

# Pensions Committee

26 June 2013

**Time** 1.30pm      **Public meeting?** YES      **Type of meeting** Finance

**Venue** Civic Centre, St Peter's Square, Wolverhampton WV1 1SH

**Room** Committee Room 3 (3<sup>rd</sup> floor)

*A buffet lunch will be provided for members  
of the committee from 12.30pm.*

## Membership

**Chair** Cllr Bert Turner (Lab)

**Vice-chair** Cllr Zahid Shah (Lab)

### Labour

Cllr Peter Bilson  
Cllr Steve Evans  
Cllr Andrew Johnson  
Cllr Lorna McGregor  
Cllr John Reynolds  
Cllr Sandra Samuels  
Cllr Tersaim Singh

### Conservative

Cllr Neil Clarke  
Cllr Mark Evans

### Liberal Democrat

Cllr Mike Heap

### District members

Cllr Zahid Ali (Walsall Metropolitan Borough Council)  
Cllr Damian Gannon (Coventry City Council)  
Cllr Rachel Harris (Dudley Metropolitan Borough Council)  
Cllr Allan Martin (Solihull Metropolitan Borough Council)  
Cllr Vic Silvester (Sandwell Metropolitan Borough Council)  
Cllr Phil Walkling (Birmingham City Council)

### Trade union observers

Mr Malcolm Cantello  
Mr Martin Clift  
Mr John Daly  
Mr Ian Smith

## Information for the Public

If you have any queries about this meeting, please contact the democratic support team:

**Contact** Martin Fox

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Copies of other agendas and reports are available from:

**Website** <http://wolverhampton.cmis.uk.com/decisionmaking>

**Email** [democratic.support@wolverhampton.gov.uk](mailto:democratic.support@wolverhampton.gov.uk)

**Tel** 01902 555043

Some items are discussed in private because of their confidential or commercial nature. These reports are not available to the public.

# Agenda

## Part 1 – items open to the press and public

*Item No.*    *Title*

### MEETING BUSINESS ITEMS:

1.            **Apologies for absence**
2.            **Substitute members**
3.            **Declarations of interest**
4.            **Minutes**  
**(a) Pensions committee – 17 April 2013**  
[for approval]  
**(b) Investment advisory sub-committee – 3 April 2013**  
[for adoption]
5.            **Matters arising**  
[To consider any matters arising from the minutes]
6.            **Appointment of sub-committee and forum and dates of meetings  
2013/2014**

### DECISION ITEMS

7.            **Pensions administration report from 1 April – 31 May 2013**

### INFORMATION ITEMS

8.            **New member update information**
9.            **Trustee training activity and forward plan**
10.           **Compliance monitoring**
11.           **Combined governance activity – June 2013**
12.           **Local Government Pension Scheme 2014 – Update on progress**
13.           **Investment policy and performance report 2012/13**

## EXCLUSION OF PRESS AND PUBLIC

14. **Exclusion of press and public**  
[To pass the following resolution:

That in accordance with Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information on the grounds shown below.]

## Part 2 – exempt items, closed to the press and public

<i>Item No.</i>	<i>Title</i>	<i>Grounds for exemption</i>	<i>Applicable paragraph</i>
15.	<b>Recovery of overpayments and write-off procedures</b>	Information relating to the financial or business affairs of any particular person (including the authority holding the information).	3
16.	<b>Property portfolio review and annual strategy 2013-14</b>	Information relating to the financial or business affairs of any particular person (including the authority holding the information).	3
17.	<b>Employer covenant update report</b>	Information relating to the financial or business affairs of any particular person (including the authority holding the information).	3
18.	<b>Statement of accounts 2012/13</b>	Information relating to the financial or business affairs of any particular person (including the authority holding the information).	3
19.	<b>Economic and market commentary</b>	Information relating to the financial or business affairs of any particular person (including the authority holding the information).	3
20.	<b>Global emerging markets manager appointment</b>	Information relating to the financial or business affairs of any particular person (including the authority holding the information).	3
21.	<b>WMPF Restructure update</b>	Information relating to the financial or business affairs of any particular person (including the authority holding the information).	3

22.	<b>Valuation of investments as at 31 March 2012</b> – document to be available at the meeting for inspection	Information relating to the financial or business affairs of any particular person (including the authority holding the information).	3
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# MINUTES

meeting: **PENSIONS COMMITTEE**

date: **17 APRIL 2013**

**PRESENT:**

Councillor T Singh (Chair) - Wolverhampton City Council  
Councillor Walkling – Birmingham City Council  
Councillor Bains – Coventry City Council  
Councillor Silvester - Sandwell MBC  
Councillor Martin - Solihull MBC  
Councillors Bateman, Bilson, M Evans, Heap, Johnson, McGregor,  
Reynolds, Shah and T H Turner – Wolverhampton City Council

**TRADE UNION REPRESENTATIVES:**

M Cantello - UNISON  
M Clift - UNITE  
I Smith - UNITE (Retired)

**EXTERNAL ADVISORS IN ATTENDANCE:**

G Johnston - Hymans Robertson  
M Rowe - PwC  
A Stoke - PwC

**EMPLOYEES IN ATTENDANCE:**

**Wolverhampton City Council**

G Drever - Director of Pensions  
J Alexander - Principal Auditor  
C Duggan - Compliance and Risk Manager  
P Farrow - Head of Audit  
N Perrins - Chief Pensions Service Manager  
M Taylor - Assistant Director- Finance  
M Fox - Democratic Support

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City Council



**APOLOGIES FOR ABSENCE:**

Apologies for absence were submitted on behalf of:

Councillors Eling (Sandwell MBC) and Clarke (Wolverhampton City Council)

**PART I – OPEN ITEMS**

**Substitute councillors**

66 Councillor Silvester attended the meeting on behalf of Councillor Eling (Sandwell MBC).

**Declarations of interest**

67 No interests were declared.

**Minutes**

68 Resolved:-  
That the minutes of the meeting of the Pensions committee held on 27 February 2013 be approved as a correct record.

**Trustee training (minute 48)**

69 It was noted that further training has been arranged on 23 April for those councillors who had missed the earlier sessions. The Chair stressed the importance of the training sessions.

**Update of fund strategy and policy statements (appendix 1/41)**

The report asked the committee to approve the update of various fund strategy and policy statements.

70 Resolved:-  
That the updated fund strategy and policy statements as detailed below be approved:-

Statement of Investment Principles  
Investment Strategy Statement  
Compliance with Myners Principles  
Social Responsibility Investment Statement  
Governance Compliance Statement  
Compliance with the Stewardship Code  
Communication Policy Statement  
Pensions Administration Strategy

**Service plan monitoring 2012/13 (appendix 1/42)**

This report provided an update to the 2015 medium term financial plan along with the Fund's financial and business plan monitoring.

- 71 Resolved:-  
That the report be noted.

**Assurance framework supporting the annual governance statement – April 2013 (appendix 1/43)**

This report appended the assurance framework supporting the annual governance statements and included the background to the framework and updated operational practices.

- 72 Resolved:-  
That the report be noted.

**2013 Chancellor's budget and the impact for pensions (appendix 1/44)**

The report detailed any changes in the budget which impacted on pension schemes.

- 73 Resolved:-  
That the report be noted.

**Strategy for internal audit 2013/14 – 2015/16 (appendix 1/45)**

The Head of Audit presented the strategy for internal audit for review and approval. Malcolm Cantello asked a question about the availability and publication of the risk register and the Director of Pensions responded that the register is reviewed at quarterly intervals by the Fund's officers and that risk management is covered within the regular training offered to councillors and other members serving on the committee and also within various documents eg business plans. The Director added that a risk workshop will be arranged for committee members in the near future. Cllr Billson added that committee members need to have an appreciation of the risk but rely on external advisers and council officers for advice.

- 74 Resolved:-  
That the strategy for internal audit 2013/2014 - 2015/2016 be approved.

**PwC – External audit plan 2012/13 (appendix 1/46)**

PwC presented their external audit plan for 2012/13. Cllr Bateman asked about the meaning of the paragraph relating to the Freedom of Information Act as detailed within the report. The external advisers responded that this is a standard paragraph which is always

included in plans of this nature and that, if PwC receive any such requests, these are forwarded to the City Council.

- 75 Resolved:-  
That the report be noted.

**Compliance monitoring (appendix 1/47)**

- 76 Resolved:-  
That the report detailing the findings of the compliance monitoring programme and including any other compliance issues for the period 1 October – 31 December 2012 be received.

**Combined governance report (appendix 1/48)**

- 77 Resolved:-  
That the issues being raised and discussed by the Local Authority Pension Fund Forum as detailed in the attached minutes of the business meeting held on 23 January 2013, together with the LAPFF annual report 2012, be noted.

**Pensions administration report from 1 February -31 March 2013 (appendix 1/49)**

- 78 Resolved:-  
(a) That the work undertaken by Pensions Member Services and other operational matters during the period be noted.  
  
(b) That the admitted bodies applications as detailed in paragraph 7.2 the report be approved.

**Exclusion of Press and Public**

- 79 Resolved:-  
That in accordance with Section 100(A) (4) of the Local Government Act 1972, the press and public be excluded from consideration of the items of business in Part II of the agenda on the grounds that, in view of the nature of the business to be transacted or the nature of the proceedings, exempt information falling within paragraphs 1 and 3 of Schedule 12A of the Act, is likely to be disclosed.

**PART II - EXEMPT ITEMS**

**Appointment of representatives to a special appointments committee and organisation restructure update (appendix 1/50)**

This report detailed progress with the implementation plan for the approved organisation restructure and asked the committee to appoint two district council members to the special appointments committee arranged to select an Assistant Director (Investments) as part of the restructure proposals. The Director of Pensions advised that 3 executive search and recruitment advisor proposals were considered



and that Jordan Davis Group have been appointed to assist with the recruitment process.

80 Resolved:-  
(a) That progress on the organisation restructure be noted.

(b) That councillors Walkling (Birmingham City Council) and Martin (Solihull MBC) or substitutes be appointed to serve on the special appointments committee for the Assistant Director post (Investments), subject to compliance with political balance rules.

**Employer covenant update report (appendix 1/51)**

This report provided an update on the employer covenant monitoring framework implemented by the Fund. Cllr Bateman expressed concern about the issues arising on academies and particularly the employer watchlist as attached at appendix A. The Director of Pensions responded that the issues posed by the report are being pursued regularly and she undertook to bring regular updates to the committee.

81 Resolved:-  
That the report be noted and that regular reports be submitted to the committee on employer covenant monitoring, in view of the concerns raised regarding the employer watchlist.

**Economic and market commentary (appendix 1/52)**

Graeme Johnston, on behalf of Hymans Robertson, submitted a report which reviewed conditions in the global economy and investment markets and also reviewed current tactical asset allocation policy.

82 Resolved:-  
That the report be noted.

**External investment advice (appendix 1/53)**

This report considered the review of external investment advisors and the associated fees payable for 2013/2014.

83 Resolved:-  
That the arrangements for external investment advice 2013 /2014, as detailed in the report, be approved.

**Investment portfolio valuation - 28 February 2013 (appendix 1/54)**

The valuation document had been made available at the meeting for inspection. The Director of Pensions also confirmed the current value of the Fund.

84 Resolved:-  
That the valuation be received.

**Vote of thanks**

Reference was made to the service of the Chair to the committee during the year.

85

Resolved:-

That the thanks of the committee to the Chair for his service during the year be placed on record.

# MINUTES

meeting: **INVESTMENT ADVISORY SUB-COMMITTEE**

date: **3 APRIL 2013**

## **PRESENT:**

Councillor T Singh (Chair)	-	Wolverhampton City Council
Councillor Bilson	-	Wolverhampton City Council
Councillor Heap	-	Wolverhampton City Council
Councillor T H Turner	-	Wolverhampton City Council
Councillor Bains	-	Coventry City Council
Councillor Silvester	-	Sandwell MBC
Councillor Martin	-	Solihull MBC

## **TRADE UNION OBSERVERS:**

M Cantello	-	UNISON
M Clift	-	UNITE

## **EXTERNAL ADVISORS IN ATTENDANCE:**

W Marshall	-	Hymans Robertson
M Daggett	-	CBREGI
M Roul	-	CBREGI

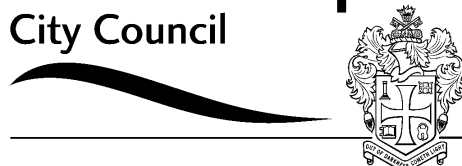
## **OFFICERS IN ATTENDANCE:**

G Drever	-	Director of Pensions
K Dervey	-	Senior Investment Manager
D McGrath	-	Head of Finance
M Fox	-	Democratic Support Officer- Governance

## **APOLOGIES FOR ABSENCE:**

Apologies for absence were submitted on behalf of Ian Smith (Trade Union observer) and John Fender (External Adviser).

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**PART I – OPEN ITEMS**  
**(open to press and public)**

**Substitute members**

- 26 Councillor Silvester attended the meeting on behalf of Councillor Eling.

**Declarations of interest**

- 27 No interests were declared.

**Minutes**

- 28 Resolved:-  
That the minutes of the meeting held on 16 January 2013 be approved as a correct record.

**Exclusion of press and public**

- 29 Resolved:-  
That, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from consideration of the items of business in part II of the agenda on the grounds that, in view of the nature of the business to be transacted or the nature of the proceedings, exempt information falling within the paragraph 3 of schedule 12A of the act (information relating to the business or financial affairs of any particular person) is likely to be disclosed.

**Investment presentations (appendix 1/14)**

The Sub-Committee received a presentation from Insight Investment, which highlighted the advantages of investing in agriculture and the Fund's exposure to this asset class. They were represented by Reza Viskai, Head of Specialist Investments Group and Gary Wilkinson, Client Director. The presentation was accompanied by a written document which gave a background to the organisation and more detail about their Global Farmland Fund. The representatives also gave information about investment in Romania.

After a period of questions, the Chair thanked the representatives for their attendance at the meeting and they withdrew.

A further presentation was then received from HSBC Securities Services which focused on stock lending and how the Fund benefits from activity in this area. HSBC was represented by Roy Zimmerhansl, Global Head of Securities. A prepared written document was circulated which defined securities lending and its characteristics and which detailed the securities lending programme for the Pensions Fund, overall performance and outlook.

The representative responded to various questions raised by the Sub-Committee, following which the Chair thanked him for his attendance.

- 30 Resolved:-  
That the presentations from Insight Investment and HSBC Securities Services be received.

**Strategic investment allocation benchmark (SIAB) update review (appendix 1/15)**

A report was submitted which provided an update on the implementation plan on the 2012 SIAB.

- 31 Resolved:-  
That the report be noted.

**Pensions infrastructure platform (PIP) (appendix 1/16)**

This report provided a further update on the progress of the National Association of Pension Fund's infrastructure initiative, which was originally presented to the Sub-committee in July 2012.

- 32 Resolved:-  
That the report be noted.

**Cleveland estate planning applications (appendix 1/17)**

The report provided an update on the progress of planning applications on potential developments of the Fund's land holdings at Marske on sea.

- 33 Resolved:-  
That the report be noted.

**Investment management activity from 1 October – 31 December 2012 (appendix 1/18)**

This report detailed investment management activity between October - December 2012. The transaction list was also made available for inspection. The Director was able to advise that the market value of the Fund has increased since the period represented by the report. In a discussion on the property section of the report, the

Sub-committee considered progress regarding a property in London (Southwest House) and it was suggested that this be included in property site visits to be arranged later in the year.

34

Resolved:-

That the report be received and that property site visits be arranged for the Sub-Committee during the summer to include Southwest House, London.

Wolverhampton City Council

**OPEN DECISION ITEM**

Committee / Panel	<b><u>PENSIONS COMMITTEE</u></b>	<b><u>26 JUNE 2013</u></b>
Originating Service Group(s)	<b><u>GOVERNANCE, DELIVERY</u></b>	
Contact Officer(s)/ Telephone Number(s)	<b><u>MARTIN FOX</u></b> <b><u>555047</u></b>	
Title/Subject Matter	<b><u>APPOINTMENT OF SUB-COMMITTEE AND FORUM AND DATES OF MEETINGS 2013/2014</u></b>	

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**RECOMMENDATION**

That :-

- (a) Members be appointed to the Investment advisory sub-committee and Joint consultative forum (previously the Joint consultative panel) for the municipal year 2013/2014.
- (b) Dates and times of meetings as set out in the report be approved for the municipal year 2013/2014.
- (c) The Chairs and Vice-Chairs of the Investment advisory sub-committee and Joint consultative forum be appointed for the municipal year 2013/2014.

## 1.0 **PURPOSE**

- 1.1 To appoint Members and Chairs and Vice-Chairs to the Investment advisory sub-committee and Joint consultative forum for the municipal year 2013/2014.
- 1.2 To agree the dates and times of meetings of the Committee, sub-committee and Joint consultative forum for the municipal year 2013/2014.

## 2.0 **BACKGROUND**

### 2.1 Local Government and Housing Act 1989

Members are asked to note that under the provisions of the Local Government and Housing Act 1989, all committees and sub-committees, with minor exceptions, have to be politically balanced. A further consequence of the Act is the removal of the voting rights of co-opted members.

Members are advised, however, that although the provisions of the Act apply to the Pensions committee, they do not apply to the Investment advisory sub-committee. The constitution of the sub-committee and the voting rights of the co-opted members are not affected by the provisions.

### 2.2 Appointment of Sub-committee and Forum

#### (a) Investment advisory sub-committee

The Pensions committee have previously agreed that this sub-committee comprise the Chair, Vice-Chair and 2 Wolverhampton councillors serving on the Pensions Committee and one Member from each of the other 6 constituent authorities. The Committee also agreed that the Joint consultative forum should nominate 3 trade union representatives to observe meetings of this Sub-committee and 4 to observe the Pensions committee.

The Committee are asked formally to confirm the appointment of the Chair and Vice Chair of the Sub-committee, who have previously been the Chair and Vice-Chair of the main Committee, and to appoint the other Sub-committee members, including the 2 Wolverhampton representatives.

#### (b) Joint consultative forum (previously known as the Joint consultative panel)

The Pensions committee have also established a Pensions joint consultative forum comprising the following Members:-

All Members of the Investment advisory sub-committee  
2 Wolverhampton councillors serving on the Pensions committee  
1 Member of the Council's Cabinet (resources) panel  
11 representatives of the trade unions representing employees who participate in the benefits of the Local Government Pension Scheme, including a person to represent retired members.

On 23 July 2013 the Council's Cabinet (Resources) Panel will be asked to appoint a Member to serve as a representative on the Forum for the ensuing municipal year.



Letters have been sent to the various trade unions who are connected with the Fund to seek details of their nominees for the forthcoming municipal year. The 10 trade union representatives, once appointed, will be asked to attend a pre-meeting of the Joint consultative forum at its first meeting in September, to nominate an additional person to represent retired members on the Joint consultative forum. They will also be asked to nominate representatives to observe future meetings of the Pensions committee (4 representatives, including a person to represent retired members) and the Investment advisory sub-committee (3 representatives, including a person to represent retired members). In the meantime, existing representatives will be invited to attend meetings as appropriate.

