Worcestershire

Annual Report and Financial Statements

for the year ending 31 March 2023

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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 2023.

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:

- Successfully completing the (as at 31 March) 2022 actuarial valuation at which point we were 101% funded on a solvency basis. I think that's quite an achievement considering that on 31 March 2019 the Fund was 90% funded and the period 1 April 2020 to 31 March 2023 included not only COVID but the Russian invasion of Ukraine. Incidentally, the position for our two largest employers who have a 45% share of the Fund's assets between them was that Worcestershire County Council was 107% funded and Herefordshire County Council was 98% funded.

- Retaining our signatory status to the UK Stewardship Code 2020.

- Making significant progress on restructuring our pensions administration department whilst continuing to have no backlogs, delivering a business-as-usual service, and meeting our KPI's.

- As part of the 2022 actuarial valuation producing updated versions of our Funding Strategy Statement and our All About our Investment Pots guidance note, and also reviewing our Making a Formal Representation for an Exit Credit Payment guidance note.

- Delivering a funding position of 101% at the latest actuarial triennial valuation as at 31 March 2022.

- Reviewing (and producing updated versions of) our key policy documents: Investment Strategy Statement, Governance Policy Statement, Pensions Administration Strategy, Policy Statement on Communications, Policy Statement on our Discretions, Training Policy and Programme, and Climate Change Risk Strategy.

- Adding a Policy on Conflicts of Interest, a Policy on Representation, and a Policy on Payment of Death Grants to our governance documents and reviewing our Business Plan and Risk Register.

- Delivering the Fund's third Climate Risk Report.

Picking out some highlights, the Committee agreed:

- To reduce further the carbon footprint of the Fund's listed equity portfolio; set an internal decarbonisation reduction target up to 2025 at which point it will be further reviewed; continue to invest a proportion of the Fund's portfolio in low carbon & sustainable investments; and use the Climate Scenario Analysis to track and better understand the portfolio's capacity to transition into a low carbon economy. To remove the Funds equity protection strategy, invest in private equity, and reduce exposure to the UK whilst increasing investment in North America.

- Actions in response to the proposals made by the Scheme Advisory Board's Good Governance project.

- Our 2022 audited/unaudited annual reports that were completed within the required timescales.

- LGPS Central Limited's (LGPSC) Strategic Business Plan & Budget for 2023/34.
- Our climate related Financial Disclosures.

Scheme membership has also continued to grow and is now 67,739.

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 increase from 183 to 189.

Whilst this annual report by its nature looks back on 2022/2023, 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 2023

Administering Authority: Worcestershire County Council
Address: County Hall, Spetchley Road, Worcester WR5 2NP
Scheme Manager: Phil Rook, Chief Financial Officer

Pensions Committee on 31 March 2023

Representative	Meetings attended					Training received			
	28/06	13/10	13/12	08/02	22/03	13/05	22/06	03/10	08/02
Cllr E Eyre (Chair)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Cllr A Hardman (Vice Chair)		✓	✓	✓	✓				✓
Cllr L Mallett						✓			
Cllr T Marsh	✓	✓	✓				✓	✓	✓
Cllr S Richardson Brown	✓	✓		✓	✓			✓	✓
J Evans – Unison (Employee Representative)									
S Flynn (Employer Representative)		✓	✓	✓		✓			✓
Cllr K Hanks	✓	✓		✓	✓				

Pension Board on 31 March 2023

Representative	Meetings attended				Training received			
	07/06	05/10	22/11	03/03	13/05	22/06	03/10	08/02
Roger Phillips (Chair)	✓	✓	✓	✓	✓		✓	
Cllr Paul Harrison			✓	✓	✓			✓
Bridget Clark		✓	✓	✓			✓	✓
Andrew Lovegrove								
Adam Pruszynski (Lucy Whitehead to 22/11)	✓		✓	✓	✓			
Kim Wright			✓					
Cllr Tony Miller				✓				✓

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

Notes:

(1) The training on 13 May was on 'Does what we are paying our investment managers represent value for money?'.
(2) The training on 22 June was on the actuarial valuation 2022.
(3) The training on 3 October was on private equity.
(4) The training on 8 February was an ESG / responsible investment workshop.

Pension Investment Sub-Committee on 31 March 2023

Councilor A I Hardman (Chair)
Councilor E Eyre
Councilor K Hanks
Councilor T Marsh

LGPS Central Limited Shareholder Representative

Councilor A I Hardman

Investment managers on 31 March 2023

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

Global custodian (2022/2023)

BNY Mellon (Northern Trust for assets managed by LGPSC)

Independent investment adviser (2022/2023)

M J Hudson

Actuary

Mercer

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 Limited
Mike Weston, Chief Executive Officer

Pension Administration Advisory Forum
All employers were invited to the 22 June 2022 forum.

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 2023 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 increases in employer contributions.

- Having insufficient resources in pensions administration, leading to Insufficient staff resource or remaining staff not having the skills to do their areas of work.

- Inflation, leading to (1) higher employers pay settlements, leading to increases in liabilities; (2) lower real investment returns, requiring increases in employer contributions and leading to weaker employer covenants and (3) increased pension payments, putting pressure on liquidity

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 LGPSC Joint Committee oversees the risk register to ensure risks are logged and mitigating actions put in place. LGPSC, 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 31 March 2022 compared to the funding position at the last formal valuation on 31 March 2019.

Summary valuation results

	31 March 2019 £m	31 March 2022 £m
Total past service liability	3,090	3,585
Fund assets	2,795	3,562
Surplus/ (deficit)	(295)	23
Funding level	**90%**	**101%**

On 31 March 2023 we estimate that the Fund was 96% funded as a result of the impact of macroeconomic and geopolitical pressures on global markets.

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 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 2022 actuarial valuation a common rate of contribution of 18.8% of pensionable pay per annum was set for employers from 1 April 2023. These range over individual employers from 15.5% to 29.2%.

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 2025, with any changes to employers' contribution rates being implemented with effect from 1 April 2026. Our Funding Strategy Statement and the 2022 Actuarial Valuation Report are available from 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 2022/2023. The full Statement of Accounts is included from page 56 of this report.

Fund Account category	2021/22 £m	2022/23 £m	Notes
Net contributions	(44.4)	(33.0)	Contributions received increased year on year whilst Management expenses decreased. This was in part offset by an increase in
Return on investments	264.2	57.0	Investment income remained stable year on year however the change in market value, although still positive, wasn't as great in 2022.23 as in 2021.22.

Operational expenses – comparison of 2022/23 forecast to actual.

	2022/23 Budget £000	2022/23 Actual £000	2022/23 Variance £000
Administration, oversight & governance			
Employees	930	1,137	207
Supplies & services	231	385	154
Actuarial fees	410	500	90
Investment advisor expenses	88	55	-33
IT costs	393	373	-20
External audit fees	34	89	55
LGPSC governance & running costs	777	622	-155
Other expenses	0	40	40
Legal fees	10	29	19
Total	**2,873**	**3,230**	**357**
Investment management			
External fund managers	16,029	10,657	-5,372
Transaction costs	2,000	3,665	1,665
Custodian	113	113	0
Total	18,142	14,435	-3,707
Overall total	**21,015**	**17,665**	**-3,350**

Administration and management costs per member past 5 years

Process	2018/19	2019/20	2020/21	2021/22	2022/23
Investment management expenses					
Total cost (£'m)	11.9	14.4	17.3	20.4	15.1
Total membership (Nos)	62,254	63,635	64,770	66,599	67,739
Cost per member (£)	**191**	**226**	**267**	**306**	**223**
Administration costs					
Total cost (£'m)	1.1	1.5	2.0	1.7	1.5
Total membership (Nos)	62,254	63,635	64,770	66,599	67,739
Cost per member (£)	**18**	**24**	**31**	**26**	**22**
Oversight and governance costs					
Total cost (£'m)	0.1	0.1	0.9	1.1	1.0
Total membership (Nos)	62,254	63,635	64,770	66,599	67,739
Cost per member (£)	**1.6**	**1.6**	**13.9**	**17**	**15**
Total cost per member (£)	**210.6**	**251.6**	**311.9**	**348.0**	**260.0**

Oversight and governance costs have not significantly changed since 2020/21 when the allocation of LGPSC pool governance and running costs were included. Previously they were included as part of the investment management expenses.

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

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

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

	2018/19 £'m	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m
Contributions and Benefits					
Contributions receivable*	81.8	87.5	201.2	90.7	97.9
Individual transfers	12.9	12.9	29.0	13.7	22.0
Total contributions and transfers in	**94.7**	**100.4**	**230.2**	**104.4**	**119.9**
Benefits payable	(106.3)	(111.9)	(112.6)	(115.6)	(122.6)
Payments to and on account of leavers	(8.7)	(11.2)	(9.5)	(10.0)	(12.7)
Total benefits paid and transfers out	**(115.0)**	**(123.1)**	**(122.1)**	**(125.6)**	**(135.3)**
Management and admin expenses	(13.1)	(16.0)	(20.2)	(23.2)	(17.6)
Sub total	(33.4)	(38.7)	87.9	(44.4)	(33.0)
Return on investments					
Investment income	50.2	47.9	28.7	37.0	37.9
Change in market value of investments	77.5	(159.1)	602.8	227.2	19.1
Net return on investments	127.7	(111.2)	631.5	264.2	57.0
Net increase in the Fund during the year	94.3	(149.9)	719.4	219.8	24.0

3-year forecast management expenses 2023/24 to 2025/26

	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000
Administration/oversight & governance			
Pension scheme administration recharge	1,331	1,388	1,448
Actuarial services*	380	380	430
Audit	34	35	36
Legal fees	10	10	10
Committee and governance recharge	10	10	10
Total	**1,765**	**1,823**	**1,934**
Investment administration costs			
Investment administration recharge	163	167	170
LGPSC central governance & running costs	870	840	874
Investment custodial and related services	140	147	155
Investment professional fees	165	97	140
Performance measurement	44	45	46
Total	**1,382**	**1,296**	**1,385**
Investment management			
External fund managers**	17,817	19,080	20,877
Transaction costs	2,000	2,000	2,000
Total	**19,817**	**21,080**	**22,877**
Overall Total	**22,964**	**24,199**	**26,196**

* Actuarial fees are higher in 2025/26 due to this being a valuation year.

** External managers' fees are subject to market valuations

5. Administration Report 2022/23

5. Administration Report 2022 / 2023

Making significant progress on restructuring our pensions administration department whilst continuing to have no backlogs, delivering a business-as-usual service, and meeting our KPIs makes 2022 / 2023 , we believe, a year to be very proud of .

We are dedicated to delivering good governance, and in that regard it was a year that saw us reviewing (and produce updated versions of) our key policy documents: Governance Policy Statement, Pensions Administration Strategy, Policy Statement on Communications, Policy Statement on our Discretions, and Training Policy and Programme. We added a Policy on Conflicts of Interest, a Policy on Representation, and a Policy on Payment of Death Grants to our governance documents and reviewed the format of our quarterly our Business Plan and Risk Register. We also produced quarterly position statements to summarize progress on how we are taking forward the LGPS Scheme Advisory Board's (SAB) Good Governance workstream in preparation for statutory guidance being issued.

On cyber security we checked out our pensions administration supplier's cyber security review and produced cyber security tips for Board and Committee members who would not otherwise be updated by Worcestershire County Council's ongoing training programme.
On data quality the results of our 2022 NFI data matching showed us only having 2 mismatches overall.
We collected employer declarations on a McCloud checklist / declarations form that had links for employers to supply all missing data if they had not confirmed that there was no data missing.
We launched our own completely stand-alone (from Worcestershire County Council' website) website and delivered an online stewardship survey of our pensioners. In 2022 / 2023 our website had 80,317 visits compared to 44,567 in 2021/2022.

As usual, paying pensions, processing retirements, processing deaths, processing refunds, delivering our year end, providing employers' with FRS / IAS information for their accounts, and issuing annual benefit statements / newsletters / Pension Savings Statements / pensioner P60s and pay slips 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.
- 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.

Internal Disputes Resolution Procedure (IDRP)

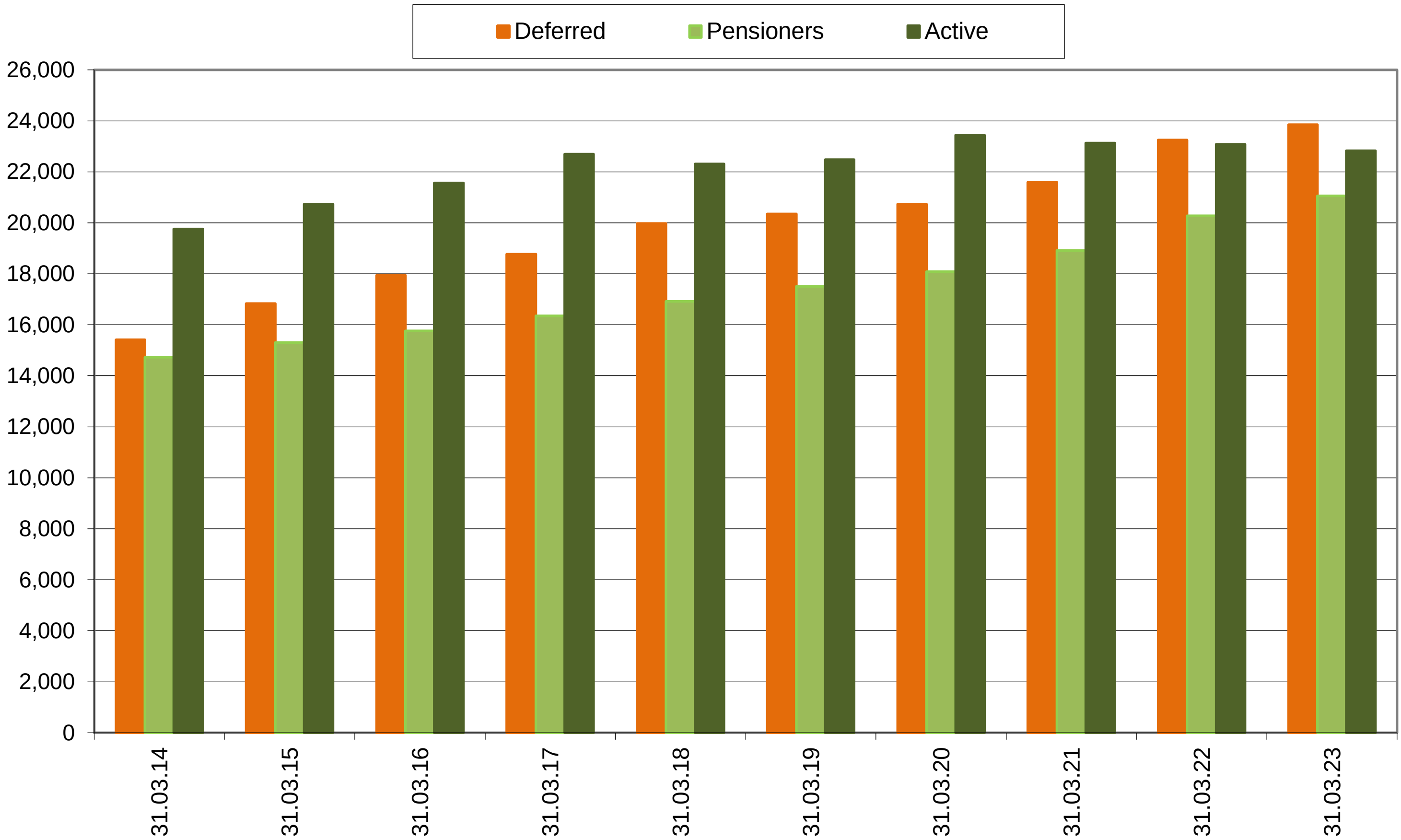
There are times when members, employers and the Fund may find themselves in disagreement about a pensions issue. The first approach in these situations is for those involved to talk to each other to reach resolution. However, should this not prove possible, the Fund has an IDRP. Our appeals procedure 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 included within the Fund's Administration Strategy and is referenced in Appendix B below.

