

Attendance

Members of the Pensions Committee

Cllr Stephen Simkins (Chair)
Cllr Milkinderpal Jaspal (Vice-Chair)
Cllr Harman Banger
Cllr Jasbinder Dehar
Cllr Keith Inston
Cllr Phil Page
Cllr John Reynolds
Cllr Clare Simm
Cllr Paul Singh
Cllr Jane Stevenson
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Sandra Hevican (Sandwell Metropolitan Borough Council)
Cllr Rose Martin (Walsall Metropolitan Borough Council)
Cllr Bally Singh (Coventry City Council)
Cllr Joe Tildesley (Solihull Metropolitan Borough Council)
Malcolm Cantello (Trade Union Observer Representative)
Martin Clift (Trade Union Observer Representative)
Ian Smith (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 and Corporate Services - West Midlands Pension Fund
Amanda MacDonald	Client Lead Auditor - City of Wolverhampton Council
Claire Nye	Director of Finance – City of Wolverhampton Council
Lauren Pote	Governance Support Officer - West Midlands Pension Fund
Amy Regler	Head of Operations - West Midlands Pension Fund
Holly Slater	Governance Officer - West Midlands Pension Fund
Simon Taylor	Head of Pensions - West Midlands Pension Fund

Part 1 – items open to the press and public

Item No. Title

- 1 **Apologies for absence (if any)**
No apologies for absence were received for the meeting.

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 - 19 June 2019**

Resolved:

That the minutes of the previous meeting held on 19 June 2019 be approved as a correct record and signed by the Chair.

5 **Matters arising**

With reference to Minute 8 (Governance Update Report), Rachel Brothwood, Director of Pensions reported the Fund had submitted its response to the Government consultation on a proposal to implement a £95,000 cap on payments to individuals who leave public sector employment. The outcome from the consultation was awaited.

6 **Annual Report and Accounts 2018/2019**

The Committee received for approval and publication on the Fund's website the audited Annual Report for the year ending 31 March 2019.

The Chair reported that audit work on the Statement of Accounts 2018/2019 was complete. He asked that authority be delegated to himself and the Vice-Chair in consultation with the Director of Pensions to approve any changes to the Accounts, should there be any further audit adjustments.

Jill Davys, Assistant Director, Investments and Finance reported that following the conclusion of all audit work, the Fund's external auditors, Grant Thornton had issued an unqualified audit opinion for the West Midlands Pension Fund and the West Midlands Integrated Transport Authority Pension Fund. The audit for both Funds Statement of Accounts were completed by the statutory deadline of 31 July and accordingly signed off.

Malcolm Cantello, Unison queried the fee for additional work undertaken by Grant Thornton to provide, on request, letters of assurance to ten local government bodies on the audit of the Pension Fund. He felt that the fee was excessive for the work undertaken. Members of the Committee suggested that officers explore options for reducing the cost for this additional work in the future. Rachel Brothwood, Director of Pensions informed the Committee that the external auditors had been challenged on the level of the fee. She would take forward the Committee's concerns and raise with the local authority bodies who require this letter of assurance.

By way of explanation Claire Nye, Director of Finance at City of Wolverhampton Council informed the Committee that the process for setting external auditor fees (including those applicable for the Pension Fund audit) was governed by Public Sector Audit Appointments (PSAA) who consult with authorities on the scale of fees.

Resolved:

1. That authority be delegated to the Chair and Vice-Chair of the Committee in consultation with the Director of Pensions to agree subsequent changes to the Statement of Accounts 2018/2019 and Management Representations Letter in consultation with the Director of Pensions, should there be any audit adjustments.

2. That the Annual Report for the year ending 31 March 2019 and its publication on the Fund's website following completion of the external audit be approved.
3. That Grant Thornton's Audit Findings Reports for the West Midlands Pension Fund and the West Midlands Integrated Transport Authority Pension Fund be noted.
4. That it be noted that the Management Representations Letter to Grant Thornton was signed on 24 July 2019 by the Chair of the Committee and the Director of Pensions on behalf of the Fund.

