CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee
21 June 2017

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

Venue Committee Room 3 - 3rd Floor - Civic Centre

Membership

Chair Cllr Ian Brookfield (Lab)
Vice-chair Cllr Keith Inston (Lab)

Labour

Cllr Harbans Bagri
Cllr Peter Bilson
Cllr Jasbir Jaspal
Cllr Louise Miles
Cllr Phil Page
Cllr Tersaim Singh

Conservative

Cllr Paul Singh
Cllr Wendy Thompson

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 eight Councillors.

Information for the Public

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

Contact Dereck Francis
Tel/Email Tel:01902 555835 or dereck.francis@wolverhampton.gov.uk
Address Democratic Support, Civic Centre, 2nd floor, St Peter's Square, Wolverhampton WV1 1RL

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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.

Agenda

Part 1 – items open to the press and public

Item No. *Title*

1 **Apologies for absence (if any)**

2 **Notification of substitute members**

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

4 **Minutes of previous meetings** (Pages 7 - 20)
(a) Pensions Committee – 22 March 2017
[For approval]

(b) Investment Advisory Sub-Committee – 22 March 2017
[For approval]

5 **Matters arising**
[To consider any matters arising from the minutes of the previous meetings]

6 **Appointments and Dates and Times of Meetings 2017/2018** (Pages 21 - 24)
[To note/approve appointments and to approve the dates and times of the Committee and the Pensions Board]

FUNDING AND INVESTMENT STRATEGY

7 **Completion of the 2016 Actuarial Valuation** (Pages 25 - 30)
[To provide confirmation of the finalised 2016 actuarial valuation and a summary of the national position and associated reviews]

INVESTMENTS

8 **Responsible Investment Activities** (Pages 31 - 46)
[To receive the report on work undertaken by the Investment team regarding their responsible investment activities between the period 1 January to 31 March 2017]

9 **Asset Allocation and Investment Performance - Period to 31 March 2017** (Pages 47 - 96)
[To note the quarterly performance report]

10 **Annual Investment Performance Report 2016/17 West Midlands Pension Fund and West Midlands Integrated Transport Authority Fund** (Pages 97 - 126)
[To note the Funds' investment policy and investment returns for the year to 31 March 2017]

FINANCE

11 **Annual Report and Accounts 2016/17** (Pages 127 - 140)
[To approve the draft annual report and to receive information on the outturn against operating budgets and performance against key performance indicators for the year]

12 **Internal Audit Report 2016/17** (Pages 141 - 150)
[To note the contents of the Internal Audit Annual report]

GOVERNANCE

13 **Risk and Compliance Monitoring 1 January to 31 March 2017** (Pages 151 - 162)
[To note the top ten risks for the Fund and feedback on the quarterly compliance monitoring programme, and progress on the recruitment and retention of Fund staff]

14 **Annual report of the Local Pensions Board** (Pages 163 - 174)
[To note the report]

15 **Policies Review 2017** (Pages 175 - 182)
[To provide an overview of the Fund's statutory and good practice policies for the year 2017/2018]

16 **Scheme Advisory Board Annual Report 2016 and KPIs** (Pages 183 - 188)
[To provide a national overview of the Local Government Pension Scheme]

PENSIONS ADMINISTRATION

17 **Pensions Administration report 1 January to 31 March 2017** (Pages 189 - 210)
[To receive the report on the work undertaken by the Pensions Administration Service during the period 1 January to 31 March 2017]

18 **Data Quality and Employer Performance - Quarterly Update** (Pages 211 - 220)
[To receive an update on the actions being taken to continue to improve data quality]

19 **Exclusion of the Press and Public**
[To pass the following resolution:

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 public and press

INVESTMENTS

20	**Annual Report of the Investment Advisory Panel and the West Midlands Integrated Transport Authority Investment Strategy Panel** (Pages 221 - 234) [To report on the activities of the Investment Advisory Panel and the WMITA Strategy Panel (Investment and Funding) during 2016/17 and to approve the continued appointment of the Investment Consultant and Independent Adviser]	Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)
21	**Update on Investment of Cash Contributions and Currency Risk** (Pages 235 - 240) [To provide an update on the investment of cash contributions received in April 2017 following the 2016 Actuarial Valuation and the implementation of a currency hedging strategy following the investment strategy review]	Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)
22	**Investment Pooling Update** (Pages 241 - 310) [To report on the progress made with the implementation and set up of LGPS Central in line with the Government's overall timescale of 1 April 2018]	Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)

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Agenda Item No: 4

CITY OF WOLVERHAMPTON COUNCIL

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 anticipate 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

12 **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.

CITY OF WOLVERHAMPTON COUNCIL

Investment Advisory Sub-Committee

Minutes - 22 March 2017

Attendance

Members of the Investment Advisory Sub-Committee

Cllr Ian Brookfield (Chair)
Cllr Keith Inston (Vice-Chair)
Cllr Peter Bilson
Cllr Tersaim Singh
Cllr Keith Chambers (Walsall MBC)
Cllr Sandra Hevican (Sandwell MBC)
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
Mark Taylor	Director of Finance and S151 Officer
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

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 Changese Khan (Birmingham City Council), Ian Smith (Unite) and Alan Phillips (GMB).

2 **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 Borough Council) 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 - 7 December 2016**
Resolved:
That the minutes of the previous meeting held on 7 December 2016 be approved as a correct record and signed by the Chair.

5 **Matters arising**

With reference to Minute 11 (Implementation of Index Futures Trading), Malcom Cantello asked when the report mentioned in the minute on the use of index futures would be submitted to the Sub Committee. Rachel Brothwood, Director of Pensions advised that an update would be made during consideration of reports on the agenda for the Pensions Committee later on in the day.

With reference to Minute 10 (Cleveland Panning Application update), Rachel Brothwood reported that a decision on the planning application was anticipated for the end of May 2017.

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 the press and public

7 **Economic and Market Update - March 2017**

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 Adviser Hymans Robertson.

Resolved:

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

8 **Asset Allocation and Investment Performance Quarter Four - 1 October to 31 December 2016 - West Midlands Pension Fund**

Jason Fletcher, Chief Investment Officer, summarised the key elements of the quarterly asset allocation and investment monitoring report.

Cllr Ian Brookfield (Chair) noted the positive impact and the performance from internal equity fund and private equities funds had on the overall Fund return.

Chief Investment Officer responded to the Sub Committee's questions relating performance during the quarter; and the Funds definition of 'real assets and infrastructure'. On the latter point the Sub Committee was advised that it was primarily physical objects such as property; things that you could touch that are not equity or private equity. Under this portfolio class the Fund was would be looking to invest in both projects and Funds in the future.

Resolved:

That the contents of the asset allocation and investment monitoring report for the quarter ended 31 December 2016 and longer term be noted.

9 **Asset Allocation and Investment Performance Quarter Four- 1 October to 31 December 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.

Resolved:

That the contents of the asset allocation and investment monitoring report for the quarter ended 31 December 2016 and longer term be noted.

10 **Deployment of April 2017 Cash Contributions**

Jason Fletcher, Chief Investment Officer presented the report which outlined the plans Fund officers were putting in place to invest the increased level of cash contributions expected in April 2017 following completion of the 2016 Actuarial Valuation.

Cllr Angela Sanderson asked whether employers would receive a discount for paying their contributions in advance. Rachel Brothwood, Director of Pensions advised that early payment improved the funding position and provided an opportunity to generate additional returns on the monies received. The discount presented a share of the expected return with participating employers and take up had increased relative to the 2013 actuarial valuation.

Resolved:

1. That the temporary extension to the medium-term strategic range allocated to growth assets within the Fund's Statement of Investment Principles/Investment Strategy Statement, if required be approved subject to notification to the Chair.

2. That plans to invest the cash contributions expected in April 2017 be noted.

11 **Summary Findings of Private Equity Strategy Report**

Jason Fletcher, Chief Investment Officer presented the report which summarised and evaluated the findings of the Hymans Robertson paper on the Fund's Private Equity portfolio and investment programme. The report also outlined how the in-house investment team were developing the implementation of this strategy.

The officers responded to the Sub Committee's questions on the content of the report about the ability of the Pensions Committee and the Sub Committee to make decisions on investment strategy post implementation of investment pooling arrangements and LGPS Central going live; and on the Fund's ambitions to reduce costs associated with asset classes.

Resolved:

1. That the findings of the recent Hymans report on the Fund's private equity programme be noted

2. That the Investment Manager's plan as to how the recommendations be implemented be noted.

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Agenda Item No: 6

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Appointments and dates and times of meetings 2017/2018	
Originating service	Governance	
Accountable employee(s)	Dereck Francis	Democratic Services Officer
	Tel	01902 555835
	Email	dereck.francis@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendations for action or decision:

The Committee is recommended to:

1. Note that in accordance with the Constitution of the Fund, the City of Wolverhampton Council at its Annual Meeting on 17 May 2017 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. Confirm the appointment of the Trades Union representatives onto the Committee for the Municipal Year 2017/2018.

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

3. Confirm the following dates and times of meetings of the Pensions Committee, and Pensions Board for the Municipal Year 2017/2018.

Pensions Committee – 10 am:
6 September 2017
6 December 2017
28 March 2018

Pensions Board - 2pm
5 July 2017
23 January 2018

1.0 Purpose

1.1 To receive the nomination from City of Wolverhampton Council for the post of Chair and Vice-Chair to the Committee.

1.2 To receive the nominations from the Trades Unions for observer representatives to serve on the Pensions Committee for the municipal year 2017/2018.

1.3 To agree the dates and times of meetings of the Committee and the Pensions Board for the municipal year 2017/2018.

2.0 Background

2.1 Chair and Vice-Chair of the Committee

2.1.1 The Constitution of the Fund requires that the City of Wolverhampton Council (the Scheme Administering Authority) at each Annual Meeting appoint a Chair and Vice-Chair of the Pensions Committee.

2.1.2 At its Annual Meeting on 17 May 2017 the City of Wolverhampton Council appointed Councillor Ian Brookfield as Chair of the Pensions Committee and Keith Inston was appointed as Vice-Chair of the Pensions Committee for the 2017/2018 Municipal Year.

2.1.3 The Committee is asked to note the appointments.

2.2 Appointment of Trades Union observer representatives

2.2.1 Following receipt of nominations from the Trades Unions (TU), the Committee is asked to confirm the appointment of the following four trades union observer representatives on the Pensions Committee for the 2017/2018 municipal year:

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

2.3 Dates and times of meetings for 2017/2018

2.3.1 The Committee is asked to approve the following dates and times of meetings of the Committee and Board for the remainder of the current municipal year:

(a) **Pensions Committee – 10 am**:
6 September 2017
6 December 2017
28 March 2018

(b) **Pensions Board- 2pm**
5 July 2017
23 January 2018

3.0 **Financial implications**

3.1 The report has no financial implications.

4.0 **Legal implications**

4.1 There are no legal implications contained in this report other than referred to above.

5.0 **Equal opportunities implications**

5.1 This report has no direct implications for the Council's Equal Opportunities Policy.

6.0 **Environmental implications**

6.1 This report has no direct environmental implications.

7.0 **Human resources implications**

7.1 This report contains no direct human resources implications.

8.0 **Corporate landlord implications**

8.1 This report has no direct corporate landlord implications

9.0 **Schedule of background papers**

9.1 Nil

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Agenda Item No: 7

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Completion of 2016 Actuarial Valuation	
Originating service	Pension Services	
Accountable employee(s)	Simon Taylor Tel Email	Head of Client & Funding Management 01902 554276 Simon.taylor2@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.brothwood@wolverhampton.gov.uk

Recommendation for action or decision:

The Committee is asked to approve:

1. Delegation of responsibility 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 (as in section 4.2.1 of this report).

Recommendations for noting:

The Committee is asked to note:

1. The finalisation of the 2016 actuarial valuation and the associated actuarial Rates and Adjustment certificate signed 31 March 2017.

2. The ongoing activity to oversee changes in employer funding arrangements and wider review of outcomes of the 2016 actuarial valuation.

1.0 Purpose

1.1 To provide Committee with confirmation of the finalised 2016 actuarial valuation and a summary of the national position and associated reviews.

2.0 Background

2.1 The Fund is required to carry out an actuarial valuation every three years and review and set the funding strategy and employer contribution rates for the following three years. As part of the 31 March 2016 valuation, the Fund Actuary has certified the employer contribution rates due for the three years 2017/18-2020/21.

2.2 The report to Committee in March outlined the steps required to finalise the 2016 valuation, in particular concluding the consultation process and finalising the Funding Strategy Statement (FSS) and the valuation report along with the associated Rates and Adjustment Certificate.

3.0 2016 valuation report

3.1 The finalised FSS was presented to Committee at the meeting on 22 March 2017 and, following conclusion of discussions with employers, the 2016 valuation report and Rates and Adjustment Certificate was signed by the Fund actuary on 31 March 2017. Links to the Scheme Actuary's reports for the West Midlands Pension Fund (Main Fund) and the West Midlands Integrated Transport Authority Fund (WMITA Fund) are included in the schedule of background papers at the end of this report.

3.2 Main Fund – key headlines

3.2.1 As per the valuation report, as at 31 March 2016 the Main Fund was 81% funded representing an increase of 11% when compared to the funding level as at 31 March 2013. The market asset valuation as at 31 March 2016 was £11,569m, with liabilities valued at £14,219m and a funding deficit of £2,650m (compared to a deficit of £4,205 million as at 31 March 2013).

3.2.2 The primary contribution rate (average future service contribution rate) for the Main Fund was 18.3% of total pensionable payroll, with a secondary rate (average past service deficit contribution rate) of 9.9% for 2017/18. Note that past service deficit contributions are paid as monetary amounts and a total of c£165m is expected to be paid in 2017/18.

3.2.3 The table below sets out a comparison of the total contributions expected for the Main Fund in line with the 2016 actuarial valuation (April 2017-2020) compared to those received over the three years following the 2013 valuation (April 2014-2017).

Contributions	2013 valuation	2016 valuation
Total future service contributions over 3 years	£647,440,000	£906,664,000
Total past service deficit contributions over 3 years	£523,108,000	£502,105,000
Total	**£1,170,548,000**	**£1,408,769,000**

The increase in contributions to cover future service costs is largely driven by an increase in the primary contribution rate which has been uplifted to more closely align contributions with the expected cost of providing the current level of benefit to members over the long term. Past service deficit contributions were set in 2014, taking into account post-valuation funding development (and targeted a lower funding deficit of £3,275m). Taking into account the position in 2016, the deficit is now expected to be eliminated over a shorter period, with employer payments targeting recovery over a period up to 20 years depending on their covenant assessment.

3.3 WMITA Fund – key headlines

3.3.1 As per the valuation report, as at 31 March 2016 the WMITA Fund was 82% funded representing an increase of 6% when compared to the funding level as at 31 March 2013. The market asset valuation as at 31 March 2016 was c£464m (including the buy-in of c£256m), with liabilities valued at c£569m and a funding deficit of £105m.

3.3.2 The primary contribution rate (future service contribution rate for West Midlands Travel Limited as the only employer with active members) for the WMITA Fund was 25.1% of total pensionable payroll, with a secondary rate (total past service deficit contribution) of £7.625m for 2017/18.

3.3.3 The table below sets out a comparison of the total contributions expected for the WMITA Fund in line with the 2016 actuarial valuation (April 2017-2020) compared to those received over the three years following the 2013 valuation (April 2014-2017).

Contributions	2013 valuation	2016 valuation
Total future service contributions over 3 years	£11,141,100	£9,603,800
Total past service deficit contributions over 3 years	£17,550,000	£23,056,700
Total	**£28,691,100**	**£32,660,500**

The reduction in future service contributions is largely driven by a fall in the active membership in the Fund (reducing by over 40% over the three years). Deficit contributions have increased to target recovery within 15 years.

3.3.4 Updated guarantee arrangements have now been put in place between the Administering Authority (WMCA) and Preston City Council (in relation to Preston Bus Limited's liabilities) and National Express Group (in relation to West Midlands Travel Limited's liabilities). The funding strategy applied reflects the added strength of these guarantees.

4.0 Implementing change to employer funding arrangements

4.1 The Fund is monitoring closely the payments received for April 2017 (due by 19 May 2017) to ensure they comply with those set out in the 2016 valuation report. This will check advance payments and changes to payment rates are implemented when due. Any discrepancies or late payments will be raised with the relevant employers and reported back to Committee in September.

4.2 Following the extensive consultation process undertaken by the Fund, there are arrangements agreed with some individual employers which will be finalised over the forthcoming months.

4.2.1 Committee is asked to delegate responsibility to the Director of Pensions, in consultation with the Chair or Vice Chair of Pensions Committee, to finalise such arrangements to enable the Fund to mitigate exposure to employer covenant risk through guarantee and security agreements.

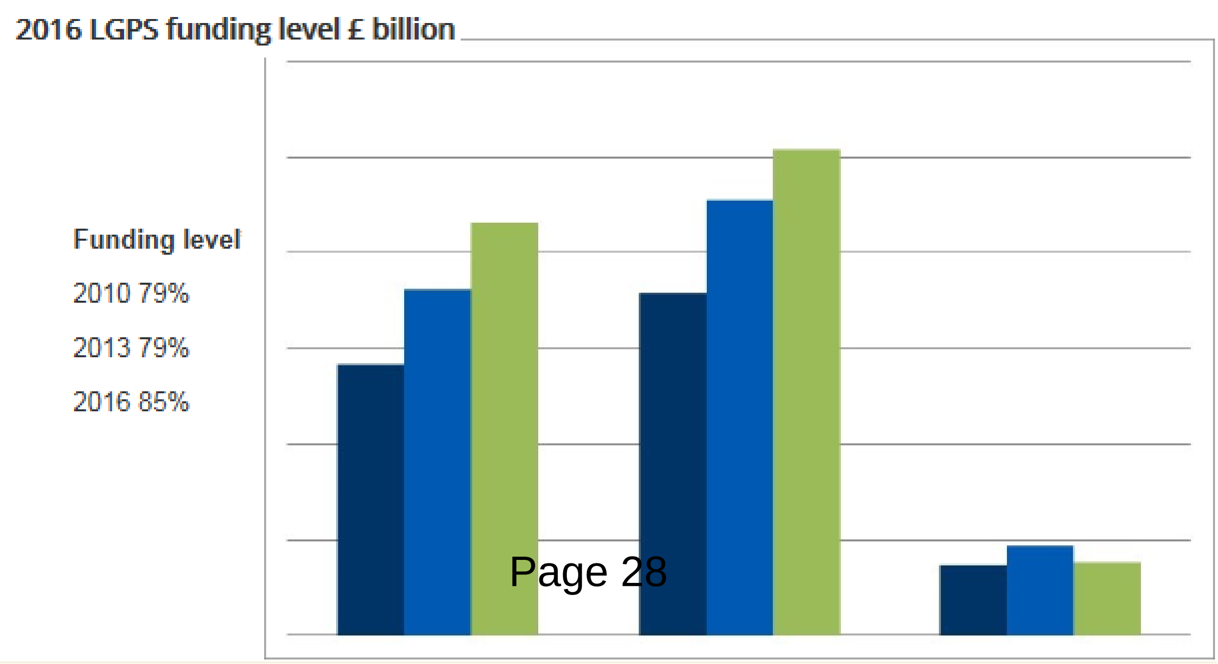
4.2.2 Certain employers have agreed to provision of additional security (e.g. charge over property or parent company guarantee) which will require the appropriate due diligence and legal documentation to complete implementation.

4.2.3 The Fund is in the process of updating the "employer watchlist" to reflect the 2016 valuation results and the Fund will maintain ongoing dialogue with these employers around affordability and strengthening of covenant as their financial position continues to evolve.

5.0 Wider review of outcomes

5.1 Under Section 13 of the Public Service Pensions Act 2013, the Government Actuary Department (GAD) will undertake their review of LGPS valuation outcomes and issue a public report (expected early 2018). GAD have committed to engaging with Funds and Administering Authorities over any issues or concerns their review raises in advance of the report publication.

5.2 The Scheme Advisory Board (SAB) has set out the overall result of the 2016 valuation using LGPS fund data at 31st March 2016 with a comparison for 2013 and this is set out in the graph below. The 2016 valuation results were used to set contribution rates from 1st April 2017 to 31st March 2020. It is important to note that each fund will have used different assumptions, and whilst not directly comparable across funds, the aggregated total liabilities provides a prudent estimate for the scheme at the triennial valuation dates.



£ billion	Assets	Liabilities	Deficit
2010	141.6	178.5	36.9
2013	180.5	227.3	46.8
2016	216.4	253.6	37.2

This indicates that, overall, the LGPS funding level has increased from 79% in 2013 to 85% in 2016.

5.3 Purely for comparison purposes, the SAB has posted on its website anonymised local fund valuation results submitted to GAD on a "standardised" valuation basis at as 31 March 2016. This notional assessment does not reflect local funding and investment strategy and differs from the assessment used to determine employer contribution rates (shown in the chart above). The average funding level on the standardised basis across all 89 funds was 96%.

5.4 Following the 2016 valuation, the on-going cost of the LGPS as a whole will be reviewed against the cost caps established by HM Treasury and the Scheme Advisory Board, following the introduction of scheme changes in 2014. If the notional costs of the scheme (as measured by GAD) have increased above a threshold this could trigger either a requirement for benefit or member contribution review (HMT process) or requirement to review and make recommendations around future benefit review (SAB process, DCLG review).

6.0 Financial implications

6.1 The results of the 31 March 2016 actuarial valuation may have financial implications for participating employers in setting employer contribution rates for the three years from April 2017.

6.2 The outcomes of the SAB/HMT reviews may result in an amendment to benefits (accrual rate change or switch to defined contribution) and/or member contribution levels.

7.0 Legal implications

7.1 The report has potential legal implications in that the outcomes of the GAD Section 13 could (based on the draft investment regulations) trigger Secretary of State intervention in the funding and investment strategy.

8.0 Equalities implications

8.1 This report contains no equal opportunities implications.

9.0 Environmental implications

9.1 This report contains no environmental implications.

10.0 Human resources implications

10.1 This report contains no direct human resources implications.

11.0 Corporate landlord implications

11.1 This report contains no direct corporate landlord implications.

12.0 Schedule of background papers

12.1 Pensions Committee reports 14 September 2016, 7 December 2016 and 22 March 2017 – 2016 actuarial valuation

12.2 West Midlands Pension Fund (Main Fund) 2016 actuarial valuation report: http://www.wmpfonline.com/CHttpHandler.ashx?id=12601&p=0

12.3 West Midlands Integrated Transport Authority Fund (WMITA Fund) 2016 actuarial valuation report: http://www.wmpfonline.com/CHttpHandler.ashx?id=12602&p=0

Agenda Item No: 8

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Responsible Investment Activities	
Originating service	Pension Services	
Accountable employee(s)	Michael Marshall Tel Email	Responsible Investment Officer 01902 552086 Michael.Marshall@wolverhampton.gov.uk
Report to be/has been considered by	David Evans Tel Email	Head of Portfolio 01902 552083 David.Evans@wolverhampton.gov.uk

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Recommendations for noting:

The Committee is asked to note:

1. The Fund's voting and LAPFF's engagement activity for the three months ending 31 March 2017, including Appendix 1.

2. 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. The update provided on the recent engagement activities with Hanwha Corporation and Motorola Solutions.

4. Other activity undertaken to ensure the Fund continues to develop and support its approach to Responsible Investment.

5. The briefing (providing 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 (Appendix 2).

1.0 Purpose

1.1 To update the Pensions Committee on the work undertaken by the Investment team regarding their responsible investment activities between the period 01 January to 31 March 2017.

2.0 Background

2.1 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active responsible investment policy. There are three main areas of responsible investment that we focus on: **voting globally**, **engagement through partnerships** and **shareholder litigation**.

3.0 Responsible Investment Activities

Voting Globally

3.1 The Fund currently has its own bespoke UK voting policy which our voting provider, Pensions and Investments Research Consultants Ltd (PIRC), executes on the Fund's behalf. However, the Fund follows the voting advice of PIRC for European, US, Japanese and Pacific region company meetings.

3.2 The voting activity for the quarter across markets and issues can be found in Appendix 1. During the period the Fund voted at a total of 421 company meetings – 51 UK, 74 European, 61 North American, 61 Japanese, 136 Asia (excluding Japan), 2 Australasian/ South African and 36 in the rest of the world. During this period there were 11 meetings where the Fund supported all the resolutions put forward by companies. Approximately 28% of the resolutions were not supported by the Fund. The largest number of resolutions that were opposed related to the independence of directors, annual reports that failed to meet best practice and share issuances.

3.3 The "voting season" – a three month window in which most investee companies hold their AGMs – began in April. Outcomes from the voting season will be reported at the next Pensions Committee meeting.

3.4 The Fund's RI Officer took the opportunity to attend the AGMs of National Express Plc and Carillion Plc. At National Express, the RI Officer challenged the Board on progress with union relations in the US. At Carillion, the RI Officer encouraged the board to find an adequate replacement for outgoing board member Ceri Powell and to adopt the UN Guiding Principles as a best-practice way to manage and communicate human rights risk. Attendance at the AGMs was facilitated by LAPFF, including background research and preparation, and a member of LAPFF was in attendance at both AGMs.

Engagement through Partnerships

3.5 The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships and on its own. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. A significant part of the Fund's engagement program is implemented through the Fund's membership of the Local Authority Pension Fund Forum (LAPFF). The mission statement of LAPFF is "to promote the investment interests of local authority pension funds and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations". LAPFF has a current membership of 72 public sector pension funds in the UK with combined assets of around £200 billion.

3.6 Through LAPFF, the Fund engaged with fifteen companies during the quarter. Most engagements concerned Governance issues. Rio Tinto, BP, Anglo American and Shell were engaged on their preparedness for climate change risk (discussed further in item 3.15 below). A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix 1. The issues are set out in the Quarterly Engagement Report which is available on LAPFF's website:

http://www.lapfforum.org/publications/qrtly-engagement-reports/

3.7 Through the United Nations' Principles for Responsible Investment (PRI), the Fund is currently a support investor to two engagement topics, each of which concerns a number of holdings. One topic is water scarcity risk in the supply chains of food & beverage and apparel companies. Water scarcity and potential supply shocks are financially material risks for businesses whose value chains depend on soft commodities. A second topic is human rights risks in companies involved in the extractives sector. In this sector, a failure to manage human rights risks can lead to a loss of license to operate, facilities closures and a diminution of revenue.

3.8 The Fund has identified cyber security risk as a focus engagement topic for 2017/18. The Fund will join two collaborative engagements on this topic, one via the PRI and a second via LAPFF.

3.9 Through a collaboration of European pension funds, the Fund is a participant in an engagement with one of its investees on the adequacy of succession planning for a key individual. A meeting with the Company Chair was held during the quarter and ongoing engagement objectives will be set out during a conference call after the company's AGM.

Update on Cluster Munitions Engagement

3.10 WMPF continues to work with LAPFF on allegations of cluster munitions production at Hanwha Corp. This follows successful engagements on the same topic with Lockheed Martin, Singapore Technologies, Textron and Alliant Techsystems. Members of the Pensions Committee were briefed in April on a positive development in this engagement. Following a request by the Fund, LAPFF agreed to continue engagement with Hanwha Corp. With the assistance of the Fund's RI Officer, LAPFF wrote to Hanwha on 18 April, sending a hard copy of the letter to head office. At time of writing (18 May) no response has been received by LAPFF, but that is not an unusual outcome in matters of this nature. In time, were it to become apparent that the company will not respond to LAPFF's letter, the Fund will encourage the Chair of LAPFF to further escalate the issue.

Although the amount invested in Hanwha Corp (held via a passive equity fund), represents less than 0.01% of the Fund's total AUM, the Fund remains committed to working with other local authority pension funds through LAPFF to address the issue through continued engagement with Hanwha.

The RI Officer will write to interested scheme members on the latest developments on this issue following the June Pensions Committee meeting. The Pensions Committee will continue to be kept informed of significant updates.

Update on Engagement into Human Rights in the Occupied Palestinian Territories

3.11 WMPF continues to work with LAPFF on allegations of Motorola Solutions having business activities in Israel without having implemented the UN Guiding Principles on Human Rights. This follows successful engagements on the same topic in 2015-16 with Caterpillar, Hewlett-Packard, Veolia and G4S, which were prompted by an approach in 2014 by a group known as the Wolverhampton Palestine Solidarity Campaign (WPSC). UN Resolution 2334 – passed in December 2016 – describes Israel's settlement activity as being without legal validity, and calls upon UN Member States to distinguish between the State of Israel and the Occupied Palestinian Territories (OPTs). The legal ramifications of this UN Resolution for companies – as opposed to UN Member States – are not clear and if companies choose to report on the issue, it will not be evident until the next financial reporting cycle. Members of the Pensions Committee were briefed in April on a positive development in this engagement. Following a request by the Fund, LAPFF agreed to renewed engagement with Motorola. LAPFF wrote to Hanwha on 2 May, sending a hard copy of the letter to Motorola head office. At time of writing (18 May) no response has been received by LAPFF, but that is not an unusual outcome in matters of this nature. In time, were it to become apparent that the company will not respond to LAPFF's letter, the Fund will encourage the Chair of LAPFF to further escalate the issue.

Although the amount invested in Motorola Solutions (held via a passive equity fund), represents less than 0.01% of the Fund's total AUM, the Fund remains committed to working with other local authority pension funds through LAPFF to address the issue through continued engagement with Motorola.

The Pensions Committee will continue to be kept informed of significant updates.

Shareholder Litigation

3.12 As mentioned above, the pursuit of litigation against investee companies forms part of the Fund's Responsible Investment Framework. The fund partakes in shareholder litigation activities where it thinks monies can be recouped on behalf of the fund's members and where there is no risk of cost or penalty to the fund. Litigation is not considered unless the costs and benefits are known.

3.13 The Fund, via its appointed representatives Stewarts Law (SL) has agreed a settlement with RBS relating to the Fund's purchase of a rights issue by RBS in 2008. The Fund received its payment from SL on 12 May.

3.14 Following the issues Volkswagen (VW) faced with the emissions testing of its US diesel cars, the Fund became a registered claimant in litigation filed against VW and Porsche in Germany. VW had already admitted to fault in the emissions scandal before the fund became a registered claimant. WMPF is joined by thousands of investors seeking to recover losses in the German courts. The case is ongoing.

Climate Change as an Investment Risk

3.15 In May, members of the Pensions Committee received a letter from Kay Edwards of campaign group "Divest WMPF", requesting that the Fund divest from fossil fuel assets (defined to mean companies involved in oil and gas, coal mining and coal-fired utilities). In March, ShareAction and Client Earth made a referral to The Pensions Regulator (TPR) arguing that some LGPS have investment policies that fail to refer to climate change risk specifically. It should be noted that West Midlands Pension Fund is one of the twelve LGPS identified by ShareAction as having an Investment Strategy Statement that addresses climate change risk. TPR issued new guidance for defined benefit investment in March (a briefing follows below) and selected climate change risk in its examples for (a) investment beliefs and (b) considering financially material ESG factors.

3.16 After some speculation, President Donald Trump announced on 1 June 2017 that he intends to withdraw the US from the Paris agreement on climate change. The Paris agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The US remains part of the 1994 UNFCCC convention on climate change, whose objective is to stabilize greenhouse gas concentrations at a level that would prevent dangerous anthropogenic interference with the climate system. US businesses, states and cities have indicated commitment to supporting the Paris agreement despite Mr Trump's decision. The decision was heavily criticised by global political leaders, who resolved to increase international cooperation to make the Paris agreement work. Criticism has focussed on the negative economic consequences of Mr Trump's decision. A briefing from the IIGCC (of which the Fund is a member) is provided in Appendix 2.

Other Activities

3.17 Training on the Fund's Responsible Investment Framework, and specifically on the Fund's approach to climate change risk, was delivered to members of the Pensions Committee on 27 March in London.

3.18 The Pensions Regulator (TPR) issued new guidance for Defined Benefit Investment at the end of March 2017. This included guidance on certain responsible investment issues, including (a) the integration of financially material ESG (environmental, social and governance) investment factors and (b) stewardship (including voting and engagement). Signalling the importance of climate change as an investment risk, TPR used climate change as its example both for investment beliefs and for how LGPS might consider financially material ESG factors. The Fund reviewed its RI policies following publication of the guidance and can confirm that its existing RI approach is already compliant. On climate change specifically, the Fund's existing approach goes beyond the regulatory minimum on climate change risk and together with partner groups such as Institutional Investors Group on Climate Change, the Transition Pathway Initiative, LAPFF and the PRI, the Fund may point to a number of successful examples of influencing positive change.

4.0 Financial implications

4.1 The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund's objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

5.0 Legal implications

6.1 This report contains no direct legal implications.

7.0 Equalities implications

7.1 This report contains no equal opportunities implications.

8.0 Environmental implications

8.1 Environmental implications are addressed through the Fund's corporate governance policy.

9.0 Human resources implications

9.1 This report contains no direct human resources implications.

10.0 Corporate landlord implications

10.1 This report contains no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 LAPFF Quarterly Engagement Report October to December 2016:
http://www.lapfforum.org/publications/qrtly-engagement-reports/

12.0 Schedule of Appendices

12.1 Appendix 1 (Voting and Engagement Activity)

12.2 Appendix 2 (IIGCC Briefing on US withdrawal from Paris Agreement on climate change)

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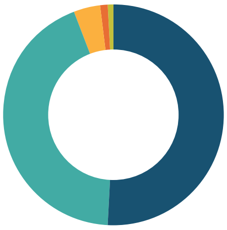
Appendix 1

January to March 2017

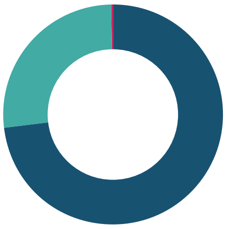
Voting report

Over the last quarter, we voted at 421 meetings (4,689 resolutions). At 2,032 of those meetings, we opposed or abstained one or more resolutions. We supported management on all resolutions at 11 meetings.

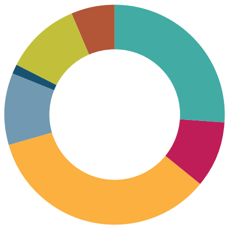
Total
We voted at 421 meetings (4,689 resolutions) over the quarter.



UK & British Overseas
We voted at 51 meetings (715 resolutions) over the quarter.



UK: votes against and abstensions by category



Europe & Global EU
We voted at 74 meetings (1,389 resolutions) over the quarter.

USA & Canada
We voted at 61 meetings (659 resolutions) over the quarter.

Asia
We voted at 136 meetings (836 resolutions) over the quarter.

Japan
We voted at 61 meetings (637 resolutions) over the quarter.

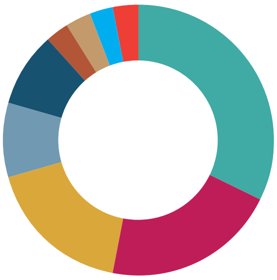
South America
We voted at 7 meetings (53 resolutions) over the quarter.

Rest of the World
We voted at 29 meetings (380 resolutions) over the quarter.

Engagement summary

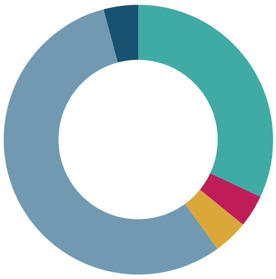
Over the last quarter, the Local Authority Pension Fund Forum (LAPFF) engaged with 15 companies on a range of environmental, social and governance issues on behalf of the Fund and other members. Where applicable, LAPFF will engage with companies on more than one issue simultaneously. The engagements included in these figures are supplementary to our voting-based engagements during proxy season.

