

Pension Fund Investment Sub-Committee

Date: Friday 14 October 2022
Time: 2.00 pm
Venue: Committee Room 2, Shire Hall

Membership

Councillor Christopher Kettle (Chair)
Councillor Bill Gifford (Vice-Chair)
Councillor Brian Hammersley
Councillor Sarah Millar
Councillor Mandy Tromans

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 June 2022.
2. **Review of the Minutes of the Warwickshire Local Pension Board Meetings of 2 February 2022 and 26 April 2022** 11 - 26
3. **Governance Report** 27 - 48
4. **Macroeconomic Update** 49 - 64
5. **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 Schedule 12A of Part 1 of the Local Government Act 1972.'

6. Initial Valuation Results	65 - 104
7. Private Debt Manager Selection	105 - 160
8. Investment Monitoring Report	161 - 188
9. General Activity Update	189 - 206
10. Border to Coast Update - Climate Metrics and Product Development	207 - 222
11. Exempt Minutes of the Previous Meeting	223 - 230
To confirm the exempt minutes of the meeting held on 13 June 2022.	

Monica Fogarty
Chief Executive
Warwickshire County Council
Shire Hall, Warwick

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Disclaimers

Disclosures of Pecuniary and Non-Pecuniary Interests

Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. Any changes to matters registered or new matters that require to be registered must be notified to the Monitoring Officer as soon as practicable after they arise.

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>

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 June 2022

Minutes

Attendance

Committee Members

Councillor Christopher Kettle (Chair)
Councillor Bill Gifford (Vice-Chair)
Councillor Brian Hammersley
Councillor Sarah Millar
Councillor Mandy Tromans

Officers

John Cole, Democratic Services Officer
Jan Cumming, Senior Solicitor and Team Leader (Commercial and Contracts)
Andy Felton, Assistant Director, Finance
Shawn Gladwin, Senior Finance Officer, Pensions Investment
Hannah Greyson-Gaito, Treasury Management Officer
Martin Griffiths, Technical Specialist – Pension Fund Policy and Governance
Victoria Moffett, Lead Commissioner (Pensions and Investment)
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit and Risk)
Sukhdev Singh, Senior Accountant, Pensions Investment

Others Present

Rachel Elwell, Chief Executive, Border to Coast Pensions Partnership
Anthony Fletcher, Independent Advisor
Chris Hitchen, Chair, Border to Coast Pensions Partnership
Philip Pearson, Hymans Robertson
Bob Swarup, Independent Advisor
Richard Warden, Hymans Robertson

1. General

The Chair paid tribute to his predecessor, Councillor John Horner, who sadly passed away on 10 May 2022. The Chair led a minute's silence in remembrance of Councillor Horner.

Councillor Gifford praised the contribution made by Councillor Horner, stating that the Pension Fund was in a healthy position due in no small part to Councillor Horner's knowledge and dedication.

The Chair stated that Councillor Horner was a diligent and highly respected chair with a strong grasp of detail as well as an understanding of the bigger picture. He would seek to follow Councillor Horner's example

(1) Apologies

There were none.

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

None.

(3) Minutes of the Previous Meetings

Resolved:

That the minutes of the meetings held on 7 March 2022 and 17 May 2022 be approved as a correct record and signed by the Chair.

There were no matters arising.

2. Appointment of Vice-Chair

The Chair proposed that Councillor Bill Gifford be Vice Chair of the Sub-Committee and was seconded by Councillor Mandy Tromans.

There were no other nominations.

Resolved:

That Councillor Bill Gifford be appointed Vice Chair of the Pension Fund Investment Sub-Committee for the ensuing municipal year.

3. Governance Report

Martin Griffiths (Technical Specialist – Pension Fund Policy and Governance) introduced the report which provided updated governance information relating to Warwickshire Pension Fund's forward plan, risk monitoring, training, and policy. He advised that, following discussion with officers, it was proposed to remove specific COVID-19 risk scores from the Risk Register as these risks would be included within the other general items within the Register.

In response to Councillor Millar, Martin Griffiths acknowledged that COVID-19 remained an ongoing threat, however, individual risks associated with the Pandemic had been allocated across specific risk categories.

Councillor Gifford suggested that a broader 'pandemic' risk be included within the Risk Register. It was impossible to predict when the next pandemic could occur, but the experience of COVID-19 demonstrated the importance of being prepared.

In response to Councillor Gifford, Chris Norton (Strategy and Commissioning Manager, Treasury, Pension, Audit and Risk) advised that employers' ability to pay contributions was monitored closely. A register of 'breaches' was maintained, and action would be taken if an employer failed to meet their obligations. He stated that this was a very uncommon occurrence and information relating to employer contributions was regularly reported to the Local Pension Board.

In response to the Chair, Victoria Moffett (Lead Commissioner, Pensions and Investment) advised that risk scores were reviewed on a quarterly basis with a focus on long-term and short-term market risks. These were covered in the Quarterly Investment Monitoring Report (agenda item 8).

Resolved:

That the Sub-Committee notes the content of the report.

4. Carbon Footprint Report

Philip Pearson (Hymans Robertson) presented the report which provided details of the Fund's carbon exposure and sought approval for the adoption of a set of metrics against which carbon exposure could be measured and tracked.

In response to Councillor Millar, Philip Pearson advised that, in many circumstances, engagement with investment managers was a more effective means of lowering carbon emissions than divestment. By requesting details of a company's plans to reduce carbon, and holding it accountable for delivery of the plan, long-term asset owners could act positively to lower emissions. If a company failed to engage or meet its targets, the Pension Fund could choose to withdraw its investment.

Councillor Millar underlined the importance of a defined timescale for this process. For example, a carbon-intense company could prevaricate and delay implementation of a carbon reduction plan. She asked if a definitive cut-off date would be mandated.

Philip Pearson advised that failure to deliver a carbon reduction plan would be an adequate reason for divestment. He stated that a plan should have tangible milestones to enable monitoring of its implementation. As soon as a commitment was not met, the manager or asset owner should divest. In practice, this could be challenging as it required considerable effort by investment managers to monitor the progress made by companies against carbon reduction plans.

Councillor Gifford expressed support for engagement with the backstop of divestment. He highlighted the importance of ensuring that investment managers act promptly to prevent 'green washing' by companies not fully committed to achieving their targets.

Bob Swarup (Independent Advisor to the Sub-Committee) highlighted the benefits of establishing a clearly defined governance framework for climate change which identified approaches to monitoring and oversight as well as risks and opportunities. He highlighted the areas of hidden risk, such as investment in infrastructure where there was an increased risk of flooding.

Anthony Fletcher (Independent Advisor to the Sub-Committee) stated that active investment managers were engaging with companies on behalf of the Pension Fund. However, there was a need to focus on passive investments which could otherwise be overlooked.

In response to Councillor Millar, Rachel Elwell (Chief Executive, Border to Coast Pensions Partnership) advised that Border to Coast Pensions Partnership (BCPP) had made a commitment to reach net zero by 2050. The Company was also a member of Climate Action 100+. She stated that BCPP was developing a roadmap to net zero carbon. Governance would be determined by a joint committee which would develop metrics to track carbon. A workshop would be held in July 2022 to set targets. Approval of the roadmap would be sought from the Company's Board, prior its publication in October 2022.

Chris Hitchen (Chairman, BCPP) emphasised that effective governance was key to lowering emissions. He expressed support for engagement, stating that BCPP would engage with companies with the option of divestment if no progress was made.

Councillor Hammersley queried whether prioritisation of climate change considerations could present a barrier to the Fund's principal responsibility, to act in the best financial interest of its members.

Councillor Gifford commented that the Fund was a long-term investor. He emphasised the importance of considering the long-term effects of climate change and its impact on investments. The Fund would be exposed to risk if it chose to ignore climate change. He stated that it was prudent to develop an understanding of investment risks and opportunities presented by climate change.

Councillor Millar stated that it was possible to act in the best interests of members of the Pension Fund and invest responsibly to reduce emissions. She emphasised that for many people, the effects of climate change would result in uncomfortable conditions for retirement.

In response to the Chair, Philip Pearson advised that climate change risk could be separated into three areas: physical risk, such as flooding or heatwaves; transition risk, where a carbon-intense company continues to operate until it is eventually shut down by government; and litigation risk, where a company is considered by courts to have acted irresponsibly. The most significant of these was transition risk; enacting measures to reduce carbon was compatible with the Pension Fund's fiduciary obligation.

In response to the Chair, Philip Pearson advised that, if the Fund decided to divest from all companies that did not meet the criteria for residual carbon emissions, a share of approximately 35% of the UK market would be available for investment. This would increase the volatility of investment returns, potentially to the extent that these stocks would be of interest to multiple investors at an increased cost.

The Chair stated that a potential loss of 65% of the UK market demonstrated the importance of engaging with companies to reduce carbon impacts.

In response to the Chair, members indicated support for the recommendations of the report.

Resolved:

That the Pension Fund Investment Sub-Committee (PFISC):

1. Approves the adoption of the metrics at paragraph 1.3; and
2. Requests that an annual report be brought to the PFISC setting out progress towards the metrics chosen.

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 Part 1 of Schedule 12A of the Local Government Act 1972.

6. Funding Update

The Sub-Committee received a confidential briefing.

7. Cashflow Management

The Sub-Committee received a confidential briefing.

8. Quarterly Investment Monitoring Report

The Sub-Committee received a confidential briefing.

9. General Activity Update

The Sub-Committee received a confidential briefing.

10. Border to Coast Presentation

The Sub-Committee received a confidential briefing.

At 13:00, the Chair moved that the meeting continue beyond three hours' duration. Councillor Gifford seconded the motion.

The motion was unanimously accepted.

11. Equity Portfolio Review

The Sub-Committee received a confidential briefing.

12. Exempt Minutes of the Previous Meeting

Resolved:

That the exempt minutes of the meeting held on 7 March 2022 be confirmed as a true and accurate record and signed by the Chair.

There were no matters arising.

The meeting rose at 13:30.

.....
Chair

Pension Fund Investment Sub-Committee

14 October 2022

Review of the Minutes of the Warwickshire Local Pension Board Meetings of 2 February 2022 and 26 April 2022

Recommendation

That the Pension Fund Investment Sub-Committee notes and comments on the minutes of the Local Pension Board meetings of 2 February 2022 and 26 April 2022.

1. Executive Summary

- 1.1 Set out at appendices 1 and 2 are the minutes of the Local Pension Board meetings of 2 February 2022 and 26 April 2022, for information.

2. Financial Implications

- 2.1 None

3. Environmental Implications

- 3.1 None

4. Timescales associated with the decision and next steps

- 4.1 None

Appendices

- 1. Appendix 1 – Minutes of the Warwickshire Local Pension Board meeting of 2 February 2022
- 2. Appendix 2 – Minutes of the Warwickshire Local Pension Board meeting of 26 April 2022

	Name	Contact Information
Report Author	John Cole	johncole@warwickshire.gov.uk Tel: 01926 736118
Assistant Director, Finance	Andrew Felton	andrewfelton@warwickshire.gov.uk
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The report was circulated to the following members prior to publication:

Local Member(s): not applicable

Other members: Councillors Kettle and Gifford

Warwickshire Local Pension Board

Wednesday 2 February 2022

Minutes

Attendance

Committee Members

Keith Bray (Chair)
Jeff Carruthers
Keith Francis
Sean McGovern

Officers

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance
Andy Carswell, Democratic Services Officer
Andrew Felton, Assistant Director - Finance
Liz Firmstone, Service Manager (Transformation)
Ian Marriott, Delivery Lead - Commercial and Regulatory
Victoria Moffett, Pensions and Investments Manager
Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Risk & Insurance)
Sarah Cowen, Senior Solicitor
Daniel Lynch, Senior Accountant Pensions Investment (Contractor)

Others Present

Martin Griffiths (Incoming Technical Specialist – currently with Staffordshire County Council)

1. Introductions and General Business

The Chair informed Members that Mike Snow would be unable to continue as a member of the Board as he would be leaving his position at Stratford District Council, which meant he was no longer qualified to be a scheme employer representative. The Chair asked Jeff Carruthers if he would be willing to swap roles with Mike Snow in order to allow him to remain as a Board member as a scheme member representative. Jeff Carruthers said he would be willing to do this. Members were informed that all employers would need to be informed of the proposal in case anyone else was proposed to join the Board, then a report would need to go to Full Council to formally ratify the decision. This course of action was unanimously agreed by Members.

Members stated they had either received their hard copies of the papers very late, and so had not had chance to go through the contents in great detail, or had not received them at all. It was agreed that this would be investigated internally, and the possibility of bringing forward timelines to enable paperwork to be sent out in a more timely manner would be investigated.

(1) Apologies

Apologies were received from Alan Kidner, Mike Snow and 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 confirmed that the internal audit referenced in the minutes of the previous meeting had been completed and circulated out to Members. It was agreed that it could be sent out again to anyone who may have missed it.