The Committee are requested to appoint:-

- (i) 2 Members to the forum, and
- (ii) the Chair and Vice-Chair, who have previously been the Chair and Vice-Chair of the main committee.

### 2.3 Dates and Times of Meetings for 2013/2014

The Committee are asked to approve the following dates of meetings of the Committee, Sub-committee and Forum for the remainder of the current municipal year (all at 1330 hours).

(a) **Pensions committee:-**

25 September 2013  
8 January 2014  
26 March 2014

(b) **Investment advisory sub-committee:-**

3 July 2013  
11 September 2013  
11 December 2013  
12 March 2014

(c) **Joint consultative forum:-**

4 September 2013  
4 December 2013  
5 March 2014

### 2.4 Attendance at meetings/training

The Director of Pensions has stressed the importance of attendance at meetings and training in order that members are fully engaged in the work of the West Midlands Pension Scheme. This also applies to the trade union representatives who serve on the Committee, Sub-committee and Forum.

### 2.5 Pensions Act 2013

The Director of Pensions also advises that the new Pensions Act may have implications for the future make up of Pension committees and associated sub-committees and forums and further details will be submitted to the Pensions committee when these are known.

3.0 **FINANCIAL IMPLICATIONS**

3.1 The report has no financial implications.

4.0 **LEGAL IMPLICATIONS**

4.1 There are no legal implications contained in this report other than referred to above.

5.0 **EQUAL OPPORTUNITIES IMPLICATIONS**

5.1 This report has no direct implications for the Council's Equal Opportunities Policy.

6.0 **ENVIRONMENTAL IMPLICATIONS**

6.1 This report has no direct environmental implications.

7.0 **SCHEDULE OF BACKGROUND PAPERS**

7.1 Nil

**Wolverhampton City Council****OPEN DECISION ITEM**

Committee / Panel	<b><u>PENSIONS</u></b>	Date	<b><u>26 JUNE 2013</u></b>
Originating Service Group(s)	<b><u>WEST MIDLANDS PENSION FUND</u></b>		
Contact Officer(s)/ Telephone Number(s)	<b><u>GEIK DREVER</u></b> <b><u>2020</u></b>	<b><u>NADINE PERRINS</u></b> <b><u>2727</u></b>	
Title/Subject Matter	<b><u>PENSIONS ADMINISTRATION REPORT FROM</u></b> <b><u>1 APRIL 2013 – 31 MAY 2013</u></b>		

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**RECOMMENDATION**

- a) That the contents of the report be noted.
- b) That Members are requested to approve the Admitted Bodies Applications contained in paragraph 6.0 of this report.
- c) That Members approve the proposal to review the fund administration KPI's in line with future Pension Regulator data requirements and provide an assurance that costs are deducted and quality maintained.

**PENSIONS MEMBER SERVICES MANAGEMENT REPORT**  
**FROM 1 APRIL 2013 – 31 MAY 2013**

**1 PURPOSE OF THE REPORT**

- 1.1 To inform the Committee of the work undertaken by Pensions Member Services and other operational matters during the period 1 April 2013 – 31 May 2013.

**2 SCHEME ACTIVITY**

- 2.1 The number of scheme members in the Fund in all three categories stands at 262,488 with an overall increase since 31 March 2013 of 1,179. Of the active membership of 97,860, 48% are full-time and 52% part-time. This is a reflection of the flexible working conditions amongst employers. The longer-term trend over an 11 year period in membership is set out in Appendix A which illustrates a move into a more mature profile whereby active memberships are falling and pensioners and deferreds are increasing.

- 2.2 The process analysis statistics show details of overall workflow within the Pensions Administration Service during the period 1 April 2013 – 31 May 2013 (Appendix B).

- 2.3 During the period covered by this report 23,028 administrative processes were commenced and 22,632 completed. On 31 May 2013 there were 14,598 items of work outstanding. Of this 5,672 items were pending as a result of information awaited from a third party e.g. scheme members, employers or transferring authorities. Within pensions administration, 8,926 processes can either proceed to the next stage of the process or through to final completion.

- 2.4 A detailed analysis of the key processes in calculating benefits for retirements and pensioners alongside the maintenance updating of employee details is shown in (Appendix C).

- 2.5 The Fund continues to see an increase in employer membership due mainly to the establishment of academies and outsourced local government contracts, with 18 new organisations being admitted to the fund during the period 1 April 2013 – 31 May 2013. The current number of employers as at 31 May 2013 is 360. The level of ongoing work being processed at the end of the period is as follows:-

- 61 admission agreements
- 88 academies
- 19 employer terminations

- 2.6 Admission bodies within the Fund cease when they no longer have any active scheme members which results in the termination of an admission agreement and can occur for a number of reasons, principally:

- The last active member of the admission agreement leaves, retires or transfers to another employer and ceases to be a member of the Fund and the employer does not wish to admit any more employees to that admission agreement.
- The contract to which the admission agreement relates, comes to an end or it is terminated prematurely.
- The employer ceases to exist, e.g. it goes into liquidation or is taken over by/merged with another organisation.

When an admission agreement terminates, the Regulations require that a termination valuation is undertaken with the purpose of determining the level of any surplus or deficit in an employer's share of the Fund as at the date of termination of the admission agreement.

Payment of the exit liabilities upon termination is the responsibility of the admission body and, in the event that the admission body is unable to pay, the guarantor will pay any excess when the admission body is only able to pay part of the exit liabilities.

- 2.7 An analysis of employer telephone calls is shown which details the immediate response provided by the Fund when addressing fundamental pension queries for all our employers (Appendix D). We continue to aim to provide a high quality response rate at first point of contact both for scheme members, the 7 districts, admitted bodies and academies.
- 2.8 Overall items scanned are consistent with the yearly trend and remain slightly lower than the previous year. April was a low month for receiving items from major employers which has been reviewed and monitored by the employer liaison. We were unable to complete more processes than was started in April due to not receiving many responses from employers for that month. Indexing errors for April (10) is the average for a month however May was the lowest ever. Please refer to Appendix E.

### 3. **ADMINISTRATION PERFORMANCE PROPOSAL**

- 3.1 As part of the implementation of the new organisational restructure and the requirement to relocate staff into new functions KPI performance for processing has been temporarily suspended. It is proposed that new KPI's are established which have a cross-cutting benefit for all administration purposes and activities, by tracking end to end processes resulting in a more meaningful performance measurement. This would also incorporate a specific KPI related to pension scheme data records to increase quality and drive individual and team ownership for this function.
- 3.2 The Pensions Regulator has issued guidance on pension scheme record keeping which will result in Trustees and employers having precise information relating to financial liabilities at triennial valuation periods. The Regulator will set targets for completed and accurate data held by funds and the performance will be reviewed with a requirement to resolve data issues quickly or be forced to improve by the regulator.
- 3.3 The following types of data will be tested by the Regulator:-
- Common data – data which identifies a unique scheme member
  - Conditional data – scheme specific data which is required for the effective administration of the scheme.
  - Numerical Information – e.g. the numbers of the scheme members in a particular category, part-time, AVC payers.
- 3.4 By reviewing the KPI framework over the next 3 months alongside the Regulator data requirement the fund will be able to report on data accuracy and focus on reducing the risks of misstated liabilities and customer data errors. The funds pension system (UPM) already reduces the need to process manually through automatic calculations provided that experienced staff deal with the non-standard pension issues. In future staff will receive focused in-house training which identifies a range of processing errors and the correct solution to deliver the best results for all customers.

### 4. **IDRP (INTERNAL DISPUTE RESOLUTION PROCEDURE) CASEWORK**

- 4.1 In the 2013/2014 financial year two cases have been received both of which are still in progress.

### 5. **DEATH GRANT**

- 5.1 In the 2013/2014 financial year one case relating to the payment of the death grant has been referred to the Legal Department for consideration.

## 6 APPLICATION FOR ADMISSION BODY STATUS.

- 6.1 Organisations must satisfy one or more of the admission criteria before they can be admitted to the Fund following Pensions Committee approving the applications. Sometimes, a decision is required which is not compatible with the cycle of Pensions Committee meetings and admission agreements cannot be backdated (LGPS Regulations). In these circumstances, Pensions Committee has delegated responsibility for approving such applications to the Director of Pensions in consultation with the Chair and Vice Chair.
- 6.2 The table below lists the applications received for admission to the West Midlands Pension Fund which have been approved/or awaiting approval by the Director of Pensions, the Chair and Vice Chair and Pensions Committee.

Committee is requested to approve these admissions:-

EMPLOYER NAME	GUARANTEE STATUS (AGREEMENT)	NUMBER OF EMPLOYEES (SCHEME MEMBERS)	STATUS
1. Alliance in Partnership Ltd	Birmingham City Council	1 (1)	Awaiting approval
2. European Eletronicque Ltd (Tile Hill Wood School and Language College)	Coventry	2 (2)	Awaiting approval
3. Culture Coventry	Coventry	150 (93)	Awaiting approval
4. Call First Cleaning Limited	Solihull MBC	1 (1)	Awaiting approval

## 7 PENSIONS IN PAYMENT

- 7.1 The gross annual value of pensions in payment in May 2013 was £391.6m, of which £18.4m (£8.6m for pensions increase and £9.8m for added year's compensation) was recovered from employing authorities and other bodies as the expenditure was incurred.
- 7.2 Monthly payroll numbers were:

April 2013                      -            71,143                                      May 2013                      -            71,360

May 2013 sees the successful implementation of the payslip reduction project. The aim of this project was to reduce the number of payslips produced and issued to pensioner members on a monthly basis. There will continue to be a selection of exception cases where the Fund will have the ability to produce a payslip, for example for Power of Attorney or Court Protection purposes.

In May 2013 payments have been made to 71,360 members of which 2,419 member have been issued a payslip (equating to 3% of members). As a direct impact, the Fund has received approximately 1,000 calls with the majority being satisfied once the process was reaffirmed to them and the web-portal concept explained.

## 8 COMMUNICATIONS & MARKETING ACTIVITY

### 8.1 Communicating With Members

The June scheme members (including AVC) events have been finalised and an invitation has been mailed to individual members and emailed to all employers in order for the events to be promoted within each organisation. This one hour session is aimed at all employees who want information about the benefits of being a member of the LGPS and the options available to increase pension savings. The decision to hold the event at local authority venues has improved attendance and an evening session has been arranged at two of the locations as a result of customer feedback. The success of the evening events will be reviewed at the next monthly meeting with Prudential with an option to continue this remit for the September events.

As part of our key objective to move to the self-service model, the Fund's web portal facility will be promoted at these events.

Details of the events are as follows:

<b>Date</b>	<b>Location</b>	<b>Session times</b>
Tuesday 4 June	Training and Development Centre (TDC), Popes Lane, Oldbury	11.30 am, 1.30 pm, 4.15 pm and 6 pm
Tuesday 11 June	Room 1, Mander House, Wolverhampton	11.30 am, 1.30 pm and 4.15 pm
Monday 24 June	Room 14, Saltwells Education Centre, Bowling Green Road, Dudley	11.30 am, 1.30 pm and 4.15 pm
Tuesday 25 June	Council Chamber, Civic Suite, Solihull	11.30 am, 1.30 pm, 4.15 pm and 6 pm
Friday 12 July	Room G13, Woodcock Street, Birmingham	11.30 am, 1.30 pm and 4.15 pm

## 8.2 **Presentations**

During the period fund officers have continued to deliver presentations upon request from employers, and the emphasis is on retaining and promoting membership and educating members on the changes due to be implemented in 2014.

Examples of activity during the period are as follows:

29 April	Sandwell MBC	Face to face surgery
10 May	Walsall Housing Group	Induction and AVC
13 May	Wolverhampton City Council	Redeployment workshop
17 May	Coventry University	Induction and AVC

## 8.3 **Benefit Statements**

The artwork for the 2013 deferred benefit statement has been finalised and the data checked for accuracy. Printer procurement has been completed and approximately 66,300 statements will be distributed to deferred scheme members during week commencing 17 June. It is intended that active member and councillor benefit statements will be issued in September 2013.

## 8.4 **Business Support**

During the period, the Fund issued 18,083 items of postal communication direct from Mander House, an average of 9,041 items per month. The number of items received and processed through the Business Support office during the period was 10,432 including 140 cheques and 455 certificates.

## 8.5 **Mid-year review meeting**

Following the success of the first annual general meeting in December 2012, we are holding a mid-year review meeting for employers on Wednesday 17 July, 2013. The event has been promoted in the May edition of the employer brief and invitations are due to be sent to all employers and stakeholders no later than Wednesday 12 June.

9 **LEGAL IMPLICATIONS**

- 9.1 The fund on behalf of the Council will enter into a legally binding contract with organisations applying to join the Local Government Pension Scheme under an admission agreement.

10 **FINANCIAL IMPLICATIONS**

- 10.1 The report contains financial information which should be noted.
- 10.2 Employees of organisations who become members of the Local Government Pension Scheme will contribute the percentage of their pensionable pay as specified in the Regulations. The Fund's actuary will initially, and at each triennial valuation, set an appropriate employer's contribution rate based on the pension assets and liabilities of the individual employer.

11 **ENVIRONMENTAL IMPLICATIONS**

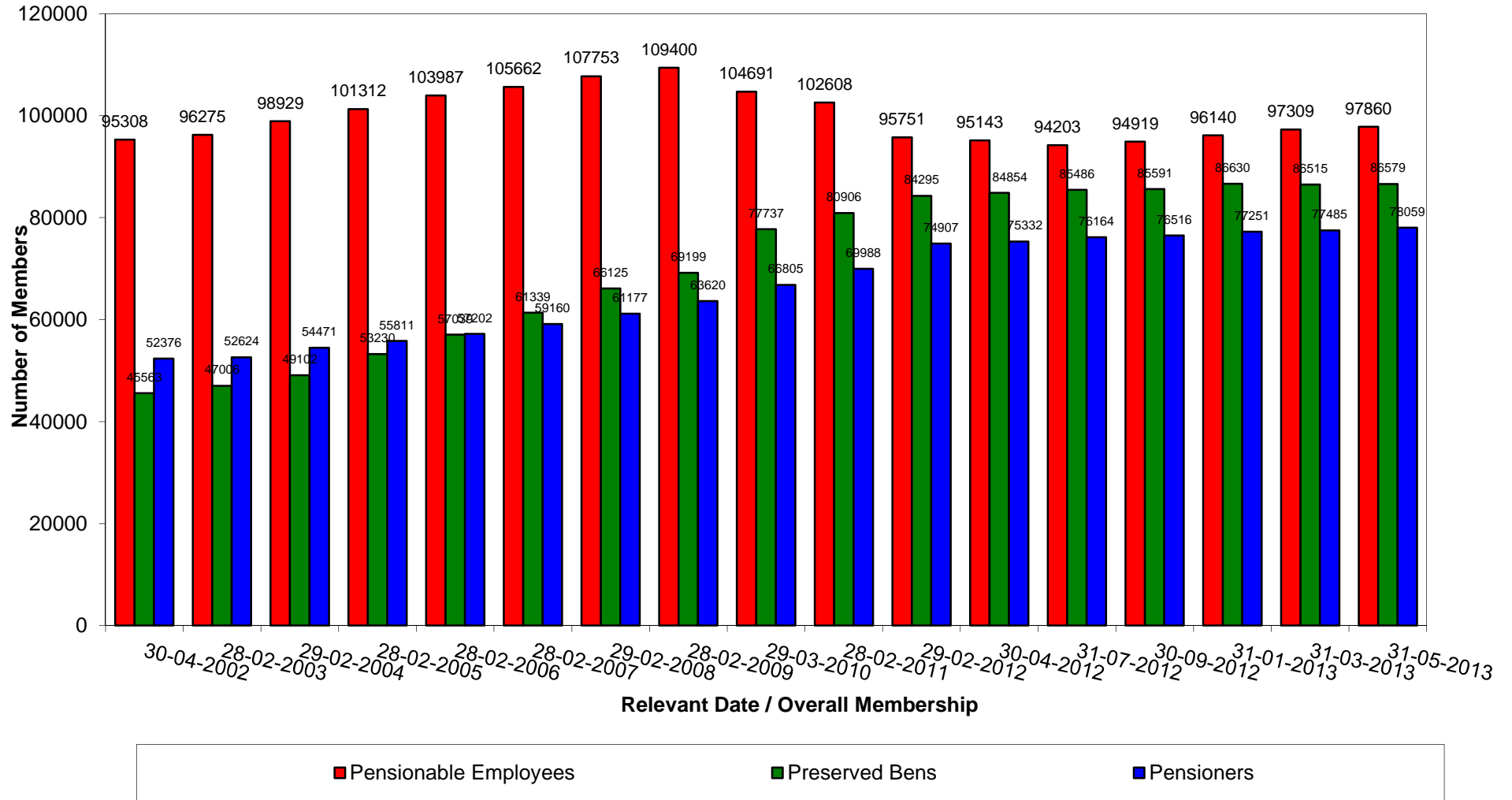
- 11.1 The report contains no direct environmental implications.

12 **EQUALITIES IMPLICATIONS**

- 12.1 This report has implications for the Council's equal opportunities policies, since it deals with the pension rights of employees.