Engagement by topics



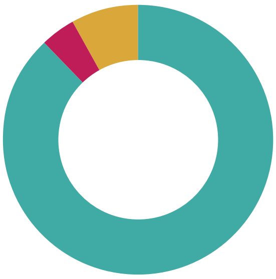
Governance (general)	**32.4%**
Climate change	**20.6%**
Employment standards	**17.6%**
Human rights	**8.8%**
Social risk	**8.8%**
Incentivising executives	**2.9%**
Board composition	**2.9%**
Supply chain management	**2.9%**
Cyber security	**2.9%**

Engagement by activities



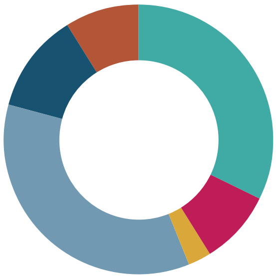
Meeting	**32.0%**
Attended AGM	**4.0%**
Alert issued	**4.0%**
Sent letter	**56.0%**
Received letter	**4.0%**

Engagement by domicile



United Kingdom	**88.0%**
UK/Netherlands	**4.0%**
Other	**8.0%**

Engagement by outcomes



Dialogue	**32.4%**
Change in process	**8.8%**
Small improvement	**2.9%**
Awaiting response	**35.3%**
Satisfactory response	**11.8%**
No improvement	**8.8%**

Appendix 2: Briefing from the Institutional Investors Group on Climate Change (IIGCC) on the US withdrawal from the Paris Agreement

President Trump has announced that the US will withdraw from the Paris Agreement.

At this early stage, the mechanics of the US withdrawal are unclear. What we do know is that the President's announcement covers only the Paris Agreement and not the underpinning UNFCCC and is, at this stage, symbolic: the legalities of withdrawing from the Paris Agreement demand formalities that will need to be actioned over a 3-year period.

The impacts on US and global emissions will also take time to ascertain; however, in the short term this brief sets out what US states, cities and corporations, as well as what other countries, have committed to do on climate action regardless of the US' decision.

This brief sets out the broad questions and scenarios which now present themselves. It will be updated and revised as more information is forthcoming.

<u>What happens now?</u>

Article 28.1 of the Paris Agreement stipulates that a party can withdraw from the agreement by giving 1 year's written notification to the depository (i.e. the UN Secretary General), after 3 years of the agreement having entered into force for that party. The US has been a Party to the Agreement since it first entered into force on 4th November 2016 – so the earliest date it can withdraw by is 4 November 2020 (having handed in its formal written notice on 4 November 2019).

There is an open question as to whether the US President has the authority to withdraw unilaterally under US law, or whether he needs Senate approval. While the US Constitution confers the power to make treaties on the executive branch, with the advice and consent of the Senate, it does not address the ability to terminate or withdraw from a treaty. A general principle has not established by case law, meaning the question is treated on a case-by-case basis. If the Senate were to adopt a resolution opposing the President's unilateral withdrawal – in effect pitting the executive branch against the legislative branch - such a conflict could trigger a constitutional question requiring the intervention of the courts.

However, to date the Courts have never decided a case involving unilateral treaty withdrawal by the Executive based on its merits - but have rather declined to judge for various reasons. Some Justices are of the view that the courts can make judgements on this issue when the Executive and Congress are at an impasse; others view this as a political matter in which the courts should have no say. It is therefore uncertain whether the courts would hear a judicial challenge to President Trump's unilateral withdraw from the Paris Agreement.

What does this mean for emissions reductions in the US?

Economic implications

It is evident that clean energy transformation is embedded in economic and social and technological trends that are bigger than any one country – and this includes the US' domestic situation. For example, around 777,000 people are employed by renewable power in the US; solar industry employment grew 25% in 2016 to 373,807, far surpassing jobs in coal power generation (86,035), oil and gas extraction (~180,000), and coal mining (~50,000); employment in the US wind industry has reached 102,500 – growing by 28% in 2016; the solar and wind industries are both creating jobs 12 times faster than the rest of the US economy; and 2.2 million Americans are employed in the design, installation or manufacturing of energy efficiency products or services. While the decision to withdraw from Paris sends a damaging political signal to investors, there is a strong momentum of growth in green US industries which is on their side.

Local action

This momentum is further supported by actions on emission at state, city and corporate-level. Several states have targets for cutting greenhouse gas emissions that will not be affected by US withdrawal from the Paris Agreement, and New York Mayor Bill de Blasio has already committed his city to upholding Paris regardless of the President's decision. In other examples:

- California has a target to cut emissions 40% by 2030, compared with 1990 levels.
- Massachusetts, New Hampshire and New York plan to cut emissions 80% by 2050, compared with 1990 levels.
- Minnesota plans to cut emissions 80% by 2050, compared with 2005 levels.
- Los Angeles is developing a plan for 100% renewable power.
- A group of cities that aim to strengthen their efforts to cut emissions, the Mayors National Climate Action Agenda, has 72 members.

Corporate action

US business is also committed to the Paris Agreement and reducing emissions. Major US businesses – including Apple, Facebook, Google, Microsoft and Walmart – are directly buying renewable power and are committed to meeting all of their power needs from renewables. Google is the largest corporate buyer of electricity in the world and is due to use only renewable power from 2017.

More than 760 businesses, including EBay, Gap, General Mills, Intel, Kellogg's, L'Oréal, Levi's and Unilever have pledged "to do our part, in our own operations and beyond, to realize the Paris Agreement's commitment of a global economy that limits global temperature rise to well below 2 degrees Celsius".

The aviation industry, including US airlines, has agreed to cut emissions as part of an international plan that is separate from the Paris Agreement.

Geo-political implications

On the political side, the President's discretion in dismantling existing commitments will render his administration un-trustworthy. The President has many geo-strategic issues to attend to and he will need allies; withdrawing from the Paris Agreement will damage the reliability, credibility and competence of the US and make broader multi-lateral co-operation more difficult (see the recent example of the G7 Summit).

<u>What about the rest of the world?</u>

Even before Trump's announcement, it was clear that other international heavyweights remained committed to delivering on the Paris Climate Agreement:

- The G7 has sent a pointed respond to the Trump administration's lack of commitment to Paris. The final communique from the G7 meeting which just concluded in Italy states "The Heads of State and of Government of Canada, France, Germany, Italy, Japan, and the United Kingdom and the Presidents of the European Council and of the European Commission reaffirm their strong commitment to swiftly implement the Paris Agreement…"
- The communique singles out the US' lack of public commitment to Paris, and German Chancellor Angela Merkel has made her dissatisfaction with Trump's position clear.
- The EU's climate commissioner has previously said EU commitment to Paris is "irreversible". France's new President Emmanuel Macron has said "Our collective responsibility is to make sure this commitment remains a global commitment."
- In January, Chinese president Xi Jinping said the Paris agreement was "hard won", and "All signatories should stick to it instead of walking away from it, as this is a responsibility we must assume for future generations..." At an EU-China Summit on 2 June, the Declaration is expected to call on all parties "to uphold the Paris agreement", and Brussels and Beijing intend to signal their "highest political commitment" to doing so themselves.
- 195 of 197 countries that are party to the UNFCCC have signed the agreement. By withdrawing, the US will join the only countries that haven't – Syria (which is in the midst of a civil war) and Nicaragua (who did not sign because they did not view the final agreement as ambitious enough in terms of obligations placed on the developed world).
- 147 countries have ratified the Paris Agreement, including India, China and all the G20, with the exception of Russia and Turkey. 26 nations have ratified since Trump's inauguration, including Spain, Cuba and the Philippines.

The economic trend towards a transformation in the world's energy system is also holding strong:

- Growth: Renewable power has grown rapidly. In 2015, renewable generation capacity increased by 153 gigawatts (GW), the equivalent of about one-third of average US electricity demand.

- Wind (63GW) and solar power (49GW) accounted for about three quarters of the new additions. The wind power additions alone would be enough capacity to power 51 million homes (based on the demand of a typical US home, which is higher than in most other countries).
- More renewable power capacity is being built every year than all other sources combined. Renewable power is now the second-largest source of electricity after coal, providing nearly a quarter of the world's power.
- Investment: In 2015, $349 billion was invested in renewables, excluding large hydropower, compared with around $130 billion in coal and gas. Although investment fell 17% in 2016, installations were up 9%, reflecting falling costs.
- Investment is being driven from outside the US. China is expected to be the leader in expansion of clean energy, representing 40% of the total additions up to 2021. It plans to invest $361 billion in renewable power generation by 2020. India's solar power capacity is expected to grow eightfold. China's and India's pledges alone could double global wind and solar by 2030. India plans to increase renewable energy by a factor of five by 2022.
- Future expansion: The economic advantages of renewable power mean that its global expansion will continue regardless of the US decision on the Paris Agreement. Clean energy will be the largest single source of capacity growth in the next five years, according to the IEA. It predicts renewable capacity will grow by 42% to 2021, adding 825GW – the equivalent of more than 75% of the EU's entire power capacity.
- By 2020 the amount of renewable electricity generated each year will be higher than the current combined electricity demand of China, India and Brazil. A single country like the US abandoning ambition might marginally affect the speed of this expansion, but the larger trends mean that it is unlikely to have a significant effect.
- Renewables are becoming the cheapest way to produce power
- Renewables are now cheaper than fossil fuels in many contexts, thanks to rapid falls in the cost of wind and solar.
- Last year saw contracts signed to build renewable energy projects that will produce power for very low prices: $2.69 cents/kWh (solar), $3.0 c/kWh (onshore wind), and $4.9 c/kWh (offshore wind). The equivalent cost for a gas plant in the US is between 5 and 6 cents per kWh.
- Between 2010 and 2015 the cost of producing electricity from onshore wind fell by about 30%, while the cost of generating electricity from utility-scale solar fell by two-thirds. The cost of solar modules fell by up to 80% between 2010 and 2015.
- Global leadership on energy investment is shifting to China
- China has now surpassed the United States as the biggest investor in renewable energy, accounting for $102.9 billion of investment in 2015, over twice that of any other country. The US invested $44.1 billion in 2015.
- In January 2017, China announced it would invest $361 billion in renewables by 2020.

- Investment has created 3.5 million Chinese jobs in renewable energy and the government expects it will take employment in the sector to 13 million by 2020 – equivalent to adding over 5,000 new jobs a day.
- Between 2012 and 2015, China added 1.8 million jobs in renewables, compared with 157,000 in the US. Chinese companies dominate the global renewable energy market – the world’s largest wind energy company and five of the top six solar firms are Chinese.

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Agenda Item No: 9

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Asset Allocation and investment performance – Period to 31 March 2017	
Originating service	Pension Services	
Accountable employee(s)	Jason Fletcher Tel Email	Chief Investment Officer 01902 555780 jason.fletcher@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The contents of the asset allocation and investment performance report for the period ended 31 March 2017.

1.0 Purpose

1.1 The quarterly asset allocation and investment performance report attached in Appendix A covers the performance of the Fund and the implementation of its investment strategy for the period to 31 March 2017. All major transactions are reported along with the position of the portfolio at the end of the reporting period.

2.0 Background

2.1 Implementation of the investment strategy is in the Fund's approved Investment Strategy Statement and Funding Strategy Statement.

3.0 Summary

3.1 During the quarter the Fund's market value rose to £14.2 billion as global equity markets continued to advance. Over the 12 months the market value of the Fund's investment assets increased by £2.6 billion, reflecting positive net cashflow, appreciation in market value and considerable benefit from the weakness in sterling.

3.2 In the quarter ended 31 March 2017 the Fund achieved a return of 4.6% compared to the benchmark return of 4.4%. Strong relative returns from the special opportunities and insurance linked portfolios offset underperformance from the private equity and real assets & infrastructure portfolios. Over the 12 months to 31 March 2017 the Fund returned 22.6%, outperforming the benchmark by 0.8%. The outperformance was driven by the Fund's absolute return and real assets & infrastructure portfolios which enjoyed strong performance over the year.

3.3 In relation to cash deployment and holdings, £4.3 million was allocated to passive quoted equities over the quarter which included an additional £1.1 million allocation to the Legal & General UK Smaller Companies index fund to maintain target exposure to small-cap UK equities. A number of drawdowns in the absolute return portfolio contributed to a net portfolio investment of £5.6 million.

3.4 At the quarter-end the Fund had an overweight position in growth assets (i.e. quoted and private equity). Income assets (property, absolute return and real assets & infrastructure) were underweight but the Fund is seeking suitable investments in this area. The Fund is also seeking to increase its exposure to European equities which are expected to benefit from economic growth in the area.

3.5 In April 2017 the Fund received £799.1 million in employer contribution prepayments. The Fund deployed a significant proportion of this cash between April and May by investing £180 million across its regional passive equity portfolios and purchasing £100 million of emerging market equity index futures to passively increase exposure to the region. In addition, the Fund invested £150 million and £100 million in hard and local currency emerging market debt funds managed by Amundi.

3.6 Following review and approval by the Fund's Investment Advisory Panel, the Fund transferred an additional £339 million to the internal active global equity portfolio in May 2017. This was funded through a combination of a partial redemption of a passive global equity fund managed by BlackRock and £50 million of cash.

3.7 The Fund continues to review its internal and external manager performance and fees to ensure the effective implementation of its investment strategy in line with the Fund's Investment Strategy Statement.

4.0 Financial implications

4.1 The financial implications are set out throughout the report.

5.0 Legal implications

5.1 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no equal opportunities implications.

7.0 Environmental implications

7.1 This report contains no environmental implications.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 Statement of Investment Principles.

10.2 Funding Strategy Statement.

11.0 Schedule of appendices

11.1 Appendix A – asset allocation and investment performance report for the period ending on 31 March 2017.

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West Midlands Pension Fund

West Midlands Pension Fund

Asset allocation and investment performance report
Quarter to 31 March 2017

Jason Fletcher – Chief Investment Officer

West Midlands Pension Fund

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Contents

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West Midlands Pension Fund

Further information

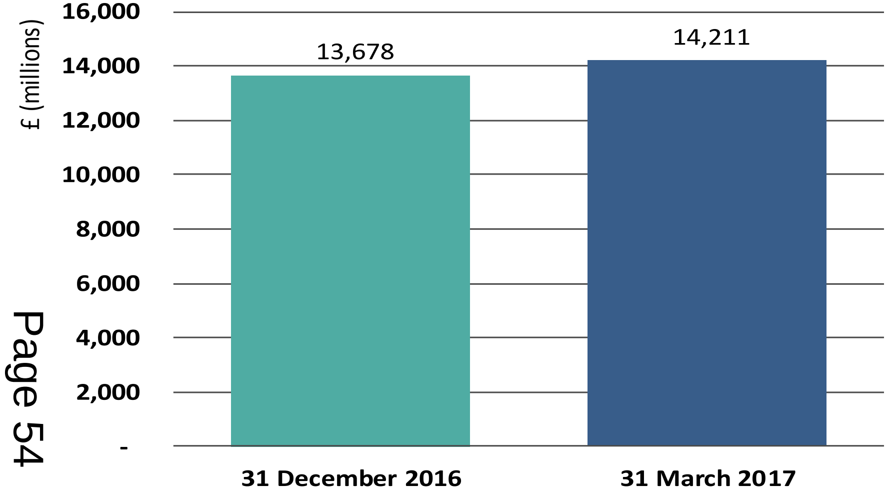
Our investment strategy
http://www.wmpfonline.com/Investments

Our Environmental and Social Governance beliefs
www.wmpfonline.com/ri

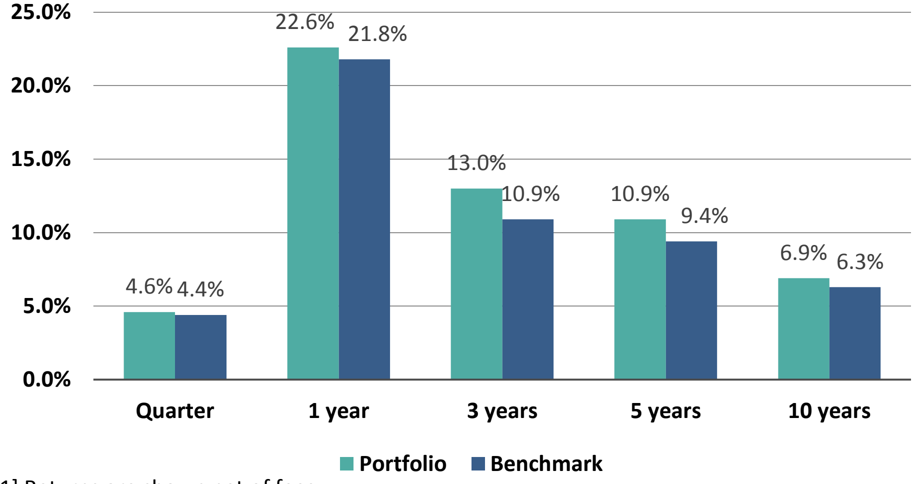
Our Fund's website
www.wmpfonline.com

Executive summary

Total market value



Total Fund performance[1] (in GBP)



[1] Returns are shown net of fees

Market summary

- Equity markets continued to make gains in the quarter with several leading indices reaching all-time highs
- Long-term government bond yields declined in the UK and US
- The Federal Reserve raised the US benchmark interest rate by 0.25%. The UK base rate remained at 0.25%
- Sterling strengthened as the US dollar weakened

Performance summary

- The Fund returned 4.6% during the quarter, moderately outperforming its benchmark by 0.2%.
- Over the 12 months the Fund outperformed its benchmark by 0.8% and exceeded its annual performance objective, which is to outperform the benchmark by 0.5%.
- Special opportunities, insurance linked funds and real assets & infrastructure outperformed their respective benchmarks, while private equity and emerging market equities underperformed their benchmarks.

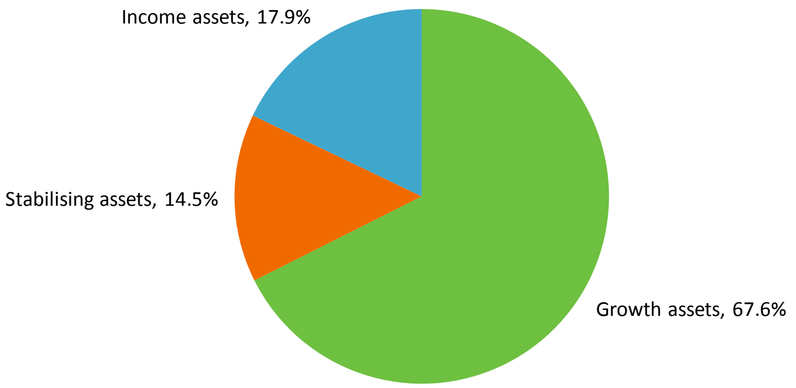
West Midlands Pension Fund

Executive summary

West Midlands Pension Fund

Asset allocation

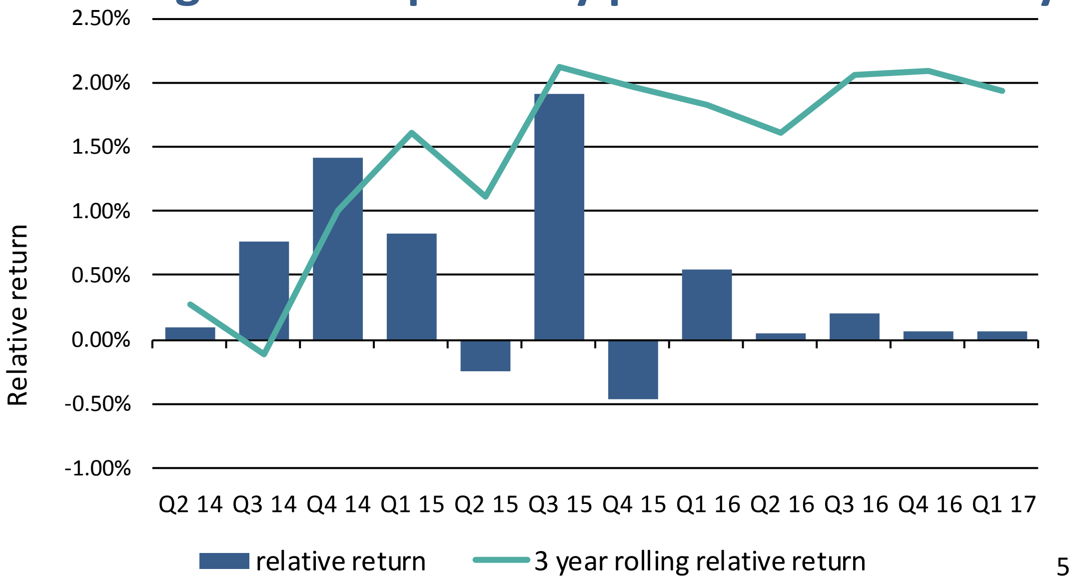
Asset class	Value (£m)	Fund allocation (%)	Policy target (%)	Difference (%)
Quoted equities	7,918	55.7	48.0	7.7
Private equity	1,345	9.5	10.0	-0.5
Special opportunities	348	2.4	2.0	0.4
Total growth assets	9,611	67.6	60.0	7.6
UK gilts	166	1.2	2.0	-0.8
Index linked gilts	769	5.4	5.0	0.4
Cash	389	2.7	2.0	0.7
Corporate bonds	388	2.7	2.0	0.7
Cashflow matching fixed interest	352	2.5	3.0	-0.5
Total stabilising assets	2,064	14.5	14.0	0.5
Specialist fixed interest	286	2.0	3.5	-1.5
Emerging market debt	379	2.7	3.5	-0.8
Property	1,080	7.6	10.0	-2.4
Insurance linked funds	380	2.7	3.0	-0.3
Real assets and infrastructure	411	2.9	6.0	-3.1
Total income assets	2,536	17.9	26.0	-8.1
TOTAL	**14,211**	**100.0**	**100.0**	**0.0**



Quarterly Fund activity

- £45.2 million was generated from private equity fund distributions
- £4.3 million was allocated to the Fund's passive equity portfolios.
- The real assets & infrastructure portfolio returned £12.2 million through a number of distributions.
- A number of drawdowns resulted in a net investment of £5.6 million into the absolute return portfolio.

Rolling relative quarterly performance history



Main report

Objectives

The primary objective of the Fund is to provide pension and lump-sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

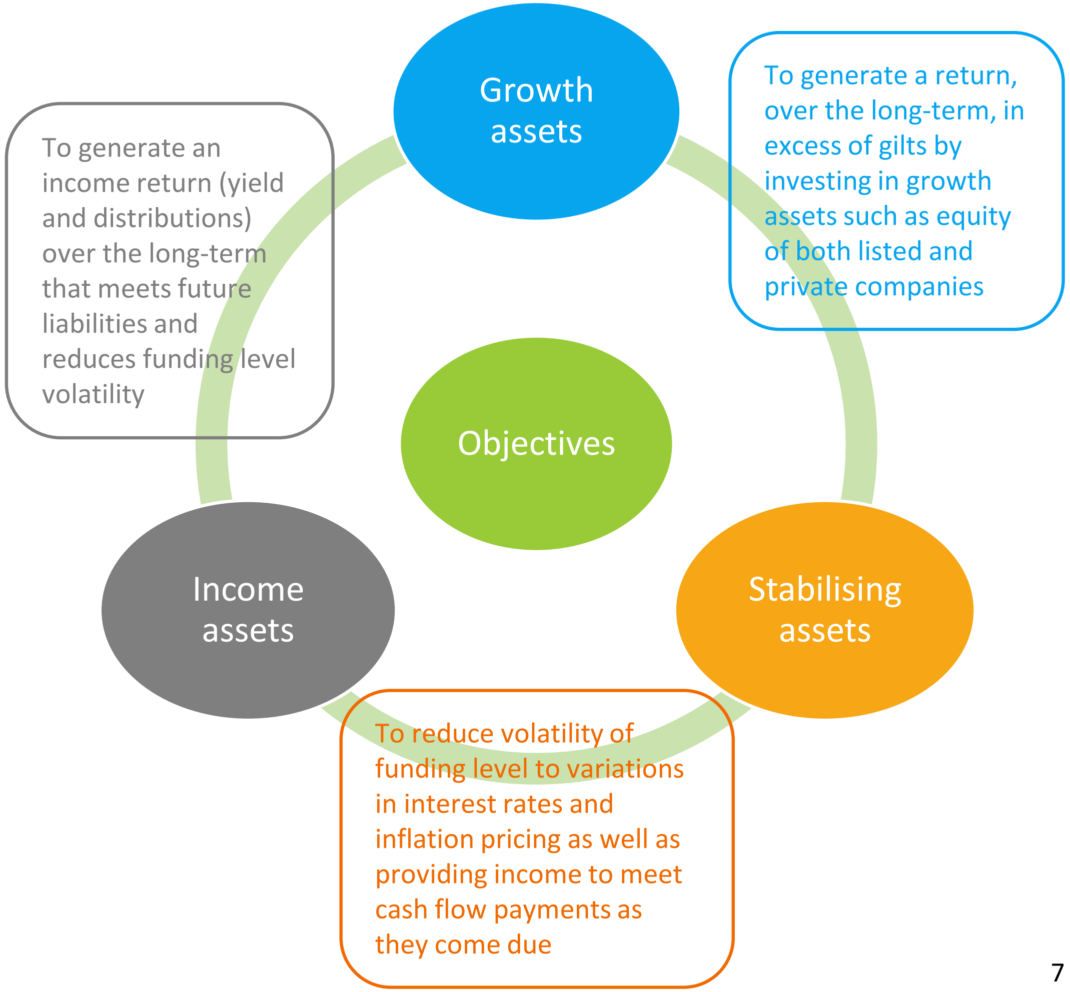
The Pensions Committee aims to fund the Fund in such a manner that, in normal market conditions and within a reasonable period, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases. In addition, the Fund has the following objectives:

- To be a leading performer in the LGPS sector
- To provide excellent customer service
- To achieve target investment returns
- To ensure the solvency of the Fund and its ability to pay pensions

In aiming to be a leading performer within the LGPS the Fund is striving to achieve a fund management capability of institutional standard.

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund taking into account both the Fund’s liability structure and the objectives set out above.

The key building blocks of the Fund’s SIAB are shown below.



Fund values and allocation

West Midlands Pension Fund

Asset allocation[1]

Asset class	Value (£m)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
Growth					
Quoted equities	7,918	55.7	48.0	7.7	1.1
Private equity	1,345	9.5	10.0	-0.5	-0.5
Special opportunities	348	2.4	2.0	0.4	0.0
Total growth assets	**9,611**	**67.6**	**60.0**	**7.6**	**0.6**
Stabilising					
UK gilts	166	1.2	2.0	-0.8	0.0
Index linked gilts	769	5.4	5.0	0.4	-0.1
Cash	389	2.7	2.0	0.7	0.1
Corporate bonds	388	2.7	2.0	0.7	-0.1
Cashflow matching fixed interest	352	2.5	3.0	-0.5	-0.1
Total stabilising assets	**2,064**	**14.5**	**14.0**	**0.5**	**-0.2**
Income assets					
Specialist fixed interest	286	2.0	3.5	-1.5	-0.1
Emerging market debt	379	2.7	3.5	-0.8	0.1
Property	1,080	7.6	10.0	-2.4	-0.1
Insurance linked funds	380	2.7	3.0	-0.3	-0.1
Real assets and infrastructure	411	2.9	6.0	-3.1	-0.2
Total income assets	**2,536**	**17.9**	**26.0**	**-8.1**	**-0.4**
TOTAL	14,211	100.0	100.0	-	-

[1] A detailed Fund asset allocation is shown in Appendix 1

Allocation comment

As at 31 March 2017 the Fund was significantly overweight in growth assets. Equities were used to deploy rising cash balances resulting from asset sales and private equity distributions. There is a corresponding underweight in income assets.

The Fund's asset allocation target portfolio aims to increase income assets and reduce stabilising assets. Whilst investments are found in property, infrastructure and credit assets the favoured asset class remains growth assets. The Fund is currently considering increasing its allocation to European equities to benefit from the resurging economic growth there and improving political outlook. The Fund is also seeking to raise its emerging market exposure.

The Fund is favouring credit assets over stabilising assets with additions to emerging market debt.

Market review

Returns for world markets (in GBP) to 31 March 2017

West Midlands Pension Fund

Equities

Equity markets continued to advance in the quarter with several leading indices reaching new highs. The UK market performed well on the strength of robust economic growth data while US equities benefitted from the anticipation of lower tax rates and higher government spending following the US election. European markets were buoyant amid speculation that the ECB might consider tighter monetary policy. Emerging markets enjoyed particularly strong performance supported by an upturn in global growth and reduced fears of protectionist US trade policy.

Property

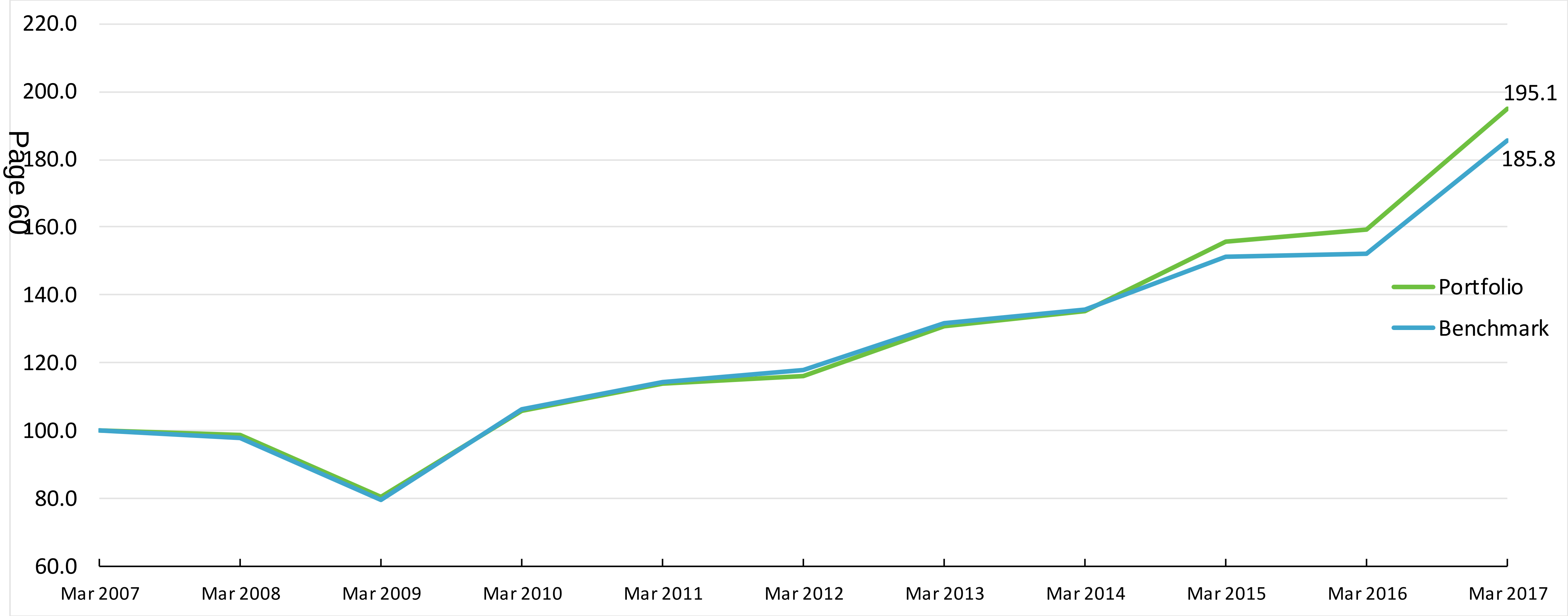
The first quarter of the year saw a continuation in the desirability of property to institutional investors and this, coupled with more limited transactional volumes supported capital values, resulting in further tightening of yields in most sectors. Occupier demand remains fairly robust, as CFO's have become less risk averse than in the immediate aftermath of the Brexit vote. However, the trend of rising rents, now 15 quarters old, is in danger of stalling as the balance in the market now seems to be returning to the tenant and away from landlords. Political and associated economic risks persist but feel more normal as time passes.

Fixed interest

The 10-year UK gilt yield decreased from 1.24% to 1.14% over the quarter as investors grew concerned over the potential for a 'hard' Brexit. The equivalent US yield fell from 2.44% to 2.39% with the prospect of tighter monetary policy. The Federal Reserve raised its benchmark interest rate by 0.25% on stronger economic growth and inflation data while UK interest rates were kept on hold at 0.25%. Sterling investment grade corporate bonds outperformed gilts despite credit spreads narrowing over the quarter.

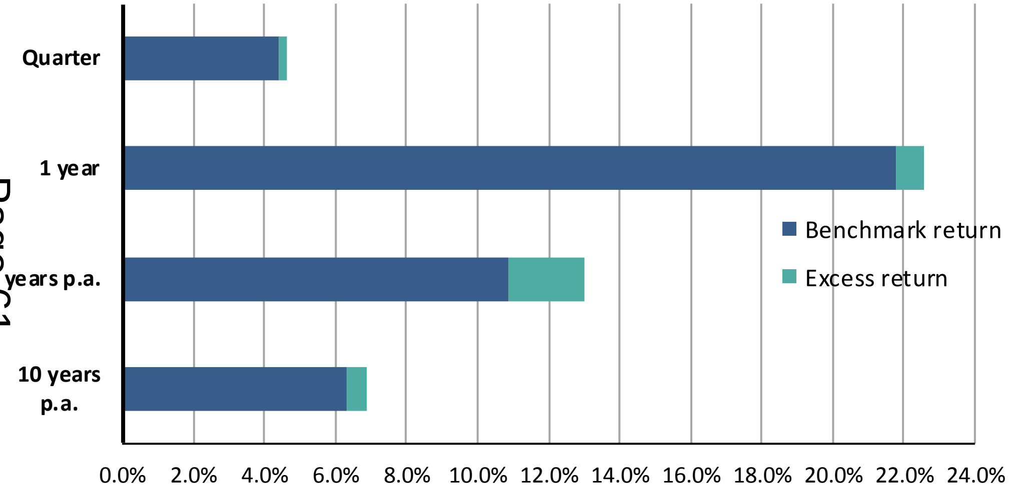
Fund performance review

Long-term returns (in GBP; rebased at 100 at 31 March 2007)



Fund performance review

Benchmark and excess returns to 31 March 2017



	Quarter (%)	1 year (%)	3 years p.a. (%)	10 years p.a. (%)
Benchmark return	4.4	21.8	10.9	6.3
Excess return	0.2	0.8	2.1	0.6
Total absolute return	**4.6**	**22.6**	**13.0**	**6.9**

Source: Portfolio Evaluation Ltd

Fund performance commentary

The Fund moderately outperformed its benchmark during the quarter. Strong relative returns from absolute return and real assets & infrastructure offset underperformance from the private equity and emerging market equity portfolios. As shown on p. 12, virtually all asset classes contributed positively to total Fund performance.

