

# Investment Advisory Sub-Committee

22 March 2017

**Time** 10.00 am **Public Meeting?** YES **Type of meeting** Pensions

**Venue** Committee Room 3 - Civic Centre, St Peter's Square, Wolverhampton WV1 1SH

## Membership

**Chair** Cllr Ian Brookfield (Lab)

**Vice-chair** Cllr Keith Inston (Lab)

### Labour

Cllr Peter Bilson  
Cllr Tersaim Singh

### Conservative

### Liberal Democrat

### District Members

Cllr Keith Chambers (Walsall Metropolitan Borough Council)  
Cllr Sandra Hevican (Sandwell Metropolitan Borough Council)  
Cllr Changese Khan (Birmingham City Council)  
Cllr John Mutton (Coventry City Council)  
Cllr Angela Sandison (Solihull Metropolitan Borough Council)  
Cllr David Sparks (Dudley Metropolitan Borough Council)

### Trade union observers

Mr Malcolm Cantello  
Mr Martin Clift  
Mr Alan Phillips  
Mr Ian Smith

Quorum for this meeting is five Councillors.

## Information for the Public

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

**Contact** Dereck Francis  
**Tel/Email** 01902 555835 or dereck.francis@wolverhampton.gov.uk  
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Wolverhampton WV1 1RL

Copies of other agendas and reports are available from:

**Website** <http://wolverhamptonintranet.modern.gov.co.uk>

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

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# Agenda

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

- | <i>Item No.</i> | <i>Title</i>   |
|-----------------|--|
| 1               | <b>Apologies for absence (if any)</b>  |
| 2               | <b>Substitute members</b>  |
| 3               | <b>Declarations of interest (if any)</b>   |
| 4               | <b>Minutes of last meeting - 7 December 2016</b> (Pages 5 - 8)<br>[For approval]   |
| 5               | <b>Matters arising</b><br>[To consider any matters arising from the minutes of the meeting held on 26 March 2014]  |
| 6               | <b>Exclusion of the press and public</b><br>[To pass the following resolution:<br><br>That in accordance with Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information on the grounds shown below] |

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

- |   |   |  |
|---|---|--|
| 7 | <b>Economic and Market Update - March 2017</b> (Pages 9 - 16)<br><br>[To review conditions in the global economy and investment markets]  | Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3) |
| 8 | <b>Asset Allocation and Investment Performance Quarter Four - 1 October to 31 December 2016 - West Midlands Pension Fund</b> (Pages 17 - 44)<br><br>[To consider the contents of the asset allocation and investment performance report for the quarter ended 31 December 2016 and longer term]                             | Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3) |
| 9 | <b>Asset Allocation and Investment Performance Quarter Four- 1 October to 31 December 2016 - West Midlands Integrated Transport Authority Pension Fund</b> (Pages 45 - 74)<br><br>[To consider the contents of the asset allocation and investment monitoring report for the period ended 31 December 2016 and longer term] | Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3) |

- |    |  |   |
|----|--|---|
| 10 | <p><b>Deployment of April 2017 Cash Contributions</b><br/>(Pages 75 - 78)</p> <p>[To receive an outline of plans Fund officers are putting in place to invest the increased level of cash contributions expected in April 2017.]</p> | <p>Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)</p> |
| 11 | <p><b>Summary Findings of Private Equity Strategy Report</b> (Pages 79 - 98)</p> <p>[To receive the findings of a paper on the Fund's Private Equity portfolio and investment programme]</p>   | <p>Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)</p> |

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# Investment Advisory Sub-Committee

## Minutes - 7 December 2016

### Attendance

#### Members of the Investment Advisory Sub-Committee

Cllr Keith Inston (Vice-Chair, in the Chair)  
Cllr Peter Bilson  
Cllr Tersaim Singh  
Cllr Keith Chambers  
Cllr Sandra Hevican (Sandwell MBC)  
Cllr John Mutton (Coventry City Council)  
Cllr Angela Sandison (Solihull MBC)  
Cllr David Sparks (Dudley MBC)  
Alan Phillips (Trade Union Representatives)

#### Employees

Geik Drever	Strategic Director of Pensions - West Midlands Pension Fund
Mark Taylor	Director of Finance and Section 151 Officer
Dereck Francis	Democratic Support Officer
Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Head of Finance - West Midlands Pension Fund
Jason Fletcher	Chief Investment Officer - West Midlands Pension Fund

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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 Cllr Ian Brookfield (City of Wolverhampton Council), Malcolm Cantello (Unison), Martin Clift (Unite) and Ian Smith (Unite)
- 2 Substitute members**  
No notifications of substitute members were received for the meeting.
- 3 Declarations of interests (if any)**  
Cllrs Tersaim Singh and Keith Chambers both declared disclosable non pecuniary interests in any matters 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 last meeting - 14 September 2016**

Resolved:

That the minutes of the previous meeting held on 14 September 2016 be approved as a correct record and signed by the Chair.

5 **Matters arising**

With reference to Minute 10 (US Dividend Aristocrats Index), Geik Drever, Strategic Director of Pensions reported that a report on implementing index futures trading was included on the agenda.

6 **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**

7 **Asset Allocation and Investment Performance Quarter Three - 1 July to 30 September 2016**

Jason Fletcher, Chief Investment Officer, summarised the key elements of the quarterly asset allocation and investment monitoring report. He sought feedback from the Sub Committee on the new format of the report.