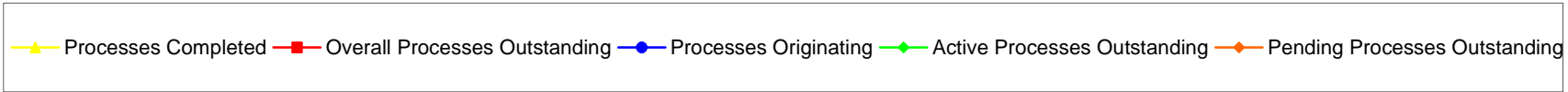
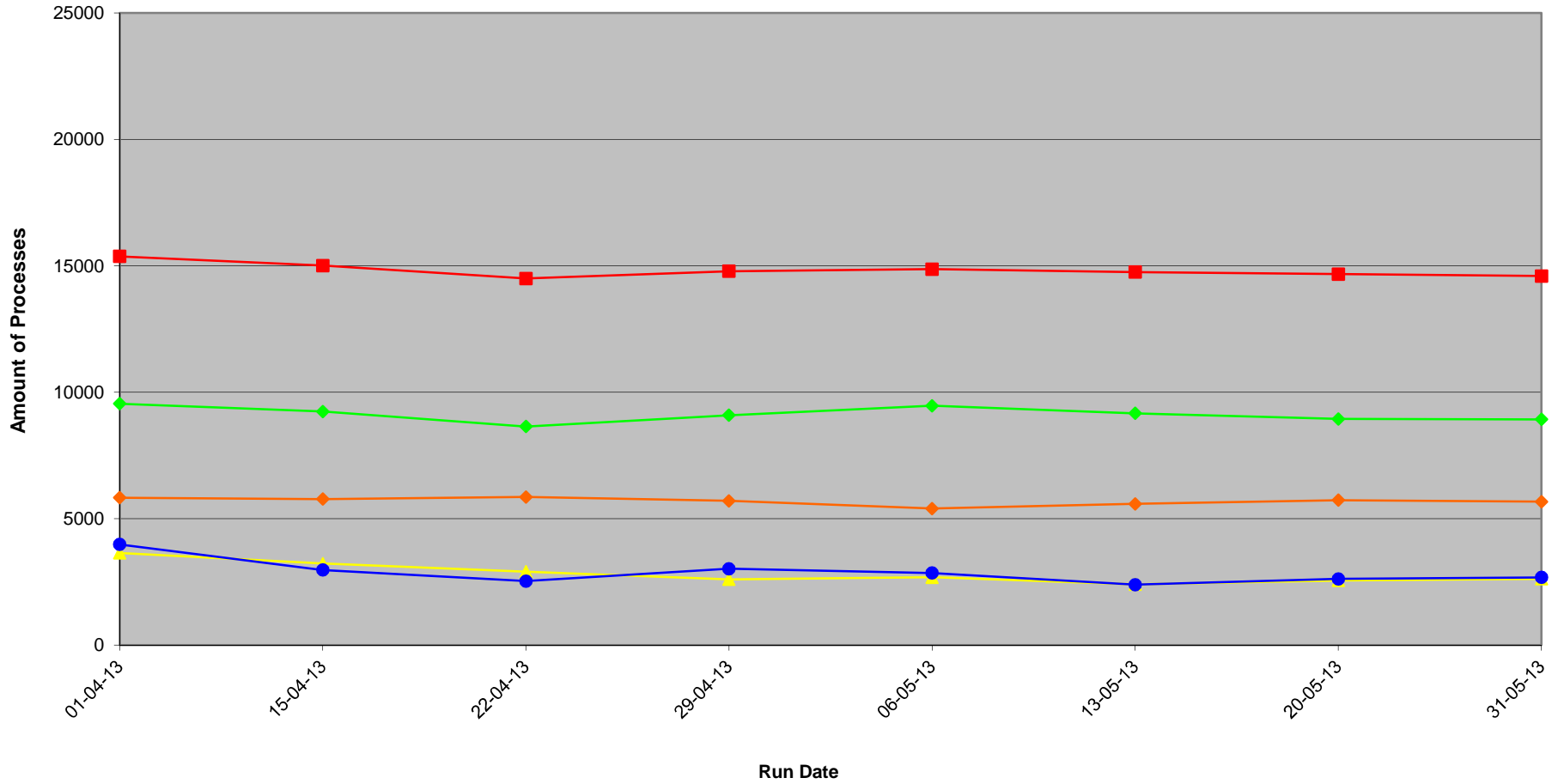


### Overall Membership



April - May 2013

Process Analysis



2013/14

2009/10	2010/11	2011/12	2012/13	April	May	YTD 2013/14
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**Active & Deferred members**

Process type							
Joiners and Rejoiners	11,437	8,763	6,403	11,138	792	840	1,632
Changes in circumstances eg change in hours	27,341	18,759	15,303	12,385	824	1,149	1,973
Deferments	6,915	5,939	7,818	5,741	411	409	820
Active Retirements (Employer retirements)	2,652	3,317	3,950	2,475	237	184	421
Deferred Retirements	4,106	3,332	2,970	2,971	221	277	498
Deaths of members	253	295	262	287	18	30	48

**Pensioner members**

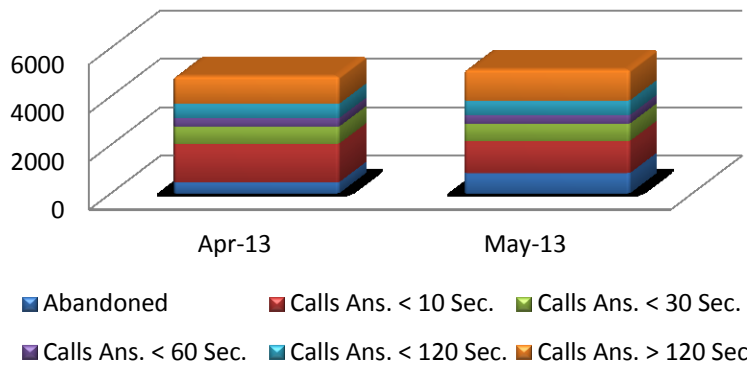
Process type							
Changes in circumstances:-							
Data eg Passwords, NI Numbers	7,407	1,310	1,804	1,865	183	310	493
Changes of Address	2,222	2,420	2,681	2,131	193	162	355
Changes of Bank	1,125	2,927	2,531	2,783	377	198	575
Deaths of pensioners	2,014	2,085	2,145	2,101	208	168	376

Payroll					Monthly	Monthly	
Actual number paid	763,022	792,724	837,189	870,804	71,143	71,360	142,503

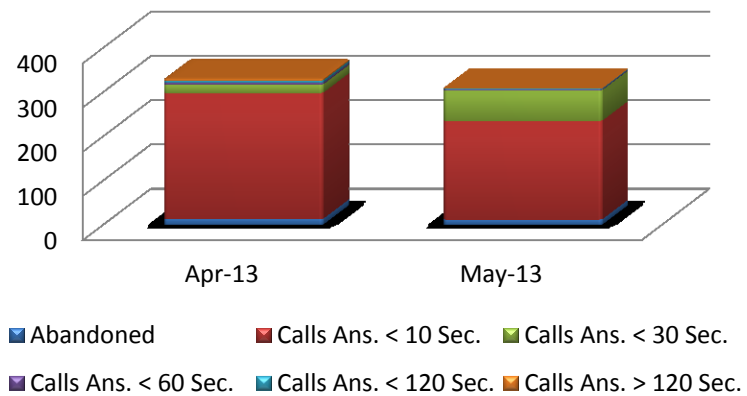
# Customer Service Telephone Statistics

1 April 2013 – 31 May 2013

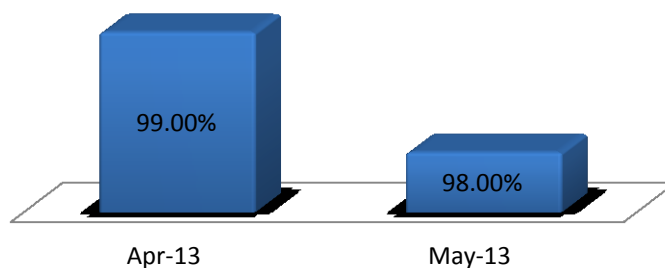
## Members Line



## Employer Line



## Calls resolved at first point of contact

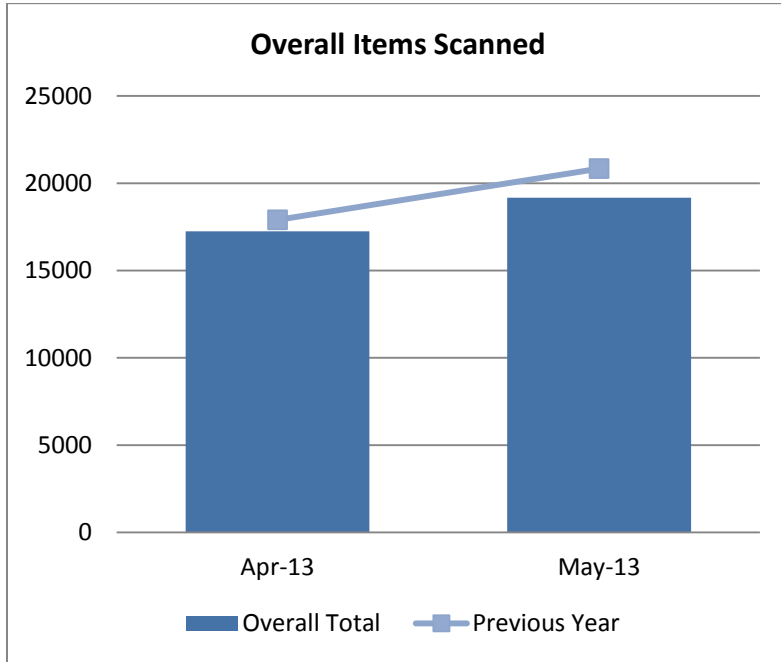


An account of the total calls from 1 April 2013 – 31 May 2013

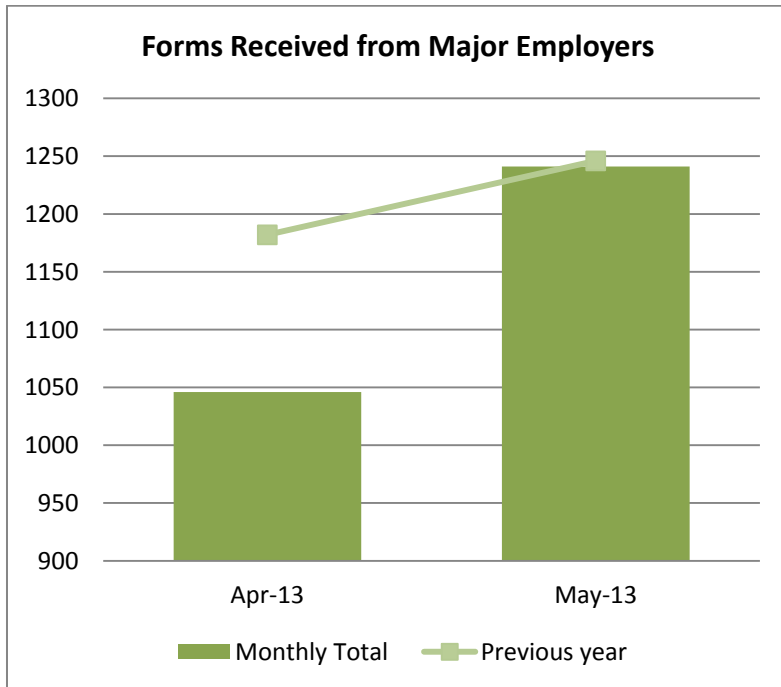
	Offered	Answered	% Ans
<b>Total Calls</b>	9270	7948	85.74
<b>Mem. Calls</b>	8657	7360	85.02
<b>Emp. Calls</b>	613	588	95.92

Data Management Statistics

1<sup>st</sup> April 2013 – 31<sup>st</sup> May 2013



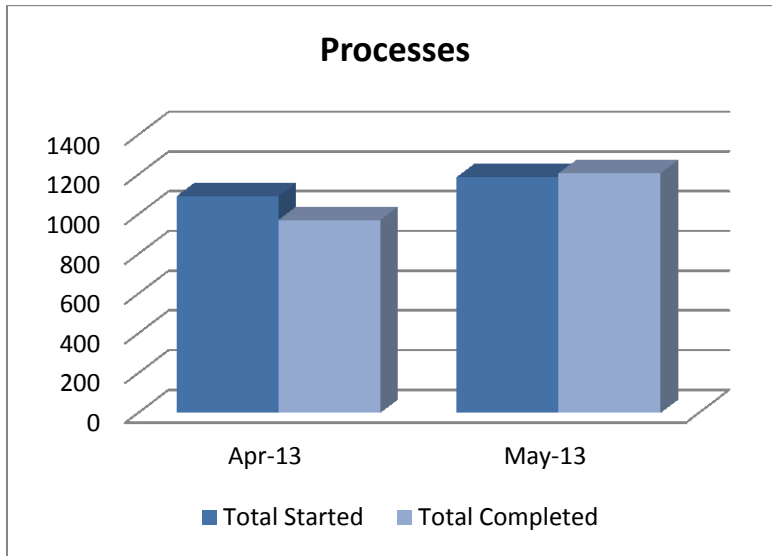
	Overall Total	Previous Year
<b>Apr-13</b>	17247	17903
<b>May-13</b>	19167	20833



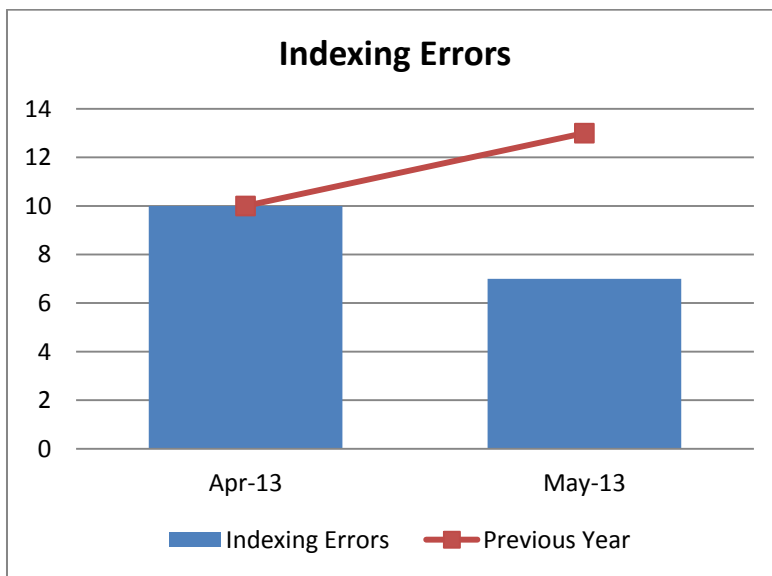
	Monthly Total	Previous year
<b>Apr-13</b>	1046	1182
<b>May-13</b>	1246	1246

### Data Management Statistics

1<sup>st</sup> April 2013 – 31<sup>st</sup> May 2013



	Apr-13	May-13
<b>Total Started</b>	1090	1187
<b>Total Completed</b>	971	1207



	Indexing Errors	Previous Year
<b>Apr-13</b>	10	10
<b>May-13</b>	7	13

	Overall Scanned	Indexing errors	%
<b>Apr-13</b>	17247	10	0.058
<b>May-13</b>	19167	7	0.037

Indexing errors are errors made while attaching an electronic imaged document to a member’s record. It is identified and then corrected.

The issue could range from a document going onto an incorrect record or being assigned the wrong document type.

**Wolverhampton City Council****OPEN INFORMATION ITEM**

Committee / Panel	<b><u>PENSIONS</u></b>	Date	<b><u>26/06/2013</u></b>
Originating Service Group(s)	<b><u>WEST MIDLANDS PENSION FUND</u></b>		
Contact Officer(s)/ Telephone Number(s)	<b><u>GEIK DREVER</u></b> <b><u>2020</u></b>	<b><u>NADINE PERRINS</u></b> <b><u>2727</u></b>	
Title/Subject Matter	<b><u>NEW MEMBER UPDATE INFORMATION</u></b>		

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**RECOMMENDATIONS**

All Members are requested to note the contents of the report.

## WEST MIDLANDS PENSION FUND

### 1 PURPOSE OF THE REPORT

- 1.1 This report is an update for existing and all new Members to the Pensions Committee. It provides a brief outline to the West Midlands Pension Fund, the management arrangements and the special role of Members in respect of the discharge of the functions associated with the relevant pensions regulations and legislation.
- 1.2 The report details relevant information for all new members to the Pensions Committee and provides an update to existing Members alongside the clarification of future Trustee Training requirements.

### 2 BACKGROUND – ORIGINS OF THE FUND

- 2.1 Following the 1974 Local Government reorganisation, all Council employees in the region (excluding Teachers, Police and Fire Officers) became members of the West Midlands Superannuation Fund with the former County Council as administering authority. The 1986 reorganisation resulted in Wolverhampton City Council becoming the administering authority for the Fund and local government employee pensions other than those of Teachers, Police and Fire Officers in the West Midlands.

The responsibility for administering the Fund was delegated to the Pensions Committee which has representatives from the seven District Councils as the largest employers and four Trade Union representatives nominated from the Joint Consultative Panel of Trade Union for the West Midlands region. The changes in responsibility for the delivery of Council services has seen an increasing number of private sector organisations and more recently Academies, voluntary sector organisations becoming members of the Fund in respect of their workforces who deliver the outsourced functions.

- 2.2 The Fund has a dedicated website [www.wmpfonline.com](http://www.wmpfonline.com) which provides more detailed information and Members are encouraged to identify any additional information that would be useful to them, and this will then be added to the website.

### 3 FUND DETAILS

- 3.1 The management of the Fund is divided between distinct functions which are Investment Management, Pensions Administration, Governance and Fund Accounting. These areas of responsibility fall within the Director of Pensions job role for whom administration and investment management arrangements are delegated to within approved policies. All investment transactions that are undertaken are reported to the next available Committee meeting.
- 3.2 The key statistics for the fund as at May 2013 are:-

<b>Contributing (active) members</b>	<b>97,860</b>
<b>Deferred members</b>	<b>86,579</b>
<b>Members in receipt of a pension (pensioner &amp; beneficiary pensioner)</b>	<b>78,059</b>
<b>Number of scheme employers</b>	<b>360</b>

### 4 INVESTMENT MANAGEMENT

The approach to investment of the Fund's resources is guided by investment strategy reviews at least every three years. However, following the turmoil in financial markets during 2008 a comprehensive review was undertaken in January 2009. The Authority has set the following objectives:-



- (a) Seek returns that are consistent and match those available in the major investment markets are comparable with other institutional investors.
- (b) Emphasise markets that over time are likely to give better returns.
- (c) Acknowledge the risk of investing and have regard to best practice in managing that risk.
- (d) Have resources available to meet the Fund's liabilities for pensions and other benefits provided.

- 4.1 The investment strategy is expressed in a medium-term asset allocation control benchmark. An asset allocation benchmark is simply the underlying medium to long-term strategic allocation of the assets of a Fund which aims to position the Fund to have a distribution of assets that over time is most likely to achieve its objectives. Limited shorter-term over and underweight positions are taken in order to take advantage of anticipated market movements' and against which the Fund's shorter-term performance can be assessed. Research has shown that asset allocation is the most significant factor in determining investment returns.
- 4.2 The Triennial actuarial valuation, undertaken by the Fund's Actuary, is important in setting the framework for determining a benchmark. It facilitates that balances of the various risks associated with the main asset classes against the need to match the Fund's projected liabilities over the medium to long-term.
- 4.3 The Fund's investment strategy will be reviewed in parallel with the actuarial valuation 2013. In January 2012, Committee appointed Hymans Robertson as advisors for the Strategic Investment Allocation Benchmark, which aims to conduct an annual review of Investment Strategy. The last review was carried out in July 2012. The Fund's position is clearly stated in the current Statement of Investment Principles (SIP), Funding Strategy Statement (FSS), Investment Strategy Statement (ISS), Compliance with Myners Principles and Socially Responsible Investment (SRI) Statement, which are available on the Web Site or from Officers. They contain useful information concerning the management of investments and follow recognised best practice.

## 5 **MEMBER SERVICES**

- 5.1 Benefit administration work is undertaken by the Pensions Administration function and includes:-
- Payment of pensions and the remittance of voluntary deductions to such organisations as the BHSF and Patients Aid.
  - Calculation and notification of retirement benefits.
  - Provision of information to new scheme joiners, rejoiners, deferred members, retirement options for new pensioners, estimates of future benefits, information for divorce purposes and details regarding increasing the annual pension.
  - Calculation, notification and payment of a member's transfer value out of the Fund.
  - Notification of service credit and updating a member's record following receipt of a transfer payment into the Fund.
  - Calculation and notification of benefits to early leavers eg deferred benefits and refund details.
  - Notification, calculation and payments of benefits on the death of a contributing member, deferred member and pensioner.
  - Issuing Annual Benefit statements to active members, deferred members, and pension credit members.
  - Customer Service help for all Scheme members and employers.
  - Technical support to employers including coaching sessions.
  - Recording, updating and accounting for employers and employees' contribution payments.
  - Daily, monthly and yearly finance functions including liaison with HMRC.
  - Preparing and issuing of Annual Reports and Accounts.
  - Admitting new employers into the scheme, eg academies and out-sourced bodies.

