

Pensions Committee

Minutes - 22 March 2017

Attendance

Members of the Pensions Committee

Cllr Ian Brookfield (Chair)
Cllr Keith Inston (Vice-Chair)
Cllr Peter Bilson
Cllr Jasbir Jaspal
Cllr Hazel Malcolm
Cllr Phil Page
Cllr Paul Singh
Cllr Tersaim Singh
Cllr Wendy Thompson
Cllr Keith Chambers (Walsall MBC)
Cllr Sandra Hevican (Sandwell MBC)
Cllr Councillor Changese Khan (Birmingham City Council)
Cllr John Mutton (Coventry City Council)
Cllr Angela Sandison (Solihull MBC)
Cllr David Sparks (Dudley MBC)

Trade Union observers

Malcolm Cantello (Unison)
Martin Clift (Unite)

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
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Head of Finance - West Midlands Pension Fund
Amanda MacDonald	Client Lead Auditor
Michael Marshall	Responsible Investment Officer
Mark Taylor	Director of Finance and S151 Officer
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 Cllr John Reynolds (City of Wolverhampton Council), Ian Smith (Unite) and Alan Phillips (GMB).
- 2 Notification of substitute members**
No notifications of substitute members were received for the meeting

3 Declarations of interests (if any)

Cllrs Tersaim Singh (City of Wolverhampton Council) and Keith Chambers (Walsall Metropolitan Council) both declared disclosable non-pecuniary interests in any matter on the agenda relating to the West Midlands Combined Authority (CA), in so far as they are members of the CA Audit Committee.

4 Minutes of previous meetings

Resolved:

That the minutes of the meeting of the Pensions Committee and the Investment Advisory Sub Committee held on 7 December 2016 be approved as a correct record and signed by the Chair.

5 Matters arising from the minutes of the previous meetings

With reference to Minute 11 of the meeting of the Investment Advisory Sub Committee, it was reported that a verbal report on the use of index futures trading would be made during consideration of agenda item 8.

6 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 items 7 and 8 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

7 Monitoring Strategy - Employer Contributions and Covenants

Simon Taylor, Head of Client and Funding Management presented the report on an overview of the in-house monitoring framework developed for monitoring employer covenant and the process for monitoring employer contributions on a monthly basis. The detail of the covenant monitoring framework would be covered at a Trustee training session.

The Head of Client and Funding Management responded to questions on the number of employers who had been assigned a RAG rating of Red for the strength of their covenant, and the type of plans introduced to mitigate the risks to the Fund. Clarification was also provided on the approximate number in the Fund for the scheme employer category 'Community of Interest admission body'. He also responded to questions on the indicative employer watch list and the live discussions taking place that related to the Further Education (Colleges) Sector. Detailed discussions were ongoing with the Colleges regarding their ability to support and finance their pension's deficits and alternatives to increasing cash contributions to the Fund to mitigate covenant risk.

The Committee went on to discuss the Department for Education's (DFE's) position of no longer acting as a guarantor for pensions liabilities of organisations in the Further Education (FE) sector. The Director of Pensions explained that the FE (Colleges) sector was undergoing a period of change in terms of additional scrutiny, legislative changes and financial pressure and was also under review. The Schools and Funding Agency was intervening where it saw stress and was offering different levels of support on an individual basis for FE Colleges. However the DFE would not stand behind pensions liabilities of organisations in the FE sector.

Resolved:

1. That the process for the Fund-wide covenant review and employer segmentation exercise be noted.
2. That the independent covenant reviews undertaken for district councils and West Midlands Integrated Transport Authority employers be noted.
3. That the focus upon the Further Education sector be noted.
4. That the process for the monitoring of employer contributions undertaken by the Fund be noted.

8 **Investment Strategy Review**

Graeme Johnston and William Marshal from the Fund's Investment Consultant, Hymans Robertson, delivered a presentation on the key elements of their review of the Fund Investment Strategy. The review had considered the continued appropriateness of the Fund's Investment Strategy in conjunction with the preliminary outcomes of the 2016 actuarial valuation and alongside preparation of the new Investment Strategy Statement (ISS), replacing the Fund Statement of Investment Principles from April 2017. Hymans Robertson also responded to the Committee's questions on the key elements of the review.

Cllr Peter Bilson welcomed the review which gave the Committee an appreciation of the approach the Fund's Investment Advisors had taken.

