

### 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 Paul Singh  
Cllr Tersaim Singh  
Cllr Wendy Thompson  
Cllr John Mutton (Coventry City Council)  
Malcolm Cantello (Trade Union Observer Representative)

#### Employees

Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Jill Davys	Assistant Director - Investments and Finance - West Midlands Pension Fund
Dereck Francis	Democratic Services Officer – City of Wolverhampton Council
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Head of Finance - West Midlands Pension Fund
Michael Marshall	Responsible Investment Officer - West Midlands Pension Fund
Claire Nye	Director of Finance - City of Wolverhampton Council
Simon Taylor	Head of Client and Funding Management - West Midlands Pension Fund

#### Investment Advisors

William Marshall	Hymans Robertson
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## 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 Councillor Louise Miles (City of Wolverhampton Council), Councillor Keith Chambers (Walsall Metropolitan Borough Council), Councillor Steve Clark (Dudley Metropolitan Borough Council), Councillor Sandra Hevican (Sandwell Metropolitan Borough Council), Councillor Angela Sandison (Solihull Metropolitan Borough Council), Mr Alan Philips (GMB) and Mr Ian Smith (Unite).

2      **Notification of substitute members**

No notification of substitutes were received for the meeting.

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

No declarations of interests were made.

4      **Minutes of the previous meeting - 6 September 2017**

Resolved:

That the minutes of the meeting held on 6 September 2017 be approved as a correct record and signed by the Chair.

5      **Matters arising**

With reference to Minute No. 17 (Employer Covenant Update), Malcolm Cantello (UNISON) asked for an update on the discussions with the Department for Education (DfE) to recover the exit debt for the Academy that had closed. Simon Taylor, Head of Client and Funding Management informed the Committee that discussions were ongoing with the Academy and the DfE to ensure that the academy guarantee was in place to recover the exit debt.

6      **Economic and Market Update - November 2017**

Jill Davys, Assistant Director – Investment and Finance gave a brief introduction to the report. William Marshall from the Fund's investment adviser, Hymans Robertson was also in attendance. He outlined the salient points of their economic and market update quarterly report.

The Chair asked whether the Fund would be considering the suggestion in Hymans Robertson's report regarding protection for equities. Rachel Brothwood, Director of Pensions reported that the Fund had recently introduced passive currency hedging. The Fund had also commenced exploring protection strategies but that further cost benefit analysis is needed to conclude consideration at this time. A report would be submitted to a future meeting on the outcomes of that work.

Responding to questions, William Marshall also elaborated upon the references within the update report to the role holding additional cash could play to reduce investment risk.

Resolved:

That the global economic and market update paper prepared by the Fund's adviser, Hymans Robertson be noted.

7      **Responsible Investment Activities**

Michael Marshall, Responsible Investment Officer presented the report on work undertaken by the investment team regarding their responsible investment activities since the last meeting in September 2017. He particularly highlighted engagement regarding Sports Direct undertaken via LAPFF; a pilot programme to monitor the Fund's private equity managers' approaches to responsible investment; outreach work by the team; recent fossil fuels divestment campaigns and the Fund's response; and the engagement via LAPFF with Hanwha Corporation which was now considered to be unlikely to succeed at this time. In light of the status of LAPFF's engagement with Hanwha Corporation, the committee was recommended to approve the de-selection of Hanwha Corporation within the Fund's internal passive equity portfolio as part of a future portfolio rebalance or reconstruction. The officer explained the unique circumstances and reasons for this recommendation: that

LAPFF's engagement is unlikely to succeed at this time; that the de-selection of this particular stock at this particular time is not expected to cause significant financial detriment; that there is likely to be portfolio reconstruction in the near term which represents a rare opportunity to execute the de-selection; that scheme members have expressed ethical concerns regarding Hanwha Corporation and that one of the company's product lines is the subject of an international convention. It was explained that, were the committee to approve the de-selection of Hanwha Corporation, the factors mentioned above would be monitored over time to ensure the decision remains the correct one, both from a financial and an ethical point of view. It was stressed to the committee members that the de-selection decision was not taken lightly, and that there were unique circumstances particular to the present situation which led to the recommendation.