Membership and employer movement and Scheme complexity

The Fund continues to experience a year-on-year increase in the total number of members.



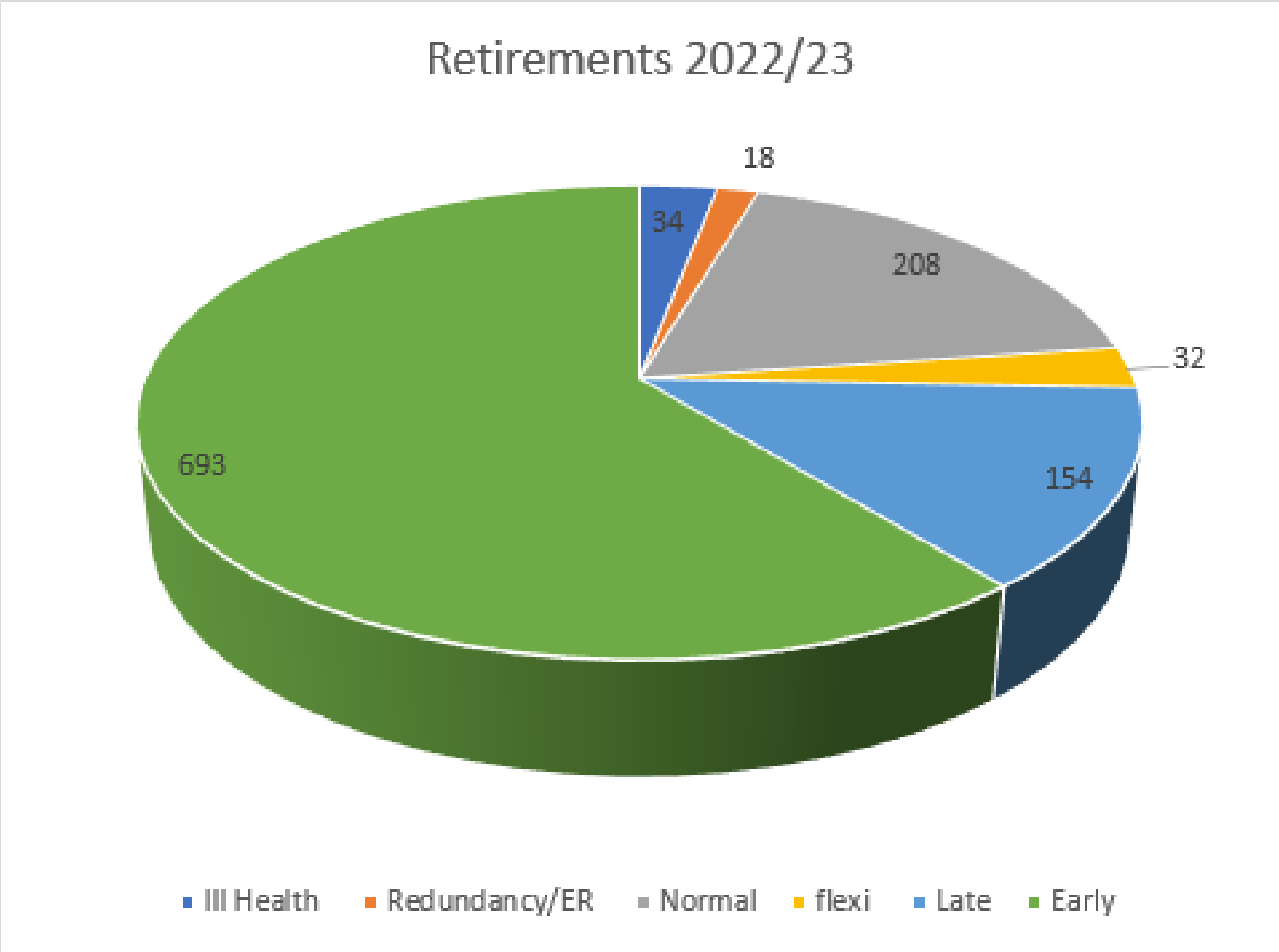
The table below summarises the age ranges of the membership over the three categories of active, deferred and pensioner on 31 March 2023:

Age group	Active	Pensioner*	Deferred	Total	%
0-20	262	109	10	381	0.56
21-25	1,063	34	255	1,352	2.00
26-30	1,437	1	853	2,291	3.38
31-35	2,006	2	1,883	3,891	5.74
36-40	2,397	7	2,604	5,008	7.39
41-45	2,845	25	2,993	5,863	8.66
46-50	3,117	55	3,614	6,786	10.02
51-55	3,792	174	4,875	8,841	13.05
56-60	3,408	1,168	4,569	9,145	13.50
61-65	2,044	3,363	1,930	7,337	10.83
66-70	387	4,957	204	5,548	8.19
71-75	64	4,482	55	4,601	6.79
76-80	0	3,392	10	3,399	5.02
81-85	0	1,825	0	1,825	2.69
86-90	0	1,009	0	1,009	1.49
90+	0	462	0	462	0.68
Total	**22,822**	**21,062**	**23,855**	**67,739**	**100%**

* Pensioner column includes dependents.

Retirements during 2022/23

There were 1,139 retirements during 2022/23 as summarised in the chart below:



The Fund has 189 contributing employers whose employees are members of the LGPS:

	Active on 31/03/2023
Scheduled bodies	114
Designated bodies	26
Admitted bodies	49
Total	**189**

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) 2021/22	Average turnaround achieved (working days) 2022/23	Target turnaround (working days)
Joiners' notification of date of joining	19	15	40
Process and pay refund	**4**	**5**	**10**
Calculate and notify deferred benefits	8	7	30
Letter notifying actual retirement benefits	**2**	**2**	**15**
Letter notifying amount of dependent's benefits	3	3	10
Letter acknowledging death of member	**3**	**4**	**5**
Letter detailing Cash Equivalent Transfer Value (CETV) for divorce	2	2	45
Letter notifying estimate of retirement benefits	**3**	**3**	**15**
Letter detailing transfer in quote	2	2	10
Process and pay lump sum retirement grant	**10**	**14**	**23**
Letter detailing transfer out quote	3	3	10
Letter detailing PSO implementation	**4**	**4**	**15**

We continue to monitor this and improve our data capturing of the information against the CIPFA benchmarks. For example, in response to the cost of living being a major news story over the year, we monitored our number of flexible retirements and opt-outs.

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

Activity / process	Number processed 2022/23	% Processed within KPI 2022/23
Joiners' notification of date of joining	3979	94
Process and pay refund	826	93
Calculate and notify deferred benefits	1968	99
Letter notifying actual retirement benefits	546	99
Letter notifying amount of dependent's benefits	205	98

Activity/Process	Number processed 2022/23	% Processed within KPI 2022/23
Letter acknowledging death of a member	493	79
Letter detailing cash equivalent transfer value (CETV) for divorce	128	100
Letter notifying estimate of retirement benefits	1471	99
Letter detailing transfer in quote	634	98
Process and pay lump sum retirement grant	1188	100
Letter detailing transfer out quote	524	96
Letter detailing Pension Sharing Order (PSO) implementation	2	100

The administration team comprises of 39.6 full time equivalent (FTE) staff. The Fund therefore has a ratio of one full time equivalent member of the team for every 1,710 Fund members.

In 2022/2023 we had two data breaches, completed seven Internal Dispute Resolution Procedure (IDRP), and have four cases in progress.

Value for money

At £1.5m our administration costs for 22/23 were £0.2m less than the previous year. Our cost per member is £23.09.

In 2022/23 our administration team of 39.6 FTE (as at 31 March 2023) achieved the average CIPFA benchmark turnaround target for all 12 standard processes.

In line with guidance from The Pensions Regulator (TPR), we continue to measure the quality of our data. The last measure was taken in October 2022.

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

- Common data 95.4% (our 2021 score was 95.0%).
- Scheme-specific data 98.4% (our 2021 score was 98.7%).

The percentage (2021 previous year in brackets) of our member records without a single 'common data' failure was 92.4% (92.4%).

In the core list of TPR 'common data' tests our pass rates were: National Insurance Number 99.7% (100%); Name 100% (100%); Sex and Date of Birth 100% (100%); Date Commenced and Normal Retirement Date 100% (99.9%); Status 100% (100%); and Address 93.5% (95.1%).

The percentage of our member records without a single 'scheme-specific data' failure was 98.3% (98.7%). In the core list of TPR 'scheme-specific data' tests our pass rates were Member Benefits 99.6% (99.9%);

Member Details 99.5% (99.9%); CARE benefits 98.6% (98.0%); HMRC 99.8% (100.0%); and Contracted Out 98.8% (98.5%).

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 referenced 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 on 31 March 2023 the Fund's strategic allocation was to be invested 70% in equities, 10% in fixed income and 20% in property/alternatives/private equity. 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 portoflio weight
	31 March 2022	31 March 2023	31 March 2023
Total Equities	**74.4%**	**68.5%**	**70.0%**
	-		
Total Actively Managed Equities	**19.4%**	**24.2%**	**26.0%**
Far East Developed	10.5%	10.1%	10.0%
Emerging Markets	9.2%	8.6%	10.0%
Global Sustainable Active Fund	0.0%	5.5%	6.0%
Total passively managed equities – market capitalisation indices	**38.7%**	**28.5%**	**29.0%**
United Kingdom	19.1%	17.2%	17.0%
North America	12.2%	5.1%	6.5%

Asset class	Actual portfolio weight	Actual portfolio weight	Target portfolio weight
	31 March 2022	31 March 2023	31 March 2023
Europe ex UK	7.4%	6.2%	5.5%
Passively managed equities – alternative indices	**16%**	**15.8%**	**15.0%**
Equity Protection Strategy	**6.4%**	**0.0%**	**0.0%**
Total Fixed Interest	**7.5%**	**7.8%**	**10.0%**
Actively managed bonds & corporate private debt	7.5%	7.8%	10.0%
Total actively managed alternative assets	**18.1%**	**23.7%**	**20.0%**
Property	5.8%	8.6%	7.5%
Infrastructure	12.3%	15.1%	12.5%
TOTAL	**100.0%**	**100.0%**	**100.0%**

The Fund had an equity protection strategy in place on 31 March 2022 but not on 31 March 2023.

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 as at 31 March 2023

Top 10 direct equity investments	Market value of holding on 31st March 2023 (£)	Percentage of total fund assets
AstraZeneca	43,194,092	1.22%
Shell	41,977,357	1.18%
Taiwan Semicon Man	41,329,842	1.17%
Tencent Holdings	37,181,483	1.05%
Apple	36,190,620	1.02%
Microsoft	33,521,751	0.95%
HSBC	29,201,639	0.82%
Unilever	27,376,537	0.77%
BP	23,726,332	0.67%
Diageo	20,684,494	0.58%

Report of the Independent Investment Advisor

What a year that was!

In a sense this last year has seen a roll forward of the consequences arising from what was breaking news at the end of the last year; namely the Russian invasion of Ukraine. It should have been the post Covid-19 recovery period, instead we saw world markets unsettled by substantially higher fuel and food prices, leading to a much higher level of inflation than we have seen for a very long time. Of much greater impact to our members would have been the even higher rate at which the cost of living was rising. In the UK the Consumer Prices Index (CPI) peaked at 11.1% in October, with a small decline to 10.1% by March.

Central banks were effectively caught between a rock and a hard place, knowing that they had to raise interest rates to try to bring inflation back to more reasonable levels, but at the same time not wishing to cause unnecessary damage to economic activity as a result. In March the UK Base Rate rose to 4.25%, with an expectation that further increases would be necessary, given that inflation is staying higher and for longer than had been forecast by the Bank of England.

One notable success in the economic battle with Putin was that European gas supplies had been boosted by an increase in storage capacity ahead of the 2022-23 winter. That, combined with a generally mild winter, has seen energy prices falling considerably from the peak levels seen after the invasion of Ukraine. Attention has also been focused on increasing the amount of energy derived from non-fossil fuel origins, thus increasing the sustainability of future energy supplies independent of Russia.