7 Budget Monitoring 2019/2020 and Quarterly Accounts September 2019

Jill Davys, Assistant Director, Investments and Finance presented the report on the forecast out-turn compared with the Fund's operating budget and the quarterly accounts for both Funds (West Midlands Pension Fund and West Midlands Integrated Transport Authority Pension Fund) as at the end of June 2019.

Responding to questions, the Assistant Director reported that the Internal Investment Management (IIM) costs referred to at paragraph 2.5 of the report was included in staffing and consultancy costs at paragraph 2.1 to the report. This would be made clearer in future reports. The Assistant Director also confirmed that the figure for cost per member at paragraph 2.8 of the report should be corrected to '£31.77', and that the Fund's membership figure was based on an estimate at the time.

Councillor Philip Page reported that he had attended a recent pensions roadshow at City of Wolverhampton Council. The event was well attended and as a result he felt that it could have benefited from increased staffing. Simon Taylor, Head of Pensions acknowledged that more people visited the roadshow than was anticipated. The Customer Engagement team had reviewed the staffing needs for future events. Rachel Brothwood, Director of Pensions added that it was pleasing to see that the roadshows were extremely popular and confirmed that resourcing the increased demand for the roadshows would be addressed. Regarding the increased Internal Investment Management costs, the Director reported that this was due to investment managers now reporting layers of costs that had not previously been disclosed and the Fund was reporting new information when received for full transparency.

Resolved:

1. That the amendment to the 2019/2020 Budget to reflect the greater disclosure of investment costs by external providers be approved. The budget at the 2019 year end would be increased by £7.9m resulting in an overall Pension Fund Budget of £89.7m for 2019/2020
2. That the quarterly accounts for the period ending 30 June 2019 be noted which show that:
 - a. the value of West Midlands Pension Fund at this date was £16.2 billion, an increase of £492 million from 31 March 2019.
 - b. the value of West Midlands ITA Pension Fund at this date was £500.2 million, a slight increase from the £491.7 million as at 31 March 2019.

3. That it be noted that the West Midlands Pension Fund forecast out-turn for the year against operating budgets as at the end of June 2019 is an overspend of £7.8 million primarily attributable to greater disclosures of investment management costs.

8 **Quarterly Investment Report to 30 June 2019**

Jill Davys, Assistant Director, Investments and Finance presented the report on a range of investment issues, primarily the market and investment background and the quarterly performance of both the West Midlands Pension Fund and the West Midlands Integrated Transport Authority Pension Fund (WMITA PF). Supporting responsible investment activities are covered in a separate paper.

Responding to questions, the Assistant Director explained that the performance of the currency hedge had been volatile and had delivered a loss over the year. Offsetting this was the performance of global active and global passive equity investments. The Fund currently has a long-term strategy for hedging currency risk on overseas listed equity. It was agreed in June to relax the 50% hedge target to allow the Fund to respond to increasing risks of sterling depreciation, particularly in light of Brexit discussions. Regional asset allocations were also being considered in this market context. The Assistant Director reported that the Fund was currently holding an underweight position in UK equities to mitigate risk and the currency hedge continued to be kept under review.

Rachel Brothwood, Director of Pensions added that the Fund was a long-term investor and did not make short term tactical investment allocations. Brexit had been on the Fund's risk register for some time and the Management Team regularly considered asset allocation and the ranges this could move within in accordance with the Fund's Investment Strategy Statement, as a tool to manage and mitigate risk where appropriate and the investment case supported. The Fund continued to hold a diversified investment portfolio to provide resilience to short-term volatility in asset class, regions and markets.

Resolved:

1. That the global market and investment update paper prepared by the Fund's adviser, Redington be noted.
2. That the Quarterly Asset Allocation and Performance Reporting for the West Midlands Pension Fund be noted.
3. That the Quarterly Asset Allocation and Performance Reporting for the West Midlands Integrated Transport Authority Pension Fund be noted.

9 **Responsible Investment Activities**

Rachel Brothwood, Director of Pensions presented the report on the work undertaken in relation to responsible investment activities since the last Pensions Committee meeting.

