

Pensions Committee

Minutes - 21 June 2017

Attendance

Members of the Pensions Committee

Cllr Ian Brookfield (Chair)
Cllr Keith Inston (Vice-Chair)
Cllr Harbans Bagri
Cllr Peter Bilson
Cllr Jasbir Jaspal
Cllr Louise Miles
Cllr Phil Page
Cllr Paul Singh
Cllr Tersaim Singh
Cllr Wendy Thompson
Cllr Keith Chambers (Walsall MBC)
Cllr Changese Khan (Birmingham City Council)
Cllr John Mutton (Coventry City Council)
Cllr Angela Sandison (Solihull MBC)
Cllr David Sparks (Dudley MBC)
Malcolm Cantello (Trade Union Representatives)
Ian Smith (Trade Union Representatives)

Employees

Geik Drever	Strategic Director of Pensions - West Midlands Pension Fund
Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Jason Fletcher	Chief Investment Officer - West Midlands Pension Fund
Dereck Francis	Democratic Services Officer
Jane Hazeldine	Trustee Management Officer
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Head of Finance - West Midlands Pension Fund
Amanda MacDonald	Client Lead Auditor – City of Wolverhampton Council
Amy Regler	Programme Manager - West Midlands Pension Fund
Mark Taylor	Director - City of Wolverhampton Council
Simon Taylor	Head of Client and Funding Management - West Midlands Pension Fund

Part 1 – items open to the press and public

Item No. *Title*

- 1 Apologies for absence (if any)**
Apologies for absence were submitted on behalf of Cllr Sandra Hevican (Sandwell Metropolitan Borough Council) and Martin Clift, UNITE.

2 **Notification of substitute members**

No notification of substitute members were received for the meeting.

3 **Declarations of interests (if any)**

There were no declarations of interests.

4 **Minutes of previous meetings**

Resolved:

That the minutes of the meeting of the Pensions Committee and the Investment Advisory Sub Committee held on 22 March 2017 be approved as a correct record and signed by the Chair.

5 **Matters arising**

With reference to Minute No. 12 of the Pensions Committee (Markets in Financial Instruments Directive (MiFID) II Adoption). The Committee was advised that proposed changes to the Financial Conduct Authority implementation policy were expected which would make it easier for Funds to 'opt up' to professional client classification under the EU directive. Confirmation was expected by the end of the month. The Fund would still need to 'opt up' but this would become an administration exercise.

With reference to Minute No. 5 of the Investment Advisory Sub Committee (Cleveland Planning Application update), Rachel Brothwood, Director of Pensions reported that the outcome on the planning application had been delayed and that a revised date for determination of the application was awaited.

6 **Appointments and Dates and Times of Meetings 2017/2018**

The Committee was invited to note/confirm appointments onto the Pensions Committee and to agree the dates and times of its meetings and those of the Pensions Board during the 2017/2018 Municipal Year.

Resolved:

1. That it be noted that in accordance with the Constitution of the Fund, City of Wolverhampton Council at its Annual Meeting on 17 June 2017 had appointed Councillor Ian Brookfield as Chair of the Pensions Committee and Councillor Keith Inston as Vice-Chair of the Committee for the 2017/2018 Municipal Year.
2. That the appointment of the following Trades Union representatives onto the Committee for the Municipal Year 2017/2018 be confirmed.

UNITE the Union	Ian Smith and Martin Clift
GMB	Alan Phillips
Unison	Malcolm Cantello

3. That the following dates and times of meetings of the Pensions Committee and Pensions Board for the Municipal Year 2017/2018 be approved.

Pensions Committee – 10 am:

6 September 2017

6 December 2017

28 March 2018

Pensions Board - 2pm

5 July 2017

23 January 2018

7 Completion of the 2016 Actuarial Valuation

Simon Taylor, Head of Client and Funding Management presented the report which set out confirmation of the finalised 2016 actuarial valuation and a summary of the national position and associated reviews.

Malcolm Cantello, asked whether it would be possible to segregate the Local Authority contributions from the primary and secondary contribution rates for the Main Fund referred to in paragraph 3.2.2. of the report and noted these were above the level expected for the 2014 Scheme at the time of the reform. The Head of Client and Funding Management confirmed that the information could be separated in order to provide an average for Local Authorities. Rachel Brothwood, Director of Pensions explained the difference between the contribution rates contained in the report and the statutory cost cap. The latter related only to future service benefits and changes in 'member costs' and does not reflect changing inflation, salary growth and discount rate assumptions. The two were not directly comparable. She explained how the contribution rates for employers in the fund had increased for 2017/18 and noted a comparison with other Local Government Pension Schemes should be available later in the year.

