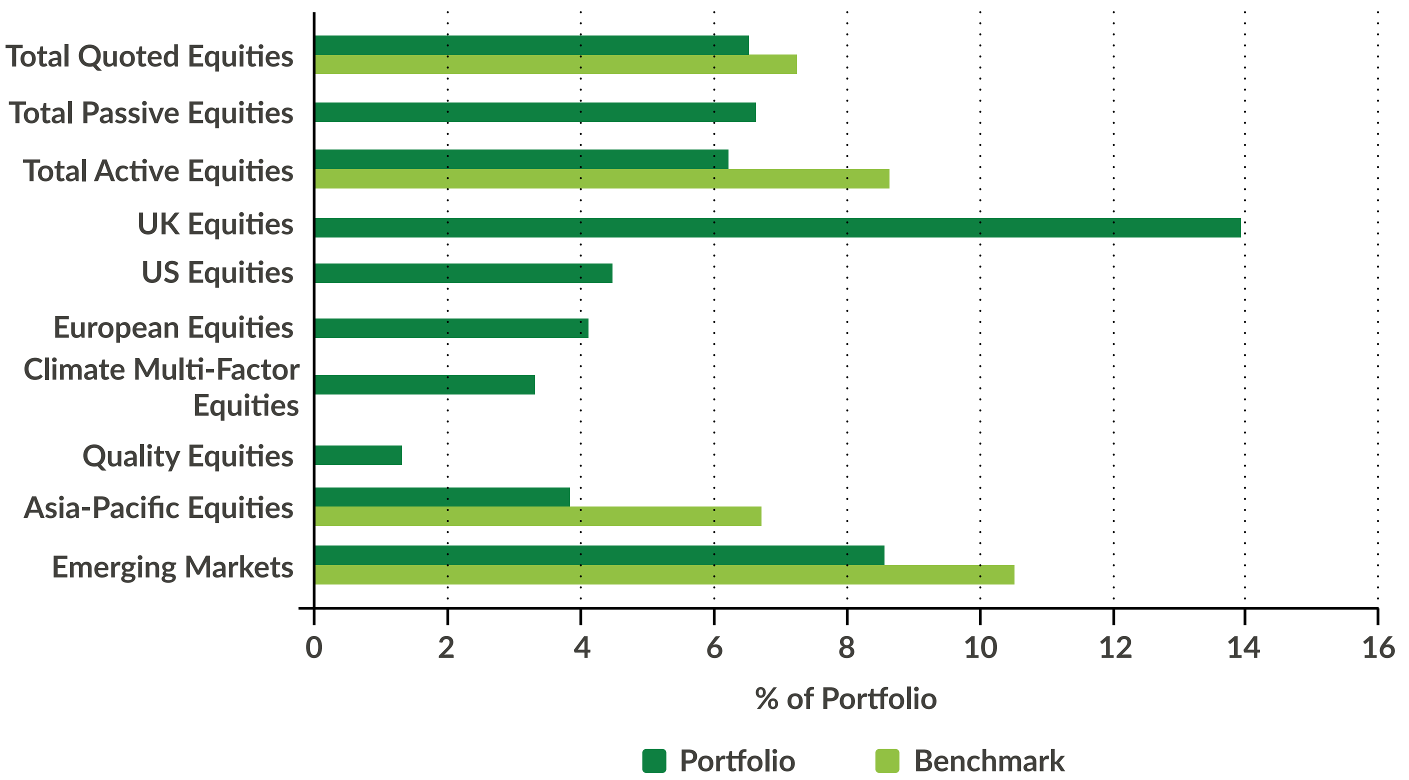
The key conclusions / points of the report were and were part of the report to Pensions Committee on the 23rd March 2022.

The updated Carbon Risk Metrics implies that the existing management of carbon risk in the Fund continues to exceed that of the benchmarks. Between 29th May 2020 and 30th November 2021, the carbon footprint of the Total Equity portfolio decreased by 17.77%. At the latter date, the Total Equity carbon footprint was 28.05% more carbon efficient than the blended benchmark. Exposure of the Total Equity portfolio to fossil fuel reserves remained largely unchanged between May 2020 and November 2021 as demonstrated in the charts below:

Portfolio Carbon Footprints in each regional equity portfolio



Exposure to fossil fuel reserves in each regional equity portfolio



LGPS Central quoted 'We find that WPF has made significant enhancements to its published documentation and governance arrangements in the past year. The Fund has implemented 12 of the 13 recommendations issued in the first Climate Risk Report including, publishing its first TCFD-disclosure report, developing a Climate Change Risk Strategy and reporting against the 2020 Stewardship Code. In our view, the Fund's approach to RI, including climate risk management, is above industry average standards and significantly in excess of the regulatory minimum. We suggest that the Fund maintains this current level of practice and implements any recommendations that are still outstanding from the first report.

The Funds 2nd year overarching Climate Change Strategy within its Investment Strategy Statement can be found in Appendix C and also the reported Task Force on Climate related Financial Disclosures (TCFD) can be found on the Fund's website.

Statement of Compliance with the UK Stewardship Code for Institutional Investors

The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council strongly encouraged best practice in respect of investor engagement. The Financial Conduct Authority (FCA updated the code in 2020 and made it more outcome focussed. The Fund was successful in its application and achieved signatory status to the UK Stewardship Code 2020.

7. Governance Arrangements

7. Governance Arrangements

Our governance arrangements take account of:

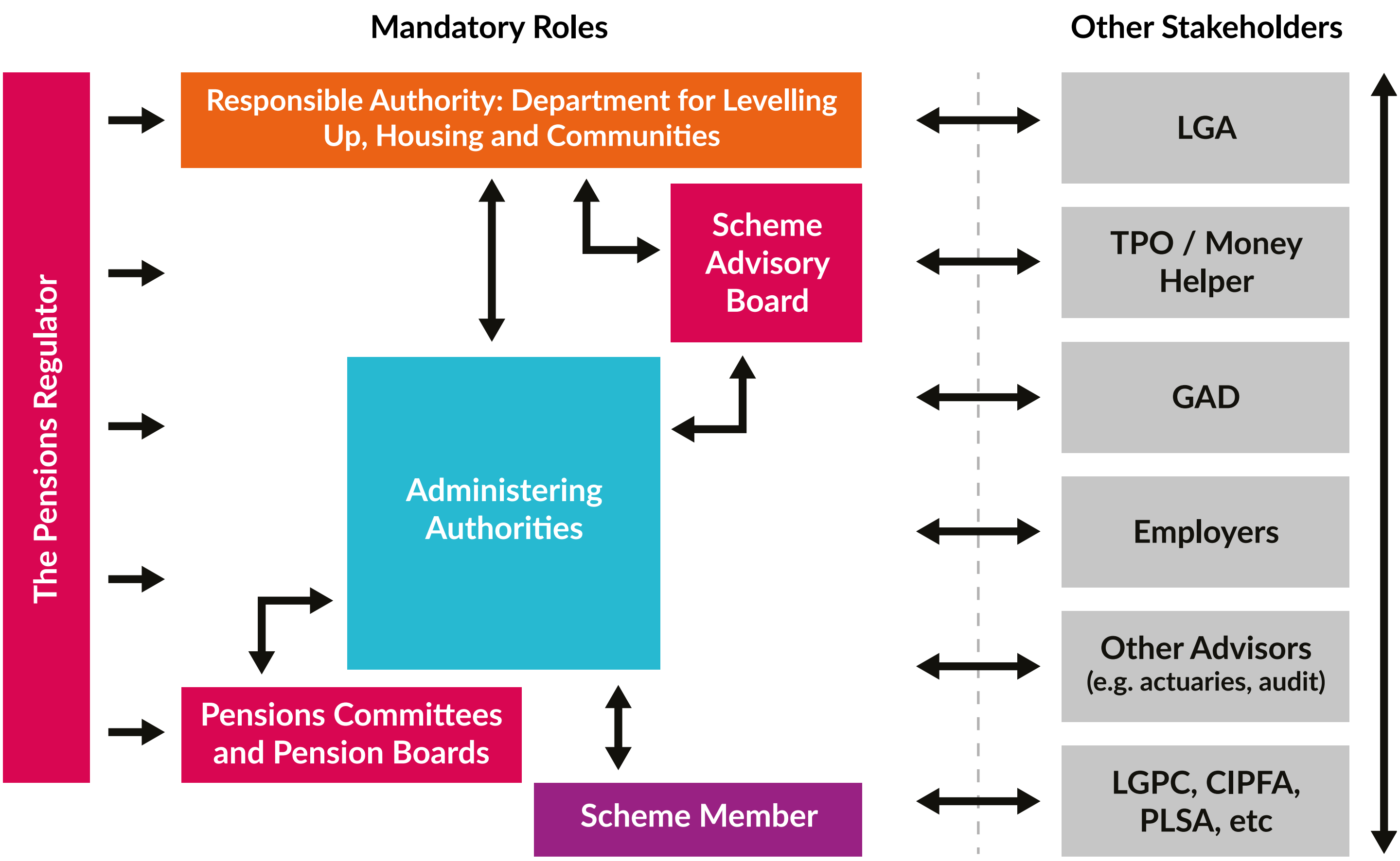
- The way in which the LGPS is governed.
- The governance arrangements of LGPSC.
- Guidance issued by The Pensions Regulator.

Overall responsibility for managing the Fund lies with the full council of Worcestershire County Council who have delegated the management and administration of the Fund to the Section 151 Officer. The full Council reviews the discharge of its responsibilities through the Council's Audit and Governance Committee. The Pension Board assists the Council to deliver efficient governance and administration of the Fund's responsibilities through the Council's Audit and Governance Committee.

The Section 151 Officer is advised by the Pensions Committee and also takes appropriate advice from the Fund's actuary and the Fund's appointed investment advisor. The Pensions Committee receives recommendations from the Pension Investment Sub-Committee to enable it to discharge its responsibilities effectively.

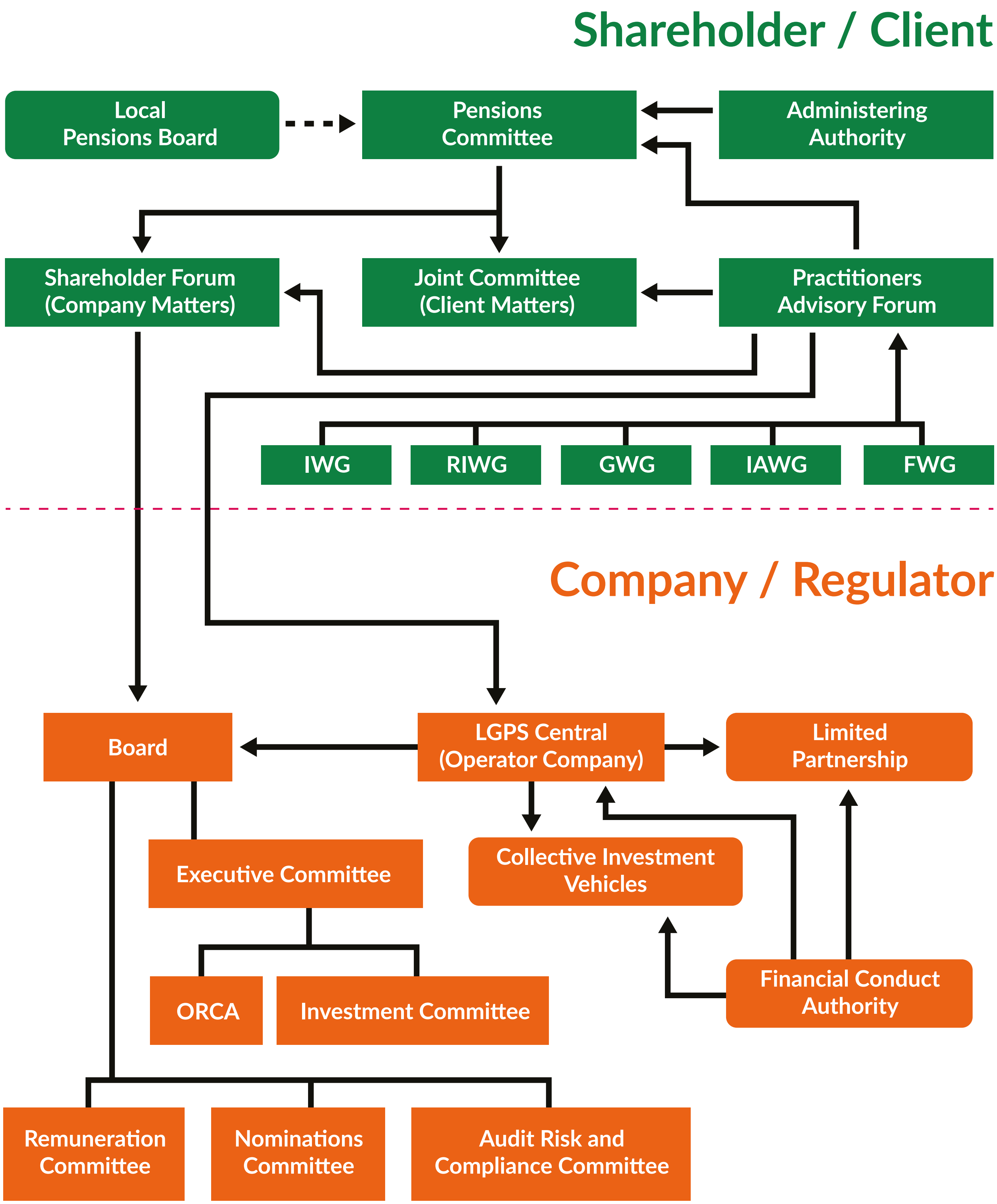
Our current governance arrangements are contained in our **Governance Policy Statement**.

LGPS Governance Model



LGPSC

In collaboration with Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire and West Midlands we continue to plan to pool actively managed assets using LGPSC using the following governance model.



Worcestershire Pension Fund Governance

Council (Administering authority)

Pensions Committee (section 101)

Key duties:

- To take decisions in regard to the administering authority's responsibility for the management of Worcestershire Pension Fund, including the management of the administration of the benefits and strategic management of Fund assets.

Pension Board

Key duties:

- To assist the administering authority in securing compliance with

  (i) The Principal 2013 Regulations.
  (ii) Any other legislation.
  (iii) Requirements imposed by the Pensions Regulator in relation to the scheme.

- To assist the administering authority in ensuring the effective and efficient governance and administration of the scheme.

Pension Investment Sub Committee

Key duties:

- To provide the Pensions Committee with strategic advice concerning the management of the Fund's assets.

- Monitoring performance of total Fund assets and individual

Pension Administration Advisory Forum

Key duties:

- To provide the Pensions Committee with advice concerning the administration of the Fund.

- To bring stakeholders perspective to all aspects of the Fund's

8. Governance Compliance Statement

8. Governance Compliance Statement

Ref	Principles	Compliance Status	Evidence of Compliance
A	**Structure**		
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) and its Sub-Groups are set out in the Fund's Governance Policy Statement. The Governance Policy Statement was approved by Full Council.
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Pensions Committee membership includes an employee and employer representative. Full membership details are set out in the Fund's Governance Policy Statement.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Pension Investment Sub Committee provides strategic advice to the Pensions Committee regarding the management of the Fund's assets. The Chairman of the Pensions Committee also sits on the Pension Investment Sub Committee to ensure effective communication. The Pensions Committee receives quarterly investment updates from the Pension Investment Sub Committee. A Pension Administration Advisory Forum has been established. The employer and employee representatives from the Pensions Committee attend the forum and there is a standing invitation for the Pension Board to attend the forum.
B	**Representation**		

Ref	Principles	Compliance Status	Evidence of Compliance
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-Scheme employers, e.g., admitted bodies). ii) scheme members (including deferred and pensioner scheme members). iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis).	Compliant	Membership of the Pensions Committee and Pension Investment Sub Committee include employer and employee representatives and an independent investment adviser. Full membership details are set out in the Fund's Governance Policy Statement. Expert advisors attend the Pensions Committee as required for the nature of the main decisions. For example, the actuary attends when the valuation is being considered, and the main investment advisor attends when a strategic asset allocation decision is being made. The investment advisor regularly attends Pension Investment Sub Committee meetings. All members are treated equally in terms of access to papers and to training that is given as part of the Committee process.
C	**Selection and role of lay members**		
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	The Pensions Committee has noted its terms of reference and the Fund's Governance Policy Statement. Minutes of Pensions Committee meetings are published on the Council's website. A detailed training programme is also provided to Committee members and Pension Investment Sub Committee members.

Ref	Principles	Compliance Status	Evidence of Compliance
b.	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all Pensions Committee meetings. The Pensions Committee and Pension Investment Sub Committee are serviced by Legal and Democratic Services who invite members to declare any financial or pecuniary interest related to specific matters on the agenda. Minutes of the Pensions Committee and Pension Investment Sub Committee meetings are published on the Council's website.
D	Voting		
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Voting rights are clearly set out in the Fund's Governance Policy Statement.
E	Training / facility time / expenses		
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Compliant	A policy on expenses is set out in the Fund's Governance Policy Statement along with the number of Committee meetings required each year. The Fund has an approved Joint Training Policy for the Pensions Committee, Pension Investment Sub Committee and the Pension Board.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	These polices apply to all committee members and this is clearly set out in the Fund's Governance Policy Statement, Knowledge and Skills Policy Statement & the Joint Training Policy for the Pensions Committee, Pension Investment Sub Committee and the Pension Board.

Ref	Principles	Compliance Status	Evidence of Compliance
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Compliant	The Fund's Knowledge and Skills Policy Statement sets out the requirement for annual training plans to be developed and maintained for committee members and for a log of all such training undertaken to be maintained. Regular feedback on training events is provided to the Pensions Committee.
F	**Meetings (frequency / quorum)**		
a.	That an administering authority's main committee or committees meet at least quarterly.	Compliant	The Pensions Committee meets quarterly. This requirement is set out in the Fund's Governance Policy Statement.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	The Pension Investment Sub Committee meets quarterly. These meetings are synchronised with the dates when the Pensions Committee sits. These requirements are set out in the Fund's Governance Policy Statement. The Pension Administration Advisory Forum meets twice a year.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Compliant	The Fund has established a Pension Administration Advisory Panel which meets twice yearly. All Fund employers are invited to attend the Panel meetings. The Panel arrangement and terms of reference are set out in the Fund's Governance Policy Statement.

Ref	Principles	Compliance Status	Evidence of Compliance
G	Access		
a.	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Compliant	All members of the Pensions Committee, Pension Investment Sub Committee and the Pension Administration Advisory Panel have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee. The Pensions Committee agendas and associated papers are published on the Council's website prior to the committee meeting. Pension Board papers and minutes are equally available to all Board members.
H	Scope		
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pension Administration Advisory Panel is attended by the employer and employee representatives who sit on the Pensions Committee. This ensures flow of information between the wider scheme employers and the main committee. Scheme employers are invited to bring wider scheme issues to the attention of the Pensions Committee through the established communication routes. The Council has included benefits administration, investments and wider governance issues under the remit of the Pensions Committee. All aspects of fund management and performance are also reported to the Pensions Committee.
I	Publicity		
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Compliant	The Fund's Governance Policy Statement is published on the Council's website and all scheme employers are invited to attend the Pension Administration Advisory Panel meetings. The Fund ran an open recruitment process for the employer and employee representative appointments to the now established Pension Board. Contact details are provided on the website, so other interested parties can find out more if they wish.

9. Local Pension Board Annual Report

9. Worcestershire Pension Fund Local Pension Board Annual Report 2021 / 2022

In addition to ensuring that at every meeting the Board reviews the Business Plans and Risk Registers being tabled at the next Pensions Committee, this year the Board has:

- Monitored the Fund's progress against the LGPS Scheme Advisory Board's (SAB) Good Governance workstream in preparation for draft statutory guidance being issued.
- Reviewed the Fund's application for signatory status to the UK Stewardship Code.
- Reviewed the Fund's annual report.
- Reviewed the Fund's Investment Strategy Statement, Funding Strategy Statement, Climate-related financial Disclosures and Climate Change Risk Strategy.
- Reviewed the Fund's Pension Administration Strategy.
- Reviewed the Fund's Training Policy and programme.
- Reviewed proposals to increase the resource in pensions administration.
- Reviewed the Fund's Cyber Security Data Transmission Grid.
- Approved the introduction at each Board / Committee meeting of a Record of Conflicts of Interest Declarations made.

Board members have participated in joint training sessions with the Pensions Committee on:

- The (as at) 31 March 2022 actuarial valuation and how it feeds into funding strategy (risk / asset allocation / investment pots) on 09 02 2022.
- Being an LGPS employer on 02 12 2021.
- Stewardship on 14 10 2021.
- Investment in infrastructure / property / private debt on 21 09 2021.
- The Fund's Statement of policy on its discretions on 10 08 2021.
- How an LGPS employee member can improve their lot 20 07 2021.
- The Fund's annual report 08 06 2021 .

The standard agenda for Board meetings includes reviewing:

- Scheme Advisory Board (SAB) updates.
- The minutes of the previous Pensions Committee meeting.
- LGPS Central Limited updates.
- The Fund's future work plans and budget positions.

The papers tabled at Board meetings can be accessed from the Fund's website.

I meet twice yearly with the chairs from the Boards of the LGPS funds within the Fund's pool to discuss current issues and to share ideas.

Looking ahead, the Board intends to pay particular attention to the Fund's response to the cost-of-living crisis / inflation; the outcomes of the 2022 actuarial valuation; the Fund's approach to responsible investment; the implementation of the McCloud remedy; and progress towards delivering on Pensions Dashboards.

Councillor Roger Phillips
Herefordshire Council
Chair of Worcestershire Pension Fund's Local Pension Board

Worcestershire Pension Fund

Audited Statement of Accounts 2021/22

Find out more online:
www.worcestershirepensionfund.org.uk

Contents

About the accounts

Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2021 / 2022 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

Explanatory Foreword and Review of the Year 2021/22

Contains a review of the year and other general information about the accounts.

Fund Account

Details the money received and spent within the Pension Fund during 2021/22.

Net Assets Statement

Statement showing the Fund's financial position at 31 March 2022.

Notes to the Accounts

Notes providing additional information for the Fund Account and Net Assets Statement.

Statement of Accounting Policies

These are shown against the relevant note.

The accounts have been prepared on a going concern basis.