- Maintaining and updating of all members computerised records (eg change in hours or personal details).
  - Data validation of scheme member records and employer information.
  - Resolving complaints through the Internal Disputes procedure.
- 5.2 The Fund also has a website: - <http://www.wmpfonline.com> and has implemented a web portal for active and pensioner members as well as employers.

## 6 **AUDIT REQUIREMENTS**

- 6.1 The Fund's management arrangements and activities are subject to external audit procedures but due to the specialist nature of these requirements the auditors use people who have knowledge and experience of pension matters. The auditors produce a report for the Fund and to date we have received clean audit reports.

## 7 **GOVERNANCE OF THE FUND**

- 7.1 The Fund also has a framework called the Compliance Monitoring Programme which aims to ensure our practices are compliant with best practice and statutory requirements. This also provides an added assurance to Trustees.

A Formal governance statement was required by Regulation 73a of the Local Government Pension Scheme Regulations 1997, this can be found on the fund's website [www.wmpfonline.com](http://www.wmpfonline.com) a summary of the provisions of the statement is shown below:

### 7.2 **Pensions Committee**

The management of the administration of benefits and strategic management of the assets is fundamentally the responsibility of the Pensions Committee established by Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions. The Committee administers the Scheme in accordance with the regulations and best practice, and determines the strategic management of the assets based upon the professional advice it receives and the investment objectives set out.

The roles of the members and the Committee are as follows:

- To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations in the West Midlands.
- To put in place and monitor the arrangements for the administration of contributions and payments of benefits as required by the regulations, and the proper management and investment of monies held for the purpose of paying benefits.
- To determine and review the provision of resources made available for the discharge of the function of administering authority.

The key duties in discharging this role are:

1. To monitor compliance with legislation and best practice.
2. To determine admission policy and agreements.
3. To monitor pension administration arrangements.
4. To determine investment policy based upon a medium-term benchmark and quarterly reviews agreeing a short term position relative to the benchmark.
  - a) Benchmark (medium-term)
  - b) Tactical (quarterly)
5. To monitor policy.
6. To appoint committee advisors.
7. To determine detailed management budgets.

The Council's delegation to Pensions Committee is as follows:

- a) To exercise the functions of the Council in relation to the administration of the West Midlands Metropolitan Authorities Pension Fund arising by virtue of the Local Government Pension Scheme Regulations 1997, and any subsequent related legislation.
- b) To exercise all the general powers and duties of the Council granted to cabinet teams and standing bodies provided that those parts of the Council's Financial Procedure Rules and Contracts Procedure Rules which relate to the acquisition and disposal of land and the approval of expenditure, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Fund.
- c) To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.
- d) To ensure that consideration is given to the impact which the Committee's policies and provision of services have with regard to environmental matters.
- e) To determine, in consultation with the Cabinet arrangements for the revision and delivery of services within the terms of the best value framework.

### 7.3 **Investment Sub-Committee**

The Investment Advisory Sub-Committee has oversight of the implementation of the management arrangements and comprises representatives from the seven district councils and two local trade unions. The Committee meet at least four times a year and its key duties are:

- i) To monitor and review investment management functions.
- ii) To review strategic investment opportunities.
- iii) To monitor and review portfolio structures.
- iv) To monitor implementation of investment policy.
- v) To advise on the establishing of policies in relation to investment management including the appointment and approval of terms of reference of independent advisors to the Fund.
- vi) To monitor investment activity and the performance of the Fund.

The Director of Pensions implements the Committee policy and manages the day-to-day operational functions through Senior Officers and pensions staff. The Committee is advised and supported by the Chief Executive, Director of Pensions and Chief Legal Officer from Wolverhampton City Council.

## 8 **ROLE OF COUNCIL MEMBERS AS TRUSTEES**

- 8.1 When considering the advice and determining investment policy, Members are effectively acting as Trustees and as such need to understand the special obligations placed upon Trustees. These responsibilities are additional to those carried out as an elected Member of a Local authority. Members' duties as Trustees are to manage the Fund in accordance with the Regulations and to do so prudently and impartially on behalf of all the beneficiaries. This sometimes means that they may have to make decisions that in other political circumstances they may choose not to make. The overriding consideration for them as trustees, however, has to be for the benefit of the Fund and its contributors and beneficiaries. The advice of the Fund's advisers is very important in discharging this responsibility. Trustees can delegate some of their powers but not the responsibility that go with them. They are not expected to be qualified to give investment advice or to initiate investment policy. They must be aware of what is proposed by their advisers and be sure that it is relevant to the needs of the Fund and within their powers.
- 8.2 In practice, Trustees typically discharge their duty by ensuring that they have a systematic and clear way of agreeing their investment policy with managers and advisers they employ. Testing adherence to policy on a regular basis is essential. These requirements will consist of meetings and regular written reports with professional advisers whose skills and judgements can be relied upon. So far as the Fund is concerned, the advice is provided mainly by Council Officers, CBRE, the independent adviser on property, Mercer Limited (the Funds Actuary) and Hymans Robertson, the investment consultants. "When the purpose of the Trust is to provide financial benefits for the beneficiaries, the best interests of the beneficiaries are normally their best

financial interests. In the case of power of investment, the power must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investment in question and the prospect of the yield of income and capital appreciation, both have to be considered in judging the return from the investment”.

### 8.3 **Standard required of a Trustee**

8.3.1 “The standard required of a Trustee in exercising his powers of investment is that he must take care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he felt morally bound to provide”.

8.3.2 “That duty includes the duty to seek advice on matters which the Trustees do not understand, such as the making of investments, and on receiving that advice to act with the same degree of prudence. This requirement is not discharged merely by showing that the Trustee has acted in good faith and with sincerity. Honesty and sincerity are not the same as prudence and reasonableness. Accordingly, although a Trustee who takes advice on investments is not bound to accept and act upon the advice, unless in addition to being sincere he/she is acting as an ordinary prudent person would act”.

### 8.3.3 **Trade Union Representations and Provision of Information to Interested Parties**

The Fund invites relevant trade unions to send local representatives to a Joint Consultation Forum which meets at least three times per year to consider the activities of the Fund and elect four representatives one of which represents Retired Members to the Pensions Committee and three to the Investment Sub-Committee. Although these representatives, one of which is a retired member, do not have voting rights they are treated as equal members of the committees, for example they have access to all committee papers, officers, meetings and training as if they were Council members and have an opportunity to contribute to the decision making process.

### 8.4 **View of Secretary of State**

8.4.1 The Secretary of State for the Environment has previously indicated that administering authorities should pay due regard to the principle contained in ***Roberts v Hopwood*** in exercising their duties and powers under the regulations governing the investment and management of funds. In that case, Lord Atkinson said:-

“A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons, the body stands somewhat in the position of trustees or managers of others”.

## 9 **MEMBERS’ PERSONAL INVESTMENTS & CONFIDENTIALITY**

9.1 Members are not required, in the ordinary course of the work of the Pensions Committee and Investment Advisory Sub-Committee, to declare their personal investments, as they are not normally involved in specific direct investment management or in specific stock selection. However, it should be noted that the investment advice and any related information given to the Committee and Sub-Committee is appropriate for an institutional investor, rather than a private individual investor, and is confidential to the Committee and Sub-Committee.

9.2 The benefits awarded are determined by the Government by regulation and Members who are beneficiaries do not normally have to consider matters relating to benefits that could obviously directly affect them.

10 **ASSISTANCE AND MEMBER TRAINING**

- 10.1 Best practice emphasises the importance of Members receiving up-to-date appropriate assistance and training for them to discharge the duties of their specialist roles. The Fund has a Trustee Training Policy which all Trustees are encouraged to adhere to, to fulfil their responsibilities. Currently, training is provided through reports, the Funds website, a range of presentations (structured training, conferences and seminars) at various occasions throughout the year. In addition, professional advisors attend Investment Sub Committee and Member training events to offer external views on a variety of investment matters. The latter offers all Members the opportunity to develop a higher level of technical knowledge over a period of time.
- 10.2 Draft regulations on Governance as part of the new LGPS 2014 Scheme should be available in the Autumn. These regulations will include the role of the Scheme Advisory Board and local pensions Boards and will also detail the role of the Trustee.

11 **FINANCIAL IMPLICATIONS**

- 11.1 The report does not have direct financial implications.

12 **LEGAL IMPLICATIONS**

This report has legal implications as it deals with the role and responsibilities of elected members as trustees of the fund.

13 **ENVIRONMENTAL IMPLICATIONS**

- 13.1 The report contains no direct implications for the Authority's Environmental Policies.

14 **EQUAL OPPORTUNITIES IMPLICATIONS**

- 14.1 This report has no implications for the Council's equal opportunities policies.

# Wolverhampton City Council

## OPEN INFORMATION ITEM

Committee / Panel **PENSIONS COMMITTEE** Date **26 JUNE 2013**

Originating Service Group(s) **WEST MIDLANDS PENSION FUND**

Contact Officer(s)/  
Telephone Number(s) **GEIK DREVER**  
**2020**

Title/Subject Matter **TRUSTEE TRAINING ACTIVITY AND FORWARD PLAN**

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### **1. RECOMMENDATION**

- 1.1 Members are requested to review the 2012/2013 activity against the Pension Fund Trustee Training Policy and to note the proposed training for 2013/2014.

## **TRUSTEE TRAINING POLICY**

### **1. BACKGROUND**

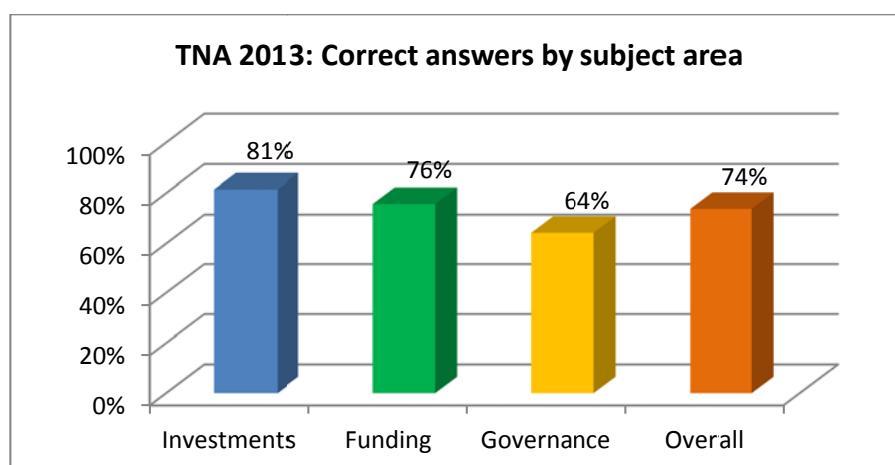
1.1 The Pension Fund Trustee Training Policy was approved in November 2012 and is included at Appendix A. As part of the policy it was agreed that an annual summary of the training activity undertaken during the 2012/2013 year, along with feedback from the structured training events, outcome of the training needs analysis and planned areas of training for 2013/2014 be reported back to Committee.

### **2. TRAINING ACTIVITY UNDERTAKEN**

2.1 In order to record training activity undertaken, the Fund set up a training database and populated it based on attendance at events and committees. In addition, a training log proforma was provided to all Trustees in order to record additional activity such as online training or reading. Of the logs sent out, 6 were returned, although no additional training was reported at this stage.

2.2 A summary of training activity undertaken during the period is included at Appendix B, with the key points detailed further below:

- New and returning Trustees are invited to attend an in-house induction training session facilitated by Pension Fund Officers. This provides an understanding or refresher of roles and responsibilities in order to allow informed participation in decision making or scrutiny of complex pension issues. During 2012/2013, 8 Trustees participated in the induction training and this will also be made available for the forthcoming year.
- Two days of structured training were delivered by Fund officers and Hymans Robertson, and a 'mop-up' day was arranged for those that could not attend previously. In total, 15 Trustees and observers attended the training and an agenda along with a summary of feedback is included at Appendix C.
- Since implementation of the policy in November 2012, four Members of Pensions/IAS Committee have met the annual training target of 25 hours as detailed in Appendix B. The remaining Trustees and observers have not met the annual target, which for JCP Members is 10 hours.
- A training needs analysis exercise was undertaken during the structured training in order to assess requirements, and requests, for development in specific areas. The results of which are detailed in the chart overleaf and have been utilised in developing the proposed training plan.



- Knowledge and understanding of investments and funding were very high, and in respect of governance, the area highlighted most for further development was that of the CIPFA knowledge and skills framework, with 21% of participants answering accurately on the content of the framework. Expanded coverage of this area will be included in future induction/ refresher training for trustees.

2.3 Following each training day, a feedback questionnaire was circulated to attendees for completion, of which, 88% responded with a summary of the key points detailed below:

- Suggested future agenda topics – employer covenants and risks, investment asset classes including commodities and timely regulatory changes.
- Suggested changes to the training format – interactive sessions, additional time for questions, exercises on lessons learnt and offsite training.
- Additional comments – one size does not fit all and training should be tailored to make it more useful, a good event with a lot to take in in one go, hand outs need to be clearer and a worthwhile, informative day,

2.4 Requests for training in particular areas and feedback comments have been taken into consideration and will be included in the forward planning.

### **3. 2013/2014 TRAINING PLAN**

3.1 Following analysis of the feedback, specific requests and Committee outcomes, the following areas are proposed for additional training during 2013/2014:

- Induction/refresher training for new and returning Trustees (including knowledge & skills framework)
- Risk management within the Fund
- Employer covenant base and implication of covenant monitoring
- Implementation of the 2014 scheme and future governance arrangements
- Actuarial valuation process and contribution setting
- Asset custody and performance measurement
- Investments

3.2 Delivery of the above will be through a combination of structured training, presentations to committee and reporting. Details of planned activity will be communicated to Members at an early stage in order to facilitate attendance wherever possible, however a draft 2013/2014 agenda is included below. The plan will remain flexible in order to address any emerging areas as and when required

<b>Subject</b>	<b>Timescale</b>	<b>Delivery</b>
Induction/refresher training for new and returning Trustees	September 2013 or as requested	Director of Pensions - Mander House or convenient location
Risk management within the Fund	October 2013	Fund Officers - Mander House
Actuarial valuation process and contribution setting	September 2013	Fund Actuary – presentation to Pensions Committee
Employer covenants and monitoring	January 2014	Fund Officers - Mander House
Asset custody and performance measurement	March 2014	Service providers – Mander House
Investment asset classes	Page 40 of 83	Presentations to Investment Advisory Sub-Committee/Conference



Environmental, social and governance	December 2013	Off-site conference, LAPFFconference
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3.3 Fund officers will maintain the training database and distribute training logs for completion and will report back to Committee on outcomes.

3.4 The Public Service Pensions Act 2013 provides for the regulation of the LGPS by the Pensions Regulator, and accordingly, the increased emphasis on Trustee training, knowledge and understanding. By implementing and participating in the Trustee Training Policy, the Fund and its trustees will be well placed to comply with the increased requirements of the Regulator and the overarching governance requirements of the new scheme.

**4. FINANCIAL IMPLICATIONS**

4.1 Details of the Pension Service Medium-Term Financial Plan Update and 2013/14 Operating Budget were submitted and approved by Pensions Committee in February 2013, with the costs associated with officer and Member training being incorporated into that plan.

**5. LEGAL IMPLICATIONS**

5.1 The report contains no direct legal implications for the Authority.

**6. ENVIRONMENTAL IMPLICATIONS**

6.1 The report contains no direct implications for the Authority’s Environmental Policies.

**7. EQUALITIES IMPLICATIONS**

7.1 This report has no implications for the Council’s equal opportunities policies.

## **WEST MIDLANDS PENSION FUND - TRUSTEE TRAINING POLICY**

### **BACKGROUND**

The West Midlands Pension Fund aims to achieve good standards of governance in line with or exceeding best practice built around four key elements:

- Pensions Committee
- Investment Advisory Sub-Committee
- Trade union representation and provision of information
- Advisors and officers

Details of how these elements function and operate to ensure they are effective are set out in the Governance Compliance Statement, which can be found on the Fund's website at [www.wmpfonline.com](http://www.wmpfonline.com).

A major factor in the governance arrangements of the Fund is to ensure that Committee Members and officers have the relevant skills and knowledge by applying the CIPFA Knowledge and Skills Framework, which will achieve this objective. Six areas of knowledge and skills have been identified as core technical requirements for those Members associated with LGPS pension funds:

- pensions legislation and governance context
- pension accounting and auditing standards
- financial services procurement and relationship management
- investment performance and risk management
- financial markets and products knowledge
- actuarial methods, standards and practices

It is not the intention that members should individually become technical experts, but that collectively they have the ability, knowledge and confidence to question and challenge the information and advice they are given, and to make effective and rational decisions.

The Fund includes in its Annual Report and Accounts details of the knowledge and skills development undertaken by its elected members. In future, there may be a regulatory requirement for funds to explain their compliance with the CIPFA framework, and in particular to cover:

- how the framework has been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the identified training needs

### **POLICY**

Upon joining the Pensions Committee or Investment Advisory Sub-Committee, new Members will attend an in-house induction training session facilitated by Pension Fund Officers. This will provide an understanding of roles and responsibilities in order to allow informed participation in decision making or scrutiny of complex pension issues. Online tools will be used to determine a training needs analysis and to ensure that subsequent training is focussed on key areas.

Committee Members will undertake three days of training each year as part of their commitment to good scheme governance, which will comprise two days of structured training and one day participating in conference or alternate training opportunities. A personal training record will be maintained by Fund officers for each Member to enable annual reporting. Training opportunities will include the following events:

- Presentations to Committee
- Internal training events
- Fund events such as the employer AGM and seminars
- Seminars and conferences offered by industry wide bodies, such as the LAPFF annual conference, LGC conferences and NAPF conferences.
- Local, free or low cost seminars and training events offered by the Fund's investment managers and advisors.
- Online training and reading

Attendance at conferences will generally be limited to one per Member every two years with attendance being rotated to ensure that opportunities are available to all.

Participation in training will enable Members to keep up to date with pension fund investment, operational and administrative requirements of the Fund.

Periodically, themed training or off-site visits may be undertaken and these are seen as a key part of building the skills and knowledge of Members of the Committee. Meetings outside the West Midlands are made on an 'as required' basis, aimed at giving Members and officers time to work together on strategic issues, or to develop a better understanding of an investment or operational issue.

A report on Member training undertaken will be submitted to the Pensions Committee in April each year, this will also identify appropriate conference and seminar opportunities for the forthcoming year.

Joint Consultative Panel (JCP) Members will have access to online training tools, structured in-house training and presentations. It is recommended that JCP Members undertake 10 hours of training per year, with it being at individual discretion to exceed this if desired.