Resolved:

1. That responsibility be delegated to the Director of Pensions, in consultation with the Chair or Vice Chair of Pensions Committee, to finalise arrangements to enable the Fund to mitigate exposure to employer covenant risk through guarantee and security agreements.
2. That the finalisation of the 2016 actuarial valuation and the associated actuarial Rates and Adjustment certificate signed on 31 March 2017 be noted.
3. That the ongoing activity to oversee changes in employer funding arrangements and wider review of outcomes of the 2016 actuarial valuation be noted.

8 Responsible Investment Activities

Jason Fletcher, Chief Investment Officer outlined the salient points of the update report on the work undertaken by the Investment team regarding their responsible investment activities between the period 1 January to 31 March 2017.

Cllr Louise Miles asked officers to investigate whether the alleged cluster munitions production at Hanwha Corp was a regulated arms trade and whether the company had an arms export trade licence for this activity. Cllr Miles also suggested that other ways of raising the Fund's concerns with the Hanwha Corp in addition to writing letters should be explored. The Chief Investment Officer undertook to investigate whether the alleged activity was regulated and lawful and supported the principal of taking the level of engagement further.

Cllr John Mutton requested an email on any response the Local Authority Pension Fund Forum (LAPFF) had received to its letter to Hanwha Corp. He also supported the principal of the Fund and LAPFF seeking to engage with the Hanwha Corp.

The Chair informed the Committee that it had agreed a process of engagement to address concerns and to seek change in the activities of the Company which included lobbying LAPFF. He hoped that like other companies who the Fund and LAPFF had engaged with, that the Fund would see some change in their behaviour. He suggested that the Fund should continue to seek change through engagement and that the officers would investigate the issues raised by the Committee. He also noted that the investment with Hanwha was through an index-tracking Fund and Committee's responsibility to consider the wider financial implications of moving away from this investment.

In response to Malcolm Cantello, the Chief Investment Officer reported that there was no further update regarding National Express and their union relations in the US. The Fund's concerns were raised at the National Express Plc's Annual General Meeting. The Chair asked the Chief Investment Officer to respond to Malcom Cantello direct with any update on the matters raised.

Resolved:

1. That the Fund's voting and LAPFF's engagement activity for the three months ending 31 March 2017, including Appendix 1 be noted.
2. That it be noted that the issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on their website:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
3. That the update provided on the recent engagement activities with Hanwha Corporation and Motorola Solutions be noted.
4. That other activity undertaken to ensure the Fund continued to develop and support its approach to Responsible Investment be noted
5. That the briefing (provided from the IIGCC, of which the Fund is a member) on President Trump's decision to withdraw the US from the Paris Agreement on climate change set out in Appendix 2 to the report be noted.

9

Asset Allocation and Investment Performance - Period to 31 March 2017

Jason Fletcher, Chief Investment Officer outlined the salient points of the report on the quarterly asset allocation and investment performance which covered the performance of the Fund, and the implementation of its investment strategy for the period to 31 March 2017.

In response to questions about the deployment of the Fund's cash reserves, the Chief Investment Officer briefly articulated on the asset classes where the investments were proposed.

Resolved:

- That the contents of the asset allocation and investment performance report for the period ended 31 March 2017 be noted.

10 **Annual Investment Performance Report 2016/17 West Midlands Pension Fund and West Midlands Integrated Transport Authority (WMITA) Fund**

Jason Fletcher, Chief Investment Officer presented the asset allocation and investment monitoring report on the performance of the WMITA Pension Fund and the implementation of its investment strategy for the period ended 31 March 2017.

Resolved:

That the contents of the asset allocation and investment monitoring report for the period ended 31 March 2017 be noted.

11 **Annual Report and Accounts 2016/17**

David Kane, Head of Finance, presented for approval a report on the Fund's draft annual report and statement of accounts for the year ending 31 March 2017. The report also set out the outturn against operating budgets and performance against key performance indicators (KPIs) for the year. The Head of Finance drew the Committee's attention to page five of a paper from the Fund's external auditors, Grant Thornton on their audit findings for the West Midlands Integrated Transport Authority Pension Fund financial statements. There was nothing of significance that the auditors wished to highlight for the attention of the Fund.

The Chair placed on record his thanks to the Fund's Senior Management Team and staff for the exceptional year the Fund had. He particularly noted the above benchmark returns on investments; the reduction in the costs of administration, oversight and governance per member; and the costs transparency. Regarding the savings on the staffing budget due to vacancies, the Chair reported that he would wish to see the position more balanced. The Head of Finance acknowledged that the staffing position was not where the Fund would want to be. He offered reassurance that recruitment had taken place during 2016/17 and the Fund was working towards full establishment. During the year the Fund had also targeted its staffing/recruitment to match the needs of the service.