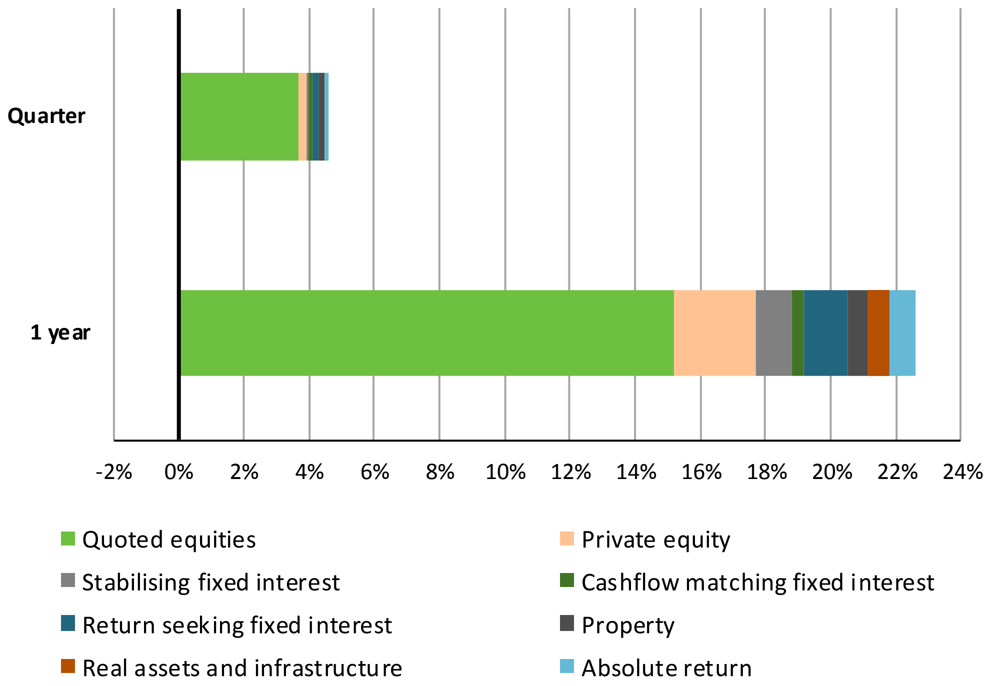
The Fund outperformed its benchmark over the year by 0.8%, returning 22.6% against the benchmark of 21.8%. The outperformance was driven by the Fund's property, absolute return and real assets & infrastructure portfolios, with the latter two enjoying particularly strong outperformance over the twelve months. The Fund's relative and absolute performance benefitted from the weakness of sterling over the 12 month period.

The Fund returned 13.0% p.a. for the three years to 31 March 2017 compared to the benchmark of 10.9%. Strong outperformance from the absolute return, private equity and real assets & infrastructure portfolios were the key contributors to good overall Fund returns. This was offset by some underperformance from the Fund's emerging market equity portfolio.

Fund performance review

West Midlands Pension Fund

Absolute performance attribution to 31 March 2017



Absolute performance attribution	Quarter	1 year
Quoted equities	3.7	15.2
Private equity	0.2	2.5
Stabilising fixed interest	0.1	1.1
Cashflow matching fixed interest	0.1	0.4
Return seeking fixed interest	0.2	1.3
Property	0.2	0.6
Real assets and infrastructure	0.0	0.7
Absolute return	0.1	0.8
Total absolute return	**4.6**	**22.6**

Source: Portfolio Evaluation Ltd

Note that the table above shows the weighted contribution of each asset class to the Fund's absolute return.

Each of the Fund's asset classes contributed positively to the Fund's absolute performance over the quarter with the exception of real assets and infrastructure, which marginally underperformed its benchmark. Over the 12 months to 31 March 2017 all asset classes made a positive contribution to performance. Strong equity markets were the largest contributor over both periods.

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Fund performance review

West Midlands Pension Fund

Relative performance attribution to 31 March 2017

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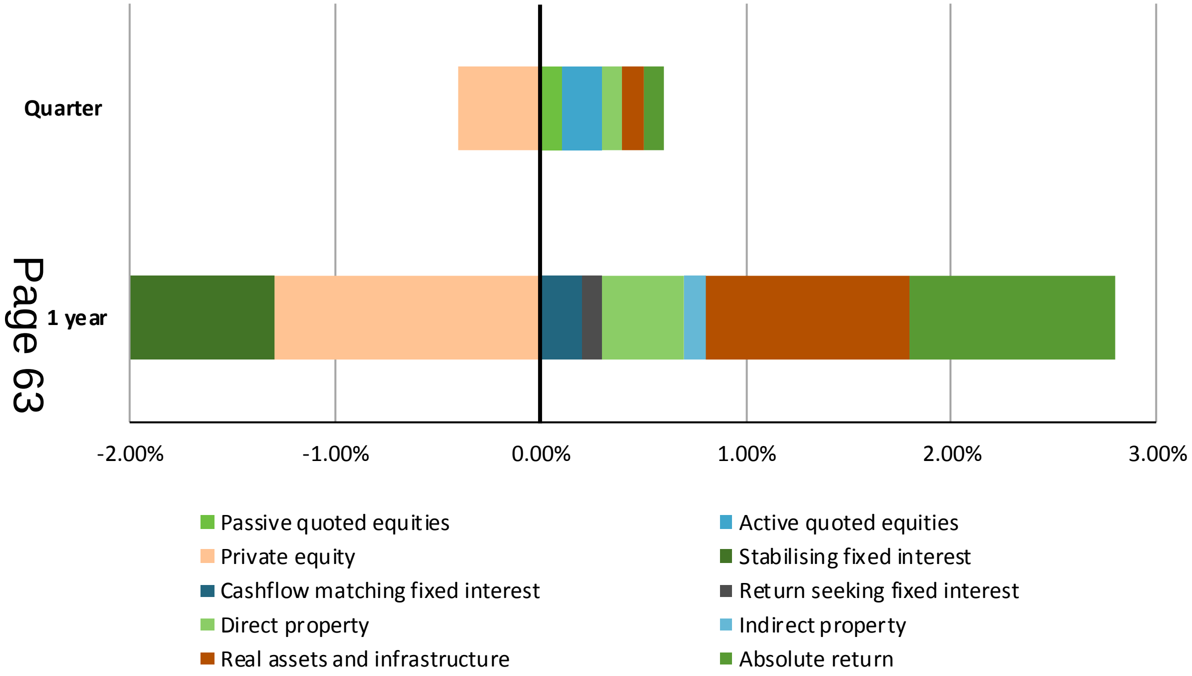


Relative performance attribution	Quarter	1 year	Benchmark
Passive quoted equities	0.1	0.0	Listed equivalent
Active quoted equities	0.2	0	Listed equivalent
Private equity	-0.4	-1.3	FTSE All World + 2% pa
Stabilising fixed interest	0.0	-0.7	Blended benchmark
Cashflow matching fixed interest	0.0	0.2	UK Gilts + 1.4% pa
Return seeking fixed interest	0.0	0.1	Blended benchmark
Direct property	0.1	0.4	IPD Properties Annual
Indirect property	0.0	0.1	CPI + 6% pa
Real assets and infrastructure	0.1	1.0	CPI + 4% pa
Absolute return	0.1	1.0	LIBOR + 3-4% pa
Total relative return	**0.2**	**0.8**	

Source: Portfolio Evaluation Ltd

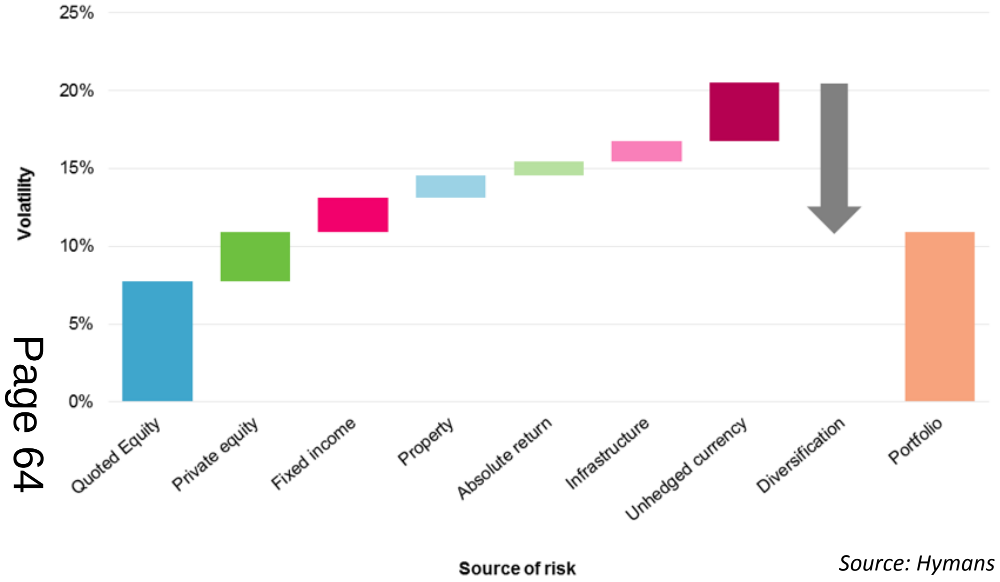
Note that the table above shows the weighted contribution of each asset class to the Fund's relative return.

During the quarter underperformance in the private equity portfolio partially offset gains made elsewhere in the Fund. This was due, in part, to a valuation lag with a number of private equity managers reporting their quarter-end figures after the Fund's reporting date.

Underperformance in the private equity and stabilising fixed interest portfolios was the largest detractor from performance over the 12 months, with the Fund's overweight cash position a notable laggard.

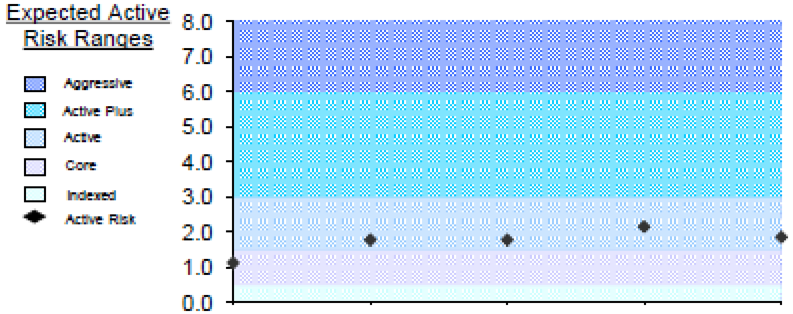
Fund risk review

Total 1 year Fund risk



Source: Hymans Robertson

Fund ex-post active risk analysis



	1 Yr	3 Yr	5 Yr	10 Yr	Dec 96
Active Risk	1.1	1.8	1.8	2.2	1.9
Portfolio Risk	7.3	6.2	6.0	8.8	10.1
Benchmark Risk	6.6	6.6	6.4	9.8	10.8

Source: Portfolio Evaluation Limited

Fund risk commentary

The total one-year Fund risk chart depicts the expected 12-month volatility of the Fund's assets. The largest contributors to risk over the 12 months from 31 March 2017 are expected to be the Fund's equity, currency and private equity holdings. Even though fairly simplistic, the chart does give an overall picture of the risks the Fund is running and the benefits of diversification.

The Fund's international holdings have been unhedged which has benefitted the absolute return of the Fund.

The ex-post active risk analysis demonstrates that the total Fund has taken minimal active risk. This is in keeping with the Fund's asset allocation, which has a significant amount of assets in passive index funds which typically exhibit minimal tracking error. Over time, the Fund's alternative portfolios (in particular, private equity and infrastructure & real assets) have exhibited more aggressive active risk.

West Midlands Pension Fund

Policy Group reports

Active global equities - overview

West Midlands Pension Fund

Active quoted equities policy group summary

- The active quoted equities portfolio comprises the in-house active global equity portfolio, and the externally managed global equity portfolio run by MFS.
- The in-house active global equity fund is a global, unconstrained portfolio with a medium term outlook and a value approach. It will tend to hold a concentrated portfolio of 50-60 stocks.
- The MFS portfolio is a global portfolio with a medium term outlook and 80-100 holdings. It does not have a stated style preference, but in practice tends to be tilted towards quality and growth stocks.
- The performance target for both portfolios is to outperform the benchmark FTSE All World index by 2% pa over a rolling 3 year period.

Summary of activity and performance

There were no subscriptions or redemptions by the Fund over the quarter into either portfolio.

The internal portfolio increased its relative exposure to Europe ex-UK (+3.0%) and Asia ex-Japan (+1.4%) over the quarter, and reduced exposure to North America (-0.6%), and Japan (-3.8%).

MFS increased its relative exposure to Europe ex-UK (+0.8%), Asia ex-Japan (+0.1%) and Emerging Markets (+0.1%), and reduced exposure to North America (-0.9%).

The combined portfolio performed in line with the index over the quarter (with the internal underperformance offset by MFS outperformance); over 1 year the slight outperformance by the internal portfolio was more than offset by underperformance by MFS, resulting in overall underperformance of 0.6%.

Regional allocation and performance

Internal portfolio	Portfolio (£m)	Portfolio (%)	Benchmark[1] (%)	Difference (%)	Change from previous quarter (%)
UK	220.4	35.0	6.1	28.9	0.0
Europe (ex-UK)	144.0	22.9	14.9	8.0	3.0
North America	133.6	21.2	55.5	-34.3	-0.6
Japan	68.8	10.9	8.2	2.7	-3.8
Asia ex-Japan	45.8	7.3	6.0	1.3	1.4
Emerging markets	17.2	2.7	9.3	-6.6	0.0
Total internal	**629.9**	**100.0**	**100.0**	**0.0**	**0.0**

Externally managed (MFS)	Portfolio (£m)	Portfolio (%)	Benchmark[1] (%)	Difference (%)	Change from previous quarter (%)
UK	44.7	9.2	6.1	3.1	0.0
Europe (ex-UK)	143.9	29.6	14.9	14.7	0.8
North America	279.8	57.6	55.5	2.1	-0.9
Japan	5.7	1.2	8.2	-7.0	0.0
Asia ex-Japan	5.3	1.1	6.0	-4.9	0.1
Emerging markets	6.2	1.3	9.3	-8.0	0.1
Total external	**485.7**	**100.0**	**100.0**	**0.0**	**0.0**

Performance

	Q1 2017 (%)	1 year (%)	3 years (% p.a.)	Since inception (internal, % p.a.)	Since inception (MFS, % p.a.)
Benchmark	**5.8**	**33.1**	**16.4**	**16.5**	**10.4**
Relative performance:					
Internal portfolio	-0.8	0.2	N/A	-3.8	N/A
MFS	1.0	-1.7	1.0	N/A	2.4
Combined	0.0	-0.6	N/A	N/A	N/A

[1] FTSE All World Index

Note that the in-house and external active global equity funds form part of the wider global equity portfolio, which represented 12.0% of the Fund's assets at 31 March 2017 against a medium term target of 10.0%.

Active global equities – return attribution

West Midlands Pension Fund

Performance comment

The combined portfolio performed in line with the benchmark over the quarter, with the underperformance from the internal portfolio (-0.8%) balanced by the outperformance from the (smaller) MFS portfolio (+1.0%).

Currency and country allocation were negative for the internal portfolio (-0.5%), with the overweight to the UK and the underweight to Asia ex-Japan detracting from returns, but the underweight to the US was a positive contributor; asset allocation was broadly neutral for MFS, with the positive effects of the overweight to Europe offset by the underweight to the strongly performing Asia ex-Japan region.

Stock selection was negative (-0.5%) for the internal portfolio but positive (+1.0%) for MFS. The internal portfolio's strong performers in Hong Kong (Jardine Strategic and Hang Lung) were more than offset by poor performers in Japan (Subaru, Mitsui Fudosan). Akzo Nobel, Zimmer Holdings and Exxon Mobil were all strong performers for MFS during the quarter.

Although value stocks performed well in the second half of 2016, the value style underperformed in Q1 as bond yields fell back from recent highs.

These two portfolios have relatively little crossover, with only 5 stocks out of 145 held in both portfolios (Goldman Sachs, Time Warner, American Express, Standard Chartered and Kubota) with a combined weight of 7.0% of the portfolio.

Return

Combined portfolio	% of Portfolio	% of Benchmark[1]	Portfolio return (%)	Benchmark return (%)	Contribution to excess return (%)
UK	23.7	6.1	4.2	3.7	-0.3
Europe (ex-UK)	25.8	14.9	7.3	7.1	0.0
North America	37.1	55.5	5.4	4.8	0.2
Japan	6.7	8.2	-0.1	3.6	-0.2
Asia ex-Japan	4.6	6.0	19.6	9.0	0.4
Emerging markets	2.1	9.3	8.3	8.9	-0.2
TOTAL	**100.1**	**100.0**	**5.7**	**5.8**	**-0.1**
Oil and Gas	0.6	7.0	-5.0	-4.7	0.7
Basic Materials	3.9	4.7	8.3	7.3	0.0
Industrials	24.7	12.6	6.6	6.4	0.1
Consumer goods	18.0	12.3	4.3	6.9	-0.4
Healthcare	12.3	10.3	8.4	7.1	0.2
Consumer services	16.8	10.2	3.4	5.6	-0.4
Telecommunications	1.0	3.5	5.0	1.0	0.2
Utilities	1.1	3.4	-7.3	5.5	-0.1
Financials	16.6	22.6	4.6	4.5	0.1
Technology	5.1	12.7	18.5	12.1	-0.3
Other	0.0	0.8	0.0	6.3	0.0
TOTAL FUND	**100.0**	**100.0**	**5.7**	**5.8**	**-0.1**

[1] FTSE All World Index

Active global equities – risk and activity analysis

Comment

Overall, risk levels in both portfolios remain below that of the benchmark whether measured by portfolio risk or portfolio beta.

Active risk is considerably higher for the internal portfolio, reflecting the more differentiated region and sector positioning; as would be expected, this results in a very high active share statistic of 95%. Active share in the MFS portfolio is also quite high at 90%, especially considering the lower levels of active risk.

Regionally, the internal portfolio's overweight to the UK and underweight to North America remain, and actually increased slightly during the quarter. This was mainly driven by opportunistically increasing and decreasing position sizes, in response to market movements. In terms of major transactions, two European names were purchased (Spanish infrastructure company Ferrovial, and French aircraft engine producer Safran), and no positions were fully sold. MFS also mostly just added and trimmed to existing positions; one US railway company (Union Pacific) was sold and replaced by another (Kansas City Southern).

Sector-wise, the combined portfolio is notably overweight Industrials and Consumer sectors, and underweight Oil & Gas, Financials and Technology. During the quarter the Consumer Goods overweight was increased by 0.8%, and the Technology underweight increased by 0.8% (driven by the trimming of strongly performing holdings, such as Apple).

Style-wise, neither portfolios noticeably changed over the quarter. The internal portfolio is tilted towards smaller sized value stocks, while the MFS portfolio is tilted away from value stocks and very slightly towards smaller stocks. The combined portfolio's only significant style tilt is towards less volatile stocks.

Risk statistics	Internal portfolio	MFS	Combined (%)	Change from previous quarter
Portfolio risk	10.6	10.8	10.3	-1.1
Benchmark risk	11.6	11.6	11.6	-0.7
Active risk	5.9	3.1	3.9	-0.4
Predicted beta	81.0	93.0	86.0	-1.0
Active share	95.0	90.0	86.0	0.0
Turnover (annualised)	10.3	10.1	10.5	-2.6
Areas with highest active risk				
By region:				
UK	28.9	3.1	17.6	0.8
Europe ex-UK	6.2	14.0	9.6	1.5
North America	-34.2	2.4	-18.2	-0.9
Japan	4.0	-7.2	-0.9	-1.8
Asia Pacific ex-Japan	-3.4	-10.4	-6.5	0.3
By currency:				
UK £	34.1	2.6	20.5	1.1
US $	-27.9	9.4	-11.7	-0.1
By sector				
Oil & Gas	-6.6	-5.3	-6.0	0.2
Industrials	18.7	5.0	12.7	0.8
Consumer Goods	1.6	9.7	5.1	-0.7
Consumer Services	8.6	4.2	6.7	0.0
Healthcare	-1.9	7.4	2.2	0.6
Financials	-4.0	-8.4	-5.9	-0.3
Technology	-9.8	-7.0	-8.6	-0.8
By style[1]:				
Size	-0.6	-0.1	-0.4	0.0
Growth	-0.3	0.0	-0.2	0.0
Volatility	0.6	-0.3	0.2	-0.1
Value	0.2	-0.3	0.0	0.0

[1] Measures variance from benchmark in terms of number of standard deviations

Active emerging market equities - overview

West Midlands Pension Fund

Active quoted equities policy group summary

- The active emerging market equities portfolio is managed externally by three specialist managers (Mondrian, AGF & BMO) offering complementary value, growth and quality strategies.
- The performance target for the portfolio is to outperform the benchmark FTSE All World Emerging Markets index by 3% pa over a rolling 3 year period.

Active quoted equities portfolio activity

There were no subscriptions or redemptions by the Fund over the quarter into any of the three emerging market equities portfolios.

Taking the three portfolios together, the combined exposure to Asia Pacific (-1.4%) and developed markets (-0.3%) decreased over the quarter; Latin America (+0.9%) and EMEA (+0.8%) correspondingly increased.

The main driver of the increased underweight to Asia Pacific has been the increased weight of Asia Pacific in the benchmark (particularly India and China), resulting from strong performance during the quarter.

In addition, some developed listed stocks were sold (Mead Johnson and Unilever).

Regional allocation

	Portfolio (£m)	Portfolio (%)	Benchmark[1] (%)	Difference (%)	Change from previous quarter (%)
Externally managed:					
Asia Pacific	552.0	47.3	65.2	-17.9	-1.4
Latin America	221.6	19.0	16.6	2.4	0.9
EMEA	130.8	11.2	18.2	-7.0	0.8
Developed	263.3	22.6	0.0	22.6	-0.3
TOTAL	1,167.8	100.0	100.0	0.0	0.0

Performance

	Q1 2017 (%)	1 year (%)	3 years (% p.a.)	Since inception (% p.a.)
Benchmark	**8.9**	**35.6**	**12.9**	**10.8**
Relative performance:				
AGF	1.0	-1.4	-1.4	-1.7
BMO (F&C)	4.8	-0.8	0.2	0.9
Mondrian	0.2	-7.4	-3.8	-3.0

[1] FTSE All World Emerging Markets Index

Active emerging market equities – return attribution

Performance comment

The combined emerging markets equities portfolio returned 11.0% over the quarter, outperforming the benchmark return by 2.1%.

All three managers outperformed, led by BMO (+4.8%), with AGF and Mondrian outperforming by 1.0% and 0.2% respectively.

In complete contrast to the last two quarters on 2016, all three emerging market managers outperformed in Q1 2017, mainly driven by good stock selection. Asset allocation was negative (-1.6%) driven by the non-benchmark allocation to developed markets, which underperformed emerging markets; however within emerging markets country and sector performance was broadly similar, allowing stock selection to come to the fore (+3.6%). BMO in particular delivered very strongly in this area (+6.5%), with Indian stocks such as Yes Bank and Titan the largest contributors.

Longer-term, the combined portfolio lags the benchmark over all periods; -2.9% over 1 year, -1.5% over three years and -0.8% since inception (December 2013). Stock selection has been the main driver of the negative returns, with stock-picking in China (AGF and Mondrian), Financials and Consumer Goods (all three managers). Stock-picking by Mondrian and BMO in Oil & Gas contributed positively, as did the decision by all three managers to underweight Oil & Gas and Basic Materials, and the overweight to Technology by AGF and BMO.

Taiwan Semiconductors and Tencent are major positions in the combined portfolio (over 4%), although these are both large positions in the index. The largest net exposures are to Samsung Electronics, AIA Group, Bank Mandiri, and the underweight to Naspers (all c.2% net).

Return

Combined portfolio	% of Portfolio	% of Benchmark[1]	Portfolio return (%)	Benchmark return (%)	Contribution (%)
Asia Pacific	47.3	65.2	11.6	10.8	0.1
Latin America	19.0	16.6	11.8	10.6	0.3
EMEA	11.2	18.2	4.9	1.9	0.8
Developed	22.6	0.0	13.8	0.0	0.9
Total Fund	**100.0**	**100.0**	**11.0**	**8.9**	**2.1**
Oil and Gas	5.0	9.4	5.8	2.1	0.4
Basic Materials	3.6	6.8	9.2	9.8	0.0
Industrials	11.4	10.3	11.2	11.8	0.0
Consumer goods	9.1	7.9	13.6	8.9	0.4
Healthcare	2.6	2.1	4.3	3.4	0.0
Consumer services	10.9	6.8	11.5	10.5	0.2
Telecommunications	4.5	6.1	8.5	6.4	0.2
Utilities	3.4	3.2	9.7	9.2	0.1
Financials	34.2	32.4	11.8	9.9	0.6
Technology	14.1	13.0	13.7	11.9	0.3
Other	1.2	2.0	19.9	4.9	0.1
TOTAL FUND	**100.0**	**100.0**	**11.0**	**8.9**	**2.1**

[1] FTSE All World Emerging Markets Index

Active emerging market equities – risk and activity analysis

Comment

Absolute risk has been consistently below the benchmark, with the beta of the portfolio (i.e. the measure of risk and return of the portfolio versus the index) currently 0.88. For comparison, low volatility funds generally seek to achieve betas of 0.85 or below.

The portfolio continues to take considerable active risk, with a combined active share of 80% (the off-benchmark allocation to developed markets, in part driven by the synthetic exposure to India mentioned in the previous section is likely to be a significant contributor to this).

Annualised turnover has decreased from the unusually high 42% (annualised) in Q4 2016 to a more typical 24% (annualised) in Q1 2017. Mondrian were the most active, with turnover at an annualised rate of 31% during Q1.

The combined portfolio continues to be underweight the Asia Pacific region (although this makes up c.65% of the benchmark index), with all three managers underweight China (which accounts for 26% of the index) by c.10-15%.

Sector-wise, the combined portfolios are underweight the commodity-related Oil & Gas and Basic Materials sectors (reflecting the negative views on China), and overweight higher-quality, more defensive sectors such as the consumer and healthcare sectors.

The style tilts of the portfolio remained stable over Q4, with the combined portfolio exhibiting slight tilts towards smaller, more highly valued growth stocks.

Risk statistics	Combined portfolio	AGF	BMO (F&C)	Mondrian
Portfolio risk	14.0	14.4	14.1	14.5
Benchmark risk	16.3	16.3	16.3	16.3
Active risk	3.9	4.0	5.7	4.5
Predicted beta	88	90.0	85.0	89.0
Active share	80	85.0	87.0	93.0
Turnover	24.2	21.7	18.7	31.0

Areas with highest active risk	Combined portfolio	AGF	BMO (F&C)	Mondrian
By region:				
Asia Pacific	-16.6	-18.8	-18.4	-11.3
Latin America	1.7	1.5	6.5	-4.1
EMEA	-7.3	-8.5	-9.1	-3.5
Developed	22.2	25.9	21.1	18.9
By currency:				
Asia Pacific	-13.7	-3.1	-15.6	-24.1
Americas	22.1	9.9	28.7	28.3
By sector				
Oil & Gas	-4.7	-1.4	-9.2	-3.1
Basic Materials	-3.5	0.9	-6.9	-4.7
Consumer Goods	2.4	-2.6	4.2	6.3
Consumer Services	4.0	2.5	9.4	-1.0
Healthcare	1.3	2.7	1.7	-1.0
Telecoms	-1.6	-2.4	-6.1	5.2
Financials	1.9	-5.8	15.5	-5.7
By style[1]:				
Size	-0.1	-0.1	-0.2	0.1
Value	-0.2	-0.3	-0.5	0.2
Momentum	-0.2	-0.1	-0.2	-0.3

Passive quoted equities

Policy group summary

- The Fund manages five passive regional equity portfolios in-house. The portfolios are designed to replicate the performance of their underlying benchmark indices.
- Benchmarks and tolerance ranges are as follows:
  - UK: FTSE All Share (±0.25% pa)
  - North America: FTSE All World North America (±0.5% pa)
    S&P 500 US Dividend Aristocrats (±0.5% pa)
  - Europe (ex UK): FTSE World Europe (ex UK) (±0.5% pa)
  - Japan: FTSE World Japan (±0.5% pa)
  - Pacific (ex Japan): FTSE AW Developed Asia Pacific ex Japan (±0.75% pa)
- A passive global (ex UK) equity fund, designed to track the FTSE All World Developed ex UK index, is managed externally.

Policy group activity

During the quarter £4.3 million was invested in the passive equity portfolios. This was largely made up of corporate events including a £2.6 million payment for rights in Italian finance company Unicredit following completion of the company's €13 billion rights issue. In the UK an additional £1.1 million was invested in the Legal & General UK Smaller Companies fund to maintain target index exposure to small cap UK stocks. A further £600,000 was invested across the portfolios as a result of the quarterly rebalance in March and in payment for other corporate actions.

Regional allocation

	Portfolio (£m)	Portfolio (%)	Benchmark[1] (%)	Difference (%)
Internally managed:				
UK[2]	1,182.2	8.3	8.0	0.3
North America	1,117.3	7.9	7.5	2.0
US Dividend Aristocrats	213.9	1.6		
Europe (ex-UK)	1,216.3	8.6	7.5	1.1
Japan	628.2	4.4	3.75	0.65
Pacific (ex Japan)	686.4	4.8	3.75	1.05
Total internal	**5,044.3**	**35.6**	**30.5**	**5.1**
Externally managed:				
Global (ex UK)[3]	591.0	4.2	N/A	N/A
Total external	**591.0**	**4.2**	**N/A**	**N/A**

[1] The Fund's medium term target allocation

[2] The allocation to UK equities includes a small (£42.9 million) holding in an externally managed UK small cap index fund

[3] The externally managed global equity fund forms part of the wider global equity portfolio, which represented 12.0% of the Fund's assets at 31 March 2017 against a medium term target of 10.0%.

Passive quoted equities

West Midlands Pension Fund

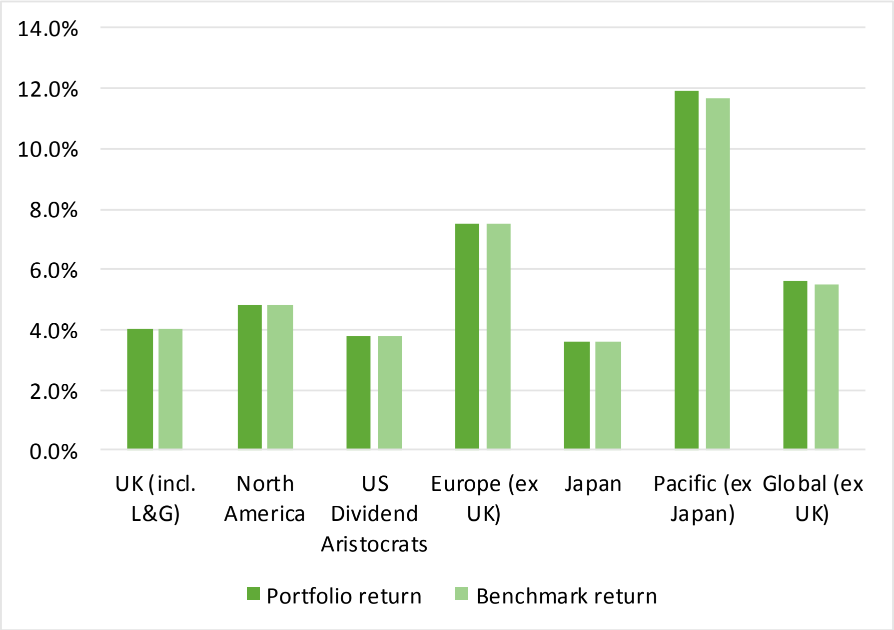
Performance comment

All passive in-house equity portfolios performed in line with their respective benchmarks during the quarter. Note that since 30 June 2016 performance has been calculated using mid-price (rather than bid-price) valuations.

The S&P 500 US Dividend Aristocrats Index underperformed the wider FTSE North America benchmark by 1% during the quarter.   Performance was impacted by an underweight exposure to technology stocks which performed particularly well during the period.

The Fund utilises two external managers to manage elements of the passive equity portfolio. Legal & General (L&G) manages a UK small-cap equity fund (valued at £42.9 million at 31 March 2017), which moderately outperformed its benchmark over the three years to 31 March. The global (ex UK) passive equity portfolio is managed by BlackRock and has enjoyed modest outperformance since inception (December 2014) due in part to the fund's reinvestment of stock lending revenue.

Quarterly performance by region



Medium term performance by region

	1 year		3 years		5 years	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Internally managed:						
UK (incl. L&G)	22.2	22.0	7.7	7.7	9.8	9.7
North America	34.9	35.0	20.4	20.5	18.1	18.2
US Dividend Aristocrats*	-	-	-	-	-	-
Europe (ex-UK)	27.9	27.9	9.9	9.6	13.1	12.8
Japan	32.6	32.8	17.6	17.8	12.9	12.9
Pacific (ex Japan)	37.5	37.4	12.6	12.8	N/A	N/A
Externally managed:						
Global (ex UK)	33.3	33.1	N/A	N/A	N/A	N/A

*Note that the US Dividend Aristocrats portfolio's inception date was 31 July 2016, hence it does not yet have a long term performance history.

Private equity – policy group summary

Target Geographic Diversification

USA:	25-35%
Europe:	30-35%
Asia:	30-40%
Rest of World:	0-10%

Target Strategy Diversification

Venture:	10-15%
Growth and small buyout:	30-40%
Mid and large buyout:	35-45%
Secondaries, co-investments, special situations, listed, etc:	5-20%

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Targeted Net Returns

Venture:	2.0x – 2.5x
Buyout:	1.7x – 2.0x
Other:	1.5x – 1.8x

Targeted Net IRR

Venture:	15-20%
Buyout:	17-20%
Other:	15-20%

The overall performance target for the portfolio is outperform the benchmark index (FTSE All World + 2% pa) by an additional 2% pa.

Note that these targets are being reviewed as part of the overall mandate review.

West Midlands Pension Fund

Private equity allocation by region and strategy

	Committed (£m)	Called (£m)
USA	1,085.1	764.2
Europe	899.8	713.4
UK	292.9	232.6
Asia & ROW	412.1	254.2
TOTAL	**2,689.9**	**1,964.4**

	Committed (£m)	Called (£m)
Venture	411.1	290.1
Growth and small buyout	635.9	538.9
Mid and large buyout	827.5	579.4
Other	815.4	556.0
TOTAL	**2,689.9**	**1,964.4**

Private equity - activity

Mandate activity

Net cash returned during the period totalled £45.2 million, derived from distributions totalling £66.7 million and drawdowns totalling £21.5 million. Notable distributions included £4.1 million from Thoma Bravo IX following the sale of LANDesk for 7.1x invested capital; £3.7 million from CBPE VIII resulting from the IPO sell down of Medica for a 6.0x multiple and £3.2 million from Dominus Capital following the sale of Bentley Mills for 5.0x invested capital .

At the quarter-end the sector split was overweight Venture at 26% versus the target range of 10-15%. This was due in the main to increasing valuations for a number of investments including Uber and MatchesFashion. The allocation to Other (Secondaries, Co-Investments, Special Situations, Listed, etc.) was also overweight at 23% versus the target range of 5-20% due to the deliberate targeting of private equity secondary investments at the time of the global financial crisis and the current build-up of equity positions (from stock distributions). Mid-Large Buyouts and Growth/Small buyouts were underweight respectively at 26% and 25% versus the target ranges of 35-45% and 30-40% due largely to very strong exits benefitting from resilient valuations from a maturing portfolio of investments.

Asia at 16% was underweight relative to its target range of 30-40% due to lack of opportunities in the area. Consequently, both the USA and Europe (including the UK) at 41% each were overweight their respective target ranges of 25-35% and 30-35%. ‘Rest of the World’ investments represented 2% of the portfolio and were within the target range of 0-10%.