Councillor Bally Singh said that given that the Committee had previously agreed to disinvest in Hanwha Corporation over the manufacture of cluster munitions he was surprised to read in the report that the Fund had holdings in three different elements of Hanwha conglomerate. He expressed support for the Fund's principle of engagement to bring about change in investee companies and asked that a process be initiated to review the three Hanwha companies. If through engagement the desired outcomes are not achievable then the Fund should consider the option of no longer being involved in the companies.

Members of the Committee supported further research being carried out to establish the position of the three Hanwha companies. Others said they were guided by the Directors comments in the report that there was no evidence that the companies are involved in the arms manufacture or sales, or controversial weapons manufacture or sale and as such they remain within the portfolio.

Responding to questions, the Director of Pensions agreed to take away the points raised regarding transparency and fair tax treatment, publicity of the Fund's investments that support the climate change agenda, as well as its work on the proactive programme of climate change stewardship. On the email members of the Committee had received prior to the meeting, and approaches they received lobbying on investment activity, the Fund would support members with in their response to correspondence. Regarding Hanwha Corporation, the Fund was in the process of finalising the final sale of its holdings in the company, which have significantly reduced and would be removed entirely on completed of a planned transition completing within the next few weeks. The Chair requested a report back to the Committee on the principles and of the Fund's Responsible Investment Framework and in particularly their application in the context of multinational conglomerates.

Resolved:

1. That the Fund's voting and LAPFF's engagement activity for the three months ending 30 June 2019 be noted.
2. That it be noted that the issues discussed in the LGPS Central Quarterly Stewardship Report which is available on the LGPS Central website <https://www.lgpscentral.co.uk/responsibleinvestment/>
3. That it be noted that the issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on the LAPFF website: <http://www.lapfforum.org/publications/qrtly-engagement-reports/>
4. That a report be submitted to a future meeting on a review of the principles and processes on the Fund's Responsible Investment Framework and the Fund's fiduciary responsibilities.
5. That a response to the correspondence members have received from Mr Wallace be prepared and agreed by the Chair.

10 **Business Performance Update**

Rachel Howe, Head of Governance and Corporate Services presented the report on an update on the delivery of the Fund's 2019 – 2024 Service Plan through monitoring the performance of its corporate priorities and service delivery.

Members of the Committee welcomed the expansion of the successful trainee and graduate programmes and the Fund's promotion of careers and opportunities on offer at City of Wolverhampton Council. It was suggested that Fund trainees, graduates and apprentices be invited to observe a meeting of the Committee as part of their learning.

Responding to questions, the Head of Governance and Corporate Services reported that the Fund had taken on an apprentice who had subsequently been appointed to a permanent post. Given the success of the placement the Fund was looking at the potential for taking on more apprentices noting the Fund was registered with the Council's wolves in work initiative.

Regarding the key performance indicators, the Head of Governance noted that IDRPs cases had a statutory timescale of two months to complete but that an extension to that period was allowed provided notice was served on the individual confirming the reasons for the extension. In referring to the cases noted, the Head of Governance confirmed that two of the cases were of a technical nature and required more detailed review and information to enable a decision to be made.

Resolved:

1. That the Fund's progress on delivery against its Corporate Priorities outlined in the Fund's Service Plan 2019 – 2024 be noted.
2. That the Fund's key performance indicators for the first quarter of the year be noted.
3. That the successful recruitment to Fund trainee and graduate posts be noted.
4. That progress and target dates for roll-out of key initiatives from the Digital Transformation Programme be noted.
5. That Fund trainees, graduates and apprentices be invited to observe a meeting of the Committee as part of their learning.

11

Data Management Report April - August 2019

Rachel Howe, Head of Governance and Corporate Services presented the update on the work of the Fund in delivering improved data quality in line with the Pension Regulator's Code of Practice.