Resolved:

1. That the draft annual report and accounts for the year ending 31 March 2017 be approved.
2. That the outturn against operating budgets, which is an under spend of £10.4 million, and performance for the year against the Fund's key performance indicators be noted.
3. That it be noted that the draft accounts have been certified by the Section 151 Officers as required by regulations.
4. That it be noted that the draft annual report and accounts for West Midlands Pension Fund would now be subject to audit by the Fund's external auditors, Grant Thornton, with the final version, including their audit opinion, to be reported to the Committee in September 2017.
5. That it be noted that the audit of the accounts for the West Midlands ITA Pension Fund is nearing completion, and the auditors anticipate issuing an unqualified opinion.

12 **Internal Audit Report 2016/17**

Amanda McDonald, Client Lead Auditor, City of Wolverhampton Council presented a report on the outcome of the work programme for internal audit for 2016/17. No significant audit issues had arisen throughout the year and, where identified weaknesses / improvements had been identified during the course of audit work, the Fund's management had agreed recommendations. Based on this and assurances made available to the Fund by other providers as well as internally by Internal Audit, the Client Lead Auditor informed the Committee that Internal Audit could provide reasonable assurance that the Fund had adequate and effective, governance, risk management and internal control processes.

The Client Lead Auditor also thanked the staff at the Fund for their support throughout the year.

Resolved:

That the internal audit report for 2016/17 be noted.

13 **Risk and Compliance Monitoring 1 January to 31 March 2017**

Rachel Howe, Head of Governance presented the report on the quarterly update of compliance monitoring for the Fund for the period 1 January to 31 March 2017.

The Chair thanked City of Wolverhampton Council's ICT service for the cyber protection arrangements which protected the Fund's PCs against the recent WannaCry cyber-attack that had affected computers in a number of public and private organisations. Regarding trustee training, he encouraged members to continue logging the time spent in preparing for meetings and attending other pensions events.

In response to Malcolm Cantello regarding vulnerability of PCs to cyber-attack if they are using the Windows XP operating system, the Head of Governance reported that the Fund was aware of this and was in the process of rolling out Windows 10 on all its computers. The Fund's systems had been tested and it was found that one system was operating on Windows XP. This had now been withdrawn.

Resolved:

1. That the top ten risks for West Midlands Pension Fund as set out in Appendix 1 to the report be noted.
2. That the compliance monitoring for the quarter and the resolutions put in place to address non-compliance be noted.
3. That the Trustee Training program for 2017/18 be noted.
4. That the work of the Fund to ensure its compliance with the Pensions Regulator's guidance regarding Defined Benefit (DB) schemes be noted.

14 **Annual report of the Local Pensions Board**

Rachel Howe, Head of Governance, West Midlands Pension Fund presented an annual report on the work undertaken by the Local Pensions Board during 2016/17.

Resolved:

That the annual report of the Local Pensions Committee Pensions Committee is asked to note the report.

15 Policies Review 2017

Rachel Howe, Head of Governance, West Midlands Pension Fund presented a report on an overview of the Fund's statutory and good practice policies and the timetable for their review during 2017/2018.

Resolved:

That the annual review of Fund key policies underpinning the Fund strategy and governance arrangements together with the programme of review scheduled for the year be noted.

16 Scheme Advisory Board Annual Report 2016 and KPIs

Rachel Howe, Head of Governance, West Midlands Pension Fund highlighted the salient points from the report which provided a national overview of the Local Government Pension Scheme (LGPS).

In response to Malcolm Cantello, Rachel Brothwood, Director of Pensions reported that the Fund had met with and spoken to representatives of LGA and Department for Education (DFE) on the issues of "Tier 3" employers and Academisation of local authority schools and what it meant for the LGPS and their host authorities. She noted the Scheme Advisory Board would be consulting on the objectives of a wider review of academies in the LGPS. The scope of the DFE guarantee is a particular issue but she added that for the one Academy within the Fund that had folded, the Department for Education had made good the pensions liability.

Resolved:

1. That the Scheme Advisory Board's Annual Report and activities for the year 2016/17 be noted.
2. That the points highlighted within the Fund's self-assessment against the Scheme Advisory Board KPIs be noted.

17 Pensions Administration report 1 January to 31 March 2017

Simon Taylor, Head of Client and Funding Management, West Midlands Pension Fund presented the report on work undertaken by the pensions administration service during the period 1 January to 31 March 2017 for both the Main Fund and the West Midlands Integrated Transport Authority (WMITA) Fund.