Rachel Brothwood, Director of Pensions took the Committee through the proposed recommendations within the report, which had been considered by Fund Officers and the Investment Advisory Sub Committee earlier in the day.

In response to questions the Committee was informed that:

- The ISS was a live document which the Fund was required to have in place by April 2017. It would continue to be reviewed as the portfolio continued to evolve.
- It is anticipated that there is sufficient flexibility within the proposed bands to absorb short term volatility, for example as occurred in the markets after the Brexit decision in June 2016.
- The Investment Advisory Sub Committee had agreed that one of the ranges be extended, if it was necessary, noting the Chair of the Pensions Committee would be informed.
- The index futures trading tool would be used to help deploy cash contributions it was anticipated the Fund would receive in April 2017. The legal and compliance work and testing was now complete and the process controls had been reviewed by the Investment Advisory Panel. The Investment Advisory Sub Committee had approved the plans for the investment of cash contributions at its meeting earlier in the day.

At the end of the discussion the Chair thanked Hymans Robertson for their review and responding to the Committee's questions.

Resolved:

1. That the revised structure and allowable ranges for the Strategic Investment Allocation Benchmark (SIAB), representing the Fund Investment Strategy be approved.
2. That Adoption of a strategic currency hedge, targeting around half of the overseas major currency risk exposure, and delegation of the implementation of this, together with any justifiable tactical overlay, to the Strategic Director of Pensions and Chief Investment Officer (CIO) be approved.
3. That the contents of Hymans Robertson's investment strategy review attached at Appendix 1 to the report, key elements of which the Investment consultant presented to the Committee be noted.

Part 1 - items open to the press and public

9 **2016 Actuarial Valuation and Funding Strategy Statements**

Rachel Brothwood, Director of Pensions reported on the feedback from the consultations undertaken as part of the 2016 actuarial valuation. She informed the Committee that the preliminary valuations had been shared with employers and that she was pleased with the response and engagement from employers on their contribution outcomes. The final contribution arrangements were being confirmed to employers for implementation from April 2017.

The Committee also received for approval the revised Funding Strategy Statements for both the West Midlands Pension Fund (Main Fund) and West Midlands Integrated Transport Authority Fund (ITA Fund).

Resolved:

1. That the Funding Strategy Statements for both the West Midlands Pension Fund and the West Midlands Integrated Transport Authority Fund attached to the report be approved.
2. That the consultations undertaken in relation to the 2016 actuarial valuation be noted.
3. That the progress made towards finalising the valuation and planned delivery of the Actuary's valuation report and rate and adjustments certificate by the statutory deadline of 31 March 2017 be noted.

10 **Investment Strategy Statement**

Rachel Brothwood, Director of Pensions presented for review and approval, the Investment Strategy Statements (ISSs) prepared for the West Midlands Pension Fund (Main Fund) and the West Midlands Integrated Transport Authority Pension Fund (ITA Fund). The ISSs had to be in place by 1 April 2017. No significant changes were proposed in the ISS for the Fund.

The Committee was asked to note:

1. The ISSs have been prepared to replace the existing Statement of Investment Principles in line with the statutory requirement from 1 April 2017.

2. In line with guidance issued by Department for Communities and Local Government, the ISSs include details of the Funds' approach to investment pooling and further details on responsible investment activity.
3. The WMPF ISS had been updated to reflect the restructuring of the Strategic Investment Allocation Benchmark proposed following the Investment Strategy review.
4. Additional commentary had been included in the Fund's investment Beliefs.
5. A copy would be published on the Fund's website and had been reviewed by the Fund's advisors.

Resolved:

That the Investment Strategy Statements (ISSs) drafted for the West Midlands Pension Fund (WMPF) and West Midlands Integrated Transport Authority Pension Fund be approved.

11

Responsible Investment Activities

Michael Marshall, Responsible Investment Officer presented the report on work undertaken by the Investment team regarding their responsible investment activities between the period 1 October to 31 December 2016. He particularly drew the Committee's attention to:

1. The Fund's new Stewardship Code Compliance Statement which had been issued in November;
2. That the Fund had been awarded Tier 1 status for its stewardship activities; and
3. The direct engagement activity with companies and through partnerships, voting activity and shareholder litigation.