The 2022-23 fiscal year was certainly a tale of two halves so far as Fund values were concerned, along with the differentiated performance of public and private markets. Fund values fell during H1and then recovered to some extent during H2, ending the year down by just -1.0% (£3.55bn. v. £3.59bn.). Given the turmoil seen at times during the course of the year, this is an encouraging outcome in the circumstances. In general terms equities fell during H1 and then recovered to some degree during H2, with the position reversed for the private market investments. Emerging Markets were particularly volatile, driven in large part by China.

While the Fund and its benchmark have generated positive returns, the Fund has underperformed its benchmark by -0.5%. The underperformance has
been primarily generated by equity assets, and by the underperformance of the Fixed Income assets. Infrastructure slightly underperformed whilst the Property outperformed. It should be noted that many of the Alternative assets are investing in new portfolios; these types of portfolios often underperform initially due to the expenses of these funds 'investing' and that it takes time for many of these vehicles to generate significant positive returns from their investments. It is pleasing to be able to report that the Funding Level has remained stable over the year, at or near 100%.

The two main focuses of attention for the Pensions Committee have been the Triennial valuation and following on from that the Strategic Asset Allocation review. The Triennial valuation provided encouraging reassurance that the Fund remains in good health, with just a flag of concern about a possible deteriorating cashflow outlook, reflecting higher inflation and consequent increases in pension payments. This has been considered as part of the Strategic Asset Allocation review, which recommends that we consider building up a portfolio of income generating assets over time. As part of the evolution of the investment portfolio to reflect the improved Funding position and to help with matching to liabilities an initial investment strategy to invest in Private Equity has been approved.

As the year drew to a close the Fund bade farewell to Michael Hudson, the Chief Financial Officer and to Rob Wilson, the Finance Manager for Pensions. They have been instrumental in overseeing a complete transformation of the Fund's governance and operational management over the last five years, such that Worcestershire Pension Fund is now amongst the elite of the Funds within the LGPS. We have welcomed Phil Rook as the new Chief Financial Officer and Sherief Loutfy as Rob's successor in charge of the Fund's investments.

The outlook for the economy and world markets is distinctly cloudy, in fact a deep look into the proverbial crystal ball is about as good as it gets at the moment. Even the Bank of England doesn't seem to have much of a clue about what happens next.

Geopolitics has a big part to play in this uncertainty. It has to be hoped that Ukraine's resolve to drive the invaders out of their country is successful in the near term and that Putin is put in his box. The trouble is that instability in that region is likely to continue, regardless of the short-term outcome. Continued and if anything intensified sabre rattling by the Chinese government certainly doesn't help the nerves, for us or investment markets. This will almost certainly run and run for the foreseeable future.

In the short term the current volatility in financial markets, coupled with high interest rates and inflation clearly raises some concerns. LGPS pensioners have the benefit of index linked (CPI) increases to their pensions each year. This is in contrast to most private sector pension schemes, that tend to have a cap (or a limit) on the amount that pensions will increase each year, regardless of the rate of inflation. Certainly, for pensioners this provides some relief to the rapid increase in the cost of living, but it is acknowledged that with the large increases seen in energy costs and most food items times will still be challenging for many.

Over the longer term the investment strategy of the Fund is designed to ensure that the ability to pay pensions in the short, medium, and long term is fully maintained. The Fund invests in a diversified range of assets that over time is anticipated to increase in value and to provide a secure flow of income to pay those pensions. The assumptions that are made in the management of the Fund are regularly reviewed to ensure that changes to economic forecasts, including the cost of living, are incorporated within the investment strategy. With the expectations that the rate of inflation and interest rates will stay relatively high in the short term, but then fall back to lower levels (but higher than we have seen in recent years), the recent asset allocation review ensures that the investment strategy is adjusted accordingly to maintain the correct balance of assets between those that see a growth in value over time and those that generate a steady flow of income. One of the great strengths of the LGPS is the way in which it is designed to provide a secure income in retirement to our pensioners and to be able to absorb short term challenges due to the long-term strength of the asset base.

Philip Hebson
Independent Investment Advisor
July 2023

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 2023 are shown below.

Asset class	UK £m	Non-UK £m	Global £m	Total £m
Equities	612.2	1,062.8	756.9	2,431.9
Bonds	0.0	0.0	184.0	184.0
Pooled property	232.7	90.8	0.0	323.6
Pooled infrastructure	204.3	307.5	0.0	511.8
Pooled debt	34.8	57.5	0.0	92.3
Cash and cash equivalents	12.4	0.0	0.0	12.4
Other	0.0	0.0	0.0	0.0
Total	1,096.5	1,518.6	940.8	3,556.0

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 2023.

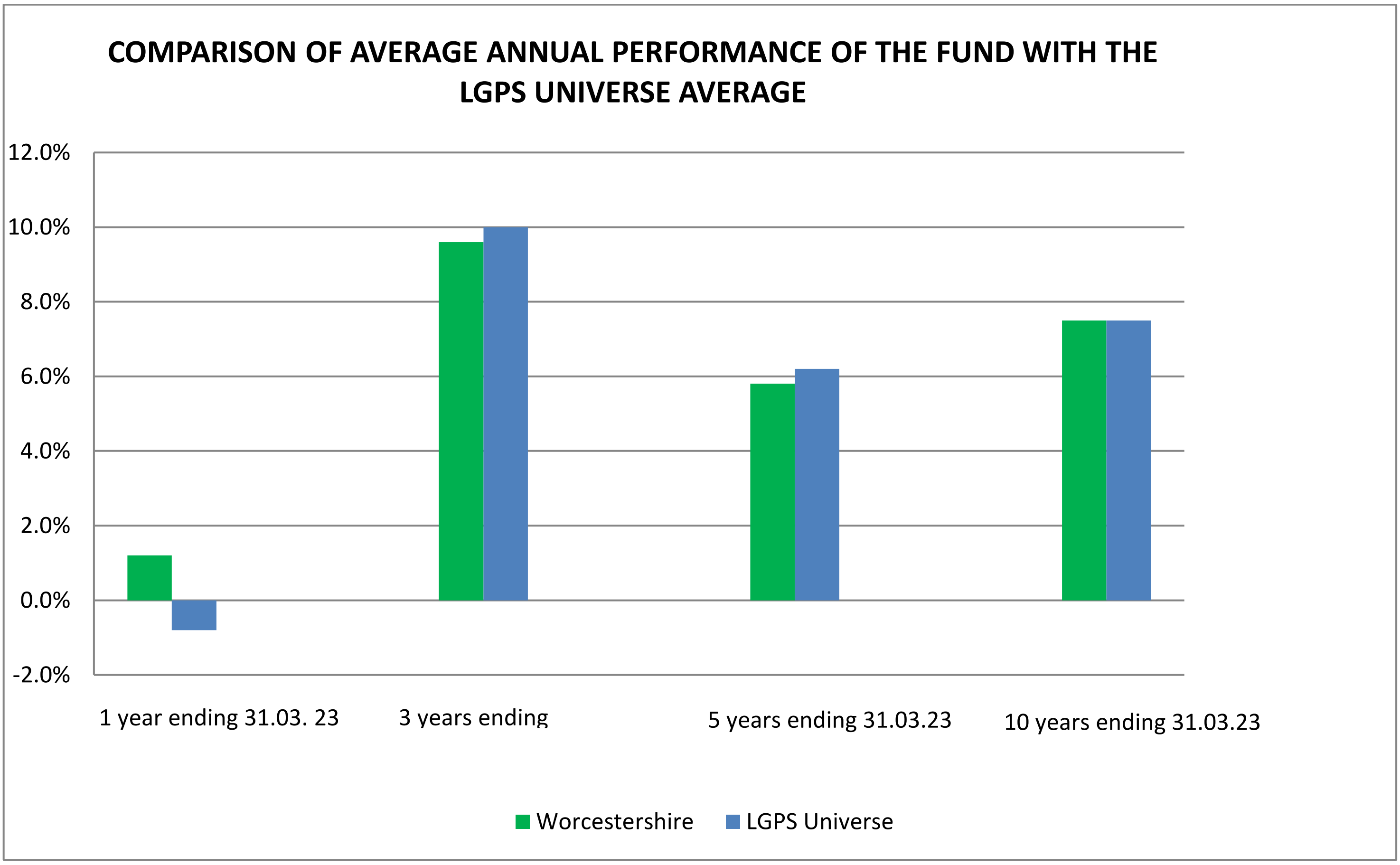
Fund performance by Asset Class

The Fund produced a return of 1.2% for the year to 31 March 2023, which gave an underperformance of 0.5% against the benchmark of 1.7%. The Fund's performance continues to be in line with benchmark over the 10-year period.

Asset class	1-year actual return %	1-year benchmark return %	3-year actual return %	3-year benchmark return %	5-year actual return %	5-year benchmark return %
Active equities	-4.8	-1.3	7.7	10.1	2.1	3.9
Passive equities	2.6	3.0	16.5	16.0	9.1	8.2
Alternative passive equities	0.3	0.5	12.7	13.3	8.8	9.4
Bonds	-10.8	-9.0	-2.0	-1.9		
Pooled private debt	11.3	6.0	6.9	6.0		
Pooled property	9.9	-6.4	4.4	5.5	4.5	6.1
Pooled infrastructure	12.8	13.0	10.6	10.9	8.5	10.0
Total Fund	1.2	1.7	9.6	11.0	5.8	6.3

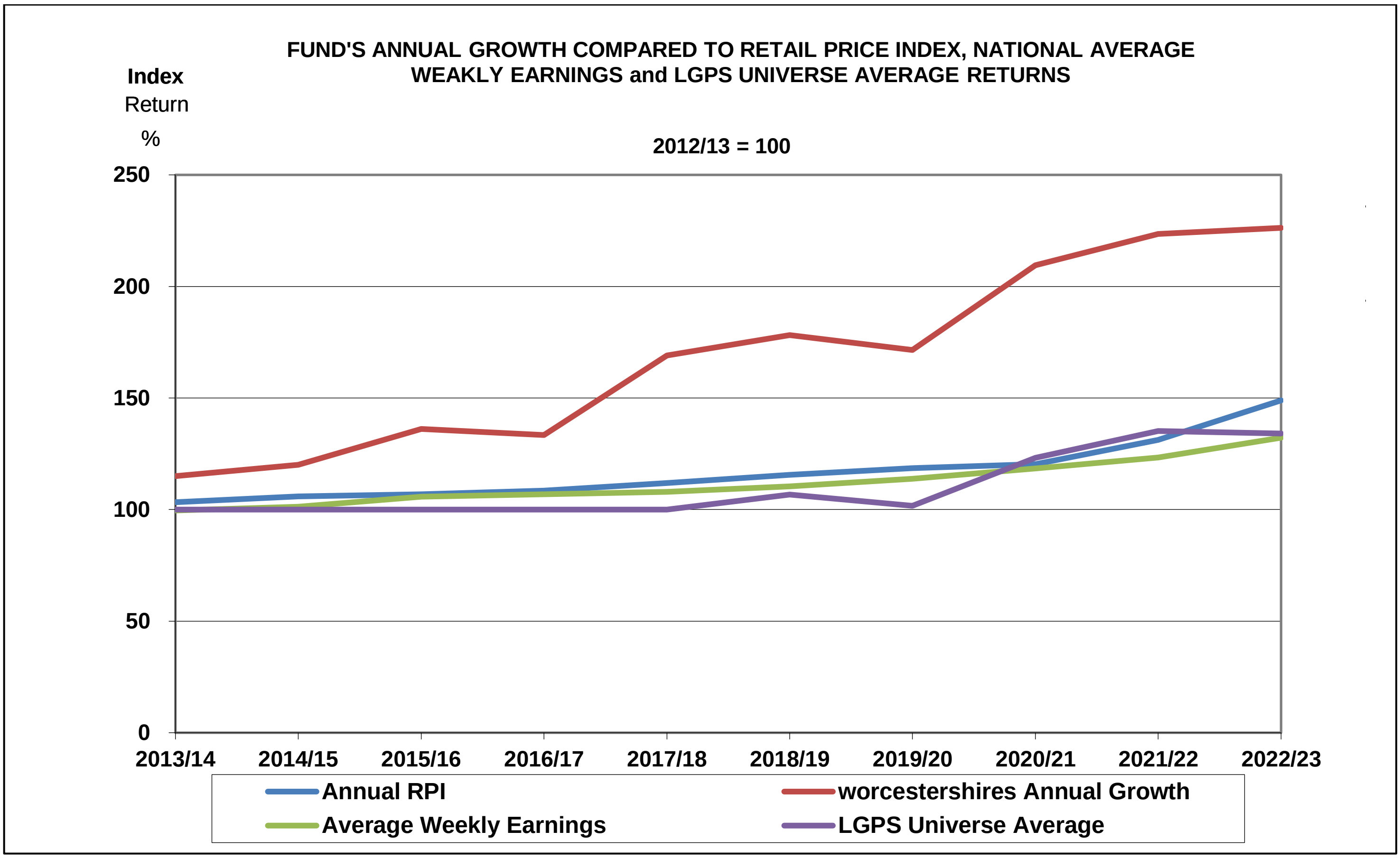
Performance was better than the LGPS universe over 1 year. The Fund slightly underperformed the LGPS universe and over 3 and 5 year periods but performance is in line over the 10-year period.

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 2013/14 relative to the following key measures, the LGPSC universe, the Retail Prices Index (RPI) and annual average weekly earnings.

Fund’s Annual Growth Compared to Retail Price Index, National Average Weekly Earnings and LGPSC Universe Returns



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 31 March 2023.