Malcolm Cantello, Unison said that he recognised there was pressure in obtaining information from employers in order to produce Annual Benefit Statements (ABS), but there appeared to be a small quantity missing the deadline for receiving their ABS. He asked when the Fund would deliver ABS for 100% of its active members. The Head Governance and Corporate Services reported that 31 August was the deadline for the delivery of the statements for 2019 with ongoing data cleansing analysis being undertaken for those members for whom the Fund could not produce an ABS. The Fund would continue to raise issues with employers to enable additional 2019 statements to be produced before the end of the year. Scheme members who do not receive an ABS by the deadline, would receive a letter from the Fund explaining the reasons. The Fund had also self-reported itself to The Pensions Regulator in light of its inability to produce 100% of ABS, noting 85% was a marked improvement on the prior year.

Resolved:

- That the work of the Fund in delivering its Data Management Strategy and the steps taken to monitor and drive Data Quality across the Fund be noted.

12 **Pensions Administration Report from 1 April to 30 June 2019**

Amy Regler, Head of Operations presented the report on an overview of the work undertaken by the pensions administration service areas during the period 1 April to 30 June 2019 for both the Main Fund and the West Midlands Integrated Transport Authority (WMITA) Pension Fund.

In response questions on the costs in terms of staff time to recover debts from pensions overpaid to members, and the level at which it would be uneconomical for the Fund to pursue debts, the Head of Operations reported that the Fund was looking at the costs incurred in tracing and recovering debts. There are limits in place to manage the level of recovery activity but also work underway to prevent and limit the requirement for debt recovery work.

Resolved:

1. That the write-offs detailed in section 10 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), in particular the improved performance against target service levels and additional work being undertaken to update member records following responses received through the employer "health check" be noted.

13 **Customer Engagement Update**

Simon Taylor, Head of Pensions presented the report on an update of the Fund's customer engagement activity from 1 April to 30 June 2019, in line with its Customer Engagement Strategy.

Members of the Committee said that the member engagement events, particularly pension roadshows were a huge success. It was suggested that the customer engagement team try and reach other scheme employers within the Fund such as the public health bodies.

In response to questions, the Head of Pensions advised that following Prudential's decision to cease the delivery of presentations, the Fund had incorporated Additional Voluntary Contributions (AVCs) into its events. This was more about awareness raising of AVCs and would not involve the Fund in processing AVC applications or promoting the provider. Regarding pension roadshows to City of Birmingham, given the size of the city area, the roadshows to Birmingham sought to cover as much of the city as possible. Three locations were used, one in the south side of the City, and outside the City's Council House, an area well served by public transport.

Rachel Brothwood, Director of Pensions added that if Committee members were aware of events where it may be helpful and a good opportunity for the Pension Fund to have a customer-facing representative attend, that they contact the Head of Pensions with the details so the Fund can assess viability.

Resolved:

- That the engagement activity and informed service development be noted.

14 **Legal and Compliance Update**

Rachel Howe, Head of Governance and Corporate Services presented the update on the work of the Fund to deliver a well governed scheme.

In response to points made the Head of Governance and Corporate Services explained the Fund's risk management process that involved service area consideration of risk maps (bottom up) and senior managements consideration of strategic risks (top down approach). The Head of Governance and Corporate Services also clarified that number 5 on risk ref 17 - Brexit uncertainty, related to an increase of 5 points since the previous quarter.

Members of the Committee suggested that the Chair/Vice-Chair be regularly updated/ briefed on key issues within the risk register to gain assurance that the risks are being mitigated. Rachel Brothwood, Director of Pensions committed to include further information in Chair/Vice-Chair briefings and to review the reporting to the Committee.

The Chair reported that he was pleased with the excellent attendance at today's meeting, however despite repeated requests to Dudley Metropolitan Borough Council (MBC), their appointed representative onto the Pensions Committee had yet to attend a training session or Committee meeting since the start of the 2019/2020 Municipal Year. Members of the Committee agreed that it was a matter for Dudley MBC to resolve but that a further letter should be sent to the Chief Executive and the Leader of Dudley MBC to seek a resolution to the matter. It was also suggested that the Trade Union representatives at Dudley Council be contacted to convey the Committee's concern that scheme members at the Council were currently not being represented on the Committee.

Resolved:

1. That the quarterly risk register, including the movement of risks and the actions taken to mitigate any impact be noted.
2. That the quarterly compliance monitoring be noted.
3. That the outcomes from the initial work undertaken by Hymans Robertson for the Scheme Advisory Board on the Good Governance Review be noted.
4. That the outcomes from the Pensions Regulator's public service and administration survey 2018 be noted.