Members of the Sub Committee welcomed the new format and indicated that aesthetically it presented well, was easy to read and the executive summary would help steer the discussion. It was suggested that when presenting the report officers break up the content to aid the Sub Committee to drill down into the performance data, and that officers also highlight what they feel the Sub Committee needs to be made aware of.

In terms of the Fund's performance during the quarter, Cllr Peter Bilson welcomed that the Fund had returned 6.7% during the quarter, outperforming its benchmark. This was good news for pensioners and for the Sub Committee members as the Fund's Trustees.

Cllr John Mutton commented that he found it difficult to work out investments in the infrastructure asset class, particularly in the West Midlands region where he would like to see the Fund investing more so long as the returns met the Fund's aspirations. The Chief Investment Officer reported that the Fund had an overweight position in the West Midlands in other asset classes including Property and private equity but underweight in Infrastructure. If returns on infrastructure investment opportunities within the region meet the Fund's aims they would be considered subject to reasonable diversification.

Geik Drever, Strategic Director of Pensions added that she had previously held discussions with the Pension Implementation Platform (PIP) and West Midlands Leaders about the potential for collaboration in making infrastructure investments in

the region. The Fund would consider any investment proposals brought forward but the returns would need to meet the Fund's Investment Strategy.

Cllr David Sparks requested that when the Strategic Director of Pensions and the Director of Pensions are called to make presentations to the West Midlands Combined Authority or the West Midlands District Leaders /Chief Executives, the Chair or Vice-Chair of the Pensions Committee should accompany them. He suggested that a protocol needed to be in place to cover this event.

Cllr Keith Inston (Vice-Chair in the Chair) commented that the point was noted.

Resolved:

That the contents of the asset allocation and investment monitoring report for the quarter ended 30 September 2016 be noted.

8 **Asset Allocation and Investment Monitoring Performance Quarter Three - 1 July to 30 September 2016 West Midlands Integrated Transport Authority Pension Fund**

Jason Fletcher, Chief Investment Officer, summarised the key elements of the quarterly asset allocation and investment monitoring report for the WMITA Pension Fund. The Fund had performed well during the quarter, increasing in its value and outperforming against its benchmarks.

Cllr John Mutton queried the provision of separate pension funds for the WMITA and the West Midlands (the Main Fund) and asked whether the two could be merged to reduce costs. He was mindful that like all local authorities who had to reduce their costs so it was incumbent upon the Pensions Fund to do the same. He asked that officers give consideration to his suggestion.

The Strategic Director of Pensions explained that it was as a result of statute and regulations that the WMITA Fund and the Main Fund are separate. She explained how the two Funds were managed by the West Midlands Pensions Service and overseen by the Pensions Committee.

Cllr David Sparks observed that within this and the previous performance monitoring report there was a pattern of the Funds outperforming its benchmarks and big movements in cash and equities. He asked whether there were any significant differences with the WMITA Fund and the Main Fund. He also asked about implications for the two Funds of a hard or soft 'Brexit'. The Sub Committee was advised that the ITA fund is a closed Fund and half of it had been bought out by Prudential. Since it was a closed fund the cash flows were different to those of the Main Fund so it has a different investment strategy. The ITA Fund also only had two employers who were private sector companies.

The Chief Investment Officer also gave his view on the potential impact of Brexit on the Funds.

Cllr David Sparks also reported that it would be useful particularly for the Government and the West Midlands Combined Authority (CA), if the Fund considered its requirements in terms of investment in infrastructure in order that

Government could package projects in a way they would like to see Pooled Funds invest. This could also be used to have a conversation with the CA on the Funds expectations if they wanted the Fund to invest in local infrastructure. The Strategic Director of Pensions reported that this had already been made known via the Fund's Investment Strategy.

Resolved:

That the contents of the asset allocation and investment monitoring report for the period ended 30 September 2016 be noted.

9 **Economic and Market Update - December 2016**

Jason Fletcher, Chief Investment Officer, presented the report which summarised the key elements of the review of the global economy and investment markets produced by the Fund's Investment Advisers Hymans Robertson.

He reported on his views on the outlook for the global economy; property valuations; bond yields; and the risks from Brexit and the outcome of the 2016 US Presidential election.

Resolved:

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

10 **Cleveland Planning Application update**

Jason Fletcher, Chief Investment Officer, reported on the planning application process for up to 821 homes on the Fund's agricultural land in Cleveland. There had been no real change to the previous update and the timelines for the process remained the same.

Resolved:

That the report be noted.

11 **Implementation of Index Futures Trading**

Jason Fletcher, Chief Investment Officer presented an update on the proposed use of Index Futures as a cheap and efficient tool for adjusting Fund asset exposures and, where appropriate, managing risk where these exposures have become too high.

Resolved:

1. That it be noted that the Fund is investigating the use of index futures to help manage investment exposure and risk more efficiently and effectively in response to increasing global market volatility and uncertainty. The Fund may look to use index futures in the next quarter and would report back in more detail to the next meeting of the Sub Committee.
2. That it be noted that a framework for implementation is being developed for review by the Investment Advisory Panel, advising the Strategic Director of Pensions.



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