Regarding the training policy, Keith Francis said he had recently received an email from Aspire informing him his training requirements were classified as 'delinquent' as he had not completed certain sections, but he was not sure what this entailed. Neil Buxton said he had received a similar email. This training related to the build-up before the National Knowledge Assessment to take place in September 2022, and Members were welcome to do the training when they could. Members had also been asked to undertake a separate knowledge assessment through Hymans. The Chair said he had received an email informing him that the deadline for this was January 31; however he had successfully sought an extension from Hymans. Jeff Carruthers stated his belief that although the content of the training courses was very good and informative, the amount of training required may be off-putting to potential new Board members.

Neil Buxton said the Chair's Report was on the Forward Plan and was due to be on the agenda for the July meeting.

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

2. Review of the Minutes of the Pension Fund Investment Sub-Committee meeting of 14th September 2021

Members noted the contents of the minutes.

3. Business Plan update

Chris Norton, Strategy and Commissioning Manager, introduced the report and drew Members' attention to the summary of the business plan. He said the number of completed actions had increased by four; the number of action points with an amber rating had decreased from 14 to 11; and there were no action points that had a red rating. Some of the completed actions were 'business as usual' items that took place throughout the year; however Chris Norton highlighted that the review of objectives had been completed by the deadline. Members were told that issues relating to the capacity of the internal team had been identified as a risk and discussed at the last Investment Sub Committee as a result. Creating job posts for an investment analyst and for a trainee accountant had both been approved.

Chris Norton said the business plan for 2022/23 was now being worked on and it would be discussed at the next Investment Sub Committee meeting in March. He said the next business plan would have more of an emphasis on noting the achievement of objectives rather than being seen as a tick box exercise for ongoing items that were monitored each month. Monitoring issues might include things such as looking to see if any of the Pension Fund's investments were experiencing any volatility.

Jeff Carruthers noted that the action point relating to the maintenance of the contract register had gone to amber, but it had previously been recommended that it stayed red. Chris Norton said it had been a judgement call as to how to record this action point. He said however that since the last time the Board had reviewed the business plan an independent financial advisor had been appointed and more resources had been allocated to the investments team. It was therefore felt the right steps were being taken to address the risks that had been identified.

Jeff Carruthers asked if there was a possible conflict between different pension funds having different commitments to achieving net zero carbon emissions. Chris Norton said the County Council had pledged to meet net zero by 2030 but there had not yet been a firm pledge from the pension fund and this was noteworthy. He said there was a reluctance to sign up to anything without having a full understanding of the implications on investments based on climate change strategies. The Chair said it was wise not to make a commitment at this stage as it may not end up being a meaningful one if there was no evidence to substantiate the reasoning behind it.

Members were told that Anthony Fletcher had been appointed as an independent financial advisor. He had experience working within the LGPS and across all aspects of investments. The Chair said he had experience of working with Anthony Fletcher and said he was an excellent choice.

The Chair asked which of the amber-rated action points were of greatest concern. Chris Norton said the biggest risks related to employer covenants and employer risks. The development of new funds, such as those relating to Border to Coast, were deemed those closest to going red and required careful monitoring.

4. Risk Monitoring

Chris Norton introduced the report and informed Members that it had been considered by the Investment Sub Committee. He said the long-term market risk had increased in terms of likelihood due to inflation. Administration issues caused by Covid now had a lesser likelihood of occurring, in response to the risks associated with Omicron having deemed to have passed. Chris Norton drew Members' attention to the appendix, which highlighted the updates that had been made to the risk register. He said fewer changes were made to the register as the year progressed. Since the time of compiling the register an appointment had been made in relation to the independent specialist tender following a lengthy process. Chris Norton said it was due to Victoria Moffett that it had been possible to make the appointment. The business case for accounting and investment capability had also been approved since the time of the register being compiled.

Members were told an audit was due to take place in relation to cyber security to test systems. Jeff Carruthers said it was important to have an item on cyber security on the risk register, stating his employer had recently stepped up its testing to check for any potential breaches.

The Chair thanked Chris Norton for the report, stating that the quality of information that was available had improved markedly.

5. Pensions Administration Activity and Performance Update

Liz Firmstone, Service Manager, Transformation, introduced the item and summarised the main points of the report. She said the implementation of the member self service scheme was going well and the rollout was to be extended on a gradual basis, in order for any issues to be identified and resolved. The increase in the number of requests for transfers or information about transfers had continued. Staff were busy working through these but were also having to manage the incoming changes to legislation governing pension funds. However Members were reminded that administration of the Fire Service pensions were being outsourced, which would help free up resources to manage the administration of the Warwickshire Pension Fund. Liz Firmstone reported that Staff and Pensions Committee have approved a move to using e-payslips for pensioners. She advised that the majority of funds have already gone paperless and although Warwickshire would be doing the same, members will continue to have the option to opt out of this and request paper versions of their payslips. Going paperless would help support the commitment of achieving net zero carbon emissions.

There were some key performance indicators that had missed their targets, and these are being addressed. Key performance indicator monitoring processes were having the desired effect of allowing staff to analyse the data that was available and see where resources needed to be redirected.

There had been one red breach in respect of an employer failing to submit member data on time. This had been reported to the Pensions Regulator, who were satisfied with the actions that had been taken to rectify this. The data had now been submitted and the employer was being set up onto iConnect. There had been some green breaches reported, many of which related to one payroll provider that managed the payrolls of several employers.

Regarding McCloud, there had been a steering group meeting the day before and it was felt that everything was on track. Liz Firmstone told Members that the quality of data held in relation to McCloud was very good.

There was currently one complaint and two IDRP, which were being dealt with.

Liz Firmstone drew Members' attention to the fact eight employers had joined the pension scheme and one had left, which she said reflected the ongoing increase in the level of demand in the service.

Responding to questions from Jeff Carruthers, Liz Firmstone said although there had been an increase in demand for the service no backlog in work had built up. Additionally the number of breaches had been discussed at a recent meeting and it was not felt it was a potential cause for concern. She said although some employers may miss a deadline by a day or two, and this may not have a drastic impact on the Fund's work, it was not something that staff wanted to become a habit and actions were being taken to address this.

Sean McGovern said it was right that service users should be encouraged to go online to access their records, but felt it was important the option to have paper copies should remain. Liz Firmstone confirmed that this would remain open to service users.

6. Regulatory and Policy Update

Neil Buxton, Technical Specialist – Pension Fund, introduced the item and advised Members that the cyber security policy had been updated. The new policy had been externally reviewed in a benchmark test and been assessed as being a good policy compared to other Local Authorities. The policy would be reviewed internally and externally to ensure ongoing quality.

Neil Buxton said the Unions were in the process of taking McCloud through a judicial review, due to the costs associated with it stopping many of the planned improvements. This was going through the courts and updates would be provided in due course.

It had been confirmed that the CPI rate would increase by 3.1 per cent, as had been anticipated. Pension pot rates would increase by the same amount.

It was expected there would be an announcement on a single code of practice for pension regulators at some point in the summer.

7. Investments update

Victoria Moffett, Pensions and Investment Manager, informed the Board that the funding level at the end of September had increased to 106 per cent as a result of investment values increasing, particularly in relation to equities and property gains. This had taken the fund to its highest value to date, which was £2.7billion. However the value of investment contributions was less than the value of the benefits paid out for the second successive quarter, meaning there was a slight negative cashflow situation. The cashflow modelling was being looked at to assess this. Victoria Moffett advised that the negative figures referenced in the appendix related to new private market investments that were going through the J-curve of investing in these asset classes. The transfer to the multi asset credit fund had successfully gone through in November. Members were informed that cash balances made up 2.8 per cent of the Fund and overall the Fund was in a good position.

Victoria Moffett said the annual report and accounts had been published ahead of the required deadline but needed an update as the sign-off from Council had taken place after the deadline date. The external audit had showed there were no material issues. Victoria Moffett said attendance at the AGM in November had been low. It was unclear if this was a one-off, and whether there may be more participation this year as it will be a valuation year, but suggestions on how to improve engagement were welcomed.

Members were told the chief investment officer and head of real estate at Border to Coast had both resigned, which was concerning as property funds had not yet been released. Work was taking place to ensure the funds were launched and a replacement found for the chief investment officer.

The draft version of the Stewardship Code was ready to be reviewed, with a submission deadline for comments of April 30. Once this was done the next major piece of legislation to come forward

would be the Taskforce on Climate -related Financial Disclosures, although it was anticipated the regulations required for that would not take effect until 2023.

Members were told that Martin Griffiths would be taking over from Neil Buxton at the end of March. Martin Griffiths introduced himself to Members and said he was looking forward to joining the Warwickshire Fund.

Responding to a question from Keith Francis, Victoria Moffett confirmed that the figure of 106 per cent was based on a set of assumptions from the 2019 valuation, it had come from actuaries. She said she would be happy to answer outside of the meeting any additional questions Members may have.

8. Warwickshire Local Pension Board, Forward Plan

Neil Buxton advised Members that an item on business continuity, which tied in to the issues relating to cyber security, would be going to the March Staff and Pensions Committee meeting for comments before coming back to the next Board meeting. It was intended to then go back to the Committee for ratification in June.

9. Review of the minutes of the Staff and Pensions Committee of 13th September 2021

There were no comments from Members on the contents of the minutes and no other items of business.

Members were reminded that this was Neil Buxton's final Board meeting before his retirement. Members thanked him for all of his help and advice over the years and said they would miss his expertise.

Members confirmed they wanted the next meeting on April 26 to be held on Teams, with the following meeting on July 12 to take place in-person.

The meeting rose at 11.35am.

.....
Chair

Warwickshire Local Pension Board

Tuesday 26 April 2022

Minutes

Attendance

Committee Members

Keith Bray (Chair)
Jeff Carruthers
Keith Francis
Alan Kidner
Mike Snow

Officers

Andy Carswell, Democratic Services Officer
Andrew Felton, Assistant Director - Finance
Liz Firmstone, Service Manager (Transformation)
Victoria Jenks, Pensions Admin Delivery Lead
Victoria Moffett, Pensions and Investments Manager
Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Risk & Insurance)
Nichola Vine, Strategy and Commissioning Manager (Legal and Democratic)
Martin Griffiths, Technical Specialist Pensions Fund Policy and Governance

1. Introductions and General Business

(1) Apologies

Apologies were received from 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 a firm of American lawyers which had Pension Fund clients although these did not include Warwickshire.

Alan Kidner stated that his sister-in-law worked for JP Morgan.

(3) Minutes of the Previous Meeting

Liz Firmstone (Service Manager, Transformation) said the full audit report would be circulated to members once it had been agreed by the Audit and Standards Committee.

The Chair noted a reference to Russia, and how there had been reports in the press that Russia now posed an increased cyber security risk as a result of the Ukraine conflict, and the

Fund should be wary of this. Regarding members going paperless, the Board were advised that following the passing of a motion at Full Council the presumption was members would receive electronic versions of agendas unless they opted in to receiving paper copies. Members said they wanted to continue receiving paper versions of agendas, but the Chair asked if they could be made aware if the Board became an outlier in terms of the number of members not using electronic copies.

Members confirmed they would like to have the next meeting in person, if restrictions permitted it.

The minutes of the meeting held on 2 February 2022 were agreed by the Board as a true and accurate record.

2. Minutes of the Pension Fund Investment Sub-Committee

Victoria Moffett (Pensions and Investment Manager) advised members that since the last Investment Sub-Committee meeting, the number of UK equities had been reduced.

Members noted the contents of the minutes.

3. Minutes of the Staff and Pensions Committee of 13 December 2021

The Chair said he was pleased to see good progress was being made on the rollout of the member self service scheme.

Members noted the contents of the minutes.

4. Forward Plan

Referring to the Hymans knowledge and skills test members had undertaken, the Chair said he had received his results and been told which questions had been answered correctly and incorrectly. However he had not been told the correct answers to questions that he had answered incorrectly, and the Chair felt it would be useful in improving understanding to be told the right answers. He also said it would be useful to have all of the members' results together to see if there were any knowledge gaps that could be covered on the training programme. The Chair noted however that all members had done well, particularly as some of the questions had required a detailed amount of knowledge to answer them. Members were reminded that a training schedule had been agreed.

Keith Francis said he had taken several hours to complete all of the training. Following discussions it appeared he had taken more than the mandatory levels of training and had taken additional courses. It was agreed that in future members would be advised as to which sections of training were of greater importance. Members said it was helpful they had different specialisms to spread across all of the different areas of required knowledge.

Mike Snow said he was likely to need a new login to the Hymans system as he had changed roles as a Board member. Victoria Moffett said this could be facilitated.

Members noted the contents of the forward plan.