Mandate outlook

The target asset allocation is for a 10% neutral weight in private equity. The portfolio manager is looking to reinvest distributions into a more concentrated number of managers and into adding co-investments.

Regional split at 31 March 2017

	Target	Actual (31 March 2017)
USA	25-35%	41%
Europe	30-35%	41%
Asia	30-40%	16%
Rest of World	0-10%	2%

Strategy split at 31 March 2017

	Target	Actual (31 March 2017)
Venture	10-15%	26%
Growth and small buyout	30-40%	25%
Mid and large buyout	35-45%	26%
Secondaries, co-investments, etc	5-20%	23%

Private equity

Performance comment

The longer term measures of the private equity portfolio continue to show strong out-performance against the benchmark. Currency proved to be a headwind to relative performance over the 12 months due to the benchmark's significant exposure to USD-denominated assets.

High purchase prices continue to prevail affected by buoyant public markets and the availability of alternative sources of lending. Mature funds continue to benefit from this environment and are actively selling assets, however deploying capital is more challenging.

Note that the Fund has no exposure to venture outside of Europe and the US.

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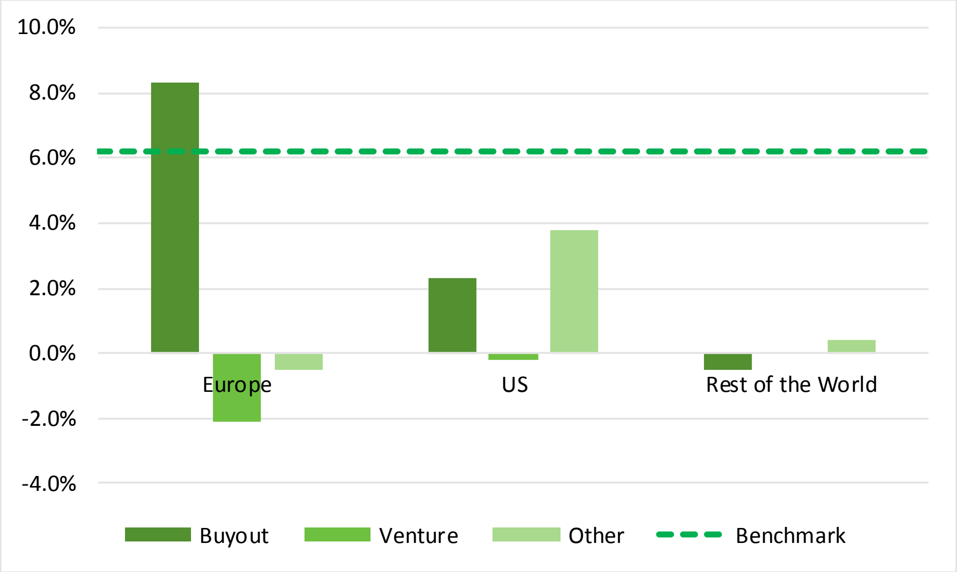
Performance[1] – total portfolio

[1] Short term performance may be affected by late reporting of quarterly figures by managers

Absolute performance – for quarter



Source: Portfolio Evaluation Ltd

Property

Mandate summary

- The property portfolio comprises direct commercial UK property managed by CBRE and indirect global property managed in-house through specialist funds
- Performance targets for each element of the portfolio are:
  - Direct property: outperformance of 1% above the IPD Properties Annual Index
  - Indirect property: performance is expected to be in line with the benchmark (CPI + 6% pa)

Mandate activity

The sale of the Virgin industrial/office unit in Edinburgh South Gyle St, was agreed in Q4 2016 but completed in Q1 2017 for a sale price of £2.9 million. Likewise terms were agreed in Q4 2016 for the purchase of 2 St Philips in Birmingham and completed in Q1 2017 for £27.8 million.

Within the indirect property portfolio, a combination of drawdowns totalling £5.3 million and distributions totalling £20.6 million contributed to a net cash return during the period of £15.3 million. The increased return was the result of an £8.9 million payment from RREEF and £6.9 million from Silk Road Asia.

Mandate outlook

The asset allocation target portfolio is seeking to increase property to 10% of the Fund. The portfolio manager is looking at a number of property and fund investments but declining yields in many sectors is making acquisitions of quality properties more difficult.

Property allocation

	Portfolio (£m)	Portfolio (%)	Benchmark[1] (%)	Difference (%)
UK direct property	756.4	5.3	N/A	N/A
UK indirect property	154.8	1.1	N/A	N/A
Indirect US	16.1	0.1	N/A	N/A
Indirect Europe	25.3	0.2	N/A	N/A
Indirect Other	126.9	0.9	N/A	N/A
TOTAL	**1,079.5**	**7.6**	**10.0**	**-2.4**

Direct portfolio weightings

	Portfolio (£m)	Portfolio (%)	Benchmark[2] (%)	Difference (%)
Agricultural	10.2	1.3	N/A	N/A
Industrial	225.9	29.9	19.8	10.1
Offices	172.4	22.8	28.7	-5.9
Shops	11.6	1.5	11.7	-10.2
Shopping centres	82.5	10.9	8.4	2.5
Retail warehouses	147.3	19.5	15.4	4.1
Supermarkets	106.5	14.1	4.7	9.4
TOTAL	**756.4**	**100.0**	**N/A**	**N/A**

[1] The Fund's medium term target allocation
[2] The IPD Properties Annual Index

Property

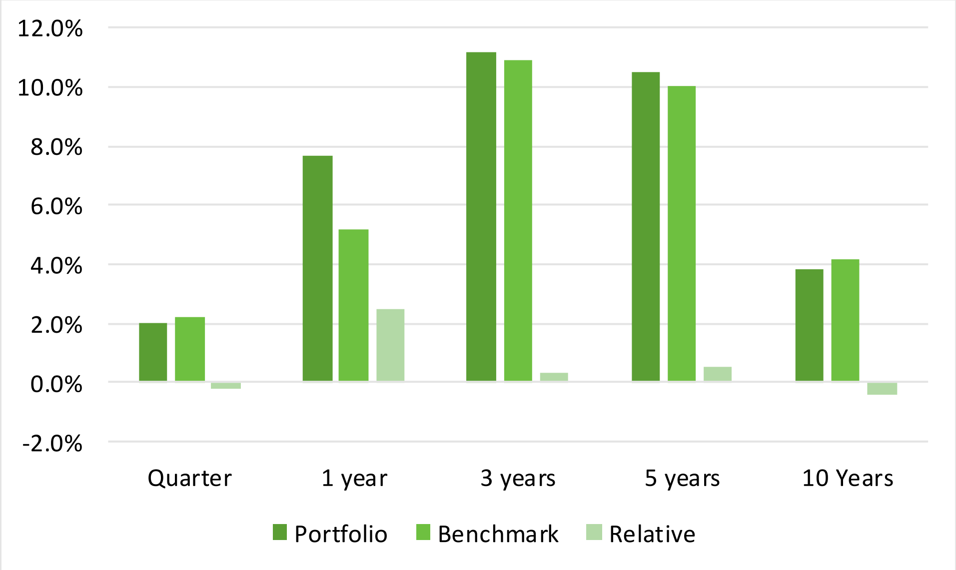
West Midlands Pension Fund

Performance comment

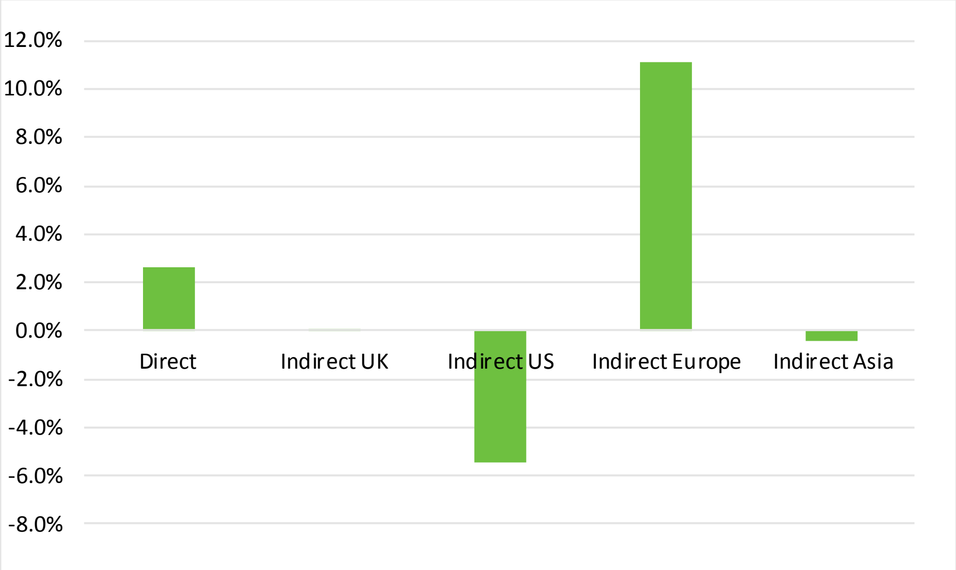
The economy continued to hold up well despite attention being focussed on the triggering of Article 50, which duly took place on 29 March. In turn, property continued to perform well in the quarter with all sectors delivering positive returns. Industrials continued to perform strongest, extending a theme played out in 2016 where the sector benefitted from a move to solid income, bolstered partially by changing dynamics in the retail sector. Transactional volumes were down across the market, with investors not motivated to sell, especially when the increased costs associated with stamp duty were factored into reinvestment decisions. Despite yields being low historically, property remains an attractive yield generating asset and this yield has enabled a new phenomenon of the ‘carry trade’ where Local Authorities have become major purchasers of commercial property, financed by cheap borrowing provided by the PWLB (Public Works Loan Board).

The overall portfolio underperformed its benchmark during the quarter despite direct property marginally outperforming its benchmark. Indirect property therefore caused the underperformance, with the US underperforming on a relative and absolute basis. Currency was beneficial over the 12 months given the portfolio’s exposure to US assets and its UK benchmark.

Performance – total portfolio



Absolute performance – for quarter



Real assets and infrastructure

West Midlands Pension Fund

Mandate summary

- The portfolio is managed in-house through specialist funds.
- The portfolio targets performance in line with the benchmark (CPI + 4% pa).
- The portfolio is made up of a variety of infrastructure funds from core to opportunistic, covering most asset classes and geographies but with a bias toward UK assets, along with some global agricultural funds

Mandate activity

No new commitments were made during the period.

Drawdowns totalling £20.1 million and distributions totalling £32.3 million contributed to a net cash return in the portfolio of £12.2 million. The strong returns were aided by a distribution of £15.9 million from the JPMorgan AIRRO fund.

Mandate outlook

The Fund’s asset allocation target portfolio is seeking to raise the weight in infrastructure to 6%. The portfolio manager is looking at a number of co-investment opportunities, most of which are in conjunction with PiP. There is a strong pipeline but not all opportunities will make it through to investment .

Real assets and infrastructure allocation

	Committed (£m)	Called (£m)	Portfolio (£m)	Portfolio (%)
Infrastructure UK	207.5	167.0	153.8	1.1
Infrastructure Euro	123.4	95.8	16.5	0.1
Infrastructure US	414.5	297.2	162.8	1.1
Total Real Assets	99.5	55.5	77.4	0.5
TOTAL	**844.9**	**615.5**	**410.5**	**2.9**

Real assets and infrastructure

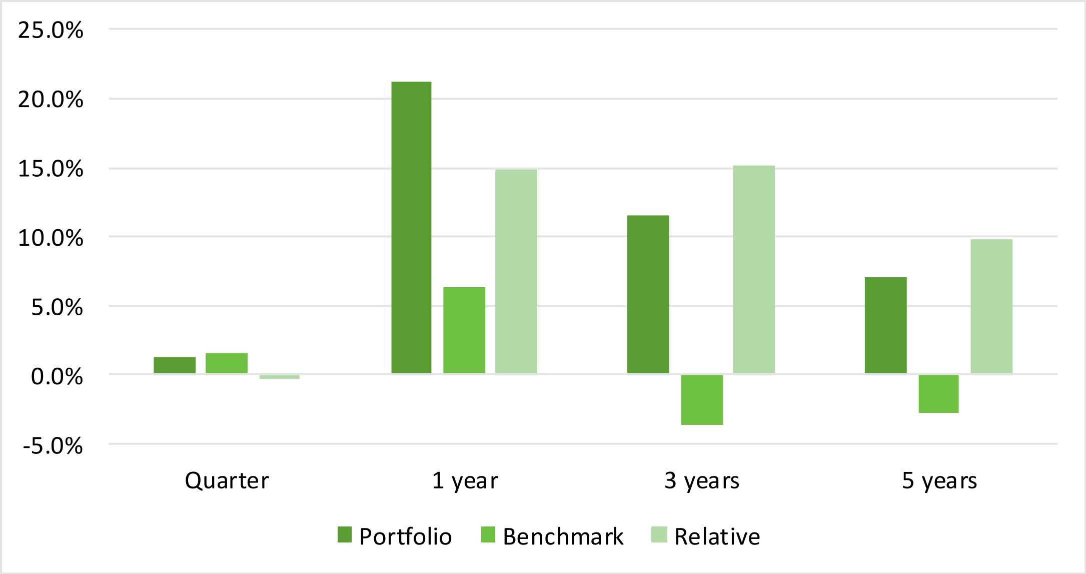
West Midlands Pension Fund

Performance comment

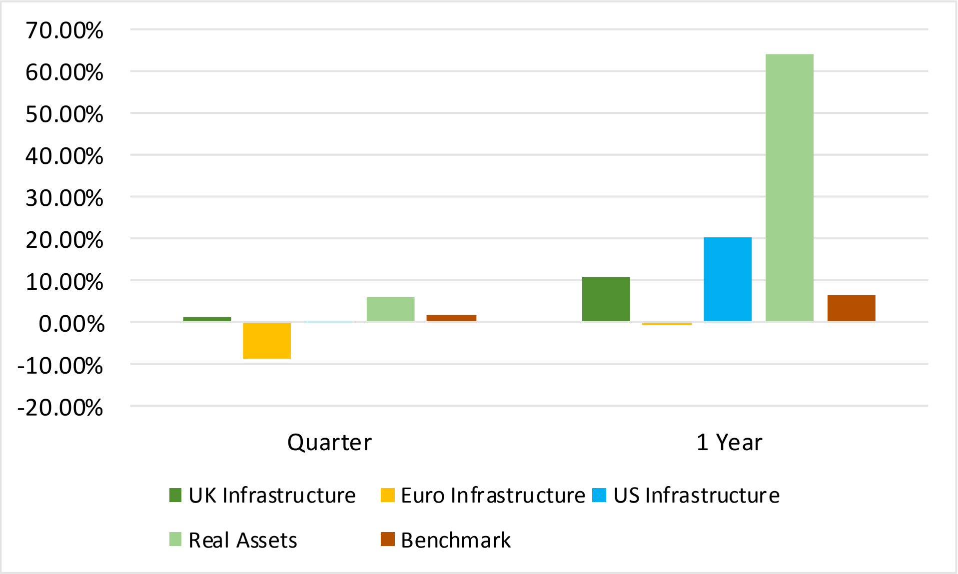
Performance from infrastructure was slightly below benchmark across all geographies, although UK infrastructure fared much better in this respect. The largest single contributor to negative performance was the Eiser European Infrastructure fund which had a notable markdown after a disappointing sales process to its remaining assets. Over longer time periods the portfolio remains comfortably ahead of its benchmark, with continued high demand for quality infrastructure assets from a range of institutional investors. The 12-month performance was boosted by the weakness in sterling since the portfolio has exposure to US assets and is measured against a UK benchmark.

The agricultural funds continued posting strong returns with a further positive quarter from the Black River agricultural fund.

Performance – total portfolio



Absolute performance – for quarter



Absolute return

West Midlands Pension Fund

Mandate summary

- The portfolio comprises insurance linked funds and special opportunities
- Performance is expected to be in line with the respective benchmarks for the two components (LIBOR + 3% pa for the insurance linked segment; LIBOR + 4% pa for the special opportunities segment)

Mandate activity

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The total net investment during the period totalled £5.6 million, derived from drawdowns totalling £11.5 million and distributions totalling £5.9 million.

There were no new investments during the period, however Dorchester Capital Secondaries IV, which sits in the opportunistic segment, called down £10 million for new investments within the fund.

Note that for performance purposes, the Fund's three diversified growth funds are included within the special opportunities segment of the portfolio.

Mandate outlook

The asset allocation target portfolio is seeking to raise weightings in absolute return. The portfolio manager is looking at direct/co-investments. The DGFs are under review and likely to be exited when alternative investment opportunities are identified.

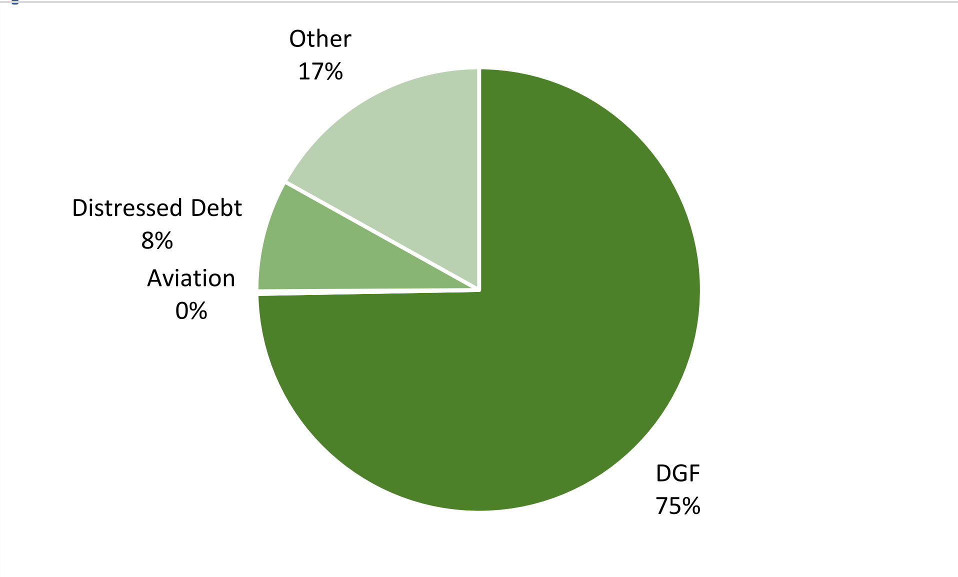
Absolute return allocation

	Portfolio (£m)	Portfolio (%)	Benchmark[1] (%)	Difference (%)
Insurance linked	379.6	2.7	3.0	-0.3
Opportunistic[2]	348.0	2.4	4.0	-1.6
TOTAL	**727.6**	**5.1**	**7.0**	**-1.9**

[1] The Fund's medium term target allocation
[2] Includes diversified growth funds

NB: Following the 2017 SIAB review insurance linked forms part of the 'income' segment of the overall Fund and special opportunities forms part of the 'growth' segment

Opportunistic breakdown



Absolute return

Performance comment

The performance for the quarter was good from both elements of the portfolio with most investments outperforming the benchmark. The most notable contributors to the positive performance were, once again, the Dorchester funds, where all four funds posted very strong returns. Insurance funds all had a positive quarter, albeit not as strong as in Q4 2016. The 12-month performance was boosted by the weakness in sterling since the portfolio has exposure to US assets and is measured against a UK benchmark.

The diversified growth funds had differing performances that led to a neutral contribution to overall returns.

There were no new investments made in the period although the Fund continues to monitor potential investments for inclusion in the portfolio .

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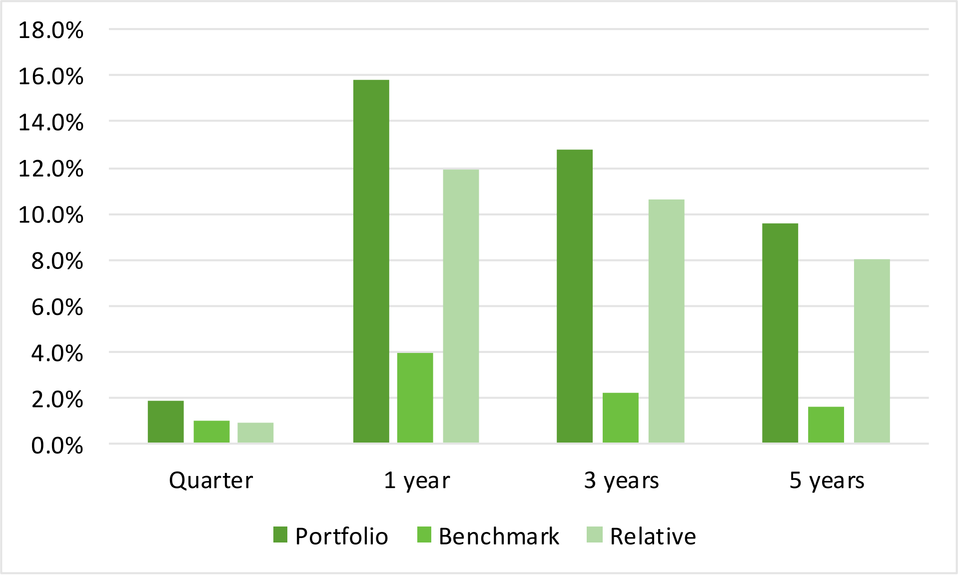
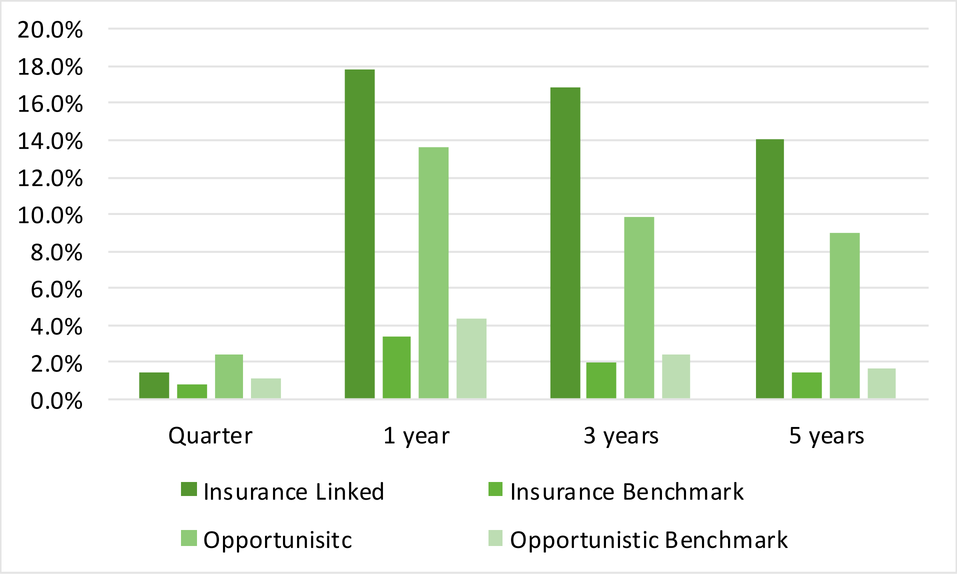
Performance – total portfolio



Absolute performance



Return seeking fixed interest

Mandate summary

- The return seeking element of the fixed interest portfolio comprises corporate bonds, emerging market debt and specialist fixed interest investments. This mandate is seeking to achieve superior returns to fixed income assets whilst maintaining a low correlation with growth assets.
- Performance targets for each element of the portfolio are:
    - Corporate bonds: outperformance of 1% above the Merrill Lynch GBP Non-Gilts All Stocks Index
    - Emerging market debt: outperformance of 2% above a blended benchmark (50/50 JPM EMBI Global Diversified Index/JPM GBI EM Global Diversified Index)
    - Specialist fixed interest: outperformance of 2.5% above the Merrill Lynch GBP Non-Gilts All Stocks Index
- Following the 2017 SIAB review investment grade corporate bonds will, in future, be included in 'stabilising assets'

Mandate activity

Five distributions during the period resulted in a net disinvestment during the quarter of £1.1 million.

Mandate outlook

The asset allocation target portfolio is looking to reduce weightings in stabilising fixed interest through gilts and corporate bonds and looks to raise return seeking fixed interest (credit). In May 2017 the Fund increased its emerging market debt exposure by investing £250 million in hard and local currency funds managed by Amundi.

Allocation

	Portfolio (£m)	Portfolio (%)	Benchmark[1] (%)	Difference (%)
Corporate bonds	388.4	2.7	2.5	0.2
Emerging market debt[2]	379.0	2.7	2.5	0.2
Other fixed interest	286.4	2.0	2.0	0.0
TOTAL	**1,053.8**	**7.4**	**7.0**	**0.4**

[1] The Fund's medium term target asset allocation
[2] Excludes the £250 million invested in May 2017

Return seeking fixed interest

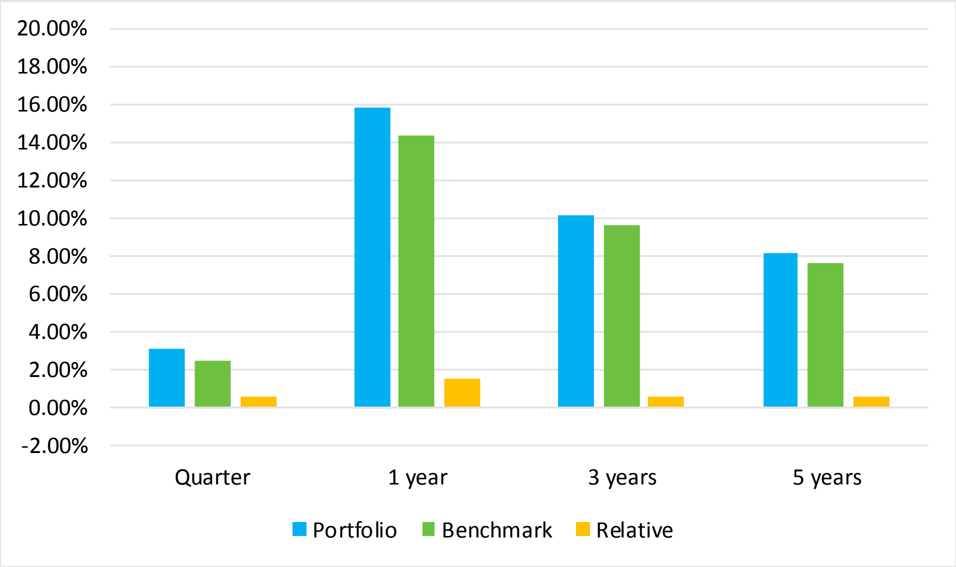
West Midlands Pension Fund

Performance comment

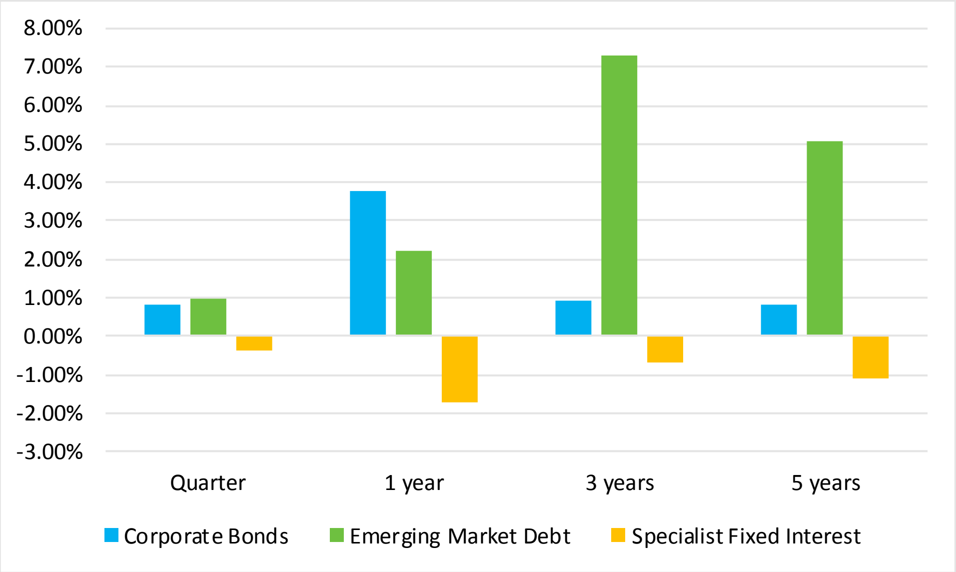
The return seeking fixed interest portfolio outperformed its bespoke benchmark over the quarter aided by outperformance from two of its three underlying components. The corporate bond component outperformed its benchmark due to strong performance from Schroder, an active manager, while the emerging market debt portfolio enjoyed strong outperformance from its sole manager, Capital. Specialist fixed interest, the third component of the overall portfolio, underperformed its benchmark due in the part to the presence of a passive fund which tracked a lower yielding benchmark over the quarter.

The portfolio outperformed its benchmark over the 12 month period to 31 March 2017 despite some underperformance from the specialist fixed interest component. Emerging market debt enjoyed particularly strong performance over the period and the active corporate bond mandate also contributed to performance.

Performance – total portfolio



Relative performance



Source: Portfolio Evaluation Ltd

Cashflow matching fixed interest

Mandate summary

- The cashflow matching element of the fixed interest portfolio was established in October 2015 to match future liability cash flows for the Fund's orphan liabilities.
- Performance is expected to be in line with the benchmark (UK Gilts + 1.4% pa).
- Following the 2017 SIAB review it is proposed that this mandate be dissolved and reallocated between stabilising assets and income.

Mandate activity

Three distributions and a drawdown contributed to a net disinvestment during the quarter of £10.7 million.

Allocation

	Portfolio (£m)	Portfolio (%)	Benchmark[1] (%)	Difference (%)
Index-linked gilts	97.8	0.7	0.0	0
Specialist fixed interest	61.4	0.4	0.0	0
Corporate bonds	192.4	1.4	0.0	0
TOTAL	**351.6**	**2.5**	**3.0**	**-0.5**

[1] The Fund's medium term target allocation

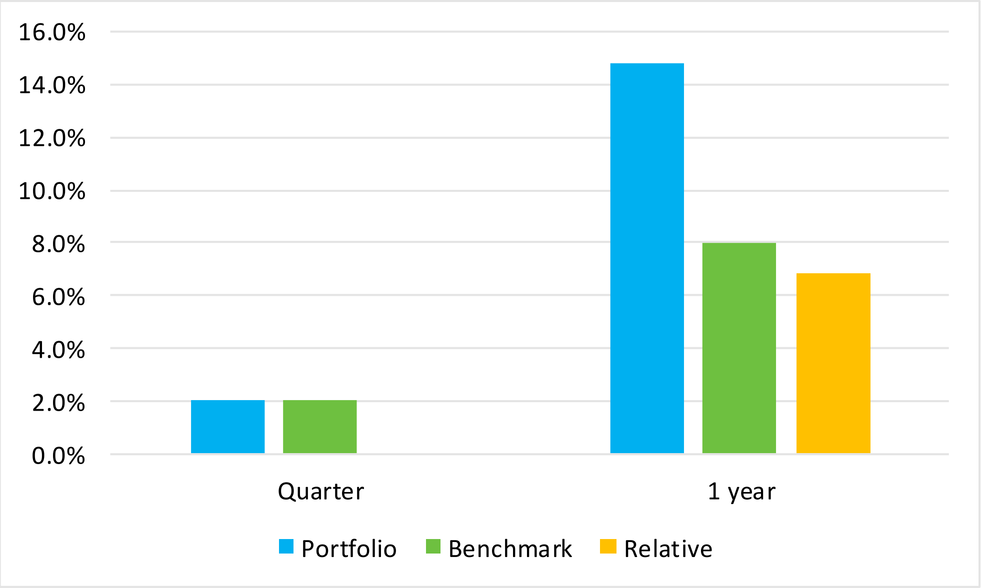
Cashflow matching fixed interest

Performance comment

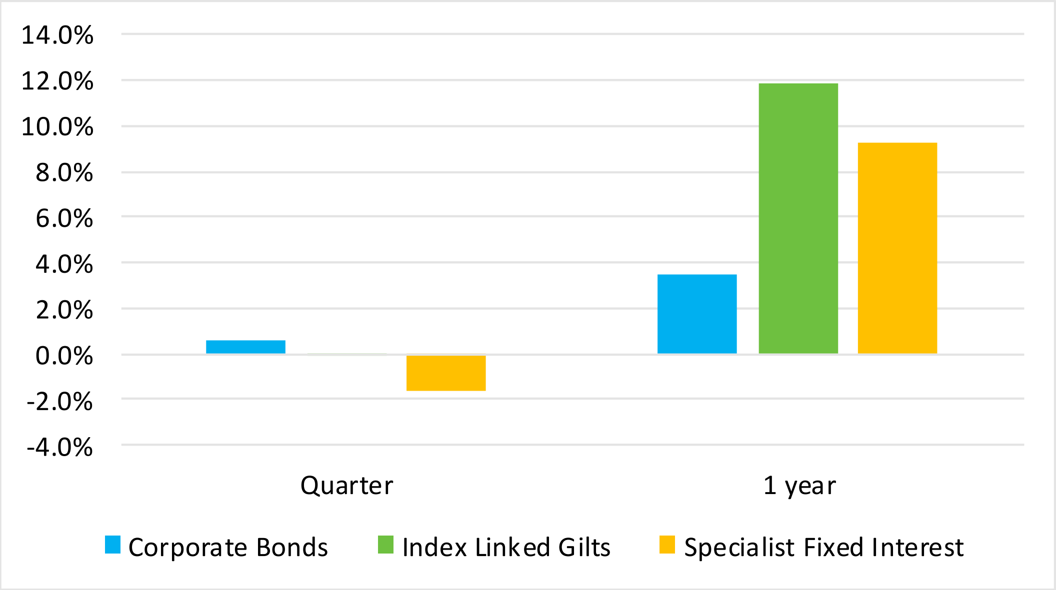
Portfolio performance was flat over the quarter with underperformance from the specialist fixed interest component offsetting outperformance from Royal London, the Fund's active corporate bond manager. All three elements of the portfolio (index linked gilts, corporate bonds and specialist fixed interest) outperformed the cash flow matching strategy's benchmark over the 12 months to 31 March 2017. Index linked gilts enjoyed particularly strong outperformance amid concerns about inflation while the specialist fixed interest component benefitted from several distributions from Highbridge Specialty Loan Fund III.

Note that the portfolio's inception date was 1 October 2015, hence it does not yet have a long term performance history.

Performance – total portfolio



Relative performance



Stabilising fixed interest

Mandate summary

- The portfolio comprises UK gilts, index linked gilts and cash.
- Performance is expected to be in line with the individual benchmarks of the portfolio (FTSE Actuaries UK Index Linked Gilts All Stocks Index for index linked gilts, FTSE Actuaries UK Conventional Gilts All Stocks Index for UK gilts and GBP 7 Day LIBID for cash).
- Following the 2017 SIAB review, investment grade corporate bonds will be included in 'stabilising assets'

Mandate activity

There was no activity within the gilt portfolios during the quarter. Both the gilt and index linked gilt funds performed in line with their respective benchmarks.

The portfolio moderately underperformed its benchmark during the quarter due to the Fund's overweight position in cash, which yielded a lower return than conventional and index-linked gilts. Of the £111.8 million held in current accounts, £101.8 million was held in interest bearing accounts. Interest is not generally paid by banks on current accounts and the balances on those accounts are maintained for instant access and trading purposes. Performance of cash as a whole, which includes sterling and foreign currency balances, was ahead of the benchmark at 0.49% for the 12 months ending 31 March 2017.