Asset class	Management fees £'000	Performance & other fees £'000	Total fees £'000
Fixed interest securities	200	1,600	1,800
Equities	700	300	1,000
Pooled property	1,900	0	1,900
Pooled infrastructure	4,300	0	4,300
Private debt	1,500	0	1,500
LGPSC	2,000	1,800	3,800
Other	0	0	0
Total Fund	10,600	3,700	14,300

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 1st April 2022 £'000	Recharges in year £'000	Settled in year £'000	At 31 March 2023 £'000
Governance costs		257		
Operator costs		400		
IMMC		150		
Product development costs		74		
Sub total	166	881	(661)	386

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				1315
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	2419		2514
Transition costs						

LGPSC Investment Management Expenses Charged to Partner Funds

		Direct £000	Indirect £000	Total £000	BPS charge £000
1	Ad valorem	2,365		2,365	26.70
2	Performance				
3	Research				
4	PRIIPS compliance				
5	Other (provide details)				
	Management fees	**2,365**		**2,365**	**26.70**
6	Commissions	207		207	2.33
7	Acquisition/issue costs				
8	Disposal costs				
9	Registration/filling fees				
10	Taxes and stamp duty	217		217	2.45
11	Other (provide details)				
	Implicit costs	1,343		1,343	15.15
	Transaction costs	**1,767**		**1,767**	**19.94**
12	**Custody/depositary**	**139**		**139**	**1.57**
13	**Other (provide details)**				
	Fund accounting	45		45	0.51
	Transfer agent	5		5	0.06
	External audit	12		12	0.14
	Performance reporting	19		19	0.21
	Transaction charges	31		31	0.35
	MACS fees				
	Total costs	**4,383**		**4,383**	**49.47**

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

	AUM at 1 April 2022 £m	AUM at 31 March 2023 £m	1-year gross performance %	1-year net performance %	Passive benchmark used	One-year passive index %
Emerging market equity	323	307	-5.79%	-6.20%	FTSE emerging market index	-4.07%
Corporate bonds	206	184	-12.85%	-12.92%	ICE BofAML Sterling Non-Gilt Index 50%; ICE BofAML Global Corporate Index 50%	-11.26%
Climate factor fund	207	208	-2.10%	-2.11%	FTSE All-World climate balanced comprehensive factor index	-2.23%
Sustainable Targeted		77	-3.40%	-3.60%	FTSE All World Index	-2.40%
Sustainable Thematic		117	-3.20%	-3.50%	FTSE All World Index	-2.40%
ACS sub-funds	736	893				
Total	**736**	**893**				

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.

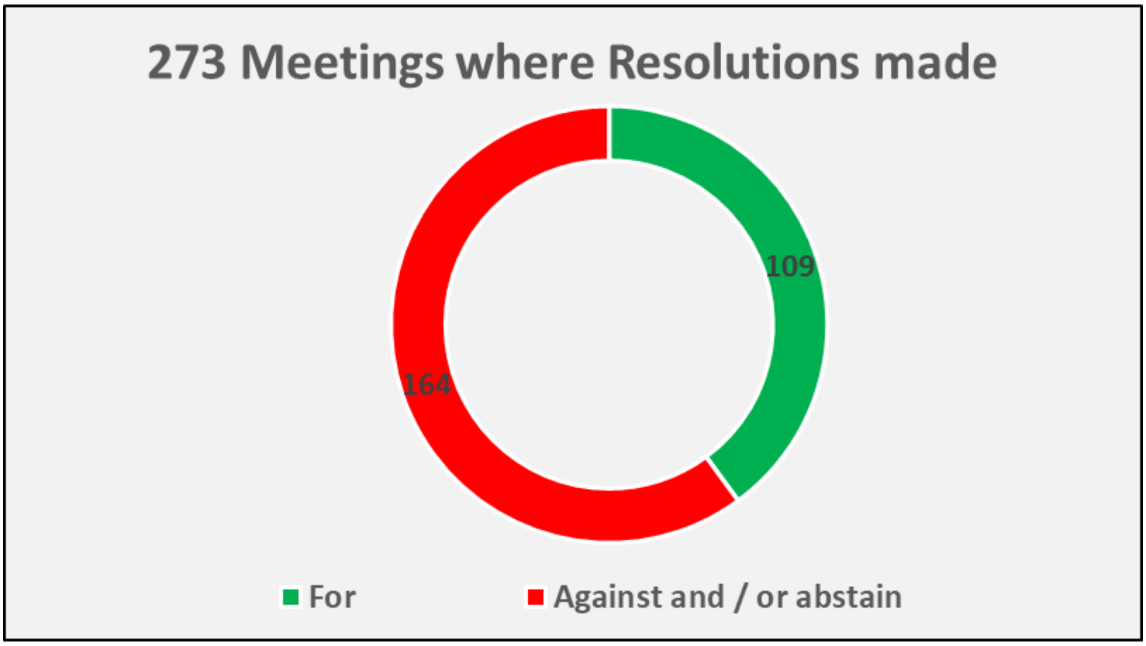
Investment performance is monitored on a quarterly basis and the Fund expects investment managers to engage with companies to address concerns affecting performance.

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.

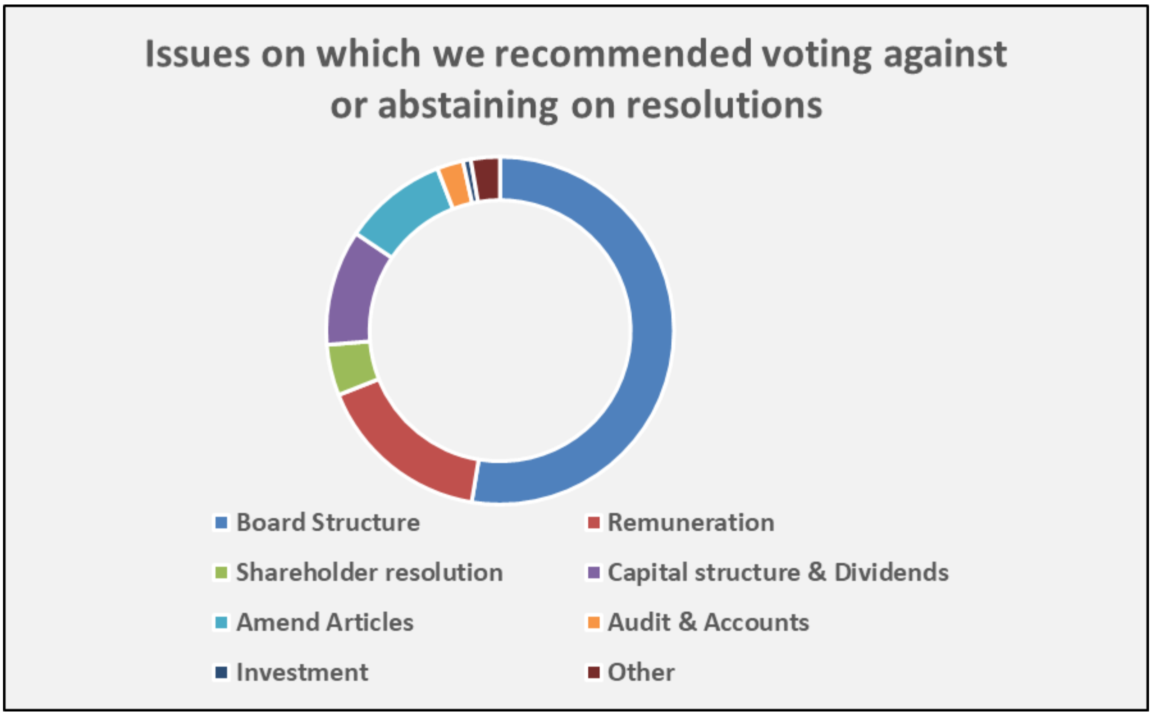
In order to ensure that the governance practices employed by the Fund's investment managers are aligned to that of the Fund, investment managers' quarterly performance reports are required to include specific briefing in corporate governance detailing all votes cast on the Fund's behalf as detailed in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

Meeting where Resolutions made



Engagement with 286 Companies

Issues on which we recommended voting against or abstaining on resolutions



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

As detailed in our 2021 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.

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

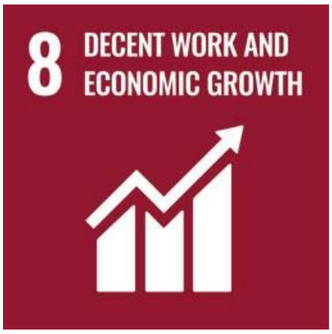
In February 2023 the Fund conducted an ESG workshop, facilitated by Pensions For Purpose. Investment Managers participated and were engaged in robust discussions with Pension Committee members. The key outcome of the exercise was that the Fund intends to explore and agree an internal climate target with the aim of engaging investment fund managers to achieve alignment with the Fund's objectives.

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 initial 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 Purpose workshop in May 2020.

Climate Risk Report

The Fund has produced its third Climate Risk Report which was reviewed alongside the findings from the ESG Audit at the February 2023 workshop.

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 were part of the report to Pensions Committee on the 22 March 2023. 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 31st March 2022, the carbon footprint of the Total Equity portfolio decreased by 13.63%. The Total Equity carbon footprint was 30.1% more carbon efficient than the blended benchmark. Exposure of the Total Equity portfolio to fossil fuel reserves is demonstrated by the Fund's Climate Risk Report.

LGPSC who produce our Climate Risk Reports commented '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 Fund's third year overarching Climate Change Strategy is contained within its Investment Strategy Statement and also within its Climate Related Financial Disclosures Report.

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 retained its signatory status to the UK Stewardship Code 2020.

7. Governance Arrangements

7.Governance Arrangements

Our governance arrangements take account of:

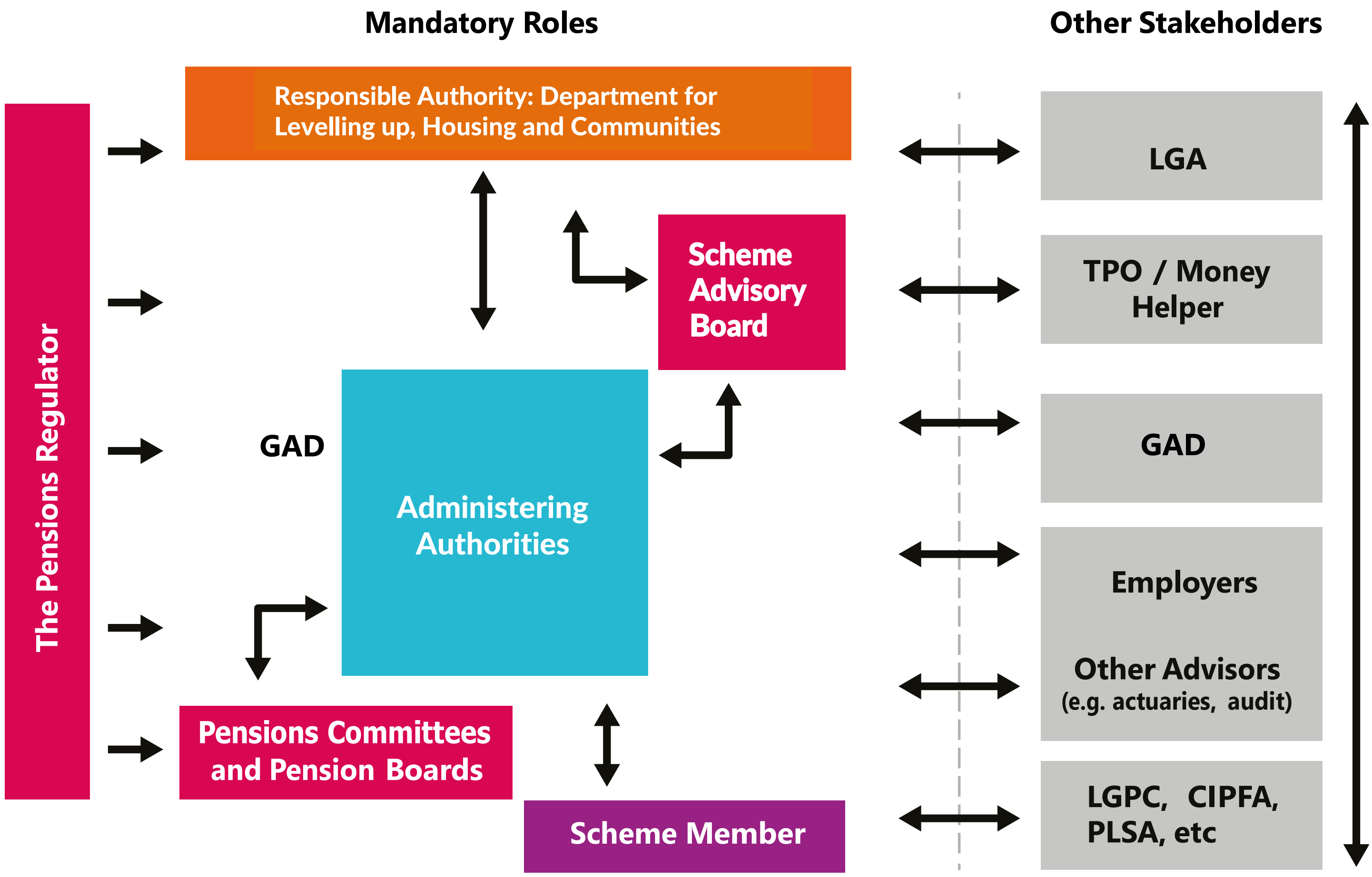
- The way in which the LGPS is governed.
- The governance arrangements of LGPSC.
- Guidance issued by The Pensions Regulator.

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.