5. Business plan

Liz Firmstone (Finance Service Manager – Transformation) introduced the item and advised this was the final update report for the 2021/22 business plan. Of the 49 listed actions, 39 were either completed or on track and the remaining ten were off track but being managed. There were no actions listed as being red. Liz Firmstone said the main reason for the ten items being off track were as a result of a lack of staff capacity. A number of staff members had been off sick due to Covid and this had had an impact on resources. Additionally there had been an increased demand for services. Liz Firmstone said she wished to acknowledge the work of the team to ensure the progress that had been made.

Mike Snow asked for clarification on what was happening to verify employer data in respect of the McCloud project. Liz Firmstone said the position was improving following the imposition of the iConnect system, and data was coming in on a more regular basis. There was a disclaimer that employers were content for the Fund staff to use the data they already held, or had been supplied with. Vicky Jenks (Pensions Admin Lead) said some checks were still required and many of these were being done retrospectively. If needed, information was being sent back to employers for further investigation and resolution.

Jeff Carruthers noted the indicator relating to employer contribution performance stated it was due to be resolved by the end of April. Victoria Moffett said this had largely been rectified and its resolution was a priority task for the team. It had been completed sufficiently that it would pass an audit report.

Responding to a question from the Chair, Liz Firmstone said there weren't any areas she was concerned would dip to a red rating due to not being met.

Members noted the contents of the business plan.

6. Risk register

Victoria Moffett introduced the report. She advised that the scores for some risks had not been updated in the report as they were felt to be appropriate, but actions from a management action plan running alongside it had been taken. These actions included increasing capacity for medium-term resourcing, investing in systems development and improving communications with the Border to Coast fund. The full details were in appendix 4 of the report, with new items being shown in red and those shown in green were actions to have been taken since the last quarter.

Regarding resources and staffing capacities, Jeff Carruthers said he had noticed issues with recruitment, particularly for some specialist roles, and asked if this was the same through the Local Government Pension Scheme. Vicky Jenks said the Local Government Association had recently released a survey asking for members to report and describe any recruitment issues they had been having, as it was acknowledged there had been problems in this area. She said resourcing issues tended to relate to major projects such as preparation for McCloud, which required specialist knowledge, rather than day to day items. Victoria Moffett said Martin Griffiths had recently been appointed to the role of Technical Specialist as he was very experienced. There was an advertisement out for a junior accountancy role and there had been applications for the post, and it was hoped an offer could be made to an applicant. Andy Felton (Assistant Director, Finance)

said solutions were being sought to fill vacancies. Some posts had been filled by contractors but this was costly so steps were being taken to try to avoid this.

Mike Snow asked what steps were being taken to assess the impact of increased inflation rates, noting the report stated inflation was at six per cent in relation to CPI and eight per cent in relation to RPI. Victoria Moffett said this had been discussed at the Investment Sub Committee, with members asking if the increased rates were transient or likely to be more longer-lasting. Independent advisors had provided with Fund with knowledge on issues relating to inflation. Victoria Moffett said there had been an increase in benefits payments. Consideration was being given to how protection assets looked in terms of their interest rate and inflation hedging abilities. Andy Felton said modelling by Hymans had suggested the increased inflation rates could last for two or three years rather than a matter of months; however he advised that some assets were inflation protected.

Responding to a question from the Chair, Victoria Moffett advised the register was discussed on a quarterly basis some weeks prior to Staff and Pensions Committee and Investment Sub Committee meetings. The register would be looked at on a line-by-line basis. Andy Felton added that the Pension Fund team would review risks on a day-to-day basis.

Members noted the contents of the report and risk register.

7. Pensions administration activity and performance update

Vicky Jenks introduced the item and explained the report outlined what the administration team had been working on. A lot of work had been taking place preparing and testing the new member self-service, which would allow members to access their annual benefit statements online. Much of this entailed setting up account profile details for members. Vicky Jenks drew members' attention to the key performance indicators listed in the report, which explained why some of them were off target. The report also noted recorded breaches, progress being made in relation to McCloud, and the guaranteed minimum pension reconciliation exercise.

Members said it would have been beneficial if the pages containing the key performance indicators and breaches had been printed in colour, as it was harder to tell which were rated as red, amber or green. Vicky Jenks said there had been an increase in the number of green breaches reported in January. She explained however that this related to one payroll provider that was responsible for the payrolls in a large number of schools; although the increase looked as though it was a significant issue, it had been caused by a single provider and had been relatively straightforward to combat.

Responding to a question from Jeff Carruthers regarding communication about the self-service scheme, Vicky Jenks said a plan was being developed and would be rolled out to all employers in due course. Priority for the rollout was being given to deferred members as they tended to receive their annual benefit statements first. Jeff Carruthers said he would like to have any communications sent out so it could be sent round staff at his employer.

Responding to a point raised by the Chair in relation to the guaranteed minimum pension reconciliation scheme, Vicky Jenks said it was anticipated more users would get back in touch with the Fund as they approached pensionable age. The introduction of the pensions dashboard had been helpful in reuniting members with their pensions. The next phase of the project would be to

communicate to members how they could access the self-service portal to deal with their queries. The Chair raised the point that some users may have more than one pension pot under multiple schemes, and said the dashboard was a useful tool to help people with any questions they had and would prevent staff at the Pension Fund from becoming overwhelmed dealing with queries.

Mike Snow noted that some overpayments were due to be written off during the reconciliation process and asked for details on what values were involved. Vicky Jenks said there had been around 800 overpayments totalling approximately £2million. Approval for writing off the overpayments was being sought from the Leader of the Council. Liz Firmstone added that the recommendation given to all local authorities was not to try and recover overpayments. Vicky Jenks said some of the overpayments for pensions had come about because the information held by the Pension Fund and HMRC did not match up, which the Fund members would not have known about and would not have been expected to have acted upon. This was a situation affecting a large number of local authority pension schemes. Additionally, a large percentage of the overpayments had been for relatively small amounts. The Chair said he accepted this position, although if an individual had been overpaid by a significant and was aware of it then they should be pursued to try and recoup the overpayments. Nic Vine (Strategy and Commissioning Manager, Legal and Democratic) said that in many cases pursuing claims against individuals would cost the Fund money as the amount it cost to take action was more than the amount that would be reclaimed, and there was no culpability on the Fund members.

Responding to a question from Alan Kidner, Vicky Jenks said the reconciliation process had started in 2016 and it had taken time for the various Funds to work through it as they received information from HMRC. The final set of data files to reconcile had been supplied in 2019. Alan Kidner suggested the length of time taken to supply the information could have meant that some overpayments had been taking place over a longer period of time than necessary, and the situation could have been rectified if the information had been provided by HMRC sooner. Andy Felton said the exercise would mean overpayments would not be an ongoing issue.

Responding to a question from Mike Snow, Vicky Jenks said the number of underpayments was significantly lower than the number of overpayments. These had now been corrected and arrears paid back to members, and information on this would be available at the next meeting.

Members noted the content of the report and thanked officers for compiling a substantial amount of information.

8. Regulatory and Policy Update

Victoria Moffett introduced the item and advised there were very few updates to report on in this quarter. There was one ongoing dispute, which was referred to in the report, and the cash management mechanism remained under review. Victoria Moffett advised that because there was a focus on McCloud and other areas requiring expertise and input from officers, it was possible that the pensions dashboard may not be ready to go live until 2024/25. Vicky Jenks said the same issues affected all Pension Funds and this was not unique to Warwickshire.

Victoria Moffett said the single code of practice from the Pensions Regulator was subject to an additional consultation due to take place in the summer, so it was unclear if the final version of the code would be formulated and released before the end of the year.

Members were told that the Public Service Pensions and Judicial Offices Bill – also known as the Boycott, Divestment and Sanctions Bill – had set out that administering authorities were advised to make investment decisions in line with the UK's foreign and defence policy. However this was only guidance and was more generic than when foreign policy had been considered in relation to investments previously. Members recalled a similar issue previously in relation to investments based in Palestine. The Chair asked for the Board to be kept updated on this issue. He stated that although Pension Funds should remain politically neutral, it was right on occasions to take into account political concerns and how these could impact negatively on the Fund.

Members noted the contents of the report.

9. Investment update

Victoria Moffett introduced the item, explaining the report provided an update up to the quarter ending on 31 December 2021. A statement had been issued from the Investment Sub Committee following their meeting in March which strongly condemned the Russian invasion of Ukraine and supported the use of sanctions on Russian investments. This statement had been passed on to investment managers. Victoria Moffett advised that staff recruitment and retention at Border to Coast remained a concern and the Fund had offered support and assistance in filling the vacant roles. She said other Pension Pools and Funds had had similar issues, as staff reassessed work/life balance and quality of life in the fallout from Covid, and this position was not something unique to Border to Coast. Andy Felton said it was not felt that performance standards in relation to asset management had dropped at Border to Coast as a result of the staff shortage issues, even though this remained a matter of concern. Some positions had been filled through the use of agency staff.

Responding to a question from the Chair, Andy Felton said section 151 issues relating to pensions had been devolved to him with the agreement of Rob Powell.

Members noted the contents of the report.

10. Governance Review Update

Liz Firmstone introduced the item and explained a response to the review by the Department for Levelling Up, Housing and Communities was still awaited. However the Warwickshire Fund had been preparing for the outcome of the review as much as possible so it would be in a good position to respond.

Responding to a point raised by the Chair, Liz Firmstone said the appendix referred to the MHCLG instead of DLUCH as it was this department that initially issued the review, so the original recommendation wording had been included.

Members noted the contents of the report.

11. Draft Business Continuity Policy

Vicky Jenks introduced the item, explaining this represented the first draft of the business continuity plan. She said it had been demonstrated throughout the Covid pandemic that the Fund was able to cope through working through an unforeseen event; however it was important for this

policy to be formally set out. It was hoped that the final draft of the policy would be available for members to view at the next meeting. Liz Firmstone advised that the local authorities for Coventry, Warwickshire and Solihull had a joint resilience team that enabled each authority to provide support to another. An incident would be reported to the resilience team regardless of the severity of its impact so events could be looked at as a whole. Serious incidents would be referred to the critical services plan.

Alan Kidner noted that some of the numbering in the report did not follow a consistent pattern, and it was agreed this would be amended for the final report.

Members noted the contents of the draft policy, stating they were impressed with what they had seen.

At this point Keith Bray had to leave the meeting. Jeff Carruthers took over the role of Chair.

12. Draft Fraud Policy

Liz Firmstone informed members that the draft policy had been reviewed by the Staff and Pensions Committee for comments. Once the comments had been collated and reviewed, the draft policy would be updated with a view to being approved by the Staff and Pensions Committee.

Alan Kidner noted the report stated that suspected fraud ought to be independently reported straight to the Pensions Regulator, but another section of the report stated it may also be appropriate to refer potential breaches of the law to the Pension Fund. Liz Firmstone said the correct cross reference checks would be referred to in the final version of the policy report.

Members noted the contents of the policy.

13. Review of Pension Fund Discretions for Warwickshire Pension Fund

Vicky Jenks introduced the item and explained that the Pension Fund discretions policy had been agreed and signed off by the Staff and Pensions Committee. There had been a small number of changes to the policy and these were highlighted in the report. This was the first full review of the policy since it was implemented in 2016. Vicky Jenks said these would be reviewed on a regular basis in future.

Responding to a question from Jeff Carruthers, Vicky Jenks said an employer would be entitled to make its own decisions based on its circumstances regarding which of the Fund's policies to follow. Although there were several mandatory discretions there were also a number of discretionary ones that an employer could choose to follow. Information and support on this was available online. Vicky Jenks said the Fund was planning to do more work in the next few months to engage with employers about the discretions that were available, how to make decisions on which to apply and how they would affect an employer's policy. The Board agreed to have an action point on assessing the level of discretionary policy compliance amongst Fund members.

Regarding the 85-year rule referenced in the report, it was clarified following a question from Alan Kidner that the legislation stated the default position was it would be switched off; employers however had the ability to switch it on. Alan Kidner noted that the Council had proposed a policy of switching it off, when this was already the default position. He spoke of his experience when the

position was changed to switching off, and he would not be able to retire at 60 with 25 years' service pension, as he had previously been led to believe. Alan Kidner stated his belief that this was unfair. Vicky Jenks said some discretions would be in place and in certain circumstances no reductions would be applied. However there would be cost implications for the Fund and this needed to be taken into consideration. Alan Kidner stated his belief that in situations where an employer with a policy of leaving the 85-year rule switched on became defunct and administration of pensions passed to the authority, then the authority should leave the policy switched on. Vicky Jenks said the intention was to have a blanket policy rather than having a separate one for defunct employers.

Following a request made by Keith Francis, it was agreed that future training sessions would include a section relating to discretions.

There were no other items of business to discuss.

The date of the next meeting was confirmed as 12 July. It was hoped this could be held in-person rather than online.

14. Summary of Key Actions

	Action	
1	Mike Snow to be given new Hymans login	Victoria Moffett to facilitate
2	Future training sessions to include a section on discretions	
3	Assessment on the level of discretionary policy compliance amongst Fund members	

The meeting rose at 11.56am

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Chair

Pension Fund Investment Sub-Committee

14 October 2022

Governance Report

Recommendations

That the Pension Fund Investment Sub-Committee:

1. Considers and comments on the items contained within this Governance Paper, including providing its suggestions in respect of how training and development for members can be made more accessible.
2. Approves the proposed changes to the Responsible Investment Policy at Appendix 6.

1. Executive Summary

- 1.1 The Report sets out to summarise the main governance areas affecting the Warwickshire Pension Fund. These areas include the Forward Plan, Risk Monitoring, updated Policies and Training.

2. Financial Implications

- 2.1 None.

3. Environmental Implications

- 3.1 Climate Risk is identified as a key risk on the Risk Register.
- 3.2 Revised Climate and Environmental, Social and Governance (ESG) Policies, are contained with this report in Appendix 6.

4. Supporting Information

Forward Plan

- 4.1 The purpose of this report is to provide an updated forward plan for the Pension Fund Investment Sub-Committee rolled forward to cover the year ahead. The plan is set out in Appendix 1.
- 4.2 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 in Appendix 1.

4.5 Please note that our latest Risk Map illustrates that several items on the Register have changed position. The Risks that have changed are as follows:

- **(2) Short Term Market Risk** has increased to reflect the lack of WPF control over risks materialising. Any changes to the Market in the short-term can have a material impact on the WPF potentially affecting the results of the valuation and the funding level of our employers.
- **(3) Financial Mismatching Risk** has decreased to reflect the successful mitigation of some risks' impact.
- **(6) Inability to meet demand for activity Risk** has reduced due to the implementation of new systems and growing team experience.
- **(9) Climate Change Risk** has increased as the Fund on its own can have limited impact on what happens globally, although we do work in conjunction with others to try and make a difference. The Fund must acknowledge that Climate Change is moving at an accelerating rate, much quicker than was originally expected.

This is affecting geo-politics, the world's changing energy supplies and rising inflation, which in turn affect WPF's ability to maintain a stable funding level.

- **(12) Governance Failure Risk** has decreased because of the introduction of more robust practices within the Team, these include greater traceability through our management co-ordination meetings reviewing of contracts and policies and overall, more driven approaches.

4.6 Please note the specific Covid related risk items have now been removed, as any residual Covid risk forms part of the other risks covered.

Policy Review

4.7 Following the August Workshop run by Hymans Robertson, the Environmental and Social Governance: Policy and Climate Risk Policy has been updated.

4.8 Hymans have produced a marked-up Responsible Investment Policy (Appendix 6), they will then prepare final version of the policy once discussed and if approved at this meeting. The changes were discussed by Members and officers at the August Workshop.

4.9 Hymans will also create a marked-up climate policy and prepare a final version once it has been discussed at the Committee meeting in December.

Training

4.10 Our current 'Training Schedule' offering inhouse and external training is enclosed at Appendix 7. In addition to this Members have access to the online Portal provided by Hymans Robertson that also offers valuable training material.

- 4.11 Where members cannot attend these sessions, they can view the slides from the sessions and any recordings at a later date.
- 4.12 Given the governance requirements to ensure the competence of Pension Committee Members through training and development, it is important that we deliver training in a way that allows all Members to access what they need. Officers would like to receive feedback from Members on how training can be delivered or structured in a way that would make it more accessible.
- 4.13 Hymans Robertson have also launched their 2022 National Knowledge Assessment. This is the third national assessment they will have conducted, having previously run the Assessment in 2020. This assessment allows the Fund to test the knowledge of our Committee and Board across a range of areas. The results will help to identify areas of greater and lesser knowledge and enable the Fund to tailor the training plan to address any knowledge gaps in a timely way. Hymans Robertson will provide a draft training plan as part of the Fund's results report, and we expect to receive the assessment in September 2022. Members are asked to assist with the assessment by completing the returns sent out to them.

5. Timescales associated with the decision and next steps

- 5.1 None.

6. Appendices

- Appendix 1 – Forward Plan
- Appendix 2 – Fund's risk appetite
- Appendix 3 – Risk Scoring Convention
- Appendix 4 – Impact Score Definitions
- Appendix 5 – Risk Register
- Appendix 6 – Responsible Investment Policy (Tracked Version)
- Appendix 7 – Training Plan

Background Papers

None

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APPENDIX 1**Pension Fund Investment Sub-Committee****Forward Plan****Standing items**

Forward Plan
Risk Monitoring
General Investment Activity Update
Investment Fund Performance
LGPS Pooling Update
Local Pension Board Minutes of Meeting

Specific items

12 December 2022	6 March 2023	June 2023	September 2023
National Knowledge Assessment			
Valuation 2022 – Employer funding strategies	Valuation 2022- Final Fund Report and Funding Strategy Statement		

Manager Presentations (Regular Border to Coast Partnership Presentations)

12 December 2022	6 March 2023	June 2023	September 2023

Committee Members are welcome to Join Officers at their regular meetings with Investment Managers. Please contact Martin Griffiths if you are interested in attending one of these sessions for further details.

Policy Reviews

12 December 2022	6 March 2023	June 2023	September 2023
Risk Policy	Risk Management Review	Voting and Stewardship Policy	ESG and Climate Change Policies
Climate Change Policy	Training Policy		
	Funding Strategy Statement		

Policy Reviews by the Staff and Pensions Committee

12 December 2022	6 March 2023	June 2023	September 2023
Cyber Security Policy	Fraud Prevention Policy	Breaches Policy	Administration Strategy
Governance Statement – Awaiting request from SAB Good Governance Review (expected Jan 2023)	Business Continuity Plan	Communications Policy	Admission and Termination Policy
Conflicts of Interest Policy	Internal Disputes Resolution Procedure Review		
	Fund Discretions		
	Governance Process		
	Business Plan		

Training Schedule can be found in Appendix 7

Risk Appetite

Appendix 2

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

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Risk Scoring Convention and Likelihood Definitions

Appendix 3

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

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Impact Score Definitions

Appendix 4

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 No.	Risk Description	Risk appetite	Risk Identification		Inherent Risk Scoring			Existing Risk Controls	Residual Risk Scoring			Further Risk Controls
			Risk Causes	Risk Consequences (Effect)	Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score	
1	Long term market risk	Minimalist	<ul style="list-style-type: none"> Inappropriate strategic asset allocation Inability to implement strategic asset allocation Poor fund manager performance Fundamental long term events e.g. climate change, systemic risk, inflation, geopolitics Inappropriate products developed by the Border to Coast Pension Partnership Inappropriate (too high) expectations 	<ul style="list-style-type: none"> Asset values do not meet expectations Employer contributions forced to increase above expectations or by a large amount at short notice Investment risk is forced to increase Future benefits cannot be paid by the Fund out of existing assets Positive inflation would increase liabilities and potentially decrease asset values 	4.00	5.00	25.00	<ul style="list-style-type: none"> BAU policy and governance arrangements including the setting of an appropriate investment strategy and funding strategy, including climate risk, the use of professional staff, consultants, and advisers, quarterly reporting to committee, appropriate asset allocation. Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing Engagement with Border to Coast - developing funds and monitoring fund performance. Appropriate monitoring of investment behaviour and performance. Inflation is a key feature of investment strategy review and monthly monitoring of the portfolio Regular review of Strategic Asset Allocation 	4.00	4.00	20.00	<ul style="list-style-type: none"> Review of investment strategy in light of climate risk and responsible investment policy and evaluate exposure to climate risk and other Environmental, Social and Governance factors.
2	Short term market risk	Open	<ul style="list-style-type: none"> Significant reductions in asset values Active management (BCPP) Rapid changes in the economic environment e.g. interest rate rises and inflation Inappropriate asset allocation Poor fund manager performance Global events e.g. pandemics Global political and trade tensions, including regulatory risk Brexit Asset bubbles Poor fund development and procurement Natural fund and market volatility Possibility of market values reducing to the long term average 	<ul style="list-style-type: none"> Asset values do not meet expectations Cashflow requirements cannot be met efficiently or effectively Being unable to meet payment deadlines Being forced to sell assets under distress Being unable to pay benefits to members due to liquidity constraints Introducing volatility to employer contributions or those employers close to exit 	5.00	3.00	18.00	<ul style="list-style-type: none"> Diversification of assets Regular committee and officer monitoring of investment asset allocations and fund manager performance relative to benchmarks and absolute. Cashflow planning to avoid selling assets under distress Maintain sufficient allocation to liquid assets. Long term approach to employer contributions, promoting their stability Rota of fund manager presentations to the investment sub-committee. Regular review of Strategic Asset Allocation. 	5.00	2.00	12.00	
3	Financial mismatch	Averse	<ul style="list-style-type: none"> Fund assets fail to grow in line with the developing cost of meeting liabilities Inadequate contributions asked of employers Employers do not pay contributions required Investment returns lower than expected Inflation risk Inappropriate funding assumptions used Actual membership experience materially different from expectations Incorrect membership or cashflow data used to determine funding strategy Cashflow negative 	<ul style="list-style-type: none"> Funding level deteriorates Higher investment risks being taken Employer contributions increasing Being unable to pay benefits to members out of fund assets 	2.00	5.00	15.00	<ul style="list-style-type: none"> Fund valuation process driving an updated Investment Strategy and Funding Strategy on a periodic basis. Triennial valuations for all employers 6-monthly reporting on funding evolution to Committee, using rolled-forward liabilities. Annual monitoring of longevity risk via Club Vita participation. Use of professional advisors to support setting of appropriate funding assumptions. Asset liability modelling focuses on probability of success and level of downside risk Annual cashflow review Ongoing data quality review Understand the assumptions used in any analysis and modelling. Compare these with own views and risk levels 	1.00	4.00	8.00	<ul style="list-style-type: none"> Review of individual employer covenants, including consideration of their specific risk factors
4	Employer risk	Averse	<ul style="list-style-type: none"> Orphaned employers General economic / financial pressure on employers Deterioration in employer financial positions Deterioration in quality of employer administration function Inadequate support from the Fund to employers Inadequate monitoring of employers by the Fund Admissions agreements inadequate or not agreed 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"> Employers cannot pay the required contributions because contribution requirements increase too quickly or too far Employers cannot pay the required contributions because employer financial viability reduces Increased administration costs Reputational damage to the Fund and to employers Paying employers having to pick up costs of non paying employers Liabilities falling back to underwriting employers Overly cautious investment strategy requiring higher contribution rates 	3.00	3.00	12.00	<ul style="list-style-type: none"> Cessation debt or security/guarantor Spread pro-rata among all employers Employer covenant review Stabilisation mechanism to limit sudden increases in contributions Breaches monitoring Employer training day Fund AGM Admissions and Terminations Policy Cashflow planning to provide cashflow resilience if contributions reduce FSS having appropriate regard to risk and meeting the Funds objectives iConnect Enhance breaches monitoring, regularly reviewed 	3.00	2.00	8.00	<ul style="list-style-type: none"> Additional liaison with known future employers on pension fund matters
5	Pooling objectives not met	Minimalist	<ul style="list-style-type: none"> Failure to monitor the delivery of pooling benefits. Failure to assess benefits when making pooling decisions. Failure to influence fund design discussions Partner funds not collectively holding the pool to account Pool fails to deliver on objectives Pool does not deliver further alternatives products at pace or implement existing commitments at pace Staff turnover and recruitment challenges Regulatory risk as pooling may evolve 	<ul style="list-style-type: none"> Lack of appropriate products for the Fund to invest in Investment in products that do not meet the objectives of the Fund Persistent and unaddressed fund performance issues 	3.00	3.00	12.00	<ul style="list-style-type: none"> Engagement at Joint Committee, Section 151 meetings, and operational officer groups Exercising shareholder rights and responsibilities Engaging with other partner funds in the pool Pooling decisions made by Investment Sub-Committee Border to Coast attendance at and performance reporting to investment sub committee meetings Independent due diligence of funds offered, and ongoing monitoring of the Pool 	3.00	3.00	12.00	<ul style="list-style-type: none"> Input into the development of new products in particular property, alternatives, and products having regard to climate risk and levelling up (through local investment) Documentation of the Fund's position on product developments
6	Inability to meet demand for activity	Averse	<ul style="list-style-type: none"> Growth in membership numbers Growth in employer numbers Growth in complexity and difficulty of employer issues New and complex LGPS regulations (e.g. McCloud, £95k exit cap) Increasing value of fund investments Increasing complexity of fund investments Erosion of staff capacity/resilience due to long term remote working Inability to recruit / retain appropriately skilled staff Inability of the Fund officers to keep up with demand (capacity or skills) Persistently increasing customer expectations Unpopular government decisions impacting on LGPS Inability to secure agreement to increasing resources Capacity at contract / service providers 	<ul style="list-style-type: none"> Quality of services reduces Governance failures Key administration performance measures not met Sub-optimal investment decisions made Reputational risk 	4.00	3.00	15.00	<ul style="list-style-type: none"> Medium term forecasting of demand and planning for the capacity and resources required Investing in quality and productivity of staff through training and development Investing in systems development Use of management information to monitor and manage performance Succession planning Procuring appropriate services through contracts KPI and workload monitoring for administration team Staff training Data quality reviewed continuously Maintenance of governance arrangements and actions Responding to Government consultations Independent Pensions Specialist tender being progressed - Post now filled Introduction of medium term resource planning (Admin and investment) Member Self Service (MSS) 	3.00	3.00	12.00	<ul style="list-style-type: none"> Investing in systems development and systems thinking

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Risk No.	Risk Description	Risk Identification			Inherent Risk Scoring			Existing Risk Controls	Residual Risk Scoring			Further Risk Controls
		Risk Causes	Risk Consequences (Effect)		Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score	
7	Business interruption	Averse	<ul style="list-style-type: none"> • Pandemics • Industrial action • Small specialist teams with single person risks • Significant changes in adviser and consultant personnel • Lack of systems maintenance • Systems failure • Disaster event - fire, flood, etc • Lack of remote working facilities 	<ul style="list-style-type: none"> • Delays in decisions or their implementation • Failure to meet performance targets • Reputational damage • Data quality deterioration • Workload backlogs • Significant restoration costs • Asset allocation drifts off target • Fund investment risks and performance cannot be monitored • Stakeholder dissatisfaction 	3.00	4.00	16.00	<ul style="list-style-type: none"> • Building resilience requirements into service contracts • Digital record keeping • Storing data back-ups off site • Custodian holding investment data • Maintaining close links with advisers, consultants, and external organisations. • Use of IT systems to work remotely • Business continuity and disaster recovery planning session with consultants 	2.00	3.00	9.00	<ul style="list-style-type: none"> • Implementation of Cyber Security policy, including staff training • Completion of documentation of investment practices
8	Cyber Security	Averse	<ul style="list-style-type: none"> • Systemic cybersecurity events (e.g. taking down financial trading institutions globally) • Local cyber security events (e.g. targeting the Council) • Personal cyber security events (e.g. phishing emails targeting staff) • Inadequate system security, including threats to core systems • Inadequate staff training and staff vigilance 	<ul style="list-style-type: none"> • Loss of data and/or data disruption • Reputational damage • Breaches of the law • Fines • Costs of fixing issues • Business interruption 	4.00	5.00	25.00	<ul style="list-style-type: none"> • Use of scheme administrator systems and system security • Staff training • Bespoke Fund cyber security policy • Implementation of Cyber security policy 	3.00	4.00	16.00	<ul style="list-style-type: none"> • Arrange for systems testing • Arrange for an audit once Member Self Service is live
9	Climate Change	Cautious	<ul style="list-style-type: none"> • Net global carbon production in excess of Paris Agreement's 2 degree target • Policy responses and actions globally and nationally to combat climate change or to build resilience to it, may not materialise, or may have negative financial or demographic consequences • Fund actions or inactions exacerbating climate change and its impact 	<ul style="list-style-type: none"> • Expected transition to a low-carbon economy • Impact on the value of assets held, for example stranded/obsolete assets, or impact on the productivity and profitability of certain sectors, companies, etc • Impact on future quality of life and life experience (e.g. longevity) of members • Impact on future inflation and value of benefits paid to members 	5.00	5.00	30.00	<ul style="list-style-type: none"> • Fund considers this when allocating assets and appointing Fund Managers • Global, national and industry regulations • Climate Risk Strategy • Responsible Investment Policy • Regular training on Climate Risk and mitigation actions • BCPP sign up to net zero carbon by 2050 • Agreed climate risk reporting metrics and an annual review of these 	5.00	4.00	24.00	<ul style="list-style-type: none"> • Review and update climate risk policy • Review 2020 UK Stewardship Code requirements and take steps to become a signatory • Develop Fund actions and response to Task Force on Climate Related Financial Disclosures (TCFD) requirements
10	Data Quality	Averse	<ul style="list-style-type: none"> • McCloud impact • Persistently increasing customer service expectations • Covid impact on member health and wellbeing - increasing the adverse impact of any problems with pensions • Member benefits paid incorrectly • Employer contributions higher than deemed affordable or thought necessary • Inadequate data quality • Inadequate administration systems and processes • Poor data provided by employers or payroll providers 	<ul style="list-style-type: none"> • Overly cautious investment strategy requiring higher employer contributions • Incorrect benefit payments to scheme members • Complaints and disputes from scheme members • Negative reputational impact 	3.00	3.00	12.00	<ul style="list-style-type: none"> • Administration governance review actions and maintenance of those standards • SLA with Council payroll service • Maintenance of Fund website • Funding Strategy having appropriate regard to risk and the meeting of Fund objectives • Data quality scores and reviews • Staff training • Performance monitoring of employer data quality • Performance monitoring of administration team KPIs • iConnect implemented • Member Self Service • Light review of compliance with Code of Practice 14 	2.00	2.00	6.00	<ul style="list-style-type: none"> • UK Stewardship Code 2020 • Regular liaison with Scheme Employers
11	Fraud	Averse	<ul style="list-style-type: none"> • Increased financial pressure on individuals • The passing of time since any previous targeted review of Fraud risk • Fraud instigated by any Fund stakeholders, e.g. members, officers, fund managers, custodian, and employers. • Scams carried out by fraudsters e.g. masquerading as private financial advisers 	<ul style="list-style-type: none"> • Members lose benefits to fraudsters • Reputational risk • Time spent unpicking the fraud • Fraudulent members gain benefits they are not entitled to • Fund incurs costs to recover losses • Investment assets lost to fraud or irregularity • Investment losses not reported if covered up 	3.00	3.00	12.00	<ul style="list-style-type: none"> • Application of Administering Authority code of conduct to fund officers, fraud strategy, and whistleblowing policy • Application of division of duties and signatory processes for financial transactions and administration • Periodic independent internal audit reviews of administration and investment activity and controls • Annual external audit reviews • Financial industry regulatory regimes governing fund manager conduct and processes • Fraud, Bribery and Corruption Framework • Employer's fines • Fraud risk review in 2021/22, and ongoing review of fraud management 	2.00	3.00	9.00	<ul style="list-style-type: none"> • Provide ongoing training to staff
12	Governance Failure	Averse	<ul style="list-style-type: none"> • Lack of capacity to service governance requirements • Lack of training • Lack of continuity in staffing, advisers, or committee / board members • Inadequate checking/review of standards compared to requirements and best practice • Complacency in light of recent governance improvements • Out of date policies and contracts • Local government elections impact on committee continuity • Uncertainty around overall governance structure and responsibility for decision making and actions • Unpopular government decisions impacting on LGPS • Inability to sign off pension fund accounts • Lack of attendance at meetings 	<ul style="list-style-type: none"> • Adverse impact on Fund's reputation • Exposure to unplanned risks or poor administration and investment performance • Breaches of the law • Poor decisions • Decisions that are not appropriately authorised • Customer dissatisfaction 	3.00	4.00	16.00	<ul style="list-style-type: none"> • Training plans for committees, Board, and staff • Quarterly committee and Board meeting cycles • Training needs analysis • All training provision to be made available to all committee and Board members • Management of a Contracts register • Management of a Fund policy schedule • Quarterly risk monitoring at committee and board • Quarterly monitoring of Business Plan delivery at board • Use of digital technology - remote working and remote meetings • Responding to government consultations • Light review of compliance with Code of Practice 14 	2.00	3.00	9.00	<ul style="list-style-type: none"> • Signing up to UK Stewardship Code 2020 • Use of National Knowledge Assessment to inform training plan • Review of committee arrangements and Terms of Reference • Review account reporting timescales

Warwickshire Pension Fund - Responsible Investment Policy

Objectives

The Pension Fund Investment Sub-Committee (the "Committee") recognises that the Fund is a long-term investor with the primary goal to deliver sustainable pension benefits to its members and an affordable level of contributions for employers.

The Committee recognises that Environmental, Social and Governance considerations ("ESG") pose a financially material risk as well as an opportunity to the Fund and have the potential to significantly affect long-term investment outcomes. These considerations are relevant when it comes to the manner in which the assets are invested and in exercising stewardship responsibilities.

The Committee considers Responsible Investment ("RI") to have two key components:

- **ESG Integration** – considering the financial impact of ESG factors in investment decision-making.
- **Effective Stewardship** – acting as responsible and active investors through pro-active engagement with portfolio companies.

As part of the 2022 investment strategy review, the Committee reviewed and updated its investment principles, include those relating to RI. These principles strengthen the Committee's position with regard to RI and provide a framework for its engagement with investment managers and for investment decision making. They are documented in the Fund's Investment Strategy Statement and are reproduced in the Appendix below.

The Committee aims to implement best practice in RI and where appropriate to adopt relevant industry standards and codes of practice. The Fund is a signatory to the [UN Principles of Responsible Investment] and aims to become a signatory of the UK Stewardship Code. The Fund expects its investment managers to comply with these or equivalent standards, either on appointment or within a reasonable time-frame thereafter.

The Committee expects all the Fund's investment managers including the Border to Coast Pensions Partnership ("BCPP") to embed ESG factors into their investment decision-making processes and stewardship activities, with a focus on long-term sustainable returns.

The Committee [has] reviewed the RI policies of its investment managers and has satisfied itself that they are consistent with the Fund's own policies. The Committee will regularly monitor its managers' RI policies and actively engage with them to facilitate change as required.

RI Themes/Priorities

The Committee considers a range of ESG factors in its investment decision-making and stewardship activities and expects its investment managers to do the same. The Committee recognises that certain issues warrant more detailed scrutiny because of their potential impact and for increased effectiveness.

The Committee will review its RI priorities periodically and at least annually and ensure they are reflected in its investment decision-making and stewardship activities and, as far as practicable, those of its investment managers. The current priorities are:

[There is choice to be made here. The Fund could adopt BCPP's priorities which are: low carbon transition, diversity of thought, waste/water management and social inclusion through labour management. This would ensure closer alignment.]

Alternatively the Fund could agree its own priorities and seek to implement them, as far as practicable, through BCPP and its third-party fund managers, accepting that compromises have to be made whenever investments are pooled]

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The Committee recognizes that the issue of climate change is particularly significant and has prepared a separate Climate Risk policy [Add link].

ESG Integration

The Committee recognises that ESG factors can be integrated into all stages of the investment decision-making process and have the potential to significantly affect long term investment outcomes.

The Committee will consider the impact of ESG factors with respect to their impact on financial risk/returns to the Fund when setting the Fund's investment strategy and the structure of its investments.

The Fund delegates many investment decisions to BCPP and its other investment managers. They will be expected to have clear policies on RI and integrate consideration of ESG factors into their investment decision-making.

The Committee will incorporate RI considerations into its selection process for new investment managers. Potential managers' approaches to RI and the extent to which they incorporate ESG issues into their investment processes will be a factor in the Committee's decision making.

The Committee receives regular reporting from its investment managers on RI matters and will monitor compliance with their stated RI policies.

The Committee will undertake regular formal training sessions that cover RI. This training will be sought from the Committee's investment advisors, investment managers, the Border to Coast Pensions Partnership, external specialists and/or other engaged pension funds to provide exposure to a range of opinions and approaches to effective governance.

Stewardship

The Committee considers that Effective Stewardship can enhance investment outcomes and is consistent with its fiduciary duty to members of the Fund. It believes that positive changes brought about by stewardship can benefit the Fund directly in terms of the financial return on its investments and indirectly by contributing to improving the performance of the economies in which it invests.

The Fund and its investment managers employ a range of stewardship tools to achieve the desired outcomes.

Engagement with portfolio companies through meetings with management, considered voting of shares and where appropriate board representation is the primary mechanism. This form of engagement is largely delegated to the Fund's investment managers. The Committee has prepared policies on voting other engagement matters [Add link to voting and conflicts] and expects its investment managers to comply with them.

Engagement with policymakers and other stakeholders has an important role to play as well. The Fund pursues this form of engagement through its membership of the Local Authority Pension Fund Forum ("LAPFF") and through its investment managers.

The Committee believes that all engagements should have a clearly defined objective and plan and that outcomes should be carefully monitored. The overall aim of all engagements should be to deliver improved financial risk/returns to the Fund.

The Committee is supportive of collaboration to achieve better engagement, as evidenced by the Fund's membership of LAPFF through which it collectively exercises a voice across a range of corporate governance issues. The Committee also works with other Funds within Border to Coast to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Committee believe that successful engagement is preferable to divestment or exclusion, but recognizes that

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- Deleted: The Fund's Investment managers will be expected to act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.¶¶
- Moved down [1]: The Fund's Investment managers will be expected to act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder
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there are circumstances where divestment or exclusion are appropriate. Divestment refers to the partial or complete sale of existing investments. Exclusions rule out making investments in particular classes of company.

The Committee notes that divestment/exclusion denies the Fund the opportunity to influence change in portfolio companies and to capture the value generated by such changes. But it considers that divestment or exclusion may be appropriate where:

- Portfolio companies espouse values that do not align with the Fund's investment principles
- Portfolio companies are not receptive to engagement, or are unwilling or unable to change
- Persistent engagement has failed to deliver the desired outcomes.

The Committee expects all divestments or exclusions to be justified on financial grounds.

The Fund delegates many stewardship activities to BCPP and its other investment managers. The Committee expects both active and passive managers to act as responsible and active owners and engage with portfolio companies where appropriate. Engagement with portfolio companies to positively influence company behaviour and enhance shareholder value is strongly encouraged.

The Committee considers the Fund's investment managers to be best placed to engage with portfolio company management. This is due to the Fund being constrained in what decisions are available to them within pooled funds, as well as the resources and existing relationships with portfolio companies that are available to the Fund's investment managers.

The Committee believes that the Fund's investment managers should be able to demonstrate the reasoning behind any engagement activity, the objectives of the engagement activity, the approach taken to achieve the objectives, the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

The Committee recognises that it can influence the behaviour and practices of their investment managers with regard to stewardship through engagement, even where assets are invested through pooled funds such as those offered by BCPP.

The Fund aims to achieve engagement through regular meetings with investment managers, at which managers are expected to demonstrate how they have integrated RI issues into their investment decision-making processes and stewardship activities. Managers will be challenged on their approach where this is not aligned to the Fund's RI and Climate Risk policies.

Monitoring

The Fund expects all its investment managers to incorporate RI matters into their regular reporting. This will include information on voting and engagement, as well as any actions they are taking in assessing and managing ESG-related risks in relation to their mandates.

The Fund expects investment managers to provide them with the latest versions of all RI and other relevant corporate governance policies.

The Committee will continue to monitor the RI policies of all its investment managers, and their implementation of these policies, to ensure alignment with the Fund's RI and Climate Risk policies, and will take remedial action if issues are identified.

The Fund's investment managers are expected to report on the objectives of engagement activities, along with the consequent success or failure of any actions taken on, at least, an annual basis.

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The Committee expects its investment consultant to provide input and analysis to assist the Committee in assessing their managers' performance [in all aspects of RI](#).

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The Committee will monitor the investment managers' [reporting against relevant frameworks including the \[UN PRI\] and the UK Stewardship Code, 0 and other relevant standards and codes of practice](#).

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Disclosure

The Fund will report on [the implementation of this RI policy](#), including [stewardship activities](#) undertaken on behalf of the Fund, [\[on an annual basis\]](#).

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Both this policy and the Fund's Climate Risk Policy will be reviewed [annually](#).

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The Fund is committed to being transparent and accountable in terms of its RI performance. As such the Fund will publish its RI and Climate Risk Policies [and reporting](#) online.

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Appendix - Responsible Investment principles

The Fund is a long-term investment vehicle which should be managed to generate sustainable investment returns over the long-term. This will be achieved by Responsible Investment ("RI"), which is the practice of integrating consideration of Environmental, Social and Governance ("ESG") factors, including climate change, into the investment process (as further defined by the UN Principles for Responsible Investment – www.unpri.org).

The Fund should consider as broad a range of investment opportunities as possible, subject to these being compatible with its risk appetite and RI considerations

The Fund invests for the long-term, so ESG factors are expected to have a material impact on investment outcomes.

The Committee believes that climate change and the expected transition to a low carbon economy will have a significant long-term impact on the Fund and considers managing the associated financial risks to be part of its fiduciary duty.

The Committee believes that the transition to a low carbon economy will create investment opportunities and will mandate the Fund's investment managers to seek out these opportunities.

The Committee believes that an RI approach will enhance long-term investment outcomes as well as benefiting the economies and societies in which the Fund invests, and is therefore consistent with the Fund's primary purpose.

The Committee believes that, in relation to the management of ESG factors, ongoing engagement with portfolio companies is preferable to divestment. Divestment should remain an option if engagement proves unsuccessful.

The Fund should retain responsibility for setting RI policy but will delegate much of the implementation to BCPP and its other investment managers. The Committee regularly monitors and evaluates its investment managers' approach to RI.

The Fund should only invest with managers who comply with relevant regulations and codes of practice (eg UK Stewardship Code) and have committed to provide full disclosure on ESG issues.

The Fund expects its investment managers to invest responsibly and to engage proactively with the management of portfolio companies on key ESG issues, including climate change, wherever it is cost effective to do so. The aim of such engagement should be to enhance investment returns and risk profile by positively influencing portfolio companies on such matters.

The Committee believes engagement is more effective when carried out in collaboration with other investors (eg via BCPP or LAPFF).

Full disclosure of the Fund's RI policy and activity strengthens accountability and should be embraced.

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The Committee should focus on meeting its financial obligations to pay benefits to members.¶
Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.¶
The Committee believes there will be opportunities for investments which support and benefit from the transition to a low carbon economy, and will seek out these opportunities for the Fund.¶
The Committee believe that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement is via our managers or alongside other investors (e.g. LAPFF).¶
Where, over a considered period, however, there is no evidence of a company making visible progress towards carbon reduction, we believe that divestment should be actively considered.¶
The Fund's Investment managers' approaches to RI, including the integration of ESG into investment decision making and the use of engagement, must be assessed and monitored. This includes ongoing monitoring of the BCPP.¶
Responsible ownership benefits long term asset owners. Asset owners, fund managers, and companies with clear responsible investment policies are expected to outperform companies without responsible investment policies, over the longer term.¶
The Fund's Investment managers should act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.¶
Passive and active managers should actively engage with companies and comply with the Financial Reporting Council's Stewardship Code.¶
Climate change and the expected transition to a low carbon economy is a long-term financial risk to Fund outcomes and is considered to be part of our fiduciary duty.

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Training Plan for Warwickshire Pension Fund for 2022-2023

Month of Delivery	Title of Training & Date of Delivery	Delivered to:	Deliveted by:	Reason for Training
Apr-22				
May-22	Pension Administration - 6th May (Completed)	Committee / Board / Officers	Vicky Jenks / Martin Griffiths	Identified by Knowledge and Skills Assessment
Jun-22	Equities and carbon Workshop - 6th June (Completed)	Committee / Board / Officers	Hymans Robertson	Proposed changes to the Fund's equity portfolio
Jul-22	Valuation and Section 13 - 18 July (Completed)	Committee / Board/ Officers	Hymans Robertson	Outcome of valuation
Aug-22	Property Workshop - 9th August (Completed)	Committee / Board/ Officers	Hymans Robertson	Proposed changes to property portfolio
Sep-22				
Oct-22	Investment Performance & Risk Management - 17 October	Committee / Board / Officers	Covered by the Investment Advisors	Identified in Knowledge and Skills Assessment
Nov-22				
Dec-22	Pensions Accounting and Audit Standards (TBC)	Committee / Board / Officers	Covered by Investment Team and Audit Colleagues	Identified in Knowledge and Skills Assessment
Jan-23	Good Governance and the Regulators Code of Practice (TBC)	Committee / Board / Officers		Identified in Knowledge and Skills Assessment
Feb-23				
Mar-23				

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Pension Fund Investment Sub-Committee

14 October 2022

Macroeconomic Update

Recommendation

That the Pension Fund Investment Sub-Committee (PFISC) notes and comments on the report.

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:
 - UK real rates remain strongly negative;
 - Inflation looks like it may peak, though exactly when is debated;
 - Employment rates continue to be high;
 - The geopolitical landscape looks unsettled;
 - Valuations are highly reliant on intangible assets (in the S&P 500);
 - There are challenges to investing in sustainable investments; and
 - An overview of upcoming dynamics which may affect the Pension Fund.

Higher volatility, lower expected investment returns, and longer-term inflation caused by the environment in which the Pension Fund operates may lead to less cashflow certainty, lower asset values, and higher liabilities.

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)

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

Local Member: Cllrs Kettle and Gifford

Other members: None



THE BIGGER PICTURE

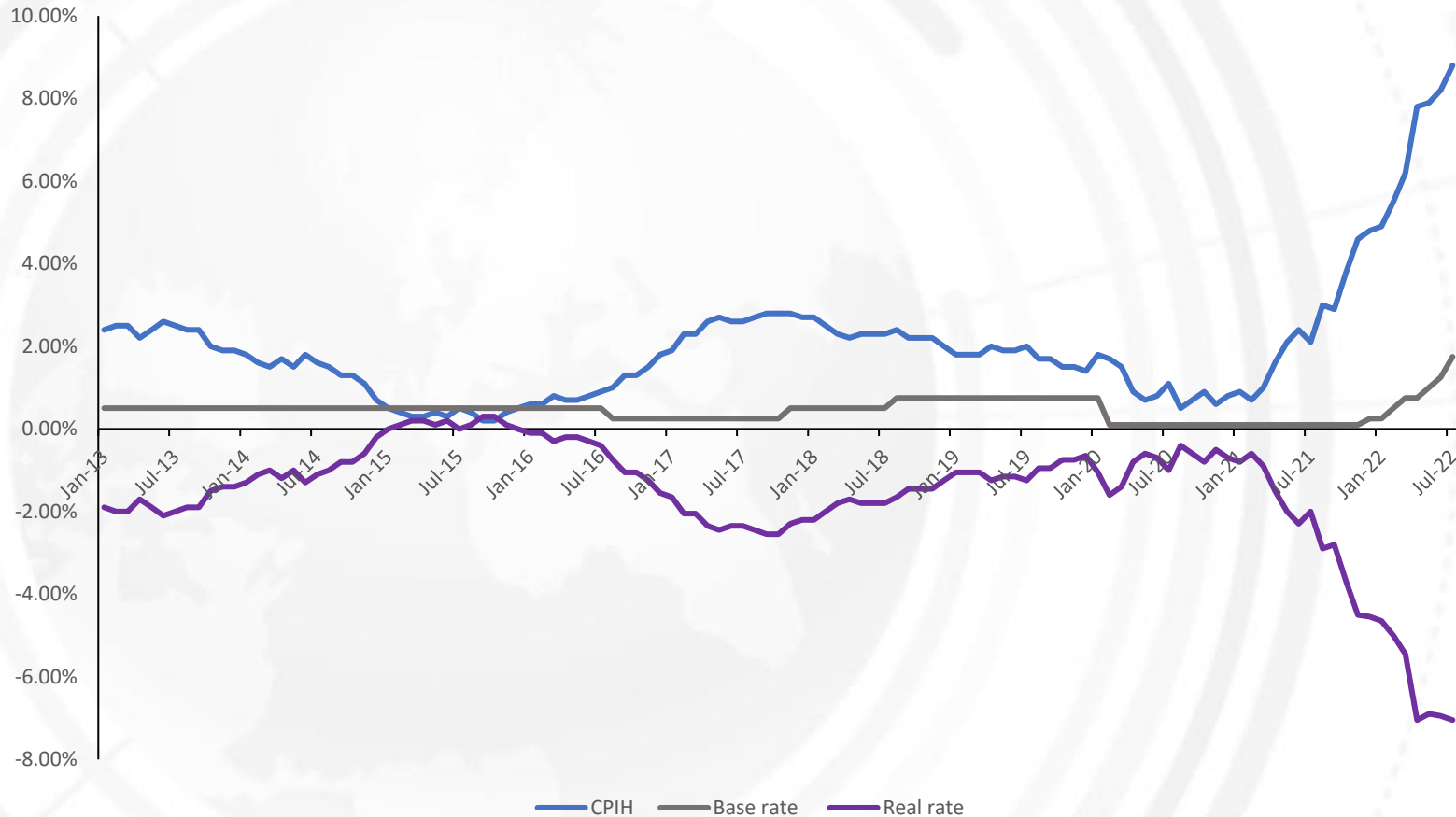
Key macro dynamics of relevance

September 2022

*Dr Bob Swarup
Camdor Global Advisors*

UK real rates remain strongly negative...

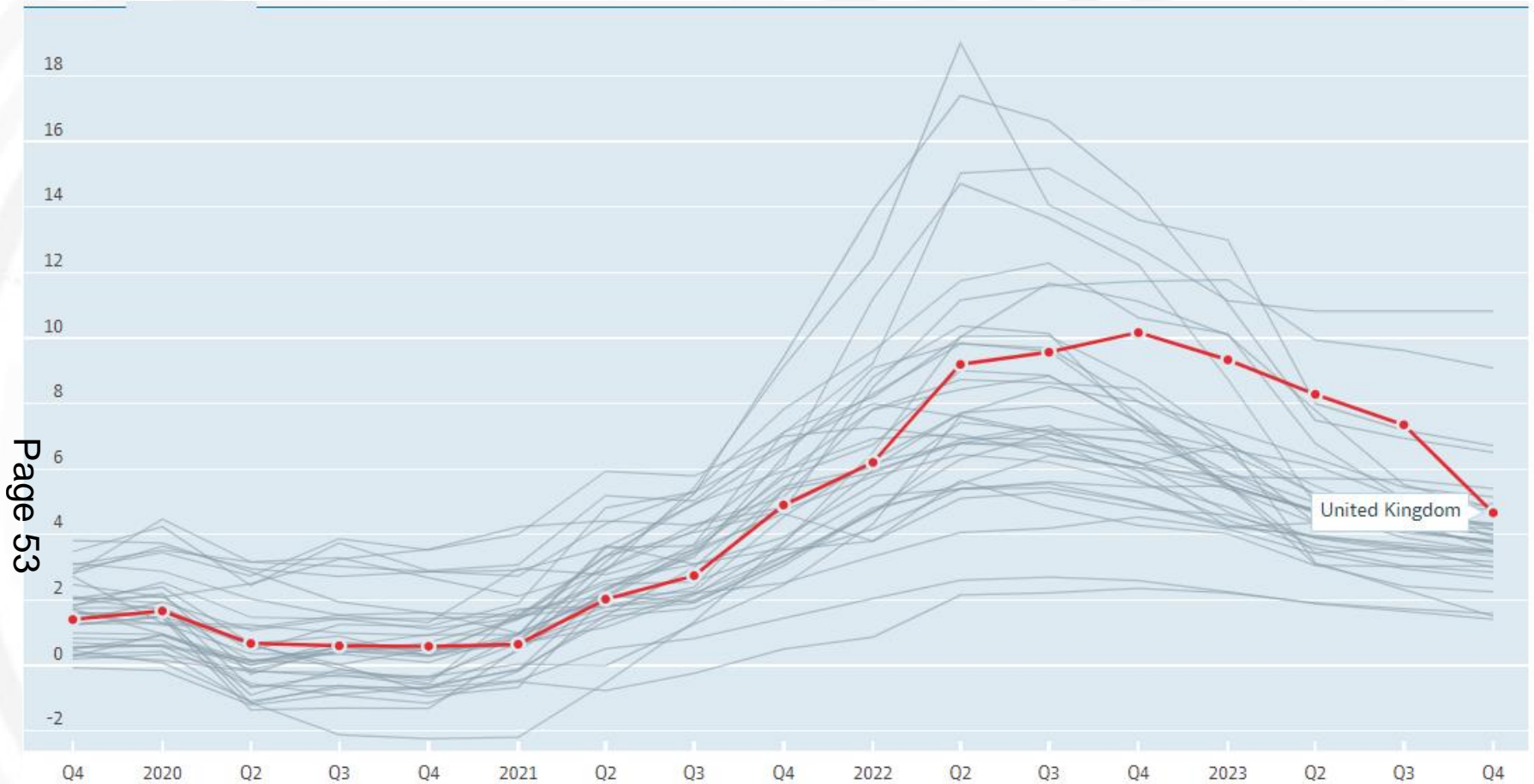
CGA Real Rate Tracker



Source: Camdor Global, ONS

Real rates continued to worsen, with recent rate rises only now beginning to keep apace. The significant frictional drag today is punishing for investments and pension liabilities, with tail risks still in play.

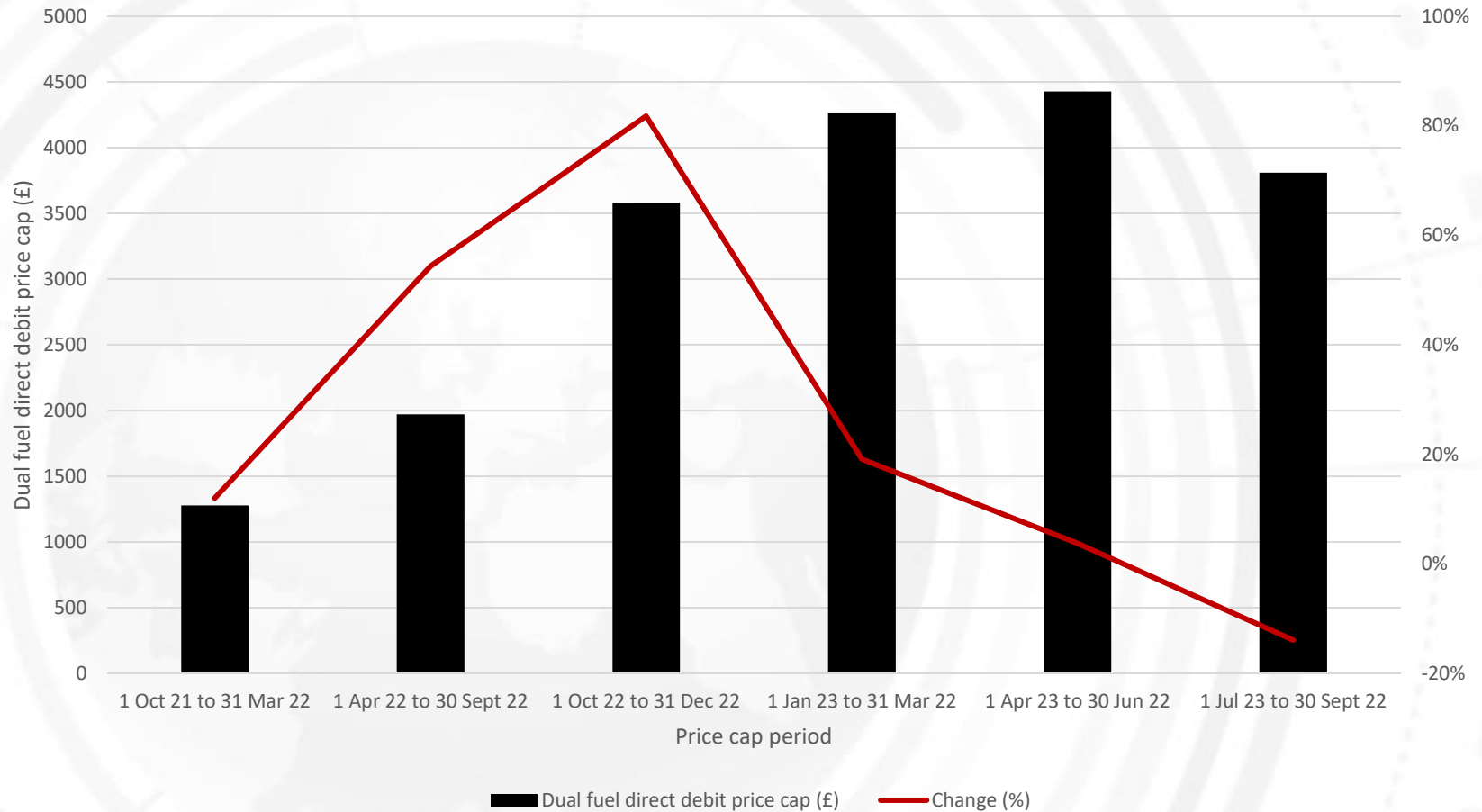
Forecasts show a peak end 2022...



Source: OECD (2022), Inflation forecast (indicator). doi: 10.1787/598f4aa4-en

Inflation is expected to fall over 2023 but the timeline keeps getting extended. The UK appears middle of the pack but most comparable economies have lower inflation trajectories.

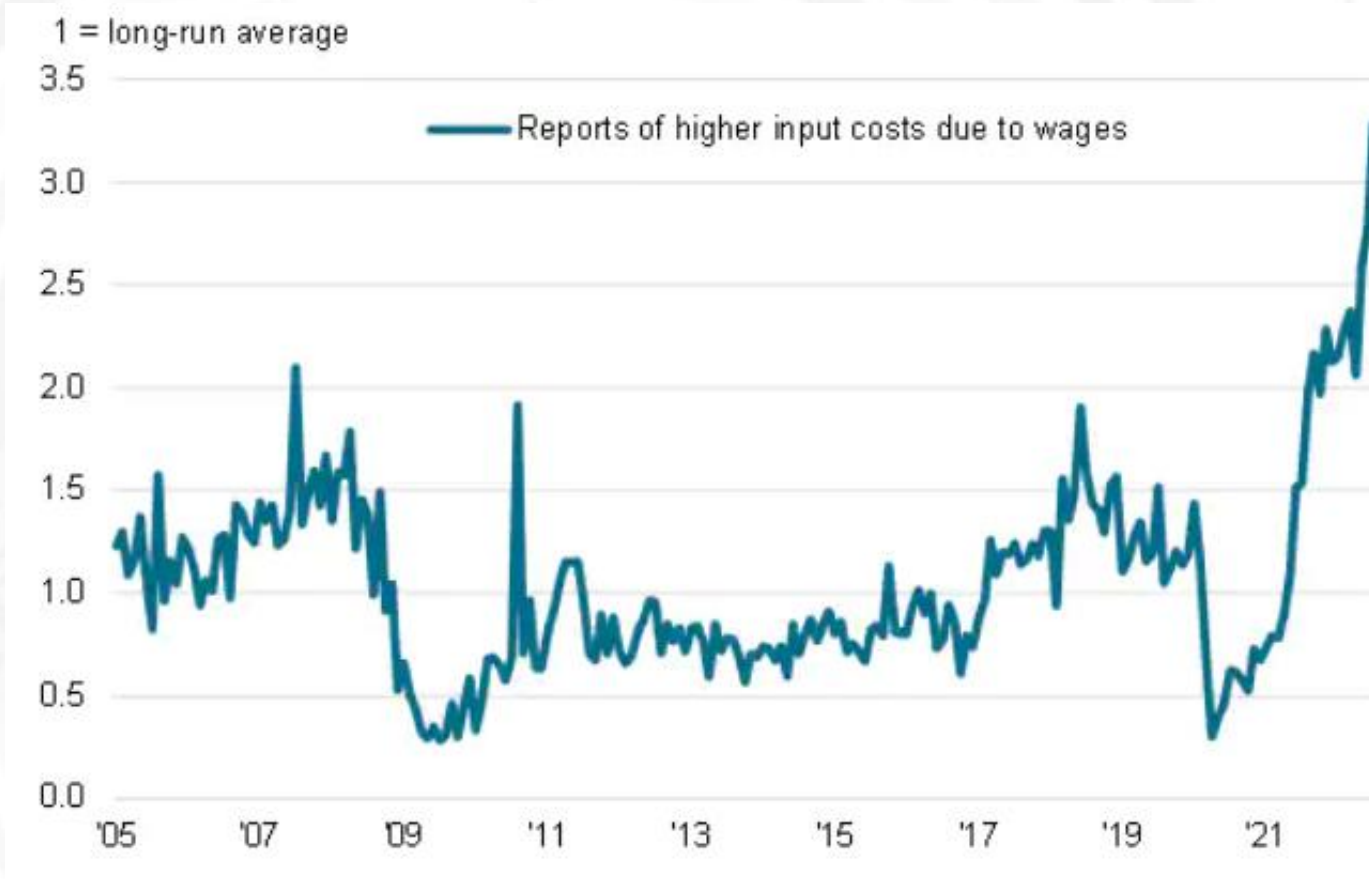
...but supply side pressures indicate otherwise



Source: Bank of England

The price cap is expected to rise by 116% by year end and not begin to fall till July 2023. Alongside, there are significant pressures on other parts of the basket, notably food that will take longer to alleviate, given geopolitical and climate induced pressures.

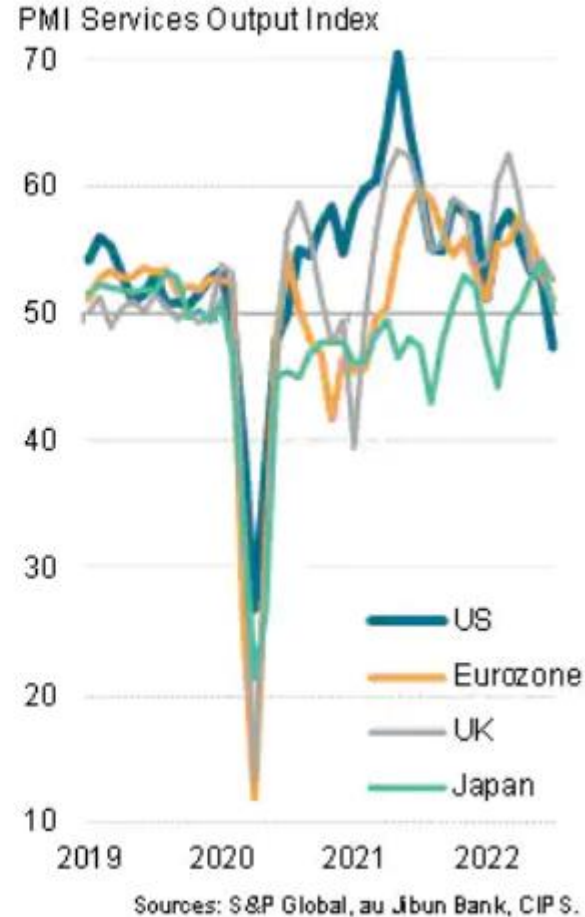
Globally, wage pressures are rising...



Source: S&P Global

Underlying wage pressures are reported now at the highest since PMI records began and accelerating. This may embolden policymakers to raise rates and tolerate higher employment...

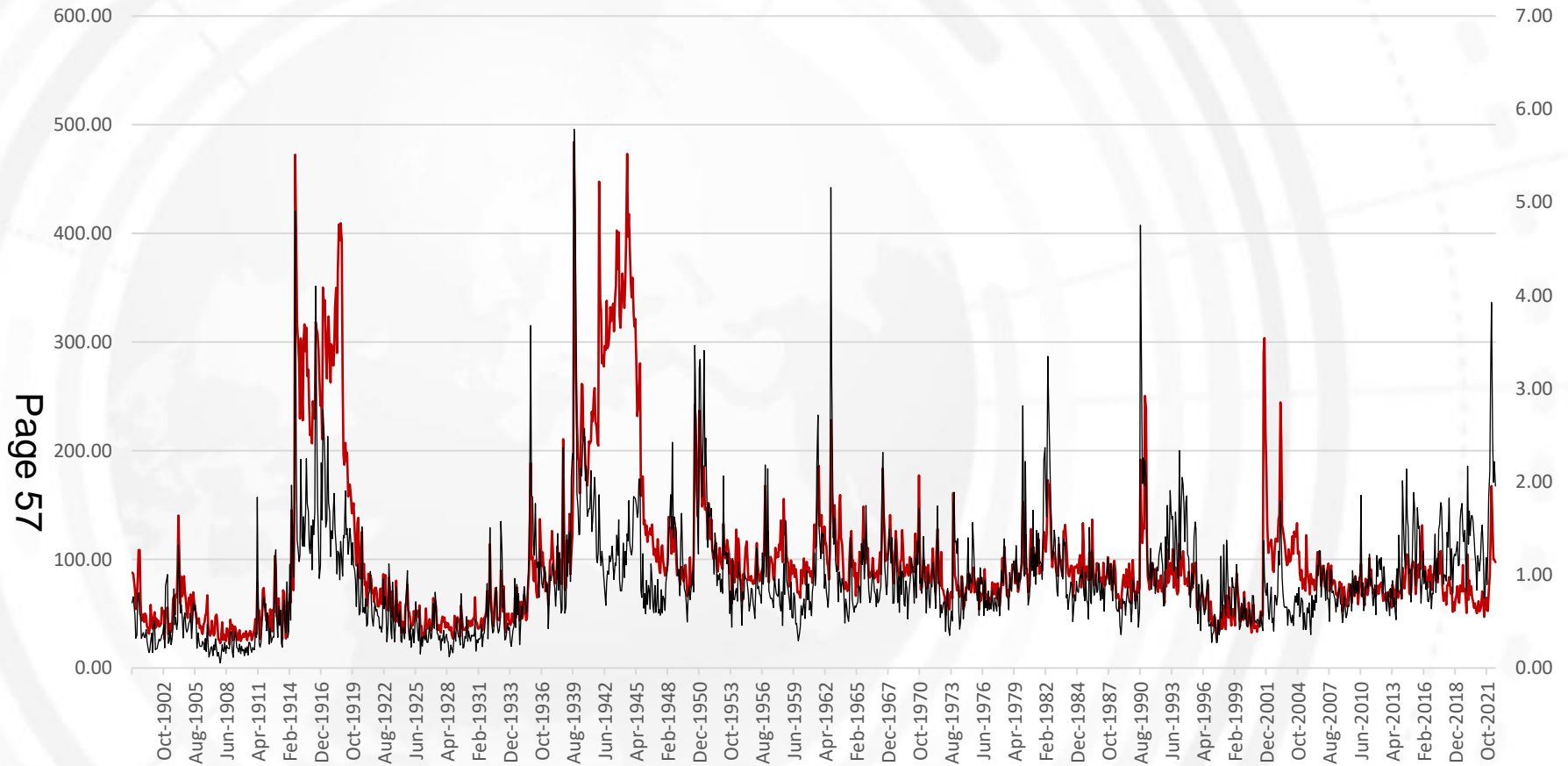
...though demand is now falling



...but if wages follow demand, then they may be forced prematurely into pausing or even loosening again. Important to note that this is currently a developed world issue.

Geopolitics is part of the firmament

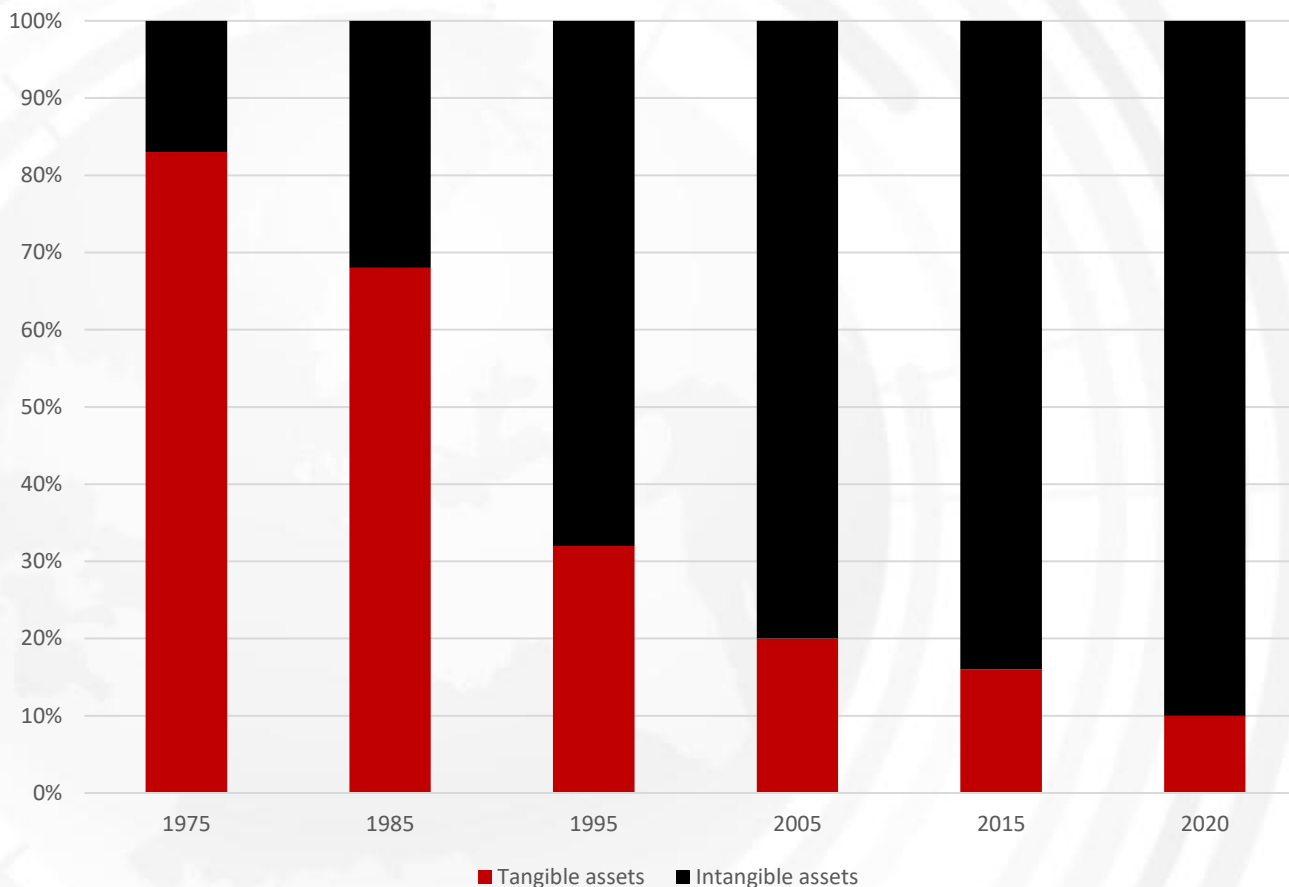
Geopolitical Risk Index vs Threat of War (Historical)



Source: Caldara, Dario and Matteo Iacoviello (2022)

Geopolitical risk indicators are muted from a historical perspective, but leading indicators are elevated, indicating that geopolitical risk is set to rise further going forward.

An intangible asset bubble?

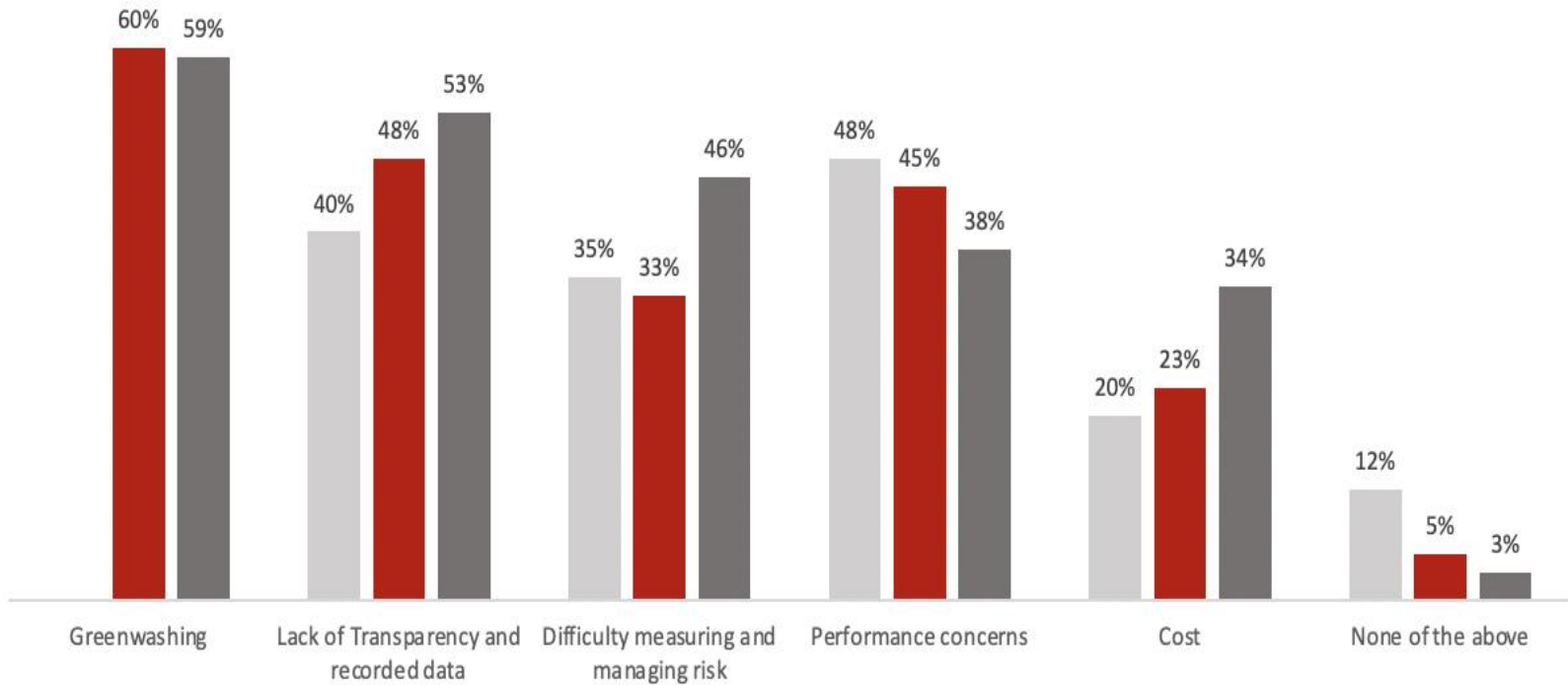


Intangible assets now dominate the S&P 500 balance sheet. This represents the dominance of tech, but also shows that companies are harder to value and more prone to sentiment, implying higher volatility and tail risks.

Challenges to overcome in ESG

Which, if any, of the following specific factors do you consider a challenge of investing in sustainable investments?

2019 2020 2021



Data source: Schroders

Looking ahead

- Central banks are facing a regime shift
- Forward guidance is proving problematic while socio-political tensions threaten to erode their independence
- The dollar continues to remain strong, impacting emerging markets, who are also facing additional pressures from rises in food and energy prices
 - An additional source of social instability is the reliance of many of these countries on state subsidies to control prices
- Many pressures are unlikely to subside quickly, given endemic issues and a Russia-Ukraine conflict that is now 6 months old.
 - Victory is likely to be pyrrhic for either side, with the more likely outcome a negotiated settlement or impasse as costs mount.
 - The geopolitical impact is more significant and long-lasting, with clear lines emerging globally between different blocs
- The implication is a lower growth world, where resilience planning is key.
- Infrastructure, ESG related investments and socio-economic stability are likely to attract increased interest but capacity is also limited, which limits returns. Cashflow will command a premium.

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).

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