

# Pension Fund Investment Sub-Committee

Date: Monday 7 March 2022  
Time: 10.00 am  
Venue: Committee Room 2, Shire Hall

## Membership

Councillor John Horner (Chair)  
Councillor Bill Gifford (Vice-Chair)  
Councillor Christopher Kettle  
Councillor Sarah Millar  
Councillor Jill Simpson-Vince

Items on the agenda:

1. **General**
  - (1) Apologies
  - (2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests
  - (3) Minutes of the previous meeting 5 - 10  
To confirm the minutes of the meeting held on 13 December 2021.
2. **Review of the Local Pension Board minutes of the meeting of 20th October 2021** 11 - 18
3. **Forward Plan** 19 - 22
4. **Warwickshire Pension Fund Business Plan 2022/23** 23 - 38
5. **Pension Fund Risk Monitoring** 39 - 48
6. **Macroeconomic Update** 49 - 66

**7. Reports Containing Exempt or Confidential Information**

To consider passing the following resolution:

‘That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.’

<b>8. Precepting Employers' Contribution Rates</b>	67 - 136
<b>9. Investment Monitoring Report</b>	137 - 166
<b>10. Asset Liability Modelling</b>	167 - 208
<b>11. Alternatives Commitments</b>	209 - 240
<b>12. General Activity Update</b>	241 - 250
<b>13. LGPS Pooling</b>	251 - 256
<b>14. UK Stewardship Code</b>	257 - 260
<b>15. Exempt Minutes of the Previous Meeting</b>	261 - 268

To confirm the exempt minutes of the meeting held on 13 December 2021.

**Monica Fogarty**  
Chief Executive  
Warwickshire County Council  
Shire Hall, Warwick

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A member attending a meeting where a matter arises in which they have a disclosable pecuniary interest must (unless they have a dispensation):

- Declare the interest if they have not already registered it
- Not participate in any discussion or vote
- Leave the meeting room until the matter has been dealt with
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests relevant to the agenda should be declared at the commencement of the meeting.

The public reports referred to are available on the Warwickshire Web  
<https://democracy.warwickshire.gov.uk/uuCoverPage.aspx?bcr=1>

### Public Speaking

Any member of the public who is resident or working in Warwickshire, or who is in receipt of services from the Council, may speak at the meeting for up to three minutes on any matter within the remit of the Committee. This can be in the form of a statement or a question. If you wish to speak please notify Democratic Services in writing at least two working days before the meeting. You should give your name and address and the subject upon which you wish to speak. Full details of the public speaking scheme are set out in the Council's Standing Orders.

### COVID-19 Pandemic

Any member or officer of the Council or any person attending this meeting must inform Democratic Services if within a week of the meeting they discover they have COVID-19 or have been in close proximity to anyone found to have COVID-19.

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# Pension Fund Investment Sub-Committee

Monday 13 December 2021

## Minutes

### Attendance

#### Committee Members

Councillor John Horner (Chair)  
Councillor Bill Gifford (Vice-Chair)  
Councillor Christopher Kettle  
Councillor Jill Simpson-Vince

#### Officers

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance  
John Cole, Democratic Services Officer  
Jan Cumming, Senior Solicitor and Team Leader (Commercial and Contracts)  
Andrew Felton, Assistant Director - Finance  
Shawn Gladwin, Senior Finance Officer Pensions Investment  
Victoria Moffett, Pensions and Investments Manager  
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk)

#### Others Present

Robert Bilton, Hymans Robertson  
Mark Lyon, Border to Coast Pensions Partnership (for minute no. 11)  
Philip Pearson, Hymans Robertson  
Bob Swarup, Independent Advisor

### 1. General

#### (1) Apologies

Apologies were received from Councillor Sarah Millar.

#### (2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

There were none.

#### (3) Minutes of the previous meeting

#### Resolved:

That the minutes of the meeting held on 13 September 2021 be confirmed as a true and accurate record and signed by the Chair.

There were no matters arising.

## **2. Review of the Minutes of the Local Pension Board Meeting of 20 July 2021**

The minutes of the Local Pension Board meeting of 20 July 2021 were noted.

## **3. Forward Plan**

Neil Buxton (Technical Specialist - Pension Fund Policy and Governance) introduced the report which provided an updated Forward Plan for the Pension Fund Investment Sub-Committee rolled forward to cover the year ahead. He drew members' attention to the upcoming Knowledge Assessment Review which would help to identify areas of focus for future training. He encouraged members to review this material over the Christmas break.

### **Resolved:**

That the Pension Fund Investment Sub-Committee notes the Forward Plan.

## **4. Risk Monitoring**

Chris Norton (Strategy and Commissioning Manager – Treasury, Pension, Audit & Risk) presented this report which provided an update on risks to the Fund and actions taken to manage them.

Chris Norton advised that the format for presentation of the summary of risks had been updated. He drew members' attention to areas where risk scores had been amended since the previous report, stating that long-term investment risk likelihood was higher due to uncertainties around inflation. Investment-related risk associated with COVID-19 had also increased; however, at the time of writing the report, the effect of the Omicron variant was not yet apparent.

In response to Councillor Kettle, Chris Norton advised that the increased risk score for COVID-19 was unlikely to significantly alter the overall risk profile. However, it could introduce some short-term volatility to markets.

Andrew Felton (Assistant Director, Finance) stated that increased levels of staff sickness presented a risk; however, a high proportion of staff had been vaccinated. The level of risk posed by Omicron would be monitored.

In response to Councillor Gifford, Chris Norton advised that cyber security policies had been reviewed with input from ICT colleagues. He reported that testing of systems had not uncovered any previously undetected risks; third party risks assessments were underway to ensure that robust systems were in place.

Councillor Kettle queried whether, in recognition of the Council's declaration of a climate emergency and the importance of the issue, the risk status of climate change should be upgraded from 'probable' to 'very likely'.

The Chair acknowledged the urgency of the climate emergency; however, he emphasised that the Risk Summary was focused on the outlook for investments. For example, investment in technologies that were marketable as an outcome of climate change could stand to benefit the Fund.

Councillor Gifford stated that climate change presented opportunities as well as risks to the Fund. However, he commented that it was important to emphasise that the Authority recognised the validity and seriousness of climate change.

**Resolved:**

That the Pension Fund Investment Sub-Committee notes the report.

**5. Reports Containing Exempt or Confidential Information**

**Resolved:**

That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972.

**6. General Activity Update**

The Sub-Committee received a confidential update.

**Resolved:**

That the Pension Fund Investment Sub-Committee notes the report.

**7. Team Resourcing**

The Sub-Committee received a confidential update.

**Resolved:**

That the Pension Fund Investment Sub-Committee:

1. Notes the report; and
2. Recognises the need for extra resource to deliver the activities of the Fund and endorses the additional cost of these resources being charged to the Fund.

**8. Funding Update Quarter 2 2021/22**

The Sub-Committee received a confidential update.

**Resolved:**

That the Pension Fund Investment Sub-Committee notes the report.

**9. Investment Monitoring Report Quarter 2 2021/22**

The Sub-Committee received a confidential update.

**Resolved:**

That the Pension Fund Investment Sub-Committee notes the report.

**10.LGPS Pooling Update**

The Sub-Committee received a confidential update.

**Resolved:**

That the Pension Fund Investment Sub-Committee:

1. Notes the report;
2. Approves the Border to Coast Pensions Partnership (BCPP) Responsible Investment Policy;
3. Approves the BCPP Corporate Governance & Voting Guidelines Policy.

**11.Border to Coast Pension Partnership - Presentation**

The Sub-Committee received a confidential update.

**Resolved:**

That the Pension Fund Investment Sub-Committee notes the presentation from Border to Coast Pension Partnership.

**12.Valuation Assumptions**

The Sub-Committee received a confidential update.

**Resolved:**

That the Pension Fund Investment Sub-Committee approves the assumptions to be used in the 2022 Valuation.

**13.Private Markets Update**

The Sub-Committee received a confidential update.

**Resolved:**

That the Pension Fund Investment Sub-Committee:

1. Notes the Report and the outcomes and recommendations arising from the facilitated discussion, provided at Appendix 1 of the Report; and

Noting that the following strategic allocations are recommended but subject to further modelling and evaluation, in particular in terms of their impact on funding level outcomes:



2. That Private Equity strategic allocation is increased to 6%;
3. That the Private Debt strategic allocation is maintained at 7%, with an interim target of 5%;
4. That the Infrastructure strategic allocation is increased to 10%, subject to further review of the long-term market outlook once the current target of 7% exposure is closer to being achieved.

#### **14.Exempt Minutes of the Previous Meeting**

##### **Resolved:**

That the exempt minutes of the meeting held on 13 September 2021 be confirmed as a true and accurate record and signed by the Chair.

There were no matters arising.

The meeting rose at 13:00.

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Chair

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## Pension Fund Investment Sub-Committee

7 March 2022

### Review of the minutes of the Warwickshire Local Pension Board meeting of 20th October 2021

#### Recommendation(s)

1. That the Pension Fund Investment Sub-Committee notes and comments on the minutes of the Local Pension Board meeting.

#### 1. Executive Summary

- 1.1 Set out at Appendix 1 are the minutes of the Local Pension Board meeting of 20th October 2021, for information.

#### 2. Financial Implications

None.

#### 3. Environmental Implications

None.

#### 4. Supporting Information

None.

#### 5. Timescales associated with the decision and next steps

None.

#### Appendices

1. Appendix 1 Local Pension Board minutes 20<sup>th</sup> October 2021.

#### Background Papers

None.

	Name	Contact Information
Report Author	Neil Buxton	neilbuxton@warwickshire.gov.uk

Assistant Director	Andrew Felton	andrewfelton@warwickshire.gov.uk
Strategic Director	Strategic Director for Resources	robpowell@warwickshire.gov.uk
Portfolio Holder	Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): n/a

Other members: n/a

# Warwickshire Local Pension Board

Wednesday 20 October 2021

## Minutes

### Attendance

#### Committee Members

Keith Bray  
Keith Francis  
Alan Kidner  
Sean McGovern  
Mike Snow

#### Officers

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance  
Andrew Felton, Assistant Director - Finance  
Liz Firmstone, Service Manager (Transformation)  
Victoria Jenks, Pensions Admin Delivery Lead  
Ian Marriott (Legal and Democratic)  
Deborah Moseley, Senior Democratic Services Officer  
Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Risk, & Insurance)

#### Also Present

Jeff Carruthers, prospective Board Member.

### 1. Introductions and General Business

The Chair welcomed Jeff Carruthers as an observer to the meeting. Mr Carruthers had come forward as a new board member, following the departure of Councillor Dave Parsons. The Board extended their thanks to Councillor Parsons for his previous contribution and noted that the appointment of Mr Carruthers would need to be ratified by the next meeting of the County Council.

#### (1) Apologies

Councillor Parminder Singh Birdi

#### (2) Board Members' Disclosures of Interests

The Chair stated that he worked for the Local Authority Pension Fund Forum and also for Barrack, Rodos and Bacine, a firm of American lawyers which had Pension Fund clients, although these did not include Warwickshire.

### **(3) Minutes of the Previous Meeting**

It was noted that since the draft minutes had originally been circulated to the Board, Alan Kidner had requested the addition of his comments regarding Business Plan Monitoring and the Chair had agreed their inclusion. The minutes in the report pack, therefore, reflected Mr Kidner's comments with regard to BCPP's net zero targets and encouragement for Warwickshire Pension Fund to follow the good example of South Yorkshire and adopt a 2030 target.

The Chair asked for an update on the summary of key actions and was advised that:

1. A note had been circulated regarding the position on the reporting of internal audit reports relating to the pension fund. It was confirmed that the reports were not written for public consumption but could be circulated to the Board once finalised and approved.
2. The investment strategy would include consideration of what happened in the event 100% funding was reached.
3. Chris Norton would check if the Employer Engagement findings were shared.
4. Investigation of options for remote meetings had resulted in this meeting being hosted on Teams with a notice on the website for scheme members and scheme employers to contact Democratic Services if they wished to observe. The Board agreed that the circumstances around Covid-19 warranted the next meeting being held remotely. The Chair suggested that the position be reviewed in February 2022 and considered that it would be helpful to meet at least once per year in person.

The minutes of the meeting held on 20 July 2021 were agreed by the Board as a true and accurate record.

## **2. Forward Plan**

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance presented this report which provided an updated one year rolling forward plan. The forward plan included a schedule of policy reviews and a training plan for the forthcoming year.

The Local Pension Board noted the forward plan set out in appendix 1 to the report, subject to the inclusion of the Chair's annual report to the Board in July 2022.

## **3. Business Plan Update**

This report was presented by Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) who explained that the report provided a quarterly progress update against the action plan which had been previously agreed by the Pension Fund Investment Sub-Committee.

Appendix 1 to the report provided a breakdown of the Business Plan into a total of 49 actions. The actions were RAG rated, and the majority were on track but a number of activities were subject to challenges identified in the report at paragraphs 1.5 to 1.10. Chris Norton highlighted capacity issues and the preparation of business cases to seek to address this in the areas of governance and investment.

It was mentioned that the late finalisation and publication of the accounts was due to external audit capacity.

It was confirmed that the intention was to hold the Pension Fund Annual General Meeting remotely (with a test run in advance to eliminate any technical problems).

With regard to questions about the accounts, Chris Norton advised that there would be an adjustment to the figures in relation to the Harbourvest Private Equity Fund. This was not an uncommon position in the national landscape and a comment would be made in the accounts to explain that the correct values were reflected at the balance sheet date but that due to market factors the investments were subsequently worth more.

Keith Francis suggested that action point 34 regarding the plan to tender expired contracts may need to remain red (rather than move to amber) as it could take several months before they were all completed.

With regard to paragraph 1.5, Chris Norton confirmed that reference to “CMA” referred to the Competition and Markets Authority and it was noted that acronyms needed to be explained in future reports.

The Board also discussed the use of colour in the report and whether or not there might be a better way to provide the content in an accessible format.

The Local Pension Board noted the report.