1. Fund Account (money received and spent during 2021/22)

2020/21			2021/22
£m		Notes	£m
	Dealings with members, employers and others directly involved with the Fund		
201.2	Contributions	4	90.7
29.0	Transfers in from other pension funds	5	13.7
230.2			**104.4**
(112.6)	Benefits	6	(115.6)
(9.5)	Payments to and on account of leavers	7	(10)
(122.1)			**(125.6)**
108.1	**Net additions / (withdrawals) from dealings with members**		**(21.2)**
(2.0)	Administrative expenses	8	**(1.7)**
(18.2)	Management expenses	9	**(21.5)**
87.9	**Net additions / (withdrawals) including fund management and administrative expenses**		**(44.4)**
	Returns on investments		
29.1	Investment income	10	37.2
(0.4)	Taxes on income	11	(0.2)
602.8	Profit and (losses) on disposal of investments and Changes in the market value of investments	12a & 15b	227.2
631.5	**Net return / (loss) on investments**		**264.2**
719.4	**Net increase in the net assets available for benefits during the year**		**219.8**
2,645.4	**Opening net assets**		**3,364.8**
3,364.8	**Closing net assets**		**3,584.6**

Management expenses have increased mainly due to disinvesting some existing passive equity funds into infrastructure and property funds which by their nature have larger management fees. The increase in market valuations is mainly due to the continuing recovery of the financial markets following the impact of COVID 19.

2. Net Assets Statement for the year ended 31 March 2022 (showing the financial position at 31 March 2021 and 2022)

2020/21			2021/22
£m	Total	Notes	£m
1.4	Long term Investment Assets	12	1.4
2,861.5	Investment Assets -Internally Managed	12 &15	2,960.1
562.1	Investment Assets -LGPSC Managed	12 &15	736.0
13.6	Cash Deposits	12	13.0
3,438.6			**3,710.5**
(156.3)	Investment Liabilities	12	(167.1)
86.9	Current Assets	17	46.2
1.6	Non-Current Assets	18	1.5
(6.0)	Current Liabilities	19	(6.5)
3,364.8	**Net assets of the Fund available to fund benefits at the period end**		**3,584.6**

These financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) is disclosed in the Actuarial Statement (Note 2 to the Accounts). Note 14 to the Accounts provide details on the fair value of assets.

Financial assets are included in the Net Assets Statement above on a fair value basis as at the reporting date apart from those financial instruments that are held solely for the payments of principal and interest (SPPI) such as cash and debtors which are measured at amortised cost. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account. The values of investments as shown in the Net Assets Statement have been determined as follows:

i. **Market-quoted investments** the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii. **Fixed interest securities** fixed interest securities are recorded at net market value based on their current yields.

iii. **Unquoted investments** the fair value of investments for which market quotations are not readily available is determined as follows:

a. **Valuations of delisted securities** are based on the last sale price prior to delisting, or were subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

b. **Securities subject to takeover offer** – the value of the consideration offered under the offer, less estimated realisation costs.

c. **Directly held investments** include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

d. **Investments in unquoted property and infrastructure pooled funds** are valued at the net asset value or a single price advised by the fund manager.

e. **Investments in unquoted listed partnerships** are valued based on the Fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines 2012*.

iv. **Limited partnerships** fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v. **Pooled investment vehicles Pooled investment vehicles** are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date apart from those financial instruments that are held solely for the payments of principal and interest (SPPI) such as cash and debtors which are measured at amortised cost. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value or amortised cost of the liability are recognised by the Fund.

3. Notes to the Accounts (providing additional information for the Fund Account and Net Assets Statement)

These comprise of a summary of significant accounting policies against the relevant note as opposed to a prescribed list of accounting policies. Further information and detail of entries in the prime statements and other explanatory information and disclosures are as follows:

NOTE 1: DESCRIPTION OF FUND

a) General

The Fund is administered by Worcestershire County Council on behalf of their own employees, those of the Herefordshire Council, the District Councils, private sector admitted bodies with staff transferred under TUPE from the administering authority and other bodies in the county of Worcestershire and Herefordshire, other than teachers, police officers, and fire fighters.

In matters relating to the management of the Fund’s assets the Pensions Committee is advised in relation to asset allocation decisions and the monitoring of external managers’ performance by the Pension Investment Sub Committee, which includes an independent investment adviser.

The Pensions Committee consists of County Councillors and an Employer and Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually, and pension administration issues are discussed at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pensions Committee.

The day to day management of the Fund’s investments is divided between external investment managers who operate in accordance with mandates set out in the Fund’s Investment Strategy Statement.

b) Membership

Organisations participating in the Fund include the following:

- Scheduled bodies which are automatically entitled to be members of the Fund. These include county councils, district councils, foundation schools / colleges and academies.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not for profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.
- Designated bodies which are organisations that have passed resolutions with town or parish councils.

Membership details are set out below:

	31 March 2021	31 March 2022	Difference
Number of employers	183	208	25
Employee Members of the Fund			
County Council	7,460	7,467	7
Other Employers	15,610	15,611	1
Total	**23,070**	**23,078**	**8**
Pensioner Members of the Fund			
County Council	5,869	6,143	274
Other Employers	13,664	14,130	466
Total	**19,533**	**20,273**	**740**
Deferred Members of the Fund			
County Council	8,787	9,034	247
Other Employers	13,380	14,214	834
Total	**22,167**	**23,248**	**1,081**
Total Number of Members in the Fund	**64,770**	**66,599**	**1,829**

The member numbers have increased mainly due to an increase in pensioners and deferred members.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by employee members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2022. Employee contributions are in addition to employer contributions which are set based on actuarial valuations. The last valuation conducted was at 31 March 2019 which took effect from 1st April 2020, and currently, employer contribution rates range from 13.6% to 26.5% of pensionable pay. The common 2021/22 employer contribution rate for the Fund is 17.5%.

d) Pension Benefits

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the **LGPS website**.

Actuarial present value of promised retirement benefits

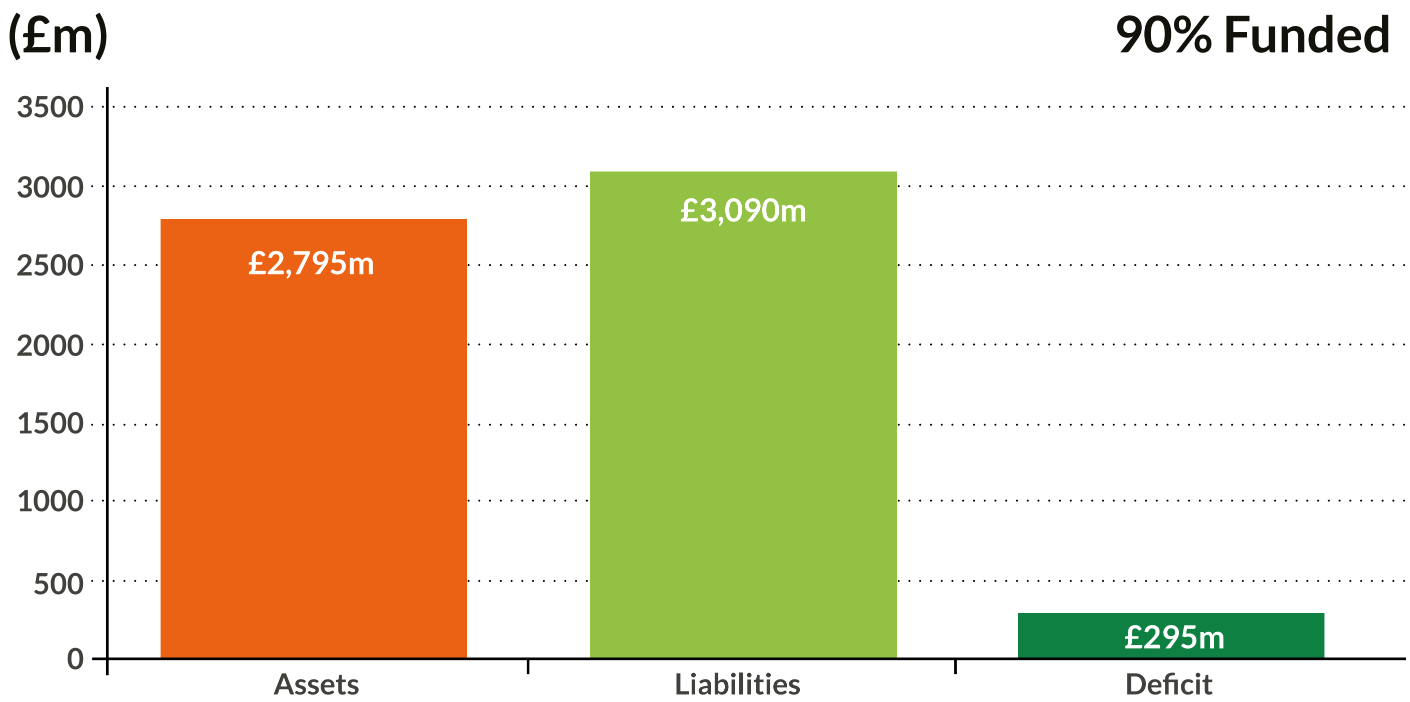
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2 below).

NOTE 2: FUNDING ARRANGEMENTS AND ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Funding Arrangements

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013. An actuarial valuation of the Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £2,795 million represented 90% of the Fund's past service liabilities of £3,090 million (the "Solvency Funding Target") at the 31st March 2020 valuation date. The deficit at the valuation was therefore £295 million.



The valuation also showed that a Primary contribution rate of 17.5% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation, a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus, it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 15 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £29m per annum in '£' terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS). Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately, and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g., with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.05% per annum	4.65%** per annum
Rate of pay increases (long term)*	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

*Allowance was also made for short-term public sector pay restraint over a 4 year period.

**This is the discount rate for the "growth pot", and applies to the majority of the Fund's assets. Certain employers have a more cautious investment strategy, and so a lower discount rate.

The assets were assessed at market value. The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Case

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £29 million and an increase in the Primary contribution rate of 0.6% of pensionable pay per annum. Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund secondary rate shown above).

Impact of Covid 19 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2019. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine and associated cost of living crisis. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review and will be considered further as part of the 2022 valuations currently ongoing. We believe that it is important to take stock of the situation as opposed to making immediate decisions in what is an unprecedented set of events. Contributions will be reviewed and updated as part of the 2022 valuation. In addition the Administering Authority has the power to review contributions between valuations where there is a material change in employer circumstances, in line with the regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	3.4% per annum
Rate of pay increases*	4.2% per annum	4.9% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.8% per annum	3.5% per annum

*This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the exception of mortality where we have updated the assumption to use the most recent CMI future improvement tables (CMI 2021). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1% p.a.). In isolation, this would have led to a significantly lower value placed on the liabilities, but it was offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.4% p.a.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £4,987 million including the potential impact of the McCloud Judgment. Interest over the year increased the liabilities by £104 million and allowing for net benefits accrued/paid over the period also increased the liabilities by £83 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £26 million due to "actuarial gains" (i.e., the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2022 pension increase award was more than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2022 is therefore £5,148 million.

	31 March 2021	31 March 2022
	£m	£m
Present value of promised retirement benefits	4,987	5,148
Fair value of Fund assets	3,365	3,585
Net liability	1,622	1,563

GMP Indexation

Public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS 26 liabilities calculated last year and is again included in the overall liability figure above.

Paul Middleman
Mercers Ltd
Fellow of the Institute and
Faculty of Actuaries

Laura Evans
Mercers Ltd
Fellow of the Institute and
Faculty of Actuaries

Mercer Limited
May 2022

NOTE 3: EVENTS AFTER THE REPORTING DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. Management have reviewed and can confirm that there are no significant events after the reporting period.

It is anticipated that the future value of investments may continue to be exposed to increased market volatility as a result of COVID-19 and more recently the effects of the Russia / Ukraine conflict as well as inflation rises which may impact on the value of the Fund in the short to medium term; however, it is not possible to reliably estimate the financial impact of this on the position and performance of the Fund in future periods.

The impact of inflation and consequent price rises on fuel and the cost of living is likely to impact on increasing budgetary pressures and it is unlikely that the level of funding that local government bodies receive in future years will keep pace with pressures being faced. This will need to be taken into account for employer's contributions to the Fund

The Fund Accounts include more detail regarding the impact of COVID-19, the Russia / Ukraine conflict and inflation in the accompanying disclosure notes concerning Funding Arrangements and Accounting Assumptions and the Chief Financial Officer's foreword.

NOTE 4: CONTRIBUTIONS RECEIVABLE

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund's actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets. The contributions received are detailed below:

		2020/21	2021/22
By Category		**£m**	**£m**
Employers			
	Normal contributions	119.2	47.6
	Deficit recovery contributions	54.0	14.6
	Augmentation contributions	2.5	2.6
	Additional contributions	0.0	0.0
Employees			
	Normal contributions	25.0	25.6
	Additional contributions	0.5	0.3

	2020/21	2021/22
By Category	£m	£m
	201.2	90.7

	2020/21	2021/22
By authority:	£m	£m
Worcestershire County Council	89.2	11.2
Scheduled bodies	99.0	68.3
Community admission bodies	5.2	3.8
Transferee admission bodies	6.9	6.4
Designated bodies	0.9	1.0
	201.2	**90.7**

The reduction in contributions in 2021/22 was due to a number of major employers paying three years of contributions upfront.

NOTE 5: TRANSFERS IN AND FROM OTHER PENSION FUNDS

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with LGPS regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. Individual transfers in and from other pension funds are as follows:

	2020/21	2021/22
	£m	£m
Individual transfers	12.5	13.7
Bulk transfers	16.5	0.0
	29.0	13.7

NOTE 6: BENEFITS PAYABLE

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities. The benefits paid are as follows:

	2020/21	2021/22
By category:	**£m**	**£m**
Pensions	92.8	95.5
Commutations and lump sum retirement benefits	16.8	17.4
Lump sum death benefits	3.0	2.7
	112.6	**115.6**

	2020/21	2021/22
By authority:	**£m**	**£m**
Worcestershire County Council	41.9	40.9
Scheduled bodies	58.2	61.2
Admitted bodies	1.6	1.7
Community admission bodies	7.0	7.1
Transferee admission bodies	3.1	4.1
Designated bodies	0.8	0.6
	112.6	**115.6**

NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020/21	2021/22
	£m	**£m**
Individual transfers	9.5	10.0
Group transfers	0.0	0
	9.5	**10.0**

At year-end there were no potential liabilities in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions.

NOTE 8: ADMINISTRATIVE EXPENSES

All administrative expenses are accounted for on an accruals basis. All staff costs of the Fund's administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2020/21	2021/22
	£m	£m
Employee expenses	0.6	0.6
Support services	0.5	0.5
Actuarial services	0.5	0.4
Other expenses	0.4	0.2
	2.0	**1.7**

The audit fee (included in support services above) for work completed by the Fund's external auditors for the year ended 31 March 2022 was £32,473 (31 March 2021: £33,743), 1.8% (31 March 2021: 1.7%) of total admin costs. In addition, a non audit service fee of £8,500 included in support services above was incurred relating to IAS19 requirements.

NOTE 9: MANAGEMENT EXPENSES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment and administration of the Fund to be charged against the Fund.

The Code of Practice does not require any breakdown of the Fund's administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2020/21	2021/22
	£m	**£m**
Oversight and Governance	0.2	0.4
LGPSC*	0.7	0.7
Investment Management Expenses		
Administration, management and custody fees*	17.3	20.4
Other expenses	0.0	0.0
	18.2	**21.5**

*LGPSC is the governance and management costs the Fund contributes towards the Pooling company

NOTE 9A: INVESTMENT MANAGEMENT EXPENSES

Fixed income and equity investment managers' expenses are charged on a percentage basis of the market value of assets under management and therefore increase or reduce as the value of these investments change. Global custodian fees are agreed in the respective mandate governing their appointment.

The cost of obtaining investment advice from the Fund's independent investment adviser is included in oversight and governance. All investment management expenses are accounted for on an accruals basis. The management costs are as follows:

2021/22	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.2	1.0	0.0	**1.2**
LGPS Central (Emerging Markets)	1.5	1.6	0.0	**3.1**
LGPS Central (Global Climate Fund)	0.1	0.0	0.0	**0.1**
Nomura Asset Management UK Ltd	0.7	0.4	0.0	**1.1**
Legal & General Asset Management	0.5	0.0	0.0	**0.5**
Green Investment Bank	0.6	0.0	0.0	**0.6**
Hermes	0.7	0.0	0.0	**0.7**
Invesco	0.8	0.0	0.0	**0.8**
VENN	0.3	0.0	0.0	**0.3**
Walton Street	0.1	0.0	0.0	**0.1**
AEW	0.1	0.0	0.0	**0.1**
Stonepeak	8.0	0.0	0.0	**8.0**
Igneo (Was First Sentier)	0.9	0.0	0.0	**0.9**
Bridgepoint (was EQT)	1.0	0.0	0.0	**1.0**
River and Mercantile	0.5	0.1	0.0	**0.6**
Gresham Forestry	0.3	0.0	0.0	**0.3**
Gresham (BSIF)	0.5	0.0	0.0	**0.5**
Closed Mandates & one off advisory fees	0.4	0.0	0.0	**0.4**
Subtotal	17.2	3.1	0.0	**20.3**
Custody Fees				0.1

2021/22	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
Total Fees				**20.4**

2020/21	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.1	1.3	0.0	**1.4**
LGPS Central (Emerging Markets)	1.4	0.6	0.0	**2.0**
Nomura Asset Management UK Ltd	1.2	0.3	0.0	**1.5**
Legal & General Asset Management	0.5	0.0	0.0	**0.5**
Green Investment Bank	0.5	0.0	0.0	**0.5**
Hermes	0.5	0.0	0.0	**0.5**
Invesco	0.8	0.0	0.0	**0.8**
VENN	0.4	0.0	0.0	**0.4**
Walton Street	0.1	0.0	0.0	**0.1**
AEW	0.1	0.0	0.0	**0.1**
Stonepeak	2.7	0.0	0.0	**2.7**
First State	0.7	0.0	0.0	**0.7**
Bridgepoint (was EQT)	0.7	0.0	0.0	**0.7**
River and Mercantile	0.4	2.5	0.0	**2.9**
BSIF	2.2	0.0	0.0	**2.2**
Closed Mandates & one off advisory fees	0.2	0.0	0.0	**0.2**
Subtotal	12.5	4.7	0.0	**17.2**
Custody Fees				0.1
Total Fees				**17.3**

The £20.2m investment management expenses incurred in 2021/22 represent 0.57% or 57 basis points (bps) of the market value of the Fund's assets as at 31st March 2022 (0.52% or 52bps as 31 March 2021). The cash for pooled property investments, pooled infrastructure investment and equity protection strategy drawdowns was transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison.

The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the Fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature.

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £13.0 million to £20.2 million for 2021/22 (£14.4 million to £18.2 million for 2020/21). It is important to note that the application of the guidance does not represent an actual increase in costs, or a decrease in the Fund's resources to pay pension benefits.

NOTE 10: INVESTMENT INCOME

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Income from other investments is accounted for on an accruals basis.

The changes in market value of investments during the year are recognised as income and comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

	2020/21	2021/22
	£m	£m
Fixed interest securities	3.5	(0.3)
Equity dividends	9.1	11.5
Pooled property investments	7.4	10.5
Pooled infrastructure investments	8.9	15.6
Interest on cash deposits	0.1	(0.1)
Securities lending	0.1	0.0
	29.1	**37.2**

NOTE 11: TAXES ON INCOME

The Fund is a registered public service scheme under section (1) of schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

	2020/21	2021/22
	£m	£m
Withholding tax – equities	(0.4)	(0.2)
	(0.4)	(0.2)

NOTE 12: INVESTMENTS

	Market value 31 March 2021	Market Value 31 March 2022
	£m	£m
Long term Investment Assets		
LGPS Central shares	1.4	1.4
Investment Assets -LGPS Central Managed	402.4	322.5
Equites	159.7	207.1
Fixed Interest Securities		206.4
Investment assets -WPF Managed		
Fixed interest securities	192.7	190.4
Equities	448.8	332.9
Pooled investment vehicles	1,518.7	1,508.8
Pooled property investments	160.7	221.9
Pooled infrastructure investments	332.6	426.7
Pooled debt Assets	42.2	76.3
Derivatives - futures	160.5	198.7
Derivatives - forward FX	0.0	0.0
Cash deposits	13.6	13.0
Investment income due	5.3	4.4
Amounts receivable for sales	0.0	0.0
Total investment assets	3,438.6	3,710.5
Investment liabilities		
Derivatives - futures	(156.3)	(167.1)

	Market value 31 March 2021	Market Value 31 March 2022
	£m	£m
Derivatives - forward FX	(0.0)	(0.0)
Amounts payable for purchases	(0.0)	(0.0)
Total investment liabilities	**(156.3)**	**(167.1)**
Net investment assets	**3,282.3**	**3,543.4**

NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2021	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2022
	£m	£m	£m	£m	£m
Long term Investment Assets					
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	1.4	**0.0**	**0.0**	**0.0**	**1.4**
Investment Assets -LGPS Central Managed					
Fixed Interest Securities	159.7	60.0	(1.1)	(12.2)	**206.4**
Pooled investment vehicles	0.0	212.8	(0.1)	(5.6)	**207.1**
Equities	402.4	0.0	(43.1)	(36.8)	**322.5**
	563.5	**272.8**	**(44.3)**	**(54.6)**	**737.4**
Investment Assets -WPF Managed					
Fixed interest securities	**192.7**	196.7	(198.6)	(0.4)	**190.4**
Equities	**448.8**	207.2	(296.9)	(26.2)	**332.9**
Pooled investment vehicles	**1,518.7**	263.4	(489.2	215.9	**1,508.8**
Pooled property investments	**160.7**	75.6	(18.2)	3.8	**221.9**
Pooled infrastructure investments	**332.6**	63.4	(33.9)	64.6	**426.7**
Pooled debt investments	**42.2**	36.9	(4.5)	1.7	**76.3**
	3,259.2	**1,116.0**	**(1,085.6)**	**204.8**	**3,494.4**
Derivative contracts:					
Futures	**4.2**	375.4	(370.8)	22.8	**31.6**

	Market value 31 March 2021	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2022
	£m	£m	£m	£m	£m
Forward currency contracts	**0.0**	0.0	0.0	0.0	**0.0**
	3,263.4	**1,491.4**	**(1,456.4)**	**227.6**	**3,526.0**
Other investment balances:					
Cash deposits	13.6			(0.4)	13.0
Investment income due	5.3				4.4
Amount receivable for sales of investments	0.0				0.0
Amounts payable for purchases of investments	0.0				0.0
Net investment assets	**3,282.3**			**227.2**	**3,543.4**

Prior year comparators:

	Market value 31 March 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2021
	£m	£m	£m	£m	£m
Long term Investment Assets					
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	1.4	**0.0**	**0.0**	**0.0**	**1.4**
Investment Assets - LGPS Central Managed					
Equities	**285.2**	0.0	(1.9)	119.1	402.4
Fixed Interest Securities	**143.6**	0.0	(1.4)	17.5	159.7
	430.2	**0.0**	**(3.3)**	**136.6**	**563.5**
Investment Assets -WPF Managed					
Fixed interest securities	**211.2**	397.2	(412.4)	(3.3)	**192.7**
Equities	**307.9**	123.9	(108.4)	125.4	**448.8**
Pooled investment vehicles	**1,126.0**	91.5	(69.9)	371.1	**1,518.7**
Pooled property investments	**149.8**	20.7	(15.3)	5.5	**160.7**
Pooled infrastructure investments	**299.1**	45.8	(17.4)	5.1	**332.6**
Pooled debt investments	**38.0**	8.9	(4.1)	(0.6)	**42.2**
	2,562.2	**688.0**	**(630.8)**	**639.8**	**3,259.2**
Derivative contracts:					
Futures	**21.4**	367.0	(360.4)	(23.8)	**4.2**
Forward currency contracts	**0.0**	0.0	0.0	0.0	**0.0**
	2,583.6	**1,055.0**	**(991.2)**	**616.0**	**3,263.4**
Other investment balances:					
Cash deposits	25.5			(13.2)	13.6
Investment income due	5.3				5.3
Amount receivable for sales of investments	0.0				0.0
Amounts payable for purchases of investments	0.0				0.0
Net investment assets	**2,614.4**			**602.8**	**3,282.3**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. The changes in purchases and sales in derivatives relate to transactions made within the equity protection strategy maintained by River and Mercantile.