During the quarter the Fund received £536,000 in net revenue from securities lending. In the 12 months to 31 March 2017, a net amount of £2.5 million was received from securities lending and the average utilisation was 9.43%, exceeding the average of the Fund's peer group (UK Pension Funds) by 3.22%. The net revenue generated from securities lending has increased by 54% compared with the preceding twelve months. The stock lending mandate was updated on 31 August 2016 to bring it into line with the market, thereby increasing the competitiveness of the Fund's programme. The Fund also entered into a term lending programme to increase overall lending income.

Mandate outlook

The asset allocation target portfolio is looking to reduce weightings in stabilising fixed income. The portfolio manager is considering positions in corporate bonds and gilts. The manager might look at buying US Treasuries and index linked assets.

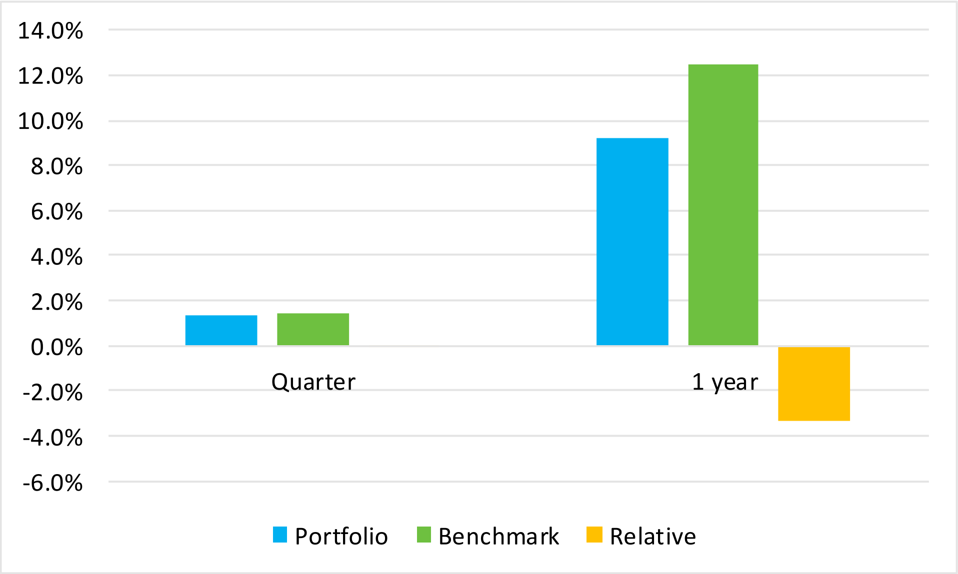
West Midlands Pension Fund

Allocation

	Portfolio (£m)	Portfolio (%)	Benchmark[1] (%)	Difference (%)
Gilts	165.7	1.2	2.0	-0.8
Index-linked gilts	769.3	5.4	5.0	0.4
Cash	389.3	2.7	2.0	0.7
TOTAL	**1,324.3**	**9.3**	**9.0**	**0.3**

[1] The Fund's medium term target allocation

Performance



Environmental, social and governance

Corporate voting summary – 3 months to March 2017

	UK			Overseas				
Number of companies voted at	51			370				
Total number of votes	715			3,974				
	For	Against	Abstain	For	Against	Abstain	Non-voting	Withhold
% of resolutions	73	22	5	47	30	17	5	1

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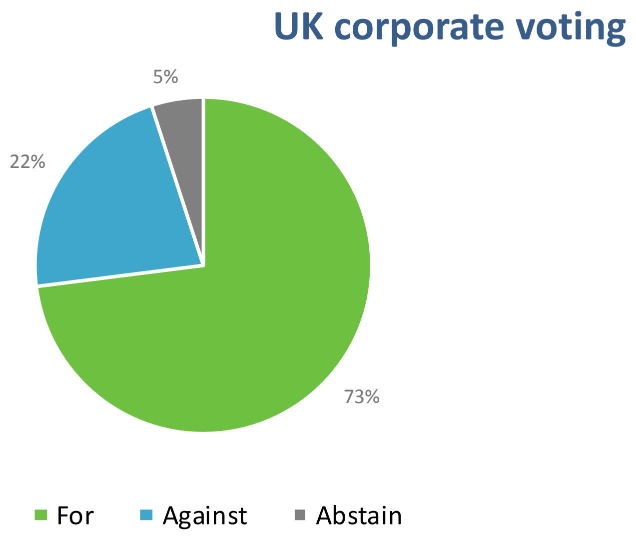
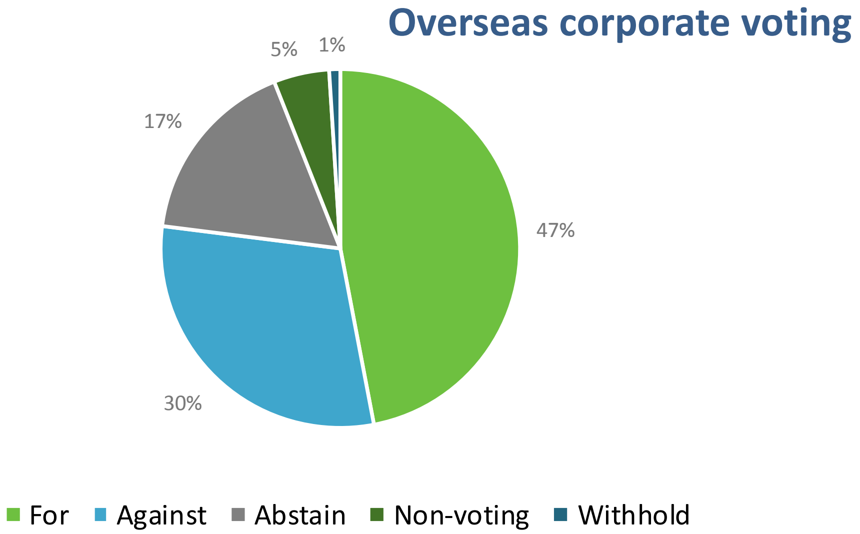
During the quarter the Fund voted at a total of 421 company meetings – 51 UK, 74 European, 61 North American, 61 Japanese, 136 Asia (excluding Japan), 2 Australasian/ South African and 36 in the rest of the world. During this period there were 11 meetings where the Fund supported all the resolutions put forward by companies.

Approximately 28% of the resolutions were not supported by the Fund. The largest number of resolutions that were opposed related to the independence of directors, annual reports that failed to meet best practice and issuances of share capital.





Environmental, social and governance

West Midlands Pension Fund

Engagement summary

The Fund's engagement strategy is to engage with its investee companies and other key stakeholders through partnerships and on its own. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors.

Engagement via the Local Authority Pension Fund Forum (LAPFF):

Through LAPFF, the Fund engaged with 15 companies during the quarter. Most engagements concerned Governance issues. Rio Tinto, BP, Anglo American and Shell were engaged on their preparedness for climate change risk. Summary data are presented here.

Engagement via the Principles for Responsible Investment (PRI):

Through the PRI, the Fund is currently a support investor to two engagement topics, each of which concerns a number of holdings. One topic is water scarcity risk in the supply chains of food & beverage and apparel companies. Water scarcity and potential supply shocks are material for businesses whose value chains depend on soft commodities. A second topic is human rights risks in companies involved in the extractives sector.

The Fund will join a collaborative engagement on cyber security risk from June 2017.

Other engagement:

The Fund is a participant in an engagement with one of its investees on the adequacy of succession planning for a key individual. The RI Officer attended a meeting with the company's Chair and Company Secretary and will review ongoing objectives for the engagement in May 2017.

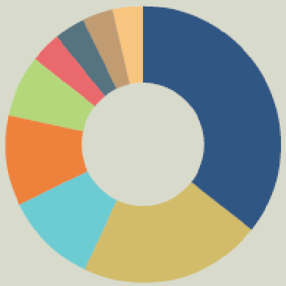
The RI Officer participated in a roundtable with the FRC ahead of expected corporate governance reform.

Through LAPFF the Fund continues to engage on cluster munitions and human rights in the Israeli Occupied Territories.

The RI Officer attended the AGMs of National Express and Carillion, asking questions of management at each.

LAPFF Data

ENGAGEMENT TOPICS



Q1 2017 ENGAGEMENT DATA

	Company	Topics	Activity	Outcome
1	Aberdeen Asset Management plc	Sent Letter	Social Risk	Governance (General)/ Awaiting Response
2	Anglo American plc	Meeting	Climate Change/ Human Rights	Change in Process
3	AstraZeneca plc	Sent Letter	Governance (General)	Dialogue
4	BP plc	Sent Letter/Meeting	Climate Change/ Remuneration	Substantial Improvement
5	British American Tobacco plc	Sent Letter	Social Risk	Dialogue
6	Easyjet plc	Sent Letter/ Attended AGM	Other/Governance (General)	Dialogue
7	Euromoney Institutional Investor plc	Alert Issued	Board Composition	No Improvement
8	HSBC Holdings plc	Sent Letter/Meetings	Employment Standards/ Finance and Accounting	Change in Process/ Dialogue
9	Lloyds Banking Group plc	Sent Letter	Finance and Accounting	Dialogue
10	Rio Tinto Group	Meetings	Climate Change	Substantial Improvement
11	Royal Dutch Shell plc	Meeting	Climate Change	Dialogue
12	Shire plc	Sent Letter	Governance (General)	Dialogue
13	Sports Direct International plc	Sent Letters/ Received Letter	Employment Standards/ Governance (General)	Awaiting Response/ No Improvement
14	Standard Life plc	Sent Letter	Governance (General)/ Social Risk	Awaiting Response
15	Vodafone Group plc	Sent Letter	Governance (General)	Dialogue

Appendices

Appendix 1 – Full Fund asset allocation

West Midlands Pension Fund

Asset class	Value (£m)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
UK equities	1,182	8.3	8.0	0.3	-0.1
Overseas equities	5,030	35.4	30.0	5.4	1.0
North America	1,331	9.4	7.5	1.9	0.0
Europe (ex UK)	1,216	8.6	7.5	1.1	0.3
Japan	628	4.4	3.75	0.75	-0.1
Pacific (ex Japan)	686	4.8	3.75	0.75	0.3
Emerging markets	1,169	8.2	7.5	0.7	0.5
Global equities	1,706	12.0	10.0	2.0	0.2
Private equity	1,345	9.5	10.0	-0.5	-0.5
Special opportunities	348	2.4	2.0	0.4	0.0
Total growth assets	**9,611**	**67.6**	**60.0**	**7.6**	**0.6**
UK gilts	166	1.2	2.0	-0.8	0.0
Index linked gilts	769	5.4	5.0	0.4	-0.1
Cash	389	2.7	2.0	0.7	0.1
Corporate bonds	388	2.7	2.0	0.7	-0.1
Cashflow matching fixed interest	352	2.5	3.0	-0.5	-0.1
Total stabilising assets	**2,064**	**14.5**	**14.0**	**0.5**	**-0.2**
Specialist fixed interest	286	2.0	3.5	-1.5	-0.1
Emerging market debt	379	2.7	3.5	-0.8	0.1
Property	1,080	7.6	10.0	-2.4	-0.1
Insurance linked funds	380	2.7	3.0	-0.3	-0.1
Real assets and infrastructure	411	2.9	6.0	-3.1	-0.2
Total income assets	**2,536**	**17.9**	**26.0**	**-8.1**	**-0.4**
TOTAL	14,211	100.0	100.0	-	-

Appendix 2 – Risk management

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. These risks are set out and monitored as part of a formal risk register. In summary, the principal risks affecting the Fund are as follows:

Funding Risks

a) The risk of a deterioration in the funding level of the Fund. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark that seeks to achieve the appropriate balance between generating a satisfactory long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

b) The risk of changing demographics such as improvement in longevity and other demographic factors, increasing the cost of benefits.

The Fund monitors this by reviewing mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

c) Systemic risk, i.e., the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund mitigates systemic risk through a highly diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles.

Appendix 2 – Risk management (continued)

West Midlands Pension Fund

Asset Risks

a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

b) Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

c) Currency risk that the currency of the Fund's assets underperforms relative to sterling (i.e., the currency of the liabilities).

d) Manager underperformance when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

The Fund manages asset risk as follows:

- It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines.
- By investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
- By investing across a range of assets, including quoted equities and bonds, the Fund has recognised the need for some access to liquidity in the short term.
- Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance.
- The Fund is aware that investing in overseas assets introduces an element of currency risk, but given the level of diversification within the Fund, it is comfortable taking this risk in general but may take action to mitigate potentially significant risks as and when they are identified.
- In appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.
- The Fund recognises and measures the liquidity risk of some assets and ensures it has significant liquidity to meet future cash requirements.
- The operator exercises oversight and monitoring over internal and external funds.

Appendix 2 – Risk management (continued)

e) Environmental, social and governance (ESG) risks that are not given due consideration by the Fund or its investment managers. The Fund actively addresses this potential risk through implementation of its Responsible Investment (RI) Framework and its compliance with the UK Stewardship Code for Institutional Investors and engaging with selective investments where appropriate. Both documents are available on the Fund's website.

Operational Risk

a) Transition risk of incurring unexpected costs in relation to the transition of assets among managers.

When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers in order to mitigate this risk.

b) Custody risk of losing economic rights to Fund assets, when held in custody or when being traded.

These risks are managed by:

- The use of a global custodian for custody of assets.
- The use of formal contractual arrangements for all investments.
- Maintaining independent investment accounting records.

c) Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:

- Maintaining a comprehensive risk register with regular reviews.
- Operation of robust internal compliance arrangements.
- In-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

Appendix 3 – Team biographies

West Midlands Pension Fund

Jason Fletcher – Chief Investment Officer

Jason assumed the role of Chief Investment Officer at West Midlands Pension Fund in September 2016. He has 25 years experience of successfully managing equity portfolios across Asia, emerging markets and the Americas with two of the largest UK pension funds (British Airways and USS). As Deputy CIO at USS he built investment teams, introduced new asset classes, managed external mandates and led initiatives in trading, graduate recruitment, ESG integration and research unbundling.

Jason graduated with a BSc in Economics from the London School of Economics in 1990. He passed the IIMR exams in 1994 which has since merged to become the CFA Society of the UK.

David Evans – Head of Portfolio – Passive Equity

David first joined West Midlands Pension Fund in 1993 initially working within the Accounting and Treasury team. He attained the Investment Management Certificate in 1996 which led to a number of appointments within the investment management team culminating in David's appointment in May 2005 to the post of Senior Investment Manager which also saw him gain oversight of the larger UK index equity fund.

In 2007, David left West Midlands to assume the role of Portfolio Manager at State Street Global Advisors (SSGA) in London where he managed index funds across all regions, before finally returning to West Midlands where he has led the expansion of the Fund's in-house passive capability and overseen the transition of a number of externally managed active equity mandates.

Appendix 3 – Team biographies (continued)

West Midlands Pension Fund

Mike Hardwick – Head of Portfolio – Fixed Interest and Alternatives

Mike joined the West Midlands Pension Fund from an accounting background in July 1995 and has worked in a number of roles within the Fund, covering all asset classes in which the Fund invests.

Mike now heads up the Fixed Interest and Alternatives team but retains primary responsibility for the Fund's property and infrastructure investments.

Mike holds an MBA from the University of Warwick.

Mark Hodges – Head of Portfolio – Active Equity

Mark joined the Fund in September 2014 having spent most of his career at Fidelity as both an analyst and a fund manager. He is responsible for managing the Fund's in-house active global equity portfolio and for the oversight of the Fund's externally managed active equity portfolios.

Mark has an undergraduate degree in philosophy, politics and economics from Oxford University and an MSc in Investment Analysis from the University of Stirling. He has passed the IIMR exam which has since merged to become the CFA Society of the UK.

Agenda Item No: 10

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Asset allocation and investment monitoring performance Q1 – 1 January to 31 March 2017 West Midlands Integrated Transport Authority (WMITA) Pension Fund	
Originating service	Pension Services	
Accountable employee(s)	Jason Fletcher Tel Email	Chief Investment Officer 01902 555780 jason.fletcher@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The contents of the asset allocation and investment monitoring report for the period ended 31 March 2017.

1.0 Purpose

1.1 The asset allocation and investment monitoring report attached in Appendix A covers the performance of the WMITA Pension Fund and the implementation of its investment strategy for the period ended 31 March 2017.

2.0 Background

2.1 WMITA Pension Fund’s investment strategy is set out in its Investment Strategy Statement, which also contains the fund’s investment beliefs.

3.0 Review

3.1 In the quarter ended 31 March 2017, the fund achieved a return of 4.1% compared with a benchmark return of 3.5%. Outperformance was driven by Baillie Gifford, one of the Diversified Growth Fund (DGF) managers. Over the quarter, equities delivered a higher absolute return than Diversified Growth Funds, which in turn delivered a higher return than the defensive element (invested in gilts and bonds). The annual performance for the fund was 18.2% against a benchmark of 17.2% . Equities were the strongest performer over the 12 month period and the defensive element outperformed the Diversified Growth Funds.

3.2 The performance of the two employers’ segments reflect their respective strategic asset allocations to growth and defensive assets. The National Express portfolio delivered a return of 4.2% against a benchmark of 3.5% during the quarter with relative outperformance attributable to Baillie Gifford. Performance for the year was 16.5% against a benchmark of 15.8%. The Preston Bus portfolio achieved a quarterly return of 3.2% against a benchmark of 2.8%, the lower absolute return was due to a lower allocation to growth assets (equities and DGFs). Outperformance relative to the benchmark was lower in comparison with the National Express portfolio due to its lower exposure to the DGF’s. The annual performance for Preston Bus was 16.7% against a benchmark of 16.1%.

3.3 A rebalancing exercise was undertaken in February 2017 to align assets with the target allocations and also invest excess cash. This exercise resulted in a net disinvestment from L&G (£7.3m) and additional investment into the two diversified growth funds (£5.9m to Newton and £2.7m to Baillie Gifford).

4.0 Financial implications

4.1 The financial implications are set out throughout the report.

5.0 Legal implications

5.1 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no equal opportunities implications.

7.0 Environmental implications

7.1 This report contains no environmental implications.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 WMITA's Investment Startegy Statement.

10.2 WMITA's Funding Strategy Statement.

11.0 Schedule of appendices

11.1 Appendix A – Asset allocation and investment performance report quarter to 31 March 2017

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West Midlands Pension Fund

WEST MIDLANDS
COMBINED AUTHORITY

West Midlands Integrated Transport Authority

Asset allocation and investment performance report
Quarter to March 2017

Jason Fletcher – Chief Investment Officer

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West Midlands Pension Fund

WEST MIDLANDS
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Contacts

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Ann-Marie Patterson – Investment Analyst
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- *01902 552081*

Further information

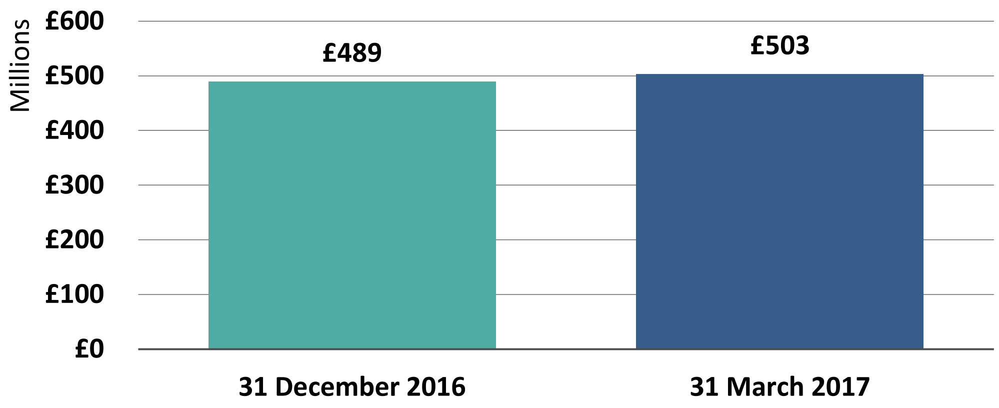
Our Fund's website

www.wmpfonline.com/wmita

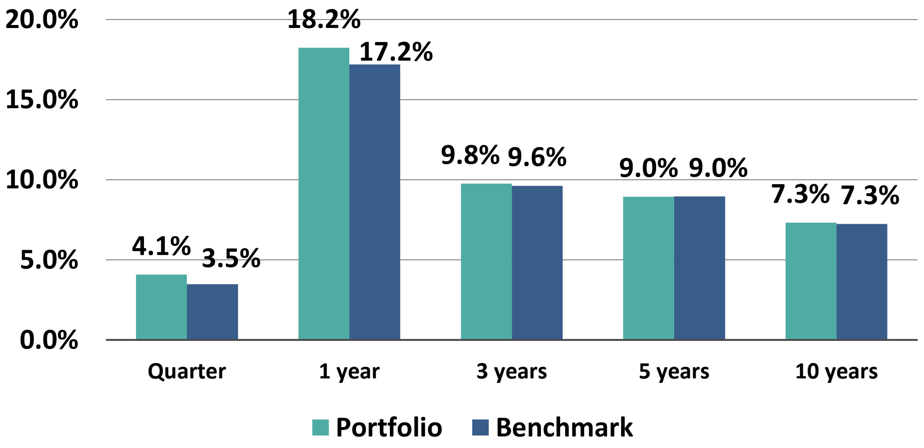
Please refer to the Fund's website for its Statement of Investment Principles

Executive Summary

Total market value (incl. Prudential Buy-in)



Gross total performance (excl. Prudential Buy-in)



Market summary

- Equity markets continued to make gains in the quarter with several leading indices reaching all-time highs
- Long-term government bond yields declined in the UK and US
- The Federal Reserve raised the US benchmark interest rate by 0.25%. The UK base rate remained at 0.25%
- Sterling strengthened as the US dollar weakened

Performance summary

- The fund outperformed its bespoke benchmark by 0.6% over the quarter driven by outperformance from the Diversified Growth Fund (DGF) portfolio.
- Absolute returns for all equity asset classes were positive during the quarter. Pacific ex Japan was the strongest performer.
- The fixed interest portfolio produced a positive absolute return and generally performed in line with the benchmark.
- Over the 12 month period the fund outperformed the benchmark by 1%, this was mainly due to the performance from the DGF's.

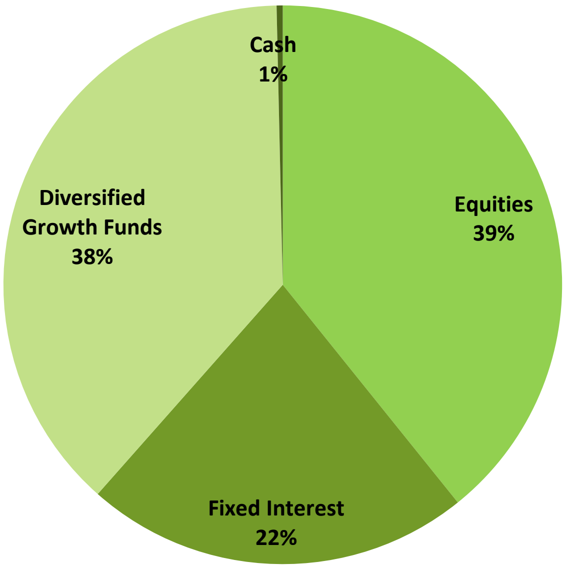
Executive Summary

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

Asset allocation (excluding Prudential buy-in)

Asset class		Value (£)	Fund allocation	Policy target	Difference
Equities	£	97,283,195	39.2%	38.4%	0.8%
Fixed Interest	£	55,330,779	22.3%	22.4%	-0.1%
Diversified Growth Funds	£	94,558,812	38.1%	38.6%	-0.5%
Cash	£	876,433	0.4%	0.6%	-0.2%
TOTAL	**£**	**248,049,219**	**100.0%**	**100.0%**	**0.0%**

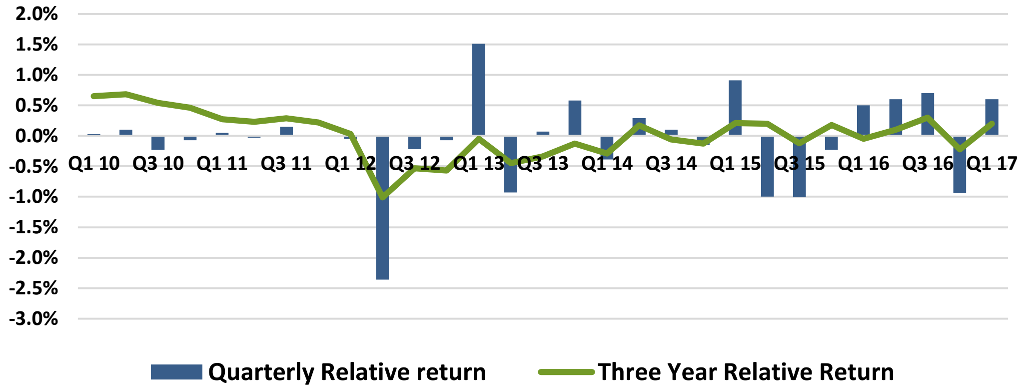


Please note that the above chart excludes the Prudential buy-in

Quarterly fund activity

- Rebalancing is considered when the cash balance exceeds £1 million and implemented when it exceeds £2 million. This trigger point was reached at the end of January 2017. Trading was done on 22 February 2017 to bring assets back to target allocations and invest excess cash.
- In addition there was the agreed monthly sale of units in UK Equities, Corporate Bonds and Index Linked gilts to meet the income distributions received from Legal & General.

Rolling relative quarterly performance history



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Main report

Objectives

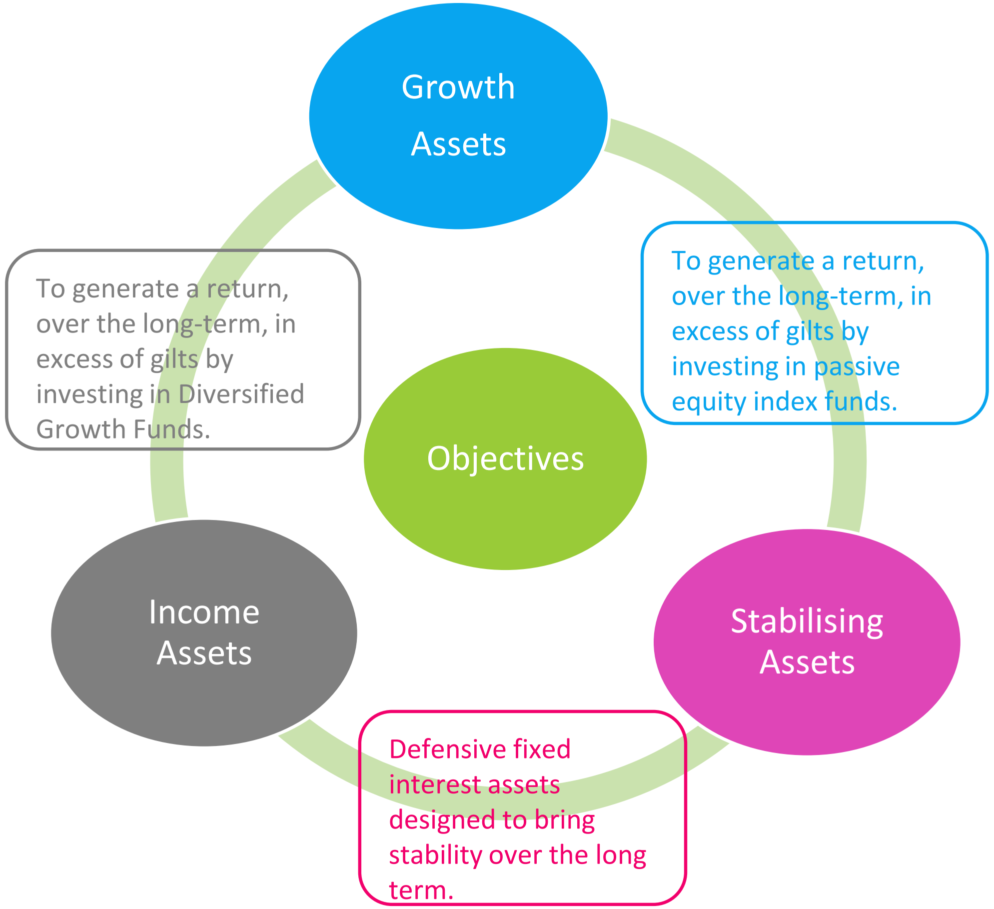
The primary objective of the Fund is to provide pension and lump-sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Authority aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases. In addition, the Fund has the following objectives:

- Have resources available to meet the Fund’s liabilities for pensions and other benefits provided when they fall due.
- Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.
- Emphasise markets that over time are likely to give better returns having regard to the risks relative to the maturity of the Fund’s liabilities.
- Acknowledge the risk of investing and have regard to best practice in managing that risk.

The Fund has used a buy-in and added stabilising assets to reduce the volatility and added diversified growth funds for diversification.

The key building blocks of the Fund’s Investment Strategy are shown below.



Fund values and allocation - Combined

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

Asset allocation[1]

Asset Class	Value (£)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
Equities – L&G	97,283,195	39.2%	38.4%	0.8%	-3.0%
Diversified Growth Funds (DGF's)	94,558,812	38.1%	38.6%	-0.5%	3.0%
Total Growth	191,842,007	77.3%	77.0%	0.3%	**0.0%**
Fixed interest – L&G	55,330,779	22.3%	22.4%	-0.1%	0.5%
Cash	876,433	0.4%	0.6%	-0.2%	-0.5%
Total Defensive	56,207,212	22.7%	23.0%	-0.3%	**0.0%**
Prudential Buy-In[2]	255,020,000				
TOTAL	503,069,219	**100.0%**	**100.0%**	0.0%	**0.0%**

[1] A detailed Fund asset allocation is shown in Appendix 1

[2] Prudential Buy-In value is as at 31 March 2017, this is valued once a year.

Allocation comment

- There was no change to strategic asset allocations in the quarter, any movement from target allocations was due to market movements.
- The markets have been strong for equities resulting in overweight positions in these asset classes despite a rebalancing in February.
- DGF's are currently under allocated due to performance lagging behind equity and, until recently, bond market performance. This quarter's dull performance from the bond market has resulted in Growth assets in general being overweight relative to target allocations.
- Both Growth and Defensive asset allocations are within the tolerance ranges shown below:

  Growth **73% - 79%**
  Defensive **21% - 27%**
- Cash is slightly under allocated as at 31st March 2017.
- A wider review of Cashflow requirements is being undertaken following the 2016 Actuarial Valuation, now a new contribution schedule has been agreed.

Fund values and allocation – NX and PB

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

NX[1]

Asset Class	Value (£)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
Equities – L&G	92,751,103	40.6%	40.0%	0.6%	-3.0%
Diversified Growth Funds (DGF's)	90,236,998	39.4%	40.0%	-0.6%	3.0%
Total Growth	182,988,101	80.0%	80.0%	0.0%	**0.0%**
Fixed interest – L&G	44,945,116	19.7%	19.4%	0.3%	0.6%
Cash	775,393	0.3%	0.6%	-0.3%	-0.6%
Total Defensive	45,720,509	20.0%	20.0%	0.0%	**0.0%**
TOTAL	228,708,610	**100.0%**	**100.0%**	0.0%	**0.0%**

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PBL[1]

Asset Class	Value (£)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
Equities – L&G	4,532,092	23.5%	22.5%	1.0%	-1.5%
Diversified Growth Funds (DGF's)	4,321,814	22.4%	22.5%	-0.1%	1.5%
Total Growth	8,853,906	45.9%	45.0%	0.9%	**0.0%**
Fixed interest – L&G	10,385,663	53.7%	54.4%	-0.7%	0.2%
Cash	101,040	0.4%	0.6%	-0.2%	-0.2%
Total Defensive	10,486,703	54.1%	55.0%	-0.9%	**0.0%**
TOTAL	19,340,609	**100.0%**	**100.0%**	0.0%	**0.0%**

[1] A detailed Fund asset allocation for NX and PBL is shown in Appendix 1

Market review

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Returns for Benchmark Indices as at 31 March 2017

Key: Growth Assets Defensive Assets

Equities

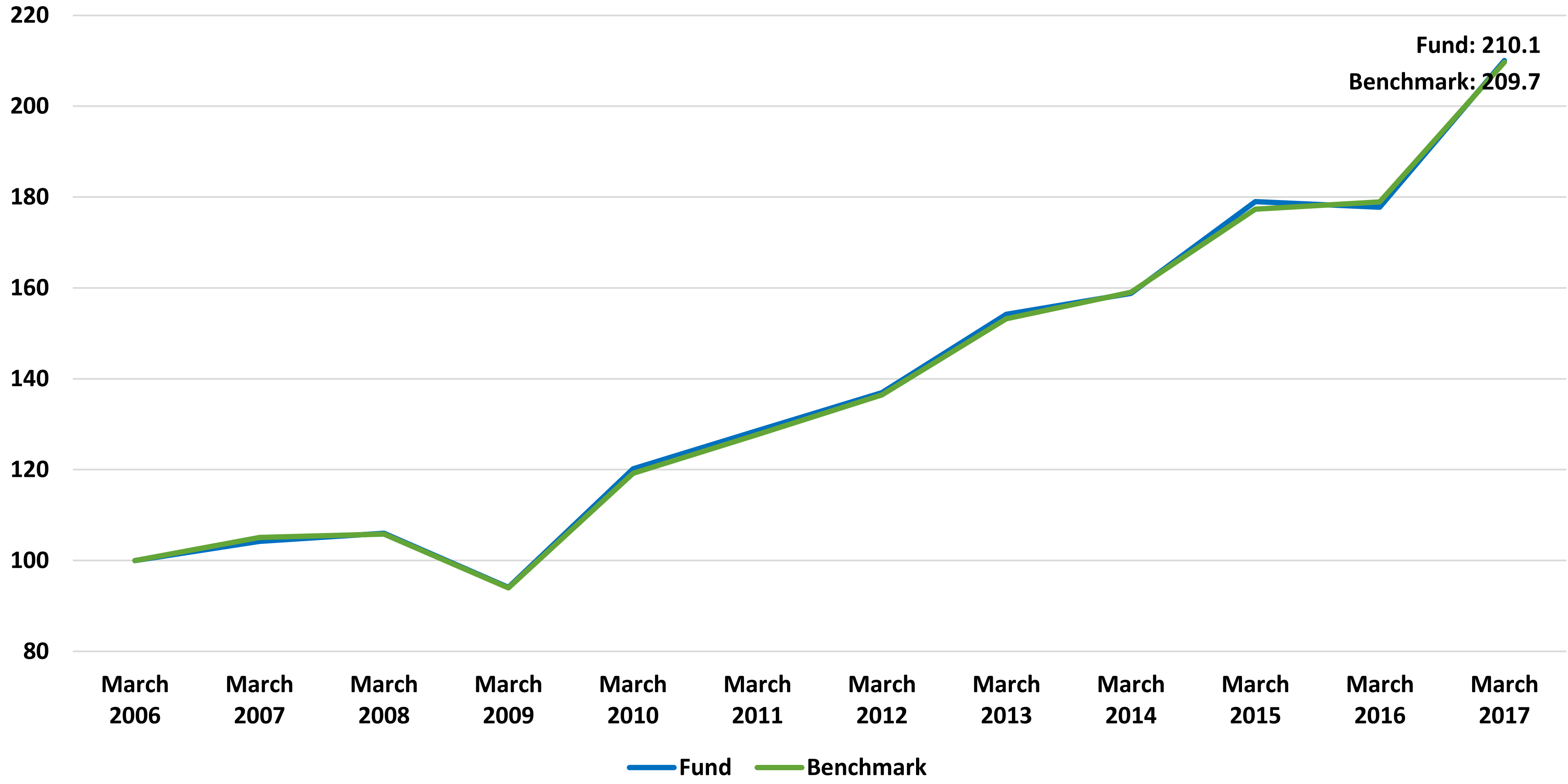
Equity markets continued to advance in the quarter with several leading indices reaching new highs. The UK market performed well on the strength of robust economic growth data while US equities benefitted from the anticipation of lower tax rates and higher government spending following the US election. European markets were buoyant amid speculation that the ECB might consider tighter monetary policy. Emerging markets enjoyed particularly strong performance supported by an upturn in global growth and reduced fears of protectionist US trade policy.