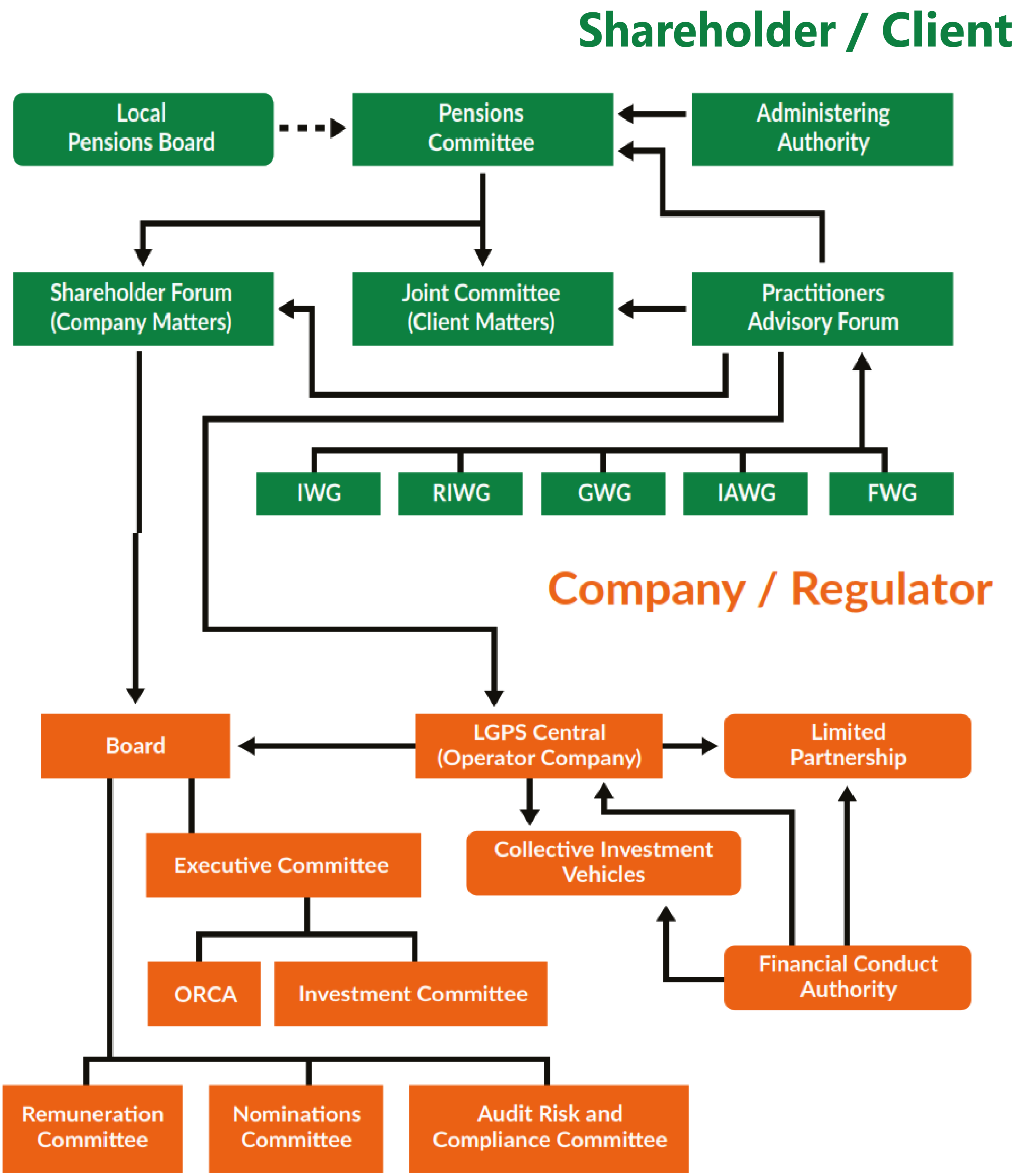
Our current governance arrangements are contained in our **Governance Policy Statement**.

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 statement	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.

Ref	Principles	Compliance statement	Evidence of compliance
B	**Representation**		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: 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 statement	Evidence of compliance
C	**Selection and role of lay members**		
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. Members have also from December 2021 made declarations regarding conflicts of interest. 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 Council's constitution. The Fund's Governance Policy Statement sets out the number of Committee meetings required each year. The Fund has an approved Training Policy and programme.
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 and Training Policy and Programme

Ref	Principles	Compliance statement	Evidence of compliance
E	**Training/facility time/expenses**		
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Compliant	Regular training needs analyses are conducted as detailed in the Fund's Training Policy and Programme. A log of all training undertaken is maintained. Regular updates on training are 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 employee representatives on its Pensions Committee and its Pension Board. It 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 statement	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	**Scope**		
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 2022 / 2023

In addition to ensuring that at every meeting the Board reviews the Business Plans, Training updates, Governance Updates 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 retaining signatory status to the UK Stewardship Code.
- Reviewed the Fund's 2022 annual report.
- Reviewed the Fund's Investment Strategy Statement, Funding Strategy Statement, Climate- related Financial Disclosures, Governance Policy Statement, and Climate Change Risk Strategy.
- Reviewed the Fund's Pensions Administration Strategy that includes the Fund's Policy Statement on Communications.
- Reviewed the Fund's Training Policy and programme.
- Reviewed the progress on the restructure of pensions administration.
- Reviewed the Fund's Cyber Security Tips for Board and Committee members.
- Reviewed the Fund's Policy on Conflicts of Interest and the Fund's Policy on Representation.

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

- Does what we are paying our investment managers represent value for money?'
- The actuarial valuation 2022.
- Private equity.
- ESG / responsible investment.

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 approach to training; the implementation of the McCloud and GMP equalisation remedies; and progress towards delivering on Pensions Dashboards and Member Self Service.

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

Worcestershire Pension Fund

Audited Statement of Accounts 2022/23

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About the accounts

BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2022/2023 financial year and its position at year-end as at 31 March 2023. 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 a Review of the Year 2022/23

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

The Fund Account

Details the money received and spent within the Pension Fund during 2022/23.

Net Assets Statement

Statement showing the Fund's financial position at 31 March 2023.

Notes to the Fund Accounts

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

Statement of Accounting Policies

These are shown against the relevant note.

1. Explanatory Foreword and a Review of the Year 2022/23

Foreword by the Chief Financial Officer

Welcome to the Fund's 2022/23 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also administer the LGPS for members of other organisations which have made admission agreements with the Fund and designated bodies who have passed resolutions with Worcestershire County Council.

Table 1 Aim and Purpose of the Fund

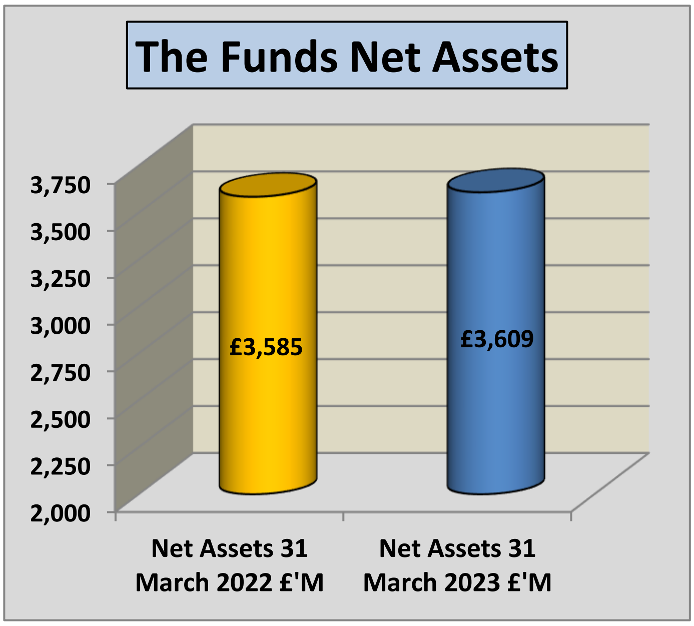
The aims of the Fund are to:	
•	Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost.
•	Manage employers' liabilities effectively.
•	Ensure that sufficient resources are available to meet all liabilities as they fall due.
•	Maximise the returns from investments within reasonable risk parameters.
The purpose of the Fund is to:	
•	Receive monies in respect of contributions, transfer values and investment income.
•	Pay out monies in respect of scheme benefits, transfer values, costs, charges, and expenses.

- Key headlines

- Chart 1 shows that the value of the Fund's net assets increased by £24.0 million from £3,584.6 million at 31 March 2022 to £3,608.6 at 31 March 2023:

- Income from contributions increased to £97.9 million, from £90.7 million, due largely to the effect of the 2022/23 local authority pay award increasing basic pay, the value on which contributions are calculated.

- Net investment returns decreased by £207.2 million compared to 2021/22 which was mainly due to volatility in financial markets during 2022 and geopolitical factors.



Contributions from staff and employers were less than the benefits paid as well as administration and management expenses in 2022/23 by £33.0 million, compared to £44.4 million in 2021/22. This reduction was due to contributions received growing more than benefits paid whilst Admin and Management expenses have been reduced..

- Chart 2 shows that during the year a surplus resulted on the Fund Account (aside from the net investments returns) totaling £4.9 million, an increase of £12.3 million from the 2021/22 deficit of £7.4 million.

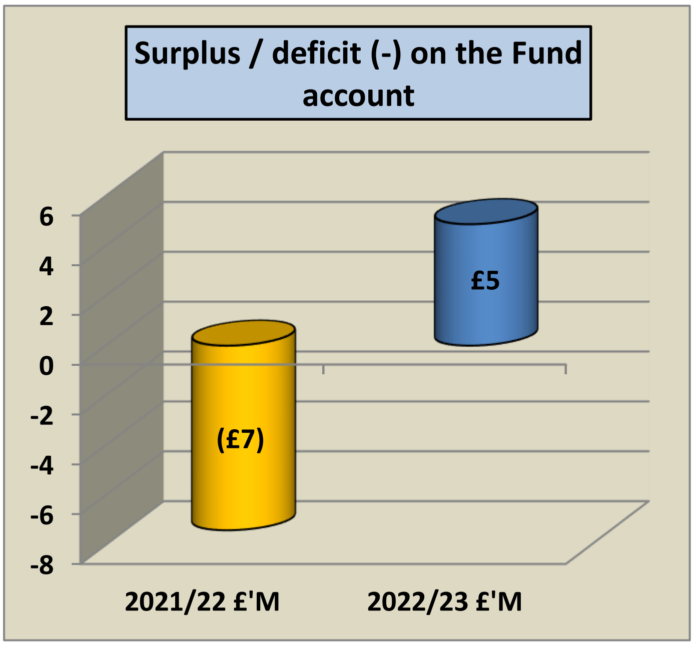


Table 2 analysis of changes within the Fund's membership profile

	31 March 2022	31 March 2023	Change	Change %
Contributors to the Fund	23,078	22,822	-256	-1.1
Pensions paid	20,273	21,062	789	3.9
Deferred members	23,248	23,855	607	2.6
	66,599	**67,739**	**1,140**	**1.7**

- Table 2 above shows that the scheme membership has continued to grow. Active employer numbers have increased from 66,599 to 67,739 during 2022/23, due mainly to auto enrolment initiatives and an increase in the number of designated employers. Given the administrative challenges presented by this continued growth, the Fund regularly review its systems and processes and importantly, the way it engages with, and receives data from scheme employers.

Pensions Administration

Throughout 2022/23 the Administration Team continued to work flexibly but maintained excellent performance monitoring achieving its average turnaround targets for all the twelve key performance indicators it measures. This is also set in a context whereby in 2022/23 the team processed its highest volumes.

Activity / Process	Target turnaround (Working days)	2021/22 average turnaround (Working days)	2022/2023 average turnaround (Working days)
Joiners' notification of date of joining	40	19	12
Calculate and notify deferred benefits	30	8	6
Letter notifying actual retirement benefits	15	2	2
Letter notifying estimate of retirement benefits	15	3	2
Process and pay lump sum retirement grant	23	10	12

	2021/22	2022/23
Total Number of staff FTE	**22.3**	**39.6**
Admin Cost per member*	**£25.38**	**£23.09**

'*' the lower administration costs per member in 2022/23 was mainly due to the timing of recruitment to the pensions administration team which occurred towards the end of the financial year. The increase in FTE in 2022/23 was due to an approved restructure of the Pensions Admin Team.

Governance

The Council has established a Pensions Committee to exercise the Administering Authority's responsibility for the management of the Fund. The Pensions Committee has overall responsibility for the management of the administration of the Fund and for the strategic management of the Fund's assets. In order to discharge its responsibility effectively the Pensions Committee is supported by the Pension Administration Advisory Forum and the Pension Investment Sub Committee. Note, it is the Audit and Governance Committee that is charged with governance for the purpose of the accounts.

The Council established a Pension Board in July 2015. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager. Such assistance is to: (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and (b) to ensure the effective and efficient governance and administration of the Scheme.

The Fund's Governance Policy Statement is published on the Council's website. It complies with LGPS Regulations and is aligned to prescribe best practice guidance.

The Fund also reports quarterly to the Pensions Committee on the Fund's progress towards delivering the recommendations arising from the Scheme Advisory Board's (SAB) 'Good Governance project.

1. Management of the Fund's assets

The management of the Fund's assets is operated through fourteen specialist external managers with nineteen mandates in total. 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 Fund's asset allocation is kept under regular review and the current long-term investment allocation includes investments in a wide variety of UK and overseas companies, corporate bonds, corporate private debt, property, and infrastructure. A strategic asset allocation review took place in December 2019 and was endorsed by the Pensions Committee in March 2020 and the following recommendations arising from the review continued to be progressed during 2022/23, and will continue over the medium term:

a) Increase in the allocation to infrastructure or a mix of infrastructure and real estate by 5% from the current strategic allocation of 15% of the Fund to up to 20%.

b) Maintain the Fund's allocation to fixed income at 10%.

c) Decrease in the Fund's strategic asset allocation to passive equities by 5% from 55% to 50%. The active equities allocation of 20% remained the same.

The 2019 strategic asset allocation review's recommendation of a 20% commitment to 'alternatives including property' continued to be implemented during the 2022/23 financial year following investments into: -

- Gresham House British Strategic Infrastructure Fund II: £38m.
- Gresham House Forestry Growth & Sustainability Fund: £22m.