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in investment management expenses as per CIPFA guidance. Transaction costs include costs charged directly to the Fund such as fees, commissions, and other fees.

Transaction costs incurred during the 2021/22 year amounted to £3.0 million, (2020/21: £4.7 million). These transaction costs represent 0.08% or 8bps of the market value of the Fund's assets as at 31 March 2022 (1.4bps at 31 March 2021).

Indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not provided separately to the Fund.

NOTE 12B: PENSION FUND INVESTMENTS ANALYSED BY FUND MANAGER

The proportion of the market value of investment assets held by external fund managers at the year-end was:

External Fund Manager	2020/21		2021/22	
	£m	%	£m	%
LGPS Central (Bonds)	159.7	5	206.4	6
LGPS Central (Emerging Markets)	402.4	12	322.5	9
LGPSC (Global All World Climate Factor Fund)	0.0	0	207.1	6
JP Morgan Asset Management (Bonds)	0.2	0	0.2	0
JP Morgan Asset Management (Emerging Markets)	1.4	0	1.5	0
Nomura Asset Management UK Ltd	455.0	14	365.8	10
Schroder Investment Management	1.3	0	1.4	0
Legal & General Asset Management	1,514.5	47	1,480.1	43
Green Investment Bank	40.2	1	44.7	1
Hermes (Fund I and II)	104.9	3	103.6	3
Invesco (Euro and a UK Property Fund)	105.1	3	107.6	3
VENN (Fund I & II)	19.4	1	25.2	1
Walton Street (Fund I & II)	9.5	0	10.2	0
AEW	18.8	1	19.9	1
Stonepeak	81.1	2	134.9	4
Igneo (was First Sentier)	100.4	3	114.7	3
Bridgepoint Fund II & III (was EQT)	42.2	1	76.3	2
River and Mercantile	200.6	6	223.4	6
WCC Managed Account	5.0	0	5.4	0
Gresham House (BSIF)	13.9	1	44.2	1
Gresham House Forestry	0.0	0	42.5	1
	3,275.6	**100**	**3,537.6**	**100**

The above excludes £1.4m (2020/21: £1.4m) Invested in LGPSC and £4.4m (2020/21: £5.3m) of investment income due. The following investments represent more than 5% of the net assets of the Fund:

	Market value 31 March 2021	% of total Fund	Market value 31 March 2022	% of total Fund
Security	£m	%	£m	%
LGIM – UK Equity Index Pooled Fund	396.8	12.1	556.1	15.7
LGIM – North America Index Pooled Fund	410.8	12.6	355.2	10.1
LGIM - Client Specific unitised Fund -STAJ	195.2	6.0	352.6	10.0
LGPS Central Emerging Market Equity Pool	402.4	12.3	322.6	9.1
LGIM – Europe (ex-UK) Index Pooled Fund	209.8	6.4	216.1	6.1
LGPS Central All World Equity Climate Factor Fund	0.0	0.0	207.1	5.9
River and Mercantile UK Gilts	192.7	5.9	190.3	5.4
LGIM - MSCI World Mini Volatility Index	188.9	5.8	0.0	0.0

NOTE 12 C STOCK LENDING

The Fund operates the practice of lending stock to a third party for a financial consideration. Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the Net Assets Statement to reflect the Fund's continuing economic interest of a proprietorial nature in those securities.

The total amount of stock lent at the year-end was £0.8 million (2020/21: £2.8 million). Counterparty risk is managed through holding collateral at the Fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £0.8 million (2020/21: £2.9 million) representing 105.6% of stock lent.

Income received from stock lending activities was £0.0 million for the year ending 31 March 2022 (2020/21: £0.1 million). This is included within the 'Investment Income' figure detailed on the Fund Account.

Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower. There are no liabilities associated with the loaned assets.

NOTE 13A: ANALYSIS OF DERIVATIVES

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

The value of a futures contract is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Objectives and Policies for Holding Derivatives

Most of the holding in derivatives is to hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the Fund and its investment managers.

In 2019/20 the Fund entered into a contract with River and Mercantile, to hedge the gains in equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts and the strategy has been maintained.

a) Futures

The Fund's investment managers hold cash balances in order to ensure efficient and timely trading when opportunities arise. The Fund's management did not want this cash to be 'out of the market' and so enabled a number of investment managers to buy and sell futures contracts which had an underlying economic value broadly equivalent to the cash held. The economic exposure represents the notional value of the stock purchased under futures contracts and is therefore subject to market movements. The portfolio cannot be geared to and must have the liquidity needed to cover open positions. Derivative receipts and payments represent the realised gains and losses on futures contracts.

b) Forward Foreign Currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, the Fund's bond mandate targets outperformance against a global benchmark index. To reduce volatility associated with the fluctuating currency rates, the Fund has enabled the bond mandate investment manager to purchase and sell forward foreign currencies as a hedge.

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Futures

Outstanding exchange traded futures contracts are as follows:

ASSETS		Economic Exposure	Market Value 31 March 2021	Economic Exposure	Market Value 31 March 2022
Type of future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK Gilt exchange traded	Under one year				
UK FTSE exchange traded option	Under one year	0.0	64.6	0.0	138.4
EUROSTOXX exchange traded option	Under one year	0.0	33.1	0.0	21.4
US S+P exchange traded option	Under one year	0.0	62.8	0.0	38.9
Overseas exchanged traded	under one year				
Total assets			**160.5**		**198.7**

LIABILITIES		Economic Exposure Value	Market Value 31 March 2021	Economic Exposure Value	Market Value 31 March 2022
Type of future	Expiration	£m	£m	£m	£m
UK Gilt exchange traded	Under one year				
UK FTSE exchange traded option	Under one year	0.0	(55.8)	0.0	(98.7)
EUROSTOXX exchange traded option	Under one year	0.0	(34.0)	0.0	(29.0)
US S+P 500 exchange traded option	Under one year	0.0	(66.5)	0.0	(39.4)
Overseas exchanged traded	Under one year				
Total liabilities			**(156.3)**		**(167.1)**
Net futures			**4.2**		**31.6**

OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2022

Settlement	Currency Bought	Local Currency Value	Currency Sold	Local Currency Value	Asset Value	Liability Value
		£m		£m	£m	£m
There were no open contracts as at the 31st of March 2022						
					0.0	**(0.0)**
Net forward currency contracts at 31 March 2022						**(0.0)**
Prior year comparative:						
Open forward currency contracts at 31 March 2021					**0.0**	**0.0**
Net forward currency contracts at 31 March 2021						**0.0**

ANALYSIS OF CASH

Cash comprises demand deposits and cash equivalents; these include amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Please see Note 16 for further analysis of Cash Instruments.

	2020/21	2021/22
Cash	**£m**	**£m**
Cash deposits	7.0	5.3
Cash instruments	6.6	7.7
	13.6	**13.0**

NOTE 14: FAIR VALUE
NOTE 14 A: BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Fixed Interest Securities	Level 1	Fixed interest securities are valued at net market value based on current yields	Not required	Not required
Pooled Equity Funds	Level 2	Closing bid price where bid and offer prices are published; or the single price, as applicable	Net Asset Value (NAV)-based pricing set on a forward pricing basis and in the case of accumulation funds, reinvested income net of applicable withholding tax.	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Derivatives -Futures	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Property, Infrastructure and Debt Funds	Level 3	Unit or security price as advised by Investment Manager or responsible entity.	Funds share of net assets in limited partnership, using Financial Statements published by the manager as at the final day of the accounting period.	Valuations could be affected by material events occurring between the date of the financial statements provided and the fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Please see paragraphs under the Net Assets Statement for more detail of our basis for measurement for the above Financial Instruments.

NOTE 14 B: FAIR VALUE HIERARCHY

Level 1: Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2: Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3: Financial instruments at Level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the Fund into levels 1 to 3, based on the level at which the fair value is observable:

Values at 31 March 2022	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,056.6	1,914.6	724.9	3,696.1
Total fair value financial assets	**1,056.6**	**1,914.6**	**724.9**	**3,696.1**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	(167.1)	0.0	(167.1)
Total fair value financial liabilities	**0**	**(167.1)**	**0.0**	**(167.1)**
Net fair value financial assets	**1,056.6**	**1,747.5**	**724.9**	**3,529.0**

Values at 31 March 2021	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,208.9	1,679.2	535.5	3,423.6
Total fair value financial assets	**1,208.9**	**1,679.2**	**535.5**	**3,423.6**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss		(156.3)		(156.3)
Total fair value financial liabilities	**0.0**	**(156.3)**	**0.0**	**(156.3)**
Net fair value financial assets	**1,208.9**	**1,522.9**	**535.5**	**3,267.3**

NOTE 14 C: SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described in Note 14a are likely to be accurate to within the following ranges. This sets out below the consequent potential impact on the closing value of investments held at 31 March 2022.

Sensitivity Analysis	Valuation range	Value as at 31st March 2022	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	2.7	221.9	227.9	215.9
Pooled Investments - Infrastructure Funds	5.2	426.7	449.1	404.3
Pooled Investments - Debt Funds	2.7	76.3	78.4	74.2
Total		**724.9**	**755.4**	**694.4**

The valuation for these asset classes are based on the volatility over three years of monthly investment returns. The return is based upon the market value and income and trades supplied by our underlying managers and grouped accordingly.

Reconciliation of Fair Value Measurements within Level 3

Investment Movement	Pooled Investments – Property Funds	Pooled Investments – Infrastructure Funds	Pooled Investments - Debt Funds	Total
	£m	£m		£m
Market Value 1st April 2021	160.7	332.6	42.2	535.5
Transfers into Level 3	0.0	0.0	0.0	0.0
Transfers out of Level 3	0.0	0.0	0.0	0.0
Purchases and derivative Pymts	75.6	63.4	36.9	175.9
Sales and derivative receipts	(18.2)	(33.9)	(4.5)	(56.6)
Unrealised gains/(losses)	3.8	64.6	1.7	70.1
Realised gains/(losses)	0.0	0.0	0.0	0.0
Market value 31st March 2022	**221.9**	**426.7**	**76.3**	**724.9**

NOTE 15: FINANCIAL INSTRUMENTS
NOTE 15 A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

Fair value through profit and loss 2020/21	Financial Instruments at Amortised Cost 2020/21		Fair value through profit and loss 2021/22	Financial Instruments at Amortised Cost 2021/22
£m	£m		£m	
		Financial assets		
	1.4	Other share capital		1.4
562.1		LGPS Central Managed	736.0	
192.7		Fixed interest securities	190.4	
448.8		Equities	332.9	
1,518.7		Pooled investment vehicles	1,508.8	
160.7		Pooled property investments	221.9	
332.6		Pooled Infrastructure investments	426.7	
42.2		Pooled Debt investments	76.3	
160.5		Derivatives - Futures	198.7	
0.0		Derivatives - Forward FX	0.0	
	88.1	Cash		49.4
5.3		Other investment Balances	4.4	
	12.4	Current assets		9.8
	1.6	Non-current assets		1.5
3,423.6	**103.5**		**3,696.1**	**62.1**
		Financial liabilities		
(156.3)		Derivatives - Futures	(167.1)	
(0.0)		Derivatives - Forward FX	0.0	
(0.0)		Other investment balances	0.0	
	(6.0)	Current liabilities		(6.5)
(156.3)	**(6.0)**		**(167.1)**	**(6.5)**
3,267.3	**97.5**		**3,529.0**	**55.6**

NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2021		31 March 2022
£m		£m
	Financial assets	
639.8	Fair value through profit and loss	204.8
(13.2)	Financial Assets at Amortised Cost	(0.4)
	Financial liabilities	
(23.8)	Fair value through profit and loss	22.8
602.8	**Total**	**227.2**

Fair value through profit and loss is the combination of realised and unrealised profit and loss. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

NOTE 16: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

In the course of every day operating, the Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk.

As detailed in the Investment Strategy Statement, the Fund holds equity and bond instruments in order to meet its investment objectives. The Fund's investment objectives and risk management policies are as follows.

1) The investment objective for the Fund is to:

    a. ensure that sufficient assets are available to meet liabilities as they fall due.

    b. Maximise the return at an acceptable level of risk.

2) Risk management is mostly concerned with:

    a. avoiding the possibility of loss, or

    b. limiting a deficiency in the underlying Fund, or

    c. avoiding a contribution rate increase in the future.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. There are three main types of market risk that the Fund is exposed to as at 31 March 2022:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Equity risk refers to the risk arising from the volatility in stock prices; this can be systematic risk, the risk due to general market factors and affects the entire industry, or unsystematic risk, which refers to the risk specific to a company that arises due to the company specific characteristics. Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. Foreign exchange risk arises because of fluctuations in the currency exchange rates.

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1,000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place. An equity protection strategy has also been implemented to protect against significant market falls in its passive equity portfolio.

Interest rate risk has been reduced through the holding of fewer bonds as a percentage of the Fund's total assets.

Foreign Exchange risk exists in relation to the Fund's overseas equity investments. The Fund runs un-hedged equity portfolios and therefore is subject to currency fluctuations. It is the Fund's view that in the long-run currency volatility trends to an average of nil against Sterling and therefore any hedging of currency would just be an additional cost to the Fund.

The Fund contracts Portfolio Evaluation Ltd to measure the Fund's investment returns and the absolute and relative risk for each portfolio independently. The Fund receives quarterly reports from Portfolio Evaluation Ltd listing returns and risk. The Fund's independent investment adviser also provides a yearly report to the Pension Investment Sub Committee, providing details of the Fund's risk and comparisons to other LGPS funds.

Equity Risk Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's independent investment adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	6.9%
Global bonds	6.9%
UK equities	15.4%
Overseas equities	12.4%
UK pooled investment vehicles	15.4%
Overseas pooled investment vehicles	11.5%
Global pooled investment vehicles	11.5%
Emerging markets pooled equities	11.5%
Pooled property investments	2.7%
Pooled infrastructure investments	5.2%
Pooled debt investments	2.7%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain the same.

If the market price of the Fund's investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in Note 12):

Asset Type	Value as at 31 March 2022	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	13.0	0	13.0	13.0
Investment portfolio assets:				
UK fixed interest securities	190.4	6.9	203.5	177.3
Overseas fixed interest securities	0.0	6.9	0.0	0.0
Global bonds	206.3	6.9	220.5	192.1
UK equities	4.5	15.4	5.2	3.8
Overseas equities	323.5	12.4	363.6	283.4
UK pooled investment vehicles	556.1	15.4	641.7	470.5
Overseas pooled investment vehicles	576.4	11.5	642.7	510.1
Global pooled investment vehicles	559.7	11.5	624.1	495.3
Emerging market pooled equities	351.2	11.5	391.6	310.8
Pooled property investments	221.9	2.7	227.9	215.9
Pooled infrastructure investments	426.7	5.2	449.1	404.3
Pooled debt investments	76.3	2.7	78.4	74.2
Net derivative assets	31.6	0.0	31.6	31.6
Investment income due	4.4	0.0	4.4	4.4
Amounts receivable for sales	0.0	0.0	0.0	0.0
Amount payable for purchases	0.0	0.0	0.0	0.0
Total	**3,542.0**		**3,897.3**	**3,186.7**

Prior-year comparators

Asset Type	Value as at 31 March 2021	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	13.6	0.0%	13.6	13.6
Investment portfolio assets:				
UK fixed interest securities	192.7	5.9%	204.1	181.3
Overseas fixed interest securities	0.0	5.9%	0.0	0.0
Global bonds	159.7	5.9%	169.1	150.3
UK equities	4.3	16.2%	5.0	3.6
Overseas equities	433.9	13.4%	492.0	375.8
UK pooled investment vehicles	396.8	16.2%	461.1	332.5
Overseas pooled investment vehicles	631.2	14.9%	725.3	537.1
Global pooled investment vehicles	497.1	14.9%	571.2	423.0
Emerging market pooled equities	406.6	14.9%	467.2	346.0
Pooled property investments	160.7	3.8%	166.8	154.6
Pooled infrastructure investments	332.6	3.8%	345.3	319.9
Pooled debt investments	42.2	3.8%	43.8	40.6
Net derivative assets	4.2	0.0%	4.2	4.2
Investment income due	5.3	0.0%	5.3	5.3
Amounts receivable for sales	0.0	0.0%	0.0	0.0
Amount payable for purchases	0.0	0.0%	0.0	0.0
Total	**3,280.9**		**3,674.0**	**2,887.8**

Interest Rate Risk Analysis

The Fund’s direct exposure to interest rate movements is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2021	Value as at 31 March 2022
	£m	£m
Cash and cash equivalents	13.6	13.0
Cash balances	74.5	36.4
Fixed interest securities	192.7	190.4
Total	**280.8**	**239.8**

Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Fund's performance reporting advisor, Portfolio Evaluation Limited, has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely to happen.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2022 of a +/- 100 basis points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2022	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	13.0	13.1	12.9
Cash balances	36.4	36.8	36.0
Fixed interest securities	190.4	192.3	188.5
Total change in assets available	**239.8**	**242.2**	**237.4**

Asset Type	Carrying amount as at 31 March 2021	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	13.6	13.7	13.5
Cash balances	74.5	75.2	73.8
Fixed interest securities	192.7	194.7	190.7
Total change in assets available	**280.8**	**283.6**	**278.0**

A 1% increase in interest rates will not affect the interest received on fixed income but will reduce their fair value and vice versa. Changes in interest rates do not impact the value of cash deposits / cash and cash equivalent balances but they will have a small effect on the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

The following table summarises the Fund's currency exposure:

Currency exposure - asset type	Asset value as at 31 March 2021	Asset value as at 31 March 2022
	£m	£m
Overseas quoted securities	433.9	323.5
Overseas pooled investment vehicles	631.2	576.4
Global pooled investment vehicles	497.1	559.7
Global bonds and pooled EM equities	566.3	557.5
Overseas pooled property investments	73.1	104.5
Total overseas assets	**2,201.6**	**2,121.6**

Overseas bonds are 100% hedged to GBP as at 31 March 2022.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's performance measurement provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 6.5% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 6.5% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2022	Change to net assets available to pay benefits	
		+7.4%	-7.4%
	£m	£m	£m
Overseas quoted securities	323.5	344.5	302.5
Overseas pooled investment vehicles	576.4	613.9	538.9
Global pooled investment vehicles	559.7	596.1	523.3
Global bonds and pooled EM equities	557.7	594.0	521.4
Overseas pooled property investments	104.5	111.3	97.7
Total change in assets available	2,121.8	2,259.8	1,938.8

Currency exposure - asset type	Asset value as at 31 March 2021	Change to net assets available to pay benefits	
		+10.2%	-10.2%
	£m	£m	£m
Overseas quoted securities	433.9	466.0	401.8
Overseas pooled investment vehicles	631.2	677.9	584.5
Global pooled investment vehicles	497.1	533.9	460.3
Global bonds and pooled EM equities	566.3	608.2	524.4
Overseas pooled property investments	73.1	78.5	67.7
Total change in assets available	**2,201.6**	**2,364.5**	**2,038.7**

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives position, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Investment restrictions are listed in the contract held with the manager, which limit the amount of credit risk the manager is allowed to take and also states an average credit rating with regards to bonds held that should be maintained.

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's independent investment adviser also provides a yearly report to the Pension Investment Sub Committee, providing details of the Fund's bond portfolio absolute and relative risk.

Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the Fund invests in Cash Instruments, which facilitate management of assets under custody, All liquidity funds chosen have an 'AAA' rating from a leading rating agency. Swap collateral is held to support our equity protection hedge.

The Fund's cash holding at 31 March 2022 was £50.6 million (31 March 2021: £88.1 million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2021	Balances as at 31 March 2022
		£m	£m
Cash Instruments			
BNY Mellon US Dollar Liquidity Fund	AAA	6.3	7.7
JP Morgan Swap Collateral	A+	0.3	0.0
Bank deposit accounts			
The Bank of New York Mellon	A-1+	7.0	5.3
Bank current accounts			
Barclays Bank PLC	A-1	74.5	36.4
Total		**88.1**	**49.4**

The above assets are held at amortised cost and are either liquid or very short dated securities in high-quality counterparties. Therefore, the expected loss is assessed as a trivial sum and no allowance has been set aside for this.