Fixed interest

The 10-year UK gilt yield decreased from 1.24% to 1.14% over the quarter as investors grew concerned over the potential for a 'hard' Brexit. The equivalent US yield fell from 2.44% to 2.39% on the prospect of tighter monetary policy. The Federal Reserve raised its benchmark interest rate by 0.25% on stronger economic growth and inflation data while UK interest rates were kept on hold at 0.25%. Sterling investment grade corporate bonds outperformed gilts despite credit spreads narrowing over the quarter.

Fund performance review

Long-term returns (rebased at 100 at 31 March 2017)



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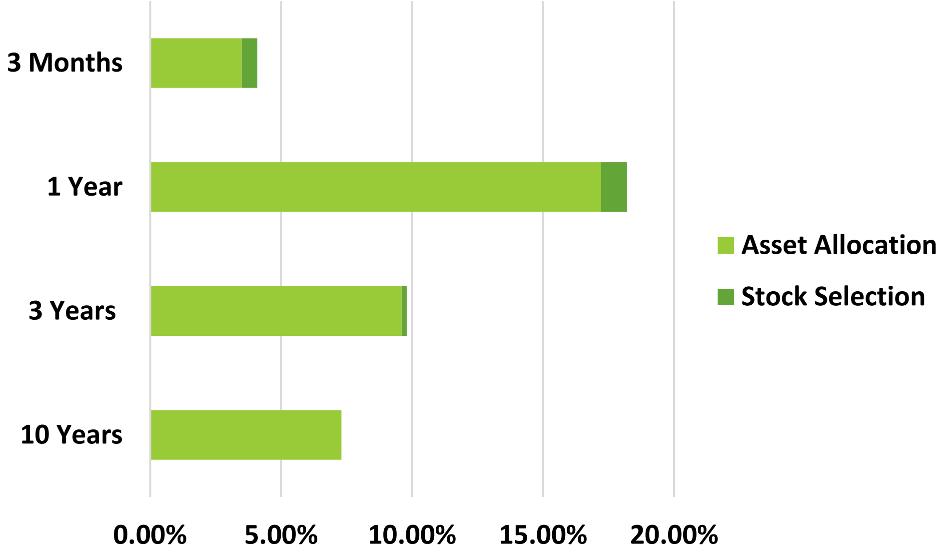
Fund performance review

Asset allocation / stock selection absolute performance attribution

Asset allocation – combined benchmark (beta) returns from each policy group
Stock selection – combined active (alpha) returns from each policy group



	Quarter to 31 March 2017	1 year	3 years p.a.	10 years p.a.
Asset allocation	3.50%	17.20%	9.60%	7.30%
Stock selection	0.60%	1.00%	0.20%	0.00%

Source: HSBC

Fund performance commentary

The Fund outperformed its benchmark during the quarter returning 4.1% against a benchmark return of 3.5%. This was due to positive relative returns from the Diversified Growth Funds.

The Fund outperformed its benchmark over the year to 31 March 2017 by 1.0%, returning 18.2% against the benchmark of 17.2%. The outperformance over the 12 month period was driven by one of the Fund's diversified growth funds, Baillie Gifford. However, this was partially offset by underperformance from the other diversified growth fund managed by Newton.

The Fund returned 9.8% p.a. for the three years to 31 March 2017 compared to the benchmark return of 9.6%. Due to the high allocation to passive investments within the portfolio, which successfully matched the benchmark, the slight outperformance was predominantly attributable to the diversified growth funds.

Impact of stock selection is approximated by relative performance of active managed funds, with asset allocation making up the balance.

Around 50% of the fund is passively managed with the remainder being actively managed through the Diversified Growth Funds and the corporate bond fund.

Fund performance

West Midlands Combined Authority

West Midlands Pension Fund

Combined Fund Absolute and Relative Performance

	Quarter to 31 Mar 2017	1 year	3 years p.a.	5 years p.a.	Quarter 1	1 year	3 years p.a.	5 years p.a.
Equities	6.70%	32.50%	14.50%	13.40%	0.70%	0.10%	0.20%	0.00%
Bonds	2.00%	14.50%	10.30%	8.70%	0.10%	0.00%	0.10%	0.50%
Diversified Growth Funds	2.50%	6.60%	4.50%	N/A	1.52%	2.50%	0.30%	0.00%
Total return	**4.10%**	**18.20%**	**9.80%**	**9.00%**	**0.60%**	**1.00%**	**0.20%**	**0.00%**

National Express Absolute and Relative Performance

	Absolute performance		Relative performance	
	Quarter to 31 Mar 2017	1 Year	Quarter to 31 Mar 2017	1 Year
Equities	6.70%	27.11%	0.10%	-0.04%
Bonds	2.00%	17.16%	0.10%	-0.15%
Diversified Growth Funds	2.50%	5.96%	1.50%	1.80%
Total return	**4.20%**	**16.54%**	**0.70%**	**0.74%**

Preston Bus Absolute and Relative Performance

	Absolute performance		Relative performance	
	Quarter to 31 Dec 2016	1 Year	Quarter to 31 Dec 2016	1 Year
Equities	6.80%	32.50%	0.20%	0.10%
Bonds	1.90%	14.60%	0.00%	0.00%
Diversified Growth Funds	2.50%	6.60%	1.50%	2.50%
Total return	**3.20%**	**16.70%**	**0.40%**	**0.60%**

Source: HSBC

Policy Group reports

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Equities

West Midlands Combined Authority | West Midlands Pension Fund

Equities policy group summary

- Equities form part of the Growth asset portfolio alongside the Diversified Growth Funds.
- All equities within the portfolio are passive investments managed by Legal & General designed to follow their individual benchmarks and tolerance ranges listed below:

Region	Benchmark	Tracking target
UK	FTSE All Share	+/- 0.25% p.a.
North America	FTSE World N America NetTax (UKPN)	+/- 0.5% p.a.
Europe	FTSE Dev Europe ex UK NetTax (UKPN	+/- 0.5% p.a.
Japan	FTSE Japan NetTax (UKPN)	+/- 0.5% p.a.
Pacific ex Japan	FTSE Dev Asia ex Japan NetTax (UKPN)	+/- 0.75% p.a.
Emerging Markets	FTSE Emerging NetTax (UKPN	+/- 1.75% p.a.

- There has been no change to asset allocation with market movements accounting for all changes since the last quarter. All sales and purchases in the quarter were part of a rebalancing exercise to bring assets back to target valuations.
- The managers have kept well within their tolerance ranges during the quarter.

Regional performance Combined Fund

	Value (£)	% Of Equity Portfolio	Absolute Performance: Quarter to 31 Mar 2017	Absolute Performance: 1 year	Absolute Performance: 3 years p.a.	Relative Performance: Quarter to 31 Mar 2017	Relative Performance: 1 year	Relative Performance: 3 years p.a.
UK	9,696,658	10.0%	4.40%	22.50%	7.90%	0.40%	0.50%	0.20%
North America	29,003,022	29.8%	5.00%	35.10%	20.60%	0.20%	0.10%	0.10%
Europe (ex-UK)	24,583,781	25.2%	7.40%	28.10%	9.70%	0.00%	-0.20%	-0.10%
Japan	9,322,998	9.6%	3.70%	33.00%	17.80%	0.10%	0.20%	0.00%
Pacific ex Japan	9,807,012	10.1%	11.90%	37.90%	13.00%	0.20%	0.50%	0.20%
Emerging Markets	14,869,724	15.3%	9.20%	36.10%	12.90%	0.30%	0.50%	0.00%
TOTAL	**97,283,195**	**100%**	**6.70%**	**32.50%**	**14.50%**	**0.70%**	**0.10%**	**0.20%**

Source: HSBC

- Global equity markets took higher US interest rates in their stride with only a modest market correction following the Federal Reserve's decision to raise rates in March.
- The Dow Jones index continued to rise to new all-time highs as lower tax rates and higher government spending was priced into the North American market following President Trump's election.
- The FTSE 100 also moved to all time highs. Consumer staples, telecoms and utilities fared well, partially due to them being 'bond proxies' in an environment where bond yields are in general declining. Energy and mining stocks were impacted by lower commodity prices. Mid-cap stock produced strong returns and the FTSE 250 index outperformed the FTSE 100.
- European stocks delivered solid gains with strong German economic growth and rising core inflation levels.
- Emerging markets were stand out performers following falling concerns over the geopolitical implications of a Trump presidency and a cyclical upturn in the Chinese economy.

Diversified Growth Funds (DGF'S)

West Midlands Combined Authority

West Midlands Pension Fund

DGF policy group summary

- The Diversified Growth Funds are located within the Growth portfolio and account for 40% of the total fund AUM (Excl Prudential Buy-in). There are 2 managers (Baillie Gifford and Newton) who split the allocation approximately evenly.

- This asset class is designed to create equity like returns but with lower volatility. In strong equity markets the DGF's performance is likely to lag behind but they should provide downside protection in less favourable market environments.

- The targets for the two funds are shown in the table below;

Region	Benchmark	Target return
Baillie Gifford	Diversified Growth Fund	Base Rate + 3.5%
Newton	Real Return Fund	LIBOR + 4.0%

- There has been no change to asset allocation with market movements accounting for all changes since the last quarter and the purchase of additional exposure to bring assets back to their target allocation.

- The managers have outperformed their target returns over all periods since inception. A long term analysis of the diversified growth performance can be found on page 20.

DGF performance Combined Fund

			Absolute Performance			Relative Performance		
	Value (£)	% Of DGF Portfolio	Quarter to 31 Mar 2017	1 year	3 years p.a.	Quarter to 31 Mar 2017	1 year	3 years p.a.
Baillie Gifford	47,280,913	50.0%	3.00%	11.00%	6.00%	2.07%	7.10%	2.00%
Newton	47,277,899	50.0%	1.90%	2.20%	N/A	0.86%	-2.16%	N/A
TOTAL	94,558,812	100%	2.50%	6.60%	4.50%	1.52%	2.50%	0.30%

**Baillie Gifford inception date 22 November 2012. *Newton inception date 23 October 2014 less than three years.*
Source: HSBC

Newton

Newton outperformed the target return for the quarter although it underperformed the target over the 12 month period. Equities were the strongest performers in the quarter. Equity protection was once again expensive and a negative contributor to returns. Gold and government bonds produced positive returns. Corporate bonds, exposure to Mexican government bonds and UK infrastructure were also positive contributors.

During the quarter the managers added to defensive equities, Mexican government bonds and emerging market equities. The managers trimmed the gold equity exposure and reinvested the proceeds in physical gold.

Baillie Gifford

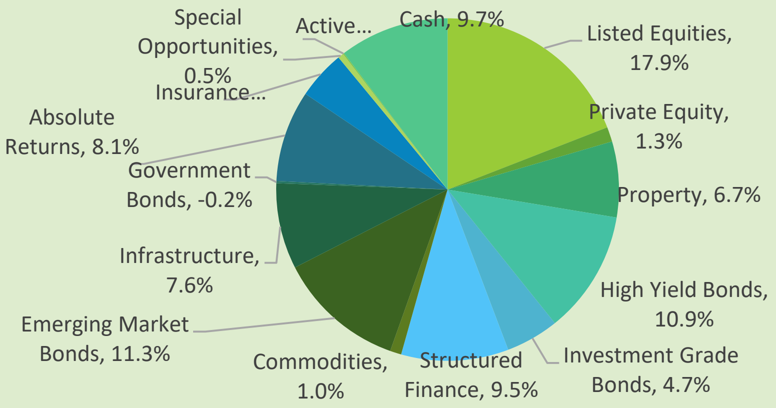
The main positive performances during the quarter came from the fund's listed equity and emerging market bond positions. Active currency was a small detractor to performance. Over the 12 month period the managers long US dollar position resulted in a positive active currency contribution. Listed equities were the main contributor to performance with high yield bonds also performing well. All asset classes over the 12 months produced positive contributions with the exception of a small negative contribution from Absolute Returns.

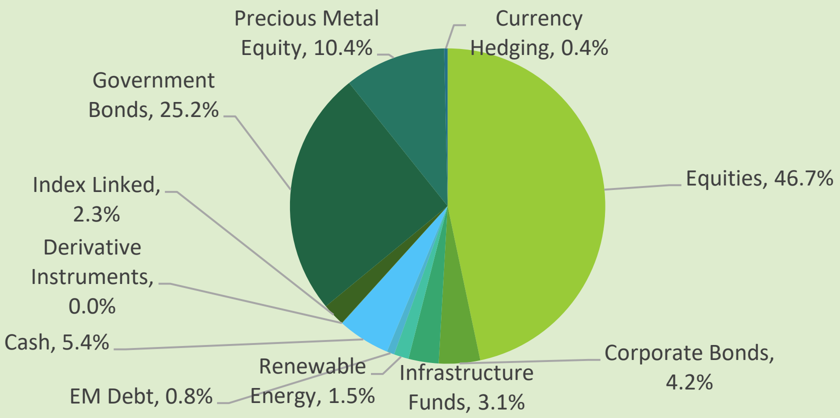
Over the quarter 2% was added to investment grade credit and a small addition was made to emerging markets hard currency bonds. Developed market government bonds were also added to in the form of US inflation linked bonds. Reductions were made to emerging market local currency, listed equities and high yield credit although all were relatively small adjustments.

(DGF) – underlying strategy

	Baillie Gifford	Newton (BNY Mellon Company)
Fund Launch	December 2008	March 2004
WMITA Investment	November 2012	October 2014
AUM	£6.4billion	£9.6 billion
Target Returns	LIBOR + 3.5% over a rolling 5 year period	LIBOR + 4% over a rolling 5 year period
Liquidity	Daily dealing. The fund is soft closed and will not accept new money except as part of clients rebalancing.	Daily dealing. Fund is open for business
leverage	None	None
Volatility	Aim to be less than 10% p.a.	Less than equities
Strategy	Baillie Gifford believe that diversity produces returns and helps protect against market volatility. The portfolio will include allocation to the majority of asset classes although the level of allocation can vary dependant on market conditions. The allocation to alternative asset classes is higher with Baillie Gifford than most of their competitors. In general their portfolio will be far more diversified than many of their peers as shown below. The managers invest in collective investment schemes (including their own specialist funds) as well as direct investments.	Newton seek to preserve capital through a mixture of security selection, diversification and simple hedging strategies. Diversification is seen as important within the portfolio but the managers have an unconstrained ability to move between the asset classes and can take allocations down to zero if they feel that the market environment demands it. Newton have a single portfolio of predominantly direct or liquid investments. They aim to return a performance that is somewhere between equities and bonds and as the chart below shows the meaningful allocations are between equities, bonds and gold.

Asset allocation as at 31 December 2016

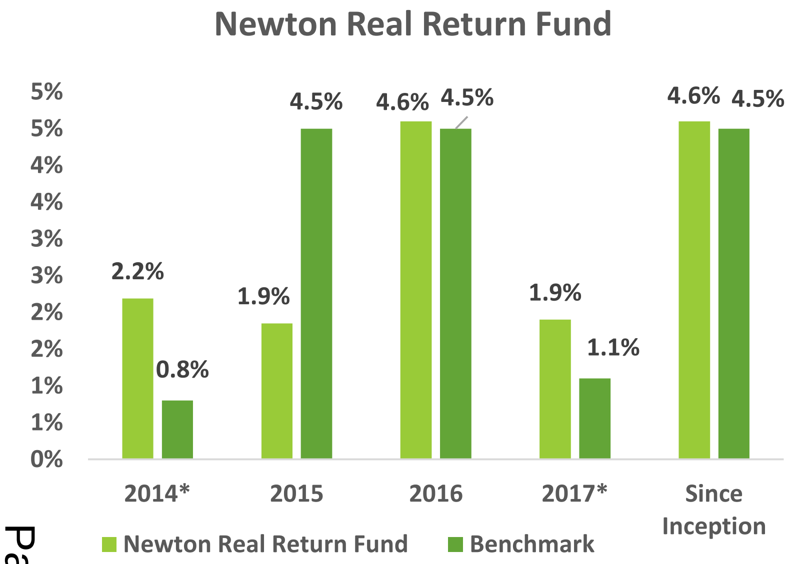




- In general both funds look to protect capital in negative markets, and with both some performance will be lost when markets are performing strongly leaving returns looking muted alongside market indices.
- Both funds use hedging and derivatives within the portfolios, usually for protection purposes.

Diversified Growth and Asset Comparisons

West Midlands Combined Authority
West Midlands Pension Fund



Source Newton
** 2014 and 2017 not full 12 months*
Since Inception figure is annualised

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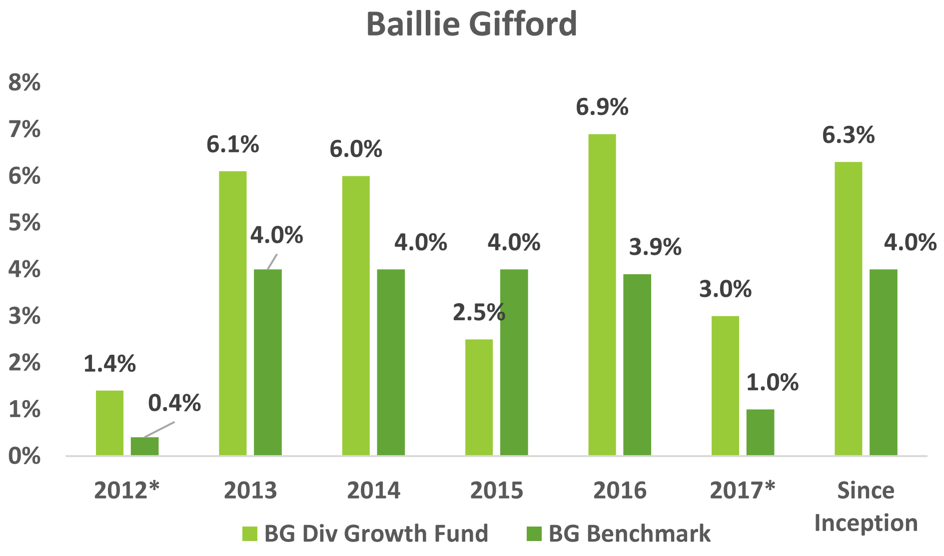
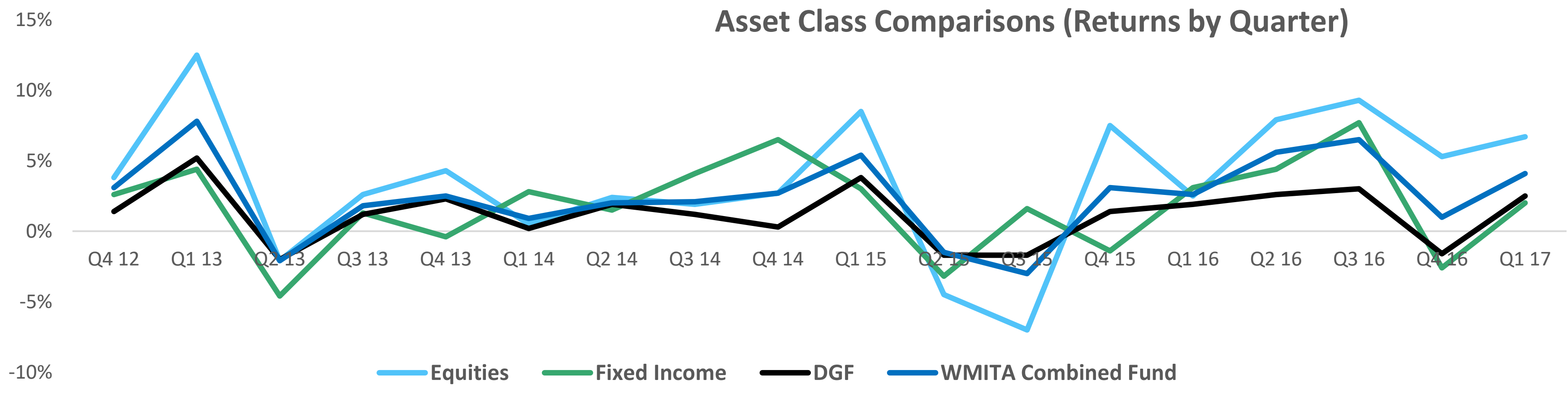
Newton
A relatively new investment (inception date October 2014). The managers have marginally outperformed the benchmark since inception. As the graph shows there has been a positive start to 2017 and 2015 was a difficult year for the managers.

Baillie Gifford
Inception date November 2012. As the graph shows the managers have outperformed the target returns since inception. Similar to Newton they have had a strong start to 2017 and outperformed every year with the exception of 2015.



Source Baillie Gifford
** 2014 and 2017 not full 12 months*
Since Inception figure is annualised



As the graph shows over the time period equities has been the more volatile asset class.

The diversified growth portfolio has been the most stable.

Performance figures taken from manager reports

Bonds

Bonds policy group summary

- The bond portfolio is a defensive portfolio consisting of Index Linked bonds, Corporate Bonds and Cash.
- The bond assets are managed by Legal & General and are divided between two funds:
- Index linked Bonds – a passive investment.
- Corporate Bonds – an active investment targeting 75bps above the benchmark over a 3 year time period.
- Benchmarks and tolerance ranges for the two funds are shown in the table below:

Region	Benchmark	Tracking target
Index Linked Bonds	FTSE A Index-Linked All Stocks	+/- 0.25% p.a.
Corporate Bonds	Markit iBoxx GBP Non-Gilts (All Stocks)	Active Fund.

Policy group activity

There has been no change to asset allocation during the quarter. The only purchases and sales have been to fund the nominal dividend distributions that are paid into the cash account monthly from L&G and trades completed to bring assets back to target allocations as part of the rebalancing exercise in February 2017.

Defensive Portfolio

	Value (£)	% Of Defensive Portfolio	Absolute Performance			Relative Performance		
			Quarter to 31 Mar 2017	1 year	3 years p.a.	Quarter to 31 Mar 2017	1 year	3 years p.a.
Index Linked Bonds	28,121,626	50.03%	1.90%	20.00%	13.10%	0.00%	0.10%	0.00%
Corporate Bonds	27,209,153	48.41%	2.00%	9.20%	7.60%	0.20%	0.00%	0.10%
Cash	876,433	1.56%	Working Capital			Working Capital		
TOTAL	**56,207,212**	**100%**	**2.00%**	**14.50%**	**10.30%**	**0.10%**	**0.00%**	**0.10%**

Source: HSBC

- **Index Linked -** The sector matched the benchmark during the quarter, returning 1.9%. Over the 12 month period the portfolio marginally outperformed the benchmark returning 20.0% against the benchmark return of 19.9%. The fund and index had a modified duration (i.e. sensitivity to interest rates) of 23.0 years and the real yield was -1.7%. The fund held all 28 stocks in the index.

- **Corporate Bonds -** The fund has outperformed the benchmark over the quarter (Markit iBoxx GBP Non-Gilts (All Stocks), although it has not reached its target returns (benchmark + 75bps). Financial and collaterised bonds in general fared well. Energy and Mining companies lagged on the back of lower commodity prices.

  The Corporate Bond portfolio is split as follows:

Non-Financials	Financials	Collateralised	Sovs/Sub-Sovs/Supra	Government Bonds	Cash
34.9%	27.2%	18.1%	8.2%	9.3%	2.3%

- **Cash –** as at 31st March 2017 £0.8m of the cash balance was invested in the AIM Deposit Account. This fund earned approximately £237 in interest over the quarter. Cash is slightly over allocated as at 31st December 2016. A rebalancing exercise was carried out February 2017. There is a wider review of Cashflow requirements currently being undertaken following the 2016 Actuarial Valuation and the updated contribution schedule.

Cash

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Cashflow (£)	
Cash balance 31 December 2016	1,987,883
<u>Inflows</u>	
Contributions	2,788,923
Pre-1986 transfer	884,215
Income from Prudential pensioner buy-in	4,218,597
L&G Income Distributions	364,750
L&G Net Redemption	7,300,000
Bank Interest	6,667
<u>Outflows</u>	
Pensions, Retirements etc.	(8,074,602)
Baillie Gifford Subscription	(2,700,000)
Newton Subscription	(5,900,000)
Net Oct - Dec inflow	(1,111,450)
Cash balance 31 March 2017	<u>876,433</u>

Cashflow Forecast (£)	
Cash balance 31 March 2017	876,433
<u>Inflows</u>	
Contributions	1,071,954
Pre-1986 transfer	447,723
Income from Prudential pensioner buy-in	4,125,297
L&G Income Distributions	380,000
L&G Index Linked Redemption	990,000
<u>Outflows</u>	
Pensions, Retirements etc.	(7,156,193)
Net Jan - Mar outflow	(141,218)
Estimated cash balance 31 March 2017	<u>735,214</u>

- Pre-1986 transfer - A regular transfer of monies WMCA has paid to the main fund which is then transferred to the ITA fund to cover actual pensions paid in respect of pension increase on pre-1986 pension elements, where the cost is met by WMCA.
- Unless separately identified in the table above cashflow excludes administration, management expenses and professional fees incurred during the quarter.
- External management fees (detailed in appendix 3), with the exception of Newton who deduct at source, are invoiced and paid by the WMCA who are reimbursed by the Fund every 6 months.
- The cashflow was negative during the quarter. As at 31 March 2017 there was £815,000 invested in the AIM Deposit Account. This accrued approximately £237 in interest over the quarter.

Appendices

Appendix 1 – Full Fund asset allocation
Appendix 2 – Risk management
Appendix 3 – External managers' fees

Appendix 1 – Current Fund position Combined Fund

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

Asset allocation – as at 31 March 2017

Asset class		Fund allocation %	Policy target %	Difference %	Change from Previous Quarter %
Equities – L&G					
UK	9,696,658	3.9%	3.9%	0.0%	0.1%
North America	29,003,022	11.7%	11.5%	0.2%	-1.5%
Europe (ex UK)	24,583,781	9.9%	9.6%	0.3%	-0.3%
Japan	9,322,998	3.7%	3.8%	-0.1%	-0.7%
Pacific (ex Japan)	9,807,012	4.0%	3.8%	0.2%	-0.2%
Emerging Markets	14,869,724	6.0%	5.8%	0.2%	-0.4%
Total equities	**97,283,195**	39.2%	38.4%	0.8%	-3.0%
Diversified Growth Funds (DGF's)					
Baillie Gifford	47,280,913	19.1%	19.3%	-0.2%	1.0%
Newton	47,277,899	19.0%	19.3%	-0.3%	2.0%
Total DGF's	**94,558,812**	38.1%	38.6%	-0.5%	3.0%
Total Growth	**191,842,007**	77.3%	77.0%	0.3%	0.0%
Fixed interest – L&G					
Index Linked Bonds	28,121,626	11.3%	10.9%	0.4%	-0.1%
Corporate Bonds	27,209,153	11.0%	11.5%	-0.5%	0.6%
Total fixed interest	**55,330,779**	22.3%	22.4%	-0.1%	0.5%
Cash	876,433	0.4%	0.6%	-0.2%	-0.5%
Total Cash	876,433	0.4%	0.6%	-0.2%	-0.5%
Total Defensive	**56,207,212**	22.7%	23.0%	-0.3%	0.0%
Prudential Buy-In	**255,020,000**				
TOTAL	**503,069,219**	**100.0%**	**100.0%**	0.0%	**0.0%**

Appendix 1 – Continued
Fund positions – NX and PBL (as at 31 March 2017)

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

NX

Asset class	Value (£)	Fund allocation %	Policy target %	Difference %
Equities – L&G				
UK	9,239,678	4.0%	4.0%	0.0%
North America	27,674,241	12.1%	12.0%	0.1%
Europe (ex UK)	23,445,910	10.3%	10.0%	0.3%
Japan	8,872,995	3.9%	4.0%	-0.1%
Pacific (ex Japan)	9,339,102	4.1%	4.0%	0.1%
Emerging Markets	14,179,177	6.2%	6.0%	0.2%
Total equities	**92,751,103**	40.6%	40.0%	0.6%
Diversified Growth Funds (DGF's)				
Baillie Gifford	45,097,135	19.7%	20.0%	-0.3%
Newton	45,139,863	19.7%	20.0%	-0.3%
Total DGF's	**90,236,998**	39.4%	40.0%	-0.6%
Total Growth	**182,988,101**	80.0%	80.0%	0.0%
Fixed interest – L&G				
Index Linked Bonds	23,048,200	10.1%	9.4%	0.7%
Corporate Bonds	21,896,916	9.6%	10.0%	-0.4%
Total fixed interest	**44,945,116**	19.7%	19.4%	0.3%
Cash				
Cash	775,393	0.3%	0.6%	-0.3%
Total Defensive	**45,720,509**	20.0%	20.0%	0.0%
TOTAL exc Buy In	**228,708,610**	100.0%	100.0%	0.0%

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PBL

Asset class	Value (£)	Fund allocation %	Policy target %	Difference %
Equities – L&G				
UK	456,980	2.4%	2.3%	0.1%
North America	1,328,782	6.9%	6.6%	0.3%
Europe (ex UK)	1,137,870	5.9%	5.6%	0.3%
Japan	450,002	2.3%	2.3%	0.0%
Pacific (ex Japan)	467,911	2.4%	2.3%	0.1%
Emerging Markets	690,547	3.6%	3.4%	0.2%
Total equities	**4,532,092**	23.5%	22.5%	1.0%
Diversified Growth Funds (DGF's)				
Baillie Gifford	2,183,778	11.3%	11.3%	0.0%
Newton	2,138,036	11.1%	11.2%	-0.1%
Total DGF's	**4,321,814**	22.4%	22.5%	-0.1%
Total Growth	**8,853,906**	45.9%	45.0%	0.9%
Fixed interest – L&G				
Index Linked Bonds	5,073,426	26.2%	27.0%	-0.8%
Corporate Bonds	5,312,237	27.5%	27.4%	0.1%
Total fixed interest	**10,385,663**	53.7%	54.4%	-0.7%
Cash				
Cash	101,040	0.4%	0.6%	-0.2%
Total Defensive	**10,486,703**	54.1%	55.0%	-0.9%
TOTAL	**19,340,609**	100.0%	100.0%	0.0%

Appendix 2 – Risk management

Risk

There are various risks to which any pension scheme is exposed. The Authority has considered the following risks and believes that they do not exceed an acceptable level:

I. The risk of a deterioration in the funding level of the Fund due to investment markets not performing as forecast. The diversification of the investments balances this risk against the objective of seeking the better performing markets in which there is relatively good liquidity.

II. The risk that the investment managers, in their day-to-day management of the assets, will not achieve the rate of investment return expected by the Authority. The Authority recognises that the use of active investment managers involves such a risk. To limit their exposure to the risk of significantly underperforming, the Authority invests the Fund's investments in highly diversified core holdings, a mixture of equities, bonds and diversified growth funds producing a high level of probability of achieving near market rates of return at a relatively low cost. The Fund is also invested in actively managed non-government fixed interest arrangements.

III. Any investment decision carries with it risks of different types (for example, risk of underperformance, risk from mismatching, risk from underfunding etc). The Authority recognises these different types of risk and seeks to minimise them as far as possible by regular monitoring of the performance of the fund managers, seeking advice from the actuary on the suitability of the assets with regard to the Fund's liabilities, regularly receiving advice from a range of professional advisors and ensuring that the Fund's portfolio is suitably diversified.

IV. During 2012, the Fund arranged an insurance 'buy-in' of part of the current liabilities for pensions in payment to more effectively manage the investment, interest and longevity risks.

V. A review of the investment risk and strategy was undertaken in conjunction with 2016 Actuarial Valuation.

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Agenda Item No: 11

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Annual Report and Accounts 2016/17	
Originating service	Pension Services	
Accountable employee(s)	David Kane Tel Email	Head of Finance 01902 554423 david.kane@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 rachel.brothwood@wolverhampton.gov.uk

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Recommendation for action or decision:

The Committee is recommended to approve:

1. The draft annual report and accounts for the year ending 31 March 2017.

Recommendations for noting:

The Committee is recommended to note:

1 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.

2. The draft accounts have been certified by the Section 151 Officers as required by regulations.

3. The draft annual report and accounts for West Midlands Pension Fund will 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.

4. The audit of the accounts for the West Midlands ITA Pension Fund is nearing completion, and the auditors anticipate issuing an unqualified opinion.

1.0 Purpose

1.1 The purpose of this report is to seek the Committee's approval of the draft annual report for the year ending 31 March 2017, and to inform Committee of the outturn against operating budgets and performance against key performance indicators (KPIs) for the year.

2.0 Background

2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce an annual report and statement of accounts. These must be subject to external audit, and published no later than 30 September (accounts) and 1 December (annual report).

2.2 In preparing their annual report and accounts, funds must have regard to proper practice, and to any guidance which has the effective standing of 'statutory guidance'. These are:

- for the statement of accounts, 'The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17' (CIPFA) ('the Code');
- for the annual report, 'Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds' (CIPFA).

2.3 As well as being published in the Fund's own annual report, its accounts must be included in the statement of accounts of the Administering Authority (in this case, the City of Wolverhampton Council or West Midlands Combined Authority). It is important to note that the transactions and balances of the funds are completely separate and not combined with those of the Administering Authority.

2.4 The draft accounts are required to be certified by the Section 151 Officer on or before 30 June following the year-end. This certification was given by the City of Wolverhampton Council's Chief Accountant on 26 May 2017, and by the Combined Authority's Interim Finance Director on 26 May 2017.

2.5 The Committee will receive a further report in September, which will present the final version of the annual report and accounts for publication, and the findings of the external auditor's work, including their audit opinion. Under the City of Wolverhampton Council's constitution, formal approval of the audited statement of accounts rests with its Audit Committee; this does not apply to the other parts of the annual report, which will be presented to Pensions Committee for approval.

2.6 The KPIs and operating budgets for the year to 31 March 2017 were approved by the Committee on 16th March 2016 as part of the Service Plan 2016-2021, a full copy of which can be found on the Fund's website: www.wmpfonline.com.

3.0 Accounts Closure and Preparation of the Annual Report

3.1 Despite challenging deadlines and a number of conflicting pressures, the Fund has succeeded in preparing its draft annual report and accounts well ahead of the statutory deadline. This is due to careful planning, resource management and close monitoring.

3.2 A combined annual report has been prepared which contains the reports and accounts for both West Midlands Pension Fund and the ITA Pension Fund in the same document.

3.3 With effect from 2017/18, the accounts closure timetable will be brought forward significantly, with certification of draft accounts required by the end of May, and the audited accounts to be published by the end of July. The Fund is well-positioned to make the transition to these timescales, having achieved the end of May deadline for the last three years.