15 **Exclusion of 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.

16 **Investment Strategy and Activity Update**

Jill Davys, Assistant Director, Investments and Finance presented an update on investment strategy and activity in the West Midlands Pension Fund (WMPF) and West Midlands Integrated Transport Authority Pension Fund (WMITA PF) over the last quarter. It further provided an update on the product development plan and launches of LGPS Central Ltd sub-funds and arrangements for the Fund to transition

assets. In response to questions. Rachel Brothwood, Director of Pensions clarified that re-confirmation of delegated authority was requested in light of the significant sums being transferred and the strategic importance of transitions to the LGPS Central pool.

The Assistant Director responded to questions on Fund activity in the retail sector and town centres, insurance linked and stabilising assets. The Fund had been underweight against benchmark in the retail sector for a while. It had recently completed a transaction on a retail park which was a specific example of the Fund investing selectively where there are strong fundamentals for individual property assets offering good income levels. Regarding the broader retail sector, the Fund had maintained an underweight stance that would most likely continue for some time. It would also consider options for the potential sale of retail units that were underperforming. Investment in Insurance Linked Securities remained under review and would be confirmed as part of the outcome of the Investment Strategy review. The yield on US Treasury Inflation Protected Securities (TIPS) made them more attractive to invest in than UK at this time and this positioning was also a defensive measure. The Assistant Director also responded to questions about the potential development of a property sub fund with LGPS Central Ltd and the impact of Quantitative Easing (QE) on the Fund's investments.

Resolved:

1. That the delegation to the Director of Pensions and Assistant Director, Investments and Finance to agree the arrangements for the transition of Fund assets to LGPS Central Ltd Emerging Market Debt sub-fund as appropriate be re-confirmed.
2. That the update on investment strategies for the main Pension Fund (WMPF) and the WMITA Pension Fund (WMITA PF) be noted.
3. That highlights of recent activity within the Pension Fund be noted.

17 **Funding and 2019 Actuarial Valuation Update**

Simon Taylor, Head of Pensions presented the report on progress of the 2019 actuarial valuation. He clarified that the figure '£7,300k' in paragraph 6.3 of the report was £7.3 million.

Resolved:

1. That the report and the associated update on progress with the 2019 actuarial valuation of both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Pension Fund (the WMITA Fund) be noted.
2. That the wider influences which may have potential implications for the 2019 actuarial valuation be noted.
3. That the update on the associated employer covenant review in the context of the Fund's Integrated Risk Management Framework be noted.

18

Fund Merger

Rachel Brothwood, Director of Pensions presented an update on the proposal to merge the West Midlands Integrated Transport Authority Pension Fund (WMITA PF) and the West Midlands Pension Fund (WMPF), in response to the Government Actuary Department's (GAD's) recommendation to the Ministry of Housing, Communities and Local Government (MHCLG), that the Administering Authority develop a plan to address the employer-risk inherent within the closed WMITA PF.

In response to questions, the Director of Pensions reported that as the Pensions Service already managed both Pension Funds through delegated authority, the administrative burden post-merger would not be significantly different. Regarding risk management for recovering contributions from the WMITA PF employers, there would be no change in the way the Fund reviewed funding and investment risk as the current strategies would transfer to the admitted body separate funds and continue to reflect the covenant and nature of the underlying liabilities. The merger had achieved clarity on roles and responsibilities for pension liability.

Resolved:

1. That authority be delegated to the Director of Pensions to undertake activities required to affect the Fund merger.
2. That the establishment of separate Admission Agreement Funds within the West Midlands Pension Fund for former employers of the WMITA PF be approved, with delegation to the Director of Pensions to enter into the necessary legal agreements as required to effect these changes, subject to the outcome of the consultation, review of final Regulations and receipt of Direction from the Secretary of State be approved.
3. That the public consultation on the West Midlands Pension Fund merger, together with submission of the Fund's response following consultation with key stakeholders and providers be noted.