Liquidity Risk

Market liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or to meet the financial obligations of the Fund as they fall due. The Fund's investment managers purchase quoted and tradable securities. Equities held are listed on major world stock markets and managers employed are highly experienced in equity trading. The liquidity risk relating to the bond holdings is monitored and managed by the bond manager on an on-going basis. The Council also takes steps to ensure that the Fund has adequate cash resources to meet commitments.

NOTE 17: CURRENT ASSETS

	2020/21	2021/22
	£m	£m
Contributions due from employer in respect of:		
Employer	6.2	6.4
Members	1.8	2.0
Cash balances	74.5	36.4
Other Debtors	4.4	1.4
	86.9	**46.2**

The above assets are carried at amortised cost, other than cash balances and other debtors (see below), as the funds are due from Government institutions and therefore no allowance for expected losses has been set aside.

NOTE 18: NON CURRENT ASSETS

	2020/21	2021/22
	£m	£m
*LGPSC capital advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.3	0.5
Contributions from employers	0.2	0.1
Augmentation	0.4	0.2
	1.6	**1.5**

*This was part of the regulatory capital required to set up the company LGPS Central Limited.

**This includes debtor in relation to the lifetime tax allowance limit, as the Fund pays all the tax upfront on behalf of the pensioner and is reimbursed from additional pension deductions over time.

NOTE 19: CURRENT LIABILITIES

	2020/21	2021/22
	£m	£m
Investment management expenses	(1.0)	(0.9)
Payroll and external vendors	(0.8)	(0.6)
Other expenses	(4.2)	(5.0)
	(6.0)	**(6.5)**

NOTE 20: RELATED PARTY TRANSACTIONS

Worcestershire County Council

The Fund is administered by Worcestershire County Council. Consequently, there is a strong relationship between the Council and the Fund.

The Council incurred costs of £1.4 million in 2021/2022 (2020/2021: £1.5 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £11.2 million to the Fund in 2021/2022 (2020/2021: £89.2 million 90% 3 year prepayment).

LGPSC has been established to manage investment assets on behalf of eight LGPS funds across the Midlands. It is jointly owned in equal shares by the eight Funds participating.

The Fund's share of LGPSC annual running costs of £0.7 million was charged to the Fund in 2021/2022 by LGPSC (£0.7 million in 2020/2021).

Key Management Personnel

The posts of Chief Financial Officer, Senior Finance Manager and Head of Pensions Administration are deemed to be key management personnel. The financial value of their relationship with the Fund (in accordance with IAS24) is set out below:

	2020/21	2021/22
	£000	£000
Short term benefits*	61	78
Long term/ post-retirement benefits**	826	213
	887	**291**

*This is annual salary, benefits in kind and employer contributions.

**This is the accrued pension benefits, expressed as cash equivalent transfer value. The main reason for the reduction is that the previous Head of Pensions Administration left the Fund in February 2021 and has been replaced by an interim until the post is filled permanently.

Governance

The Pensions Committee Employer Representative, Employee Representative and Chief Financial Officer are active members of the Fund.

NOTE 21: CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Outstanding capital commitments (investments) at 31 March 2022 totalled £493.4 million (31 March 2021: £163.7 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in pooled property investments, pooled infrastructure investments and pooled debt investments. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of the original commitment.

NOTE 22: CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts.

The Councils below have provided guarantees to a number of organisations that have been admitted to the Fund to fund any potential pension liability. The organisations with a pension liability more than £195,000 (which the Fund considers to be material for these purposes) are:

- HALO Leisure (£1.273 million), **Herefordshire Council**.
- Wychavon Leisure Community Association (£0.509 million), **Wychavon District Council**.
- Bromsgrove District Housing Trust (£0.679 million), **Bromsgrove District Council**.
- Community Housing Group (£5.835 million), **Wyre Forest District Council**.

There are a further 13 organisations with a pension liability less than £195,000. The Fund has considered various factors in determining the potential risk of having to fund any future liability, including risk of failure of the business and membership profile, and is satisfied that they do not represent a significant potential liability. There are also 17 organisations with a guarantee via pass through arrangements. As new contractors, these employers will all commence fully funded with no initial funding deficit. In line with the 'Initial pension guarantee' employers above, we are assuming that the active members would remain active on termination of the contract and be transferred back to the relevant school/academy or to the new service provider. On this basis, the amount for all these employers is reflected as nil for this year's accounts.

Three admitted body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

Note that the existing bonds and guarantees from the previous financial year have all been discussed with the actuary and updated where necessary.

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund provides an in-house AVC scheme for its members. In 2021/2022 some members of the Fund paid voluntary contributions and transfers to Scottish Widows and Utmost Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Fund Account in accordance with Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed as a note only.

The amounts administered under AVC arrangements are as follows:

	2020/21	2021/22
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	0.4	0.1
Retirement benefits paid or transferred	(0.2)	(0.6)

The combined value of the AVC funds as at 31 March 2022 was £2.9 million (31 March 2021: £3.1 million).

NOTE 24: AGENCY SERVICES

The Fund pays discretionary awards to the former employees of Herefordshire County Council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2020/21	2021/22
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	0.1

NOTE 25: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund's liabilities are calculated every three years by the actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 2. This estimate is subject to significant variances based on changes to the underlying assumptions.

There were no significant changes to the CIPFA code of practice on local authority accounting (the code).

NOTE 26: ASSUMPTIONS MADE ABOUT THE FUTURE AND ANY OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made considering historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the notes to the accounts as at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect is actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 2)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, inflation, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: ▪ a 0.25% real investment return lower than assumed would result in an 4.2% increase in the pension liability, which is equivalent to £131m. ▪ a 0.25% increase in assumed earnings inflation would result in a 0.2% increase in the value of liabilities, which is equivalent to £7m. ▪ a 0.25% increase in assumed life expectancy would result in a 0.5% increase in the value of liabilities, which is equivalent to £17m.
Property and infrastructure valuations. (Level 3 investments)	The Fund's directly held investment properties are valued at fair value by independent valuers in accordance with RICS valuation professional standards, whilst infrastructure investments are valued at fair value by independent experts. There is continuing uncertainty regarding the property and infrastructure valuations due to the time that it will take to fully realise the impact of COVID-19 upon these illiquid assets as well as the growing concerns as to inflation rises. The valuations have been updated based on the information available as at 31 March 2022 and may be subject to variations as further market information becomes available. Investments are valued each month as per the latest quarterly statements available to our custodian, which are usually received between 45 and 60 days after quarter end, +/- any activity post statement date	The total value of indirect property investments in the financial statements is £221.9m (£160.7m in 2020/21). There is a risk that this investment may be under or overstated in the accounts. The total value of direct infrastructure investments in the financial statements is £426.7m (£332.6m in 2020/21). There is a risk that this investment may be under or overstated in the accounts.

VALUATION OF INVESTMENTS LEVEL 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. As well as the details in the table above, further detail is provided in Notes 14a to c above.

Independent auditor's report to the members of Worcestershire County Council on the pension fund financial statements of Worcestershire Pension Fund

Appendix A

Funding Strategy Statement
23 March 2022

This Funding Strategy Statement has been prepared to set out the funding strategy for the Worcestershire Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Contents

Executive Summary

Ensuring that the Worcestershire Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Worcestershire County Council).

The purpose of this 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 details contained in this FSS will have a financial and operational impact on all participating employers in the Worcestershire Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in it.

Given this, and in accordance with governing legislation, all interested parties connected with the Fund have been consulted and given opportunity to comment prior to this FSS being finalised and adopted. This FSS takes into consideration all comments and feedback received.

The results of the 2019 valuation show the liabilities to be 90% covered by the current assets using the prudent assumptions set out in Appendix A. The Fund's long-term objective is to achieve a 100% solvency level with the funding deficit of 10% being covered by deficit recovery contributions. Deficit recovery periods vary by employer category, with a maximum deficit recovery period of 15 years.

The key financial assumptions used to determine the funding liabilities and the future service ("Primary") contribution rate for each investment pot at the valuation date are:

	Growth pot	Medium pot	Cautious pot
Funding liabilities discount rate:	4.05% p.a.	3.8% p.a.	2.65% p.a.
Future service discount rate:	4.65% p.a.	4.4% p.a.	2.65% p.a.
CPI price inflation	2.4% p.a.	2.4% p.a.	2.4% p.a.

In assessing the value of the Fund's liabilities, allowance has been made for asset out-performance (above CPI inflation) by taking into account the investment strategy adopted by the Fund. If, at the valuation date, the Fund had been invested in a "minimum risk" portfolio, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 54%.

To help maintain stability of contributions in the future, the Fund has implemented a number of strategies to help manage risk:

- Investment pots to offer to employers which exhibit lower investment risk than the current whole fund strategy with effect from 1 April 2020. Further detail regarding the asset strategy for each pot is available in the Fund's Investment Strategy Statement (ISS).
- Equity Protection strategy to protect against potential falls in the equity markets via the use of derivatives.
- Covenant assessment and monitoring for participating employers, as detailed in Appendix E.
- Provided employers with the facility to take out ill-health liability insurance to ensure that the eligible employers are not exposed to potentially large funding strains on the ill health retirement of one or more of their members.

The Fund has a number of key aims and objectives. The key funding objectives are referred to throughout the FSS and are summarised below:

- Achieve and maintain assets equal to 100% of liabilities within a target 15-year average timeframe, whilst remaining within reasonable risk parameters.
- Determine employer contribution requirements to maintain long term cost efficiency, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible.
- Strike the appropriate balance between long-term investment performance and the Fund's funding objectives.
- Ensure net cash outgoings can be met as/when required.
- Minimise unrecoverable debt on employer termination.
- Ensure that the future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.
- To provide more certainty in employer contribution outcomes (within reasonable parameters) by implementing a number of risk management techniques to manage various aspects of the Fund's financial risks, specifically an Equity Protection strategy and investment strategies reflective of the risk associated to each employer.

The FSS has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the Fund and the "long term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as this relates to the Fund.

Key elements of the funding strategy are as follows:

- To include appropriate margins to allow for the possibility of adverse events (e.g., material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency objective.
- Deficit recovery periods are determined by the Fund with the aim of recovering deficits as quickly as participating employers can reasonably afford given other competing cost pressures, taking into account the Fund's view of the employer's covenant and the risk to the Fund.
- The deficit recovery periods will be set by the Administering Authority with a maximum deficit recovery period of 15 years, although employers will be free to select any shorter deficit recovery period if they wish.
- Employers who are expected to have a shorter participation period e.g., closed to new entrants will generally have a shorter recovery period.
- Deficit recovery contributions will be expressed in £s.
- Similar principles are applied to employers who have a surplus of assets over liabilities where the surplus is being run off over the period as an offset to future service contributions.
- It is possible for employers to prepay their contributions for the full 3 years or annually at each April in return for a cash saving.
- The key financial assumption – the discount rate – is derived for each investment pot by considering the prudent long term expected return on the underlying assets over and above assumed future Consumer Prices Index (CPI) inflation.
- The demographic assumptions for the whole Fund have been determined by carrying out a bespoke analysis of the Fund's membership along with a review of other LGPS funds.
- As part of the Fund's risk management framework, employer type, maturity, funding position, status and ongoing covenant strength will be considered by the Fund when allocating an employer to a specific investment pot.

It is strongly recommended that employers also consider and understand the detailed Fund policies in the main body as these impact on your participation in the Fund over the short and long term.

1. Introduction

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; “the Regulations”) provide the statutory framework from which an Administering Authority is required to prepare an FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Fund will prepare and publish their funding strategy.
- In preparing the FSS, the Fund must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the LGPS are specified in the governing legislation contained in the Regulations referred to above. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The LGPS is a defined benefit arrangement with final pensionable pay related benefits and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the member’s retirement benefits and pay 50% of the normal member contribution.

CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations.

Employer contributions and deficit recovery contributions are determined by in accordance with the Regulations.

PRIMARY RATE

The “Primary rate” for an employer is the contribution rate in the Fund Actuary’s opinion required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and the employer’s covenant. This includes provision for ancillary death in service and ill health benefits (subject to any external insurance arrangement) and administration costs.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers’ Primary rates.

SECONDARY RATE

The “Secondary rate” is an adjustment that should, in the Fund Actuary’s opinion, be made to the Primary rate to address any past service deficit or surplus. In addition, as part of the 2019 actuarial valuation, the Secondary rate will also include any contributions which an employer agreed should be included in respect of the estimated cost of McCloud. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

In addition to paying the Primary rate for future accrual of benefits, employers are required to make any required deficit recovery contributions via the Secondary rate.

Secondary rates for the whole Fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole Fund payroll in respect of percentage rates and the total amount across all employers in respect of cash adjustments.

Contribution plans are normally determined as part of an actuarial valuation although in some circumstances they may be reviewed in between valuations in accordance with the Regulations.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding should be assessed, implementation of the funding strategy is the responsibility of the Fund, acting on the professional advice provided by the Fund Actuary.

The Fund's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this FSS is therefore:

- To establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities.
- To establish contributions at a level to "secure the solvency" of the Fund and the "long term cost efficiency".
- To have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this FSS to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected, including the disparate investment pots, it must remain a single strategy for the Fund to implement and maintain.

3. Aims and purpose of the Fund

THE AIMS OF THE FUND ARE TO:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due.
- Enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining the Fund solvency and long-term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes.
- Maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- Receive monies in respect of contributions, transfer values and investment income, and
- Pay out monies in respect of benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

4. Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties are the Administering Authority, the Pensions Committee, the individual employers and the Fund's Actuary and details of their roles are set out below. Other parties required to play their part are bankers, custodians, investment managers, auditors, legal/investment/governance advisors and the Local Pension Board.

KEY PARTIES TO THE FSS

The **Administering Authority**, through delegation to the Pensions Committee, should:

- Operate the Fund
- Collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations
- Pay from the Fund the relevant entitlements as stipulated in the Regulations
- Invest surplus monies in accordance with the Regulations
- Ensure that cash is available to meet liabilities as and when they fall due
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default
- Manage the valuation process in consultation with the Fund Actuary
- Prepare and maintain a FSS and an ISS, both after proper consultation with interested parties
- Monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- Effectively manage any potential conflicts of interest arising from it also being a Fund employer, and
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.

In practice the Pensions Committee may delegate responsibility for the implementation of some of the above responsibilities to Fund officers.

The **Individual Employers** should:

- Deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations) and pay all contributions, including their own as determined by the Fund Actuary, promptly by the due date and ensure that any payroll estimates notified to the Fund (for example as part of any prepayment calculations) are as accurate as possible
- Develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain
- Have regard to The Pensions Regulator's focus on data quality and comply with any requirement set by the Fund in this context
- Notify the Fund promptly of any changes to membership which may affect future funding
- Understand the pensions impacts of any changes to their organisational structure and service delivery model, and
- Understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.

The **Fund Actuary** should:

- Prepare actuarial valuations including the setting of employers' contributions after agreeing assumptions with the Fund and having regard to their FSS and the Regulations
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs, etc.
- Provide advice and valuations on the termination of admission agreements including in relation to exit payments and exit credits
- Provide advice to the Fund on bonds and other forms of security against the financial effect on the Fund of employer default
- Assist the Fund in assessing whether employer contributions need to be revised between valuations when the Administering Authority decides to review them
- Advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- Ensure the Fund is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5. Solvency Funding Target

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the long-term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG-TERM EFFICIENCY

Each employer's contribution rates and deficit recovery contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

The FSS has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the Fund and "long term cost efficiency" of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY CONTRIBUTIONS

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The assumptions for deficit recovery contributions are set out in **Appendix B**.

Underlying these assumptions are:

- That the Fund is expected to continue for the foreseeable future; and
- Favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer-term view when assessing the contribution requirements for certain employers.

In considering this the Fund, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Fund, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

The employer contributions will be expressed and certified as two separate elements:

- the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits, ancillary death in service, ill health benefits / ill health premiums and administration costs.
- the Secondary rate: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit (with the exception of the Town and Parish Council Group where contributions will be certified as a % of pensionable pay).

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to review from 1 April 2023 based on the results of the 2022 valuation.

Employers may also elect to make lump sum prepayments of contributions.

DEFICIT RECOVERY CONTRIBUTIONS

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Fund's view of the employer's covenant and risk to the Fund.

Deficit recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit recovery contributions in one lump sum either on an annual basis or a one-off payment. The Fund does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength.

The key principles when considering deficit recovery plans are as follows:

- The Fund will consider whether it is appropriate for deficit recovery contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain. This will be based on assessment of the employer covenant (including affordability of the existing funding plan) and any other relevant factors.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. This is to maintain (as far as possible) equity between different generations of taxpayers and to protect the Fund against the potential for an unrecoverable deficit. The deficit recovery period will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.
- Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Fund considers this to be warranted (see Deficit Recovery Assumptions in Appendix B). The average deficit recovery period adopted by all employers will be set out within the Fund Actuary's report. Employers will be notified of their individual deficit recovery contribution amounts as part of the provision of their individual valuation results. Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, at the sole discretion of the Fund the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum of 3 years, depending on affordability of contributions as determined by the administering authority. This will be notified to employers as part of the valuation process. However, where a surplus exists or where there has been a reduction

in contributions paid in respect of an employer's deficit at the valuation, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.

- As part of the process of agreeing funding plans with individual employers, the Fund will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities.
- It is acknowledged by the Fund that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Fund therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.
- For those bodies identified as having a weaker covenant, the Fund will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans.
- Notwithstanding the above principles, the Fund, in consultation with the Fund Actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment (see Employers Leaving the Fund below).

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain (i.e. the increase in liability caused by paying a member's benefits early) by immediate capital payments into the Fund.

FUNDING FOR ILL HEALTH RETIREMENT COSTS

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment.

With the exception of any employers that have elected to take up ill-health liability insurance, the contributions payable over 2020/23 include an allowance for ill-health retirement costs (alongside those for voluntary early retirements). Where an ill-health retirement occurs, no additional contributions will be due immediately from the employer although any funding strain or profit will emerge following the subsequent actuarial valuation through increased/reduced deficit, depending on the difference in the funding cost of the ill health retirement (on the actuarial valuation assumptions) and the expected cost built into the contributions payable.

For those employers who have elected to take out ill-health liability insurance, they have the option to reduce their certified primary contribution rate by the ill health allowance included at the actuarial valuation. The employer will pay an additional premium to the insurer. Where an ill-health retirement occurs, no additional contributions will be due immediately from the employer and a payment will be received from the insurer. Any funding strain or profit will emerge following the subsequent actuarial valuation through increased/reduced deficit, depending on the difference in the updated funding cost of the ill health retirement (on the actuarial valuation assumptions) and the payment received from the insurer.

EMPLOYERS LEAVING THE FUND

The policy for employers who have a guarantor participating in the Fund:

Where an employer with a guarantor (including where there is a Pass Through arrangement – see Appendix C) leaves the Fund, the termination assessment will be calculated using a valuation funding basis which will take account of the exiting employer's investment pot. Further details are set out in the Termination Policy in Appendix D.

The residual assets and liabilities and hence any surplus or deficit will normally transfer back to the guarantor but in circumstances where an exiting employer is expected to still be responsible for the termination deficit or surplus, an exit payment/exit credit may be payable from/to the exiting employer.

Where there is a surplus and a risk sharing arrangement is in place the Administering Authority will decide whether an exit credit may be payable. This is subject to representation (as required under the Regulations from 20 March 2020) from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. [If representation is not made to the satisfaction of the Fund, then the surplus will not be paid directly to the exiting employer following cessation (despite any other agreements that may be in place).

A similar approach will be taken where there is a deficit, where the default would be to collect the exit payment in the absence of the representation from the interested parties.]

The information that will be required by the Fund from employers to make a determination on whether an exit credit should be paid where a risk sharing arrangement is in place [or guarantee] will be supplied to the interested parties at the appropriate time. A determination notice will be provided alongside the termination assessment from the Fund Actuary. The notice will cover the following information and process steps:

- Details of the employers involved in the process (e.g., the exiting employer and guarantor).
- Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority, and all other information provided to the Administering Authority and considered as part of the decision-making process. A key factor will be whether an exiting employer would have been responsible for a deficit.
- The final termination certification of the exit credit by the Fund Actuary.
- The Administering Authority's determination based on the information provided.
- Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority

Further information on the process for making a formal representation is available in the Fund's "Making a formal representation for an exit credit payment" document.

The policy for employers who do not have a guarantor participating in the Fund:

Where an employer with no guarantor leaves the Fund and leaves liabilities in the Fund, the termination assessment will be calculated using a discount rate based on a minimum risk investment strategy and a more prudent life expectancy assumption. Further details are set out in the Termination Policy in Appendix D. For the avoidance of doubt this will include an appropriate provision for potential costs of the McCloud case remedy as per the approach set out in this FSS.

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Fund Actuary).
- In the case of a deficit, the Fund would require the exiting employer to pay the exit payment to the Fund as a lump sum cash payment (unless agreed otherwise by the Fund at their sole discretion) following completion of the termination process and in line with the Regulations.
- The Fund can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Fund Actuary and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers. At the discretion of the Administering Authority, repayment plans over an agreed period or a Deferred Debt Agreement may be agreed subject to the Fund's policy in relation to flexibilities in recovering exit payments.

Further detail is available in the Termination Policy in **Appendix D**.

6. Link to investment policy and the Investment Strategy Statement (ISS)

The results of the 2019 valuation show the liabilities to be 90% covered by the current assets, with the funding deficit of 10% being covered by future deficit recovery contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of negative 0.9% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 54%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The overall strategic asset allocation is set out in the Investment Strategy Statement (ISS).

Based on the investment strategy in the ISS and the Fund Actuary's assessment of the return expectations for each asset class, this leads to an overall best estimate average expected return of 3.0% per annum in excess of CPI inflation as at the valuation date. For the purposes of setting funding strategy however, the Fund believes that it is appropriate to take a margin for prudence on these return expectations (i.e. to use an assumption that has a greater than 50% chance of being achieved) and this is expected under the Regulations and guidance. This margin, however, has been adjusted to take account of the risk management strategies implemented to reduce the volatility of returns within the investment strategy. In isolation, this allows a lower margin for prudence to be used than would otherwise be the case if these risk management strategies were not in place.

RISK MANAGEMENT

In the context of managing various aspects of the Fund's financial risks, the Fund has implemented a number of risk management techniques. The principal aim of these risk management techniques is to effectively look to provide more certainty of contribution outcomes within reasonable parameters.