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## Summary of recorded training by Member 2012/2013:

<b>Trustee Members</b>	<b>Structured Training</b>	<b>Conference/Seminar</b>	<b>Presentation to Committee</b>	<b>Reading/Additional Development</b>	<b>Total Training Hours</b>
Councillor Mike Heap	12.0	10.0	3.0	0.0	25.0
Councillor Tersaim Singh	12.0	10.0	3.0	0.0	25.0
Councillor Vic Silvester	12.0	17.0	2.5	0.0	31.5
Councillor Peter Bilson	6.0	10.0	3.0	0.0	19.0
Councillor TH Turner	6.0	17.0	2.5	0.0	25.5
Councillor Mark Evans	14.0	0.0	0.5	0.0	14.5
Councillor Sucha Bains	0.0	10.0	2.0	0.0	12.0
Councillor Alan W Martin	5.3	0.0	3.0	0.0	8.3
Councillor Lorna McGregor	6.0	0.0	0.0	0.0	6.0
Councillor Philip Walkling	6.0	0.0	0.0	0.0	6.0
Councillor Phil Bateman	2.8	0.0	0.5	0.0	3.3
Councillor John Reynolds	2.0	0.0	0.5	0.0	2.5
Councillor Neil Clarke	2.0	0.0	0.5	0.0	2.5
Councillor Qadar Zada	2.0	0.0	0.5	0.0	2.5
Councillor Zahid Shah	2.0	0.0	0.0	0.0	2.0
Councillor Zahid Ali	0.0	0.0	0.0	0.0	0.0
Councillor Steve Eling	0.0	0.0	0.0	0.0	0.0
Councillor Steve Evans	0.0	0.0	0.0	0.0	0.0
Councillor Andrew Johnson	0.0	0.0	0.0	0.0	0.0
<b><u>Observer/JCP Members</u></b>					
Martin Clift	6.0	10.0	3.0	0.0	19.0
Malcolm Cantello	8.0	10.0	0.5	0.0	18.5
Ian Smith	6.0	10.0	1.5	0.0	17.5
Wendy Bond	4.0	0.0	0.0	0.0	4.0
Andrew Maybury	6.0	0.0	0.0	0.0	6.0
Mr B Rickers	0.0	0.0	0.0	0.0	0.0
John Daly	0.0	0.0	0.0	0.0	0.0
Mr D Harrison	0.0	0.0	0.0	0.0	0.0
Mr M Shortland	0.0	0.0	0.0	0.0	0.0
Mr S Parker	0.0	0.0	0.0	0.0	0.0
Mr S Witton	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>120.0</b>	<b>104.0</b>	<b>26.5</b>	<b>0.0</b>	<b>250.5</b>

Allocation of hours:

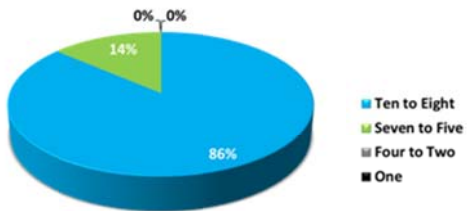
LAPFF Conference	10 hours
Structured Training Days	6 hours
Induction Training	2 hours
Presentations to Committee	0.5 hours
LGPS Trustee Conference	7 hours

Feedback from the structured Trustee Training:

Outcomes

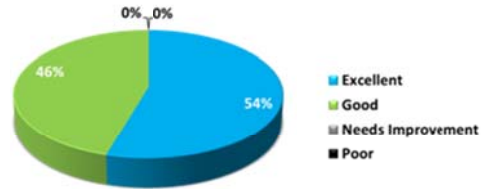
Question One

On a scale of one (poor) to ten (excellent), how would you rate the trustee training days?



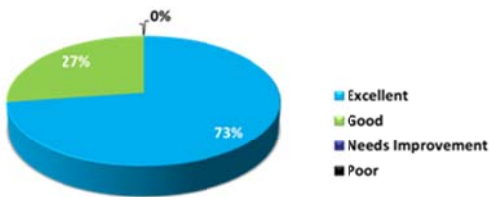
Question Two (A)

Please rate the scheduling and timing of the event:



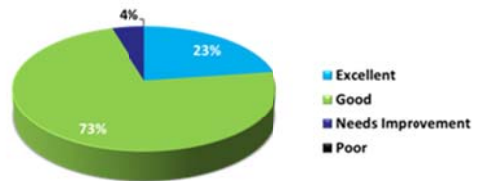
Question Two (B)

Please rate the quality of information given at the event:



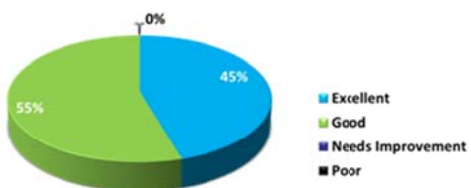
Question Two (C)

Please rate the food and refreshments at the event:



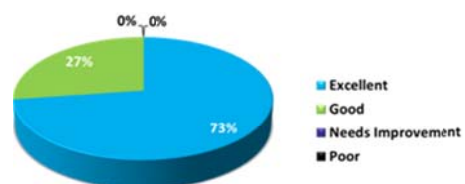
Question Two (D)

Please rate the venue and location of the event:



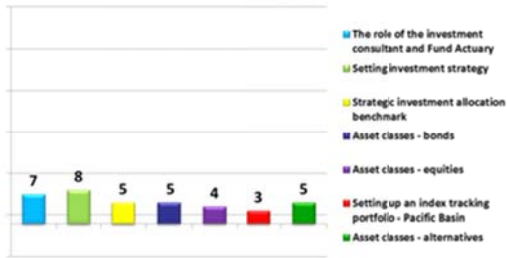
Question Two (F)

Please rate how well you feel the event was organised overall:



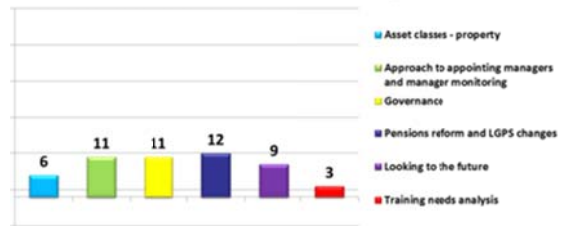
### Question Three – 30 January (including mop-up)

Which agenda item(s) do you feel were most relevant to you? (Ranked by number of responses)



### Question Three – 21 February (including mop-up)

Which agenda item(s) do you feel were most relevant to you? (Ranked by number of responses)



### Question Four

Are there any topics you would have liked to see on the agenda?

- Expanding employer base (doubled in last few years) - What are the risks and what happens if there is a worsening economic picture?
- Detail on commodities
- A little more on how we deal with the many different employers and their diversity

### Question Five

What changes would improve your experience at the Trustee Training days?

- External venue with time to "chat" to advisors/trainers
- Very few - I found it excellent
- Consider some interactive sessions
- The content was relevant and presentations were well given but overall, I didn't feel that I was being told anything I didn't already know
- More time for thought and posing of provocative questions which would lead to debate and more understanding

### Question Six

Is there anything you would like us to consider in planning the next trustee training days?

- Performance monitoring/management
- Parking
- Exercises on lessons learnt
- Have another go at holding the training out of town
- If training is to be undertaken in a 'classroom' environment instead of in 'real' situations, it needs to be relevant to each individual and the skill/knowledge/experience levels of each individual needs to be taken into consideration
- More detail about government lead changes as they arise

### Question Seven

Would you like to provide any further comments?

- Useful content and relevant to job role/responsibilities
- Excellent presentations!
- Hand-out charts need to be larger
- A very informative couple of days. Very useful to me
- Excellent training sessions - variety of speakers good. Not too "heavy" - interesting - high quality of information and material provided - welcoming environment. Thanks for the invite
- A good training day overall. A lot to take in and digest
- As with many things, one size doesn't fit all. Some people will have difficulty in making time for training, often at the cost of giving something else up. I felt that I could have been better utilised today
- Very good presentations - a lot to take in in one go. One the whole a very worthwhile and informative day

# Wolverhampton City Council

## OPEN INFORMATION ITEM

Committee / Panel

**PENSIONS**

Date **26 JUNE 2013**

Originating Service Group(s)

**PENSION SERVICES**

Contact Officer(s)/

**MARK TAYLOR**

**GEIK DREVER**

Telephone Number(s)

**6609**

**2020**

Title/Subject Matter

**COMPLIANCE MONITORING**

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### 1.0 **RECOMMENDATION**

1.1 To receive and note the report.

### 2.0 **PURPOSE OF THE REPORT**

2.1 As a matter of best practice, it has been agreed that a report on the findings of the quarterly Compliance Monitoring Programme together with any other compliance issues will be submitted to Members on a regular basis.

### 3.0 **BACKGROUND**

- 3.1 There is in operation a Compliance Monitoring Programme for the Fund, which aims to ensure the investment management practices of the Fund, its external managers and those with whom it transacts business, follow best practice and operate to acceptable standards. The Member Administration Services Programme aims to provide assurance that member benefits have been calculated and communicated correctly and that where service standards are in place, they are being achieved.
- 3.2 Members of staff having direct and indirect operational involvement with Investments and Member Services undertake the comprehensive Compliance Monitoring Programme.

### 4.0 **CURRENT MONITORING PROGRAMME**

- 4.1 The Compliance Manual has been distributed to all Officers having direct and indirect operational involvement with the investments of the Fund. Confidentiality statements are completed on an annual basis and declarations of personal dealing are required half yearly.
- 4.2 A full Fund compliance induction was completed with Mark Taylor, Assistant Director of Finance and the Fund's Section 151 Officer.
- 4.3 No compliance monitoring visits were undertaken during the period.
- 4.4 A sample of approximately 5% of total purchase and sale transactions during the period have been reviewed for timely and best execution by way of comparison of internal and counterparty records and market information. A selection of expenses charged to the Fund during the period has also been reviewed for accuracy and appropriateness and in the case of external managers, adherence to individual management agreements.
- 4.5 A sample of up to 5% of member transactions, including payment of pension benefits and associated transactions to the Fund's accounts, have been reviewed during the period for timely and accurate calculation and payment, along with appropriateness.
- 4.6 The Compliance Monitoring Programme for the period 1<sup>st</sup> January to 31<sup>st</sup> March 2013 is complete and no issues have arisen. All trades, invoices, payments and receipts sampled met with requirements and were recorded in line with regulatory standards. An examination of document samples was undertaken during this period which also met with requirements.

### 5.0 **FUTURE REVIEWS**

- 5.1 A comprehensive review of the compliance monitoring programme will be undertaken using a risk based approach, including a review of the risk register.

### 6.0 **MATTERS ARISING**

- 6.1 On-going monitoring of national, international and industry press coverage is conducted as part of the Compliance Monitoring Programme to identify any developments which may have a financial impact on the Fund.
- 6.2 No developments were identified within the period which may have financial implications for the Fund.



7.0 **FINANCIAL IMPLICATIONS**

7.1 The report contains no direct financial implications for the Authority.

8.0 **LEGAL IMPLICATIONS**

8.1 The report contains no direct legal implications for the Authority.

9.0 **ENVIRONMENTAL IMPLICATIONS**

9.1 The report contains no direct implications for the Authority's Environmental Policies.

10.0 **EQUALITIES IMPLICATIONS**

10.1 This report has no implications for the Council's equalities policies.

## Wolverhampton City Council

**OPEN INFORMATION ITEM**

Committee / Panel **PENSIONS COMMITTEE** Date **26 JUNE 2013**

Originating Service Group(s) **PENSION SERVICES**

Contact Officer(s)/  
Telephone Number(s) **GEIK DREVER**  
**2020**

Title/Subject Matter **COMBINED GOVERNANCE ACTIVITY**  
**JUNE 2013**

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**1. PURPOSE OF REPORT**

1.1 This report is submitted for Members' information.

**2. RECOMMENDATIONS**

2.1. Members are requested to note the issues being raised and discussed by the Local Authority Pension Fund Forum (LAPFF) as described in the attached minutes of the Business meeting held on 20th March 2013. Also attached are the Quarterly Engagement Report and the Spring Newsletter.

### 3.0 **BACKGROUND**

3.1 The West Midlands Pension Fund has adopted an approach of wanting to position itself as following good corporate governance practices. This is reflected in its approach to active proxy voting and its shareholders' engagement approach with companies.

The approach is actioned through the Fund's voting arrangements and its membership of the LAPFF. Joining with other funds that have similar views to the Fund, produces a large shareholding group which companies are more likely to take note of and respond to. LAPFF has a current membership of 56 public sector pension funds.

The mission statement of the Forum is "to promote the investment interests of local authority pension funds and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations".

### 4.0 **VOTING ACTIVITY\***

4.1 During the period the Fund voted at a total of 280 company meetings – 50 UK, 66 European, 62 US, 32 Japanese, 15 Global and 55 Asian. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld\* 1,022 resolutions out of a total of 3,004, representing approximately 34% of all resolutions. During this period there were 33 meetings where the Fund supported all the resolutions put forward by companies.

The Fund has a bespoke template for voting at UK meetings, however, the Fund currently follows the voting advice of the Pensions and Investments Research Consultants Ltd (PIRC) for European US and Japanese company meetings.

*\*(It should be noted that due to a combination of US state law and individual company bye-laws, votes pertaining to individual directors cannot be cast as "oppose" but have to be cast as "withheld").*

### 4.2 **UK VOTING ANALYSIS**

The major issues of contention during the period are typically illustrated in the examples in the table below:

Company	Meeting	Resolutions Causing Shareholder Concern	Shareholders Opposing or Abstaining
BUMI PLC	EGM	Directors' Appointments	46-62%
Easyjet PLC	AGM	Approve the Remuneration Report	45%
Easyjet PLC	AGM	Elect Sir Michael Rake	44%
Lonmin PLC	AGM	Approve the Remuneration Report	28%
Lonmin PLC	AGM	Re-elect Len Konar	19%
Lonmin PLC	AGM	Re-elect Roger Phillimore	17%

Although the Fund may often oppose a resolution, it will support a resolution if it believes the company has followed best practice, even if there is significant opposition from other shareholders. Background details on some of these resolutions where opposition was significant are detailed below:

### **BUMI PLC (EGM)**

In an attempt to reshape the BUMI board, former director Nat Rothschild had sought to remove a dozen incumbent directors and replace them with his own team headed by Brock Gill as chief executive.

BUMI was created in 2010 by financier Nat Rothschild and Indonesia's Bakrie family in a deal valued at £1.85bn. BUMI plc comprises two subsidiaries, Berau Coal Energy and Bumi Resources. Claims of theft, e-mail hacking and other disputes have since blemished the Company's image. These deepened in September 2012 when an investigation into an alleged financial dishonesty at BUMI was launched, following information sent to Mr Rothschild by an anonymous whistleblower. Mr Rothschild resigned as Non-Executive Director in October 2012.

In his attempt to reshape the BUMI board, Mr Rothschild had sought to remove a dozen incumbent directors and replace them with his own team headed by Brock Gill as chief executive. A core part of the argument between Mr Rothschild and the board was how to resolve the difficult relationship with the Bakrie family. The Board argued that this would not be achieved under Mr Rothschild's plan.

The Board was helped by some last minute changes to the share ownership of the company which appear to have swung the vote decisively in their favour. As a result, only two of the directors – Nalinkant Rathod and Jean-Marc Mizrahi – were removed with the support of 54% and 51% of shareholders respectively. Given that most of the other directors received votes of around 44% in favour of their removal, this may indicate that one or more of the significant shareholders wanted these two off the Board.

In addition, only one of Mr Rothschild's nominees – Sir Richard Gozney – was appointed. Again this was with a vote of 51% in favour, compared to the 43% mark for most other directors. Mr Rothschild also failed in his bid to be re-appointed with investors believing that in order to succeed, a new Board is needed that has no links to influential shareholders.

### **EASYJET (AGM)**

A number of issues arose that lead to a high level of opposition to several resolutions at the AGM of low-cost passenger airline Easyjet. Opposition was led by the company's founder and major shareholder Stelios Haji-loannou.

Mr Haji-loannou had led calls to oppose the election of Chairman Sir Mike Rake as well as the approval of the remuneration report.

The Fund voted against the remuneration report as outstanding Long-Term Incentive Plan awards were subject to a single, absolute performance measure which was considered to be inadequate and contrary to best practice. In addition, future changes to the LTIP provide the potential for executives to be rewarded twice for achieving the same performance.

Another resolution that attracted a high level of opposition was a proposal relating to meeting notification. The resolution reflected the implementation of the EU Shareholder Rights Directive into English law which took place on 3 August 2009 and was implemented by the company in its Articles of Association. Under the regulations, the minimum notice period for general meetings is 21 days unless shareholders agree to a shorter notice period. This particular resolution sought to call general meetings on 14 days clear notice.

As this proposed change was permissible by the Companies' Act, the Fund voted in favour.

### **LONMIN PLC (AGM)**

The remuneration report at mining group Lonmin also attracted a high level of opposition. There were concerns with the potential excessiveness of certain awards as well as the retention payment made to acting CEO and Chief Financial Officer, Simon Scott.

This retention award was made to Mr Scott "to help provide immediate stability for the Company following Mr Scott's appointment as acting CEO in August 2012 and in the midst of the multiple issues facing the Company at that time." The award had a face value of £814,625, being 2.5 times Mr Scott's base salary. However, it should be noted that discretionary payments are not considered to be appropriate and no payment was awarded under the Long Term Incentive Plan which would only have amounted to 1.5 times base salary. In this case Mr Scott was already receiving additional pay for assuming the role of acting CEO. Therefore, the Fund was unable to support this resolution.

Additionally, the Fund voted against the resolution to re-appoint the Chairman, Roger Phillimore. This was due to the fact that Mr Phillimore had already served on the Board for more than nine years and was therefore not considered to be independent.

There was also a high level of opposition to the appointment of another of the Non-Executive directors, Len Konar. In this instance, the company had failed to disclose all of Mr Konar's board positions making it impossible to establish his aggregate time commitments.

### **GRAINGER PLC (AGM)**

The Fund opposed the resolution to re-appoint Pricewaterhouse Coopers as auditors to residential property company Grainger. In the year under review and on an aggregate three year basis, non-audit fees exceeded audit and audit related fees which goes contrary to best practice. There were particular concerns that the level of non-audit fees potentially created the potential for a conflict of interest on the part of the external auditor.

### **TUI TRAVEL PLC (AGM)**

Investors opposed the appointment of several of the directors at the AGM of travel firm TUI Travel.

Non-Executive Director, Horst Baier attracted a significant amount of opposition as he also holds the position of Chief Financial Officer at TUI AG, the company's controlling shareholder.

Another of the Non-Executive directors, Tony Campbell was not considered to be independent due to his length of tenure on the boards of First Choice and TUI Travel. Mr

Campbell also holds a total of five additional board appointments including three chairman positions which raised concerns about his time commitments. It was also noted that he missed one audit committee during the year.

Finally, Senior Independent Director Sir Michael Hodgkinson was described as independent by the Company but he had in fact served on the Board for more than nine years. He too had missed a meeting of the Audit committee during the year.

In all three cases, there were concerns about the lack of independent representation on the Board.