#### **4. Risk Monitoring**

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) explained that this report presented the risk register for the Fund which set out the risks that the Fund was exposed to before and after mitigating actions. The Board were advised that the internal audit on fraud had been completed and a business continuity workshop had taken place focussing on cyber security.

In terms of the rating for the ‘employer contributions cannot be met’ risk score (risk number 4), Chris Norton advised that the risk register reflected the management of risk and the likelihood of occurrence matrix provided an appropriate weighting to the impact score and the level of risk that was indicated for this in the report.

In response to a question regarding the improved customer satisfaction rating, Vicky Jenks, Pensions Admin Delivery Lead, advised that this had been achieved by looking at feedback from surveys and registering compliments and complaints. More work was needed on customer feedback and the implementation of Member Self Service would allow this to happen in a more efficient way.

The Local Pension Board noted the risk register appended to the report and the risk appetite statement at section 2.3 of the report.

*Alan Kidner joined the meeting at this point (10.46am).*

## **5. Pensions Administration Activity and Performance Update**

Vicky Jenks, Pensions Admin Delivery Lead, presented this report which provided an update on the key developments affecting pensions administration and the performance of the Pensions Administration Service, including the issue of Annual Benefit Statements, the implementation of Member Self Service, achievement of key performance indicators, workloads in the team, management of breaches, the continuation of the McCloud project, new employers seeking admission to the Fund, and the internal dispute resolution procedure.

Regarding the small number of statements not sent out due to outstanding queries, Keith Francis asked if this related to a small number of employers and was advised that there were a couple of employers where further information had been sought and it had been identified that the issue was that they were not registered on the iConnect system but once they had been onboarded the problem would cease.

With regard to a query from Mike Snow, Vicky Jenks noted that an issue had been identified whereby some employers did not collect marital status through their payroll and, upon transfer of the data, the system recorded a blank marital status as 'single'. Whilst this had not been anticipated, it was not a material breach and could be easily rectified for the future to ensure that information on spousal benefits was included. There had been no bearing on the content of the annual benefit statements. Vicky Jenks also confirmed that the issue of the annual benefit statements generally resulted in an influx of queries; whilst there were notes that sat alongside the statements, generally people did not want a lot of complicated information. Nationally there was some discussion about the level of information being included in the statements and about increasing awareness. The key factor was to make members aware of their pensions and the introduction of a pensions dashboard in 2023 would be beneficial as this would allow people to see all their pension pots together.

Keith Francis asked about the assertion in the report (KPI1) that when the Fire Pensions administration transferred to a new provider more resource would be available. Vicky Jenks advised that the current focus was on making sure fire records were as up to date as possible in readiness for the transfer. One member of the team was therefore spending more time in this area than would normally be required. Once the administration had transferred, that person would be available to pick up other areas of work. The statement therefore related to targeted resource rather than there being additional resource.

Noting issues regarding Multi Academy Trust contracts, the Chair pointed out that there was pressure nationally to address the issues raised.

The Local Pension Board noted the report.

## **6. Conflicts of Interest Policy**

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance explained that the annual review of the Conflicts of Interest Policy had identified that members of the Board were required to complete a declaration of pecuniary interests. A standard proforma had been issued and members would be asked to update it annually.



Alan Kidner noted that the focus on pecuniary interests was very narrow and that a wider range of interests should be encapsulated when relevant. Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) agreed with this principle and the need to provide an adequate level of transparency in respect of any conflict of interest. The Chair noted that members had the opportunity to declare interests at the commencement of each meeting

The Local Pension Board noted the report.

## **7. Training Policy**

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance summarised this report, noting that The Pensions Regulator required appropriate training to be provided for pension committee members, members of the local pension board and senior officers with a responsibility for investment matters and the administration of a public sector pension scheme. The Pension Fund Investment Sub-Committee had approved the training policy appended to the report in September 2021. Neil Buxton issued a schedule of training opportunities at regular intervals and a system was being implemented in conjunction with Hymans Robertson to provide a portal for members to register training received. An overview of the system would be provided in due course. The National Knowledge Assessment would be used to formulate the plan going forward and it was anticipated that the assessment would next take place in January or February 2022.

Members asked for links to recorded training sessions to be shared so that those unable to attend at the allotted time could still appraise themselves of the detail. The Chair indicated that he intended to list training sessions offered to the Board in his next annual report; this would spark discussion on how the training was received and where knowledge gaps existed.

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) noted that a lot of sessions were taking place outside the formal Committee setting which provided not only opportunities for training but also to engage in discussion of key issues in an attempt to maximise the productivity of formal committee and board meeting time.

The Local Pension Board noted the report and training policy.

## **8. Investments Update**

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) introduced this report which provided a general update on investment related activity. He highlighted that the funding level had improved to 101% over the quarter ending 30 June 2021, the Multi Asset Credit Fund transfer had taken place, and the tendering process for a second Independent Adviser with a liabilities focus would commence shortly.

In response to the Board's questions on climate change Chris Norton advised that there had been a meeting arranged by a local climate interest group and whilst he did not have full details of attendance, he was aware that Councillors John Horner and Bill Gifford had attended and engaged with the meeting. It was clear that climate change was a serious issue but there was some divergence of views in terms of divesting or engaging. It would be essential that clear communication was issued on the approach being taken.

In response to a query about the minus figure entry in Appendix 1 to the report in relation to “WORKS-BCPP INFRA”, Chris Norton agreed to look into this and provide an explanation.

The Local Pension Board noted the report.

## 9. Regulatory Update

This report, presented by Neil Buxton, Technical Specialist - Pension Fund Policy and Governance, provided an update on the Ministry for Housing, Communities and Local Government’s (subsequently known as the Department for Levelling Up, Housing and Communities) consultation on draft statutory guidance on the making and disclosure of Special Severance Payments by local authorities.

The Local Pension Board noted the report.

## 10. Minutes of the Pension Fund Investment Sub-Committee

The Board noted the content of this report which comprised a copy of the minutes of the public part of the meeting held on 14 June 2021 and the draft forward plan.

## 11. Review of the Minutes of the Staff and Pensions Committee 14th June 2021

The Board noted the abridged version of the minutes of the meeting which Neil Buxton, Technical Specialist - Pension Fund Policy and Governance explained focussed on items relating to the Pension Fund.

## 12. Summary of Key Actions

	Action	
1	Add the Chair’s Annual Report to the Board to the Forward Plan	Neil Buxton
2	Share links to recorded training sessions	Neil Buxton
3	Provide an explanation of the “WORKS-BCPP INFRA” minus figure in Appendix 1 of the Investment Update Report	Chris Norton
4	To advise how many annual benefit statements had been affected by the marital status issue	Liz Firmstone/Vicky Jenks

The meeting rose at 11.47am.

.....  
Chair

## Pension Fund Investment Sub-Committee

7 March 2022

### Forward Plan

#### Recommendation(s)

1. That the Pension Fund Investment Sub-Committee considers and comments on the Forward Plan.

#### 1. Executive Summary

- 1.1 The purpose of this report is to provide a updated forward plan for the Pension Fund Investment Sub-Committee rolled forward to cover the year ahead. The plan is set out at Appendix 1.
- 1.2 In order to provide a complete picture of policy activity, a schedule of policy review activity at the Staff and Pensions Committee is also provided for in the appendix.

#### 2. Financial Implications

None.

#### 3. Environmental Implications

None.

#### 4. Supporting Information

None.

#### 5. Timescales associated with the decision and next steps

None.

#### Appendices

1. Appendix 1 The Forward Plan

## Background Papers

None.

	<b>Name</b>	<b>Contact Information</b>
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Assistant Director	Andrew Felton	<a href="mailto:andrewfelton@warwickshire.gov.uk">andrewfelton@warwickshire.gov.uk</a>
Strategic Director	Strategic Director for Resources	<a href="mailto:robpowell@warwickshire.gov.uk">robpowell@warwickshire.gov.uk</a>
Portfolio Holder	Portfolio Holder for Finance and Property	<a href="mailto:peterbutlin@warwickshire.gov.uk">peterbutlin@warwickshire.gov.uk</a>

The report was circulated to the following members prior to publication:

Local Member(s): n/a

Other members: n/a

## Pension Fund Investment Sub-Committee

### Forward Plan

#### Standing Items

13 June 2022	12 September 2022	12 December 2022	6 March 2023
Forward Plan			
Risk Monitoring			
General Investment Activity Update			
Investment and Fund Performance			
LGPS Pooling update			
Local Pension Board minutes of meeting			

#### Specific Items

13 June 2022	12 September 2022	12 December 2022	6 March 2023
Training Plan	National Knowledge Assessment		
Valuation 2022 – Section 13 results	Valuation 2022 – Whole Fund results	Valuation 2022 – employer funding strategies	Valuation 2022 – Final Valuation Report and Funding Strategy Statement

#### Manager Presentations

13 June 2022	12 September 2022	12 December 2022	6 March 2023
Border to Coast Pension Partnership			

#### Policy Reviews

13 June 2022	12 September 2022	12 December 2022	6 March 2023
Voting Policy	ESG, Climate Change and Responsible Investment policies		Risk Management Review

Funding Strategy Statement			Investment Strategy Statement review
			Business Plan

### Policy Reviews by the Staff and Pensions Committee

13 June 2022	12 September 2022	12 December 2022	6 March 2023
Breaches Policy	Administration Strategy	Cyber Security Policy	Communications Policy
	Admissions and Termination Policy	Governance Statement	Fraud Prevention Policy
			Business Continuity Policy
			Internal Disputes Resolution Procedure review
			Fund discretions
			Governance processes review

### Training

13 June 2022	12 September 2022	12 December 2022	6 March 2023
Tbc	Tbc	Tbc	Tbc

## **Pension Fund Investment Sub Committee**

**7<sup>th</sup> March 2022**

### **Business Plan**

#### **1 Recommendations**

- 1.1 That the Pension Fund Investment Sub Committee comments on and approves the Business Plan attached at Appendix 1.

#### **2 Executive Summary**

- 2.1 It is best practice for local authority pension funds to operate a formal and documented Business Plan for their operations. This report sets out a recommended Business Plan for 2022/23.

#### **3 Financial Implications**

- 3.1 The fund has an investment strategy and funding strategy designed to manage the financial position of the fund. The business plan is designed to ensure that these two strategies are updated and implemented appropriately.

#### **4 Environmental Implications**

- 4.1 The fund has a climate risk policy designed to minimise the fund's contribution towards climate change and minimise the fund's exposure to risk driven by climate change.

#### **5 Supporting Information**

- 5.1 None.

#### **6 Timescales and Next Steps**

- 6.1 None.

#### **Appendices**

Appendix 1 – Draft Business Plan

#### **Background Papers**

None.

	<b>Name</b>	<b>Contact Information</b>
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk
Assistant Director	Andrew Felton	robpowell@warwickshire.gov.uk
Strategic Director	Rob Powell	robpowell@warwickshire.gov.uk
Portfolio Holder	Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): n/a

Other members: Councillors Horner and Gifford



WARWICKSHIRE

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pension fund

**Business Plan**

**2022/2023**

## Contents

1	Introduction
2	Activity
3	Long-Term Objectives
4	Key Performance Measures
5	Key Business Plan Items
6	Actions

## Appendices

A	Administration Performance Measures
B	Investment Performance Measures
C	Single Action Plan

## **1. Introduction**

This document sets out the business plan for the Warwickshire Pension Fund for 2022/23, including objectives, strategic priorities, and an action plan to achieve them.

Warwickshire County Council (WCC) is the Administering Authority of the Warwickshire Pension Fund ('the Fund') administering both the Local Government and Firefighter Pension Schemes. This business plan relates to the Local Government Pension Scheme only.

The Warwickshire Pension Fund is administered by the Director for Resources on behalf of Warwickshire County Council (the scheme manager), five district councils and other scheduled and admitted public service organisations and their contractors.

The administration of the fund is carried out through Warwickshire County Council's Staff and Pensions Committee, the Pension Fund Investment Sub Committee, and the Local Pension Board.

The committees are comprised of elected County Council members whilst the Board is an equal mix of representatives of employers and scheme members with an independent chair.

## **2. Activity**

At March 2021, the total membership of the fund stood at 52,538, an increase of 5% in one year. Pension fund membership continues to increase over the long-term. This increase is expected to continue due to automatic enrolment and increased public awareness of pensions.

The number of employers has levelled out in 2020/21 and stood at 189 employers at March 2021. However the long term trend has been an increase in employer numbers and this fundamental trend is expected to continue.

The complexity of the scheme continues to increase over time, for example more recent developments including the implementation of the McCloud remedy, the Guaranteed Minimum Pension reconciliation, and more simple final salary pension activity being gradually replaced by more complex calculations for pensions which have to incorporate different rules and retirement ages for different periods of membership.

The fund value has continued to increase and reached a new all-time high of £2.57bn at March 2021.

The complexity of investment activity has steadily increased with the introduction of a variety of "alternatives" funds.

In the longer term, pooling will reduce the amount of fund managers that the Fund commissions directly, however the increased complexity in terms of the number of different mandates invested in is likely to remain.

There has been a significant increase in governance at the Staff and Pensions Committee, Pension Fund Investment Sub Committee, and Local Pension Board

during 2020/21 and 2021/22, with the use of more forward planning and more formalised policy reviews.

Remote working has continued to be the predominant way of working and as Covid related restrictions potentially reduce the Fund will continue to benefit from the administering authority's agile working policy and will seek to provide flexible and appropriate working environments for its staff.

### **3. Long term objectives**

The Funds fundamental objectives are:

- That pension benefits are paid to members accurately and on time.
- That the funds are available to pay benefits when they fall due.

To do this we will:

- Ensure the governance arrangements of the Pension Fund allow officers, employers, Pension Fund Committee and Pension Board members to discharge their responsibilities efficiently and effectively.
- Deliver a high-quality benefit administration service, working effectively with scheme employers and maintaining a constant focus on data quality and customer service.
- Ensure the financial sustainability of the Fund through effective forecasting of long-term liabilities, determination and collection of appropriate contributions and generation of an appropriate risk adjusted return of the fund's investments

### **4. Key Actions and Performance Measures**

Key actions and performance indicators for the Fund are organised into the categories of administration, investment, and governance.