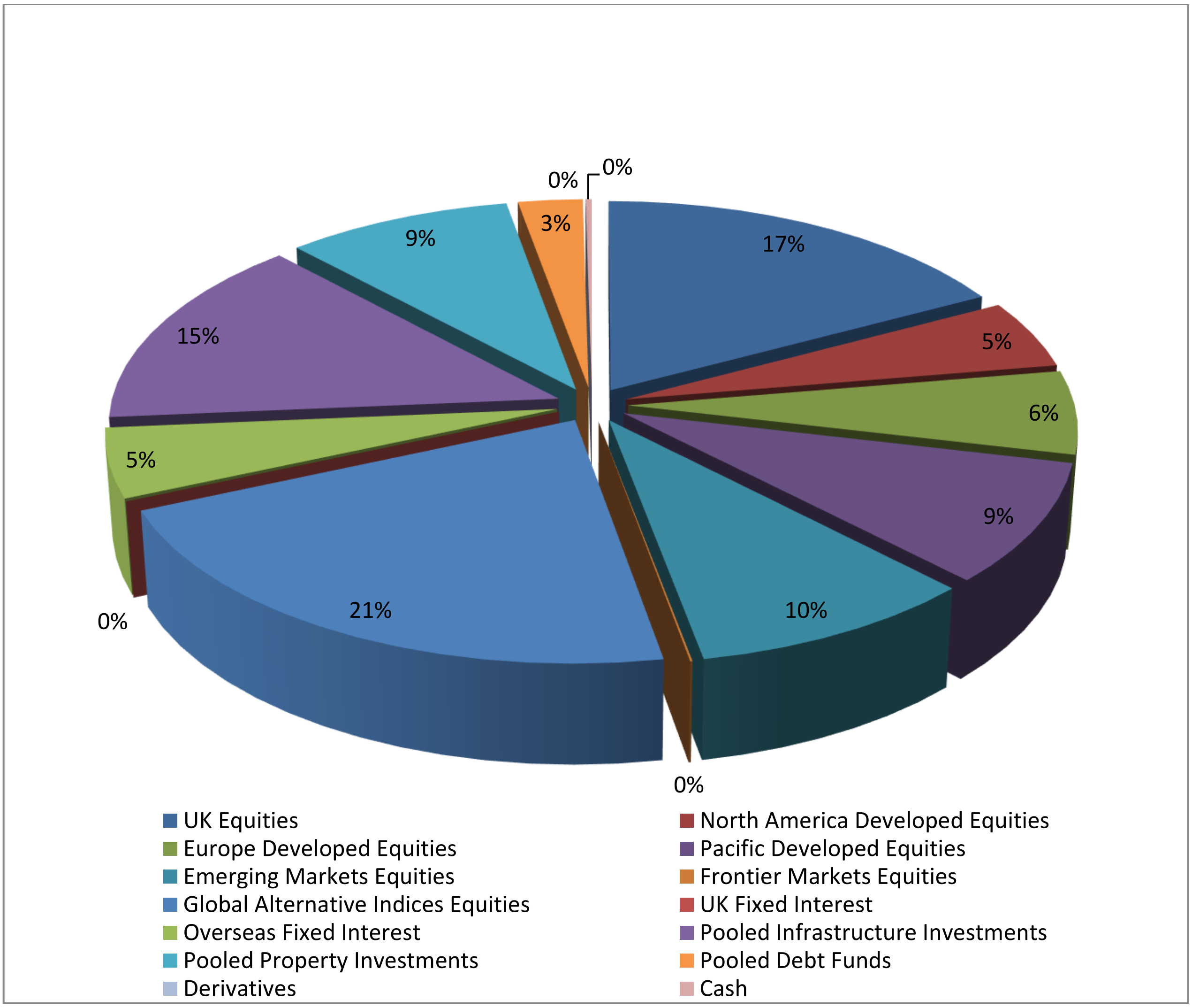
- Gresham House Forestry Fund VI: £85m.
- First Sentier (Now Igneo) European Diversified Infrastructure Fund III: £8m.
- Stonepeak Infrastructure Fund III: £17m.
- Stonepeak Infrastructure Fund IV: £21m.

To enhance the Fund's investment returns whilst reducing its carbon footprint, the Fund also disinvested from passive equity LGIM 'low Volatility' factor funds and invested £200m in LGPS Central Limited's (LGPSC) All World Equity Climate Multi Factor Fund.

Given conditions in equity markets at the time, the Fund took the opportunity to exit the protection given by its equity protection vehicle managed by Schroders (formerly River & Mercantile). This was fully exited early November and the resultant £231m was reinvested back into the passive equity market cap funds on the 10 November 2022.

The following chart details the distribution of the Fund's assets as at 31 March 2023:

Chart 3 Distribution of the Fund's Assets



Environmental, Social & Governance (ESG) & Responsible Investment (RI)

The Fund has continually looked to develop and improve its approach to RI and conducted an ESG audit last year which included mapping the Fund's entire portfolio to the United Nations' sustainable development goals (SDGs). The Fund conducted its second annual ESG workshop for its Pensions Committee on the 8 February 2023 to review progress against the identified actions and was found to have made significant headway.

In January 2023 the Fund's latest annual Climate Risk Report delivered a view of the climate risk of the Fund's entire equity asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing Climate related Financial Disclosures for the third year. The Fund was particularly pleased to see that our initial focus on transitioning out of our passive mandates with the greatest carbon footprint has resulted in the Fund's overall listed market portfolio now being 30.1% (28% in 2022) more carbon efficient than the benchmark. The Fund transitioned a further £200m (6% of its portfolio) from its passive mandates into active sustainable equity funds by May 2022.

The Fund recognises that its investments in private markets also have a significant role to play in addressing climate related issues. Building on existing assets in this space, the Fund maintained its commitment of £175m towards a forest and sustainability fund and £200m to a number of sustainable infrastructure and housing investments, evidenced by the investments illustrated above, which will have a long term environmental and social impact.

Impact of Global Financial Market Volatility and Geopolitical Landscape

Ongoing discussions throughout the year have taken place with existing fund managers and our actuary to continue to consider and understand the implications of inflationary pressures and geopolitical instability on financial markets and the wider investment landscape. As detailed above the Fund had already taken steps to diversify some of its asset allocations from equities into property and infrastructure as well as implementing an equity protection strategy to guard against major market fluctuations. This helped cushion somewhat the initial impact on the Fund's market valuations, which then recovered, resulting in the decision to exit that strategy in November 2022. Excessive volatility in market risk is also managed through the diversification of the portfolio in terms of geographical and industry sectors and also individual securities. The Fund recognises that equity protection can play a key role in managing risk and is keeping it under constant review.

LGPS Central Limited (LGPSC)

The Fund's 2017/18 accounts highlighted the government's requirements and reasoning (opportunities for collaboration, cost savings and efficiencies) for asset pooling NB responsibility for asset allocation stays with the Fund. The Fund is a partner fund along with Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire and Nottinghamshire in a collective investment vehicle called LGPSC. The company is authorised to operate as an alternative investment fund manager (AIFM) and became formally operational from the 1 April 2018.

Each partner fund approved the regulatory capital requirements for LGPSC and its introduction on the 31 January 2018. As all FCA regulated entities are required to hold regulatory capital designed to protect the solvency of the entity, £16m of capital was introduced ("Capital Introduced") by the eight shareholders to cover the capital requirement, a prudent buffer, set-up costs and operational liquidity. Each partner fund provided £2million of capital on 31st January 2018, with the Fund's share consisting of £1.3million of equity and £0.7million of debt.

LGPSC has been in operation just over 5 years and the Fund has, by market value at 31 March 2023, 20% of its assets in LGPSC's Emerging Markets Equity Active Multi Manager Fund / Global Corporate Bonds Fund / Global All World Equity Climate Multi Factor Fund and Global Sustainable active equities. This increases to 59% when including the Pooling undertaken by the 'Shire' Pension Funds for passive equities just before LGPSC was formed which is included in the DLUHC pooling return.

Management of the Fund's liabilities

The Funds' funding strategy is kept under regular review by the Pensions Committee and the Fund's actuary assesses at three yearly intervals the Fund's assets and its liabilities. An actuarial valuation of the Worcestershire Pension Fund was carried out as at 31 March 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026. Key outcomes of the valuation at that point in time are detailed below:

- The Fund's assets of £3,585 million represented 101% of the Fund's past service liabilities of £3,562 million (the "Funding Target") at the 31 March 2022 valuation date. This compares to the 90% funded position at the previous valuation at 2019.

- A common rate of contribution of 18.8% (2019: 17.5%) of pensionable pay per annum will be required from employers covering 2023-26. The common 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. Different rates apply across fund employers based on specific factors.

To meet the requirements of the Regulations, the Fund has 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.

Phil Rook
Chief Financial Officer

1. Fund Account (money received and spent during 2022/23)

2021/22			2022/23
£m		**Notes**	**£m**
	Dealings with members, employers and others directly involved with the fund		
90.7	Contributions	4	97.9
13.7	Transfers in from other pension funds	5	22.0
104.4			**119.9**
(115.6)	Benefits	6	(122.6)
(10)	Payments to and on account of leavers	7	(12.7)
(125.6)			**(135.3)**
(21.2)	**Net withdrawals from dealings with members**		**(15.4)**
(1.7)	Administrative expenses	8	(1.5)
(21.5)	Management expenses	9	(16.1)
(44.4)	**Net withdrawals including fund management and administrative expenses**		**(33.0)**
	Returns on investments		
37.2	Investment income	10	37.9
(0.2)	Taxes on income	11	0.1
227.2	Profit and (losses) disposal of investments and changes in the market value of investments	12a & 15b	19.1
264.2	**Net return on investments**		**57.0**
219.8	**Net increase in the net investments available for benefits during the year**		**24.0**
3,364.8	**Opening net assets**		**3,584.6**
3,584.6	**Closing net assets**		**3,608.6**

Management expenses have decreased mainly due to redirecting some actively managed investments to existing passive equity funds which by their nature have smaller management fees. In addition, due to the volatility in global equity markets during 2022, actively managed equity mandates where an element of management fees are based on investment performance, have attracted reduced fees.

2. Net Assets Statement for the year ended 31 March 2023 (showing the financial position at 31 March 2022 and 2023)

2021/22			2022/23
£m		Notes	£m
1.4	Long term investment assets	12	1.4
2,960.1	Investment assets - internally managed	12 & 15	2,654.0
736.0	Investment assets - LGPSC managed	12 & 15	893.6
13.0	Cash deposits	12	8.7
3,710.5			**3,557.7**
(167.1)	Investment liabilities	12	(0.3)
46.2	Current assets	17	55.5
1.5	Non-current assets	18	1.7
(6.5)	Current liabilities	19	(6.1)
3,584.6	**Net assets of the Fund available to fund benefits at the period end**		**3,608.6**

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 provides 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, updated at December 2022.*

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 2022	31 March 2023	Diff
Number of employers	208	198	(10)
Employee Members of the Fund			
County Council	7,467	7,433	(34)
Other Employers	15,611	15,389	(222)
Total	**23,078**	**22,822**	**(256)**
Pensioner Members of the Fund			
County Council	6,143	9,190	3047
Other Employers	14,130	11,872	(2,258)
Total	**20,273**	**21,062**	**789**
Deferred Members of the Fund			
County Council	9,034	6,476	(2,558)
Other Employers	14,214	17,379	3165
Total	**23,248**	**23,855**	**607**
Total Number of Members in the Fund	66,599	67,739	1,140

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 2023. Employee contributions are in addition to employer contributions which are set based on actuarial valuations. The last valuation conducted was at 31 March 2022. The common employer contribution rate for the Fund will be 18.8%.

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

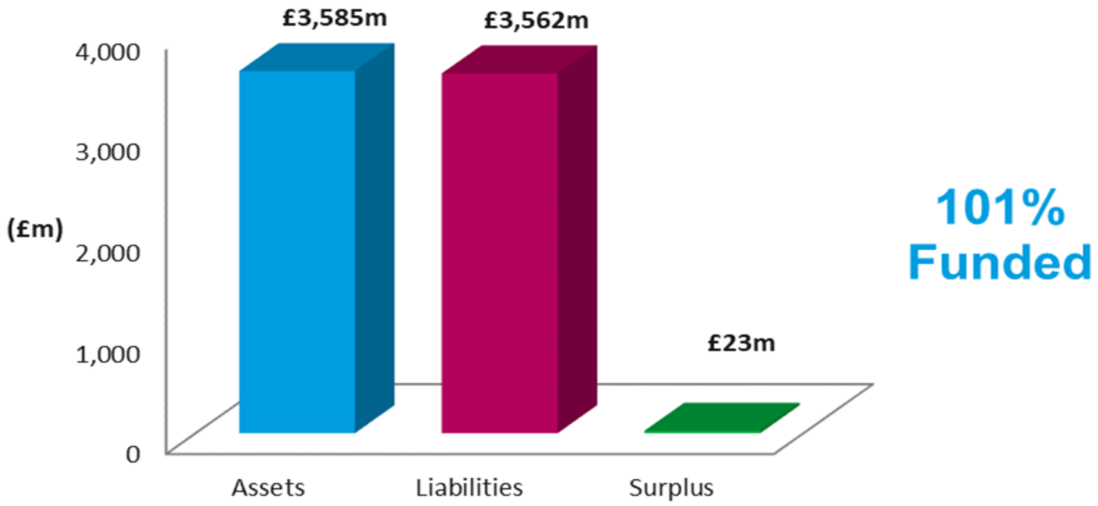
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial 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 Worcestershire Pension Fund was carried out as at 31 March 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026.

On the basis of the assumptions adopted, the Fund's assets of £3,585 million represented 101% of the Fund's past service liabilities of £3,562 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £23 million.



The valuation also showed that a Primary contribution rate of 18.8% 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 was 12 years for employers in deficit and 14 years for employers in surplus, and the total initial recovery payment (the "Secondary rate" for 2023/26) was an addition of approximately £2.7m per annum in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year. Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2023.

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 Funding Strategy Statement (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) *	4.60% per annum	5.10% per annum
Rate of pay increases (long term) **	4.60% per annum	4.60% per annum
Rate of increases in pensions in payment (in excess of GMP)	3.10% per annum	3.10% per annum

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

*** A minimum of 4% p.a. over the 3 years to 31 March 2026 and then reverting to the long-term rate.*

The next triennial actuarial valuation of the Fund is due as at 31 March 2025. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2026.

The McCloud Judgement

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. The figures above allow for the impact of the judgment based on the proposed remedy.

Impact of Covid 19 / Ukraine inflation?

The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The impact of COVID deaths over the period 2019/22 will be included in the actuarial gains / losses item above. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long-term impact.