#### 4.3 **OVERSEAS ISSUES**

##### **HEWLETT PACKARD (AGM) – USA**

At the AGM of IT firm Hewlett Packard, there was a high level of opposition to the appointment of a number of the company's directors. The two longest-serving directors, John Hammergren and Kennedy Thompson, received 46% and 45% of votes against their re-election. In addition, Chairman Raymond Lane received 41% of the votes against his return, while 20% voted against the lead independent director.

The company is under increasing pressure after a series of poor acquisitions, including an \$8.8bn write-down on its takeover of the British software firm Autonomy, which is itself accused of false accounting that inflamed its value.

All 11 members of the Board were re-elected with narrow majorities but shareholders supported a proposal allowing them to nominate candidates for the board in future years.

Shareholders also protested against the re-appointment of auditor Ernst & Young, with concerns focusing on the relatively high level of non-audit work done by the firm. The firm has been in charge of HP's accounts for the last 14 years and over \$20m of its \$50m fees for 2012 were for non-audit work.

##### **APPLE (AGM) – USA**

The company sought shareholder approval for a number of amendments to the Company's Restated Articles of Incorporation including:

- (i) to eliminate certain language relating to the term of office of directors in order to facilitate the adoption of majority voting for the election of directors;
- (ii) eliminate "blank check" preferred stock;

The proposals received a high level of shareholder support including that of CalPERS (California Public Employees' Retirement System), an organisation that had long been critical of the company's governance practices. It was agreed that the proposals would be a way of protecting shareholders' rights. However, one major opponent of the resolution argued that the resolution would also make it more difficult for management to return cash to shareholders as they would be required to seek shareholder permission prior to any cash payout. Therefore at the last minute, an injunction was granted by a Federal judge and the proxy vote was cancelled.

## **5. SHAREHOLDER LITIGATION**

In addition to voting, the Fund works in partnership with a US lawyer and a class action monitoring agent to return value back to the Fund through litigation where shareholder value has been lost through fraudulent or irresponsible corporate behaviour. These partners are able to identify where litigation has been successful and submit claims on behalf of the Fund. As a result, during the three months to March 2013 almost \$15,000 has been recovered.

## **6. FINANCIAL IMPLICATIONS**

- 6.1. The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund's objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

## **7. ENVIRONMENTAL IMPLICATIONS**

- 7.1. The report contains no direct implications for the Authority's Environmental Policies.

## **8. EQUALITIES IMPLICATIONS**

- 8.1 This report has no implications for the Council's equal opportunities

*\*Information related to voting is provided by PIRC in accordance with the Fund's template.*

**Agenda  
Item: 5**

**Local Authority Pension Fund Forum**

**Draft Business Meeting Minutes**

**Wednesday, 20 March 2013**

## **Minutes**



## 1. Apologies

### Received from:

Steve McManus  
Dylan Jones  
Cllr Sian Thomas  
Mark Lyon  
Howard Bluston  
Cllr Alec Kellaway

Derbyshire  
Dyfed  
Dyfed  
East Riding Pension Fund  
LB Harrow  
LB Newham

### Present:

Cllr Mike Drew  
Matt Betts  
Cllr Peter Brayshaw  
Nigel Mascarenhas  
Nick Buckland  
Cllr Toby Simon  
Graeme Russell  
Tom Harrington  
Cllr Kieran Quinn  
Jill Davys  
Richard Law-Deeks  
Cllr Richard Greening  
Keith Bray  
Cllr Nev Jackson  
Marlyn McConaghie  
Cllr Cameron Rose  
Leanne Clements  
Mike Taylor  
Cllr Patricia Glasman  
Owen Thorne  
Alex Younger  
Caroline Mann  
Cllr Alastair Bews  
Tim Bush  
Ashley Hamilton  
Janice Hayward  
Martin Marzidovesk  
Alan MacDougall  
Tom Powdrill  
Tessa Younger  
Jane Firth  
Tim Byford  
Andy Hill  
Cllr Chris Davis  
Geik Drever

Avon Pension Fund  
Avon Pension Fund  
LB Camden  
LB Camden  
Dorset CC  
LB Enfield  
Greater Gwent (Torfaen)  
Greater Manchester Pension Fund  
Greater Manchester Pension Fund  
LB Hackney  
LB Hackney  
LB Islington  
LAPFF Officer  
Lincolnshire CC  
Lothian Pension Fund  
Lothian Pension Fund  
LPFA  
LPFA  
Merseyside Pension Fund  
Merseyside Pension Fund  
Norfolk Pension Fund  
North East Scotland Pension Fund  
North East Scotland Pension Fund  
PIRC Ltd  
PIRC Ltd  
PIRC Ltd  
PIRC Ltd  
PIRC Ltd  
PIRC Ltd  
PIRC Ltd  
PIRC Ltd  
South Yorkshire Pensions Authority  
Staffordshire  
Teesside Pension Fund  
Warwickshire  
West Midlands Pension Fund

Cllr Tersaim Singh  
Rodney Barton  
Ian Greenwood  
Catherine Dix

West Midlands Pension Fund  
West Yorkshire Pension Fund  
West Yorkshire Pension Fund  
Wiltshire Pension Fund

## 2. Declarations of interest

None.

## 3. Approve Minutes of LAPFF Business Meeting held on 23 January 2013

The minutes were agreed.

There were no matters arising not covered on the current Business meeting agenda.

## 4. Note minutes of LAPFF Executive meeting held on 5 March 2013

Cllr Peter Brayshaw pointed out that he had been at the Executive meeting and the minutes should therefore be amended to record his attendance.

The minutes were noted subject to the above amendment.

## 5. Report of the Hon Treasurer

Geik Drever presented the report. The report was noted.

## 6. Forum's officers report

Keith Bray presented the report.

The report was noted.

## 7. Company Correspondence and Confidentiality

Alan MacDougall presented the report.

A discussion took place regarding the recommendations, with contributions from Lincolnshire, GMPF, Norfolk, Islington, Camden and West Yorkshire representatives. The Chair called for a vote by way of a show of hands on the adoption of the recommendations in the report. The vote in favour of the recommendations was unanimous.

## 8. a) New LA Public Health Functions and Issues for Local Authority Pension Funds Quarterly Engagement Report b) Public Health Role of Local Authorities Factsheet

a) AM presented the report.

Members discussed the report with contributions from Islington, Merseyside, Warwickshire, Norfolk, GMPF, Lincolnshire, West Yorkshire and Staffordshire on the subject. It was agreed that further discussions between funds would take place off line.

The recommendation in the report was agreed.

b) The Factsheet was noted.

## 9. Quarterly Engagement Report January – March 2013

TY presented the report and described the engagement with Société Générale.

Ashley Hamilton presented the BAT engagement, and Cllr Quinn also reported on the meeting with BAT.

AH presented a report on the attendance of LAPFF members at the Lonmin AGM. Cllr Greening also reported to the meeting on his attendance at the AGM.

Tim Bush gave an update on Financial Reporting and Audit issues.

## 10. Executive Pay Expectations & Action Plan

AH presented the report.

The recommendations were agreed.

## 11. Protocol for inclusion of member requests in workplan

TY presented the report.

The recommendation was agreed.

## 12. Executive Committee Member Role specification

AM presented the report.

The recommendations were agreed.

## 13. The Stewardship Code: an update

Tom Powdrill presented the report.

The recommendations were agreed.

## 14. UK Investor Forum

The report was noted.

## 15. A Practical Guide to Voting in Pooled Funds

The report was noted.

## 16. Investing for Growth: Report on next steps

The report was noted.

## 17. LAPFF's Approach to Engagement

The report was noted.

## 18. Craig MacKenzie, Scottish Widows, Shale gas and fugitive methane emissions. – presentation

CM gave an overview of Scottish Widows action plan on Shale Gas.

CM's presentation was well received by members and a Q&A session took place following the presentation.

CLlr Quinn thanked CM for his presentation to the meeting.

## 19. AOB

At the request of two members a straw poll was called with regard to the Royal Bank of Scotland class action being brought by the RBOS Action Group to see whether any members have signed up to the case.

Cllr Quinn called for a show of hands, no funds present at the meeting had signed up to the initiative.

The date of the next LAPFF business Meeting is Wednesday 19 June 2013.

Spring 2013 edition  
[www.lapfforum.org](http://www.lapfforum.org)



# the view from the forum

Reliable accounts -  
a strategy for  
engagement

Executive pay  
expectations -  
action plan

Shale gas &  
hydraulic fracturing  
in the UK

Staffordshire and  
Greenwich join  
the Forum



**The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 56 public sector pension funds based in the UK. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.**

For more information about the Forum, contact Forum Officer, Keith Bray on 07811 800612.

Alternatively, you can email [postmaster@keithbray.plus.com](mailto:postmaster@keithbray.plus.com) or visit our website at [www.lapffforum.org](http://www.lapffforum.org)

## LAPFF membership as at 1 April 2013

---

- Avon Pension Fund
- Bedfordshire Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- East Riding Pension Fund
- Falkirk Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Gwynedd Pension Fund
- Lancashire County Pension Fund
- London Borough of Camden
- London Borough of Croydon
- London Borough of Ealing
- London Borough of Enfield
- London Borough of Hackney
- London Borough of Haringey
- London Borough of Harrow
- London Borough of Hillingdon
- London Borough of Hounslow
- London Borough of Islington
- London Borough of Lewisham
- London Borough of Newham
- London Borough of Southwark
- London Borough of Tower Hamlets
- London Borough of Waltham Forest
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire County Council
- North East Scotland Pension Fund
- Northern Ireland Local Government Officers Superannuation Committee (NILGOSC)
- North Yorkshire County Council
- Nottinghamshire County Council
- Rhondda Cynon Taf Pension Fund
- Royal Borough of Greenwich
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- South Yorkshire Integrated Transport Authority
- Staffordshire Pension Fund
- Surrey County Council
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire County Council
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire Pension Fund
- Worcestershire County Council

# Reliable accounts - a strategy for engagement

There have been several corporate governance scandals where accounting problems were at the heart of the problem. The most recent being the press reports about BUMI plc and the £71 million of IPO proceeds that cannot be accounted for.

The accounting problems over a ten-year period include:

- Enron
- Parmalat
- Satyam
- The banks
- BUMI
- Southern Cross (going concern problem)
- Farepak (going concern problem)

Unreliable accounting, first flagged up by LAPFF in its post-mortem report on UK and Irish banks, is now being recognised by the Bank of England, the enquiry of the Parliamentary Commission on Banking Standards, the USS led IFRS investor coalition, the ABI and the Chairman of the 100 Group of Finance Directors.

Subsequently, the LAPFF's work on IFRS, and the subsequent debate about the reform of accounting standards and the role of standard setters, has been immeasurably enhanced through participation in an investor coalition, which represents a number of asset owners and asset managers and continues to influence the thinking of relevant bodies on these matters. Furthermore, the effectiveness of this coalition is in marked contrast to the Investment Managers Association led Institutional Investors Committee (IIC),

previously the Institutional Shareholders Committee. The IIC has made submissions purporting to speak on behalf of 'all' investors in their responses to EC consultations on audit reform, despite contradicting NAPF policy positions in this area as well as those of the IFRS investor coalition.

**The Parliamentary Commission on Banking Standards has heard more evidence highlighting the problems with accounting standards. Head of Financial Stability at the Bank of England, Andrew Haldane, said on 21 January 2013:**

*"On our back-of-the-envelope estimates, the extent of structural under-provisioning by the UK banks pre-crisis ran to tens of billions of pounds – non-trivial amounts of money, which should have been set aside. Deducted from capital that would have shown UK banks in somewhat less rude health than appeared to be the case in 2005 and 2006."*



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continued overleaf →



**The LAPFF Post Mortem Report on the capital losses at UK and Irish banks, published in 2011 estimated that by the middle of 2008 UK banks were underprovided (ie, loans were overvalued) by around £100bn.**

The LAPFF will continue to build on the effectiveness of the LAPFF investor coalition (led by USS – the Universities

Superannuation Scheme) with particular focus on:

- the problems with IFRS and the law
- the structural reform of auditing matters (including mandatory rotation of auditors)
- the governance of accounting and auditing standard setting
- building alliances with the preparers of financial reports, including the 100 Group.

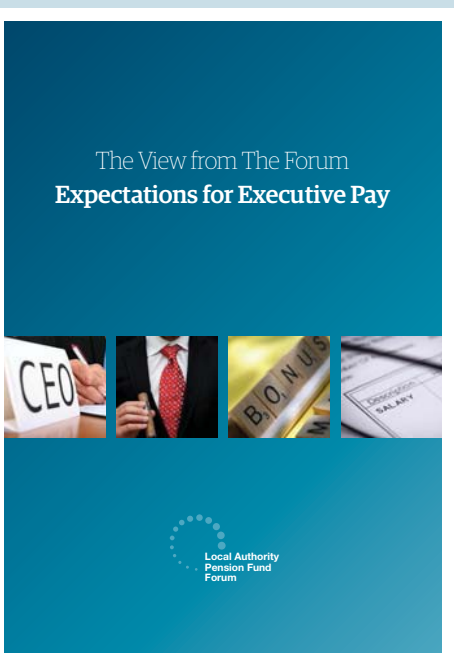
# Executive pay expectations and action plan

The LAPFF is adopting a new policy approach to executive pay comprised of fifteen *'Expectations for Executive Pay'* structured around four broad themes:

- structure and incentives
- pay equity
- executive recruitment, and
- consultation and decision-making.

The *'Expectations for Executive Pay'* document will be sent to a list of 16 target companies seeking their feedback.

The document will also be sent to the FTSE 350 for information only, in advance of the voting season. Executive pay issues will be monitored at the target companies and voting alerts will be issued where it is considered appropriate. Each voting alert will be accompanied by a press release.



# Shale gas & hydraulic fracturing in the UK

Shale gas is a form of unconventional oil and gas which is found in geologic shale formations located approximately 1,000 to 4,000 metres below the earth's surface.



Technological innovation in recent years has opened up shale gas extraction through the use of hydraulic fracturing ('fracking') techniques, whereby companies drill vertically and then horizontally into the shale formation. A mix of water, sand and chemicals is then piped into the well under high pressure, creating small fractures in the shale and releasing the gas, which is piped back to the surface for processing.

Fracking has been used historically in England for more than thirty years to enhance conventional oil recovery, during which time more than 2,000 wells have been fractured. The first fracking of a gas well in the UK took place in 1996 to enhance recovery of coalbed methane at Elswick gas field in Lancashire. The first

shale gas fracking process started at the Preese Hall site in Lancashire, operated by Cuadrilla Resources. Fracking at this site took place between August 2010 and May 2011.

In April 2011, a magnitude 2.3 earthquake occurred near the Cuadrilla drilling site just ten hours after the well had been fractured. A second earthquake of a magnitude of 1.5 occurred in May 2011 after another round of fracking. This raised concerns that the quakes were linked to the drilling and fracking process. Permission for fracking at the Cuadrilla site and across the rest of the UK was subsequently suspended pending further investigation.

continued overleaf →



Satisfied with the investigative reports and the recommendations they made on risk mitigation, the government announced in December 2012 that it was lifting the ban on exploratory fracking. It also announced that it was establishing an Office for Unconventional Gas to coordinate regulation of the industry.

Estimates of the potential economic benefits from fracking in the UK vary enormously from the very bullish to the very conservative and, as a result, the debate about the value of these benefits continues.

In summary:

- The domestic shale gas industry is in its infancy, with only a handful of publicly-traded companies with known exposure in the UK. This includes AIM-listed IGas, and FTSE100 firm BG Group.
- The implications for institutional investors such as LAPFF members could be very significant - the Forum will therefore continue to monitor developments closely.
- There may be opportunities to engage with companies providing drilling or engineering services and supplies to the domestic shale gas market, or to engage with UK-listed oil majors that currently have fracking operations overseas.



- We will initiate engagement with BG Group in an effort to better understand the issues involved and to help inform the Forum's view on the economic value of shale gas and any environmental and social concerns.

Future engagement may also include:

- Engagement with oil majors (including BP and Shell) on shale gas development and fracking in international operations; and
- Engagement with oil and gas engineering or drilling firms, or companies providing equipment and services to the shale gas industry regarding quality control and safety.



# Other news in brief

## The Forum:

- met with the chairman of **British American Tobacco** to discuss health risks related to the manufacture and sale of tobacco products.



- attended the **Lonmin** AGM to enquire about the company's ongoing response to issues flagged up by the violent strike at its Markiana mine.



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- received a response from **Tesco** on questions raised regarding business risks and labour concerns at its Fresh & Easy operations in the United States.



- engaged in ongoing dialogue with **National Express** on disparity in application of global labour standards.



- wrote to **JP Morgan & Chase** welcoming the decision by the remuneration committee to reduce the CEO's remuneration following the recent trading scandal and subsequent financial losses in its London offices.



- held a conference call with **Comcast** regarding separation of chair and CEO, majority voting and the company's dual class share structure.



- participated in an investor call with directors of **Hewlett Packard**



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regarding the controversial takeover of **Autonomy** and subsequent questions raised about its auditors.

- met the senior independent director at **Société Générale** to discuss the concentration of power held by the joint chair/chief executive.

# New LAPFF Chair welcomes Staffordshire and Greenwich as members



Councillor Kieran Quinn, Chair of the Greater Manchester Pension Fund, who was recently elected as the new Chair of the Local Authority Pension Fund Forum has welcomed decisions by the Staffordshire Pension Fund and the Royal Borough of Greenwich Pension Fund to join the LAPFF.



Councillor Quinn said: *"The majority of LGPS funds are now members of the LAPFF – our profile has never been higher and our ability to influence events has never been greater with each new member bringing its individual view to our discussions. I encourage the remaining funds to come along and join us – you will receive a very warm welcome. We face many challenges in 2013, but by working and acting together, we can achieve so much more."*

A spokesperson for the Staffordshire Fund said: *"By joining LAPFF and working alongside other local authority pension funds, we can increase our power as shareholders to influence companies on important corporate governance issues and better protect shareholder value."*

## Meet the new members of the LAPFF Executive

Councillor Patricia Glasman, Chair of the Merseyside Pension Fund and Councillor John Gray were elected as new members of the LAPFF Executive at the AGM in January.



Councillor Patricia Glasman  
Merseyside Pension Fund



Councillor John Gray  
London Borough of Newham Pension Fund



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Wolverhampton City Council

**OPEN INFORMATION ITEM**

Committee / Panel	<b><u>PENSIONS COMMITTEE</u></b>	Date	<b><u>26 JUNE 2013</u></b>
Originating Service Group(s)	<b><u>WEST MIDLANDS PENSION FUND</u></b>		
Contact Officer(s)/ Telephone Number(s)	<b><u>GEIK DREVER</u></b> <b><u>2020</u></b>		
Title/Subject Matter	<b><u>LGPS 2014: UPDATE ON PROGRESS</u></b>		

---

**1. RECOMMENDATION**

- 1.1 Members are requested to note the activity and progress to date in respect of the new 2014 LGPS scheme.