In particular:

- Equity Protection - the Fund has implemented protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability (or even a reduction) in employer deficit recovery contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality). Further information in relation to the equity protection arrangement is available within the Fund's Investment Strategy Statement and Committee papers.
- Investment 'pots' – the Fund has implemented alternative investment strategies with differential levels of investment risk with effect from 1 April 2020. The aim is to provide greater control over employers' exposure to investment risk (see Appendix F for further information). The pot an employer sits in will be reflected in the relevant employer's asset share, funding basis and contribution requirements.

7. Identification of risks and countermeasures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or deficit will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Fund has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Fund Actuary's formal valuation report includes quantification of some of the major risk factors. The risk mitigations are set out in the Fund's separate risk register which is included in the Committee papers.

FINANCIAL

The financial risks are as follows:

- Investment markets fail to perform in line with expectations
- Protection and risk management fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment fund managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation turning out to be significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle, and
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates or deficit recovery contributions (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation (including in each separate investment pot) is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

DEMOGRAPHIC

The demographic risks are as follows:

- Future unanticipated changes in life expectancy (longevity)
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions (or level of ill-health insurance protection, where relevant)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the “average” implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. An external ill health insurance arrangement can also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members.

Whilst regulatory procedures are in place to ensure that ill-health retirements are properly controlled, employing bodies also need to recognise that unforeseen costs for them will arise in the event that the number of ill-health retirements were to exceed the assumptions made. Early retirements for reasons of redundancy and efficiency do not normally affect the solvency of the Fund because they are the subject of a direct charge.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employers should be doing everything in their power to minimise the number of ill-health retirements.**

With regards to increasing maturity (e.g., due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Fund regularly monitors its cashflow requirements and considers the impact on the investment strategy.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g., changes to the benefits package, retirement age, potential new entrants to Fund
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Pensions Committee and Pension Board) to make their views known to the Fund and to participate in the decision-making process. Previous versions of this FSS were consulted on prior to being approved at a Pensions Committee meeting, a practice that is being continued with this version.

Governance risks are as follows:

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Fund unaware of structural changes in employer's membership (e.g., large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Fund not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements, and
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Fund by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

8. Monitoring and review

The Fund has taken advice from the Fund Actuary in preparing this FSS and has consulted with the employers participating in the Fund.

The Fund will monitor the progress of the funding strategy and, if considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- Has been a significant change in market conditions, and/or deviation in the progress of the funding strategy.
- Have been significant changes to the Fund membership, or LGPS benefits e.g., resolution of the McCloud remedy.
- Have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy.
- Have been any significant special contributions paid into the Fund.
- Has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Fund considers that any action is required, the relevant employers will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

The structure and make-up of the investment pots will also be periodically reviewed between valuations based on the size and maturity of the liabilities within each pot. This will also allow for any movements of employers between the pots due to changes in funding position, covenant and also at the request of an employer.

A full review of this FSS will occur no less frequently than every 3 years, to coincide with completion of a full actuarial valuation.

Review of contributions

In line with the Regulations, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.

The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.

An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them and undertake to meet the costs.

Further information is set out within the policy in Appendix G.

The McCloud judgment

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

The Government have confirmed that this judgment will result in a remedy being required for the LGPS. The Scheme Advisory Board issued guidance which sets out how the McCloud case should be allowed for within the 2019 valuation.

The Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Fund Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, it has been assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. Employers were able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they were able to make allowance within their budgets and advised that backdated contributions could be payable if the remedy is known before the next valuation.

The mechanism to achieve this has been set out in the Fund Actuary's certificate.

Appendix A

ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers who are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rates for the investment pots have been derived based on the expected return on the Fund assets based on the long-term strategy set out in the Investment Strategy Statement (ISS). The discount rates include appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below).

These real returns will be reviewed from time to time based on the investment pot strategy, market outlook and the Fund's overall risk metrics. The discount rates will be reviewed as a matter of course at the time of a formal valuation or a formal employer rate review.

Growth investment pot

For employers in the Growth investment pot the discount rate at the valuation has been derived based on an assumed return of 1.65% per annum above CPI inflation i.e. a real return of 1.65% per annum and a total discount rate of 4.05% per annum.

Medium investment pot

For employers in the Medium investment pot the discount rate at the valuation has been derived based on an assumed return of 1.4% per annum above CPI inflation i.e. a real return of 1.4% per annum and a total discount rate of 3.8% per annum.

Cautious investment pot

For employers in the Cautious investment pot the discount rate at the valuation has been derived based on an assumed return of 0.25% per annum above CPI inflation i.e. a real return of 0.25% per annum and a total discount rate of 2.65% per annum.

Inflation

The inflation assumption will be taken to be the investment market's expectation for Retail Prices Index (RPI) inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

1. an allowance for supply/demand distortions in the bond market is incorporated, and
2. an adjustment due to retirement pensions being increased annually by the change in the Consumer Prices Index rather than the Retail Prices Index.

The overall reduction to RPI inflation to arrive at the CPI inflation assumption at the valuation date is 1.0% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take in to account the reform of the calculation methodology for RPI, as announced by the Chancellor of the Exchequer. The change will then be implemented for the policies set out in this statement.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long-term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. The assumption used for an employer will be notified to them separately as part of the discussions but typically will be a minimum of 2% per annum until 31 March 2023.

Application of bespoke salary increase assumptions as put forward by individual

employers will be at the ultimate discretion of the Fund but as a minimum must be reasonable and practical. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g., some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions are based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting LGPS experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Fund Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2018 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2018 projections and a long-term improvement trend of 1.75% per annum.

As an indication of impact, assumed life expectancies at age 65 are:

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.5	24.9
Actives aged 45 now	24.1	26.9
Deferreds aged 45 now	22.6	25.8

For example, a male pensioner, currently aged 65, would be expected to live to age 88.1. Whereas a male active member aged 45 would be expected to live until age 89.6. This is a reflection of the expected improvement in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation
It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take a 3/80ths cash sum (available as standard under the pre-1 April 2008 benefit structure). The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up regardless of age.

Other Demographics
Following an analysis of Fund experience carried out by the Fund Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate. Other assumptions are as per the last valuation.

Expenses
Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits
The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

METHOD AND ASSUMPTIONS USED I N CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (the future accrual cost) as stable as possible, so this needs to be taken into account when setting the assumptions.

As future accrual contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. This reflects the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only, and therefore, these contributions will be invested for a longer period.

FINANCIAL ASSUMPTIONS – FUTURE ACCRUAL

The financial assumptions in relation to future accrual of benefits are not specifically linked to investment conditions as at the valuation date itself, and the following overall assumed real discount rates apply for each investment pot:

Growth investment pot
For employers in the Growth investment pot, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2.25% per annum above the long-term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.65% per annum.

Medium investment pot

For employers in the Medium investment pot, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2% per annum above the long-term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.4% per annum.

Cautious investment pot

For employers in the Cautious investment pot the discount rate at the valuation has been derived based on an assumed return of 0.25% per annum above CPI inflation i.e. a real return of 0.25% per annum and a total discount rate of 2.65% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the asset share for each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the pot for the employer unless agreed otherwise between the employer and the Fund at the sole discretion of the Fund.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on the employer's investment pot.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY O F KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST O F FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2 0 1 9 ACTUARIAL VALUATION

Long-term yields	%
Market implied RPI inflation	3.4% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate (Growth pot)	4.05% p.a.
Investment return/Discount Rate (Medium pot)	3.8% p.a.
Investment return/Discount Rate (Cautious pot)	2.65% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases*	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate (Growth pot)	4.65% p.a.
Investment return/Discount Rate (Medium pot)	4.4% p.a.
Investment return/Discount Rate (Cautious pot)	2.65% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

*Short term salary increases may also apply, and each employer will be notified of this separately. Typically this is a total pay increase of 2% p.a. until 31 March 2023.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Pensioner	Normal health	99% S3PMA_CMI_2018 [1.75%]
Pensioner	Normal health	91% S3PFA_M_CMI_2018 [1.75%]
Pensioner	Dependant	131% S3PMA_CMI_2018 [1.75%]
Pensioner	Dependant	91% S3DFA_CMI_2018 [1.75%]
Pensioner	Ill health	118% S3IMA_CMI_2018 [1.75%]
Pensioner	Ill health	130% S3IFA_CMI_2018 [1.75%]
Pensioner	Future dependant	126% S3PMA_CMI_2018 [1.75%]
Pensioner	Future dependant	108% S3DFA_CMI_2018 [1.75%]
Active	Normal health	104% S3PMA_CMI_2018 [1.75%]
Active	Normal health	92% S3PFA_M_CMI_2018 [1.75%]
Active	Ill health	120% S3IMA_CMI_2018 [1.75%]
Active	Ill health	142% S3IFA_CMI_2018 [1.75%]
Deferred	All	128% S3PMA_CMI_2018 [1.75%]
Deferred	All	107% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	133% S3PMA_CMI_2018 [1.75%]
Future Dependant	Dependant	115% S3DFA_CMI_2018 [1.75%]

Other demographic assumptions are set out in the Fund Actuary’s formal report.

Appendix B

EMPLOYER DEFICIT RECOVERY CONTRIBUTIONS

The Fund's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. As the assets of the Fund are less than the liabilities at the effective date of the 2019 actuarial valuation, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the deficit.

Deficit recovery contributions will be expressed as £s amounts (with the exception of the Town and Parish Council's group where deficit recovery contributions will be paid as a % of pensionable pay), and it is the Fund's objective that any funding deficit is eliminated within a timeframe determined by the Fund given its view on the participating employer's covenant and associated risk of delayed or non-payment to the Fund

Deficit recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit recovery contributions in one lump sum either on annual basis or a one-off payment.

The approach to the determination of the deficit recovery periods is summarised in the table below:

Category	Default Deficit Recovery Period	Derivation
Fund Employers	15 years	Determined by reducing the period from the preceding valuation by at least 3 years (where appropriate)
Open Admitted Bodies	15 years	Determined by reducing the period from the preceding valuation by at least 3 years
Closed Employers	Lower of 15 years and the future working lifetime of the membership	Determined by reducing the period from the preceding valuation and the membership of the employer
Employers with a limited participation in the Fund	Determined on a case-by-case basis	Length of expected period of participation in the Fund

In determining the actual deficit recovery period to apply for any particular employer or employer grouping, the Fund may take into account some or all of the following factors:

- The size of the funding deficit,
- The business plans of the employer,
- The assessment of the financial covenant of the employer, and security of future income streams,
- Any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit recovery contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the deficit recovery period) where possible.

For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is unwound over a 15-year period for open employers, or the lower of 15 years and the future working lifetime of the membership for closed employers, unless agreed otherwise with the Fund (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

OTHER FACTORS AFFECTING THE EMPLOYER DEFICIT RECOVERY CONTRIBUTIONS

As part of the process of agreeing funding plans with individual employers, the Fund will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer deficit recovery period being acceptable to the Fund, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Fund that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Fund therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Fund will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit recovery contribution must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Fund, in consultation with the Fund Actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

Appendix C

ADMISSION POLICY
INTRODUCTION

This document details the Fund's policy on the methodology for assessment of ongoing contribution requirements and admissions into the. It supplements the general policy of the Fund as set out in the FSS.

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the Fund is kept as a live document and will be updated by the Fund as bodies are admitted to or leave the Fund.

ENTRY TO THE FUND

Unless agreed otherwise by the Fund, prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Fund. If the risk assessment and/or bond amount is not to the satisfaction of the Fund (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions. Some aspects that the Fund may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves.
- If the admitted body has an expected limited lifespan of participation in the Fund.
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

At the discretion of the Fund, where an admission is in respect of 10 or less LGPS posts the Admitted Body will be admitted to the Fund on a 'Pass Through' basis where the Admitted Body's ongoing contribution requirements are agreed between the Letting Employer and the Admitted Body, without an individual contribution assessment being carried out.

SECOND GENERATION O U T S O U R C I N G S FOR STAFF NOT EMPLOYED B Y THE SCHEME EMPLOYER CONTRACTING THE SERVICES T O AN ADMITTED BODY

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the main Councils, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a 'Related Employer' for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor.

"Related employer" is defined as "any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)".

LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARA 8

Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a) a person who funds the admission body in whole or in part;

(b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(c) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

the transfer of the service or assets by means of a contract or other arrangement,

a direction made under section 15 of the Local Government Act 1999 (115) (Secretary of State's powers),

directions made under section 497A of the Education Act 1996 (116);

(d) a person who—owns, or controls the exercise of the functions of the admission body; or

which is a provider of probation services under section 3 of the Offender Management Act 2007 (power to make arrangements for the provision of probation services) or a person with whom such a provider has made arrangements under subsection (3)(c) of that section.

In accordance with the above Regulations, the Fund requires a guarantee from the related employer. The related employer may seek a bond from the admitted body taking into account the risk assessment carried out by the Fund Actuary.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service (including those admitted on a Pass-Through basis) will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Fund. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the Fund Actuary. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund it must also be satisfied (along with the Fund) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Fund, the level of the bond amount will be subject to review on a regular basis. In the case of an Admission Body admitted on a Pass-Through basis, the requirement to carry out an assessment of the level of risk on premature termination of the contract may be waived at the agreement of the Fund and the Letting Employer who act as guarantor to the Admission Body.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer. Please see the Fund's Termination Policy for further details.

An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund the Fund may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions.

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions as detailed in the Fund's Termination Policy. This will substantially reduce the risk of an uncertain and potentially large exit payment being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular, the employing body's notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the notional investment returns generated by the investment strategy for the employer's investment pot. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Fund or depending on any case specific circumstances.

Appendix D

TERMINATION POLICY, FLEXIBILITIES FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

INTRODUCTION

This document details the Fund's policy on the methodology for assessment of exit payments in the event of the cessation of an employer's participation in the Fund, spreading exit payments and Deferred Debt Agreements (DDA). It supplements the general policy of the Fund as set out in the FSS.

TERMINATION OF AN EMPLOYER'S PARTICIPATION

Unless entering a DDA or where a Suspension Notice has been issued as the exiting employer is likely to have active members again within three years, an employer ceases to participate within the Fund when the last active member leaves the Fund. This includes where the employer ceases to be eligible for membership e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation.

When an employing body ceases to participate within the Fund for any reason, employees may transfer their past service benefits to another employer, either within the Fund or elsewhere. If this does not happen the employees will retain pension rights i.e. either deferred benefits or immediate retirement benefits within the Fund.

The Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund or elsewhere.

TERMINATION ASSESSMENTS

When an employing body ceases to participate within the Fund, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of liabilities in respect of the exiting employer's current and former employees along with a termination contribution certificate (a termination assessment). Any costs associated with the termination assessment will be payable by the exiting employer and will either be invoiced to the employer (or guarantor as appropriate) by the Fund or included by increasing the exit payment / reducing the exit credit by the appropriate amount.

The policy for employers who have a guarantor participating in the Fund:

If the exiting employer (including those admitted on a Pass-Through basis) has a guarantor within the Fund or a successor body exists to take over the exiting employer's liabilities, the Fund's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise. The costs associated with the termination assessment will be charged directly to the exiting employer unless the guarantor directs otherwise.

The amount of exit payment which the exiting employer is required to pay (if any) will be determined in accordance with the commercial agreement.

The residual assets and liabilities, and hence any surplus or deficit will normally transfer back to the guarantor of the exiting employer. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the guarantor, constitute a complete amalgamation of assets and liabilities with those of the guarantor.

In circumstances where an exiting employer is expected to still be responsible for all or part of an exit payment, an exit credit may not be payable to the exiting employer. This is subject to representation by all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor, in particular any 'risk-sharing' agreements that may exist. In line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representation to the Fund if they believe an exit credit should be paid outside the policy set out above, or if they dispute the determination of the Fund.

The information required by the Fund from an exiting employer to exercise its discretion on whether an exit credit should be paid where a guarantee or risk sharing arrangement is in place, and a representation has been made, will be supplied to the interested parties at the appropriate time. A determination notice will be provided alongside the termination assessment from the Fund Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision-making process. A key factor will whether an employer is responsible for a deficit. This is subject to the information provided and any risk sharing arrangements in place, as well as all other factors that the Administering Authority considers relevant.
3. The final termination certification of the exit credit by the Fund Actuary.
4. The Administering Authority's determination based on the information provided and all other relevant factors.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

Further information on the process for making a formal representation is available in the Fund's "Making a formal representation for an exit credit payment" document.

The policy for employers who do not have a guarantor participating in the Fund:
A termination assessment will be made based on a minimum risk funding basis. This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a deficit emerges in the future (after participation has terminated).

- In the case of a surplus, the Fund pays any exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Fund Actuary).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Fund at their sole discretion) following completion of the termination process.

The Fund can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it taking into account the advice of the Fund Actuary.

The Fund currently groups Town and Parish Councils for contribution rate setting purposes. The Fund's policy is that, on termination of participation within the group, the termination assessment will be based on a simplified share of deficit/surplus approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit/surplus share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the body and the group as a whole, and then adjusting to the date of exit. The share of deficit/surplus will be assessed based on the ongoing valuation funding basis for the group as a whole at the last actuarial valuation. The adjustment to the date of exit will normally be made in line with the funding assumptions adopted for the group as at the last actuarial valuation unless the Fund Actuary and Fund consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.

In addition, for some Multi-Academy Trusts (MAT), a grouped approach has been taken with individual academies within a Trust no longer being separately identifiable on the Fund's administration system or for funding or contribution purposes. On termination of participation of one of the academies within such a MAT, the termination assessment will be based on a simplified share of deficit/surplus approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit/surplus share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the employees of the exiting academy and the MAT a whole, and then adjusting to the date of exit. The share of deficit/surplus will be assessed based on the ongoing valuation funding basis for the MAT as a whole at the last actuarial valuation. The adjustment to the date of exit will normally be made in line with the funding assumptions adopted for the MAT as at the last actuarial valuation unless the Fund Actuary and Fund consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.

Unless agreed otherwise by the Fund, any unfunded liability that cannot be reclaimed from the outgoing grouped body will be underwritten by the group/MAT and not all employers in the Fund. Following termination, the residual liabilities and assets in respect of that body will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the group/MAT.

Any costs associated with the termination assessment will be payable by the exiting employer and will either be invoiced to the employer by the Fund or included by increasing the exit payment / reducing the exit credit by the appropriate amount.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former employees' benefits to another LGPS Fund in England and Wales. In these cases, no termination assessment is required as there will no longer be any employer liabilities in the Fund. Therefore, a separate assessment of the assets to be transferred will be required. Any costs associated with the asset transfer will be payable by the exiting employer and will be invoiced to the employer by the Fund.

Allowing for the McCloud Judgment in termination valuations

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not currently known with any certainty although it is expected to be similar to the allowance made in employer rates at the 2019 valuation (where applicable). Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations and the impact will be considered for the subsuming employer at the next contribution rate review. However, if a representation is made to the Administering Authority in relation to an exit credit, then a reasonable estimate for the potential cost of McCloud will need to be included within the termination assessment.

Where a surplus or deficit isn't being subsumed, McCloud will be allowed for as a matter of policy.

The allowance will be calculated in line with the treatment set out in the Funding Strategy Statement for all members of the outgoing employer using the termination assessment assumptions. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing Regulations and guidance in force at the time.

FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Fund becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Fund that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. For example, on agreement with the employer, by moving the employer to a lower risk funding basis or a notional minimum risk funding basis. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Fund, or depending on any case specific circumstances.

MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Minimum risk assumptions	31 March 2019
Discount Rate	1.5% p.a.
CPI inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

These financial assumptions will be reviewed on an ongoing basis to allow for changes in market conditions along with any structural or legislative changes.

In particular, since the valuation date it has been confirmed that RPI inflation will be reformed with effect from 2030 to align the index with the CPIH inflation measure. This therefore needs to be reflected when deriving an updated market estimate of the CPI inflation. For example, when assessing a termination position from 25 November 2020 we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting [0.6%] per annum as opposed to the 1.0% per annum at the valuation date when

assessing an employer's termination position. This adjustment will be kept under review over time.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2.25% p.a. from 1.75% used in the 2019 valuation for ongoing funding and contribution purposes.

POLICY IN RELATION TO SPREADING EXIT PAYMENTS AND DEFERRED DEBT PAYMENTS (DDA)

The Fund's policy for spreading exit payments (referred to as payment plans) is as follows:

1. The default position is for exit payments to be paid immediately in full (adjusted for interest where appropriate) unless there is a risk sharing arrangement in place with a guaranteeing employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.
2. Exit payment spreading and DDAs will always be discussed with employers, whether at the employer's request or not. However, spreading an exit payment, or a DDA will only be agreed at the discretion of the Administering Authority, subject to the policy in this Appendix.

If an employer wants the Fund to agree to spread an exit payment or a DDA, they must make a request in writing covering the reasons for such a request. The Administering Authority will assess whether the full exit payment is affordable, and whether it is in the interest of the Fund to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements (see further below).

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be invoiced to the employer by the Fund or added to the contribution plan (for a DDA) or exit payment (where the exit payment is to be spread).

The following policy and processes will be followed in line with the principles set out in the statutory guidance dated 2 March 2021.

POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit

payment over a defined period.

1. The Administering Authority will request updated financial information from the exiting employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided, then the default policy of immediate payment will apply.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit payment over a period of time. Depending on the length of the period and also the amount of the exit payment, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payment.
3. The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit payment should be spread may take up to 6 months from receipt of data, so it is important that employers who request to spread exit payment notify the Fund in good time.
5. If it is agreed that the exit payment can be spread then the Administering Authority will engage with the exiting employer regarding the following:
    a. The spreading period that will be adopted (this will be subject to a maximum of 5 years).
    b. The initial and annual payments due and how these will change over the period
    c. The interest rates applicable and the costs associated with the payment plan devised.
    d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account, etc.
    e. The responsibilities of the exiting employer during the exit payment spreading period including the supply of updated information and events which would trigger a review of the situation.
    f. The views of the Fund Actuary, covenant, legal and any other specialists necessary
    g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
    h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances).
6. Note that proposed exit payment spreading will always be discussed with the employer, whether at the employer’s request or not. Once the Administering Authority has reached its decision, the arrangement (where applicable) will be documented, and any supporting agreements will be included.