The period-end above figures allow for the impact of actual known CPI at the accounting date as noted above. The period-end assumptions then allow for expected (market implied) CPI from that point.

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 2023 (the 31 March 2022 assumptions are included for comparison):

	31 March 2022	31 March 2023
Rate of return on investments (discount rate)	2.8% per annum	4.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	3.4% per annum	2.7% per annum
Rate of pay increases*	4.9% per annum*	4.2% per annum**
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	3.5% per annum	2.8% per annum

** This is the long-term assumption. An adjustment has been made for the short-term salary growth assumption in line with the 2019 actuarial valuation.*
*** This is the long-term assumption. An adjustment has been made for the short-term salary growth assumption in line with the 2022 actuarial valuation.*

The demographic assumptions are the same as those used for funding purposes:

- the start of period assumptions are based on the 2019 actuarial valuation assumptions (but updated to the 2021 CMI future improvement tables)
- the end of period assumptions are based on the updated assumption adopted for the 2022 actuarial valuation, with a long-term rate of life expectancy improvement of 1.5% pa.

Full details of the demographic assumptions are set out in the formal reports to the respective valuations.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

Start of period liabilities	£5,148m
Interest on liabilities	£143m
Net benefits accrued/paid over the period*	£93m
Actuarial gains (see below)	-£1,726m
End of period liabilities	£3,658m

Key factors leading to actuarial gains above year are:

- **Change in financial assumptions:** Corporate bond yields increased significantly over the year, with a corresponding increase in discount rate to 4.8% p.a. from 2.8% p.a. In addition, there has been a reduction in long-term assumed CPI to 2.7% p.a. from 3.4%. In combination, these factors lead to a significant reduction in liabilities.
- **Change in demographic assumptions:** As noted above, the assumptions have been updated to reflect the 2022 actuarial valuation assumptions. This acts to reduce the liabilities.

- **Pension increases / high short-term inflation:** The figures allow for the impact of the April 2023 pension increase of 10.1%, along with the high levels of CPI since September 2023 (which will feed into the 2024 pension increase). As current inflation is higher than the long-term assumption, this increases the liabilities.

- **2022 actuarial valuation:** The year-end liabilities allow for the final 2022 valuation results, and so will allow for the difference between the assumptions and actual member experience over 2019/22. This will include factors such as the impact of actual pay increases awarded, actual rates of ill-health retirement, etc.

GMP Indexation

The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.

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 2023

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. The two types of events are:

- those that provide evidence of conditions that existed at the end of the reporting period (adjusting events); and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events).

An entity adjusts the amounts recognised in its financial statements to reflect adjusting events, but it does not adjust those amounts to reflect non-adjusting events. 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:

	2021/22	2022/23
By Category	**£m**	**£m**
Employers		
Normal contributions	47.6	54.2
Deficit recovery contributions	14.6	14.9
Augmentation contributions	2.6	0.7
Additional contributions	0	0
Employees		
Normal contributions	25.6	27.8
Additional contributions	0.3	0.3
	90.7	**97.9**

By authority:	2021/22 £m	2022/23 £m
Worcestershire County Council	11.2	13.8
Scheduled bodies	68.3	72.2
Community admission bodies	3.8	3.8
Transferee admission bodies	6.4	7.1
Designated bodies	1	1
	90.7	**97.9**

The increase in contributions in 2022/23 was due an increase in the number of members and the unwinding of a number of major employers previously 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:

	2021/22 £m	2022/23 £m
Individual transfers	13.7	18.1
Bulk transfers	0	3.9
	13.7	**22.0**

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:

By category	2021/22 £m	2022/23 £m
Pensions	95.5	100.3
Commutations and lump sum retirement benefits	17.4	19.7
Lump sum death benefits	2.7	2.6
	115.6	**122.6**

By authority	2021/22 £m	2022/23 £m
Worcestershire county council	40.9	43.5
Scheduled bodies	61.2	65.4
Admitted bodies	1.7	1.7
Community admission bodies	7.1	7.7
Transferee admission bodies	4.1	3.7
Designated bodies	0.6	0.6
	115.6	**122.6**

NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2021/22	2022/23
By authority	**£m**	**£m**
Individual transfers	10.0	12.7
Group transfers	0.0	0.0
	10.0	**12.7**

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.

	2021/22	2022/23
	£m	**£m**
Employee expenses	0.6	1.1
Support services	0.5	0.1
Actuarial services	0.4	0.5
Other expenses	0.2	(0.2)
	1.7	**1.5**

The audit fee (included in support services above) for work completed by the Fund's external auditors for the year ended 31 March 2023 was £36,073 (31 March 2022: £32,473), 2.1% (31 March 2022: 1.8%) of total admin costs. A non audit service fee of £17,000 (31 March 2022: £8,500) included in support services above was incurred relating to IAS19 requirements. An additional non audit service fee of £6,500 (31 March 2022: £nil) relating to requirements associated with the latest triennial valuation is included within support services above.

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 accrual's 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.

	2021/22	2022/23
	£m	£m
Oversight and Governance	0.4	0.4
LGPSC*	0.7	0.6
Investment Management Expenses		
Administration, management and custody fees	20.4	14.4
Other expenses	0	0.7
	21.5	16.1

**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 accrual's basis. The management costs are as follows:

2022/23	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.2	0.6	0	**0.8**
LGPS Central (Emerging Markets)	1.2	0.6	0	**1.8**
LGPS Central (Global Climate Fund)	0.1	0.4	0	**0.5**
LGPS Central (Global Targeted Fund)	0.2	0.2	0	0.4
LGPS Central (Global Thematic Fund)	0.3	0	0	**0.3**
Nomura Asset Management UK Ltd	0.4	0.3	0	**0.7**
Legal & General Asset Management	0.3	0	0	**0.3**
Green Investment Bank	0.6	0	0	**0.6**
Hermes	0.6	0	0	**0.6**
Invesco	0.9	0	0	**0.9**
VENN	0.7	0	0	**0.7**
Walton Street	0.2	0	0	**0.2**
AEW	0.1	0	0	**0.1**
Stonepeak	0.8	0	0	**0.8**
Igneo (was First Sentier)	0.9	0	0	**0.9**
First Sentier EDIF III	0	0	0	**0.0**
Bridgepoint (was EQT)	0.8	0	0	**0.8**
Bridgepoint Fund III (was EQT)	0.7	0	0	**0.7**
River and Mercantile	0.2	1.6	0	**1.8**
Gresham Forestry	(0.6)	0	0	**(0.6)**
Gresham Forest Fund VI	0.3	0	0	**0.3**
Gresham (BSIF)	0	0	0	**0.0**
Gresham (BSIF II)	1.6	0	0	**1.6**
Closed Mandates & one-off advisory fees	0	0	0	**0.0**
Subtotal	**10.6**	**3.7**	**0**	**14.3**
Custody Fees				0.1
Total Fees				**14.4**

2021/22	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.2	1	0	**1.2**
LGPS Central (Equity Climate Fund)	0.1	0	0	**0.1**
LGPS Central (Emerging Markets)	1.5	1.6	0	**3.1**
Nomura Asset Management UK Ltd	0.7	0.4	0	**1.1**
Legal & General Asset Management	0.5	0	0	**0.5**
Green Investment Bank	0.6	0	0	**0.6**
Hermes	0.7	0	0	**0.7**
Invesco	0.8	0	0	**0.8**
VENN	0.3	0	0	**0.3**
Walton Street	0.1	0	0	**0.1**
AEW	0.1	0	0	**0.1**
Stonepeak	8	0	0	**8**
First State	0.9	0	0	**0.9**
Bridgepoint (was EQT)	1	0	0	**1**
River and Mercantile	0.5	0.1	0	**0.6**
Gresham Forestry	0.3	0	0	**0.3**
BSIF	0.5	0	0	**0.5**
Closed Mandates & one off advisory fees	0.4	0	0	**0.4**
Subtotal	**17.2**	**3.1**	**0**	**20.3**
Custody Fees				**0.1**
Total Fees				**20.4**

The £14.3m investment management expenses incurred in 2022/23 represent 0.40% or 40 basis points (bps) of the market value of the Fund's assets as at 31st March 2023 (0.57% or 57bps as 31 March 2022). 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 £6.6 million to £14.9 million for 2022/23 (£13.0 million to £20.2 million for 2021/22). 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 accrual's 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.

	2021/22	2022/23
	£m	£m
Fixed interest securities	(0.3)	(0.2)
Equity dividends	11.5	10.3
Pooled property & infrastructure investments	26.1	26.5
Interest on cash deposits	(0.1)	1.3
Securities lending	0.0	0.0
	37.2	**37.9**

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.

	2021/22	2022/23
	£m	£m
Withholding tax - equities	(0.2)	0.1
	(0.2)	0.1

NOTE 12: INVESTMENTS

	Market value 31 March 2022	Market Value 31 March 2023
	£m	£m
Long term Investment Assets		
LGPS Central shares	1.4	1.4
Investment Assets -LGPS Central Managed		
Equites	322.5	306.9
Pooled investment vehicles	207.1	402.7
Fixed Interest Securities	206.4	184
Investment assets -WPF Managed		
Fixed interest securities	190.4	0.0
Equities	332.9	328.5
Pooled investment vehicles	1,508.80	1,393.80
Pooled property investments	221.9	323.6
Pooled infrastructure investments	426.7	511.8
Pooled debt Assets	76.3	92.3
Derivatives - futures	198.7	0.0
Derivatives - forward FX	0.0	0.0
Cash deposits	13	8.7
Investment income due	4.4	3.7
Amounts receivable for sales	0.0	0.3
Total investment assets	**3,710.5**	**3,557.7**
Investment liabilities		
Derivatives - futures	(167.1)	(0.0)
Derivatives - forward FX	(0.0)	(0.0)
Amounts payable for purchases	(0.0)	(0.3)
Total investment liabilities	**(167.1)**	**(0.3)**
Net investment assets	**3,543.4**	**3,557.4**

NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2022	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 2023
	£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	206.4	0	(0.8)	(21.6)	184.0
Pooled investment vehicles	207.1	201.3	(1.1)	(4.6)	402.7
Equities	322.5	0	(1.7)	(13.9)	306.9
	737.4	**201.3**	**(3.6)**	**(40.1)**	**895**
Investment Assets -WPF Managed					
Fixed interest securities	**190.4**	191.4	(382.5)	0.7	**0**
Equities	**332.9**	162.7	(147.5)	(19.6)	**328.5**
Pooled investment vehicles	**1,508.80**	231.7	(375.5)	28.8	**1,393.80**
Pooled property investments	**221.9**	127.1	(30.4)	5	**323.6**
Pooled infrastructure investments	**426.7**	106	(49.8)	28.9	**511.8**
Pooled debt investments	**76.3**	27	(16.1)	5.1	**92.3**
	3,494.4	**1,047.2**	**(1,005.40)**	**8.8**	**3,545.00**
Derivative contracts:					
Futures	**31.6**	343.4	(381.2)	6.2	**(0.0)**
Forward currency contracts	**0.0**	0.0	0.0	0.0	**0.0**
	3,526.0	**1,390.6**	**(1,386.6)**	**15.0**	**3,545.0**
Other investment balances:					
Cash deposits	13.0			4.1	8.7
Investment income due	4.4				3.7
Amount receivable for sales of investments	0.0				0.3
Amounts payable for purchases of investments	0.0				(0.3)
Net investment assets	3,543.4			19.1	3,557.4

Prior year comparators:

	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	1.4
	1.4	**0**	**0**	**0**	**1.4**
Investment Assets -LGPS Central Managed					
Fixed Interest Securities	**159.7**	60	(1.1)	(12.2)	206.4
Pooled investment vehicles	**0**	212.8	(0.1)	(5.6)	207.1
Equities	**402.4**	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	**1,518.70**	263.4	(489.2)	215.9	**1,508.80**
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**
	3,259.20	**1,116.00**	**(1,085.60)**	**204.8**	**3,494.40**
Derivative contracts:					
Futures	**4.2**	47.4	(42.8)	22.8	**31.6**
Forward currency contracts	**0.0**	0.0	0.0	0.0	**0.0**
	3,263.4	**1,163.4**	**(1,128.4)**	**227.6**	**3,526.0**
Other investment balances:					
Cash deposits	13.6			(0.4)	13
Investment income due	5.3				4.4
Amount receivable for sales of investments	0.0				0
Amounts payable for purchases of investments	0.0				0
Net investment assets	3,282.3			227.2	3,543.4

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 2022/23 year amounted to £3.7 million, (2021/22: £3.0 million). These transaction costs represent 0.09% or 9bps of the market value of the Fund's assets as at 31 March 2023 (0.8bps at 31 March 2022).

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	2021/22		2022/23	
	£m	%	£m	%
LGPSC (Bonds)	206.4	6	184	5
LGPSC (Emerging Markets)	322.5	9	306.9	9
LGPSC (Global All World Climate Factor Fund)	207.1	6	208.2	6
LGPSC (Global Sustainable Active Equities)	0	0	194.5	5
JP Morgan Asset Management (Bonds)	0.2	0	0.2	0
JP Morgan Asset Management (Emerging Markets)	1.5	0	1.6	0
Nomura Asset Management UK Ltd	365.8	10	355.5	10
Schroder Investment Management	1.4	0	1.5	0
Legal & General Asset Management	1,480.10	43	1366.8	38
Green Investment Bank	44.7	1	46.7	1
Hermes (Fund I and II)	103.6	3	91	3
Invesco (Euro and a UK Property Fund)	107.6	3	116.9	3
VENN (Fund I & II)	25.2	1	18.2	0
Walton Street (Fund I & II)	10.2	0	10.6	0
AEW	19.9	1	18.6	1
Stonepeak (III & IV)	134.9	4	174.2	5
Igneo (II & III, was First Sentier)	114.7	3	133.4	4
Bridgepoint Fund II & III (was EQT)	76.3	2	92.2	3
River and Mercantile	223.4	6	0.0	0
WCC Managed Account	5.4	0	5.4	0
Gresham House (BSIF I & II)	44.2	1	86.6	3
Gresham House Forestry Growth & Sustainability	42.5	1	54.6	2
Gresham House Forest Fund IV	0.0	0	84.7	2
	3,537.6	100	3,552.3	100

The above excludes £1.4m (2021/22: £1.4m) Invested in LGPSC and £3.7m (2021/22: £4.4m) of investment income due. The following investments represent more than 5% of the net assets of the Fund:

	Market value 31 March 2022	% of total Fund	Market value 31 March 2023	% of total Fund
Security	£m		£m	
LGIM – UK Equity Index Pooled Fund	556.1	15.7	608	17.1
LGIM - Client Specific unitised Fund -STAJ	352.6	10	354.2	10
LGPS Central Emerging Market Equity Pool	322.6	9.1	306.9	8.7
LGIM – Europe (ex-UK) Index Pooled Fund	216.1	6.1	221.8	6.3
LGPS Central All World Equity Climate Factor Fund	207.1	5.9	208.2	5.9
LGPS Central Global Active Investment Grade Corporate Bond Fund	206.3	5.8	184	5.2
LGIM – North America Index Pooled Fund	355.2	10.1	182.8	5.2
River and Mercantile UK Gilts	190.3	5.4	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 £3.6 million (2021/22: £0.8 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 £3.7 million (2021/22: £0.8 million) representing 105.0% of stock lent.