Malcolm Cantello expressed his concern at the lack of progress with Hanwha Corp on the allegations of cluster munitions production as well as the progress to date with National Express since the concerns about the company's activities were first raised. The Strategic Director of Pensions undertook to report back to the Committee on developments regarding both companies including voting plans following confirmation by the Local Authority Pension Fund Forum (LAPFF) on its 2017/18 work programme including plans, budgets and engagement topics that would be approved in early March 2017.

In response to other questions raised, it was reported that the Fund was active in the German courts as a registered claimant in litigation filed against WV and Porsche in Germany and not in the American litigation.

The Chair commented that he and other members of the Committee had received correspondence expressing concerns regarding some companies the Fund invested in. He reported that the Committee and the Fund take the concerns seriously and would continue to do its best to secure change through engagement.

Resolved:

1. That the Fund's voting and LAPFF's engagement activity for the three months ending 31 December 2016, including Appendix 1 to the report 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/engagement/files/Q4_2016_QER_FINAL.pdf
3. That the update provided on the recent engagement activities with Hanwha Corporation and Motorola Solutions be noted.
4. That the Fund's revised Stewardship Code Compliance Statement and the award by the Financial Reporting Council of Tier 1 status in relation to the Fund's Compliance Statement 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 it be noted that the Fund's updated UK Stewardship Code Compliance Statement, is available on the Fund's website:
<http://www.wmpfonline.com/CHttpHandler.ashx?id=4650&p=0>

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MiFID II Adoption

Jason Fletcher, Chief Investment Officer reported on the key elements of the Financial Conduct Authority's (FCA's) implementation of EU directive Markets in Financial Instruments Directive (MiFID) which could impact on the implementation of the Fund's Investment Strategy. One of the key elements from the directive was the classification of clients (including Pensions funds) as being Retail or Professional and the Funds ability to 'opt up' from that classification to be an Elected Professional client.

Malcolm Cantello commented that the new regulations were complex and the issue of transparency regarding the costs on meeting MiFID II was important to the Fund. He also felt that the criteria for being classified as Elected Professional client was onerous but that the Fund already met three of the criteria. The Chief Investment Officer reported that the Fund was engaging through responses to consultations from the Financial Conduct Authority (FCA) and through contacts with the Treasury to try and make the new directive work for Fund.

The Strategic Director of Pensions reported that through the engagement with the FCA and the Treasury she was optimistic that there would be some movement on the opt up criteria within the next few weeks as the new directive currently went against the Government policy on pooling. The Strategic Director undertook to circulate a note to members of the Committee once a decision is obtained.

Resolved:

1. That it be noted that new legislation would be effective from January 2018 and (without action) this would change the Fund's current status from Professional to Retail.
2. That it be noted that there is an opt up process which would enable the Fund to become an Elected Professional client in order to mitigate the impact on the universe of funds which the Fund can invest in and avoid potential increases in fees.

3. That it be noted that the Fund responded to the FCA consultation on implementation, along with the Scheme Advisory Board (SAB) and other funds, to request easements to the opt-up process and clarification of how the criteria would apply in practice
4. That it be noted that the Fund had no concerns on its ability to opt-up and this should be in place by the end of 2017.

13

Service Plan Monitoring 2016/17 and Quarterly Accounts December 2016

David Kane, Head of Finance presented the monitoring report on performance against key performance indicators (KPIs) and on the forecast outturn for the year against operating budgets and quarterly accounts as at the end of December 2016.

The Chair congratulated all those who had contributed to the good position on the operating budget and in the reduction of the fees, costs per member.

Malcolm Cantello asked when it was anticipated that the KPIs 'retirement option to members' and 'notification of benefits payable to dependants would be issued in 5 days of receiving the request for information' would be back on target. Rachel Brothwood, Director of Pensions reported that the Fund was currently operating at KPI level regarding retirement option to members. Working procedures had been updated and there had been improvements in performance against these KPIs during the third quarter. It was anticipated that these improvements would continue for the remainder of the year and be reflected in the next quarterly report.

Resolved:

1. That performance against the Fund's key performance indicators as at the end of December 2016 be noted.
2. That the forecast outturn against operating budgets as at the end of December 2016, which is an under spend of £7.3 million be noted.
3. That it be noted that the quarterly accounts for the period ending 31 December 2016, show that:
 - the value of West Midlands Pension Fund at this date was £13.7 billion, an increase of £2.0 billion from 31 March 2016;
 - the value of West Midlands ITA Pension Fund at this date was £489.7 million, an increase of £28.9 million from 31 March 2016.