DEFERRED DEBT ARRANGEMENT

As opposed to paying the exit payment (immediately or spread over an agreed period of time) an employer may request to utilise the "Deferred Debt Agreement" (DDA) facility at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority. An employer who enters into a DDA will continue to participate in the Fund with no contributing members.

The following process will determine whether the Fund will agree to enter into a DDA:

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided, then a DDA will not be entered into by the Administering Authority.
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit payment that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Fund Actuary, covenant and legal advisor where necessary).
3. The initial process to determine whether a DDA should apply may take up to 6 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.
4. If the Administering Authority's assessment confirms that the potential exit payment is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a DDA using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered:
    - What security the employer can offer whilst the employer remains in the Fund. In general, the Administering Authority won't enter into a DDA unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery plan and other funding arrangements.
    - The investment strategy that would be applied to the employer e.g. the growth, medium or cautious pot strategy which could support the arrangement.
    - Whether an upfront cash payment should be made to the Fund initially to reduce the potential future exit payment.
    - What the updated Secondary rate of contributions would be required up to the next valuation.
    - The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
    - The advice of the Fund Actuary, covenant, legal and any other specialists necessary.
    - The responsibilities that would apply to the employer while they remain in the Fund.
    - What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the Secondary rate of contributions (e.g. provision of security).
    - The circumstances that would trigger a variation in the length of the DDA (if appropriate),

including a cessation of the arrangement e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months. Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.

- Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will make a final decision on whether it is in the best interests of the Fund to enter into a DDA with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the agreed triggers are met.
6. The costs associated with the advice sought and drafting of the DDA will be borne by the employer and will be invoiced to the employer by the Fund or included in the contribution plan (depending on the circumstances).

Appendix E

COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the Fund relative to the size of the employer's operating cashflow
- The relative priority placed on the Fund compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

FREQUENCY OF MONITORING

The funding position and contributions for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks, and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond.
2. Transfer to a more prudent actuarial basis (e.g. the termination basis).
3. Shortened deficit recovery periods and increased cash contributions.
4. Managed exit strategies.
5. Contingent assets and/or other security such as escrow accounts.

Appendix F

INVESTMENT POT RISK MANAGEMENT POLICY

In the context of managing aspects of the Fund's financial risks, the Fund has implemented a range of "investment" pots for employers (with effect from 1 April 2020) which exhibit different levels of investment risk based on alternative underlying investment strategies. The three available investment pots are called:

- The Growth pot;
- The Medium pot; and
- The Cautious pot

This strategy will be reviewed periodically as part of the governance of the Fund's overall risk management framework. This policy should be considered alongside the Fund's Covenant Assessment and Monitoring Policy

INVESTMENT STRATEGIES

The current Fund investment strategy will apply to the "Growth pot". The "Medium pot" and "Cautious pot" will provide reduced levels of investment risk, which may be appropriate particularly for those employers that are considering leaving the Fund.

The strategic allocation for the Fund as a whole and for each of the investment pots is set out in the Investment Strategy Statement.

The investment strategy underlying each investment pot will be reviewed formally at each actuarial valuation along with the overall Fund investment strategy. This will also allow for any movements of employers between the investment pots due to changes in funding position, covenant and also at the request of an employer.

In addition, a high-level health check will be performed annually allowing for market changes and outlook as well as underlying changes in the maturity and profile of the liabilities of the employers within each pot. However, a formal review may be undertaken mid-valuation if there is a material shift of employers between pots and/or material shift in the funding position in order to more efficiently manage the overall risk.

The investment pots will be managed within the overall Fund investment strategy as far as possible. If any investment options are unavailable, and are deemed to be desirable, then the Fund will consider obtaining access to these options through the LGPS Central Limited pool or potentially directly.

EMPLOYER ALLOCATIONS

The allocations of employers to investment pots will be reviewed in detail alongside the actuarial valuation every 3 years. The Fund will take into account the following employer factors when considering overall risk and allocating an employer to a specific pot:

- Employer type e.g. tax raising body, academy, admitted body.
- Employer ongoing covenant strength incl. any guarantee or security.
- Employer size, maturity and funding position.
- Employer status e.g. open/closed to new members and objectives.

If, based on a covenant assessment carried out by the Fund, an employer is deemed to have a weak covenant, or is expected to exit the Fund in the near future, the Fund reserves the right to move an employer (typically following discussions with that employer) into either the Medium or Cautious investment pot to provide some protection against deterioration in funding position for the employer and the Fund as a whole. Any orphaned liabilities, once an employer exits the Fund, will generally be automatically moved into the Cautious investment pot as these liabilities have no sponsoring employer and are ultimately underwritten by all employers within the Fund.

As part of a triennial valuation, any employer can elect to move to a lower risk investment strategy to reduce their level of investment risk exposure and the potential volatility in their future funding position.

The choice of investment pot will be reflected in each employer's asset share, funding basis and contribution requirements. It dictates the financial assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is determined based on the notional investment strategy for the relevant investment pot's investment strategy. This is expressed as an expected return over CPI.

The above employer factors will be monitored regularly between actuarial valuations and the allocation to a specific investment pot may be reviewed between actuarial valuations in the following circumstances:

- Material change in certain types of employers' funding position
- Material change in an employer's status or covenant
- Request from an employer to move investment pots, subject to the agreement of the Fund.

Appendix G

REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

In line with the Regulations that came into force on 23rd September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where it appears likely to the Administering Authority that there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where it appears likely to the Administering Authority that there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (or changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation. However, changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a contribution review would not be undertaken close to next actuarial valuation date, except in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case-by-case basis to determine if a contribution review should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if any of the following scenarios appear likely to the Administering Authority. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1. Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

a. Significant changes to the employer's membership which will have a material impact on their liabilities, such as:

i. Restructuring of an employer

ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)

iii. A bulk transfer into or out of the employer

iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not using ill-health liability insurance) or, large numbers of withdrawals

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total of the employer's liabilities at the previous triennial funding valuation.

[Any review of the contributions will normally only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions].

2. Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

a. Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.

b. Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.

c. The Fund becoming (or ceasing to be) subordinate behind other creditors of the employer such as banks or other pension funds.

d. Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately, and the Administering Authority will set out the requirements.

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. Note that employers are required to support any reasonable information request to allow the Fund to effectively monitor changes in covenant. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contributions would include consideration of the updated funding position both on an ongoing and termination basis (if applicable) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions (see further comments below):

- The contributions changing or staying the same depending on the conclusion and/or;
- Security to improve the covenant to the Fund and/or;
- If appropriate, a change in the investment strategy for the employer.

PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intention to review contributions. Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of an employer's restructuring plans. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Fund Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and/or administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in membership data is expected to have a material impact on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contributions, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (e.g. the Growth pot, Medium pot or Cautious pot) in line with the Funding Strategy Statement.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change.
- Whether the Secondary contribution rate should be adjusted including whether the length of the deficit recovery period adopted at the previous valuation remains appropriate. The remaining deficit recovery period from the last valuation would be the maximum period adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Fund Actuary).

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor, then the guarantor would be consulted as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contributions. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review. This may, for example, be for an employer to be made to confirm annually that there has been no change to their circumstances that would have a detrimental impact on their covenant and in the interim, should any such change occur, the expectation is that they inform the Fund immediately, in line with the notification requirements in the above section.

Appendix H

GLOSSARY

50/50 Scheme:
In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

Actuarial valuation:
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contributions with the Fund to fund the cost of new benefits and make good any existing deficits as set out in the separate FSS. The asset value is based on market values at the valuation date.

Administering Authority:
The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies:
A specific type of employer under the "LGPS" who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark:
A measure against which fund performance is to be judged.

Best estimate assumption:
An assumption where the outcome has a 50/50 chance of being achieved.

Bonds:
Loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career average revalued earnings scheme (CARE):
With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Cautious investment pot:
An investment strategy linked to income generating assets which target a minimum yield above CPI inflation allowing for default, reinvestment risk and any other reasonable margins of prudence deemed appropriate.

Contingent assets:
Assets held by employers in the Fund that can be called upon by the fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

Covenant:
The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI:
Acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS have been linked to the annual change in CPI since April 2011.

CPIH:
An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

Deferred Debt Agreement (DDA):
A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA

Deficit:
The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions). The deficit in relation to an employer is the extent to which the value of the past service liabilities for which the employer is liable exceeds the value of the appropriate part of the Fund's assets.

Deficit recovery period:
The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount rate:
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's cost of future accrual:
The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employer's investment pot:
The investment strategy which applies to an employer being either the Growth pot, the Medium pot or the Cautious pot.

Employing bodies:
Any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities:
Shares in a company which are bought and sold on a stock exchange.

Equity protection:
An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit credit:
The amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Exit payment:
The amount payable by an exiting employer to the Fund in the case where the exiting employer is determined to be in deficit at the point of cessation based on a termination assessment by the Fund Actuary.

Fund Actuary:
The Actuary appointed to the Fund as required under statute.

Fund / Scheme employers:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency level:
The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement (FSS):
This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD):
The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Growth investment pot:
A predominantly growth asset biased investment strategy targeting long term additional outperformance above CPI inflation. Further information is available in the Investment Strategy Statement.

Guarantee / guarantor:
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment pot:
This describes the portion of assets invested in one of the three investment strategies.

Investment strategy:
The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer:
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities:
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS:
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Lower risk funding basis:
An approach where the discount rate used to assess the liabilities is determined based on the expected long-term return achieved on the Fund's lower risk investment strategy. This is usually adopted for employers who are deemed to have a weaker covenant than others in the Fund, who are planning to exit the Fund or who would like to target a lower risk strategy. This basis is adopted for ongoing contribution rate purposes as the employers' asset share is invested in the lower risk investment strategy.

Mandatory scheme employers:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers. For example, these include councils, colleges, universities and academies.

Maturity:
A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Medium investment pot:
An alternate investment strategy available to employers who wish to reduce investment risk to some extent compared to the Growth investment pot but still target long term additional outperformance above CPI inflation. Further information is available in the Investment Strategy Statement.

Members:
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis:
An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities:
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Pass through:
Arrangement whereby the risks of participating in the LGPS are retained by the Letting Employer with the Admission Body's contributions being a reflection of the rate of the Letting Employer (subject to any specific adjustment required under the separate contractual arrangement).

Percentiles:
Relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions:
When there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling:
Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment:
The payment by employers of contributions to the Fund earlier than that certified by the Fund Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present value:
The value of projected benefit payments, discounted back to the valuation date.

Primary rate:
The contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

Profile:
The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent assumption:
An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate:
A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the Fund Actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

Real return or real discount rate:
A rate of return or discount rate net of (CPI) inflation.

Recovery plan:
A strategy by which an employer will make up a funding deficit over the deficit recovery period.

Scheduled bodies:
Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary rate:
The adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund, plus any provision made by an employer in respect of the estimated cost of McCloud.

Section 13 Valuation:
In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency funding target:
An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Surplus:
The extent to which the value of the Fund's assets exceeds the value of the Fund's past service liabilities. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions). The surplus in relation to an employer is the extent to which the value of the appropriate part of the Fund's assets exceeds the value of the past service liabilities for which the employer is liable.

Valuation funding basis:
The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

Appendix B

Worcestershire Pension Fund Pension Administration Strategy

Contents

Preface

This Pension Administration Strategy has been produced to:

- Set out the Local Government Pension Scheme (LGPS) roles and responsibilities of Worcestershire Pension Fund and our employers.
- Establish the levels of performance we and our participating employers are expected to achieve in carrying out their responsibilities.

Help us to help you: to administer the LGPS on behalf of our employers, we as the scheme administrator need our employers (in a manner that is data secure) to do a number of things including:

1. Provide us with **one named lead contact / account manager** who will liaise with us on behalf of their organisation, co-ordinating delivery of all LGPS requirements across their whole organisation (i.e. Finance Manager, Human Resources representative, Business Manager, Chief Executive, Payroll representative, etc.).
2. Maintain and supply us with an **Employer's contacts at my organisation Excel spreadsheet**.
3. **Calculate, notify and deduct employee contributions** for each employee in the LGPS (using a unique pensions identifier number for each employment) in accordance with the LGPS HR Guide (see: **http://www.lgpsregs.org/resources/guidesetc.php**) and the annual update issued by the LGA every March (see **http://www.lgpsregs.org/bulletinsetc/bulletins.php**).
4. By the 19th of the month following the month of deduction **remit to us all contributions**, including employer contributions) at the appropriate rate for the LGPS scheme year in question.
5. **Remit to us any additional pension contributions (APCs)** relating to their employees.
6. **Remit to Scottish Widows any additional voluntary contributions (AVCs)**.
7. **Allocate trained resources** to supply us within the required timescales with:
    a. The various pension administration forms and spreadsheets that we require for each life event that affects their employees.
    b. The various regular and ad hoc pay, service, contributions and personal information that we require for their employees, for example past hours changes and service breaks to deliver the McCloud remedy.
8. **Publish and forward to us an up to date employer policy statement** for all employer **discretions** under the LGPS regulations.
9. Appoint an adjudicator to **handle appeals** in accordance with the LGPS regulations.
10. **Keep abreast of** the range of material we make available.

1. Our Responsibilities to our employers and members

Our general responsibilities:

1. To comply with all relevant legislation and guidance (for example from **The Pensions Regulator**).
2. To apply **the LGPS regulations** in line with our **Policy Statement on our LGPS discretions**. NB we can recover costs from an employer where costs have been incurred because of that employer's level of performance in carrying out its functions, for example arising from members appealing their level of benefits after an employer has provided insufficient / incorrect data for us to apply the McCloud remedy.
3. To accurately record and update member records on the pension administration system.
4. To maintain a compliant **website** that provides stakeholders with a first port of call for all of their pensions information needs, so that they can make informed decisions. NB we will make it clear that we are not able to provide financial advice.
5. To invest in digitisation to maximise self-service for our members and employers.
6. To maintain an appropriate range of up to date forms and guides.
7. To produce newsletters for all members at least annually.
8. To provide guidance on the secure submission of data.
9. To chase up information that we have asked for.
10. To agree timescales for dealing with bulk work / queries.
11. To appoint and manage appropriate specialist professional services organisations.
12. To review the Pension Administration Strategy annually in consultation with employers.

Governance – our responsibilities:

1. To operate with a **Pensions Committee** and a **Pension Board** including employer and employee representatives.
2. To deliver appropriate training for the members of the Pensions Committee and Pension Board.
3. To maintain a **Risk Register**.
4. To produce, operate according to and maintain a **Governance Policy Statement**.
5. To report any failures to **The Pensions Regulator** / **Scheme Advisory Board**.
6. To deliver complaints and **Internal Dispute Resolution Procedures (IDRP) appeal procedures**.
7. To comply with any audit requirements / recommendations.

Funding and investments – our responsibilities:

1. To set out a clear and transparent **Funding Strategy Statement** and consult with employers on this.
2. To manage employers' annual covenant reviews to help us to manage risk.
3. To produce and maintain an **Investment Strategy Statement**.
4. To appoint and manage LGPS Central Limited, and the Fund's other investment managers.
5. To monitor the performance of the Fund's assets.
6. To produce a **Statement on Compliance with the UK Stewardship Code for Institutional Investors**.

7. To produce **responsible investment** information to include information about climate change / climate risk monitoring and our Environmental, Social and Governance (ESG) audits.
8. To consult and inform employers which **investment pot** they have been allocated to and how this will be monitored / managed in future

Financial and data obligations – our responsibilities:

1. To allocate the contributions received correctly to each employee record.
2. To keep a log of contributions received from each employer.
3. To retain the right to charge interest at 7% for persistent and ongoing late payment in the following circumstances:
    a. If employer contributions (including deficit recovery payments) are overdue (if they are not received a month later than the due date specified).
    b. If any other payments are overdue (if they are not received by the due date specified).
4. To pass on any fines levied by third parties or additional costs for example arising from members appealing their level of benefits after an employer has provided insufficient / incorrect data for us to apply the McCloud remedy arising from employer performance.
5. To inform each employer of any new contribution bandings table in place from each April.
6. To inform employers of any rechargeable items e.g. actuarial fees as they become due / at the end of financial year.
7. To produce an **Annual Report and Financial Statements**.
8. To manage admission agreements / the processes for admitting new employers.
9. To manage the delivery of Financial Reporting Standards (FRS) / International Accounting Standards (IAS) information to employers.
10. To take account of covenant reviews in setting employer contribution rates.
11. To advise employers when strain costs / compensatory added years payments are due.

Annual return, actuarial valuations when being undertaken and annual benefit statements – our responsibilities:

1. To process employer year end contribution returns within 1 month of receipt i.e. 31 May.
2. To produce annual benefit statements (ABS) for all employee and deferred members by 31 August.
3. To highlight annually if a member has exceeded their annual allowance and issue a Pension Savings Statement by 6 October.
4. To provide data to the Fund Actuary and Governments Actuary's Department to enable employer contribution rates to be accurately determined.
5. To provide an electronic copy of the **actuarial valuation report** and contributions certificate to each employer.

New starts – our responsibilities:

1. To accurately create member records on the pension administration system within 40 working days of notification from an employer of a new entrant to the LGPS.

Changes in circumstances for employee members – our responsibilities:

1. To accurately record and update member records on the pensions administration systems within

10 working days of completed notification.

Employee members – our responsibilities:

1. To update employee members' career average revalued earnings (CARE) accounts for the annual revaluation on 1 April.

Transfer in / out estimates – our responsibilities:

1. To provide transfer in information to the member within 10 working days of all information required being received.
2. To provide transfer out information within 10 working days of all information required being received.

Divorce estimates – our responsibilities:

1. Where a request for divorce information including a cash equivalent transfer value (CETV) is received from the member, or the Court, we will provide the member with a schedule of our charges and then issue the estimate within 45 working days of the receipt of the signed request from the member / receipt of the Court order.

Outsourcing estimates – our responsibilities:

1. To provide guidance to and the estimated fees (these are likely to be at least £5,000) that will be incurred by current employers participating in the LGPS who are considering outsourcing.

Actual retirements – our responsibilities:

1. To issue individual quotations / information within 15 working days after all information required to process a quotation has been received.
2. To issue employee members with a letter notifying them of their actual retirement benefits within 15 working days following receipt of the completed **Leavers Form**.
3. To issue deferred members with a letter notifying them of their actual retirement benefits within 15 working days following receipt of all documentation from the member.

Ill health retirements – our responsibilities:

1. To calculate and pay the benefits within 15 working days following receipt of all documentation.
2. To assist employers in discharging their responsibility to review Tier 3 ill health cases at 18 months.
3. To assist employers to select an Independent Registered Medical Practitioner (IRMP).
4. To provide information on the options for members who are terminally ill.

Members leaving employment before retirement – our responsibilities:

1. To provide members with **Opt Out forms** and information about going 50/50 / refunds / becoming deferred / transfers out.
2. To provide members becoming deferred with the options available to them within 30 working days of receipt of all the correct information from the employer via the **Leavers Form**.
3. To process and pay a refund within 10 working days to an eligible member following receipt of all relevant documentation.

Deferred members – our responsibilities:

1. To updated deferred members' benefits for the annual pensions increase award / annual CARE revaluation as appropriate.

2. To provide estimates of benefits that may be payable and any resulting employer costs within 15 working days of request.

3. To select an Independent Registered Medical Practitioner (IRMP).

Death in service – our responsibilities:

1. To provide an initial letter of acknowledgement to the next of kin / informant within 5 working days following a notification of death.

2. To provide a letter notifying dependents of benefits within 10 working days following receipt of identification / certificates and relevant documentation.

3. To expedite the payment of any benefits in an appropriate and caring manner.

Additional voluntary contributions (AVCs), Additional Pension Contributions (APCs) and shared cost APCs (SCAPCs) – our responsibilities:

1. To appoint and manage an in-house AVC provider.

2. To direct members / employers to **information on these options** as requested.

Pensioners – our responsibilities:

1. To make payment of any lump sum within 23 working days of receipt of all relevant fully completed retirement forms and certificates from the member, or retirement date if later.

2. To pay pension payments on the last working day of each month following retirement, unless this falls on a weekend or bank holiday when the payment will be made on the last working day before.

3. To pay LGPS benefits to their qualifying dependents.

4. To obtain annual life certificates from certain members e.g. those either resident overseas or with ongoing power of attorneys.

5. To pay Her Majesty's Revenue & Customs.

6. To increase pensions annually if appropriate.

7. To provide payslips / P60s.

Complaints / adjudication of disagreements – our responsibilities:

1. To appoint an adjudicator to deal with disagreements and in accordance with the regulations reply within 2 months or any extension provided by the regulations.

2. To acknowledge complaints within 10 working days of receipt of the completed documentation.

3. To review and provide updates to the member in a timely manner.

4. To notify the employer of decisions and / or appeals as requested.

5. To listen sympathetically to complaints and respond to them within 10 days.

Performance monitoring and reporting – our responsibilities:

1. We will report on our key performance indicators (KPIs) to the Pensions Committee and the Pension Board. This will provide a mechanism for service level review and recognition of best practice.

2. We will seek to work closely with employers to:

- Identify areas of poor performance.
- Provide the necessary training and development.

- To put in place appropriate processes to improve the level of service in the future.

Reporting breaches – our responsibilities:

1. To have procedures to be followed in relation to reporting breaches of the law to The Pensions Regulator.
2. To report data breaches to the Information Commissioner's Office (ICO).
3. To report all breaches to the **Pensions Committee** and the **Pension Board**.

2. Employers' Responsibilities

Employers' general responsibilities:

1. To support us in engaging with our members and prospective members, making it clear that Worcestershire Pension Fund is not able to provide financial advice.
2. To be familiar with the HR and Payroll guides available at **http://www.lgpsregs.org/resources/guidesetc.php**
3. To provide us with up to date and correct information e.g. re an employer's covenant as and when requested in accordance with our timescales and data protection / pensions regulations, retaining information about employees in line with our **Personal Data Retention Guidance for Employers** and our guidance (for example in our September 2020 employer newsletter) about the McCloud remedy where if no data is available assumptions that employees could challenge would have to be made.
4. For larger bulk estimates, to make requests via the spreadsheet template provided by us and to give us as much notice in advance, for example when any redundancy exercises are planned.
5. To operate controlled, authorised processes and procedures.
6. To familiarise themselves with our:
   a. **Policy Statement on Communications**.
   b. **Funding Strategy Statement** that includes investment pots.
   c. **Governance Policy Statement**.
   d. **Investment Strategy Statement**.
7. To comply with **the Pensions Regulator's** requirements of employers offering pensions to their employees, including automatic enrolment and data quality.
8. To publish and forward to us an up to date employer policy statement for all **employer discretions under the LGPS regulations**.