Income received from stock lending activities was £0.0 million for the year ending 31 March 2023 (2021/22: £0.0 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

During the year ending 31 March 2023, The Fund used derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund did 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

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

Due to the downward trends in equity market valuations at the time, the Fund took the opportunity to exit the protection of the hedge entered into during 2019/20. This was fully exited in early November and the funds were then reinvested back into the passive equity market cap funds on 10 November 2022.

a) Futures

The Fund's investment managers hold cash balances 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 several 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

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 2022	Economic Exposure	Market Value 31 March 2023
Type of future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK Gilt exchange traded	Under one year	0	0	0	0
UK FTSE exchange traded option	Under one year	0	138.4	0	0
EUROSTOXX exchange traded option	Under one year	0	21.4	0	0
US S+P exchange traded option	Under one year	0	38.9	0	0
Overseas exchanged traded	under one year	0	0	0	0
Total assets			198.7		0

Liabilities		Economic Exposure Value	Market Value 31 March 2022	Economic Exposure Value	Market Value 31 March 2023
Type of future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK Gilt exchange traded	Under one year	0	0	0	0
UK FTSE exchange traded option	Under one year	0	(98.7)	0	0
EUROSTOXX exchange traded option	Under one year	0	(29)	0	0
US S+P 500 exchange traded option	Under one year	0	(39.4)	0	0
Overseas exchanged traded	Under one year	0	0	0	0
Total liabilities			(167.1)		0.0
Net futures			31.6		0.0

OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2023

Settlement	Currency Bought	Local Currency Value	Currency Sold	Local Currency Value	Asset Value	Liability Value
		£m		£m	£m	£m
One to Six Months	JPY	(0.3)	USD	0.3	0.0	
One to Six Months	USD	(0.3)	JPY	0.3		0.0
					0.0	(0.0)
Net forward currency contracts at 31 March 2023						**0.0**
<u>Prior year comparative:</u>						
Open forward currency contracts at 31 March 2022					**0.0**	**0.0**
Net forward currency contracts at 31 March 2022						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.

	2021/22	2022/23
Cash	**£m**	**£m**
Cash deposits	5.3	4.7
Cash instruments	7.7	4
	13.0	**8.7**

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
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:

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2023	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,017.9	1,602.0	927.7	3,547.6
Total fair value financial assets	**1,017.9**	**1,602.0**	**927.7**	**3,547.6**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(0.3)	0.0	(0.3)
Total fair value financial liabilities	**0.0**	**(0.3)**	**0.0**	**(0.3)**
Net fair value financial assets	**1,017.9**	**1,601.7**	**927.7**	**3,547.3**

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	(167.1)
Total fair value financial liabilities	**0**	**(167.1)**	**0**	**(167.1)**
Net fair value financial assets	**1,056.60**	**1,747.50**	**724.9**	**3,529.0**

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 2023.

Sensitivity Analysis	Valuation range	Value as at 31st March 2023	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	5.6%	323.6	341.6	305.6
Pooled Investments - Infrastructure Funds	6.6%	511.8	545.5	478.1
Pooled Investments - Debt Funds	5.6%	92.3	97.4	87.2
Total		**927.7**	**984.6**	**870.8**

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 2022	**221.9**	**426.7**	**76.3**	**724.9**
Transfers into Level 3	0	0	0	**0**
Transfers out of Level 3	0	0	0	**0**
Purchases and derivative Pymts	127.1	106	27	**260.1**
Sales and derivative receipts	(30.4)	(49.8)	(16.1)	**(96.3)**
Unrealised gains	5.3	21.8	4.8	**31.9**
Realised gains/(losses)	(0.3)	7.1	0.3	**7.1**
Market value 31st March 2023	**323.6**	**511.8**	**92.3**	**927.7**

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 2021/22	Financial Instruments at Amortised Cost 2021/22		Fair value through profit and loss 2022/23	Financial Instruments at Amortised Cost 2022/23
£m	£m		£m	£m
		Financial assets		
	1.4	Other share capital		1.4
736		LGPS Central Managed	893.6	
190.4		Fixed interest securities	0	
332.9		Equities	328.5	
1,508.80		Pooled investment vehicles	1,393.80	
221.9		Pooled property investments	323.6	
426.7		Pooled Infrastructure investments	511.8	
76.3		Pooled Debt investments	92.3	
198.7		Derivatives - Futures	0.0	
0		Derivatives - Forward FX	0.0	
	49.4	Cash		51.2
4.4		Other investment Balances	4.0	
	9.8	Current assets		13.0
	1.5	Non-current assets		1.7
3,696.1	62.1		3,547.6	67.3
		Financial liabilities		
(167.1)		Derivatives - Futures	0.0	
0		Derivatives - Forward FX	0.0	
0		Other investment balances	(0.3)	
	(6.5)	Current liabilities		(6.1)
(167.1)	(6.5)		(0.3)	(6.1)
3,529.0	55.6		3,547.3	61.2

NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2022		31 March 2023
£m		£m
	Financial assets	
204.8	Fair value through profit and loss	8.8
(0.4)	Financial Assets at Amortised Cost	4.1
	Financial liabilities	
22.8	Fair value through profit and loss	6.2
227.2	**Total**	**19.1**

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 2023:

- 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 2022/23 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	7.0%
Global bonds	7.0%
UK equities	12.5%
Overseas equities	12.6%
UK pooled investment vehicles	12.5%
Overseas pooled investment vehicles	10.7%
Global pooled investment vehicles	10.7%
Emerging markets pooled equities	10.7%
Pooled property investments	5.6%
Pooled infrastructure investments	6.6%
Pooled debt investments	5.6%

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 2023	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	8.7	0	8.7	8.7
Investment portfolio assets:				
UK fixed interest securities	0	7	0	0
Overseas fixed interest securities	0	7	0	0
Global bonds	184	7	196.9	171.1
UK equities	4.2	12.5	4.7	3.7
Overseas equities	322.8	12.6	363.5	282.1
UK pooled investment vehicles	608	12.5	684	532
Overseas pooled investment vehicles	407.1	10.7	450.7	363.5
Global pooled investment vehicles	756.9	10.7	837.9	675.9
Emerging market pooled equities	332.9	10.7	368.5	297.3
Pooled property investments	323.6	5.6	341.6	305.6
Pooled infrastructure investments	511.8	6.6	545.5	478.1
Pooled debt investments	92.3	5.6	97.4	87.2
Net derivative assets	0.0	0.0	0.0	0.0
Investment income due	3.7	0.0	3.7	3.7
Amounts receivable for sales	0.3	0.0	0.3	0.3
Amount payable for purchases	(0.3)	0.0	(0.3)	(0.3)
Total	**3,556.00**		**3,903.1**	**3,208.9**

Prior-year comparators

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	13	13
Investment portfolio assets:				
UK fixed interest securities	190.4	6.9	203.5	177.3
Overseas fixed interest securities	0	6.9	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	31.6	31.6
Investment income due	4.4	0	4.4	4.4
Amounts receivable for sales	0	0	0	0
Amount payable for purchases	0	0	0	0
Total	**3,542.0**		**3,897.3**	**3,186.7**

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 2022	Value as at 31 March 2023
	£m	£m
Cash and cash equivalents	13.0	8.7
Cash balances	36.4	42.5
Fixed interest securities	190.4	0.0
Total change in assets available	**239.8**	**51.2**

Interest Rate Risk Sensitivity Analysis

The Fund recognizes 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 and 31 March 2023 of a +/- 100 basis points (BPS) change in interest rates:

		Change in year in the net assets available to pay benefits	
Asset type	**Carrying amount as at 31 March 2023**	**+100 BPS**	**-100 BPS**
	£m	**£m**	**£m**
Cash and cash equivalents	8.7	8.8	8.6
Cash balances	42.5	42.9	42.1
Fixed interest securities	0.0	0.0	0.0
Total change in assets available	**51.2**	**51.7**	**50.7**

		Change in year in the net assets available to pay benefits	
Asset type	**Carrying amount as at 31 March 2022**	**+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**

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 2022	Asset value as at 31 March 2023
	£m	£m
Overseas quoted securities	323.5	322.8
Overseas pooled investment vehicles	576.4	407.1
Global pooled investment vehicles	559.7	756.9
Global bonds and pooled EM equities	557.5	516.9
Overseas pooled property investments	104.5	90.8
Total overseas assets	**2,121.6**	**2,094.5**

Overseas bonds are 100% hedged to GBP as at 31 March 2023.

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 5.9% (as measured by one standard deviation).
This analysis assumes that all other variables, in particular interest rates, remain constant.
A 5.9% 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 2023	Change to net assets available to pay benefits	
		5.90%	-5.90%
	£m	£m	£m
Overseas quoted securities	322.8	341.8	308.8
Overseas pooled investment vehicles	407.1	431.1	383.1
Global pooled investment vehicles	756.9	801.6	712.2
Global bonds and pooled EM equities	516.9	547.4	486.4
Overseas pooled property investments	90.8	96.2	85.4
Total change in assets available	**2,094.5**	**2,218.1**	**1,970.9**

Currency exposure - asset type	Asset value as at 31 March 2022	Change to net assets available to pay benefits	
		6.50%	-6.50%
	£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	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**

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, except for 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 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 2023 was £51.2 million (31 March 2022: £49.4 million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2022	Balances as at 31 March 2023
		£m	£m
Cash Instruments			
BNY Mellon US Dollar Liquidity Fund	AAA	7.7	4.1
Bank deposit accounts			
The Bank of New York Mellon	A-1+	5.3	4.6
Barclays Bank PLC – Notice Account	A-1	0	10
Bank current accounts			
Barclays Bank PLC	A-1	36.4	32.5
Total		**49.4**	**51.2**

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

	2021/22	2022/23
	£m	£m
Contributions due from employer in respect of:		
Employer	6.4	7.3
Members	2.0	2.0
Cash balances	36.4	42.5
Other debtors	1.4	3.7
	46.2	**55.5**

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

	2021/22	2022/23
	£m	£m
*LGPSC capital advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.5	0.7
Contributions from employers	0.1	0.2
Augmentation	0.2	0.1
	1.5	**1.7**

*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

	2021/22	2022/23
	£m	£m
Investment management expenses	(0.9)	(0.7)
Payroll and external vendors	(0.6)	(0.6)
Other expenses	(5.0)	(4.8)
	(6.5)	**(6.1)**

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 £1.8 million in 2022/2023 (2021/2022: £1.4 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 £11.5 million to the Fund in 2022/2023 (2021/2022: £11.2 million).

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 2022/2023 by LGPSC (£0.7 million in 2021/2022).

Worcestershire County Council, as the Administering Authority of the Worcestershire Pension Fund has guaranteed a share of the pension liability relating to employees of LGPS Central Limited that transferred into the company on creation. If this guarantee is called, this will be funded by the Fund.

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:

	2021/22	2022/23
	£000	£000
Short-term benefits*	81	106
Long term/ post-retirement benefits**	213	143
	294	**249**

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

**This is the accrued pension benefits, expressed as cash equivalent transfer value.

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 2023 totalled £332.9 million (31 March 2022: £488.4 million). Outstanding capital commitments are reduced due to the further drawdowns made during 2022, resulting in some investments becoming fully committed.

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: GUARENTEES

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 (£0.168milllion), **Herefordshire Council**.
- Community Housing Group (£3.877 million), **Wyre Forest District Council.**
- Freedom Leisure (£0.323 million), **Worcester City Council.**

There are a further 4 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 2022/2023 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.

	2021/22	2022/23
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	0.1	0.2
Retirement benefits paid or transferred	(0.6)	(0.3)

The combined value of the AVC funds as at 31 March 2023 was £3.0 million (31 March 2022: £2.9 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.

	2021/22	2022/23
	£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

There are no critical judgements in appling accounting policies in 2022/23.

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 2023 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if 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 4.4% increase in the pension liability, which is equivalent to £157m. ● a 0.25% increase in assumed earnings inflation would result in a 0.5% increase in the value of liabilities, which is equivalent to £19m. ● a 0.25% increase in assumed life expectancy would result in a 0.7% increase in the value of liabilities, which is equivalent to £26m.
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 geopolitical issues upon these illiquid assets as well as the concerns as to the current inflationary environment. The valuations have been updated based on the information available as at 31 March 2023 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 £323.6m (£221.9m in 2021/22). 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 £511.8m (£426.7m in 2021/22). There is a significant risk of valuation updates resulting in a material adjustment in the carrying amount within the next financial year.

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
22 March 2023

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 FSS can be viewed here:

Appendix B

Worcestershire Pension Fund Pension Administration Strategy

The Pension Administration Strategy (PAS) 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. The PAS can be viewed here:

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Appendix C

Investment Strategy Statement 2023

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.

The overall strategic asset allocation is set out in the Investment Strategy Statement (ISS) which can be viewed here: