

Worcestershire Pension Fund



Department for Levelling Up,
Housing and Communities

Worcestershire County Council
County Hall
Spetchley Road
Worcester
WR5 2NP

By email

lgpensions@levellingup.gov.uk

Date: 25 June 2024

Dear Colleague

Efficiencies in local government and the management of Local Government Pension Scheme (LGPS) funds

Please see responses to your letter of the 15 May 2024 and this has been agreed by the Worcestershire Pensions Committee on 25 June 2024.

What proportion of assets have been pooled in your chosen LGPS asset pool? Is your fund on track to pool all listed assets by March 2025, and if not, what are the barriers to this?

As at 31 March 2024, approximately 23% of the Worcestershire Pension Fund (“the Fund”) investment portfolio funds are managed by LGPS Central. However, the Fund also has a further 41% of the portfolio invested in passive equities which were conducted through a joint LGPS procurement exercise which was a precursor to pooling. The Fund is a strong believer that the ability to manage passive equity funds at scale and efficiently is essential to its success. The benefit of the joint exercise was the achievement of a significantly more administratively efficient and lower cost vehicle to oversee those investments that could have been possible through a pooling company. Therefore the Fund considers those investments to be pooled, therefore taking the pooled proportion of the portfolio to 64%.

Alongside its pooled equities, the Fund has a significant allocation to far-east (excluding China) active equities. The Fund’s regularly reviewed investment risk strategy in the equities space calls for enhanced manager relationships evidenced by a long history of performance. The Fund has worked successfully with its current managers for over 15 years, achieving performance supporting its primary fiduciary responsibility to its members. To date LGPS Central has been unable to offer a comparable level of performance regarding these assets. In line with its fiduciary duty, the Fund recently divested in one of the pooled active equity funds solely on the grounds of long-standing performance issues and concern around the ability to address those issues effectively.

The Fund also has a significant allocation to property and infrastructure investments. Within that allocation are key investments in the UK forestry industry and other biodiversity and natural capital assets. Such investments are key to the Fund’s investment beliefs and underpin its approach to responsible investment and levelling up. Whilst the Fund was open to working with LGPS Central in that respect, the company was not able to provide it with a viable route to achieve that goal. However, with the appointment of a new Chief Executive in May and a focus on communication and engagement from the company with the shareholders should lead to shared learning and understanding and improved additional pooled investment.

Is there scope for minimising waste and duplication by making use of your LGPS asset pool’s services and expertise in reporting and development of the pensions investment strategy? What is your expenditure on pensions investment consultancy?

Worcestershire Pension Fund



The Fund always seeks to minimise duplication both from a cost efficiency and a risk mitigation perspective. A recent example arose concerning its exposure to certain emerging market investments. The Fund engaged with the appropriate LGPS Central officers, seeking advice, and extending that collaboration to Pension Committee members. Worcestershire County Council, the Fund's administrating body, successfully operates a lean cost structure. It extends that ethos to the operation of the pension fund. A recent example of this involves a significant project designed to leverage the benefits of technology to enhance the member engagement experience whilst achieving cost efficiencies.

Whilst the Fund does retain the services of an independent advisor, it does so in a complementary rather than exclusionary manner with regards to its relationship with the LGPS Central pool. The latter is regularly informed of pooling updates which include product development as well as governance matters and is included in discussions between the Fund and the pooling company as appropriate.

LGPS Central does not have knowledge of our pension liabilities or future cashflows and is not resourced for this purpose. As such they are not in a position to advise on our Strategic Asset Allocation. For those reasons, the Fund strongly believes in the value of having an independent third-party advisory resource that understands the specific investment ethos and considers the expenditure, being less than 0.001% of total investment assets, to represent significant "value for money".

Does your LGPS asset pool have an effective, modern governance structure in place, which is able to deliver timely decisions and ensure proper oversight? If not, what steps are you taking to make your pool's governance more effective?

LGPS Central was created with an effective modern governance structure. The operation of an FCA regulated company with eight shareholders who are also customers is a complex process and governance is subject to ongoing review and improvement. To support that review the Fund actively participates, with the other seven partner funds, in working groups covering investments, internal audit, RI&E and governance itself.

Does your LGPS fund have effective and skilled governance in place, which is able to hold officers, service providers and the pool to account on performance and efficiency?

The Fund has implemented a restructure of its administration service in which the governance team sit within. More resource has been added to the governance team to support resilience and delivery with the ever-changing pensions landscape. To support continued training and understanding of elected members and senior officers, the Fund has implemented additional functionality. This includes online training modules which have been purchased to ensure we are delivering effective governance in this area.

To ensure that the Fund is efficiently run, we have invested in technology to support this. The addition of a member's self-service portal and implementing an automated process monthly data collection from scheme employers will support both the member's experience and strengthen the data held by the Fund. Additionally, all business-as-usual workflow processes are being reviewed to utilise automation because of the additional technology/functionality being implemented.

The Fund's officers, assisted by the independent adviser, conduct quarterly reviews with all fund managers. Reviews are not limited to investment performance, they include discussions about ESG, stewardship and Responsible Investment. A summary of the reviews is supplied to the Fund's Investment Sub-Committee and wider Pensions Committee for comment and recommended action where necessary. In addition, a selection of managers and service providers are invited to present to the Fund's committees both at quarterly sittings as well as the Fund's dedicated annual ESG event.

Worcestershire Pension Fund



Would you be likely to achieve long-term savings and efficiencies if your LGPS fund became part of a larger fund through merger or creation of a larger pensions authority?

The Fund operates both its investment and administrative operations on a very lean basis. In order to evidence that, it has engaged an independent cost & performance benchmarking provider for over 4 years. The latest benchmarking report received by the Fund highlighted that overall investment costs were 9.1bps below the peer median and 19.5bps below benchmark. The outperformance versus benchmark was largely derived from non-pooled assets with only one fifth coming from costs associated with pooled assets. A key fact from the report was that over the last 5 years, the increase in overall investment costs have been more muted than would have been expected given changes in the portfolio asset mix over that period.

An element of the Fund's Strategic Asset Allocation Review is the ability to "re-up" with managers who have demonstrated the required performance. As a part of the due diligence process, the Fund always negotiates fees in a robust way, leveraging its commercial advantage.

The Fund operates a culture of continuous improvement and continues to implement efficiency measures through digitisation in relation to its administration costs. Given the achievements relating to investment costs above, it is unlikely that sufficient administrative cost savings could be generated from a merger to offset the costs of any fund merger. The Fund therefore consider that its current positioning is delivering optimal performance for its members.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Rook', located below the text 'Yours sincerely,'.

Phil Rook
Chief Financial Officer
Worcestershire County Council
County Hall
Spetchley Road
Worcester
WR5 2NP
Email: prook@worcestershire.gov.uk