#### **4.1 Administration**

There is no proposed change to the existing pool of administration service performance measures as set out in appendix A. There will also continue to be a high-profile focus on breaches reporting.

Alongside the key metrics for the administration service a number of key activities will be progressed during 2022/23, these include:

- The implementation of McCloud remedy.
-

- Embedding the operation of i-Connect into business as usual.
- Implementing online member self-service and provision of digital communication to members.
- Implementation of Direct Debits functionality for collection of employer contributions.
- Supporting the delivery of the 2022 valuation.
- Preparation for the Pensions Dashboard

## **4.2 Investments**

The Fund needs to ultimately focus on ensuring that the rates of return required by the valuation are achieved and that enough income is generated to cover any shortfall between contributions, benefits and expenses.

To support this aim, investment targets have been set and two key aspects of this are ensuring the allocation of the right amounts to the right investments (the Strategic Asset Allocation), and that within each investment fund a target risk/return profile is delivered over the appropriate timeframe (performance is usually measured over the medium/long term). The asset allocation and investment fund performance targets are set out in Appendix B.

In addition to business as usual the following key activities will be undertaken during 2022/23:

- Supporting the delivery of the 2022 valuation including an appropriate investment strategy that delivers the required risk/return profile.
- Ensuring compliance with the 2020 UK Stewardship Code submission.
- Further development of ESG monitoring and climate change actions and the formal consideration of climate change targets.
- Supporting the development of further products within the Border to Coast Pension Partnership.
- Recruiting an investment analyst and accounting trainee.
- The letting of contracts where required.
- Review of the implications of the levelling up white paper.

## **4.3 Governance/Management**

In maintaining the good governance of the fund, the following additional performance measures and key actions will be delivered:

- Cash flow is managed and monitored such that it is not necessary to sell assets inappropriately under distress.

- The pension fund accounts are prepared and published on time, without qualification by external audit.
- A plan for contract review is set and resourced for the year and implemented.
- A plan for policy reviews is set and resourced for the year and implemented.
- All planned quarterly pension committee and Local Pension Board meetings are delivered.
- Quarterly risk monitoring reported formally to committee/board.
- Review and implement as appropriate the requirements of the Scheme Advisory Board Good Governance project and the Pensions Regulator Single Code of Practice.

## **5. Key Business Plan Themes**

### **5.1 Ensuring Adequate Capacity**

Approval for additional resources in the governance and investment team will be implemented (recruiting an investment analyst and trainee accountant). Resources required for specific projects will be identified and approved through business cases and project management approaches.

### **5.2 Ensuring Appropriate Governance**

The Fund will review the outcomes of the Scheme Advisory Board Good Governance project and the Pensions Regulator Single Code of Practice and take steps to implement any new arrangements that are required.

The fund will continue its approach of proactively maintaining a register of policies and contracts, alongside a schedule for their review.

### **5.3 Developing Improved Systems**

The i-Connect project has been successfully delivered and activity in 2022/23 will be to embed this approach into business as usual. Key system developments in 2022/23 include:

- The implementation of Member Self Service.
- The implementation of Direct Debits functionality.

#### **5.4 Active Use of Management Information**

The fund will continue to make more use of management information to assist in the management of services, and use predictive information and forecasting to foresee and manage potential risks and issues.

#### **5.5 Collaboration**

The Fund will collaborate with other funds and the Border to Coast Pension Partnership in a number of ways including:

- Regional Pension Fund Managers group
- Joint communications working group
- Pooling administration management group
- Software provider user groups

The Fund will review the value obtained from the CIPFA benchmarking club and take a view on whether to continue with this benchmarking club and/or whether to implement other approaches to understanding how we compare to other Funds.

#### **5.6 Strong Investment Management**

The 2019 valuation presented a significantly improved funding level and the indications are that the funding level will be significantly improved again in 2022. This improved position will be taken into account in the 2022 valuation.

Significant amounts of the fund's investments remain outside of the pool. The fund will ensure it retains strong links with fund managers outside of the pool to exercise appropriate stewardship of all its assets.

Some more illiquid asset classes present challenges in terms of finding opportunities to invest at pace and a key feature of the investment position that will be pro-actively managed is the gap between the target asset allocation and the actual asset allocation that is possible in light of the opportunities actually available.

#### **5.7 Pooling**

The Border to Coast Pension Partnership will continue to develop new products and Warwickshire Pension Fund will work with BCPP and partner funds to help to shape the products being developed.

Warwickshire Pension Fund will retain a preference for investing in pooled products that meets its objectives but retains the option to invest with other managers where this is appropriate.

### **5.8 Investing in Employer Liaison**

The fund will continue to work closely with employers, providing information, support, signposting, and training to help employers to meet their responsibilities.

### **5.9 Review of Cashflow Requirements**

Cash flow management will remain a high priority. Officers will continue to monitor cash balances closely in order to be able to meet operating and investment cashflow requirements.

### **5.10 Climate Change / ESG Policy**

The consideration of Climate Change will remain a high priority for the Fund, in terms of taking opportunities to reduce climate change, taking opportunities to mitigate the impact of climate change on the Fund, and taking opportunities to achieve the best risk adjusted returns.

The Fund will continue to develop metrics relating to ESG and Climate Change.

## **6. Actions**

Appendix C sets out a summary of the actions planned for the coming year. Actions are grouped into the following categories:

- Ensuring a high-quality administration service
- Actuarial activities
- Maximising Investment Benefits
- Ensuring Good Governance

Governance and management actions that have become embedded into business as usual have been taken out of the plan in order to focus on activity to do with change and activity to do with delivering key functions. For example, the issue of annual benefit statements remains in the plan as it is a key service that must be delivered, but the activity around the pensions team meeting regularly with the Council payroll team is no longer in the plan.



## Appendix A – Administration Performance Measures

Key Performance Indicator	Fund Target (95% )
Letter detailing transfer in quote	10 days
Letter detailing transfer out quote	10 days
Process and pay a refund	10 days
Letter notifying estimate of retirement benefits (Active)	15 days
Letter notifying actual retirement benefits (Active)	15 days
Process and pay lump sum (Active)	10 days
Process and pay death grant	10 Days
Initial letter notifying death of a member	5 days
Letter notifying amount of dependents benefits	10 days
Divorce quote letter	45 days
Divorce settlement letter	15 days
Send notification of joining scheme to member	40 days
Deferred benefits into payment	15 days
Calculate and notify deferred benefits.	30 days
Average days from retirement to payment of lump sum.	Measure of member experience

## Appendix B - Investment Performance Measures

### B1 – Strategic Asset Allocation

Asset class	Current Target Asset Allocation (%)	Asset Allocation Range (%)	Long term Target Asset Allocation (%)
UK equities	16.0	+/-2.5	13.0
Overseas equities	25.5	+/-2.5	21.5
Fundamental global equity*	10.0	+/-2.5	10.0
Private equity	4.0	n/a	4.0
<b>Total Growth</b>	<b>55.5</b>		<b>48.5</b>
Property	10.0	n/a	12.5
Infrastructure	7.0	n/a	7.0
Private debt	5.0	n/a	7.0
Alternative credit	7.5	n/a	10.0
<b>Total Income</b>	<b>29.5</b>		<b>36.5</b>
UK corporate bonds	10.0	+/-1.5	10.0
UK index linked bonds	5.0	+/-0.5	5.0
<b>Total Protection</b>	<b>15.0</b>		<b>15.0</b>
<b>Total</b>	<b>100.0</b>		<b>100.0</b>

\*Refers to passive global equities invested in line with the RAFI All World 3000 index, which weights underlying constituents by fundamental factors as opposed to traditional market capitalisation weightings.

## B2 – Fund Performance Benchmarks and Targets

Fund	Mandate	Benchmark (note 1)	Target (note 2)
BCPP	UK Equity Alpha	FTSE All-Share GBP	Benchmark +2% over rolling 3 year period (net)
BCPP	Global Equity Alpha	MSCI ACWI ND	Benchmark +2% over rolling 3 year period (net)
BCPP	Investment Grade Credit	iboxx Non-Gilts All Maturities GBP	Benchmark +60bps pa rolling 5 years (net)
L&G	UK Equity	UK Equity Index	Benchmark
	Global Equity	North America Equity Index	
		Europe (ex UK) Equity Index	
		Japan Equity Index	
		Asia Pac exJap Dev Eqty Index	
		World Emerging Markets Equ Ind	
	Fundamental Global Equity	RAFI AW 3000	
L&G	Passive Corporate Bonds	Invt Grade Cp Bnd All Stks Ind	Benchmark
	Index Linked Bonds	All Stocks Index-Linked Gilts	
Threadneedle	Property	MSCI All Balanced Property Fund Index Weighted Average Month	Benchmark +1% over rolling 3 year period
Schroders	Property	AREF/MSCI UK Quarterly Property Fund Index Median	Benchmark +1% over rolling 3 year period
JP Morgan	Absolute Return Bond	ICE LIBOR GBP 1 Month	Benchmark +3% over rolling 3 year period
Partners	Infrastructure	None	Absolute return 7%
SL Capital	Infrastructure	None	Absolute return 7%
BCPP	Infrastructure	None	Absolute return 7%
Partners	Private Debt	None	Absolute return 5%
Alcentra	Private Debt	None	Absolute return 5%
Harbourvest	Private Equity	MSCI World Index	None
BCPP	Private Equity	MSCI World Index	None
Aberdeen Standard	Infrastructure	None	Absolute return 7%

Overall Anticipated Discount Rate (Investment Return)	3.70%
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Note 1 - Benchmark - this describes the investment benchmark that the performance of the mandate is associated with.

Note 2 - Target - this describes the target return that the mandate is expected to make. The return could simply be to match a benchmark, or to exceed a benchmark. Absolute returns are target returns that are independent of any benchmark.

## Appendix C – Single Action Plan

### C1. Ensuring a high quality administration service

Ref	Action	Timescale
1	Annual Pensioners Newsletter issued	April-June 2022
2	Annual benefit statements issued	By 31 August 2022
3	Implementation of Member Self Service	April 2022
4	Annual Allowance statements issued	By 5 <sup>th</sup> October 2022
5	Employer Engagement/training event	November 2022
6	Administration performance - KPIs reported to Local Pensions Board	Quarterly
7	Review of Pension Fund website	Quarterly
8	Review of complaints received	Quarterly
9	McCloud Project	April 2022 - April 2023
10	Data quality review	Annual
11	Clear communications to employers regarding the 2022 valuation	Ongoing
12	Develop pension dashboards	April 2023
13	Review pension scam protocols	Ongoing

### C2. Actuarial Activities

Ref	Action	Timescale
14	Monitor employer contribution performance through the year	Monthly
15	Review, investigate, and mitigate potential sources of funding risk	April 2022
16	Review employer covenants and risk management for non-statutory employers and review of employer monitoring arrangements	July 2022
17	Review employer funding strategies and provisional employer valuation results	October / November 2022
18	Run employer consultation on updated Funding Strategy Statement (FSS) and new employer contribution rates	November / December 2022
19	Sign off the 2022 Valuation and final FSS	March 2023

**C3. Optimising Investment Risk and Return**

Ref	Action	Timescale
20	Support the development of new Border to Coast fund products, for example the property fund.	As funds launch
21	Continue the growth of alternative asset classes towards their new strategic asset allocation	Ongoing
22	Appropriate engagement with the governance of Border to Coast via the Joint Committee, Operational Officers Group, and Section 151 Meetings, and through the exercising of shareholder voting rights.	Ongoing
23	Further develop the Fund's Climate Risk Strategy and the Fund's approach ESG, including the development of goals and milestones	Ongoing
24	Pro-active management of cashflow to ensure payments can be made and to ensure efficient cash management	Ongoing
25	Ensure compliance with the 2020 UK Stewardship Code submission	Ongoing
26	Review of TCFD disclosure requirements	March 2023
27	Engage with pooling partner funds and Border to Coast on climate change and RI developments	Quarterly

#### C4. Ensuring Good Governance

Ref	Action	Timescale
28	Pension Fund Annual General Meeting	November 2022
29	Production of statement of accounts	May 2022
30	Publication of Annual Pension Fund Report	November 2022
31	Ensure Fund risks are reviewed regularly	Annual
32	Maintenance of a contracts register and a schedule for contract reviews	Quarterly
33	Maintenance of a Policy Register and a schedule for policy review.	Quarterly
34	Maintenance of disaster recovery planning	March 2022
35	Respond to the Scheme Advisory Board Good Governance Review	Dependent on issue of requirements
36	Respond to the tPR Single Code of Practice	Dependent on issue of requirements
37	Review the implications of the Government's levelling up agenda	Dependent on issue of requirements
38	Testing of cyber security arrangements	September 2022