Financial and data obligations - employer responsibilities:

1. To calculate, collect and pay us no later than the 19th day of the month following the period of deductions:

- All employee contributions deducted from payroll (excluding AVCs).
- Employer contributions.
- Any deficit lump sum payments due on a monthly basis.

2. To accompany each payment with the **Payover Form PCF1**.

3. To pay all rechargeable items to the Fund on receipt of the invoice within the timescales specified.
4. To provide us with accurate member data, using the **monthly CARE spreadsheet**.
5. To provide us with the annual Covenant data we require.

Annual return, actuarial valuations when being undertaken and annual benefit statements - employer responsibilities:

1. To ensure we receive accurate year end information to 31 March through the **Year End Spreadsheet** by 30 April.
2. To submit accompanying paperwork detailing this together with payment or a formal request for a refund should there be any under / over payment discovered whilst reconciling.
3. To provide any additional information that may be requested to produce annual benefit statements for service up until 31 March in each particular year by the 30 April each year.
4. To ensure that all errors highlighted from the annual contribution and pensionable pay posting exercise are responded to and corrective action taken promptly.

New starts - employer responsibilities:

1. To ensure that pension information is included as part of any new employment induction process, in contracts of employment and appointment letters.
2. To ensure that all employees subject to contractual admissions are bought into the LGPS from their relevant start date.
3. To provide us with accurate new member data, using the **New Starter Form** / interface within 4 weeks or at the members' start date or within 14 days of the first time the new employee is included on the employer's payroll run.
4. To provide each new employee with a link to our **Guide to the LGPS** and a **New Starter Form** with their contract of employment.
5. To determine the appropriate contribution rate (whether individually or by an automated process on payroll) and as soon as is reasonably practicable, notify the employee of the contribution rate which is to be deducted from the employee's pensionable pay and the date from which the rate will become payable. It is for the employer to determine the method by which the notification is given to the employee, but the notification must contain a statement giving the address from which further information about the decision may be obtained. The notification must also notify the employee of the right to appeal, including the process and timescales involved. Furthermore, the correct employee contribution rate should be applied and (if appropriate) adjusted throughout the year according to the employer's Policy Statement on discretions.

Important note: Where there is more than one contract of employment with the same employer, each membership shall be maintained separately and notified to us as above.

Changes in circumstances for employee members - employer responsibilities:

1. To ensure that we are informed of any changes in the circumstances of employees, by completing the **Employer Notification of Changes relating to Pensionable Employment Form / Leavers Form / Ill Health Form / 50:50 cancel form / 50:50 Option Form / etc.** within 4 weeks of the change. Changes include:
    a. Name.
    b. Marital status.
    c. NI number.

d. Contractual hours.

e. Any remuneration changes due to promotion and down grading.

f. Full time equivalent pensionable pay according to the pre 2014 definition.

g. Actual pensionable pay (including overtime/additional hours) in 100/100 and 50/50 according to the post 2014 definition (CARE).

h. Employee contribution rate.

i. Employee number and / or post number.

j. Date joined LGPS (if adjusted).

k. Confirmation of 50/50 or 100/100 entry.

l. Additional Voluntary Contributions (AVC) contributions.

m. Additional Pension Contributions (APC).

n. Notification of Flexible Retirement.

2. To apply assumed pensionable pay (APP) for pension purposes during periods of reduced or nil pay as a result of sickness, injury or relevant child related leave (i.e. ordinary maternity, paternity or adoption leave or paid shared parental leave and any paid additional maternity or adoption leave). Important note: If the employee receives no pay, employer contributions should still be paid.

3. To calculate and provide to the member the APP amount should an employee wish to purchase an Additional Pension Contributions (APC) or a Shared Cost Additional Pension Contribution (SCAPC) contract to buy back the pension 'lost' during the absence, Important note: before a period of absence employers must bring to the attention of the employee that they can buy back the 'lost' pension and also direct employees to the APC calculator at: **https://www.lgpsmember.org/more/apc/index.php**

Retirement estimates - employer responsibilities:

1. To submit a request using the **Request for Estimate Form**. Each form must be signed by an authorising officer.

2. To provide pay and other relevant information such as details of the maximum strain the employer can pay given other exit payments and whether the exit cap is applicable requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests by an agreed timescale with us.

Transfer in / out estimates - employer responsibilities:

1. To submit a request.

2. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests by an agreed timescale with us.

Divorce estimates - employer responsibilities:

1. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests, by an agreed timescale with us.

Outsourcing estimates - employer responsibilities:

1. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests, by an agreed timescale with us.

2. Re staff transfers e.g. outsourcings, in line with our **guidance notes on transfers of staff between**

our employers including academy conversions to ensure early notification / liaison with us when considering an outsourcing exercise which affects members / eligible members of the LGPS.

Actual retirements - employer responsibilities:

1. To submit the appropriate **Leavers Form** and details such as the maximum strain the employer can pay given other exit payments and whether the exit cap is applicable to us as soon as the information is available. N.B. The Leavers Form must be completed fully and be signed by an authorising officer, as it confirms the information required to enable the benefits to be calculated and the employer's decision as to the type of benefit that is to be paid to the member.
2. To include a reference in the retirement letter to remind employees to advise us directly if they subsequently move house so that we can maintain contact with the retired member.

Ill health retirements - employer responsibilities:

1. To determine whether an ill health benefit award is to be made, based on medical evidence and the criteria set in the LGPS regulations.
2. After obtaining an opinion from an approved Independent Registered Medical Practitioner (IRMP) on the appropriate **Medical Certificate**, determine which tier (1, 2, or 3) is to be awarded.
3. Submit the completed **Medical Certificate and Leavers Form** to us with all related paperwork and a copy of the notice letter issued to the member (which must confirm the level of ill health benefits awarded and the appeal information).
4. To keep a record of and at 18 months review all Tier 3 ill health retirements, arranging as appropriate a further **medical certificate**.
5. To notify us to recover any overpayment of benefits following a discovery of gainful employment.
6. To include a reference in the dismissal letter to remind employees to advise us directly if they subsequently move house, so that we can maintain contact with the retired member.

Members leaving employment before retirement - employer responsibilities:

1. To notify us using the **Leavers Form**, ensuring all relevant information is included on the form, within a reasonable time of the members leave date.
2. To include a reference in the acknowledgement letter to remind employees to advise us directly if they subsequently move address so that we can maintain our contact with the retired member.
3. To send us notification of any eligible employees subject to automatic enrolment, who opt out of the LGPS within 6 weeks of joining.
4. To check the date on all **Opt out forms** is not earlier than the end of the current pay period.

Deferred members - employer responsibilities:

1. To keep adequate records of the following for members who leave the LGPS with deferred benefits, as early payment of benefits may be required:
    a. Name.
    b. Last known address.
    c. NI Number.
    d. Payroll number.
    e. Date of birth.
    f. Last job information including job description.

g. Salary details.

h. Date and reason for leaving.

2. To determine, following an application from the former employee to have their deferred benefits paid early, whether or not they are eligible for early payment on ill health grounds in line with the criteria set in the relevant (NB these depend on date of leaving) regulations and after seeking suitable medical opinion from an IRMP.
3. To determine whether any actuarial reduction can be waived on compassionate grounds in accordance with the employers **Policy Statement on discretions**.

Death in service - employer responsibilities:

1. To inform us immediately of an employee who has died – this can initially by telephone or email to enable us to calculate or cease benefits.
2. Any notification of death in service should be followed with the receipt of a completed **Leavers Form**.

Death of pensioner / deferred member - employer responsibilities:

1. Although employers have no responsibilities on the death of these members, it would be helpful if they could help when a dependent contacts them by advising the dependent to contact us.

Additional voluntary contributions (AVCs), Additional Pension Contributions (APCs) and shared cost APCs (SCAPCs) - employer responsibilities:

1. To communicate to employees the option of SCAPCs to cover periods of 'lost pensions' and the timeframe they must elect to purchase a SCAPC. Important note: Members must elect to make APCs within 30 days of returning to work following the absence, but employers have the discretion to extend this period. This should be laid out in the employer's Policy Statement on discretions.

Adjudication of disagreements – employer responsibilities

1. Under regulation 72 of the **LGPS 2013 Regulations**, any decisions made by an employer affecting an employee's rights to membership, or entitlement to benefits must be made as soon as is reasonably practicable and notified to the employee in writing including a reference to their right to appeal in line with regulation 73 of the LGPS regulations.
2. An employer must notify us of a decision made under Regulation 72. Every notification must:

- Specify the rights under Stage 1 and Stage 2 of the appeals procedure quoting the appropriate regulations.
- Specify the time limits within the appeal, under either stage, which apply.
- Specify to whom an application for appeal must be made to. For first stage appeals this must be the nominated person of the employer who made the decision. For second stage appeals this will be the appointed person at the Administering Authority.

3. Employers must notify us of any first stage appeals they receive.
4. Each employer is required to nominate and name the person to whom applications under stage 1 of the Appeals Procedure should be made.

3. Further Information

We administer the LGPS and as at 31 January 2022 managed £3,566 million of worldwide assets on behalf of about 190 employers and 65,000 members.

As at 31 January 2022 we were 101% funded.

We have a budget of £1.5m for pensions administration and have 25 staff in our pension administration department. We work with the following:

- AEW
- Barclays
- BNY Mellon
- Bridgepoint
- BSIF Housing and Infrastructure
- First Sentier
- Grant Thornton UK LLP
- Hermes Investment Management
- Invesco Real Estate
- Legal & General Investment Management
- LGPS Central Limited
- Mercer
- MJ Hudson Allenbridge
- Nomura Asset Management UK Ltd
- Northern Trust
- River & Mercantile
- Scottish Widows
- Stonepeak Infrastructure partners
- UK Green Investment Bank
- Venn Partners
- Walton Street Capital, LLC

This Pension Administration Strategy has been prepared in accordance with LGPS regulations, see (reg 59): **http://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php**

Audit

We are subject to audit of our processes and internal controls. Employers are expected to fully comply with any requests for information from both internal and approved external auditors. Any subsequent recommendations will be considered and where appropriate implemented with employer cooperation.

Benchmarking

We will regularly monitor our costs and service performance by benchmarking with other administering authorities. Details of the costs of administration, quality measures and standards of performance will be published in our **Annual Report and Financial Statements**.

Data Protection Act 2018

We are a Data Controller as part of the Data Protection Act 2018 which incorporates the General Data Protection Regulation (GDPR). This means we store, hold and manage personal data in line with statutory requirements to enable us to provide pension administration services. To enable us to carry out our statutory duty, we are required to share information with certain bodies, but will only do so in limited circumstances. More information about how we hold data and who we share it with can be found in our Privacy Notice at **www.worcestershirepensionfund.org.uk**.

Secure Data Transfer

We will follow Worcestershire County Council's (the Fund's Administering Authority) data security guidelines when sending any personal data, including its published data sharing policy. This means that member's personal data will only be transferred from one party to the other via an acceptable method specified by the Administering Authority which may include any of the following:

- Secure email.
- Paper forms signed by an authorising officer from the employer.
- Password protected Excel spreadsheets.
- Password protected portal.

FOR OFFICE USE ONLY:

Worcestershire Pension Fund Pension Administration Strategy

Version: Final (following the second annual review)

Author: Chris Frohlich, Engagement Manager

Dated: March 2022

Signed Off: Pensions Committee 23 03 2022

Worcestershire Pension Fund

Appendix C

Investment Strategy Statement 2022

Find out more online:
www.worcestershirepensionfund.org.uk

Contents

1. Introduction

This is the Investment Strategy Statement (the 'Statement') of the Worcestershire Pension Fund (the Fund) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations"). In preparing this Statement, the Pensions Committee has consulted with such persons as it considered appropriate.

Fund Governance

Worcestershire County Council is the administering authority for the Fund under the regulations. Worcestershire County Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's assets and comprises of elected members and one employee representative and two employer representatives. In addition, the Fund has a Pensions Board whose role is to assist with good governance by ensuring compliance with statutory and regulatory duty. Finally, the Pensions Investment Sub Committee advises the Pensions Committee on investment issues relating to the Fund. The Pensions Board has no decision-making powers whereas the Pensions Investment Sub Committee does.

The Fund's Strategic asset allocation benchmarks and ranges are shown in Appendix A.

The Statement is subject to review at least annually and from time to time on any material changes to any aspects of the Fund, its liabilities, finances, and its attitude to risk which is judged to have a bearing on the stated investment policy. In preparing this statement, the Committee has considered advice from the Funds independent investment adviser.

The responsibilities of relevant parties are set out in the Governance Policy Statement. **Governance Policy Statement**

The Funds List of Advisers are set out at Appendix B

The Fund's Statement of Investment Beliefs are set out in Appendix C.

The following are publicly available on the Fund's website:

- Funding Strategy Statement
- Governance Policy
- Policy Statement on Communications (Within Administration Policy)

2. The Fund's Objectives

The primary objectives of the Fund are to:

(a) Ensure that sufficient assets are available to meet liabilities as they fall due.

(b) Maximise returns at an acceptable level of risk.

The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit. The full funding projection is achieved over a 15-year time frame.

In addition, the Fund has the following objectives:

- To be a leading performer in the LGPS sector
- To provide excellent customer service

Funding Strategy Statement

The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The FSS can be viewed on the website.

All Local Government Pension Scheme (LGPS) funds must produce, consult on, and publish a document called a "Funding Strategy Statement" (FSS). The purpose of the FSS is:

a. To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward.

b. To support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and

c. To take a prudent longer-term view of funding those liabilities.

However, there will be conflicting objectives which need to be balanced and reconciled. For example, for most employer's objective a) implies low contribution rates, because they would see pension liabilities being "best met" by gaining as much help as possible from the investment strategy over the long term, which would lead you towards an equity-biased investment strategy. By contrast, objectives b) and c) imply stability and prudence of employer contribution rates, which would lead you towards a bond biased investment strategy.

Therefore, the best that can be achieved is a sensible balance between these different objectives

1. Risk

The risk tolerance of the Fund is determined through working with the Pensions Committee, investment managers, officers, and independent advisers to set investment beliefs, funding, and investment objectives. This is incorporated into the Strategic Investment Allocation Benchmark (SIAB), benchmarks and ranges. Risk is monitored by the Pensions Committee using a risk register and risk management tools as advised by the Fund's fund managers, investment advisers and the actuary.

The Fund is exposed to Investment, operational, governance and funding risks. These risks are identified, measured, monitored, and then managed. This is carried out using risk registers with section responsibility and oversight from the Chief Financial Officer.

The principal risks affecting the Fund are as follows:

Funding Risks Liabilities versus the Strategic Investment Allocation Benchmark (SIAB)

a. **The risk of deterioration in the funding level of the Fund**. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark assisted by the Fund's investment advisor. The strategic asset allocation benchmark seeks to achieve the appropriate balance between generating the required long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

b. **The risk of changing demographics** such as improvement in longevity and other demographic factors, increasing the cost of benefits

The Fund monitors this by reviewing mortality and other demographic experience and assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

c. **Systemic risk**, i.e., the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund mitigates systemic risk through having a diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles.

d. **Inflation risk** The Fund mitigates inflation risk through holding a portfolio of growth and inflation linked assets. Inflation risk is considered at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

e. **Future Investment Returns (Discount rate) risk** The Fund's funding and investment strategies are inter-linked and discount rate risk is mitigated by reviewing them at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

f. **Currency risk that the currency of the Fund's SIAB underperforms relative to sterling (the currency of the liabilities)**. The currency risk of the benchmark is considered at least triennially in the setting of the SIAB. Recommended changes will be expressed through changes in the benchmark and implemented by the investment managers.

Asset Risks (the portfolio versus the SIAB)

a. Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

b. Illiquidity risk i.e., that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

c. Currency risk i.e., that the currency of the Fund's assets underperforms relative to the SIAB.

d. Manager underperformance, i.e., when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

e. Responsible Investment (RI) risks, i.e., including climate-related risks, that are not given due consideration by the Fund or its investment managers.

The Fund manages these asset risks by: -

- Constraining how far Fund investments deviate significantly from the SIAB by setting diversification guidelines and the SIAB strategic ranges.
- Investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
- Investing across a range of liquid assets, including quoted equities and bonds; the Fund has recognised the need for some access to liquidity in the short term.
- Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process.
- Appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.
- Actively addressing environmental, social and governance (ESG) risks through implementation of its Responsible Investment (RI) beliefs.

The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, the Pensions Committee is comfortable taking this risk in general but may act to mitigate potentially significant risks as and when they are identified.

The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme Regulations.

Operational Risk

a. Transition risk of incurring unexpected costs in relation to the transition of assets amongst managers.

When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers to mitigate this risk when it is cost effective to do so.

b. Risk of a serious operational failure by asset managers and/or LGPSC

These risks are managed by having robust governance arrangements with LGPSC and by quarterly monitoring with asset managers

c. Custody risk of losing economic rights to Fund assets, when held in custody or when being traded.

These risks are managed by:

- The use of a global custodians for the custody of assets.
- The use of formal contractual arrangements for all investments.

When the Fund's investments are pooled in LGPSC, the asset servicer contract includes depositary protection over investment vehicles.

d. Risk of unanticipated events such as a Pandemic on normal operations

These risks are managed by back up arrangements for computer operations, including the ability to work remotely.

e. Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:

- Maintaining a comprehensive risk register with regular reviews.
- In-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny/oversight and reporting of KPIs of its service providers and audit of the operations they conduct for the Fund.

f. Cashflow management risks)

The Fund is becoming more mature and although its cashflow has been positive after taking investment income, the table below shows that net cashflow in 2021/22 will reduce mainly due to the impact of several employers who paid their contributions 3 years in advance in 2020/21. Therefore, managing cashflow will become an increasingly important consideration in setting the investment strategy. Mitigating actions are already being taken to manage the cashflow shortfall by investing in assets that produce cashflows such as Property, Infrastructure and fixed income that can be used to meet these payments.

The table below sets out the cashflow position of the Fund over the last six fiscal years and is continually monitored.

Cashflow Management	2023-24 £'M	2022-23 £'M	2021-22 £'M	2020-21 £'M	2019-20 £'M	2018-19 £'M
Contributions receivable	101.3	98.4	95.5	201.6	87.5	81.8
Benefits Payable	-124.2	-118.3	-114.7	-112.6	-111.9	-106.3
	-22.9	**-19.9**	**-19.2**	**89.0**	**-24.4**	**-24.5**
Investment income	48.0	48.0	48.0	29.1	48.6	51.7
Net Cashflow	**25.1**	**28.1**	**28.8**	**118.1**	**24.2**	**27.2**

1. Investment Strategy

Funding Policy

The objectives of the funding policy are expressed in its FSS. The Fund has a strong employer covenant, being funded largely by tax-raising local authorities. Therefore, the Committee can adopt a long-term view, without concern about the ability of its sponsors to meet their liabilities.

Given the on-going restructuring of public bodies the Fund is now maturing increasingly faster. Positive cashflow are declining (although investment income is available if the Fund does go Cashflow negative) and this position is being closely monitored. However, at this time it is not felt necessary to change the investment strategy of the Fund.

As the Fund has a deficit of assets against liabilities (91% funded at the 2019 Triennial Valuation), the Committee wishes to achieve the maximum assistance from investments in reducing this shortfall. This would suggest a higher risk strategy to generate returns, but this is moderated by the realisation that such a strategy can also lose significant amounts of money in the short-medium term.

It is the Fund's employers who would feel the result of unstable employer rates, and for the precepting authorities, ultimately the local taxpayer either through Council Tax or through service levels. Therefore, another very important consideration is the need for relative stability of investment returns, given that employee rates are fixed by statute and the tools available in the actuarial valuation process for smoothing of returns are limited. This can be achieved by investments that are inherently more stable, such as bonds. However, it is also aided by diversification (so that the ups and downs on particular investments do not arise together), and by seeking returns from both markets ("beta") and investment managers ("alpha") whose returns are skill based and relatively independent of the market.

Consequently, the Committee has set an overall investment goal that reflects these four factors.

Investment Strategies / Pots

In order that the Fund delivers on its key objectives (ensuring that each employer takes the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost), the Fund has introduced three distinct investment strategies (Growth, Medium and Cautious risk). These are detailed in Appendix A

Each investment strategy has its own strategic asset allocation benchmark. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating the required long-term returns, whilst taking account of market volatility, risk, and the nature of the Fund's liabilities.

The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. The Fund undertakes a fundamental review of the strategic asset allocation every three years following actuarial valuations. The Fund also monitors compliance with this statement at least quarterly and monitors progress towards the long-term funding objective for relevant groups of employers on a regular basis.

In addition to the fundamental review of the strategic asset allocation undertaken every three years, the Fund monitors the progress of employers within the Growth and Medium Strategies on a regular basis. This gives the Fund the opportunity to adjust the strategic asset allocation in the event that a group of employers are ahead or behind their funding plan.

This is an important mechanism used by the Fund to ensure that each employer continues to take the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost. The progress of employers in Cautious Risk Strategy will be monitored every year as these employers are already invested in their “target funding plan”.

A full explanation of the process undertaken to assess employer funding progress is provided in the Fund’s Investment Risk Management: All about Worcestershire Pension Fund’s (the Fund’s) Investment Pots which is published on the website.

Investment Goal

The Fund’s investment objective is to achieve a relatively stable “real” return above the rate of inflation over the long term, in such a way as to minimise and stabilise the level of contributions required to be paid into the Fund by employer bodies in respect of both past and future service liabilities.

Process for ensuring suitability of investments

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund (see Appendix A) considering both the liability structure and the objectives set out above. The Fund’s benchmarks are consistent with the Pensions Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities. The Investment beliefs in appendix C also assist in formulating the investment strategy.

The Pension Committee monitors investment strategy relative to the agreed asset allocation benchmarks and strategic ranges. If ranges are breached, then appropriate action is taken by the Chief Financial Officer. In addition to ongoing monitoring the investment strategy is formally reviewed annually by Pensions Committee. Furthermore, specific consideration is given to the investment strategy in the light of information arising from each triennial actuarial valuation. The Pension Investment Sub Committee monitors the asset allocation on a quarterly basis.