4.0 Draft Annual Report 2016/17

4.1 The draft Annual Report can be found on the Fund's website, www.wmpfonline.com, and a copy will be made available at the Committee meeting. The Fund has prepared a single Annual Report that includes both the main Fund and the ITA fund. The contents of the annual report are as follows:

- Introduction
- Management and Financial Performance
- Investment Policy and Performance
- Scheme Administration Report
- Actuarial Report
- Governance Arrangements
- Statement of Accounts
- Pensions Administration Strategy
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy Statement
- Further Information

4.2 The annual report provides a thorough review of the Fund's activities during the year, and notes some particular successes, including:

- Reducing the cost of administration, oversight and governance per member from £17.72 to £17.64;
- Achieving a return on investments (main fund) of 22.6%, compared to a benchmark of 21.8%;
- Streamlining portfolio management arrangements, resulting in savings on investment management fees;
- Working with the Fund's investment pooling partners to develop LGPS Central;
- Playing a key role, both through the Local Authority Pension Fund Forum (LAPFF), and the United Nations Principles for Responsible Investment (PRI), in advancing the responsible investment agenda;
- Achieving awards for our work in investments and governance.
- Continuing to develop the Fund's electronic business model, including a rise in the number of members registered with the web portal to over 46,000.

5.0 Draft Statement of Accounts 2016/17

5.1 The purpose of the statement of accounts is to report the Fund's financial performance for the year, and its balances and reserves at the year-end. There are two primary statements: the Fund Account, which is concerned with transactions during the year, and the Net Assets Statement, which reports balances at the year-end. These are supplemented by a series of notes to the accounts, which expand on items in the primary statements, or provide further information about the Fund.

5.2 During 2016/17, the main Fund grew in value by £2.6 billion. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Net contributions receivable/pensions payable	13.2
Investment income receivable	205.8
Net gains in the value of investment assets	2,496.8
Sub Total Net Increases	**2,715.8**
Net transfer of members out of the Fund	(11.1)
Management expenses charged to the Fund	(71.0)
Sub Total Net Decreases	**(82.1)**
Total Increase in the Fund	**2,633.7**

5.3 It is worth noting that the balance of contributions and benefits continued to be positive in 2016/17 – the £13.2 million shown in the table above – although this margin equates to only 2.5% of total benefits. The figure for contributions receivable also includes £31.9 million of early retirement contributions from employers, reflecting the additional contributions received as a result of employer staffing decisions during the year. It is likely that this margin will decrease and reverse in future years as the number of pensioners continues to rise more quickly than the number of active members.

5.4 Net assets of the main Fund at 31st March 2017 stood at £14.3 billion, up from £11.7 billion at 31st March 2016. This comprised investment assets of £14.3 billion, and working balances of £41.7 million.

5.5 The Fund has taken the option under the Code to disclose the present value of all fund employer pension liabilities in a note to the accounts. This value, calculated on an IAS 19 basis, stood at £22.2 billion at 31st March 2017. This is an increase on the 31st March 2016 figure of £16.8 billion, primarily due to a decrease in the discount rate used in calculating the liabilities (driven by falling corporate bond yields during the year), along with other changes in actuarial assumptions.

5.6 The ITA Fund increased in value by £42.0 million. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Investment Income	18.3
Net gains in the value of investment assets	41.3
Sub Total Net Increases	**59.6**
Net transfer of members out of the Fund	(0.1)
Net contributions receivable/pensions payable	(16.6)
Management expenses charged to the Fund	(0.9)
Sub Total Net Decreases	**(17.6)**
Total Increase in the Fund	**42.0**

5.7 Benefits payable exceeded contributions receivable by a significant margin, reflecting the greater maturity of the ITA Fund, and the fact that it is a closed fund.

5.8 Net assets of the ITA Fund at 31st March 2017 stood at £502.8 million, up from £460.9 million at 31st March 2016. This comprised investment assets of £502.2 million, and working balances of £0.6 million.

6.0 Outturn against Operating Budget 2016/17

6.1 The following table sets out the outturn for the year, compared with the Fund's operating budget. The overall position was a saving of £10.4 million against budget.

	2016/17 Budget £000	2016/17 Actual £000	2016/17 Variance £000
Employees	5,405	4,759	(646)
Premises	294	283	(11)
Transport	48	45	(3)
Communications and Computing	610	478	(132)
Professional Fees	1,823	1,437	(386)
Other Supplies and Services	591	447	(144)
Support Services	515	523	8
Miscellaneous Income	(5)	(426)	(421)
Sub Total	**9,281**	**7,546**	**(1,735)**
External Investment Management Fees	72,800	64,146	(8,654)
Total	**82,081**	**71,692**	**(10,389)**
Funded by:			
West Midlands Pension Fund	81,331	70,896	(10,435)
West Midlands ITA Pension Fund	750	796	46
Net Budget	**82,081**	**71,692**	**(10,389)**

6.2 The main reason for the variance is a saving of £8.7 million on external investment management fees, reflecting some of the portfolio restructuring that has taken place during the year. In addition, there were savings of £1.7 million across other operating budgets, of which £512,000 arose on staffing budgets due to vacancies during the year. The following table sets out in full the reasons for the variance from budget.

Reason for Variance	2016/17 Variance £000
Staffing Vacancies	(512)
Income from Fees and Charges	(266)
Professional Fees	(542)
Training Budget	(134)
Expenditure on Computer Equipment and Licences	(144)
Other Net Variances Across Premises, Travel and Supplies and Services Budgets	(137)
Sub Total Before Investment Management Fees	**(1,735)**
Investment Management Fees	(8,654)
Total	**(10,389)**

6.3 Cost-per-member is a critical measure for the Fund of its cost-effectiveness, particularly for benchmarking with other funds. The table below sets out the implications of the above for cost-per-member figures, in the new three-category format required by CIPFA guidance (these are stated as for West Midlands Pension Fund, after taking account of the £150,000 recharge and external manager fees of £646,000 for the ITA Fund).

	2015/16 Actual	2016/17 Budget	2016/17 Outturn
Total Administration Costs (£000)	3,310	4,186	3,303
Administration Cost per Member (£)	11.50	14.58	10.93
Total Oversight and Governance Costs (£000)	1,792	2,580	2,027
Oversight and Governance Cost per Member (£)	6.22	8.98	6.71
Total Administration, Oversight and Governance Cost per Member (£)	**17.72**	**23.56**	**17.64**
Total Investment Management Costs (£000)	69,814	74,566	65,717
Investment Management Cost as Percentage of Investment Assets	0.60%	0.53%	0.46%

6.4 CIPFA guidance, introduced in 2014 and updated in 2016, requires the disclosure of all investment management costs, including fees which are deducted at source by external investment managers. The following table analyses the total investment management costs reported above:

	Budget 2016/17 £000	Outturn 2016/17 £000
External Investment Management Costs – Invoiced	7,500	6,142
External Investment Management Costs – Deducted at Source	64,700	57,358
Total External Investment Management Costs	**72,200**	**63,500**
Internal Investment Management Costs	2,366	2,217
Total Investment Management Costs	**74,566**	**65,717**

7.0 The Fund's Performance Against Key Performance Indicators 2016/17

7.1 Appendix 1 sets out the Fund's performance against its KPIs for 2016/17. Performance against targets for issuing retirement quotations to members was impacted in the first few months of the year by late notification of statutory increase factors and the guidance from DCLG on the implementation of these. This affected the calculation of benefits for members retiring having left service in the year to 31 March 2016.

7.2 In later months, performance against this measure improved significantly (80.8% for the period October to March), and this is expected to continue into 2017/18. Changes to other calculation factors and methodology did also, however, impact other areas (mainly transfer quotations). The pension administration system has been updated and work was undertaken to address outstanding cases. The impact on performance will continue to be monitored closely.

7.3 Transfer out quotations and notification of benefits payments on death were also impacted by the above issues during part of the year, but improvements in those were seen during the latter part of the year.

8.0 LGPS Central Set-Up Costs

8.1 During the year, the Fund incurred costs on the set-up of LGPS Central Limited. These costs are being shared, on an equal-eighths basis, with the other seven partner funds. The total implementation budget (to April 2018) is approximately £4 million, of which £757,000 has been incurred in the year ending 31st March 2017.

8.2 West Midlands' share of this spend to 31st March 2017 is £95,000, and its share of the total budget is £500,000. This expenditure has been capitalised as investment in the company, and therefore has not impacted on the operating budget. No costs are chargeable to the ITA Fund, as it will not be a share-holder. The following table shows total spend to date, and forecast to 31st March 2018.

8.3 Strong budget management arrangements are in place, including three-weekly reporting to the LGPS Central Programme Board. The forecast budget requirement is kept under continuous review, with any changes requiring the approval of the Board.

9.0 Financial implications

9.1 The financial implications are discussed in the body of the report.

10.0 Legal implications

10.1 The Statement of Accounts of the Administering Authority (of which the Fund's accounts form part) must be prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2015. The audit of the financial statements will be undertaken in accordance with the statutory framework established by sections 3 and 20 of the Local Audit and Accountability Act 2014.

11.0 Equalities implications

11.1 This report has no equalities implications.

12.0 Environmental implications

12.1 This report has no environmental implications.

13.0 Human resources implications

13.1 The report has no human resources implications.

14.0 Corporate landlord implications

14.1 This report has no corporate landlord implications.

15.0 Schedule of background papers

- Service Plan 2016-21, Report to Pensions Committee, 16th March 2016

16.0 Schedule of Appendices

16.2 Appendix 1 – KPI Monitoring

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Objective Reference	No	Freq	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/ Deterioration
D	1		**IMPROVE FUNDING LEVEL**							
		A	Funding level to increase from current levels of 70%	>70%	GD	81.0%	31/03/16	75.0%	31/03/13	6.0%
C	2		**TRANSFERS IN**							
		M	Transfer in quotations processed within 10 days of receiving all the required information	90%	RB	87.6%	Apr 16 - Mar 17	94.7%	Apr 16 - Dec 16	-7.1%
			Transfer notification of transferred in membership to be notified to the scheme member within 10 days of receiving payment	90%		87.7%		85.3%		2.4%
			TRANSFERS OUT							
		M	Transfer out quotations processed within 20 days	90%	RB	54.0%	Apr 16 - Mar 17	43.6%	Apr 16 - Dec 16	10.4%
			Transfer out payments processed within 10 days	90%		82.3%		74.2%		8.1%
			RETIREMENTS							
		M	Retirement options to members within 15 days	90%	RB	41.1%	Apr 16 - Mar 17	37.1%	Apr 16 - Dec 16	4.0%
			Notification of the actual retirement benefits will be issued to the scheme member within 5 days following receipt of the required information.	90%		97.2%		97.2%		0.0%
			New retirement benefits processed for payment following receipt of election within 5 days	90%		94.6%		94.3%		0.3%
			DEFERRED RETIREMENTS							
		M	Retirement options to members within 15 days	90%	RB	85.1%	Apr 16 - Mar 17	83.1%	Apr 16 - Dec 16	2.0%
			Notification of the actual retirement benefits will be issued to the scheme member within 5 days following receipt of the required information.	90%		96.0%		96.2%		-0.2%
			New retirement benefits processed for payment following receipt of election within 5 days	90%		93.3%		92.3%		1.0%
			DEATHS							
		M	Acknowledgement of a death within 5 days of receiving the notification.	90%	RB	93.5%	Apr 16 - Mar 17	92.3%	Apr 16 - Dec 16	1.2%
			Notification of benefits payable to dependents will be issued within 5 days of receiving the required information	90%		66.2%		55.0%		11.2%
			Payment of death lump sum will be made within 10 days of receipt of all the required information.	90%		98.9%		98.8%		0.1%
A	3		**EMPLOYER AND MEMBER SERVICE - CALLS**							
		M	85% of calls received to the customer helpline to be answered.	85%	ST	87.5%	Apr 16 - Mar 17	87.7%	Apr 16 - Dec 16	-0.2%
		M	85% of calls received to the employer helpline to be answered.	85%	ST	95.3%	Apr 16 - Mar 17	95.8%	Apr 16 - Dec 16	-0.5%
C	4		**CUSTOMER SATISFACTION/SURVEY**							
		Q	Overall **member** satisfaction score for employers to be 85%.	85%	RB	99.9%	Apr 16 - Mar 17	99.9%	Apr 16 - Dec 16	0.0%
		Q	Overall **employer** satisfaction score for employers to be 90%.	90%	RB	97.0%	Apr 16 - Mar 17	97.9%	Apr 16 - Dec 16	-0.9%
			INVESTMENT RETURNS/OVERALL FUND PERFORMANCE							
B	5	M	Returns to be 0.5% above the benchmark (3 Yr Rolling) (West Midlands Pension Fund)	VARIANCE +/- 1%	GD/ Heads of Port-folios	BENCHMARK 10.90% ACTUAL 13.00% RELATIVE 2.10%	Mar-17	BENCHMARK 9.87% ACTUAL 11.97% RELATIVE 2.10%	Dec-16	0.00%
B	5	M	Returns to match the benchmark (3 Yr Rolling) (ITA Fund)	VARIANCE + 0%	GD/ Heads of Port-folios	BENCHMARK 9.63% ACTUAL 9.76% RELATIVE 0.13%	Mar-17	BENCHMARK 8.84% ACTUAL 8.62% RELATIVE -0.22%	Dec-16	0.35%
			BENEFIT STATEMENTS							
			ABS issued to 90% of eligible active members by 31st August 2016	90%		82.0%	Aug-16	81.0%	Oct-15	1.0%

Objective Reference	No	Freq	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/ Deterioration
C	6	A	DBS issued to 85% of eligible deferred members by 31st August 2016	85%	RB	99.0%	Aug-16	98.0%	Jul-15	1.0%
			CONTRIBUTIONS RECEIVED							
A	7	M	**Main Fund** 98% (total value) of contributions to be received by the due date.	98%	DK	98.2%	Mar-17	98.6%	Dec-16	-0.5%
			Travel Fund 98% (total value) of contributions to be received by the due date.	98%		99.7%	Mar-17	99.6%	Dec-16	0.1%
			CLEAN AUDIT REPORT							
A	8	A	Receive an unqualified audit opinion from the Main Funds external auditors	Clean Report	DK	Yes	Year to 31/03/2016	Yes	Year to 31/03/2015	
			Annual audit returns no significant findings	0 significant findings		0		0		0
			Receive an unqualified audit opinion from the Travel Funds external auditors	Clean Report		Yes	Year to 31/03/2016	Yes	Year to 31/03/2015	
			Annual audit returns no significant findings	0 significant findings		0		0		0
			EXTERNAL ACCREDITATION							
A	9	M	The Fund to be shortlisted for 75% of the awards in which it is entered	75%	RH	Applications 10 No. Pending 1 No. Shortlisted 9 Percentage Shortlisted 100%	Apr 16 - Mar 17	Applications 10 No. Pending 1 No. Shortlisted 9 Percentage Shortlisted 100%	Apr 16 - Dec 16	0.0%
		M	Retain CSE, IIP and CIPFA Governance accreditations	100%	RH	100%	Apr 16 - Mar 17	100%	Apr 16 - Dec 16	0.0%
A			**SICKNESS ABSENCE**							
	10	M	Average number of days lost to sickness per FTE member of staff. Sickness absence to be under 6 days per annum per member of staff.	6 days	ALL	7.2	Apr 16 - Mar 17	6.3	Apr 16 - Dec 16 (Projection)	0.9
			COST PER MEMBER							
A	11	Q	Administration and governance cost per member.	£22	ALL	£17.64	Mar 17	£20.31	Dec 16 (Forecast)	-£2.67
			TRAINING HOURS							
A	12	Q	Average CPD per Fund employee to be 22 hours or more per year.	22 hours	ALL	40.1	Apr 16 - Mar 17	38.7	Apr 16 - Dec 16 (Projection)	1.4
			DATA QUALITY							
A	13	Q	Invalid or temporary NI number	<1%		0.34%	Nov-16	0.28%	May-16	0.06%
			Member has no address	<5%		2.04%		1.12%		0.92%
			Member is active but has not received contributions for 12 months	<1%		N/A		N/A		N/A
			Non Active member with missing date of leaving	<1%		0.01%		0.04%		-0.03%
			Active Member has no earnings in last 12 months	<1%		5.45%		N/A		N/A
			No entries in basic/pensionable/other salary	<1%		1.29%		1.24%		0.05%
			Member has no Contribution History	<5%		5.08%		5.68%		-0.60%
			TRUSTEE TRAINING AND PENSIONS BOARD							
A	14	M	Satisfaction rate from feedback of trustee training/pension board events to be 90%.	90%	RH	97.6%	Apr 16 - Mar 17	97.3%	Apr 16 - Dec 16	0.3%
			Attendance rate of trustees/board members at training events.	85%		73.3%	Apr 16 - Mar 17	69.5%	Apr 16 - Dec 16	3.8%
			Amount of training provided to trustees/board members during the year.	22 hours		67.5	Apr 16 - Mar 17	48.5	Apr 16 - Dec 16	19.0
			STAFF TURNOVER							
A	16	M	Staff turnover to be between 5-10% in a financial year	5% - 10%	RH	18.9%	Apr 16 - Mar 17	19.4%	Apr 16 - Dec 16	-0.5%
			AVAILABILITY OF ONLINE SERVICES							
A	17	M	Website and web portal to be available 95% of the time (based on working hours as monitored)	95%	RH	98.0%	Apr 16 - Mar 17	97.9%	Apr 16 - Dec 16	0.1%
		M	Number of occurrences web portal is unavailable	Fewer than 10 per month		4.8	Apr 16 - Mar 17	5.1	Apr 16 - Dec 16	-0.4

Appendix 1

Objective Reference	No	Freq	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/ Deterioration
		M	Number of members predicted to be registered on web portal by 31 March 2016	75,000		46,793	Mar-17	45,916	Dec-16	877
A	18	QUARTERLY ACCOUNTS								
		Q	Days taken to prepare quarterly accounts	20 days	DK	19.5 days	Dec-16	20.5 days	Sep-16	-1.0
A	19	QUALIFICATIONS								
		Q	At least 75% of staff to hold a relevant qualification	75%	ALL	63.4%	Mar-17	65.5%	Dec-16	-2.1%
A	20	COMPLAINTS MONITORING								
		M	All complaints to be completed within 20 working days of receipt	100%	RH	96.4%	Apr 16 - Mar 17	95.1%	Apr 16 - Dec 16	1.3%

OBJECTIVES KEY	
A	To be a leading performer in the LGPS sector
B	To achieve target investment returns
C	To provide excellent customer service
D	To ensure the solvency of the Fund and its ability to pay pensions

FREQUENCY KEY	
A	Annual
Q	Quarterly
M	Monthly

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Agenda Item No: 12

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Internal Audit Report 2016 - 2017
Originating service	Pensions

Accountable employee(s)	Amanda McDonald	Client Lead Auditor
	Tel	01902 550411
	Email	Amanda.mcdonald@wolverhampton.gov.uk

Report to be/has been considered by

Recommendations for noting:

The Committee is asked to note:

1. The internal audit report for 2016-2017

1.0 Purpose

1.1 To provide Committee with the outcome of the work programme for internal audit for 2016-2017.

2.0 Background

2.1 The purpose of internal audit is to provide the Strategic Director, Section 151 Officer and Pensions Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Fund's agreed objectives. In order to provide this opinion, audit are required to review the risk management and governance processes.

2.2 At its meeting in March, Committee were presented with the Internal Audit work programme which outlined the focus of this work for the year 2016-17.

3.0 Progress, options, discussion, etc.

3.1 A copy of the outcome report is attached at Appendix 1.

3.2 The report confirms that no significant audit issues have arisen throughout the year and most importantly, where identified weaknesses / improvements have been identified during the course of audit work, management have agreed recommendations.

4.0 Financial implications

4.1 There are no financial implications

5.0 Legal implications

5.1 Outlined in the report and appendix

6.0 Equalities implications

6.1 There are no implications

7.0 Environmental implications

7.1 There are no implications

8.0 Human resources implications

8.1 There are no implications

9.0 Corporate landlord implications

9.1 There are no implications

10.0 Schedule of background papers

10.1 Report to Pensions Committee 22 March 2017 - Internal Audit Plan 2017-2018.

11.0 Appendices

Appendix 1 – Audit report 2016-2017

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West Midlands Pension Fund

Internal Audit Annual Report 2016/17

	Contents

1. Introduction

1.1 Our internal audit work for the period 2016 /17 was carried out in accordance with the Internal Audit Plan. The Plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of West Midlands Pension Fund's (the Fund) governance, risk management and control processes.

In this way our annual report provides one element of the evidence that underpins the Fund's assurance framework, which supports the Annual Governance Statement. This is only one aspect of the assurances available to the Fund as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Fund may rely, could include:

- The work of the external auditors
- Statutory policies and plans
- The work of the compliance team
- Other pieces of consultancy or third party work designed to alert the Fund to areas of improvement.

Internal Audit is central to this framework of assurance and is required to acquire an understanding not only of the Fund's risks and its overall whole control environment but also all sources of assurance. In this way, Internal Audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance.

1.2 The definition of internal audit, as described in the Public Sector Internal Audit Standards, is:

"Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Overall Assurance

1.3 As the providers of internal audit to the Fund, we are required to provide the Chief Executive, Directors and Section 151 Officer with an opinion on the adequacy and effectiveness of the governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Chief Executive, Directors and Section 151 Officer is reasonable assurance that there are no major weaknesses in the Fund's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken during 2016/17.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit.

2. Internal audit opinion

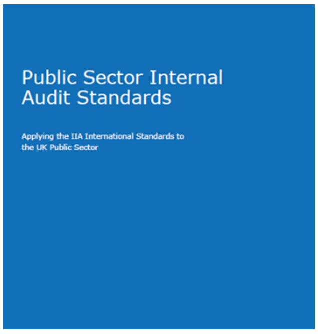
2.1 We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out in paragraph 1.3 above, our opinion is as follows:

2.2 Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Fund by other providers as well as directly by Internal Audit, Internal Audit can provide **reasonable assurance** that the Fund has adequate and effective governance, risk management and internal control processes.

2.3 In reaching our opinion, the following factors were taken into consideration:

- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified as a result of our audit work performed in year.

3. Compliance with the Public Sector Internal Audit Standards



Internal Audit has a quality assurance and improvement programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.

4. Summary of work completed

A detailed written report and action plan is prepared and issued for every review. The responsible employee will be asked to respond to the report by completing and returning an action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

The following internal audit reviews were completed during 2016/17:

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Audit Reviews	Date	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Pensions Board Review	July 2016	-	-	5	5	5	Substantial
External Manager Reporting Arrangements	Sept 2016	-	-	3	3	3	Substantial
Safeguarding Arrangements	Oct 2016	-	1	4	5	5	Satisfactory
Debt Monitoring Arrangements	Nov 2016	-	2	5	7	7	Satisfactory
Agresso Operations: HR Module	Jan 2017	-	-	1	1	1	Substantial
Agresso Operations: General Ledger & Planner Module	Jan 2017	-	-	6	6	6	Satisfactory
Internal Dispute Resolution Procedures	Mar 2017	-	-	5	5	5	Satisfactory
Covenant Monitoring	Mar 2017	-	2	3	5	5	Satisfactory

Key Financial Systems Work

A review of the main controls operated within the Fund’s key financial systems has been undertaken. This included payroll, benefits calculations, income and expenditure, reconciliation of members’ contributions and overall governance arrangements. We evidenced robust systems and the continuous application of internal controls. Overall we provided a substantial level of assurance for this work.

Follow up Reviews

A review of recommendations made as part of the 2015/16 internal audit programme confirmed that all actions have been appropriately implemented.

Consultancy / ad hoc work
• Internal audit has completed 25 financial appraisals on behalf of the Fund. These are undertaken when an organisation is seeking to obtain admitted body status and establishes whether an organisation will, or will not be able to meet its financial obligations to the Fund. • In accordance with the Cabinet Office requirements, internal audit continues to be the Fund's key contact for the National Fraud Initiative. In addition, advice and support is provided throughout the year when requested. • We have provided training on risk management and assisted with the development of a new treasury management policy.

Agenda Item No: 13

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Risk and compliance monitoring 1 January to 31 March 2017	
Originating service	Pension Services	
Accountable employee(s)	Jennifer Picken Tel Email	Compliance and Risk Officer 01902 552092 jennifer.picken@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

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

1.0 Purpose

1.1 To provide the Pensions Committee with the quarterly update of compliance monitoring for the Fund for the period 1 January 2017 – 31 March 2017.

2.0 Risk register

2.1 Each quarter the Fund's compliance team reviews the top ten risks which are drawn from detailed risk registers separately maintained for each department of the Fund. The Risk register is an active document which is regularly monitored to ensure it reflects the most recent activity of the Fund. The reporting period for risks is the most current quarter (March to June) as it is looked upon as both a reactive and proactive document to ensure risks are immediately mitigated.

2.2 The Fund's risks are assessed using a 5 x 5 scoring matrix to decide how likely they are to occur and how much of an impact they would have. The scoring is based on 1 being the lowest impact or likelihood with 5 being the highest impact or likelihood of the risk occurring. The scores for both impact and likelihood are multiplied together to create an overall rating (scores 1-4 low rating (4 being an even rating of 2 for impact and 2 for likelihood), 4-12 medium rating (4 being a high impact and low likelihood or vice versa) and 15-25 high rating). The Fund scores each risk for both pre and post-implementation of mitigating controls, this enables the Fund to identify any weaknesses in the controls and provide assurance that its risks are reduced as much as possible.

2.3 The top 10 risks for this quarter are highlighted in Appendix 1 together with the actions taken by the Fund to mitigate those risks. The top 10 risks remain the same as those reported to Pensions Committee in March 2017 with no new issues identified. Any changes or additional mitigating controls are noted in Appendix 1.

2.4. TPR Key Risks

The Pensions Regulator has published their risk landscape for the 2017-2020 as part of their Corporate Plan. The plan details 5 areas of risk and what focus the TPR will have during the upcoming months and years.

Disorderly scheme failures

As part of the Pension Schemes Bill, there will be reforms in the market to help underpin the consumer confidence of multi-employer pension schemes. This will potentially encompass a more concentrated look into how Fund's administer a high number of employers and ensure the impact of failing employers does not fall onto other participating employers' interests.

WMPF has an employer covenant monitoring program in place to assess the strength and potential weakness of our employers, and where necessary, guarantees are obtained to protect the wider employer group.

Poor data integrity and security

The TPR will be focusing on the quality of record keeping by both public and private sector funds for the foreseeable future. This is due to the increase in data security incidents reported in the market and the rise in reliance on electronic working and data transfers.

The Fund has in place a data improvement plan which seeks to address issues of data quality both in terms of those received from employers and historical data held by the Fund. The Fund also has in place a work programme for the implementation of the General Data Protection Regulation (GDPR) Project due May 2018.

Economic and market outlook

The regulator will be paying particular focus to the economic and market outlook of funds due to the ever changing financial environment, for example, the upcoming Brexit deals and changing political conditions in the UK and overseas which all can have a potential impact on the markets and our economies.

The Fund in discussion with its advisors has in place an appropriate investment strategy with regular reporting and training delivered to Trustees on key issues which might affect the investments of the Fund.

Poor standards of stewardship

The TPR have been focusing on the governance and administration of pension funds closely since the inception of the Code of Practice and will continue their research and reviews until a high standard is achieved across the board. The TPR will not only be reviewing the governance and administration arrangements but also the employer and member expectations of providing our services.

The Fund is constantly reviewing and assessing its adherence to governance and administration requirements under the TPR Code of Practice and has in place a compliance monitoring program aligned specifically to the Code of Practice.

Sub-scale schemes

The TPR will be paying close attention to both sub-scale DB and DC scheme in the small and medium enterprise markets due to risks surround poor performance and outcomes. This does not pose any issues or direct impact on the Fund and its administration.

3.0 Compliance monitoring programme

3.1 The Fund has in place a programme, which aims to ensure its internal and external operations meet acceptable standards and best practice.

3.2 The programme is directly linked to the risk register; testing the effectiveness of the controls in place.

3.3 The results of the tests carried out for the January to March 2017 quarter are summarised below on an exception reporting basis. For compliance monitoring purposes the period reviewed is commenced at the end of each quarter, therefore the latest information available is for the January to March 2017 quarter which was tested during April and May 2017.

3.4 **Exception reporting**
Out of all of the tests carried out, the following was found:-

3.4.1 Governance

Clear desk policy – as part of the Information governance program, which includes preparing for the changes to Data Protection, compliance conduct random clear desk reviews of officer workstations. This quarter the test was conducted and flagged no immediate risk to information. Officers are regularly reminded of the policy and staff presentations on protecting information are being delivered throughout June in preparation for the new data protection regulation (GDPR).

Trustee training hours – there were 2 Trustees who did not record the minimum 22 hours during 2016-2017 year. This has been raised by the Chair of the Pensions Committee and it was suggested that some Committee Members are not recording hours spent on reading and research, Trustees have been reminded of the importance of recording hours with the Trustee Management Officer.

Pension Board training hours – there were 6 members that did not record the minimum required number of continuous professional development (CPD training) hours during 2016-2017 financial year. Action taken includes the circulation of a work-plan for the coming year informing the Board of training dates together with information on web-sites to use for background reading and research.

3.4.2 Investments

Late trade – there was 1 late trade instruction during the period. This was due to the custodian not recalling the stock in time for it to settle. There was no financial detriment to the Fund and the dialogue between the Fund and custodian continues to be monitored through monthly calls.

3.4.3 Cyber Security

On the 12th May the NHS became the highest profile victim of a global cyber attack, when tens of thousands of PCs in almost 100 countries were affected by Ransomware software known as WannaCry. The City of Wolverhampton PCs were not affected by this attack and there was no impact on our desktop or business applications. The Fund has taken the decision to remove its microfiche scanner due to it being outdated with current system requirements in light of the recent cyber security concerns, discussion are ongoing with suppliers to secure an alternative solution.

The council's ICT Services have a rolling programme of testing the latest Microsoft Windows patches and then automatically deploying then across all PCs on the network. Following news of the global problem additional checks were undertaken throughout the weekend to scan all devices to ensure they were at the highest recommended software levels by Microsoft and that there was no evidence of WannaCry in our systems. There was no remedial work identified as part of these additional checks and the council's normal patching process continues.

4.0 **The Pensions Regulator (TPR) Code of Practice compliance monitoring**

4.1 The code of practice sets out the legal requirements for public service pension schemes and standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

4.2 In response to this, the Fund has compiled a compliance monitoring programme to evaluate its compliance in line with the Pensions Regulator Code of Practice. This is the first quarter the Fund has commenced testing under this program and are pleased to confirm that no issues have been identified.

4.3 The general compliance monitoring programme. The tests cover fund administration (i.e. pensions administration, internal disputes, publishing information etc.), finance (i.e. payment of contributions etc.), governance arrangements (i.e. Pensions Committee and Pensions Board arrangements, conflicts, breaches and risk) and investments (i.e. maintaining investment returns to cover liabilities etc.).

5.0 General Data Protection Regulation

5.1 The European Union have issued a directive to replace the existing Data Protection Act creating the new General Data Protection Regulations (GDPR). This directive is required to be implemented with effect from 25 May 2018.

5.2 The Fund has created a work plan/project management document on the stages needed to be fully implemented by 25 May 2018. Delivery of this will be overseen by the Local Pensions Board and progress will be reviewed in July 2017 and January 2018 with an update on its final implementation to Pensions Committee in March 2018.

5.3 The Fund is currently completing a data mapping and cleansing exercise and has set up a project group to manage the work plan for implementation, it is also working with a number of other pension funds across the country to formulate standard and template information to be issued to members.

6.0 TPR guidance on Defined Benefit (DB) schemes

6.1 In March 2017, the TPR issued new guidance on the legal duty of Trustees of Defined Benefit Schemes aimed at providing practical information and example approaches to decisions which may arise when investing scheme assets. The Responsible Investment elements are addressed in a separate report; other aspects are summarised below.

6.2 The guidance requires Trustees to

- Have a basic understanding of the legal principles around pension scheme investment
- Work with investment advisors to obtain relevant investment advice
- Collaborate with scheme employers when writing the Investment Strategy Statement (ISS)

6.3 Committee will recall the recent work the Fund undertook to translate our Statement of Investment Principles to the new ISS and the consultation conducted with relevant stakeholders, including the Trade Unions through the committee representatives. While the production of the ISS is outside the remit of our stakeholders' role it is helpful for them to understand the process undertaken. In addition, the Fund delivers presentations from our investment advisors on a regular basis to Committee to assist in the decision-making process and are grateful to Trustees for their commitment to meeting the Regulator's expectation as outlined in the Guidance.

7.0 Trustee and Pension Board Training

7.1 As part of the compliance monitoring program, the Fund monitors the Trustee and Pension Board member's adherence to their statutory duty also in ensuring they have the capacity and knowledge to undertake their role.

7.2 The Trustee training policy sets out details of training expectations of the Fund's Trustees and Pension Board Members. During 2016/17 training hours achieved by Trustees continued to increase with most Trustees achieving the target of three days (22 hours).

7.3 The Training program for 2017/18 focuses on the relevant knowledge and skills needed to comply with the Funds governance arrangements while taking into account forthcoming changes to current legislation and pension regulations. The training presents these changes and facilitates the continued development of Trustee's knowledge. It is relevant to all members of the Pensions Committee and the Pensions Board.

7.4 The 2017/18 proposed training includes:

- Induction training
- Regular updates at Committee and Board meetings

- Mid-Year review and Annual General meeting
- Regulatory updates – in house structured training
- External conferences
- Trustee toolkit and background reading
- Monthly media roundup

7.5 The program starts with an Induction Course aimed at members new to the committee and those wanting an update for their own knowledge and development. Scheduled training is aimed at achieving a balance between internal factors affecting the Fund and the wider external factors within the pensions industry. There may be changes to the program to include training on legislative or regulatory changes that affect the Fund throughout the year.

7.6 In addition to this, Trustees and Board members are encouraged to complete the Pensions Regulator's Trustee Toolkit available on the Pensions Regulator web site. This is a free, interactive training program that enables Trustees and Board members to meet the level of knowledge and understanding required.

7.7 As a supplement to the scheduled structured training and the Trustee Toolkit, Trustees and Board members are encouraged to develop background knowledge by reading industry related publications and researching relevant web sites such as:

- The Pensions Regulator (tPR)
- The Local Government Pension Scheme (LGPS)
- Local Government Association (LGA)
- Local Authority Pension Fund Forum (LAPFF)
- Pensions and Lifetime Savings Association (PLSA)
- Department for communities and Local Government (DCLG)
- The Local Government Pension Scheme Advisory Board

7.8 A personal training record should be kept by all Trustees and reported to the Trustee Management Officer on a quarterly basis.

8.0 Scheme Advisory Board Key Performance Indicators (SAB KPI's)

8.1 In 2015 the Fund took part in a pilot scheme by the Scheme Advisory Board to produce a set of KPI's for LGPS funds, requesting to provide evidence and comments to support our scoring.

8.2 The KPI document has been circulated for update in line with 2016/17 targets. This is to be submitted to the Scheme Advisory Board by 31 May 2017. SAB have stated that the responses will be analysed throughout July 2017 and feedback will be provided to the funds. Once feedback has been presented to Funds the SAB team will be working with

GAD (Government Actuaries Department) and DCLG (Department for Communities and Local Government) to provide support and assist Funds accordingly. Further details on this is provided in another report.