**Pension Fund Investment Sub-Committee****07 March 2022****Risk Monitoring****Recommendation**

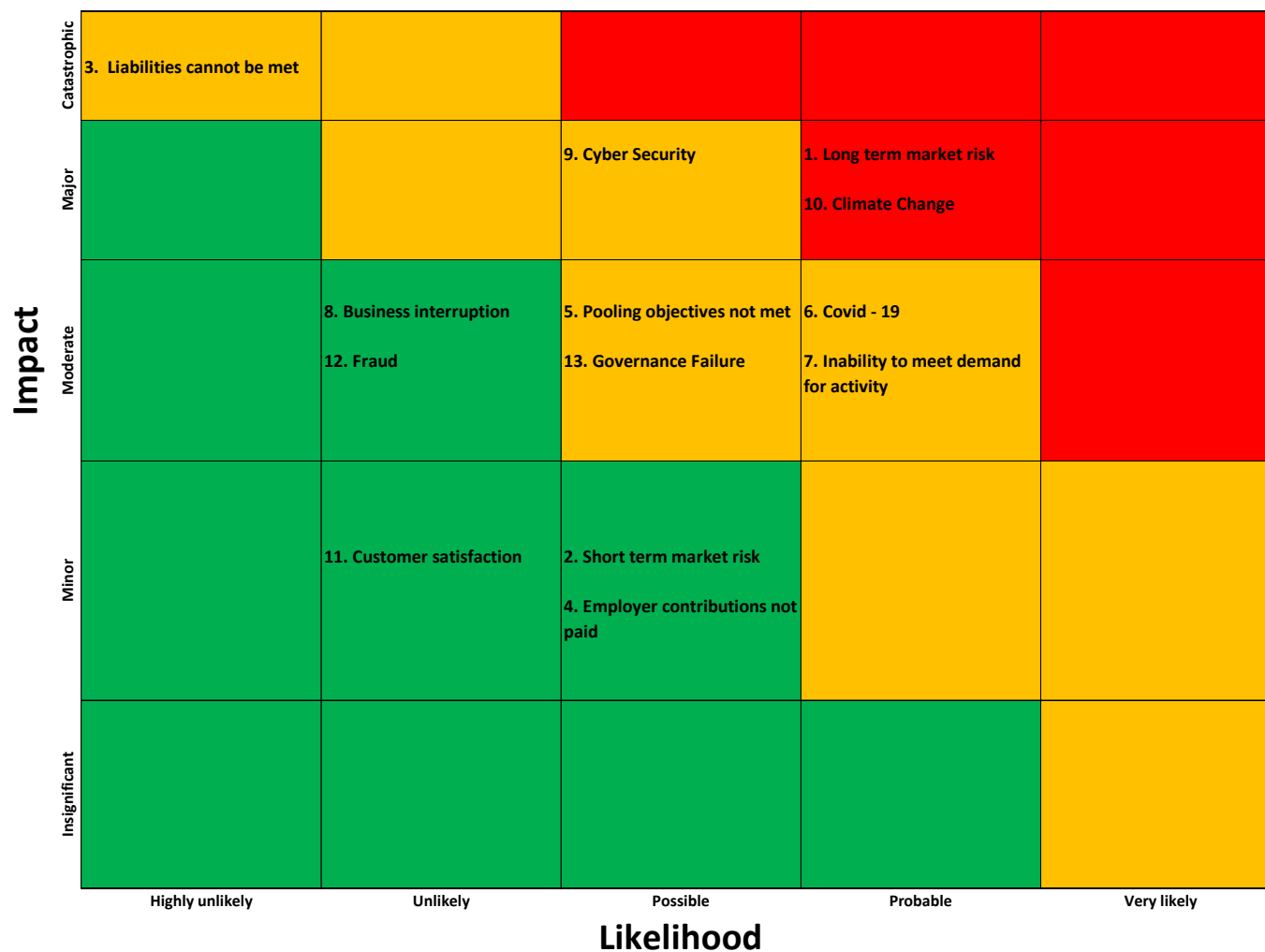
That the Pension Fund Investment Sub-Committee notes and comments on the content of this report.

**1. Executive Summary**

- 1.1 This report provides an update on the risks facing the fund and management actions to address them.
- 1.2 Fund officers have reviewed the risks facing the fund, and have updated the risk register with actions and revisions as appropriate. Appendix 1 reproduces the Fund's risk appetite, Appendix 2 and 3 reproduce the criteria for scoring risks, and Appendix 4 provides an updated risk register. Any new updates to the commentary in the risk register since the previous report to the Investment Sub-Committee are presented in red font, and where future actions have become current actions these are highlighted in green font.
- 1.3 The risk scores have remained the same since the previous report to the Investment Sub-Committee.
- 1.4 Management action updates include:
  - 1.4.1 Activities to increase capacity: tendering for the second independent investment - this post has now been filled.
  - 1.4.2 Inability to meet demand for activity: Investing in systems development and systems thinking.
  - 1.4.3 Pooling objectives not met: Documentation of the Funds position on product developments.
- 1.5 The net risks facing the Fund after having regard to existing management actions are summarised in Chart 1 on the following page.

Chart 1 – Net Risk Summary

## Risk Map



*The likelihood and the impact of all the risks remain the same as last presented to the PFISC on the 13th December 2021*



## 2. Financial Implications

2.1 None.

## 3. Environmental Implications

3.1 Climate risk is identified as a key risk (Risk 10).

## 4. Supporting Information

4.1 None.

## 5. Timescales associated with the decision and next steps

5.1 This iteration of the risk register will also be reported to the next Local Pension Board for review.

## Appendices

1. Appendix 1 – Risk Appetite
2. Appendix 2 – Risk Scoring Convention and Likelihood Definitions
3. Appendix 3 – Risk Impact Definitions
4. Appendix 4 – Risk Register

## Background Papers

1. None.

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The report was circulated to the following members prior to publication:

Local Member(s): n/a  
Other members: n/a

## Risk Appetite

## Appendix 1

Risk Category	Description	Risk Appetite
Liability profile	Risk that actual benefit costs are higher than expected leading to increased contributions or investment risk to make up the shortfall. This includes higher inflation, increased longevity and changes to the composition of membership i.e. maturing fund	Minimalist
Governance	Actuarial, legal or investment advice is not sought, or is not heeded, or proves to be insufficient in some way. This includes Committee and officer skills, the decision-making structure and operational abilities.	Minimalist
Climate risk	Climate change affects liabilities (increased mortality), operational processes (physical disruption), and investment returns (pricing into company returns and covenant).	Cautious
Data	Administering Authority holds incorrect data so the Fund collects incorrect contributions and/or sets an inappropriate funding plan. This could impact the funding level.	Averse
Financial - Matching Assets (strategic)	Requirement to manage operating cashflows and ensure assets meet liabilities over the lifetime of the Scheme.	Cautious
Financial - Non-matching Assets (implementation)	Requirement to generate enough returns to meet future liabilities whilst minimising employer contributions.	Open
Regulatory	Changes by Government to LGPS rules e.g. employer participation, altered requirements. Also includes direct intervention. Could impact on funding and/or investment strategies	Averse
Administration	Pensions Act/GDPR or other breaches because of process risks around holding data, in particular member data, but also asset administration and the Pension /Fund's payroll.	Averse

Risk Appetite	Risk Appetite Description
Averse	Avoidance of risk and uncertainty is a key organisational objective
Minimalist	Uncertainty is to be avoided unless essential; only prepared to accept the possibility of very limited financial loss
Cautious	Tolerance for risk taking is limited to events where there is little chance of significant downside impact
Open	Tolerance for decisions with potential for significant risk, but with appropriate steps to minimise exposure
Hungry	Eager to pursue options offering potentially higher rewards despite greater inherent risk

## Risk Scoring Convention and Likelihood Definitions

## Appendix 2

### Scoring Convention

Risks are assessed on a five-point scale across likelihood and impact, with impact weighted as follows:

$$\text{Total Risk} = (\text{Likelihood} \times \text{Impact}) + \text{Impact}$$

Risks with a high impact / low probability are therefore more highly prioritised because over a long time span low probability events are more likely to occur eventually.

### Likelihood Definitions

Score	Description		Likelihood of Occurrence
1	Highly Unlikely	The event may occur in only rare circumstances (remote chance)	1 in 8 + years
2	Unlikely	The event may occur in certain circumstances (unlikely chance)	1 in 4-7 years
3	Possible	The event may occur (realistic chance)	1 in 2-3 years
4	Probable	The event will probably occur (significant chance)	1 in 1-2 years
5	Very Likely	The event is expected to occur or occurs regularly	Up to 1 in every year

## Impact Score Definitions

## Appendix 3

Score	Description	Members and Employers	Investments and Funding	Administration
1	Insignificant	<p>Negligible impact - not noticeable by members or employers, no complaints or issues likely to be raised by members or employers.</p> <p>Example - Member or employer communication newsletter issued a few days later than planned.</p>	<p>Negligible impact - of a level that would not register for investment action.</p> <p>Example - Normal volatility levels being experienced in the investment portfolio.</p>	<p>Negligible impact - low level administrative issues resolved internally with no impact on key performance indicators</p> <p>Example - A manageable backlog of data to be uploaded to the administration system that has no impact on actual member payments.</p>
2	Minor	<p>Minor impact on members and/or employers which may cause correspondence about issues that can be resolved at source.</p> <p>Example - A member not being given the correct information first time when corresponding with the Fund and this having to be corrected, but having no impact on benefits paid</p>	<p>Minor impact on investment operations requiring monitoring and attention but not requiring anything other than business as usual actions.</p> <p>Example - minor adverse fund investment event, such as a credit default within a private credit portfolio which is of a business as usual nature.</p>	<p>Minor impact on administration performance requiring action within business as usual parameters.</p> <p>Example - an employer experiencing persist difficulty in providing correct data resulting in the need for extra training/support/correspondence to resolve</p>
3	Moderate	<p>Material adverse impact on members or employers that is of cause for concern to them and the Fund and requires escalation for non-business as usual resolutions</p> <p>More likely to be isolated issues but could have some scale.</p> <p>Example - Inability to finalise and sign off an admission agreement with a new employer resulting in escalation.</p>	<p>Material impact requiring bespoke corrective action, but manageable within the existing Investment Strategy</p> <p>Examples - Significant drift or step change in actual in asset allocation taking the Fund risk profile out of tolerances, or significant slippage in the implementation of a significant Fund transfer</p>	<p>Material impact on administration performance, but manageable within approved policies and procedures.</p> <p>Examples - Inability to agree a transfer of membership and liabilities from another fund, requiring arbitration by a third party, or disappointing data quality scores resulting in a need for an improvement plan.</p>
4	Major	<p>Significant adverse impact on members or employers that result in a direct impact on benefits paid or contributions due or member or employer satisfaction with Fund performance. Likely to result in complaints.</p> <p>More likely to be systemic issues.</p> <p>Examples - A significant delay in the issue of member annual benefit statements, or persistently charging an employer an incorrect contribution rate.</p>	<p>Major impact requiring significant corrective action and a change in Investment Strategy or Funding Strategy, or the significant sale of assets under distress. May result in noticeable changes to employer contributions.</p> <p>Examples - Major change in the world economic outlook, or in the present value of future liabilities requiring a change in strategy, or inability to implement a significant Fund launch.</p>	<p>Major failure of administration function, likely to be systematic in nature, of a high profile nature to members and employers.</p> <p>Example - Widespread and persistent failure to meet key performance indicators such as dealing with certain types of administration query or action within deadlines, and receipt of significant numbers of complaints from members.</p>
5	Catastrophic	<p>Serious and systematic errors in benefits payments or administration KPIs, or significant volatility or increase in employer contributions.</p> <p>Significant breaches of the law</p> <p>Serious complaints and reputational harm caused</p> <p>Example - Systematic failure to monitor employer contributions resulting in subsequent identification of a large number of contribution deficits that employers cannot then catch up with.</p>	<p>Resulting in significant volatility or increase in employer contributions, inability to pay member benefits, or a need to significantly increase investment risk exposure.</p> <p>Significant failure to meet legal or regulatory requirements.</p> <p>Serious reputational harm caused</p> <p>Example - Catastrophic deterioration in the ability of employers to pay contributions resulting in a need for emergency investment and cashflow measures in order to keep paying benefits.</p>	<p>Catastrophic failure of administration function leading to inability to pay benefits accurately or at all on a large scale.</p> <p>Significant breaches of the law</p> <p>Serious complaints and reputational harm caused</p> <p>Example - Wholesale failure of the pension payroll function resulting in no member payments being made.</p>