The Chair noted from the report that the increased work load was due in part, to the increase in the number of academies and quality of information provided by fund employers. He thanked all of the Fund staff who had managed the increased workload.

Resolved:

1. That the write-offs detailed in section 8.0 of the report be approved.
2. That the applications approved by the Director of Pensions and the Chair or Vice Chair of Pensions Committee for admission to the West Midlands Pension Fund be noted.

3. That the pensions administration activity for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund) be noted.

18 **Data Quality and Employer Performance - Quarterly Update**

Rachel Howe, Head of Governance presented the update report on progress being made by the Fund to continue to improve data quality. The report also contained a summary of plans in place to make further improvements to data quality, and the performance of employers against key performance standards as detailed in the Pension Administration Strategy (PAS).

Resolved:

1. That the progress and the actions being taken to continue to improve data quality be noted.
2. That the performance of employers against key standards set out in the Pension Administration Strategy be noted.
3. That the progress and implementation of the monthly returns programme with scheme employers be noted.

19 **Exclusion of the Press and Public**

Resolved:

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 falling within the paragraph 3 of Schedule 12A of the Act

Part 2 - exempt items, closed to press and public

20 **Annual Report of the Investment Advisory Panel and the West Midlands Integrated Transport Authority (WMITA) Investment Strategy Panel**

Rachel Brothwood, Director of Pensions presented a report on the activities of the Investment Advisory Panel (IAP) and the WMITA Strategy Panel (Investment and Funding) during 2016/17. The Director requested approval to re-appoint Hymans Robertson as Investment Consultant and Scott Jamieson as Independent Adviser to March 2019.

In response to questions the Committee was informed that:

- The reference at paragraph 6.4 of the report to 'investment policy changes' related to a wider implication of Investment Pooling and not to a change in the Fund's investment policy.
- The transfer of assets over to LGPS Central would not happen overnight, there would be a transitional period. The Fund would still require advisors to support investment strategy and allocation decisions and to assist with scrutiny and challenge of implementation in-house within the fund and/or within LGPS Central.
- A platform for LGPS infrastructure investment has not been determined although discussions continue cross pools. The priority is currently the establishment of the pools.

- It was likely that advisor relationship at both the fund and pool would evolve and change over the next few years.

Resolved:

1. That Hymans Robertson continue as investment consultant to both WMPF and the WMITA fund and Scott Jamieson continue as an external independent investment adviser to WMPF to March 2019.
2. That the work of the Investment Advisory Panel and the WMITA Strategy Panel (Investment and Funding) for 2016/2017 be noted.

21

Update on Investment of Cash Contributions and Currency Risk

Jason Fletcher, Chief Investment Officer presented the update report on the investment of cash contributions received in April 2017 following the 2016 Actuarial Valuation and on the implementation of a currency hedging strategy following the investment strategy review.

In response to questions the Committee was advised that the cash balance would fluctuate because of contributions, distributions and timing of investments. It would take time to undertake the work for the planned investment into income assets which has meant that the Fund would be looking to complete these investments later in the year rather than immediately. Asset allocation and exposure to markets had been facilitated short term through index futures. The Fund would also seek to demonstrate the value added relative to the financial costs for currency management and index futures.

Resolved:

1. That the investments made during April and May 2017 following receipt of agreed advance payment employer contributions be noted.
2. That planned investment into income assets later in the year be noted.
3. That the application of index futures to date be noted.
4. That work underway to implement a currency risk management strategy be noted.

22

Investment Pooling Update

Rachel Brothwood, Director of Pensions presented the headlines from the update report on progress made with the implementation and set up of LGPS Central in line with the Government's overall timescale of 1 April 2018

David Kane, Head of Finance and Amy Regler, Programme Manager delivered a PowerPoint presentation on the cost savings and risks and the regulatory business plan for LGPS Central.

Resolved:

1. That the progress to date with the implementation of LGPS Central be noted.
2. That the approval being sought of the Regulatory Business Plan for LGPS Central at the Shareholders Forum on 19 June be noted.

3. That the Regulatory Capital requirement for LGPS Central and its proposed transfer from West Midlands Pension Fund to LGPS Central on 31 January 2018 be noted.
4. That the updated Cost Savings Model and changes to forecasted savings for the Partner Funds, West Midlands Pension Fund and West Midlands Integrated Travel Authority Pension Fund be noted.
5. That the delegation of authority to the Strategic Director of Pensions and/ or the Director of Corporate Governance to enter into or complete any legal documents to establish a joint asset pool and investment management company on its behalf be noted.

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