Councillor John Mutton thanked the Fund's officers and the Chair for responding to emails from Coventry regarding Hanwha Corporation. He indicated that it was disappointing that the Fund and LAPFF had not been able to persuade the company to change their approach and that he now welcomed the recommendation within the report to de-select Hanwha Corporation from the Fund's internal passive equity portfolio.

Malcom Cantello (UNISON) queried whether the wording of the recommendation within the report to de select Hanwha Corporation should be elaborated upon to more fully explain the reason. The Chair informed the Committee that officers would write to all those who had contacted the Fund concerning Hanwha to explain the Fund's position with respect to Hanwha, and that the Fund's Responsible Investment Framework and policy of engagement remain in place. He reported that the Fund had gone through the correct procedure to affect change in the company's activities. However, the engagement had not achieved its primary objective. In light of the particular circumstances the recommendation to de-select was unique.

Rachel Brothwood, Director of Pensions confirmed that a draft response had been prepared pending the Committee's decision regarding Hanwha Corporation. The Chair asked that a copy of the letter be forwarded to members of the Committee for information.

Resolved:

1. That the de-selection of Hanwha Corporation from the Fund's internal passive equity portfolio be approved.
2. That the Fund's voting and LAPFF's engagement activity for the three months ending 30 September 2017, including Appendix 1 to the report be noted.
3. That the issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on their website be noted:  
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
4. That the update provided on the recent engagement activities with Hanwha Corporation be noted.
5. That other activity undertaken to ensure the Fund continues to develop and support its approach to Responsible Investment be noted.

6. That the Fund's responses to recent articles in the press relating to investments in fossil fuels producers and tax risk be noted.

8 **Service Plan Monitoring and Key Performance Indicators Period to September 2017**

Rachel Howe, Head of Governance outline the key points from the report on the Fund's performance against its key performance indicators for quarter two (July to September 2017), and on the work of the Fund in continuing to drive improvement in its service areas as it delivers its corporate priorities as set out in the Service Plan 2017 - 2022.

Malcolm Cantello (UNISON) stated that he was pleased to see that performance on processing retirement benefit quotations had improved to an acceptable level. The Chair added that he was also content with the direction of travel of performance against the key performance indicators (KPIs). On the production of Active Benefit Statement KPI, the Chair add that the Fund was still dependent upon receiving the correct information from employers. The Fund was actively engaged in working with a significant number of employers to improve the quality and timeliness of their data. The Head of Governance added that there were initiatives running in parallel to improve performance. This work continued, however, the Fund was reliant upon third parties to provide it with accurate data.

Resolved:

1. That performance against the Fund's key performance indicators as at the end of September 2017 be noted.
2. That progress against the Fund's Corporate Priorities outlined within the Service Plan 2017 – 2022 be noted
3. That the work underway to review the Fund's Service Plan for 2018 – 2023 be noted.

9 **Budget Monitoring 2017/18 and Quarterly Accounts September 2017**

David Kane, Head of Finance presented the update on the forecast outturn for the year against operating budgets and quarterly accounts as at the end of September 2017. Regarding staffing, the Fund had made significant success in recruiting to various posts in the last few months. These appointments would be reflected within the budget in due course.

In response to Malcolm Cantello (UNISON) it was confirmed that the West Midlands Integrated Transport Authority (WMITA) would incur costs under 'pooled funding' arrangements. The reference in the report relating to no costs being chargeable to the ITA Fund was in relation to set up costs.

Councillor Peter Bilson welcomed the underspend particularly on staffing had been managed by the Fund's officers.

Resolved:

1. That it be noted that the quarterly accounts for the period ending 30 September 2017, which show that:
  - the value of West Midlands Pension Fund at this date was £15.3 billion, an increase of £1.0 billion from 31 March 2017;

- the value of West Midlands ITA Pension Fund at this date was £507.5 million, an increase of £4.6 million from 31 March 2017.

2. That it be noted that the forecast outturn against operating budgets as at the end of September 2017, which is an under spend of £8.7 million.

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### **Risk and Compliance Monitoring, 1 July to 30 September 2017**

Rachel Howe, Head of Governance presented the quarterly monitoring update of compliance monitoring for the Fund for the period 1 July to 30 September 2017. The Head of Governance also updated the Committee on the progress with the Markets in Financial Instruments Directive II (MiFID II) regulations classification. All Fund Managers had been written to regarding the Fund's classification and 74% had already responded, confirming the Funds' opted up status to Professional Client status.