2. Diversification

The Fund is diversified across multiple asset classes with different risk return expectations and correlations to deliver the targeted return of the Fund. Appendix A shows the Strategic Investment Allocation Benchmark (SIAB) and strategic ranges.

3. Day-to-Day Management of the Assets

Investment management structure

The Pensions Committee retains responsibility for the investment strategy of the Fund but has delegated oversight of its implementation to the Chief Financial Officer. The day to day management of the Funds’ investments is delegated to the Fund’s external investment managers.

External Investment Managers

The Fund has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The investment managers are required to comply with LGPS investment regulations.

Suitable Investments

Subject to the LGPS regulations on allowable investments the Fund may invest in a wide range of assets and strategies including quoted equity, Government and Non-Government bonds, money markets, traded options, financial futures and derivatives, alternative strategies including Infrastructure and property Pooled funds. The fund uses external managers to carry out stock lending ensuring suitable controls/risk parameters are put in place to prevent losses. Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it will not be held.

When new asset classes are considered and are not listed above then approval will be sought from the Pensions Committee after receiving advice on its suitability and diversification benefits.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation benchmarks for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

Expected Return on the Investments

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation (the discount rate). The individual mandates are expected to match or exceed the specific targets set for each portfolio over time.

Investment Restrictions

The investment management arrangements prohibit the holding of investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Operating within the investment regulations, the Fund determines investments that are acceptable and approved as such by the Pensions Committee.

Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Scottish Widows and Utmost Life.

The Fund monitors, from time to time, the suitability and performance of these vehicles.

Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's liquidity characteristics are monitored on a regular basis and the majority of the Fund's investments may be realised quickly if required. A number of the Fund's alternative investments in pooled Infrastructure and property funds, may be difficult to realise quickly in certain circumstances. The Fund will ensure that the liquidity of the investments is suitable to meet future cash flow requirements.

Monitoring the Performance of Fund Investments

The performance of the external investments is independently measured. In addition, officers of the Fund meet external investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance. The Pensions Committee meets at least quarterly to review markets, asset classes and funds.

4. Day-to-Day Custody of the Assets

The Fund has appointed a global custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

5. Stock Lending

Stock lending is undertaken in respect of the Fund's quoted equities holdings through the custodian / asset servicer. There is a formal stock lending agreement and approved collateral. Stock lending may also take place in pooled investment vehicles held by the Fund.

For the assets managed by LGPSC on the Funds behalf, LGPSC has an active securities lending programme. To ensure that LGPSC can vote its shares at important meetings, it has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. LGPSC monitors the meetings and proportion of the securities on loan, and will restrict and/ or recall lent stock in select circumstances, with due consideration to the advantages of voting the shares versus the cost implications of recalling or restricting the loan of the stock

6. Approach to Pooling

The Fund has joined the LGPSC Limited pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to more uncorrelated asset classes. Becoming an FCA registered investment manager will lead to improved governance, transparency and reporting giving the Fund assurance that its investments are being carried out effectively.

LGPSC has been set up as an arms-length company, accredited by the Financial Conduct Authority, to manage the pooled investment assets of eight LGPS funds across the centre of England. The Fund is one of the eight partner funds, all of whom hold equal shares in the company. LGPSC started trading on 3rd April 2018 and all partner funds are starting to migrate assets to LGPSC.

The Fund is participating in the pool with the belief that the Fund will benefit from lower investments costs achieved through the aggregation of assets. In addition, the Fund will have greater access to a broader range of investable asset classes, including new and innovative products and services. LGPSC and the partner funds have put in place a robust governance framework to ensure the company operates effectively and delivers timely and transparent reporting to shareholders and client funds.

The Fund will retain full responsibility and control over its strategic investment allocation policy with LGPSC being responsible for implementing the strategy via the engagement and dismissal of managers and the day to day monitoring of manager investment performance. Subject to satisfactory due diligence and value for money considerations being satisfied, the Fund intends to continue to invest its assets with LGPSC. Investment strategy will be determined by the Fund with advice from fund managers, operators, and the Independent investment adviser.

7. Responsible Investment (RI) and Stewardship

What do we mean?

Responsible investment is an approach to investment that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns.1 It has relevance both during the selection of an investment and after an investment decision has been made, through on-going stewardship activity which covers considered voting and engagement with investee companies.

Responsible investment is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach to selecting investments on the basis of ethical beliefs (beliefs about what is morally right and wrong).

Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term. The Fund's investment team seeks to understand relevant ESG factors alongside conventional financial considerations within the investment process, and the Fund's external investment managers are expected to do the same. Non-financial factors may be considered to the extent that they are not detrimental to the investment return

ESG factors include:

Environmental

- Climate risk
- Carbon emissions
- Energy usage
- Raw material sourcing
- Supply chain management
- Waste & recycling
- Water management

Social

- Community relations
- Employee relations
- Health & safety
- Human rights
- Product responsibility
- Workforce diversity

Governance

- Board structure
- Executive remuneration
- Bribery and corruption
- CEO/Chair duality
- Shareholder rights
- Vision & business strategy
- Voting procedures

Stewardship

We define the concept of stewardship in the same way as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code which was updated in 2020:

"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society"

Responsible Investment and LGPSC

From 1 April 2018 the implementation of parts of the Fund's investment strategy has been undertaken by LGPSC, an investment management company set up by 8 Local Authorities (including Worcestershire County Council) in line with the latest scheme regulations. The Fund will seek to ensure that LGPSC is set up to deliver objectives of this RI policy alongside that of the other Funds involved.

LGPSC Limited has developed a Responsible Investment & Engagement Framework (LGPSC Framework) incorporating the investment beliefs and responsible investment beliefs of the eight funds within the LGPSC Limited Pool which will be applied to both internally and externally managed investment mandates. The Fund's investment beliefs can be found in Appendix C

In collaboration with the eight Partner Funds, LGPSC has identified four themes that will be given particular attention in its ongoing stewardship efforts. The four themes, which will be reviewed after three years, are: Climate change; Single-use plastics; Fair tax payment and tax transparency; and Technology and disruptive industries. The partner funds and LGPSC believe that identifying core themes helps direct engagement and sends a clear signal to companies of the areas that the partner funds and LGPSC are likely to be concerned with during engagement meetings. WPF will monitor closely the effectiveness of LGPSC and their work in this area to support the Fund in its ongoing requirements.

LGPSC also supports the Fund through the annual preparation of a Climate Risk Report which supports the Fund in the preparation of the Fund's Climate-related Financial Disclosure Report prepared in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

It is expected that the Fund's ability to invest in a responsible way will be enhanced through LGPSC due to the inherent benefits of scale, collectivism and innovation that will result from being part of the pool. In order to broaden its stewardship activities, LGPSC appointed EOS at Federated Hermes as its stewardship provider, with the remit of engaging companies on ESG issues, and executing the LGPSC Voting Principles which are also the principles agreed by the Fund (see **shareholder voting** below).

RI Beliefs and Guiding Principles (See Appendix C)

The Fund's RI Beliefs (see Appendix C) underpin its RI approach. Taking these beliefs as foundational, the Fund has adopted two RI aims: (1) primarily, to support the Fund's investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry and raise standards across the marketplace.

The Fund intends to realise these aims through actions taken both before the investment decision (which we refer to as the **Selection** of investments) and after the investment decision (the **Stewardship** of investments). Actions will be taken with reference to an evidence base, using the best available objective data sets. We aim to be **Transparent** to all stakeholders and accountable to our clients through regular **Disclosure** of RI activities, using best¬ practice frameworks where appropriate. These ambitions yield the Fund's three RI pillars: Selection, Stewardship and Transparency & Disclosure.

Climate Change

The Committee recognises that financial markets will be impacted by climate change and by the response of climate change policy makers. Risks and opportunities related to climate change are likely to be experienced across the whole of the Fund's portfolio. The current understanding of the potential risks posed by climate change, together with the development of climate-related measurements and disclosures, are still at an early stage, and there is considerable variability in the quality and comparability of carbon emission estimates. It is recognised that it will take time for companies to adapt to the changing regulatory and market positions.

Reflecting the potential material effect of climate change, and the global response to climate change on the assets and liabilities of the Fund, a separate Climate Risk Strategy has been developed, a copy of which can be found on the Fund's website.

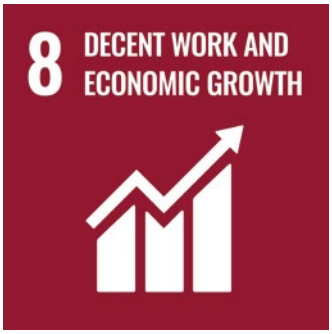
Selection

The Fund believes that effective management of financially material RI risks should support the Fund's requirement to protect returns over the long term. Investment managers will seek to incorporate RI into their investment process. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them. The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund believes that Sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term.' The Fund believes that this can be achieved by focussing on the specific United Nations Sustainable Development Goals (SDGs) that the Fund wants to target from an investment perspective. The SDGs are a global footprint for achieving a more sustainable future for everyone. Developed by the United Nations they recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth. For further information see: **https://www.un.org/sustainabledevelopment/**. The targeted SDGs are as follows:-

Economic Goals



Climate Goals

Health Goal

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

- The Fund will set longer-term performance objectives for its investment managers.
- The Fund will seek to ensure that its long-term interests are aligned with that of its investment managers on all issues including on ESG considerations.
- Policies relating to ESG will be considered as part of the Fund's long-term investment planning process, following a thorough and robust investment appraisal.

We will use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of RI principles across our Investment strategy to make better more informed investment decisions and encourage / influence better corporate practices that lead to value creation and good risk management and:

- The Fund will consider the potential financial impact of ESG related issues on an ongoing basis (e.g., climate change or executive remuneration).
- The Fund will consider the potential financial impact of investment opportunities that arise from ESG related factors (e.g., investment in renewable energies or housing infrastructure).
- The Fund will consider investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e., Renewable energy and social impact investments
- The fund will consider investment opportunities that have positive impacts against the targeted SDGs agreed by the Fund

Stewardship

Company Engagement and Engagement through Partnership

Company Engagement and Engagement through Partnership

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. The Fund adopts a policy of risk monitoring and engagement with companies on financially material RI issues, in order to positively influence company behaviour and enhance shareholder value; influence that would be lost through a divestment approach. The Fund extends this principle of "engagement for positive change" to the due diligence, appointment, and monitoring of external fund managers.

As part of the external Fund manager monitoring the Fund will request a report on the portfolio's alignment to the Funds targeted Sustainable Development Goals (SDGs) detailed above in the 'Selection' part above and Carbon Risk metrics on an annual basis.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. To this end, the Fund uses its membership of the Local Authority Pension Fund Forum (LAPFF) and being a partner to the LGPSC pool to assist it in pursing engagement activities.

The Fund will engage investee companies on issues, including ESG issues that are material to long term value creation and robust risk management in order to safeguard and grow the Fund

- The Fund is committed to compliance with the UK Stewardship Code1 and working within the spirit of the Principles of Responsible Investment ("PRI").
- We will hold our investment managers to account to ensure compliance with this policy
- The Fund is committed to collective engagement through its membership of the Local Authority Pension Fund Forum (LAPFF), the LGPSC pool and other opportunities that arise from time to time.
- The Fund will exercise its voting rights in all markets where practicable

It should be noted that although disinvestment is not currently the Fund's policy, it could be considered in the future if a particular manager or company was not making any attempt to comply with our Fund's stated policies.

Shareholder Voting

On the 21st of June 2019 the Pensions Committee agreed that LGPSC would via EOS vote shares in certain discretionary and pooled funds on the Fund's behalf. These votes will be executed in line with LGPSC's published **Voting Principles**. The Fund believes that the advantage of a consistent signal and working collectively through the pool will have a positive influence on company behaviour.

Shares held in passively managed portfolios will be voted according to the voting policies of the Fund's appointed fund manager, Legal & General Investment Management (LGIM). The Pension Committee is satisfied that LGIM's approach to shareholder voting is sufficiently robust and aids in the delivery of the Fund's RI objectives.

Transparency & Disclosure

The Fund is committed to the UK Stewardship Code and was successful in its compliance with the 2020 version of the Stewardship Code.

LGPSC provides quarterly reporting for all funds managed by LGPSC detailing how votes have been cast in different markets and a vote by vote disclosure for full transparency. Engagement and voting disclosure is also done specifically for listed securities held across the Fund's portfolios

How Will We Monitor our Performance on Responsible Investment?

The Fund will ultimately be **transparent and accountable** in terms of its performance on Responsible Investment. This will be achieved through the following approach:

- The Fund will publish its Investment Strategy Statement and its Climate Risk Strategy on its website in line with the scheme regulations.
- Decisions relating to the setting of investment policy will be explained.
- The Fund will monitor closely its appointed investment managers whom the Fund rely on to implement its RI policy.
- The Fund will undertake an annual review of corporate governance, voting and engagement activity undertaken by the Fund and its underlying managers.
- The Fund will publish an annual summary of voting and engagement activity
- The Fund will ensure that its decision makers are properly trained and kept abreast of ESG issues to make informed decisions.
- The Fund will include ESG as standing item on Pensions Investment Sub Committee (or equivalent) agendas (with a view to reporting on manager performance in relation to ESG investing and noting any hot topics / issues arising).
- The Fund will undertake a fundamental review of any specific ESG issues that are considered by the Pension Investment Sub Committee to be of potentially material financial impact.
- The Fund will consider and respond to feedback from stakeholders in relation to issues of concern.
- Reporting annually using the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)
- The Fund will request External Fund managers to report on their portfolio's alignment to the Funds targeted Sustainable Development Goals (SDGs) detailed above under 'Selection' and Carbon Risk metrics on an annual basis.

8. Compliance with This Statement

The Fund will monitor compliance with this statement. It will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement, so far as is reasonably practicable.

9. Compliance with Myners

Following from the Myners' report of 2000 into institutional investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations identifying investment principles to apply to pension schemes.

These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives with a focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

The Myners' principles have since been updated, and the Fund continues to support and comply with them. Details of compliance are set out in the Fund's Governance Compliance Statement within the Fund's Annual Report, which can be found on the Fund's website.

List of Appendices

Appendix A – Strategic Allocation Investment Benchmark (SIAB) and Ranges.

Appendix B – List of Advisers

Appendix C – Statement of Investment Beliefs

Appendix A – Strategic Allocation Investment Benchmark and Ranges

	Growth	Medium	Cautious	
Asset Allocation	**%**	**%**	**%**	**Manager, Method & Performance Target**
Actively Managed Equities				
Far East Developed	10.0	5.0	0.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	5.0	0.0	LGPSC active global emerging markets equity mandates with BMO, UBS and Vontobel - FTSE - Emerging Market Index +2.0%
LGPSC Global Sustainable	6%	3%	0.0	LGPSC active Global Sustainable equity mandates with Liontrust and Baillie Gifford - FTSE – All World +2.0% to 3%
Passively Managed Equities - Market Capitalisation Indices				
United Kingdom	17.0	13.0	0.0	Legal and General Asset Management - FTSE All Share Index
North America	6.5	5.0	0.0	Legal and General Asset Management - FTSE All World North America - Developed Series Index
Europe ex - UK	5.5	4.0	0.0	Legal and General Asset Management - FTSE All World Europe ex UK Index - Developed Series Index
Passively Managed Equities – Alternative Indices				
Global	15.0	5.0	0.0	Legal and General Asset Management: • 60% STAJ - CSUF - STAJ MF36726/36727 (Quality Factor) • 40% LGPSC All World Equity Multi Factor Climate Fund
Fixed Income				
Fixed Income	10.0	40.0	80.0	• LGPSC Global Active Investment Grade Corporate Bond (Fidelity & Neuberger Berman) - Fund 50% GBP IG Corporate (Ex EM Issues) / 50 % Global IG Corporate ((ex IG Corporate & EM Issues) hedged to GBP +0.80% • Bridgepoint Corporate Private Debt
Actively Managed Alternative Assets				
Property & Infrastructure	20.0	20.0	20.0	Through a mix of Green Investment Bank, Invesco, Hermes, Walton Street, Venn Partners, Stonepeak, First Sentier, AEW, Gresham House etc
TOTAL	**100.0**	**100.0**	**100.0**	

Tolerance Ranges

<table>
<tr><th>Asset Type</th><th>Growth</th><th>Medium & Cautious</th><th>Role (s) within the Strategy</th></tr>
<tr><td>Equities</td><td>+/- 5%</td><td>+/-2.5%</td><td>Deliver long term growth above inflation and generate investment income i.e., dividends.</td></tr>
<tr><td>Growth Fixed Income</td><td>+/- 5%</td><td>+/-2.5%</td><td>Provide protection from changes in real yields both in terms of capital value and income</td></tr>
<tr><td>Property</td><td rowspan="2">+/- 5%</td><td rowspan="2">+/-2.5%</td><td>Diversification; generate investment income; provide some inflation-sensitive exposure; illiquidity premium</td></tr>
<tr><td>Infrastructure</td><td>Provides the Fund with access to a diversified (but long term, illiquid) return and a stream of inflation related income</td></tr>
<tr><td>Index Linked Gilts</td><td>+/- 5%</td><td>+/-2.5%</td><td>Provide protection from changes in real yields both in terms of capital value and income</td></tr>
<tr><td>Diversified Growth / Multi Asset</td><td>+/- 5%</td><td>+/-2.5%</td><td>Diversification and dynamic asset allocation</td></tr>
</table>

Appendix B - Advisers as at March 2022

MJ Hudson – Philip Hebson

Investment policy, general investment matters.

Mercers

Actuarial matters

Local Authority Pension Fund Forum (LAPFF)

Company governance issues.

BNY Mellon

Custodian, Stock lending.

Appendix C - Statement of Investment Beliefs

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

Financial Market Beliefs

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for skilled active managers.
- In making investments in illiquid assets, a return premium should be sought.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.
- The Fund believes that investing for the long term can add value, as it allows the fund manager to focus on long term value and use short term volatility to establish favourable investments.
- Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it should not be held.

Investment Strategy/Process Beliefs

Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.

Risk should be viewed both qualitatively and quantitatively. Focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Listed Equities are expected to generate superior long-term returns relative to Government bonds and our beliefs in this Listed Equities are expanded below:
    a. Passively managed market cap-based investment has a balancing role to play in most pension schemes' equity allocations, bringing liquidity, transparency and reducing average fee levels.
    b. Market cap weighted indices have their drawbacks; adding carefully selected systematic, factor tilted equity strategies can improve risk-adjusted returns, benefiting from disciplined rebalancing (the "rebalancing premium").
        i. i. Exposure to "valuation factors" can improve risk adjusted returns over time. Even if outweighed by technical factors in the short-term, diversified exposure to valuation-based factor tilts can add excess return per unit of risk over a reasonable timeframe.
        ii. ii. Exposure to the "low volatility factor" can reduce absolute equity volatility and improve risk-adjusted returns. Strategies can be implemented which manage downside risk while achieving market returns over time.
        iii. iii. Exposure to the "small size factor" can improve risk-adjusted returns. A diversified tilt towards medium and smaller sized businesses is generally rewarded over time.
        iv. iv. Carefully selected exposure to actively managed growth strategies can improve the balance of overall equity exposure and improve risk adjusted returns.

c. Exposure to emerging markets provides diversification and the opportunity for higher returns due to the higher risk premium typically earned for investing in these markets.

d. With sufficient research and governance, active equity management can be incorporated to add value relative to market cap weighted indices; overall active equity exposure should be focused predominantly on stock-specific risk.

e. Currency exposure associated with investing in equities can add volatility. Whilst it can be desirable to retain exposure to some currencies, hedging a proportion of non-domestic currency exposure can reduce the volatility of equity investing.

- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time, but it is not guaranteed and can be hard to access managers who consistently out-perform the relevant benchmark. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty, conflicts of interest and reputational risk need assessment and management, in addition to investment risk.
- Concentrated portfolios (smaller numbers of holdings or less external managers) allow for greater investment focus, lower investment costs, and enable more focused engagement with Responsible investment.
- Managing fees and costs matter especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

Organisational Beliefs

- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- When outperformance of a desired benchmark is not possible the fund will use index funds, financial instruments, or proxies (Investments that share similar characteristics) to gain exposure to the asset class in the most cost-effective way.
- Investment costs are necessary to generate outperformance in asset classes where outperformance is achievable. Investment costs are a certain cost that should be fully transparent and managed by the operator in the best interests of the pension Fund.

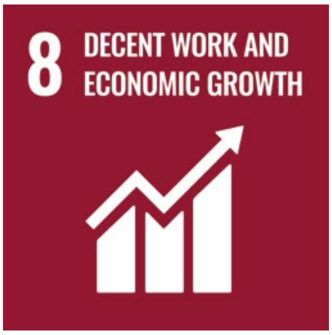
Responsible Investment Beliefs

- **Long termism:**

  A long-term approach to investment will deliver better returns and the long-term nature of the Fund's liabilities allows for a long-term investment horizon

  The Fund believes that Sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term.' The Fund believes that this can be achieved by focussing on the specific United Nations Sustainable Development Goals (SDGs) as follows:

  Economic Goals



  Climate Goals

  Health Goal

- **Responsible investment:**

  Responsible investment is supportive of risk adjusted returns over the long term, across all asset classes. Responsible investment should be integrated into the investment processes of the Fund and its investment managers.

- **Diversification, risk management and stewardship:**

  Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well diversified portfolios face systematic risk. Systematic risk can be mitigated over the long-term through widespread stewardship and industry participation.

- **Corporate governance and cognitive diversity:**

  Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision making, and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.

- **Fees and remuneration:**

  The management fees of investment managers and the remuneration policies of investee companies are of significance for the Fund, particularly in a low return environment. Fees and remuneration should be aligned with our long-term interests, and value for money is more important than the simple minimisation of costs.

- **Risk and opportunity:**

  Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with the Fund's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.

- **Climate change[1]:**

  Financial markets could be materially impacted by climate change and by the response of climate policymakers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of likeminded investors where feasible. See also the Funds separate Climate Risk Strategy

1 By highlighting climate change, rather than other RI risk factors, we are not asserting that climate risk has, for all assets, greater economic significance than other factors. Our motivation for referring specifically to climate change risk derives from our recognition that it is a risk factor of particular importance to several stakeholders, and we have communicated our investment beliefs about climate change for reasons of transparency.

Contacts and Further Information

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www.worcestershire.gov.uk/pensions

Worcestershire Pension Fund

worcestershire county council