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Risk Identification				Inherent Risk Scoring			Existing Risk Controls	Residual Risk Scoring			Further Risk Controls
Risk No.	Risk Description	Risk Causes	Risk Consequences (Effect)	Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score	
1	Long term market risk	<ul style="list-style-type: none"><li>• Inappropriate strategic asset allocation</li><li>• Inability to implement strategic asset allocation</li><li>• Poor fund manager performance</li><li>• Fundamental long term events e.g. climate change, sytemic risk, inflation</li><li>• Covid-19</li><li>• Inappropriate products developed by the Border to Coast Pension Partnership</li><li>• Inappropriate (too high) expectations</li></ul>	<ul style="list-style-type: none"><li>• Asset values do not meet expectations</li><li>• Employer contributions forced to increase above expectations or by a large amount at short notice</li><li>• Investment risk is forced to increase</li><li>• Future benefits cannot be paid by the Fund out of existing assets</li><li>• Positive inflation would increase liabilities and potentially asset values</li></ul>	4.00	5.00	25.00	<ul style="list-style-type: none"><li>• BAU policy and governance arrangements including the setting of an appropriate investment strategy and funding strategy, the use of professional staff, consultants, and advisers, quarterly reporting to committee, appropriate asset allocation.</li><li>• Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing</li><li>• Engagement with Border to Coast - developing funds and monitoring fund performance.</li><li>• Appropriate monitoring of investment behaviour and performance.</li><li>• Introduction of a climate risk policy in 2020/21</li><li>• Inflation is a key feature of investment strategy review and monthly monitoring of the portfolio</li></ul>	4.00	4.00	20.00	<ul style="list-style-type: none"><li>• Review climate risk and responsible investment policy and evaluate exposure to climate risk and other Environmental, Social and Governance factors.</li><li>• Regular review of Strategic Asset Allocation</li></ul>
2	Short term market risk	<ul style="list-style-type: none"><li>• Significant reductions in asset values</li><li>• Active management (BCPP)</li><li>• Rapid changes in the economic environment</li><li>• Inappropriate asset allocation</li><li>• Poor fund manager performance</li><li>• Covid-19</li><li>• Global political and trade tensions</li><li>• Brexit</li><li>• Asset bubbles</li><li>• Poor fund development and procurement</li><li>• Natural fund and market volatility</li><li>• Possibility of market values reducing to the long term average</li></ul>	<ul style="list-style-type: none"><li>• Asset values do not meet expectations</li><li>• Cashflow requirements cannot be bet efficiently or effectively</li><li>• Being unable to meet payment deadlines</li><li>• Being forced to sell assets under distress</li><li>• Being unable to pay benefits to members due to liquidity constraints</li><li>• Introducing volatility to employer contributions or those employers close to exit</li></ul>	5.00	3.00	18.00	<ul style="list-style-type: none"><li>• Diversification of assets</li><li>• Regular committee and officer monitoring of investment asset allocations and fund manager performance relative to benchmarks and absolute.</li><li>• Cashflow planning to avoid selling assets under distress</li><li>• Maintain sufficient allocation to liquid assets.</li><li>• Long term approach to employer contributions, promoting their stability</li><li>• Rota of fund manager presentations to the investment subcommittee.</li></ul>	3.00	2.00	8.00	<ul style="list-style-type: none"><li>• Regular review of Strategic Asset Allocation.</li></ul>
3	Financial mismatch	<ul style="list-style-type: none"><li>• Fund assets fail to grow in line with the developing cost of meeting liabilities</li><li>• Inadequate contributions asked of employers</li><li>• Employers do not pay contributions required</li><li>• Investment returns lower than expected</li><li>• Inflation risk</li><li>• Inappropriate funding assumptions used</li><li>• Actual membership experience materially different from expectations</li><li>• Incorrect membership or cashflow data used to determine funding strategy</li><li>• Cashflow negative - last 2 quarters benefits paid have exceeded contributions received</li></ul>	<ul style="list-style-type: none"><li>• Funding level deteriorates</li><li>• Higher investment risks being taken</li><li>• Employer contributions increasing</li><li>• Being unable to pay benefits to members out of fund assets</li></ul>	2.00	5.00	15.00	<ul style="list-style-type: none"><li>• Fund valuation process driving an updated Investment Strategy and Funding Strategy on a periodic basis.</li><li>• Triennial valuations for all employers</li><li>• 6-monthly reporting on funding evolution to Committee, using rolled-forward liabilities.</li><li>• Annual monitoring of longevity risk via Club Vita participation.</li><li>• Use of professional advisors to support setting of appropriate funding assumptions.</li><li>• Asset liability modelling focuses on probability of success and level of downside risk</li></ul>	1.00	5.00	10.00	<ul style="list-style-type: none"><li>• 2022 revaluation preparedness review during 2021/22</li><li>• Understand the assumptions used in any analysis and modelling. Compare these with own views and risk levels.</li><li>• Annual data quality review</li></ul>
4	Employer risk	<ul style="list-style-type: none"><li>• Orphaned employers</li><li>• Covid-19</li><li>• General economic / financial pressure on employers</li><li>• Deterioration in employer financial positions</li><li>• Deterioration in quality of employer administration function</li><li>• Inadequate support from the Fund to employers</li><li>• Inadequate monitoring of employers by the Fund</li><li>• Admissions agreements inadequate or not agreed</li></ul> Employer contribution rates higher than deemed affordable Some significant changes in employer base (e.g. large staff transfers between employers, and a large number of further academy conversions expected in the next year)	<ul style="list-style-type: none"><li>• Employers cannot pay the required contributions because contribution requirements increase too quickly or too far</li><li>• Employers cannot pay the required contributions because employer financial viability reduces</li><li>• Increased administration costs</li><li>• Reputational damage to the Fund and to employers</li><li>• Paying employers having to pick up costs of non paying employers</li><li>• Liabilities falling back to underwriting employers</li><li>• Overly cautious investment strategy requiring higher contribution rates</li></ul>	3.00	3.00	12.00	<ul style="list-style-type: none"><li>• Cessation debt or security/guarantor</li><li>• Spread pro-rata among all employers</li><li>• Employer covenant review</li><li>• Stabilisation mechanism to limit sudden increases in contributions</li><li>• Breaches monitoring</li><li>• Employer training day</li><li>• Fund AGM</li><li>• Admissions and Terminations Policy</li><li>• Cashflow planning to provide cashflow resilience if contributions reduce</li><li>• FSS having appropriate regard to risk and meeting the Funds objectives</li></ul>	3.00	2.00	8.00	<ul style="list-style-type: none"><li>• Review and enhance breaches monitoring</li><li>• Additional liaison with known future employers on pension fund matters</li><li>• IConnect implementation</li></ul>
5	Pooling objectives not met	<ul style="list-style-type: none"><li>• Failure to monitor the delivery of pooling benefits.</li><li>• Failure to assess benefits when making pooling decisions.</li><li>• Failure to influence fund design discussions</li><li>• Partner funds not collectively holding the pool to account</li><li>• Pool fails to deliver on objectives</li></ul> Pool does not deliver further alternatives products at pace or implement existing committments at pace <ul style="list-style-type: none"><li>• Staff turnover and recruitment challenges</li></ul>	<ul style="list-style-type: none"><li>• Lack of appropriate products for the Fund to invest in</li><li>• Investment in prioducts that do not meet the objectives of the Fund</li><li>• Persistent and unaddressed fund performance issues</li></ul>	3.00	3.00	12.00	<ul style="list-style-type: none"><li>• Engagement at Joint Committee, Section 151 meetings, and operational officer groups</li><li>• Exercising shareholder rights and responsibilities</li><li>• Engaging with other partner funds in the pool</li><li>• Pooling decisions made by Investment Sub-Committee</li><li>• Border to Coast attendance at and performance reporting to investment sub committee meetings</li><li>• Independent due diligence of funds offered, and ongoing monitoring of the Pool</li></ul>	3.00	3.00	12.00	<ul style="list-style-type: none"><li>• Input into the development of new products - in particular property, alternatives, and products having regard to RI and climate change</li><li>• Documentation of the Funds position on product developments</li></ul>
6a	Covid Pandemic (Investment Related)	<ul style="list-style-type: none"><li>• Covid-19 pandemic (financial pressure on individuals and institutions, and more transactions being made online)</li><li>• Further restrictive lockdowns</li><li>• Staffing capacity impacted by both short and long term health implications of infection</li><li>• Risk of a new unrelated pandemic</li></ul>	<ul style="list-style-type: none"><li>• Business interruption</li><li>• High costs in order to maintain service resilience</li><li>• Impact on asset values and investment risks</li><li>• Impairment of the financial situation of employers</li></ul>	5.00	5.00	30.00	<ul style="list-style-type: none"><li>• IT systems supporting remote and flexible working</li><li>• Fund policies that account for the scenario experienced</li><li>• Higher profile for cashflow management, and retain cash buffer to mitigate liquidity risk</li><li>• Maintain diversified portfolio of assets, and regularly monitor performance of assets and wider market</li></ul>	4.00	3.00	15.00	<ul style="list-style-type: none"><li>• Use of extraordinary committee or board meetings where necessary</li><li>• Continue to develop flexible and remote working practices</li><li>• Review electronic signatory processes</li></ul>
6b	Covid Pandemic (Administration and People Related)	<ul style="list-style-type: none"><li>• Covid-19 pandemic (financial pressure on individuals and institutions, and more transactions being made online)</li><li>• Further restrictive lockdowns</li><li>• Staffing capacity impacted by both short and long term health implications of infection</li></ul> Risk of differing views (at the level of individuals and organisations) about how to manage risks post-lockdown, for example whether to hold physical or virtual meetings <ul style="list-style-type: none"><li>• Risk of a new unrelated pandemic</li></ul>	<ul style="list-style-type: none"><li>• Members do not receive a high quality service</li><li>• Business interruption</li><li>• High costs in order to maintain service resilience</li><li>• Staff health, wellbeing and productivity</li><li>• Impairment of the financial situation of employers</li><li>• Inability to make quick decisions in an emergency</li></ul>	5.00	5.00	30.00	<ul style="list-style-type: none"><li>• Office presence for processes that require it (e.g. physical post)</li><li>• IT systems supporting remote and flexible working</li><li>• Flexible working policies for staff</li><li>• Health and safety protocols for staff</li><li>• Fund policies that account for the scenario experienced</li></ul>	3.00	3.00	12.00	<ul style="list-style-type: none"><li>• Use of extraordinary committee or board meetings where necessary</li><li>• Continue to develop flexible and remote working practices</li><li>• Review electronic signatory processes</li></ul>

7	Inability to meet demand for activity	<ul style="list-style-type: none"><li>• Growth in membership numbers</li><li>• Growth in employer numbers</li><li>• Growth in complexity and difficulty of employer issues</li><li>• New and complex LGPS regulations (e.g. McCloud, £95k exit cap)</li><li>• Increasing value of fund investments</li><li>• Increasing complexity of fund investments</li><li>• Erosion of staff capacity/resilience due to long term remote working</li><li>• Inability to recruit / retain appropriately skilled staff</li><li>• Inability of the Fund officers to keep up with demand (capacity or skills)</li><li>persistently increasing customer expectations</li><li>Unpopular government decisions impacting on LGPS</li><li>Inability to secure agreement to increasing resources</li><li>• Capacity at contract / service providers</li></ul>	<ul style="list-style-type: none"><li>• Quality of services reduces</li><li>• Governance failures</li><li>• Key administration performance measures not met</li><li>• Sub optimal investment decisions made</li></ul>	5.00	3.00	18.00	<ul style="list-style-type: none"><li>• Medium term forecasting of demand and planning for the capacity and resources required</li><li>• Investing in quality and productivity of staff through training and development</li><li>• Investing in systems development</li><li>• Use of management information to monitor and manage performance</li><li>• Succession planning</li><li>• Procuring appropriate services through contracts</li><li>KPI and workload monitoring for administration team</li><li>staff training</li><li>Data quality reviewed annually</li><li>Maintenance of governance arrangements and actions</li><li>Responding to Government consultations</li><li>• Independent Pensions Specialist tender being progressed - Post now filled</li><li>• Governance Officer recruitment activity - Post now filled</li><li>• Business case for investment and accountancy capacity - Completed</li></ul>	4.00	3.00	15.00	<ul style="list-style-type: none"><li>• McCloud project (already commenced)</li><li>2022 Revaluation preparedness review during 2021/22</li><li>• Introduction of medium term resource planning</li><li>Implementation of Member Self Service (MSS)</li><li>• Investing in systems development and systems thinking</li></ul>
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Risk Identification				Inherent Risk Scoring			Existing Risk Controls	Residual Risk Scoring			Further Risk Controls
Risk No.	Risk Description	Risk Causes	Risk Consequences (Effect)	Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score	
8	Business interruption	<ul style="list-style-type: none"><li>•Covid-19</li><li>•Industrial action</li><li>•Small specialist teams with single person risks</li><li>•Significant changes in adviser and consultant personnel</li><li>•Further high impact Covid events (e.g. infection waves, lockdowns)</li><li>•Lack of systems maintenance</li><li>•Systems failure</li><li>•Covid impact on Fund staff</li><li>•Disaster event - fire, flood, etc</li><li>•Lack of remote working facilities</li><li>• Risk of another pandemic unrelated to Covid</li></ul>	<ul style="list-style-type: none"><li>• Delays in decisions or their implementation</li><li>• Failure to meet performance targets</li><li>• Reputational damage</li><li>• Data quality deterioration</li><li>• Workload backlogs</li><li>• Significant restoration costs</li><li>• Asset allocation drifts off target</li><li>• Fund investment risks and performance cannot be monitored</li></ul>	3.00	4.00	16.00	<ul style="list-style-type: none"><li>• Building resilience requirements into service contracts</li><li>• Digital record keeping</li><li>• Storing data back ups off site</li><li>• Custodian holding investment data</li><li>• Maintaining close links with advisers, consultants, and external organisations.</li><li>• Use of IT systems to work remotely</li></ul>	2.00	3.00	9.00	<ul style="list-style-type: none"><li>• Implementation of Cyber Security policy</li><li>• Review and update disaster recovery plan</li><li>• Completion of documentation of investment practices</li><li>• Business continuity planning session with consultants</li></ul>
9	Cyber Security	<ul style="list-style-type: none"><li>• Systemic cybersecurity events (e.g. taking down financial trading institutions globally)</li><li>• Local cyber security events (e.g. targeting the Council)</li><li>• Personal cyber security events (e.g. phishing emails targeting staff)</li><li>• Inadequate system security</li><li>• Inadequate staff training and staff vigilance</li></ul>	<ul style="list-style-type: none"><li>• Loss of data and/or data disruption</li><li>• Reputational damage</li><li>• Breaches of the law</li><li>• Fines</li><li>• Costs of fixing issues</li><li>• Business interruption</li></ul>	4.00	5.00	25.00	<ul style="list-style-type: none"><li>• Use of scheme administrator systems and system security</li><li>• Staff training</li><li>• Bespoke Fund cyber security policy</li></ul>	3.00	4.00	16.00	<ul style="list-style-type: none"><li>• Implementation of Cyber security policy</li><li>• Arrange for IT to test our systems</li><li>• Arrange for an audit once Member Self Service is live</li></ul>
10	Climate Change	<ul style="list-style-type: none"><li>• Net global carbon production in excess of Paris Agreement 2 degree target</li><li>•Policy responses and actions globally and nationally to combat climate change or to build resilience to it</li><li>• Fund actions or inactions exacerbating climate change and its impact</li></ul>	<ul style="list-style-type: none"><li>• Expected transition to a low-carbon economy</li><li>• Impact on the value of assets held, for example stranded/obsolete assets, or impact on the productivity and profitability of certain sectors, companies, etc</li><li>• Impact on future quality of life and life experience (e.g. longevity) of members</li><li>• Impact on future inflation and value of benefits paid to members</li></ul>	5.00	5.00	30.00	<ul style="list-style-type: none"><li>• Fund considers this when allocating assets and appointing Fund Managers</li><li>• Global, national and industry regulations</li><li>• Climate Risk Strategy</li><li>• ESG Policy</li><li>• Regular training on Climate Risk and mitigation actions</li><li>• BCPP sign up to net zero carbon by 2050</li></ul>	4.00	4.00	20.00	<ul style="list-style-type: none"><li>• Review and update climate risk policy</li><li>• Review 2020 UK Stewardship Code requirements and take steps to become a signatory</li><li>• Develop Fund actions and response to Task Force on Climate Related Financial Disclosures (TCFD) requirements</li><li>• Develop robust reporting metrics and set targets for driving change.</li></ul>
11	Data Quality	<ul style="list-style-type: none"><li>• McCloud impact</li><li>• Persistently increasing customer service expectations</li><li>• Covid impact on member health and wellbeing - increasing the adverse impact of any problems with pensions</li><li>• Member benefits paid incorrectly</li><li>• Employer contributions higher than deemed affordable or thought necessary</li><li>• Inadequate data quality</li><li>• Inadequate administration systems and processes</li><li>• Poor data provided by employers</li></ul>	<ul style="list-style-type: none"><li>• Inadequate payroll services</li><li>• Overly cautious investment strategy requiring higher employer contributions</li><li>Incorrect benefit payments to scheme members</li><li>Complaints and disputes from scheme members</li><li>Negative reputational impact</li></ul>	3.00	3.00	12.00	<ul style="list-style-type: none"><li>• Administration governance review actions and maintenance of those standards</li><li>• SLA with Council payroll service</li><li>• Maintenance of Fund website</li><li>• Funding Strategy having appropriate regard to risk and the meeting of Fund objectives</li><li>• Data quality scores and reviews</li><li>• Staff training</li><li>• Performance monitoring of employer data quality</li><li>• Performance monitoring of administration team KPIs</li><li>• iConnect project (substantively completed)</li></ul>	2.00	2.00	6.00	<ul style="list-style-type: none"><li>• UK Stewardship Code 2020</li><li>• Member Self Service project</li><li>• Light review of compliance with Code of Practice 14</li></ul>
12	Fraud	<ul style="list-style-type: none"><li>• Covid-19 impact on the application of controls in the Fund or with employers</li><li>• Increased financial pressure on individuals due to Covid-19 and its impact on the economy and jobs</li><li>• The passing of time since any previous targeted review of Fraud risk</li><li>• Fraud instigated by any Fund stakeholders, e.g. members, private financial advisers (scams), officers, fund managers, custodian, and employers.</li></ul>	<ul style="list-style-type: none"><li>• Members lose benefits to fraudsters</li><li>• Reputational risk</li><li>• Time spent unpicking the fraud</li><li>• Fraudulent members gain benefits they are not entitled to</li><li>• Fund incurs costs to recover losses</li><li>• Investment assets lost to fraud or irregularity</li><li>• Investment losses not reported if covered up</li></ul>	3.00	3.00	12.00	<ul style="list-style-type: none"><li>• Application of Administering Authority code of conduct to fund officers, fraud strategy, and whistleblowing policy</li><li>• Application of division of duties and signatory processes for financial transactions and administration</li><li>•Periodic independent internal audit reviews of administration and investmet activity and controls</li><li>•Annual external audit reviews</li><li>•Financial industry regulatory regimes governing fund manager conduct and processes</li><li>• Fraud, Bribery and Corruption Framework</li><li>• Employer's fines</li></ul>	2.00	3.00	9.00	<ul style="list-style-type: none"><li>• Internal audit of fraud arrangements</li><li>Fraud risk review in 2021/22</li><li>• Test payments to ensure that the bank details provided are appropriate</li></ul>
13	Governance Failure	<ul style="list-style-type: none"><li>• Lack of capacity to service governance requirements</li><li>• Lack of training</li><li>• Lack of continuity in staffing, advisers, or committee / board members</li><li>• Inadequate checking/review of standards compared to requirements and best practice</li><li>• Complacency in light of recent governance improvements</li><li>• Out of date policies and contracts</li><li>• Local government elections impact on committee continuity</li><li>•Covid-19 - impact on officer, adviser, and committee/board personnel health and availability</li><li>•Uncertainty around overall governance structure and responsibility for decision making and actions</li><li>• Unpopular government decisions impacting on LGPS</li><li>Inability to sign off pension fund accounts</li></ul>	<ul style="list-style-type: none"><li>• Adverse impact on Fund reputation</li><li>• Exposure to unplanned risks or poor administration and investment performance</li><li>• Breaches of the law</li><li>• Poor decisions</li><li>• Decisions that are not appropriately authorised</li><li>Customer dissatisfaction</li></ul>	3.00	4.00	16.00	<ul style="list-style-type: none"><li>• Training plans for committees, Board, and staff</li><li>• Quarterly committee and Board meeting cycles</li><li>• Training needs analysis</li><li>• All training provision to be made available to all committee and Board members</li><li>• Management of a Contracts register</li><li>• Management of a Fund policy schedule</li><li>• Quarterly risk monitoring at committee and board</li><li>• Quarterly monitoring of Business Plan delivery at board</li><li>• Use of digital technology - remote working and remote meetings</li><li>• Responding to government consultations</li><li>• Recruitment to Local Pension Board vacancy</li></ul>	3.00	3.00	12.00	<ul style="list-style-type: none"><li>• Signing up to UK Stewardship Code 2020</li><li>• Light review of compliance with Code of Practice 14</li><li>• Use of National Knowledge Assessment to inform training plan</li><li>• Simplification of governance to a single action plan and single risk register</li><li>• Review of committee arrangements and Terms of Reference</li><li>• Review capacity to support Fund Governance requirements</li><li>• Review account reporting timescales</li></ul>