The Chair noted that the digitisation of member records the was an essential exercise to enhance data management in advance of the new General Data Protection Regulations and that the contract price was reasonable for the number of records involved. Referring to the Fund's Trustee Training programme, the Chair thanked Trustees for the hours they were putting in on their training.

Resolved:

1. That a contract be entered into for digitisation services in preparation for GDPR (General Data Protection Regulations).
2. That members of the Committee save the dates for Trustee Training Events.
3. That members of the Committee provide their quarterly training hours to the Trustee Management Officer.
4. That the top ten risks for West Midlands Pension Fund be noted.
5. That the compliance monitoring for the quarter and the resolutions put in place to address non-compliance be noted.
6. That the Markets in Financial Instruments Directive II (MiFID II) classification update be noted.
7. That the trustee training report for this quarter together with the planned future training events up to March 2018 be noted.

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### **Data Quality Quarterly Report**

Rachel Howe, Head of Governance presented the update report on the work of the Fund around data quality and to provide assurance for the action the Fund is talking with employers to improve data. In doing so she reported that 555 employers had commenced submitting monthly data returns and that 10% of the Funds employers had yet to do so. The data charging for performance in relation to the 2017 Annual Return would range from £21 to £18,000. 261 employers had been written to regarding their performance relative to the Pensions Administration Strategy.

During the discussion the Chair reported that he preferred not to charge employers for late submission or poor quality data, however he agreed that the sanction was necessary in order to bring about improvement in quality of the data provided by some employers. He felt that the £20 limit was low given the amount of work involved in rectifying poor data quality issues. He suggested that the figure be kept under review.

Resolved:

1. That the proposed action taken by the Fund in line with the Pension Administration Strategy following review of the 2017 annual return be noted.
2. That the progress of monthly submissions and the impact on data quality this had had for the Fund be noted.
3. That the next steps for engagement and continued improvement be noted.

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### **LGPS Central update**

Rachel Brothwood, Director of Pensions outlined the key points from the update report on progress with the implementation of LGPS Central (the jointly owned investment management company).

Responding to questions the Director informed the Committee that all staff transferring under TUPE from the Fund to LGPS Central would be able to retain Local Government Pension Scheme benefits. It was noted that where LGPS Central was establishing posts with higher grades and salaries, to attract employees to specialist roles, there a Defined Contribution Pension Scheme benefit would be available. The Company has become an employer within the West Midlands Pension Fund. LGPS Central had also contracted with City of Wolverhampton Council's ICT Service for it to provide the Company with a stand alone ICT service.

The Chair reported that he would be confirming back to Partner Funds within LGPS Central his wish that the employees should have representation on the Joint Committee. He also thanked his Vice-Chair, Councillor Keith Inston for ensuring continuity for the Fund by attending all meetings with the Chair regarding LGPS Central.

Resolved:

That the progress to date with the implementation of LGPS Central be noted.

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### **Pensions Administration Report - 1 July 2017 to 30 September 2017**

Simon Taylor, Head of Client and Funding Management, outlined the key points of the report on work undertaken by the pensions administration service during the period 1 July to 30 September 2017 for both the Main Fund and the West Midlands Integrated Transport Authority (WMITA) Fund. He also reported that as a result of the recent adverse weather conditions the Fund had taken the decision to temporarily close its customer contact phone lines because line operatives were unable to get into the office. 300 members contacted the Fund during that period of inclement weather.

Regarding a requirement placed on all Local Government Pension Schemes (LGPS) to reconcile their contracted out membership and Guaranteed Minimum Pension (GMP) records with those held by HM Revenue and Customs, Malcolm Cantello (UNISON) asked whether representations had been made to Government regarding

assistance to implement the government policy. The Head of Client and Funding Management confirmed that representation has been made by the LGPS as a group. There was no flexibility and there was a defined cut off date of date to complete the work.

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.

#### 14 **Customer Engagement Update**

Simon Taylor, Head of Client and Funding Management presented the key points from the report on the Fund's customer engagement activity to date, in line with its Customer Engagement Strategy.

The Chair stated that he was pleased with the engagement figures from the roadshow events.