## **2. LGPS 2014: Journey to date on the implementation of the new scheme**

2.1 The Consultation on the draft LGPS Regulations 2013 and the draft (Transitional Provisions and Savings) Regulations 2013 were issued in March and have both recently come to a close on 5th and 24th May respectively.

### 2.2 Draft LGPS Regulations 2013

- The release of the second draft of the regulations represents the next key stage in the development of the new scheme regulations. At this stage, the focus remained on the core elements of the new scheme relating to membership, contributions and benefits.
- These draft regulations are still not complete and there are a number of policy issues which are yet to be agreed and have been omitted from the regulations. These outstanding issues contain a number of key areas required for administration of the scheme, including, Aggregation, Assumed Pensionable Pay (APP) and Revaluation.
- The Fund has raised concerns in terms of these outstanding issues and have stated it is important that the issues relating to pay are not over complicated in order to ensure the information can be efficiently and easily calculated by employers and that scheme members can understand the pay that is being used in the calculation of their pension benefit.

### 2.3 Draft LGPS (Transitional Provisions and Savings) Regulations 2013, Annex C

- This was the first draft of these regulations and the consultation period for these regulations was 8 weeks ending on 24 May 2013.
- In general the draft provisions cover the transfer of members and accrued benefits from the old scheme to the new scheme, however concerns have been raised over the cost implications of the protected final pensionable pay and the complexity of administering the rule of 85 protections.
- Clarification is required on the intention of the statutory underpin as it only appears to apply to active members who were 55 or over on the 1 April 2012 and who retire from the new Scheme on or after age 65. This appears to exclude those members who retire before age 65. There is also no mention of the underpin having to be adjusted for a member who is in the 50:50 scheme. Difficulties may arise to prove a member has not had a disqualifying break and the regulations should state who has the responsibility for proving this.

## **3. The Public Service Pensions Bill**

3.1 The Public Service Pensions Bill was enacted in April 2013, and sets the framework for all public service pension schemes. The introduction of the Public Service Pensions Act 2013 brings with it changes to the framework for scheme governance.

A major change in scheme governance is the introduction of a Scheme Advisory Board for the LGPS which will have responsibility for providing advice

to the Responsible Authority (DCLG) and Local Pension Boards. Ministers have agreed to the establishment of a Shadow Scheme Advisory Board as well as five sub-committees for the LGPS to inform and test the process of operation prior to the Board's statutory formation in 2014.

- 3.2 The Shadow Board will have seats for up to four elected members to represent the views of fund administering authorities. Nominations have therefore been invited for elected members who are serving members of pension committees (or equivalent), have strong all round knowledge of the scheme and significant investment expertise gained in an LGPS environment.
- 3.3 On behalf of the West Midlands Pension Fund, Councillor Peter Bilson has been nominated for a seat on the Shadow Board. At the time of writing, successful nominees have not yet been announced, although the first official meeting is anticipated to take place before the end of June 2013.

#### **4. Next steps**

- 4.1 A further version of the draft LGPS Regulations 2013 is expected for consultation this month and will include the first draft of the section on Administration together with a discussion paper on governance requirements for the new scheme.



## Wolverhampton City Council

**OPEN INFORMATION ITEM**

Committee / Panel	<b><u>PENSIONS</u></b>	Date	<b><u>26 JUNE 2013</u></b>
Originating Service Group(s)	<b><u>PENSION SERVICES</u></b>		
Contact Officer(s)/ Telephone Number(s)	<b><u>GEIK DREVER</u></b> <b><u>2020</u></b>		
Title/Subject Matter	<b><u>INVESTMENT POLICY AND PERFORMANCE REPORT 2012/13</u></b>		

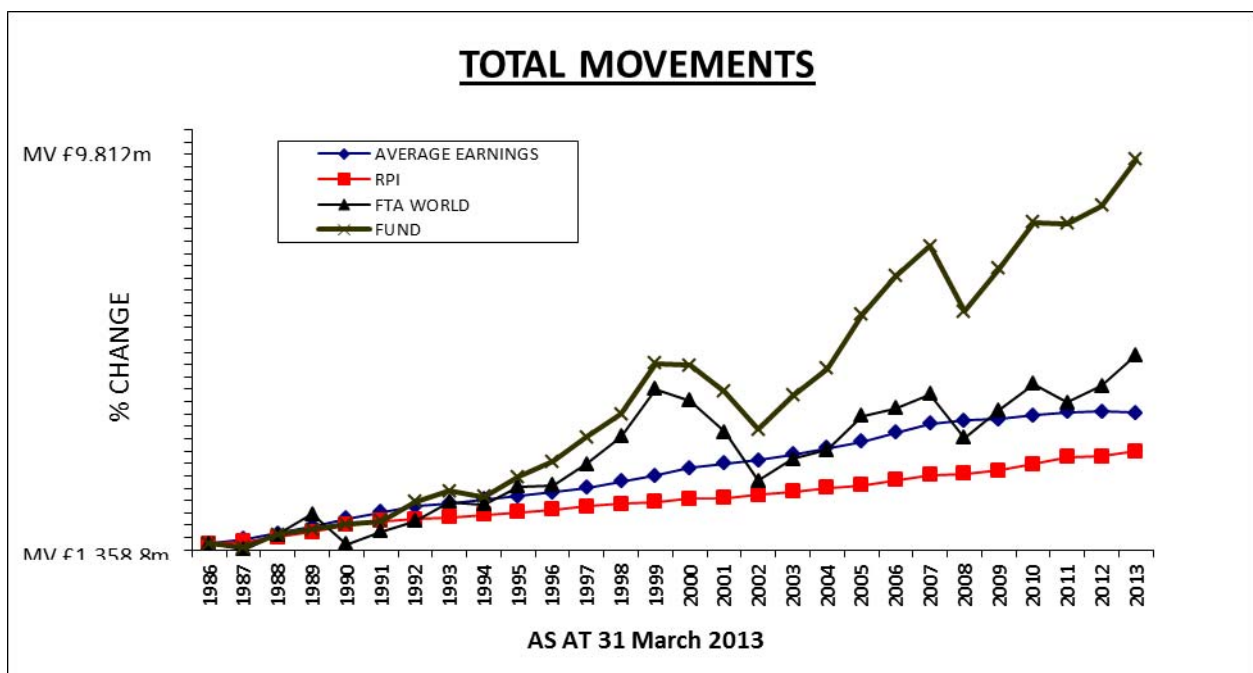
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**1. PURPOSE OF THE REPORT**

- 1.1 This report is submitted to inform Members of the investment policy, investment strategy and investment returns earned on the Pension Fund as at 31 March 2013 and earlier years.

## 2.0 INVESTMENT POLICY

- 2.1 Investment policy comprises two main elements: a) the Committee's longer-term asset allocation benchmark and b) the shorter-term tactical asset allocation. Following the unprecedented market turmoil of 2008, the Pensions Committee approved a new benchmark in January 2009 with a further review in 2011. The revised investment strategy quantified the investment risks being taken by the Fund and designed a benchmark that best balanced the risk and likelihood of improving the funding position over the medium- to long-term. Essentially, it was a continuation of the process of diversification which had evolved from the triennial actuarial reviews.
- 2.2 The 2009 benchmark involved a further 10% reduction in quoted equities, primarily UK. The 2012 SIAB review recommended no change to this asset allocation except for splitting the Fixed Interest Allocation (20%) into stabilising (10%) and return seeking (10%). A plan setting out the implementation of the 2012 SIAB on portfolio structure and better use of governance budget was agreed by IASC in October 2012. The 2012 SIAB also revised the target returns down from 9.6% (market return of 7.6% plus active return of 2.0%) to 6.9% (market return of 6.0% plus active return of 0.9%) in the medium term.
- 2.3 At the beginning of the period, the Fund's market value was £8,801m. By the end of March 2013, the value of the Fund was £9,812m which reflects net cashflow and appreciation in market value. The graph below illustrates the cumulative movement of the Fund since 1986 resulting from the implementation of investment policies, market movements, unrealised profits and net cash inflows.



- 2.4 The Fund continues to have strong positive cash inflows, though future cash flows may well be impacted by a reduction in contributions due to a fall in active membership as a result of redundancies, early retirements and members choosing to opt out.

## 3.0 ASSET ALLOCATION

- 3.1 The following table shows a summary of the asset distribution for the period ended 31<sup>st</sup> March 2013 compared with the Strategic Risk Bands agreed by the Pensions Committee. The Fund's closing market value of £9.8bn reflects a net investment of £70.5m and

appreciation of investments resulting from positive market returns and stock selection during the period

Portfolio	Strategic Risk Bands %	Opening Levels %	Closing Levels %	Closing Market Value £M	Net Investment £M
UK Equities		9.8	9.9	970	-2.1
Global Equities		5.4	5.0	494	-60.1
Total Overseas Equities		27.0	27.9	2,741	-15.9
North America		8.9	9.6	943	-0.8
Continental Europe		7.1	5.9	576	-128.1
Pacific Ex Japan		2.9	4.3	425	113.8
Japan		1.8	1.9	188	-0.8
Emerging Markets		6.3	6.2	609	0
Private Equity		12.7	12.6	1,232	-0.8
<b>Total Equities</b>	<b>45.0-65.0</b>	<b>54.9</b>	<b>55.4</b>	<b>5,437</b>	<b>-78.9</b>
UK Gilts		2.2	2.0	197	0
Specialist Fixed Interest		3.5	3.3	321	165.9
Index Linked Gilts		6.8	6.8	664	-2.6
Corporate Bonds		5.1	4.8	473	8.6
Emerging Market Debt		3.4	3.3	325	6.6
Cash		2.1	3.3	325	131.4
<b>Total Fixed Interest</b>	<b>15.0-25.0</b>	<b>23.1</b>	<b>23.5</b>	<b>2,305</b>	<b>309.9</b>
Property		9.0	8.6	838	-29.7
Absolute Return		7.5	7.1	699	-156.3
Infrastructure		3.3	3.3	326	14.6
Commodities		2.2	2.1	207	10.9
<b>Total Complementary</b>	<b>20.0-30.0</b>	<b>22.0</b>	<b>21.1</b>	<b>2,070</b>	<b>-160.5</b>
<b>Total Non Equities</b>	<b>35.0-55.0</b>	<b>45.1</b>	<b>44.6</b>	<b>4,375</b>	<b>149.4</b>
<b>Total</b>	<b>-</b>	<b>100.0</b>	<b>100.0</b>	<b>9,812</b>	<b>70.5</b>

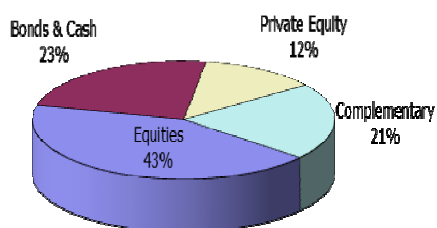
- 3.2 The investment strategy allocation is determined in accordance with the regulations (LGPS - Management and Investment of Funds - Regulations 2009) and its formulation is set out in the Fund's Investment Strategy and Statement of Investment Principles. In accordance with the investment management regulations, the schedule of limits on investments is varied to the higher limit of 15% from 5% for the contributions to partnerships (rising to 30% from 01/04/13), and 15% from 10% for investments in unlisted securities of companies. These limits are kept under review and reviewed every time the SIP is reviewed.
- 3.3 The table above highlights the direction of the Fund's investment strategy over the 12 months, which is an ongoing reduction in quoted equities and an increase in complementary assets.
- 3.4 All main asset classes closed within their wider strategic risk bands. In view of the investment project/transition plan agreed by the Investment Advisory Sub Committee (IASC) on 17 October 2012 to implement the 2012 SIAB it was agreed at the Pensions Committee meeting on 21 November 2012 that current tactical asset allocation decisions

be temporarily suspended until full implementation of the SIAB has taken place. The asset allocation continues to be monitored on a regular basis and the Committee will be advised on a quarterly basis of any significant changes

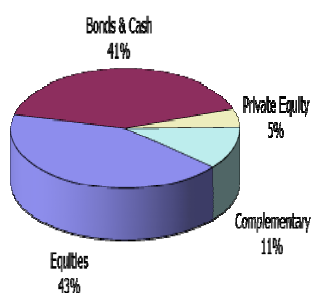
3.5 The difference in returns between the various funds are determined primarily by asset allocation. In fact, over 90% of returns are attributable to asset allocation rather than stock or manager selection.

3.6 The pie charts following highlight the difference in West Midlands Pension Fund asset allocation as at 31 March 2013:

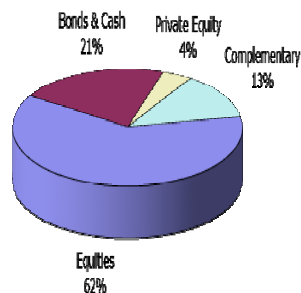
**WMPF**



**WM50 AV. FUND**

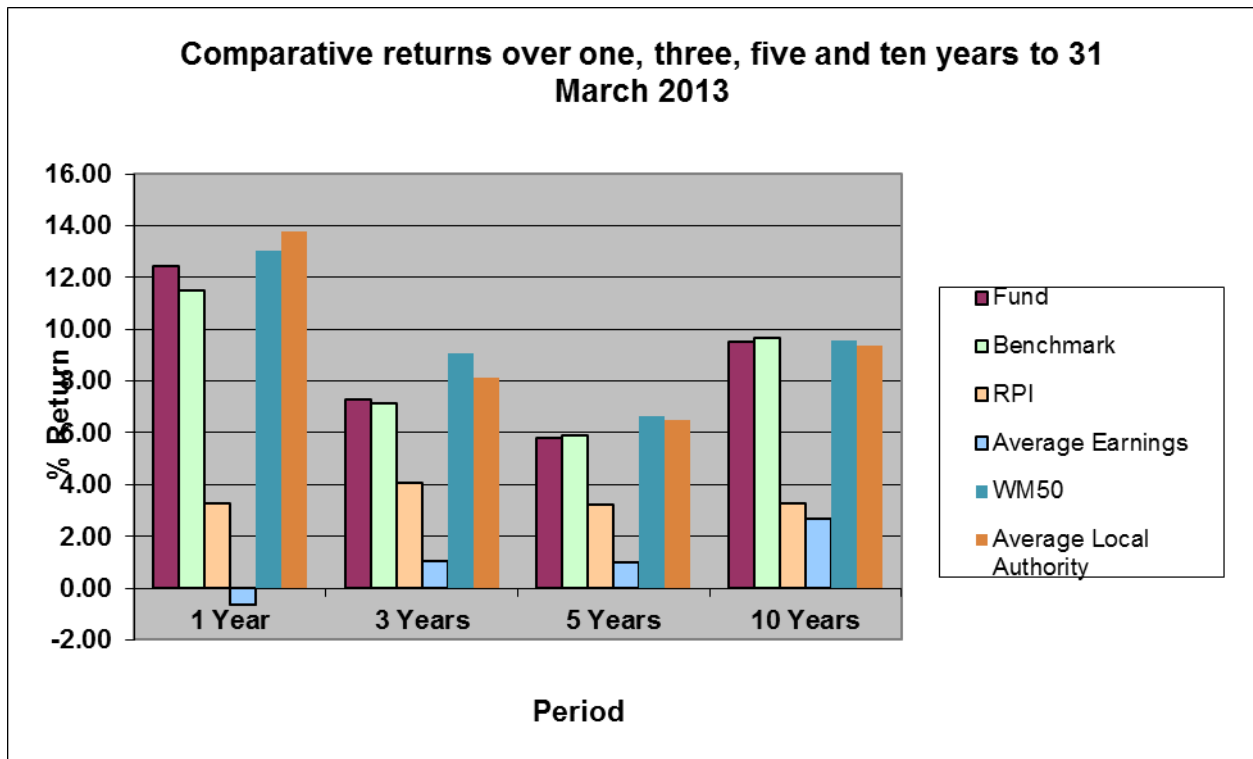


**AV. LA FUND**



#### 4.0 RETURNS AS AT 31 MARCH 2013

4.1 The Fund's returns over one, three, five and ten years compared to its bespoke benchmark, retail prices index (RPI), average earnings and its peers are illustrated in the chart shown below.

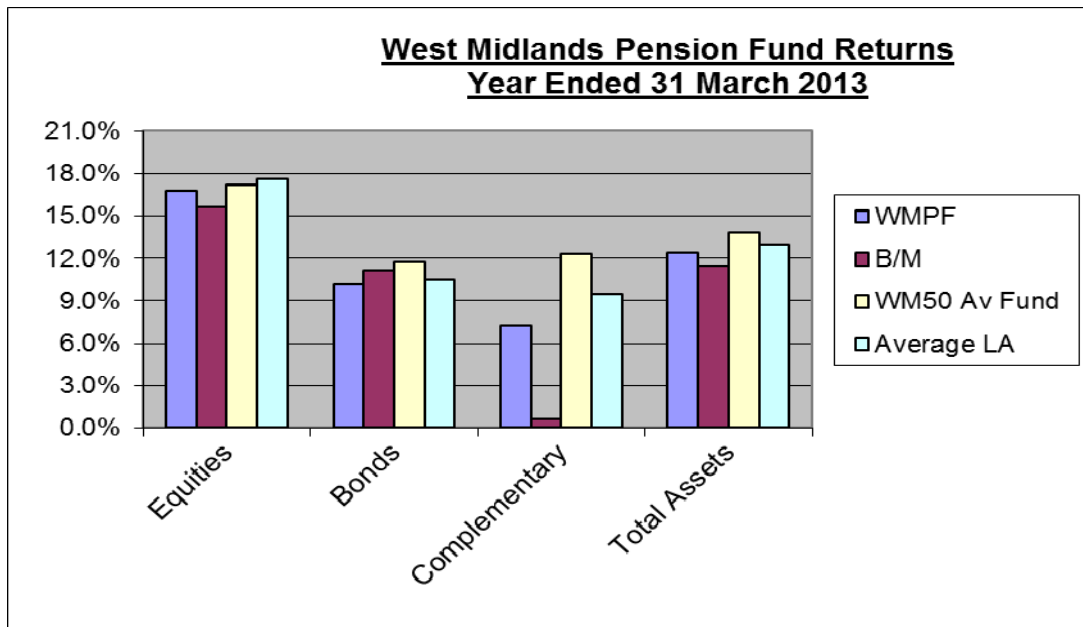


4.2 The Fund delivered a return of 12.4%, ahead of its bespoke benchmark of 11.5%. The main contributors to this strong outperformance were the Absolute Return and Property portfolios. The positive attribution from Absolute Return was due to a combination of upward market movements and good stock selection. Strong stock selection also resulted in the positive contribution from Property.

4.3 A positive return of 7.3% was achieved over the medium term by the Fund outperforming its bespoke benchmark return of 7.1% by 0.2%. This was mainly due to stronger returns from UK and Overseas equity portfolios.

4.4 The Funds long term performance of 9.52% is slightly below the benchmark of 9.64% but remains comfortably ahead of increases in RPI and Average Earnings.