14

Service Plan 2017 - 2022

David Kane, Head of Finance presented for approval the Fund's Service Plan 2017-2022, which included the operating budget for 2017/18, and medium term financial plan for the five years up to and including 2021/22.

Resolved:

That the Service Plan 2017-2022 including the operating budget for 2017/18 and the medium term financial plan for the period to 2021/22 be approved.

15

External Audit Plan 2016 – 2017

David Kane, Head of Finance presented two documents from the Fund's external auditors Grant Thornton. The first was their plan for the external audit of the Fund's Annual Report and Accounts for 2016/17. The second document 'Informing the Audit

Risk Assessment' set out some of the potential areas of risks with regard to the Annual Report. The document also set out the Fund's management response to questions posed by the External Auditor. The views of the Committee were invited on the management responses.

Resolved:

1. That the management responses to questions from the external auditors, Grant Thornton LLP, as part of their audit planning be confirmed.
2. That the external audit plan for the 2016/17 Annual Report and Accounts, as prepared by Grant Thornton be noted.

16 **Internal Audit Plan 2017-2018**

Amanda McDonald, Client Lead Auditor, City of Wolverhampton Council presented an outline programme for the Fund's internal audit work for 2017 – 2018.

Resolved:

That the internal audit plan for 2017-2018 be noted.

17 **Risk and Compliance Monitoring 31 October 2016 - 31 December 2016**

Rachel Howe, Head of Governance presented the report on the Fund's risk register and quarterly compliance monitoring program. Referring to the report, the Head of Governance updated Trustees on the recovery of monies noted in paragraph 4.1.4 confirming circa £25,000 was now outstanding.

Regarding the Trustee training hours, the Chair reported that he felt that Trustees were doing themselves a dis-service in so far as they were not registering the amount of time spent reading up on pension matters and preparing for meetings. He asked that the Trustees record the reading hours they put in.

Cllr Peter Bilson requested that the font size and columns in the risk register reports be reformatted to make it more visible.

In response to a query from Malcolm Cantello, Rachel Howe confirmed bulk data importing of new joiners was in place and that this would form part of the wider bulk data processing the move to monthly returns will deliver.

Resolved:

1. That the top ten risks for the West Midlands Pension Fund and the steps taken to mitigate them referred to at appendix 1 and 2 to the report be noted.
2. That the compliance issues that have arisen during the quarter and the resolutions put in place be noted.
3. That the Trustees review the number of training hours completed by themselves for the year up to 28 February 2017 and inform the Trustee Management Officer of any amendments.

18 **Investment Pooling**

Geik Drever, Strategic Director of Pensions presented an update report on progress made with the implementation and set up of LGPS Central Ltd (an jointly owned investment management company) in line with the Government's overall timescale of 1 April 2018.

Malcolm Cantello asked that a line be included in future service plan monitoring reports to show the set up and operating costs for LGPS Central. He also asked whether the human resources section of the report relating to the position of employees could be firmer than 'expected', in order to remove the uncertainty for staff. The Strategic Director agreed to add an appendix to the Service Plan monitoring report with an outline of the LGPS Central costs. On the latter point the Strategic Director reported that the Fund continued to update staff on the set up and transition to LGPS Central, through regular briefings.

Resolved:

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

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

Simon Taylor, Head of Client and Funding Management outlined the salient points of the report on progress being made by the Fund to continue to improve data quality. He also reported on the plan in place to make further improvements to data quality and the performance of employees against key performance standards as detailed in the Pensions Administration Strategy.

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 (PAS) be noted.
3. That it be noted that four employers have been reported to the Pension Regulator for non-return of 2016 annual scheme data by the statutory deadline.

20 **Pension Administration Report - 1 October 2016 - 31 December 2016**

Simon Taylor, Head of Client and Funding Management presented the report on the work undertaken by the pension's administration service during the period 1 October to 31 December 2016 for both the West Midlands Main Fund and the West Midlands Integrated Transport Authority Fund.

Resolved:

1. That the write-offs detailed in section 8.0 of the report be approved.
2. That the applications approved by the Strategic 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 pension's 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.

21

Pension Administration Strategy 2017

Simon Taylor, Head of Client and Funding Management highlighted proposed revisions to the Pension Administration Strategy (PAS) and the feedback received from the employer consultations, in preparation for the revised strategy being implemented from April 2017.

Resolved:

That the revised Pension Administration Strategy be approved, and the outcomes of the consultation with scheme employers be noted.