## **Pension Fund Investment Sub-Committee**

**7 March 2022**

### **Macroeconomic update**

#### **Recommendation**

That the Pension Fund Investment Sub-Committee notes and comments on the content of the report at Appendix 1

#### **1. Executive Summary**

- 1.1 The purpose of this report is to provide a six-monthly update on the Pension Fund's greatest influences, particularly from a macroeconomic perspective.
- 1.2 This report also intends to encourage discussion of wider issues to assist with the rest of the agenda.
- 1.3 The key areas brought out by this report are:
  - Negative real interest rates in the UK;
  - Inflation, including supply chain issues;
  - Geopolitics; and
  - Investors' capital deployment.

#### **2. Financial Implications**

- 2.1 None

#### **3. Environmental Implications**

- 3.1 None

#### **4. Supporting Information**

- 4.1 None

#### **5. Timescales associated with the decision and next steps**

- 5.1 N/a

## Appendices

1. Appendix 1 – The Bigger Picture (Camdor Global Advisors)

## Background Papers

1. None

	Name	Contact Information
Report Author	Victoria Moffett, Chris Norton	victoriamoffett@warwickshire.gov.uk, chrisnorton@warwickshire.gov.uk
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The report was circulated to the following members prior to publication:

Local Member(s): None

Other members: Councillors Horner and Gifford



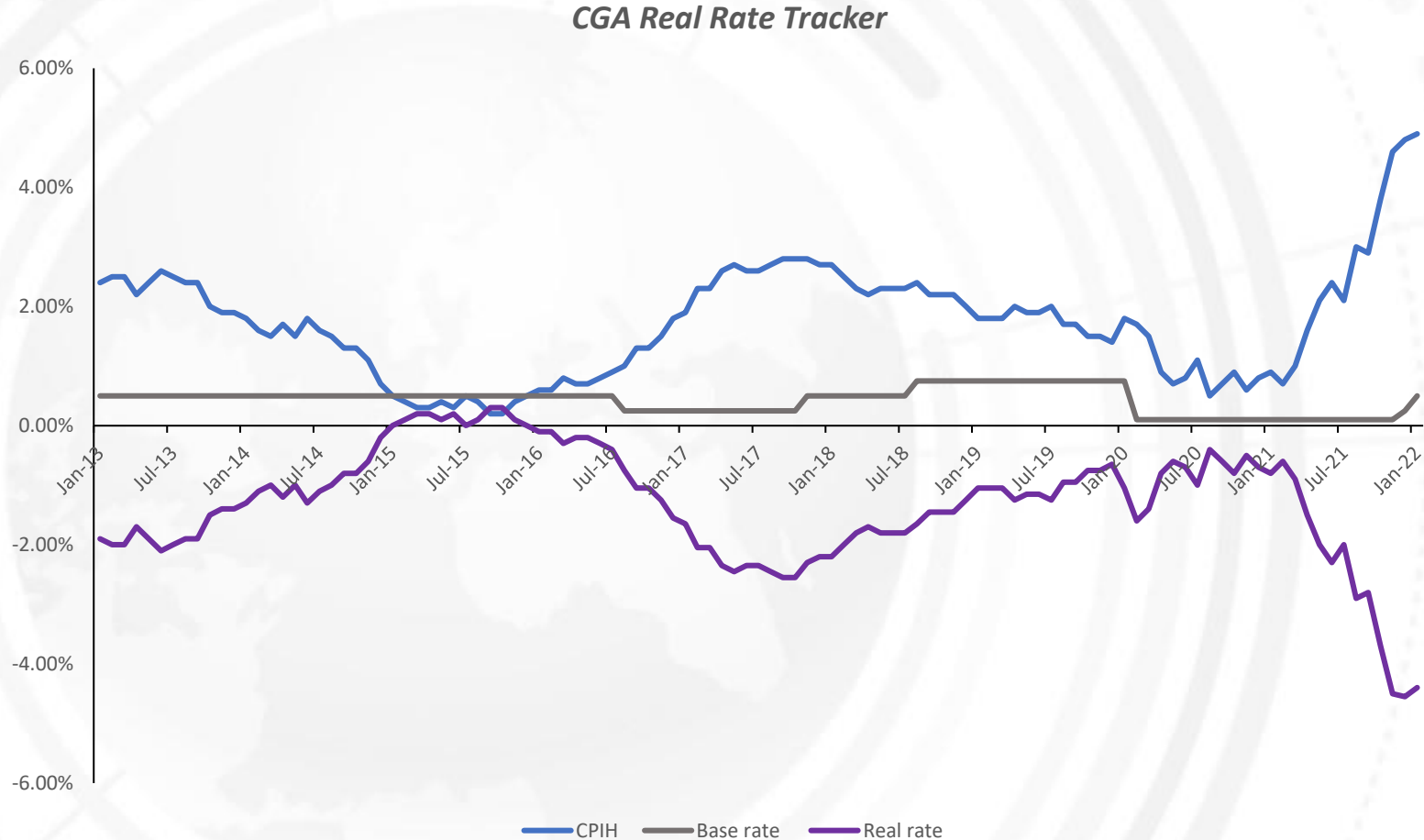
## THE BIGGER PICTURE

*Key macro dynamics of relevance*

*March 2022*

*Dr Bob Swarup  
Camdor Global Advisors*

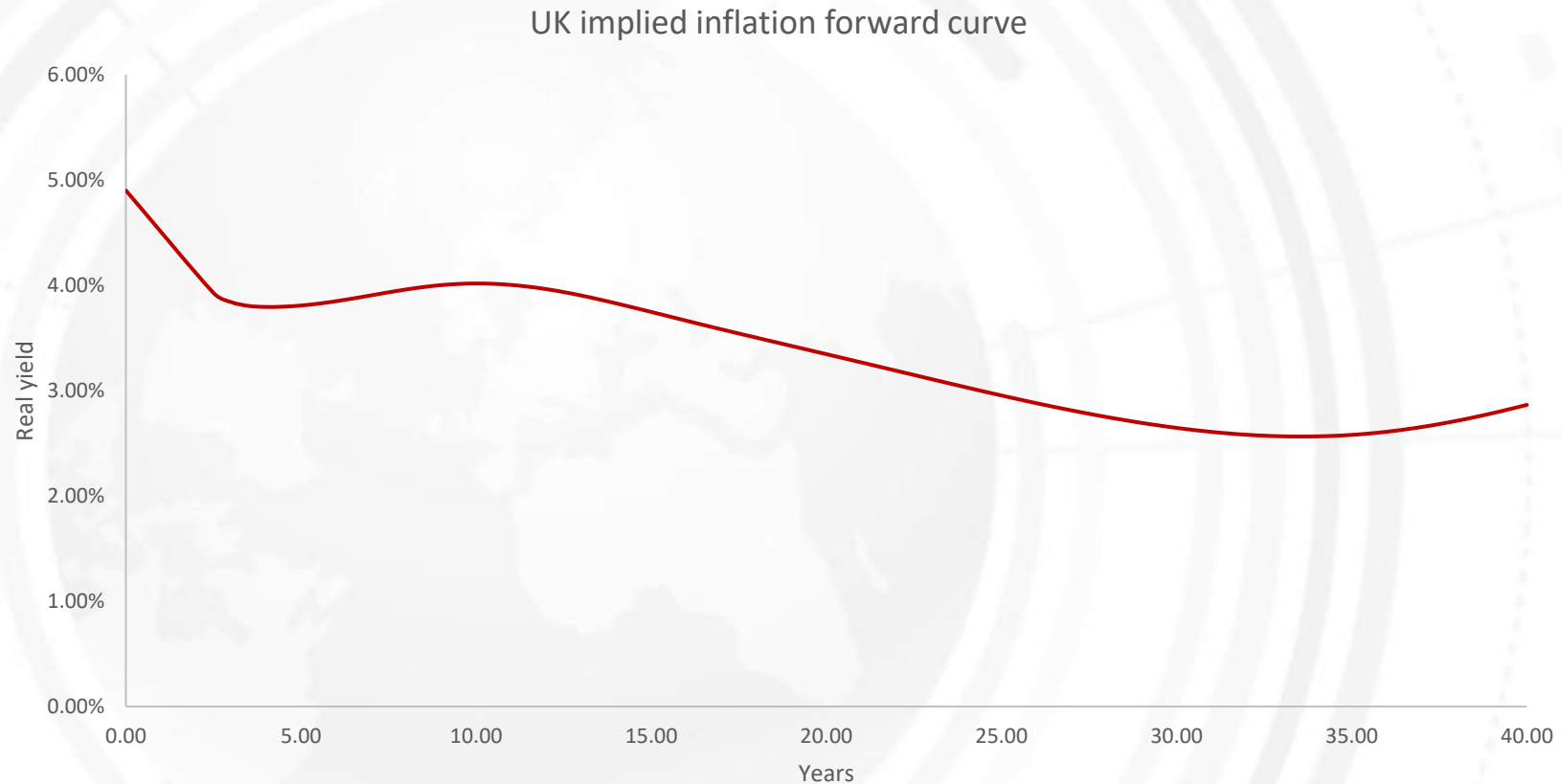
# UK real rates have become even more negative...