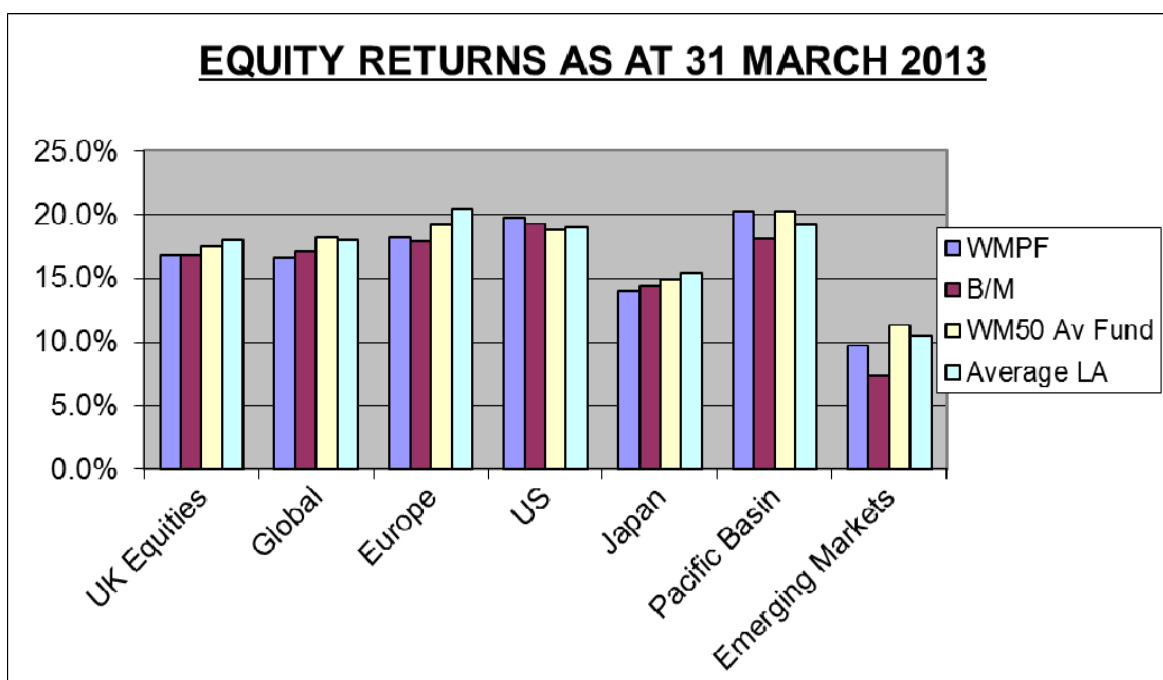
4.5 The graph following illustrates the returns of the Fund's main asset classes for the year ended 31 March 2013 and compares them to the returns from its bespoke benchmark and its peers, the WM50 average fund and the average local authority fund:



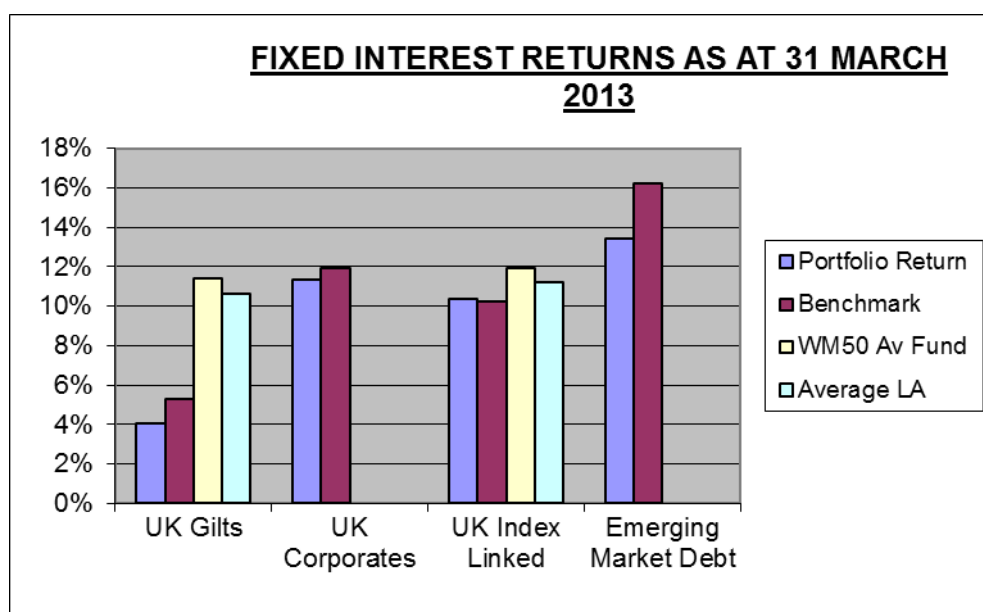
Note: the scheme-specific benchmark for individual asset classes are recognised indices, but for the wider asset classes is a combination of weighted indices.

4.6 The Fund's total return outperformed its scheme specific benchmark by +0.9%, but underperformed the average WM Local Authority Fund and WM50 fund by 1.4% and 0.6% respectively. With the exception of bonds, the Fund's asset classes outperformed their benchmarks, demonstrating that the Fund's choice of funds contributed strongly to performance. Both the WMPF and WM50 Fund have a similar allocation to quoted equities, which is significantly lower than that of the average local authority. The WMPF has a much higher allocation to complementary assets compared to its peers whilst the WM50 Fund has a larger percentage allocation to fixed income, which was by far the stronger performing asset classes during the period, accounting for the very strong performance of the average WM50.

4.7 The graph below illustrates the returns of the different quoted equity markets:



- 4.8 The Fund's quoted equities portfolios benefitted from the overall rally within equity markets, delivering a return of 16.8% over the year. Initial concerns over the Eurozone sovereign debt crisis receded as the European Central Bank announced plans for large-scale bond purchases. Performance in the US was driven by strong economic data and a partial resolution to the fiscal cliff while markets in Japan benefitted from the election of Prime Minister Abe and his plans for more aggressive stimulus measures.
- 4.9 The Emerging Markets portfolio enjoyed particularly strong outperformance against the bespoke benchmark over the year due to the performance of some of the underlying managers. A number of externally managed funds within the Global and European portfolios were redeemed because of persistent underperformance
- 4.10 The graph below illustrates the returns of the different bond markets:

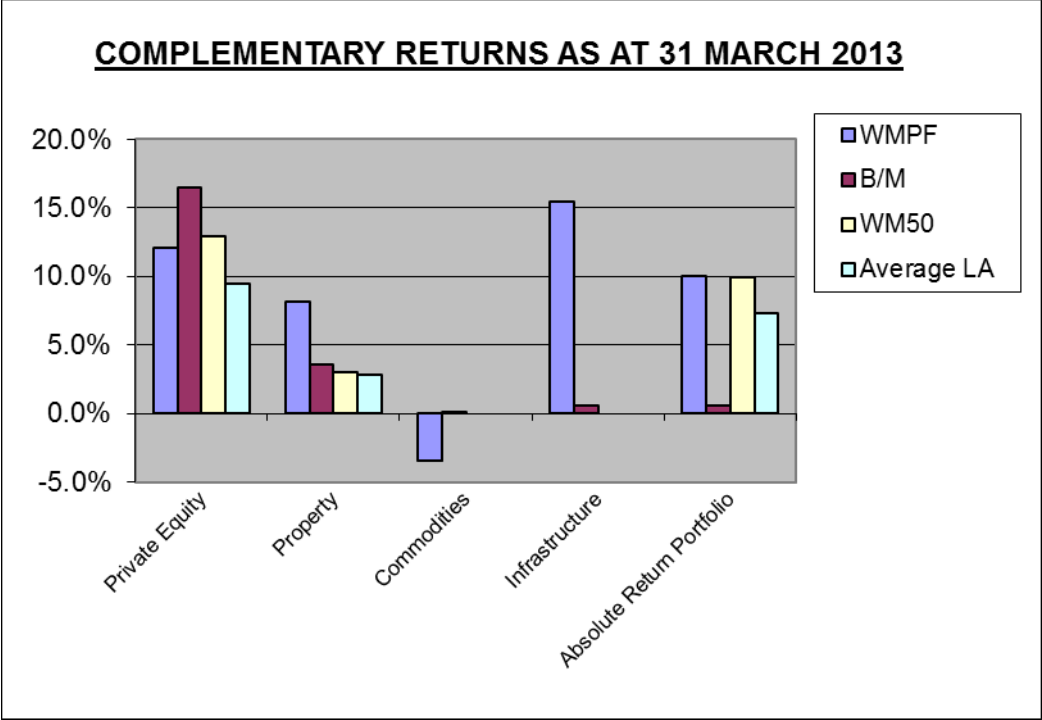


WM do not publish separate figures for corporate bonds or emerging market debt in respect of average industry returns.

- 4.11 During the year ending 31 March 2013 fixed interest markets were once again dominated by uncertainty surrounding the Eurozone area. A rally in the gilt market part way through the year was not sustained as positive sentiment returned to risk markets causing a sell off in gilts and a narrowing of credit spreads. The competing forces of high inflation and a challenging economic environment continued to create volatility in the UK market and investing in gilts remained challenging as yields fell towards historically low levels. Concerns over Cyprus in March saw a return to risk aversion and gilts once again rallied. UK inflation as measured by the Consumer Prices Index (CPI) began the year at 3.5% and fell steadily to 2.2% by September before rising again to reach 2.8% at the year end. The Bank of England maintained the base rate at 0.5% for the whole of the year. The asset purchase program, Quantitative Easing, (QE) has reached £375bn with the possibility of more to come in 2013-14 following the appointment of Mark Carney as the new Governor.
- 4.12 Positive returns were achieved across the range of fixed interest sectors with Emerging Market Debt performing particularly strongly returning 13.5%. Despite this performance the sector underperformed its benchmark by 2.7% due to poor country selection by two of the managers. Conventional UK gilts was the worst performing sector but still managed a positive return of 4.1%. The fund underperformed its benchmark by 1.2% due to an overweight position in short dated gilts which in turn underperformed the broader All

Stocks Index. Also the Fund only has a relatively small, passive allocation in index-linked, an asset class which performed well over the period, this resulted in the average fund out-performing the Fund.

4.13 The graph below shows the returns from the Fund’s investments that make up the complementary assets:



4.14 There was mixed performance from the complementary assets over the 12 months to 31<sup>st</sup> March 2013. Infrastructure was the best performing asset class returning 15.4% with notable contributions from the Aqua Resources, Innisfree PFI III and First Reserve Energy funds. Strong returns from the distressed credit funds underpinned the performance in the Absolute Returns portfolio which returned 10.0% for the year. Private Equity increased by 12.1% for the year against the benchmark return of 16.9%. Performance was affected by the strong US dollar and valuations lagged the recovery in the US stock market. Property returned 8.2% for the year against a benchmark return of 3.6% as global real estate markets continued to recover. Commodities were again the worst performing asset class, resulting in a loss of 3.4% against a benchmark gain of 0.1%.

4.15 WM returns for a number of complementary assets are not available; with scheme-specific benchmarks being separately measured. As more funds continue to diversify, average industry figures are more likely to be measured, for example, WM now publish an average fund return for private equity, infrastructure and hedge funds. It should be noted however that these returns are only an indication of direction as they include returns from listed vehicles which perform very differently to direct investments in such asset classes.



## 5.0 WEST MIDLANDS PENSION FUND HISTORICAL RETURNS

5.1 The returns as at 31 March 2013 from the Fund's main asset classes are shown in the table below, as are the three and five year annualised returns where available.

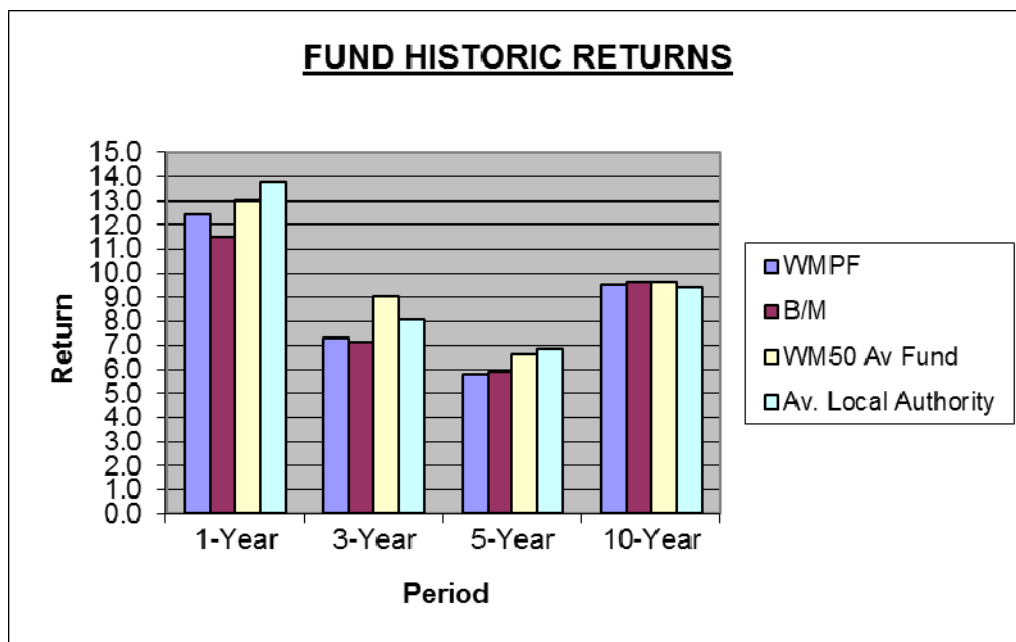
	31/03/13 %	3-year %	5-year %
UK Equities	16.84	9.04	7.00
European Equities	18.21	4.01	3.00
US Equities	19.75	12.16	12.23
Pacific Basin Equities	20.24	8.89	9.79
Japanese Equities	13.93	3.90	5.40
Emerging Markets Equities	9.74	4.22	7.74
Global Equities	16.61	8.10	7.45
Gilts	4.07	7.91	6.89
Index Linked	10.39	11.57	8.64
Corporate Bonds	11.37	8.29	7.37
Property	8.19	7.58	1.76
Private Equity	12.11	8.80	5.20
Commodities	(3.42)	1.85	(7.11)
Emerging Market Debt	13.45	9.11	12.59
Infrastructure	15.42	2.17	(0.88)
Absolute Return Strategies	9.99	5.85	N/A
Total Fund	12.44	7.30	5.80

5.2 The five-year returns, as expected, are mixed with a couple of asset classes generating negative returns. Both of these classes are in alternative investments which, historically, have a more volatile performance record. The second highest returning asset class was US Equities which returned +12.23%, closely following emerging market debt which returned +12.59%.

5.3 The strongest one-year performance came from Pacific Basin Equities, which returned a remarkable +20.24%, followed by returns of +19.75% and +18.21% from US and European equities respectively.

5.4 The poorest performance during the 12 month period came from Commodities, which returned -3.42%, with UK Gilts being the second poorest despite returning a positive performance of +4.07%.

5.5 The Fund's historic returns against its benchmark and other funds over one, three, five and ten years are shown in the following bar chart:



5.6 Over the 12 month period WMPF returned +12.44%, outperforming the benchmark return of +11.48% but underperforming the average local authority return of +13.80% and the WM50 average return of +13.01%.

5.7 The Fund's lower allocation to quoted equities contributed to its underperformance against the average local authority fund. At year end its allocation stood at 42.8% which is equivalent to that of the WM50, compared to the average local authority fund's allocation of 61.7%.

5.8 The WMPF underperformed against the average WM50 fund due to the lower allocation to bonds. The WM50 fund had an allocation of 37.5% at the 31 March 2013, compared to 18.6% for the Fund.

5.9 There are some small differences in returns between the Fund, its benchmark, the WM50 and the average local authority fund over three, five and ten years but nothing material.

5.10 The major investment highlights over recent years are as follows:

- The use of equity futures during the latter half of 2005 and during 2006 to maintain the Fund's equity allocation while new managers and mandates were being established.
- Restructuring of UK gilts portfolio in May 2006, followed in October 2007 by a move to external passive management of the index-linked portfolio.
- Decision during 2006 to make initial allocation to a number of new complementary investments including emerging market debt, commodities, active currency, and indirect overseas property.
- Risk budget developed in 2006/2007 identifying and separating out target returns for beta (market returns) and alpha (active management). The Fund's allocation to complementary assets modestly reduced the overall risk while maintaining, or ideally increasing the Fund's overall target return.
- In September 2007, the Fund implemented a phased passive hedging programme, appointing JP Morgan as its FX partner, completing in March 2008. In October 2008, the programme was cancelled as the cash transfers out were negatively impacting the Fund's liquid assets due to the unprecedented volatility of the currency markets.

- The extreme market conditions also made it difficult for the active currency managers to deliver positive returns, and two of the three mandates were ended in 2008, the third mandate being terminated during 2010.
- In December 2008, the stocklending programme was temporarily suspended due to worries over counterparty risk, but was reinstated using HSBC in December 2009 following the return of less turbulent market conditions.
- Following the unprecedented turmoil in the 2008 markets, the Fund reviewed its benchmark and risk budget with a revised investment strategy going to Committee in early 2009, further de-risking the Fund's exposure to quoted investments in order to develop an 'all weather fund'. Essentially, a further 10% was taken out of UK equities and reinvested in emerging market equities (2%) and absolute return strategies (8%).
- During 2009/2010 the mandates of seven equity managers were terminated, partly on grounds of performance and partly in response to the revised investment strategy of reducing equities.
- Since 2010 the absolute return strategies portfolio has exceeded Fund's expectations, delivering a return over 3 years of 5.9% against a benchmark return of 0.7%.
- A further reduction in quoted Equities continued during 2011 to fund an increased allocation to the Absolute Returns, Private Equity and Property portfolios. Since the end of 2008 the fund has increased the use of Money Market Funds as opposed to Short Term Deposits for its' sterling cash balances. This is due to the low interest rate environment and the poor credit ratings of the banking sector. It also allows cash to be readily accessible for funding investments

## **6.0 INVESTMENT MANAGEMENT AND PORTFOLIO CONSTRUCTION**

- 6.1 The investment policy of the Fund is approved at each quarterly meeting of the Pensions Committee and implemented by the Investments Division within Pension services. The Division consists of a number of specialist teams which reflect the asset allocation and functions of the Fund. These teams currently cover quoted equities, complementary investments with fixed interest, treasury management and investment accounting.
- 6.2 The Division manages approximately 45% of total investments in-house, with the balance invested in external pooled vehicles or specialist segregated funds. The proportion of the Fund managed externally is in direct response to the Fund's increased allocation to complementary assets which require external specialist investment skills.
- 6.3 The Fund recognises that the mainstream quoted equities and fixed interest markets are the most efficient, thus passive management tends to dominate within these asset classes. Although most use of specialist managers is within complementary assets, the Fund still uses active management in mainstream assets where inefficiencies and market opportunities exist. Examples of this are found within emerging market equities and emerging market debt both managed on an active basis by external specialists.

## **7.0 ENVIRONMENTAL AND EQUAL OPPORTUNITIES IMPLICATIONS**

- 7.1 There are no direct implications for the environmental and equal opportunities policies arising from this report. The Fund has an engagement policy towards gaining improvements in company's governance, employment and environmental practices, which are reported upon separately