Malcolm Cantello (UNISON) asked whether the Fund charged for presentations delivered by Fund officers upon requests from employers. The Head of Client and Funding Management confirmed that the Fund did not charge.

Resolved:

That the engagement activity to date and plans for future engagement on the horizon be noted.

#### 15 **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**

#### 16 **Employer Covenant Update**

Simon Taylor, Head of Client and Funding Management presented the key points from the update report on employer covenant monitoring and the individual cases under review.

In response to the Chair on pressure the Fund was applying to Government regarding the covenant strength of colleges within the Further Education sector, the Head of Client and Funding Management reported that the Fund was engaging with the Association of Colleges on the Fund's position of, improving its security with and mitigating the risks from Further Education Colleges being unable to meet their associated pension liabilities. These discussions would link into the Education Skills

Funding Agency (ESFA) Transactions Unit which in turn would lead into government departments.

The Head of Client and Funding Management also responded to the Committee's questions on a parent company guarantee, and on the work of the Fund with employers to make them aware and face problems in meeting their obligations to the Fund. Information on the latter was included in the Fund's employer watchlist attached as an appendix to the report. A fuller picture of the list would be presented to the next meeting.

Rachel Brothwood, Director of Pensions also explained some of the processes in place to monitor employer covenant strength, including the risk management framework for employers that was updated every year; and monitoring of firms on the watch list including their funding levels.

Resolved:

1. That the updated summary for the Further Education sector and the associated implications be noted.
2. That the case studies detailed within the report and the associated outcomes/next steps be noted.

**17 Asset Allocation and Investment Performance Period to September 2017 - West Midlands Pensions Fund**

Jill Davys, Assistant Director, Investment and Finance reported on the key points from the quarterly asset allocation and investment performance of the Fund and on the implementation of its investment strategy for the period to 30 September 2017.

Resolved:

That the contents of the asset allocation and investment performance report for the period ended 30 September 2017 be noted.

**18 Asset Allocation and Investment Monitoring Performance Quarter Three - 1 July to 30 September 2017 West Midlands Integrated Transport Authority (WMITA) Pension Fund**

Jill Davys, Assistant Director, Investment and Finance presented the report on the performance on asset allocation and investment monitoring for the WMITA Pension Fund and on the implementation of its investment strategy for the period ended 30 September 2017. In doing the Assistant Director corrected the data on performance at paragraphs 3.2 of the report.

Resolved:

That the contents of the asset allocation and investment monitoring report for the period ended 30 September 2017 be noted.

**19 Investment Strategy and Activity Update**

Jill Davys, Assistant Director, Investment and Finance presented the report on the Fund investment strategy and activity in the Fund over the last quarter.

Referring to the West Midlands Integrated Transport Authority (WMITA) Strategy update, Malcolm Cantello (UNISON) asked if the Fund appointed Multi Asset Credit managers whether they would transfer to LGPS Central or remain the responsibility of the Committee. The Assistant Director reported that work on the investment



strategy for the WMITA fund needed to be progressed and could not be delayed. Any Multi Asset Credit managers appointed would therefore remain under the management of the Fund.

Resolved:

1. That the update on investment strategy for the main Pension Fund and potential changes to future strategy for the WMITA Fund be noted.
2. That highlights of recent activity within the Pension Fund be noted.

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### **Investment Transition to LGPS Central**

Jill Davys, Assistant Director, Investment and Finance presented the report and William Marshall, from the Fund's advisers, Hymans Robertson delivered a presentation on the plan for the transition of West Midlands Pensions Fund and West Midlands Integrated Transport Authority Fund assets to the jointly owned investment management company, LGPS Central Ltd. The report and presentation also provided an update on the mapping of the Fund's existing investments across to the initial proposed sub-funds which are likely to be available over the first two-three years of operation of LGPS Central.

Malcolm Cantello (UNISON) queried whether a proposed service agreement relating to the transitioning assets to LGPS Central should be approved by the Committee. Rachel Brothwood, Director of Pensions reported that the service agreement was currently being developed and would confirm and agree WMPF requirements for the assets transition. She undertook to submit the agreement to the next meeting of the Committee.

Resolved:

That the contents of the report which considers the opportunities for transitioning the Fund's current investments across to LGPS Central Pool, with assets due to commence transition from April 2018 be noted.