Source: Camdor Global, ONS

Real rates have worsened significantly, with the latest interest rate increases only staunching the bleed. This is a punishing environment for investments and for pension liabilities.

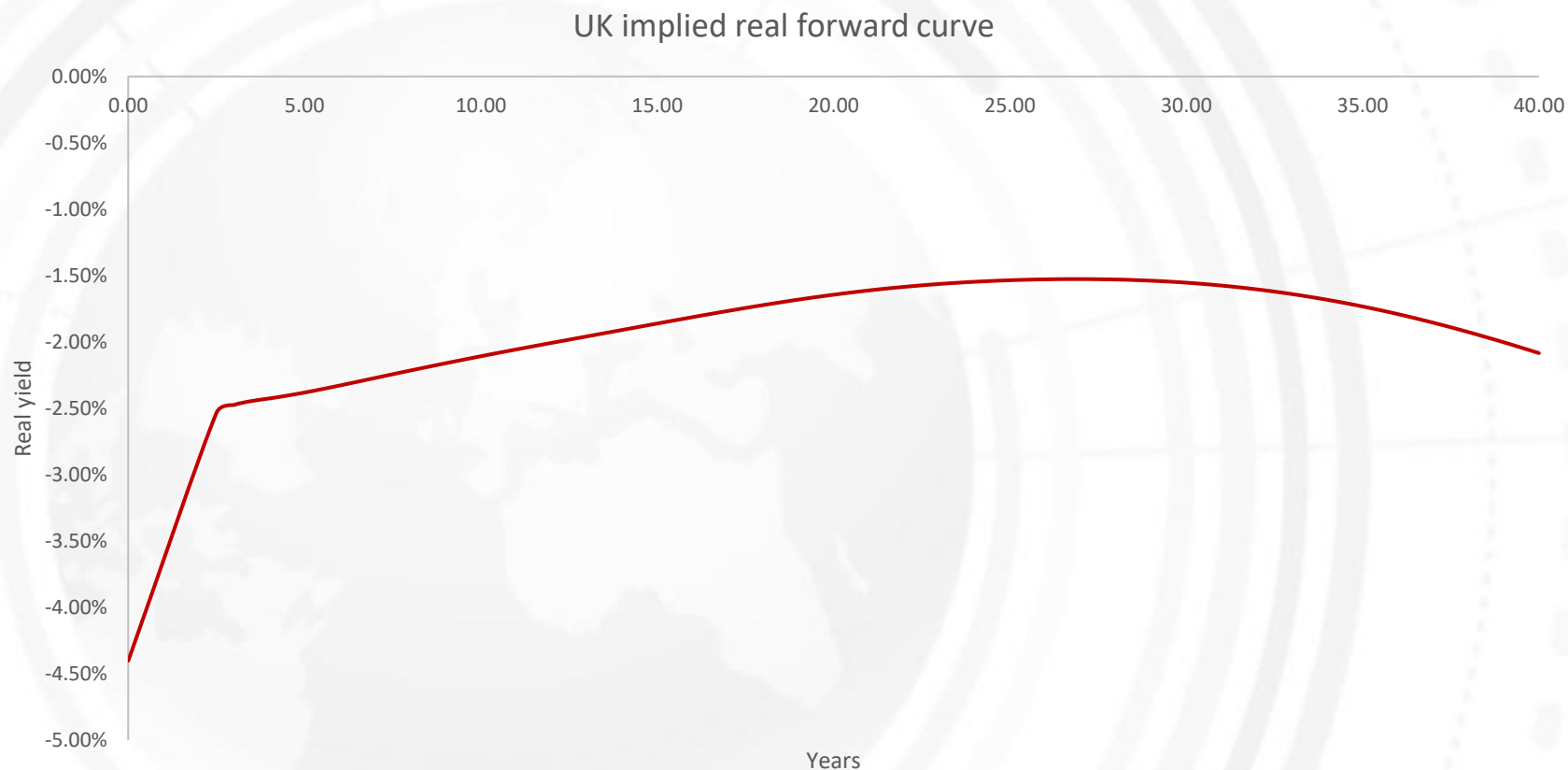
# ...while inflation is likely to take time to subside



Source: Bank of England

Inflation is expected to fall over the coming years but is also expected to be above 4% for the next decade, and generally stay above the BoE's inflation target.

# Forward curves indicate a fragile economy



Source: Bank of England

Real rate forward curves indicate an extended period of relatively lower base rates and persistent negative real rates. This implies a fragile economy in need of long-term support and continued headwinds for the Fund.

# Supply chain issues are still being worked through

## Supplier delivery and shipping delays



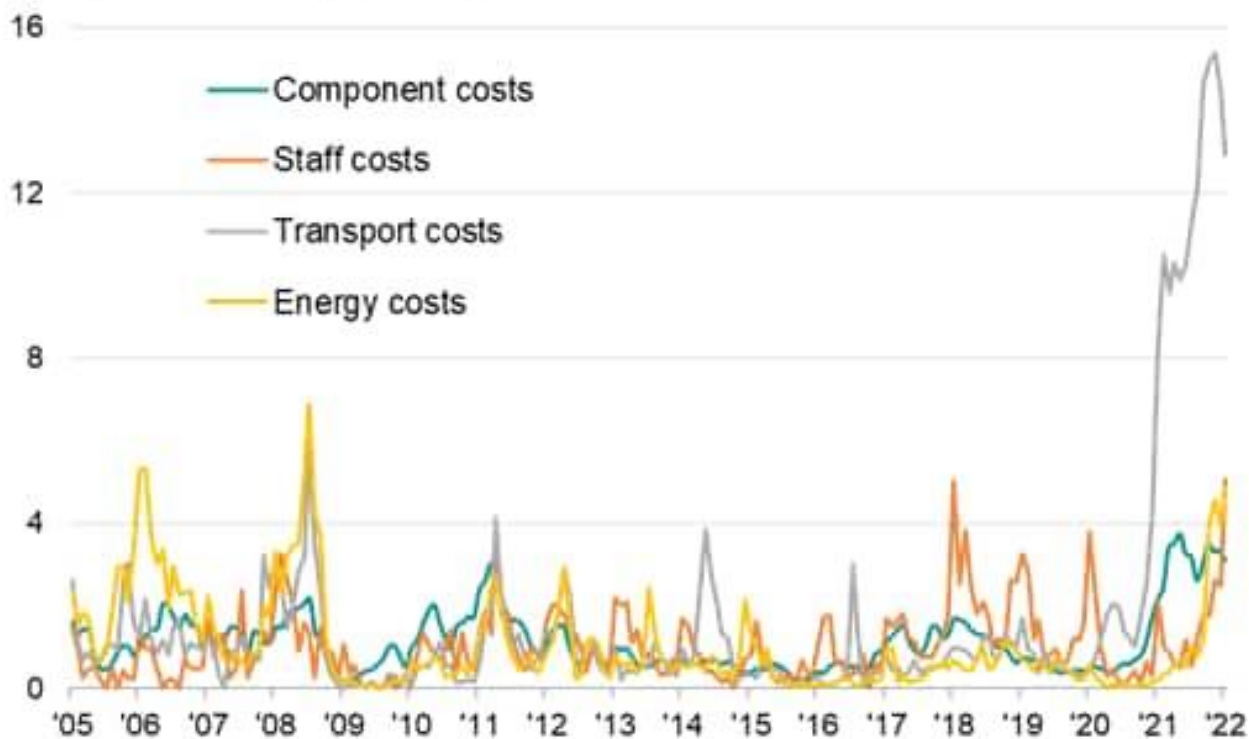
Supplier delays are easing but are still at levels seen during the initial economic shock of the pandemic.

# The underlying trend is one of inflation...

## What's driving global prices higher

Global producers reporting higher prices due to ...

Index, 1 = long run average (2005-20)



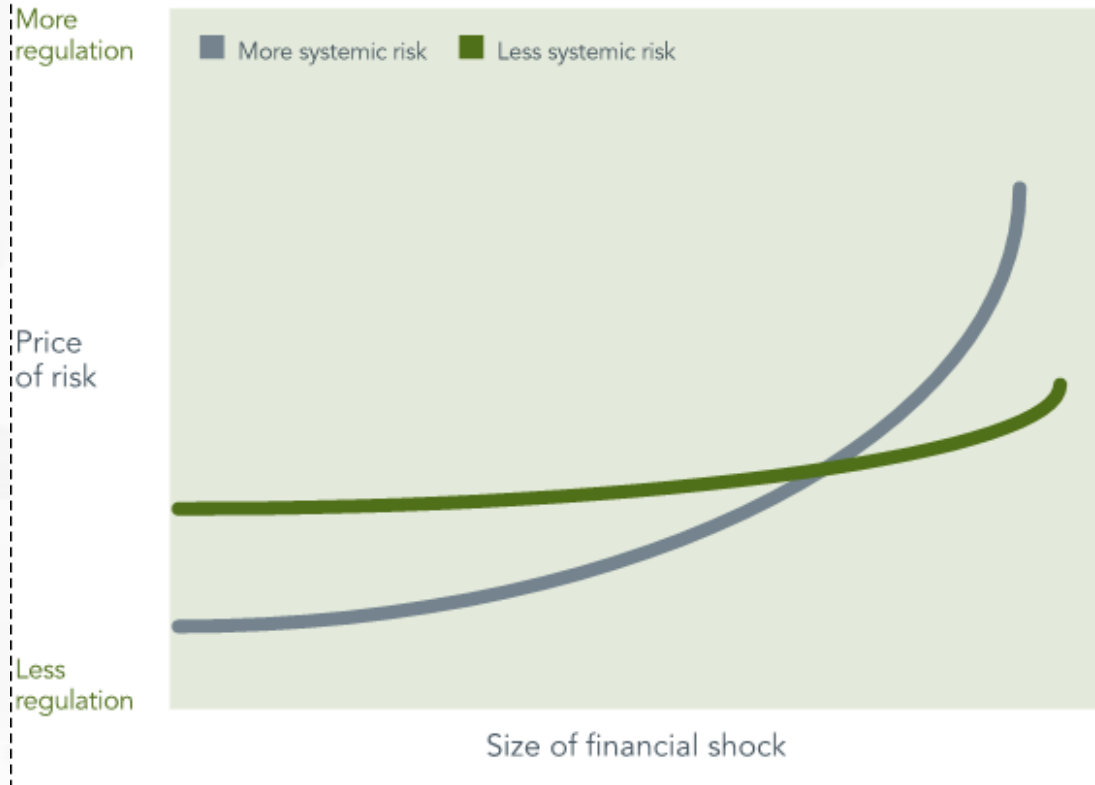
Source: IHS Markit PMI surveys

Transient factors such as transport are peaking, but others – notably energy and staff costs – are rising rapidly. The number of producers blaming staff shortages is over 5 times normal levels.



# The policymaker's conundrum

Figure 1: The Trade-off Between Financial Stability and Growth<sup>1</sup>



<sup>1</sup> Source: Camdor Global, based on T. Adrian, D. Covitz and N. Liang, Financial Stability Monitoring, Federal Reserve Finance and Economics Discussion Series (2013)

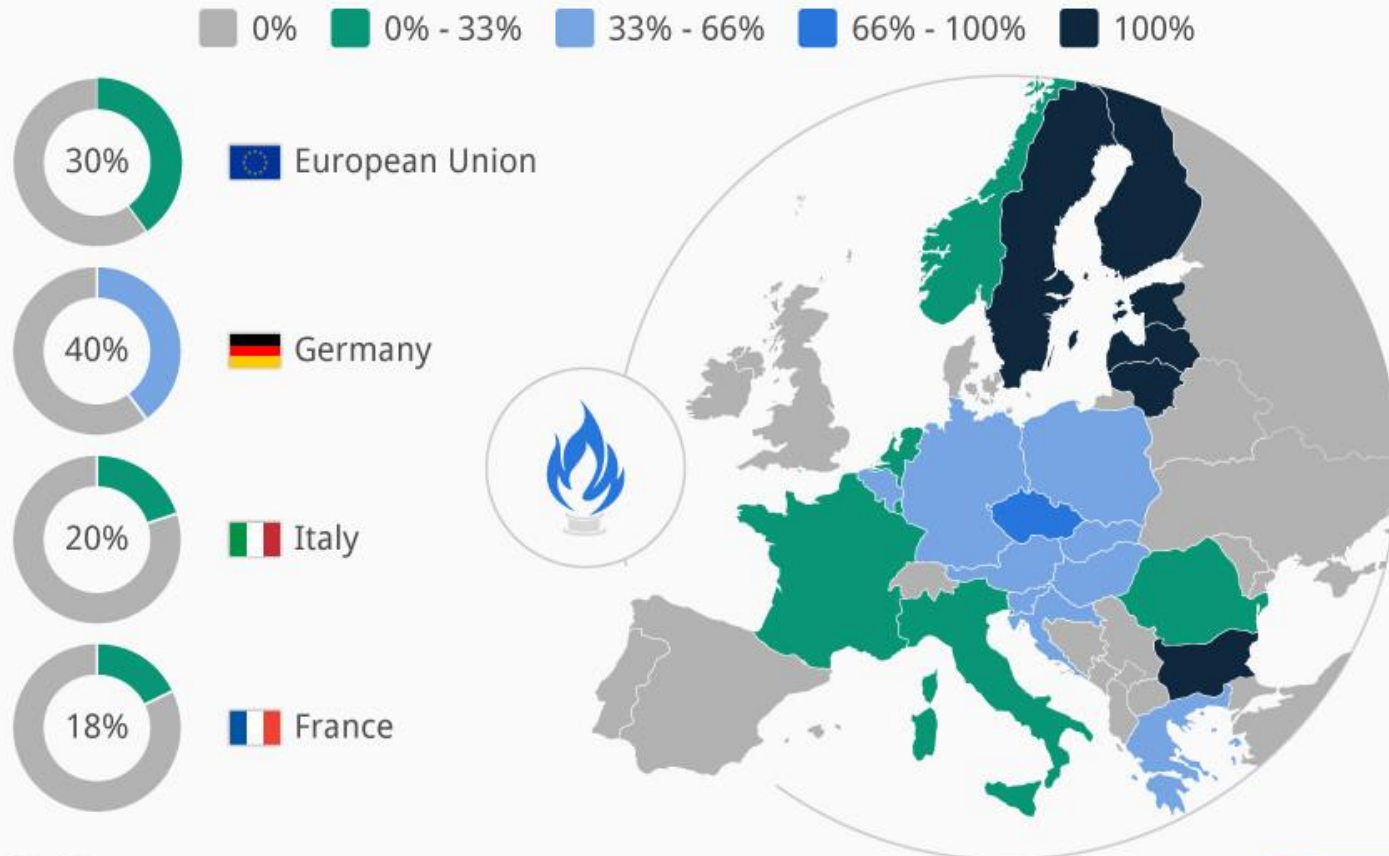
# The new geopolitics

- Geopolitics is not international relations and it is not cataloguing current events
- It's not just oil, China or Russia
- It is about people, the places they inhabit and the herds they create
- It is about their:
  - Compulsions – what moves us;
  - Constraints – what limits us;
  - Choices – what we do;
  - Consequences – what follows; and
  - Complexity – the system we therefore create.
- Today, that is increasingly a critical dimension to risk management and asset allocation
- Also important to note that this is not just physical, but also spilling into the digital sphere.

# Where geopolitics meets/collides with ESG...

## Europe is Highly Dependent on Russian Gas

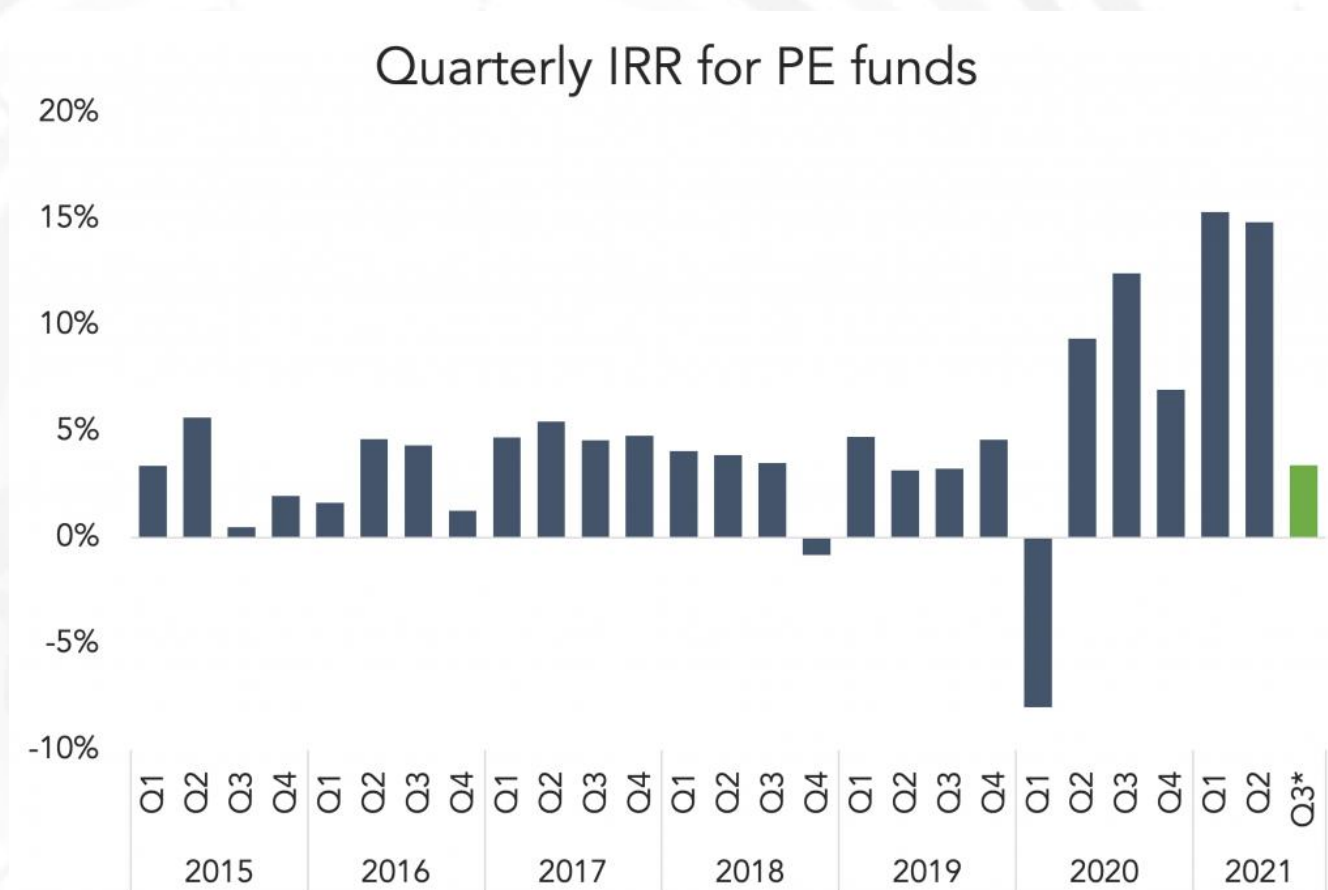
Percentage of gas supplied by Russia to European countries



@StatistaCharts Sources: CNN, WTO, U.S. Census Bureau, Eurostat

statista

# How are private returns evolving?

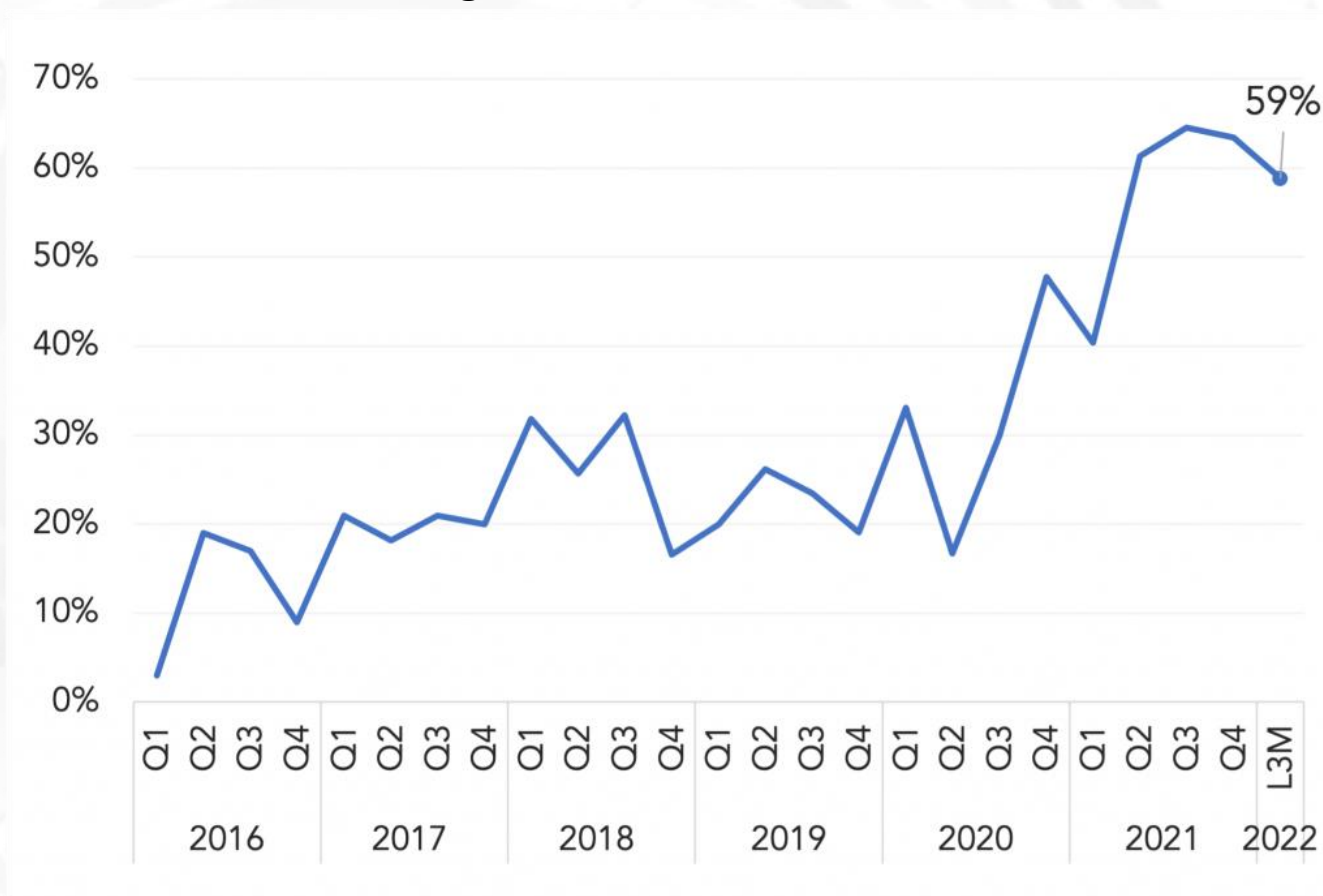


Source: Pitchbook

The past two years have been anomalous in terms of wider PE performance. The data indicates a strong bounceback post pandemic, but but also perhaps fading momentum now.

# What about underlying risks?

Percentage of Loans with an MFN Sunset

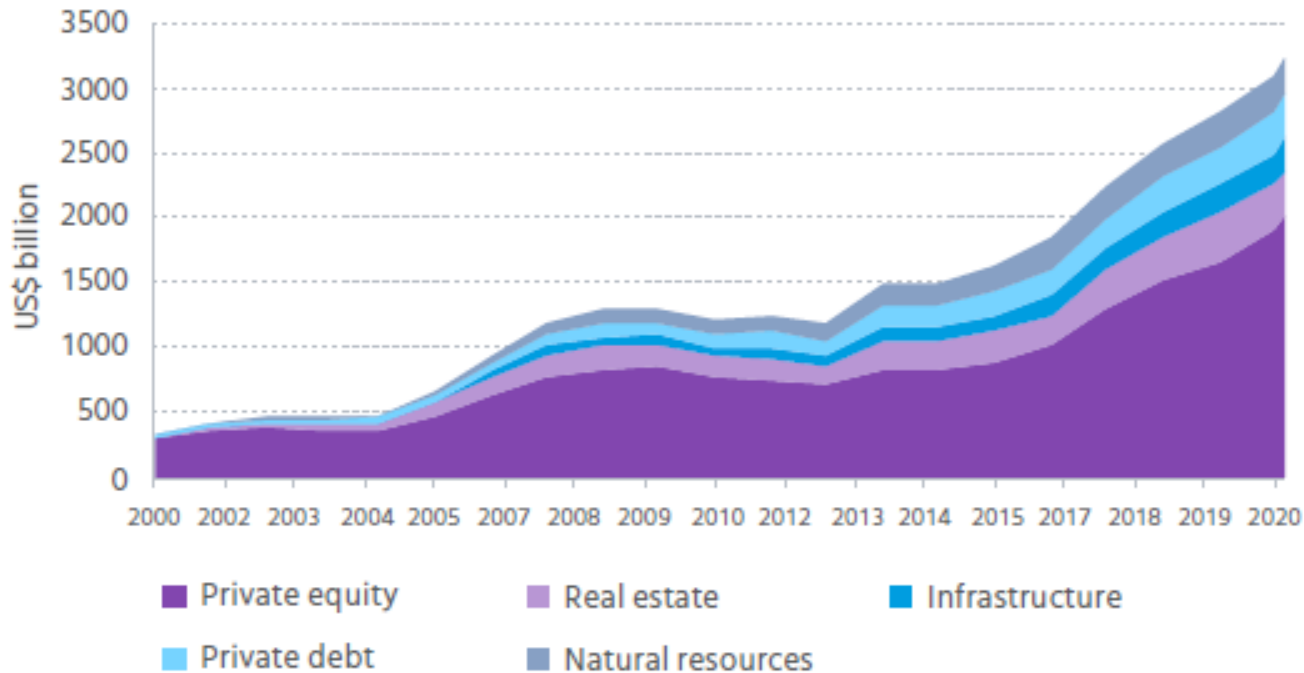


Source: The Lead Left, Stephen Miller

Covenants continue to weaken, indicating growing sensitivity to shifts in economic sentiment or market downturns.

# Aligning industry dynamics with the SAA

Unallocated capital has been rising in absolute terms



Source: Preqin as of end of 2020

Dry powder has built considerably over recent years, which will impact BCPP's ability to deploy effectively. It will also likely exert downward pressure on returns going forward.

# APPENDIX



# Presenter Bio

**Dr Bob Swarup** is a respected international expert on financial markets, investment strategy, alternatives, ALM and regulation. He is Principal at Camdor Global Advisors, an advisory firm that works with institutions and investors around the world on strategic investment, risk management, ALM and business issues. He also served as Senior Investment Advisor to the Pensions Regulator, advising them on the development of the new regulatory framework for DB schemes from an investment, risk and governance perspective.

Bob was formerly a partner at Pension Corporation, a leading UK-based pension buyout firm, where he ran alternative investments, was Chief Risk Officer and oversaw Thought Leadership.

Bob is a former Senior Visiting Fellow at Cass Business School; on the Advisory Council of the Columbia Committee for Global Thought and on the Editorial Board of the *Journal of Alternative Investments*. He holds a PhD in cosmology from Imperial College London and an MA (Hons) in Natural Sciences from the University of Cambridge. Bob has written extensively on diverse topics, with his work being featured in the Financial Times, Economist, Guardian, CNBC, Bloomberg, Pensions Week and IPE amongst others. He is also the author of the internationally acclaimed bestseller *Money Mania* on two millennia of financial crises and the lessons to learn (Bloomsbury, 2014).



# Contact Us

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