9.0 Financial implications

9.1 The budget for Trustee training is incorporated within the Fund's administration budget.

9.2 Failure by the Fund to adhere to regulatory changes could result in fines being imposed on the Fund by either the Pensions Regulator or the Information Commissioner.

10.0 Legal implications

10.1 The need for effective risk management is reflected throughout guidance and regulation in the LGPS, notably in Regulation 7(2) of the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*.

10.2 The Pensions Committee, as the body charged with governance of the administering authority's pensions operations, takes the responsibility for ensuring that there is effective risk management over those operations.

10.3 The requirements for Trustee training are set out in the Regulator's code of practice and CIPFA guidance. Trustees and Board members have a legal duty to ensure they have the required knowledge and skill to undertake their roles. Failure to adhere to these duties may result in challenge from external parties. There is also a possibility of intervention from the Pensions Regulator.

11.0 Equalities implications

11.1 This report contains no direct equalities implications.

12.0 Environmental implications

12.1 This report contains no direct environmental implications.

13.0 Human resources implications

13.1 The report contains no direct human resource implications.

14.0 Corporate Landlord

14.1 There are no corporate landlord implications.

15.0 Schedule of background papers

15.1 General Data Protection Regulations
https://ico.org.uk/for-organisations/data-protection-reform/overview-of-the-gdpr/

15.2 Pension Regulator's Toolkit
https://trusteetoolkit.thepensionsregulator.gov.uk/

15.2 Pension Regulator's Code of Practice
http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx

15.3 Pension Regulator's Guidance for DB schemes
http://www.thepensionsregulator.gov.uk/guidance/db-investment.aspx

16.0 Schedule of Appendices

16.1 Appendix 1 – Risk Register Summary

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West Midlands Pension Fund - Risk Register
Top 10 Risks Summary

Appendix 1

Top 10	Risk Ref	Risk Controls	Assessment		Risk Movement	Risk Owner	March-June 2017 changes and actions taken to manage risk
			Pre-control	Post-control			
1	PA 1 - PAS not complied with	1. Communication with employers at the Annual General Meeting (AGM) 2. Employers adherence to the PAS is monitored. 3. PAS regularly reviewed and cleared by Committee. 4. Monthly monitoring of ongoing (FSR) and deficit (PSD) contribution payments by Finance.	20	16		Director of Pensions	No amendments - the PAS was effective from 1 April 2017.
2	PA 2 - Orphaned liabilities and covenants	1. Assessment of suitable guarantees/covenants in place for new employers. 2. Regular covenant strength and risk ratings assessed for each employer. 3. Higher risk employers are monitored closely by the Employer Team. 4. Where there are concerns, the Fund opens dialogue with the relevant employers to explore their situation in more detail and assess support needed.	16	12		Head of Client & Funding Management	No amendments - all employers go through an initial covenant assessment and all are monitored throughout the year.
3	PA 3 - Inaccurate data for calculations	1. Robust process in place to ensure accuracy of calculations, including officer checking. 2. Induction training and regular staff training to ensure officers are suitably skilled and raise awareness of the importance of data quality. 3. Data quality reviews of common and conditional data (minimum twice yearly). 4. The PAS sets out expectations and requirements of employers in relation to data quality. 5. Communication with employers at AGM to stress the importance of complete and accurate data. 6. Data validation checks undertaken through various channels 7. Web portal in place for members to input their details directly removing employee human error. 8. Bulk data import in place for employers for direct input of member information. 9. Plan to remove bulk data import for employers due to increased information requirements for monthly returns. 10. Individual member changes and individual early leavers data can be loaded straight to the Fund's system by employers.	15	12		Director of Pensions	No amendments - this area will be closely monitored through April 2017 onwards due to the changes to monthly submissions from annual.
4	PA 5 - GMP reconciliation	1. A project is underway to achieve this by December 2018. 2. Initial analysis has been completed by ITM. - First stage completed. 3. Further data analysis underway. Deferred and Pensioner status completed. Active status data to be completed. 4. Progress of the project is reported monthly to the Senior Management Team. 5. Report to Pensions Committee quarterly as part of the Pensions Administration report.	20	16		Director of Pensions	WMPF received the deferred and pensioner data files from the processor and have been forwarded to HMRC. WMPF currently pending a review of the active data files.
5	PA 7 - Future liabilities increase	1. The Fund undergoes a triennial valuation, in conjunction with the Fund's actuary. 2. Life expectancy assumptions by the Actuary. 3. Inflation and wage and salary inflation. 4. Interest rates monitoring.	16	12		Director of Pensions	The 2016 actuarial valuation has now been successfully completed.
6	I 7 - Currency exposure (SIAB)	1. External adviser and internal staff to review currency exposure of benchmark v. the funding objectives.	15	15		Chief Investment Officer	No amendments – all controls implemented and still current.
		1. Continuous staff training on data protection. 2. In-depth training for managers on information governance (due March 2017). 3. Information governance project completed and a work plan/project created for the implementation of the GDPR.				Head of	

7	G 1 - Data security and data quality	4. Data encryption and password protection. 5. Use of file transfer protocol. 6. All information security breaches are reported and any systemic issues are identified and corrected. 7. System back-up to protect against data loss. 8. A data improvement plans in place and a dedicated Business Performance and Data team to manage data in and out flows.	20	12		Head of Governance / Director of Pensions	No amendments – all controls implemented and still current.
8	G 2 - Lack of Trustee independence	1. Full trustee induction training is provided to Pensions Committee and Pensions Board including duties and responsibilities. 2. Regular reviews of Committee and Board membership representation. 3. Members are bound by codes of conduct. 4. Conflicts of interest policy in place for Pensions Committee and Pensions Board. 5. All districts are represented and have voting powers. 6. Clear delegation of authority within the Council and the Fund's separate constitutions. 7. Conflicts of interest policy in place for Pensions Committee and Pensions Board. 8. Board member rotation - nomination and appointment process and ensure equal representation.	16	12		Head of Governance	No amendments – all controls implemented and still current.
9	G 7 - Change in Government policy/LGPS reforms	1. The Fund keeps abreast of developments, consultations, calls for evidence and collaborating with other funds.	20	16		Director of Pensions	No amendments – all controls implemented and still current.
10	P 6 - Payment of pensions increase (PI) not made	1. Ensure testing of Civica software. 2. Ensure contingencies are put in place to cover the pensions payroll.	15	10		Director of Pensions	No amendments – all controls implemented and still current.

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Agenda Item No: 14

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Annual Report of the Local Pensions Board	
Originating service	Pension Services	
Accountable employee(s)	Name Tel Email	Rachel Howe, Head of Governance 01902 552091 Rachel.howe@wolverhampton.gov.uk
Report to be considered by	Name Tel Email	Rachel Brothwood, Director of Pension 01902 551715 rachel.brothwood@wolverhampton.gov.uk

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Recommendation for noting:

1. The Pensions Committee is asked to note the report.

1.0 Purpose

1.1 To provide feedback to the Committee on the work undertaken by the Local Pensions Board during 2016/17 and to meet the legislative requirement for producing an annual report.

2.0 Background

2.1 The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.

2.2 The West Midlands Pension Fund created and implemented the board ahead of the deadline of 1 April 2015, and has since developed an appropriate training program, and workplan in consideration of matters relevant to the Fund and the role of the Board.

2.3 The board meets bi-annually and consists of 6 Employer and 6 Member representatives, a copy of the Board's work program for the 2017/18 year is attached at Appendix 1.

2.4 Throughout the last democratic year, 2016/17 the Board received one notice of resignation from its employer representatives. Appointment to that vacancy was completed in line with the policy and Paul Johnson has now been appointed.

2.5 Also in line with the policy the Board undertook recruitment to the member representative group, and received a re-nomination from the Unison trade union. Sharon Campion was re-appointed to the Board.

3.0 Attendance at meetings

3.1 Attendance at the meetings fell just short of the Fund's KPI (85%) at 75%. Where possible, training events are delivered on the same day as the meetings to enable efficiency in time with attendance at training events at 70%.

3.2 An overview of the Board membership and their attendance at meetings and training events over the year is provided in Appendix 2. Following his appointment to the Board on 1 June 2016, Councillor Bagri attended an induction course on 18 August 2016.

4.0 Training

4.1 The fund has offered a number of training opportunities for Board members and, where possible, training has been offered in conjunction with Pension Committee to develop and further relationships across the 2 groups.

4.2 All members are encouraged to complete at least 10 hours of self-study to include the pension regulator's toolkit. Attached at Appendix 3 is a copy the individual training hours for the Board.

5.0 Reports of the Pension Board

5.1 During 2016/17 the Board did not refer any matter to the Pensions Committee and continue to review the work of the Fund in areas of Data Quality/Record Keeping and continue to ensure the Fund has relevant policies and procedures in place.

5.2 Throughout the 2016/17 year the Board considered reports on the following topics

- Communication and Customer Engagement
- Preparing for the General Data Protection Regulations and the changes
- Employer performance
- Actuarial Valuation process
- Review of internal audit plan.

6.0 Costs

6.1 The cost of operating and supporting the Board has absorbed into the Fund governance budget and existing officer workload.

7.0 Forward plan for 2017/18

7.1 In considering the work of the Board going forward to ensure the continued good governance of the scheme, the following key areas have been highlighted

- Meeting legislative requirement for General Data Protection Regulations
- Monitoring the effectiveness of the fund's Customer Engagement Strategy
- Considering the outcomes of the Scheme Advisory Board, Local Pension Board survey and implementing any recommendations
- Considering the outcome of the Scheme Advisory Board's Key Performance Indicator assessment, ensuring highlighted improvements are actioned.

8.0 Financial implications

8.1 As outlined in the report

9.0 Legal implications

9.1 The Fund is required to have a Local Pensions Board as set out in the Public Service Pensions Act 2013 which also requires the Fund produce an annual report on the work of the Board.

10.0 Equalities implications

10.1 There are no equalities implications.

11.0 Environmental implications

11.1 There are no environmental implications.

12.0 Human resources implications

12.1 There are no implications

13.0 Corporate landlord implications

13.1 There are no corporate landlord implications.

14.0 Schedule of background papers

14.1 Public Service Pensions Act 2013
http://www.legislation.gov.uk/ukpga/2013/25/contents

14.2 Report to the Pensions Committee 16 March 2016
https://wolverhamptonintranet.moderngov.co.uk/ieListDocuments.aspx?CId=186&MId=4827&Ver=4

15.0 Schedule of Appendices

15.1 Appendix 1
Pension Board work programme

15.2 Appendix 2
Attendance record

15.3 Appendix 3
Individual training hours for the Pension Board

Appendix 1

Pension Board Work Programme 2016/2017

The West Midlands Pension Fund Local Pension Board is responsible for assisting the Fund with the good governance and administration of the scheme by ensuring its compliance with the legislation meeting the requirements of the Pensions Regulator and its adherence to statutory guidance.

Role	Area of work	Action	Date
Good Governance			
	Policy review	To ensure the Fund meets its legislative and best practice duties of publishing statements and policies in line with the attached Pensions Board Policy Review Plan	In line with the attached Pensions Board Policy Review Plan
	Fund Communication	To monitor fund performance on the availability and quality of information produced by the Fund in line with its communications strategy	January 2017 to receive an update on the Fund's new customer engagement strategy July 2017 to monitor the Fund's delivery against that strategy through the review of KPI's and customer feedback.
	Customer Engagement	To monitor the effectiveness of the customer engagement strategy	Each meeting the board will be presented with KPI's to monitor the Fund's performance against its customer engagement strategy to include customer journey mapping through the review of feedback and KPI's

Appendix 1

Role	Area of work	Action	Date
			July 2017 – to review the outcomes of the first employer survey.
	Scheme Advisory Board KPIs	To monitor via report to the Board, the performance of the Fund against the national comparator in the Scheme Advisory Board KPI's	January 2018
	Data Protection	To monitor the Fund's progress of implementing of the new General Data Protection Regulations	January 2017 – to receive a report on the workplan for implementing the new General Data Protection Regulations. July 2017 – to receive an update on the progress of the Fund against the workplan with training delivered to the Board at its meeting in July 2017.
	Internal and external audit	To receive a report from the Fund's compliance team reviewing the actions from the previous year's audit plan ensuring their implementation/completion.	Annually as received from audit in line with their workplan.

Appendix 1

Role	Area of work	Action	Date
Fund administration			
	Data Quality	To review the quality of data received from employers and suggest ways to improve through working with employers.	January 2017 – to receive an update on the data cleansing activity and the transition to monthly returns July 2017 – to monitor 2017 annual returns performance and to receive an update on data cleansing.
	Actuarial Valuation – Review of Process	To review the Fund's approach to managing the Actuarial Valuation and the engagement with employers	January 2017
Investment	Investment Strategy and Implementation	To receive updates on the Fund's work in this area, including the transition to LGPS Central pool	Annual policy review (July) 24 January 2017 LGPS Central Stakeholders Day
Finance	Annual report and accounts	To consider the annual Scheme Advisory Board report following publication of our report and to draw comparisons as areas for proposed improvement	July 2017 following accounts close.

The West Midlands Pension Fund Local Pension Board is responsible for assisting in the good governance and administration of the scheme. Part of their role is to ensure the Fund complies with statutory requirements on the publication of policies, as well as ensuring the Fund has in place appropriate practices for managing and administering the scheme. This policy review plan highlights the policies published by the Fund. The Local Pension Board will review the Fund's compliance to publishing these policies at each meeting on a rolling 12 month plan, considering half of the policies at each of its meetings.
* These policies are published in the Fund's annual report and accounts.

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Pension Board attendance 2016

Member detail	19/01/2016 Pre meeting training, Pooling, Compliance and Risk, IDRP, SAB KPI's	05/07/2016 Workshop - Audit & Compliance, Annual report and accounts	05/07/2016 Pension Board meeting	14/07/2016 Mid Year Review	18/08/16 Induction (Cllr Bagri only invited)	16/08/2016 Gad Section 13 update	23/08/2016 Joint training event with Pensions Committee	29/11/2016 AGM	24/01/2017 Pension Board meeting	Stake-holder day 24/01/2017	
Adrian Turner	Y	Y	Y	Y	n/a	Y	Y	Y	Y	Y	
Annette King (vice chair)	Y	Y	Y	Y	n/a		Y		Y	Y	
Caroline Jones	Y				n/a				Y	Y	
Chris West	Y	Y	Y		n/a	Y			Y	Y	
Cllr Harbans Singh Bagri (new 06/16)*	Not on board at that time)	Y	Y		Y	Y	Y	Y	Y	Y	
Cllr Sandra Samuels (Chair)	Y	Y	Y	Y	n/a				Y	Y	
Joe McKormick	Y			Y	n/a	Y		Y	Y	Y	
Lee Nash	Y				n/a		Y	Y			
Mike Sutton	Y	Y	Y	Y	n/a		Y		Y	Y	
Paul Sayers	Y				n/a		Y		Y	Y	
Paul Sheehan	Y	Y	Y		n/a		Y	Y	Y	Y	
Sharon Campion	Y			Y	n/a		Y		Y	Y	

*Cllr Simpkins (resigned May 2016)

Attendance at Pension Board Training											Total
Attended Training	11	7			1	4	8			11	**42**
Invited	11	12			1	12	12			12	**60**
%	100%	58%			100%	33%	67%			92%	**70%**
Attendance at Pension Board meetings											**Total**
Attended Board/Committee			7						11		**18**
Invited			12						12		**24**
%			58%						92%		**75%**

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Appendix 3

PENSION BOARD TRAINING 2016/2017					
ATTENDEES	**IN HOUSE STRUCTURED**	**MYR and AGM**	**EXTERNAL CONFERENCES & SEMINARS**	**SELF STUDY - ON-LINE TRAINING & READING**	**TOTAL HOURS**
Bagri Harbans	18	3	0	5	26
Campion Sharon	7	3	11	0	21
Jones Caroline	3	0	0	24	27
King Annette	10	3	0	7	20
McCormick Joe	10	6	0	0	16
Nash Lee	4	3	0	7	14
Samuels Sandra	10	3	0	0	13
Sayers Paul	4	0	0	0	4
Sheehan Paul	11	3	0	5	19
Sutton Mike	7	3	4	0	14
Turner Adrian	14	6	0	0	20
West Chris	10.5	0	10	0	20.5
TOTAL	**108.5**	**33**	**25**	**48**	**214.5**

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Agenda Item No: 15

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Policies Review 2017	
Originating service	Pensions	
Accountable employee(s)	Rachel Howe	Head of Governance
	Tel	01902 552091
	Email	Rachel.howe@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	Rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The annual review of Fund key policies underpinning the Fund strategy and governance arrangements together with the programme of review scheduled for the year.

1.0 Purpose

1.1 To provide an overview of the Fund's statutory and good practice policies for the year 2017/2018.

2.0 Background

2.1 Each year Committee are asked to review and agree the Fund's operational policies. Some of these policies are required by statute. Others are adopted for operational purposes and to provide our members with information.

2.2 In conducting the annual review of the Fund's policies, the Fund needs to consider whether the current versions are still relevant to its work, whether any new requirements have been imposed by legislation together with considering whether the Fund is conducting its business in the most efficient way securing the best outcomes for our members.

3.0 Annual Review

3.1 Throughout 2016/2017 there were a number of legislative changes and updates which required the Fund to review its policies outside of the normal review timetable. All of these policies have been presented to Committee for approval. Attached at Appendix 1 is an overview of the Fund policies and their timetable for review.

3.2 The Local Pensions Board includes on its workplan a review of Fund policies ensuring all are updated, adopted by the Fund within deadline and are fit for purpose which assists its good governance. This will be taken forward as part of their annual workplan for the year 2017/2018.

4.0 West Midlands Integrated Transport Authority

4.1 Following the delegation in January 2015 from the Integrated Transport Authority (ITA) to WMPF Pension Committee to undertake decisions with regards the management and administration of the ITA Pension Fund, Committee must also approve those policies and strategies drafted on behalf of ITA.

4.2 Where possible the policies cover both Funds to ensure a consistent approach. Individual fund policies are required in some areas such as the Funding Strategy Statement and Investment Strategy Statement, reflecting the separate arrangements and differences

5.0 Financial implications

5.1 Failure by the Fund to implement statutory policies may subject the Fund to fines imposed by the regulator. Each policy has been drafted with this in mind and the implications were outlined as each policy was presented for approval.

6.0 Legal implications

6.1 The Fund is required under regulations to produce, publish and keep under review various strategies and policy statements. These are designed to establish best practice and accountability in the management of the Fund's assets.

7.0 Equalities implications

7.1 The Fund's policies are drafted in accordance with the Equalities duties and Data Protection Privacy Assessment.

8.0 Environmental implications

8.1 There are no implications

9.0 Human resources implications

9.1 There are no implications

10.0 Corporate landlord implications

10.1 There are no implications

11.0 Schedule of background papers

11.1 None

12.0 Appendices

12.1 Appendix 1 - Policy review timetable

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Appendix 1 WMPF Annual Policy Review 2017/18

Area	Name of Policy	Statutory/Regulatory Best Practice	Responsible Officer	Frequency of review	Date last reviewed	Date to be reviewed
Governance						
	Administering Authority Policy Statement	Statutory	Director of Pensions	Annually	December 2016 (officer review)	September 2017 (officer review)
	Communications Policy*	Statutory	Head of Governance	Annually	December 2016	July 2017 (Pensions Board)
	Governance Compliance Statement*	Statutory	Head of Governance	Annually	March 2016	July 2017 Pensions Board
	Pension Board Member Conduct Review Policy	Statutory	Head of Governance	Annually	July 2016	January 2018 Pension Board
	Travel Policy	Best Practice	Head of Governance	Annually		July 2017 Officer

*denotes publication in annual report and accounts

Appendix 1 WMPF Annual Policy Review 2017/18

					June 2015 (officer review)	review in preparation for pooling
	Customer Feedback Policy	Best Practice	Head of Governance	Annually	June 2015	July 2017 Pension Board
	Freedom of Information and Data Protection	Statutory	Compliance and Risk Manager	Annually	June 2016	Currently being reviewed in line with GDPR changes for May 2018 (Pension Board monitoring workplan)
	Customer Engagement Strategy	Best Practice	Head of Governance	Annually	December 2016	Ongoing review
	Risk and Assurance Framework *	Statutory	Compliance and Risk Manager	Annually	March 2017	March 2018

*denotes publication in annual report and accounts

Appendix 1 WMPF Annual Policy Review 2017/18

	Trustee and Pension Board Training Policy	Statutory	Trustee Management Officer	Annually		June 2017
Administration						
	Pensions Administration Strategy	Statutory	Head of Client and Funding Management		March 2017 Committee	Ongoing review in line with employer performance and TPR guidance
	Employers risk management framework	Statutory	Head of Client and Funding Management	Annually	March 2017	March 2018.
Funding and Investment						
	Compliance with the Stewardship Code for Institutional Investors 2017*	Best Practice	Responsible Investment Officer	Annually	March 2017 Committee	Annually (or sooner in line with Pooling timetable)
	Funding Strategy Statement	statutory	Head of Client and funding Management	Triennial	March 2017 Committee	To be reviewed in line with next

*denotes publication in annual report and accounts

	(WMPF & WMITA)					valuation 2019/2020
	Policy on Termination Funding for Employers	Statutory	Head of Client and funding Management	Triennially	2014	September 2017 Committee
	Responsible Investment Framework *	Statutory	Responsible Investment Officer	Now included in the Investment Strategy Statement	March 2017 Committee	March 2018
	Investment Strategy Statement (WMPF & WMITA) *	Statutory	Chief Investment Officer	Triennially with annual review	March 2017 Committee	March 2018
Finance						
	Statement of Accounting policies	Statutory	Head of Finance	Annually	September 2016	September 2017 (once annual report and accounts signed off)

*denotes publication in annual report and accounts

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Agenda Item No: 16

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Scheme Advisory Board Annual Report 2016 and KPIs	
Originating service	Pensions	
Accountable employee(s)	Rachel Howe Tel Email	Head of Governance 01902 552091 Rachel.Howe@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The Scheme Advisory Board's Annual Report and activities for the year 2016/17.

2. The points highlighted within the Fund's self-assessment against the Scheme Advisory Board KPIs.

1.0 Purpose

1.1 To provide Committee with a national overview of the Local Government Pension Scheme (LGPS).

2.0 Background

2.1 The National Scheme Advisory Board (SAB) was created under the Public Service Pensions Act 2013. The purpose of the SAB is to be both reactive and proactive in seeking to encourage best practice, increase transparency and coordinate technical and standards issues.

2.2 The SAB also has powers to 'step-in' to Local Pensions Boards if it feels they are not performing their duty or that the individual Fund is failing in its duty to meet the standards set out in legislation and guidance.

3.0 Scheme Advisory Board Annual Report

3.1 In line with its Regulatory duty, the national Scheme Advisory Board (SAB) every year produces its Scheme Annual Report highlighting national averages in areas such as investment returns, asset allocation, funding and governance.

3.2 The SAB produces its report based on published annual report and accounts of all LGPS Funds across England and Wales. It is therefore produced retrospectively each year. This latest report highlights the average position from the 2016 reports, and is a useful point of reference for a variety of stakeholders.

3.3 Key LGPS highlights for 2016 as noted by the SAB include:

- The total membership of the LGPS grew by 134,000 (2.5%) to 5.3m members in 2016 from 5.2m in 2015 and the number of LGPS employers increased by 2,635 (22%) to 14,435.
- Assets held by LGPS Funds totalled £217billion (a change of 0.0%). These assets were invested in pooled investment vehicles (43.6%), public equities (34.6%), fixed interest/index linked (7.5%), property (7.8%), as well as other asset classes (1.0%).
- The Local Authority net return on investment over 2015/2016 was 0.1%. This was reflective of the difficult market conditions during the year and set against the FTSE All Share Total Return of -3.9%.
- The scheme maintained a positive cash flow position overall. Scheme income was lower than total scheme outgoings by £279m; this was excluding investment income.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.
- Over 1.5m pensioners were paid over the year. Fewer than 91 formal complaints about scheme benefit administration were determined and less than 15% were upheld by the Pensions Ombudsman. Overall the LGPS has had relatively few upheld complaints.

3.4 In comparison, WMPF's (Main Fund) highlights for 2016 show

- The total membership grew from 277,558 to 287,874 (3.5%)
- Employers increased from 473 to 536 (11.7%)
- The Fund's total asset value increased from £11.5 billion to £11.6 billion. As at 31 March 2016 these assets were allocated in the following manner
  - Quoted equities: 49%
  - Private equity: 11%
  - Fixed interest/cash: 23%
  - Alternative investments: 17%
- The Fund's net return on investment totalled 7%
- The Fund maintained a positive cash flow position in 2015/16 (receiving more in contributions than it spent on pension benefits), with net income for the year totalling £4.8 million (excluding transfers to/from the Fund and investment income).
- With the number of pensioners being paid totalling 85,558 (WMPF)
- Throughout 2015/16 the fund received 330 complaints (0.11% of total membership).

3.5 This shows an overall positive position of WMPF compared to the national average and showcases the Fund as being a top performer in the LPGS, meeting its objective in the 2017/2022 service plan.

3.6 For the West Midlands Integrated Transport Authority Fund it is difficult to use the national average as a comparator due to the closed status of the Fund.

4.0 Cost Transparency

4.1 The move toward investment fee transparency and consistency is seen by the SAB as an important factor in the LGPS being perceived as a value led and innovative scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and included in the government's criteria for pooling investments.

4.2 WMPF is recognised within the industry as a "front runner" in promoting transparency in the reporting of investment management costs, voluntarily embracing and disclosing deeper layers of costs and working with CIPFA and the National LGPS Scheme Advisory Board to develop a code of transparency for asset managers.

4.3 On a like for like basis, compared to 2012/13 the total investment costs for WMPF are £58 million per year. This has been achieved through re-shaping the portfolio to focus on value added and without compromising risk and return opportunities.

5.0 Academisation

5.1 As part of its workplan for 2016/17 the SAB set about investigating the issues around Academisation of local authority schools and what it would mean for the LGPS and their host authorities. As part of this work, the SAB commissioned PWC to produce a report on the options for Academies.

5.2 The report was published on 31 May and its publication will enable the SAB to engage with key stakeholders including pension funds, actuarial firms and academy trusts as appropriate on the issues raised by those interviewed by PWC. The Board will continue to gather relevant evidence and then develop specific proposals for change before submitting its recommendations to Ministers for their consideration.

6.0 SAB Key Performance Indicators

6.1 Committee may recall in December 2015, the Fund reported on its role in a pilot with the SAB to produce Key Performance Indicators to develop a suite of 18 KPIs to assess and benchmark the health of LGPS funds. The 18 KPIs were made up of 4 core KPIs and 14 supplementary KPIs. For each of these KPIs, the Fund was required to score itself against stipulated examples of best practice and concern; the possible scoring range being -56 to +60. At the time of the pilot, the Fund identified 10 areas where it failed to achieve the maximum available score.

6.2 Following the pilot, the SAB reviewed the feedback and in May 2017 reissued the KPI's for assessment and completion by Funds. WMPF has submitted its assessment and on this occasion has identified 5 areas where maximum scores were not achieved.

a) The fund has more than 3 risks identified as "high" on its risk register.
Through the Fund's proactive approach to risk management, existing and emerging risks are captured and routinely reviewed through the risk register which outlines the assessment and controls in place for each identified risk, as noted in the compliance report.

b) Benchmarking historic investment returns.
Independent benchmarking consultants CEM Benchmarking adjust the costs of global pension funds to reflect asset allocation and their data shows that on a like for like basis, WMPF costs are almost 20% cheaper than the average fund. A number of Funds are continuing to sign up to this benchmarking platform to expand the global comparison. Due to the closure of the WM50 LGPS Benchmarking platform the Fund does not currently benchmark it's performance against its peers, however work is underway by the industry to replace this and with the introduction of pooling, we expect the Fund to improve it's scoring in this area over the course of the year.

c) Scheme Membership Data
As previously reported to Committee, the Fund has in place a data management program, incorporating greater employer liaison and dedicated section of the pension administration team, to address issues early ensure the cleanliness and accuracy of its data.

d) Pension queries, pension payments, annual benefit statements and Quality Assurance
The Fund does not hold a certification or crystal mark for plain English publications, however it has held for a number of years the accreditation for Customer Excellence Service which includes a review of the information we present to our Customers.

e) Complaints upheld by the Ombudsman
In the last 3 years the Fund has had 4 Internal Dispute Resolution complaints partially upheld by the Ombudsman 2, Stage one Fund decision and 2 Stage 2 employer decision.

7.0 Financial implications

7.1 There are no implications

8.0 Legal implications

8.1 There are no implications

9.0 Equalities implications

9.1 There are no implications

10.0 Environmental implications

10.1 There are no implications

11.0 Human resources implications

11.1 There are no implications

12.0 Corporate landlord implications

12.1 There are no implications

13.0 Schedule of background papers

13.1 Scheme Advisory Board Annual Report
http://www.lgpsboard.org/index.php/foreword-2016

13.2 Scheme Advisory Board Report on Options for Academies
http://www.lgpsboard.org/images/PDF/LGPS_Advisory_Board_Options_for_Academies_20170525.pdf

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Agenda Item No: 17

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report Title	Pensions Administration Report from 1 January to 31 March 2017	
Originating service	Pension Services	
Accountable employee(s)	Mark Smith Tel Email	Benefit Operations and Payroll Manager 01902 551508 Mark.Smith3@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for action or decision:

The Committee is recommended to:

1. Approve the write-offs detailed in section 8.0 of this report.

Recommendations for noting:

The Committee is asked to note:

1. 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.

2. 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).

1. Purpose

1.1 To inform Committee of the work undertaken by the pensions administration service during the period 1 January to 31 March 2017 for both the Main Fund and the WMITA Fund.

2. Background

2.1 The Fund provides a pension administration service to its stakeholders, which covers employer, customer and member services, data management, benefit operations, payroll and systems/technical support. A report is provided to Committee on a quarterly basis to cover the activity and performance of these functions during that period.

3. Scheme Activity

3.1 Membership movement – Main Fund

3.1.1 The total number of scheme members in the Fund at 31 March 2017 stands at 302,093, with an overall increase since December 2016 of 5,551. The long-term trend over a 12 year period in membership is set out in (Appendix A) which illustrates a move towards a more mature profile whereby, in general, active memberships are falling and pensioners and deferred membership increasing. Over the course of the last four years, however, the number of active membership records has increased. We expect the active membership numbers to fall as many employers continue to reduce head count but note the combination of members with multiple posts, auto enrolment and a lag in receipt of joiner/leaver information mean this is not yet fully reflected in Fund data.

3.2 Membership movement – WMITA Fund

3.2.1 The number of scheme members in the WMITA Fund in all three categories stood at 5,070 on 31 March 2017, 8% are active members, 16% are deferred and the largest group are pensioner members at 76% of the total membership. The Fund is closed to new joiners but active members continue to accrue benefits. Detailed below is the current information showing movements between 31 December 2016 and 31 March 2017.

	Membership as at 31st December 2016			Movements during the period			Membership as at 31st March 2017		
	National Express	Preston Bus Ltd	Total	National Express	Preston Bus Ltd	Total	National Express	Preston Bus Ltd	Total
Active Members	422	0	422	-20	0	-20	402	0	402
Deferred Members	772	16	788	-8	-1	-9	764	15	779
Pensioner Members	3,760	118	3,878	12	-1	11	3,772	117	3,889
Total Members	**4,954**	**134**	**5,088**	**-16**	**-2**	**-18**	**4,938**	**132**	**5,070**

3.3 Workflow statistics – Main Fund

3.3.1 The process analysis statistics (Appendix B) show details of overall workflow within the Pensions Administration Service during the period 1 January to 31 March 2017.

3.3.2 During the period covered by this report 39,072 administrative processes were commenced and 34,091 completed. On 31 March 2017 there were 32,486 items of work outstanding. Of this, 4,179 items were in pending as a result of information awaited from a third party e.g. scheme members, employers or transferring authorities. Within pensions administration, 32,486 processes are now either proceeding to the next stage of the process or through to final completion.

3.3.3 The number of active processes remains high. From 1 January to 31 March 2017, the Fund has seen an increase in the volumes received. The total number of processes outstanding remains high as part of the increased focus on data quality. A number of additional processes have been started to action work relating to historic outstanding data employers are providing and to address known issues in relation to current routine submisions. We also continue to see the impact of the 2014 scheme changes where members were given the choice to aggregate their benefits rather than this happening automatically. This has resulted in higher volumes of processes remaining uncompleted until member elections are received or 12 months lapses.

3.3.4 The Fund is implementing a number of work programmes of target key processes where high volumes exist. Key areas of focus this quarter include the transfer of benefits to other schemes. Transfer to non Local Government pension schemes are back within the appropriate KPI with high volumes cleared, and the team is now targetting transfers to other Local Government funds. The increase in volume of deferments is being addressed, with an extra 1,500 cases processed in the period up to 31 March 2017 in addition to business as usual.

3.3.5 A detailed analysis of the key processes across all operational functions e.g. calculating benefits for retirements, pensioner member data changes as well as the maintenance of updating membership details is shown in (Appendix C).

3.4 Workflow statistics – WMITA Fund

3.4.1 During the period covered by this report 568 administrative processes were commenced and 588 completed. On 31 March 2017 there were 119 items of work outstanding.

3.5 **Employer membership data**

3.5.1 The Main Fund continues to see an increase in employer membership, due mainly to the establishment of academies and outsourced local government contracts, with 26 new organisations being admitted during the period 1 January to 31 March 2017. The current number of employers as at 31 March 2017 is 605. The level of on-going work being processed at the end of the period is as follows:-

- 57 admission agreements
- 36 academies
- 55 employer terminations

For more information see paragraph 6.

3.6 Customer services

3.6.1 An overview of our front-line customer contact activity is shown in Appendix D. This outlines the variety and volume of support provided by the Fund to address members' pension queries. An indication of the statistics for the previous year is included within the charts as a comparative measure.

3.6.2 We continue to provide a high response rate at first point of contact for telephone calls and pension fund enquiry emails. The Fund met the Key Performance Indicator (KPI) of 85% or above for call response rate, achieving an average of 90.27% during the period 1 January to 31 March 2017.

3.6.3 The majority of pension fund enquiries received (97.7%) are responded to within 10 days by the Customer Services team. Those emails which aren't resolved immediately start a new process on the UPM administrative system or are added to an existing operational/payroll process as they require completion by the Operational or Payroll teams. These include requests for transfer values to be calculated, retirement forms etc.

3.6.4 During the period 1 January to 31 March 2017, the team received an increase in the number of enquiries received. The increase was largely due to the number of member queries following the announcement of employer redundancy programmes taking place. We are continuing to see a trend of increasing customer enquiries including a preference for electronic communications among members.

4. IDRP (Internal Dispute Resolution Procedure) casework

4.1 In the 2016/2017 financial year there have been four cases referred to Stage one of the procedure against the Fund. All four cases have been dismissed.

4.2 The cases dismissed at stage one related to:

- A member being unable to take 25% tax free cash from the AVC as the member was not eligible to take their main scheme benefits.
- A member who retired on flexible retirement and received reduced benefits.
- A member who's service was incorrectly calculated in their deferred benefits.
- A member that was unable to transfer out their deferred benefits as they had active membership.

4.3 Eighteen cases have been received for stage 2 investigation. Fifteen cases have been dismissed. Three cases have been upheld.

4.4 The cases dismissed at stage 2 related to the following pension issues:

- Exercise of employer discretion on the early payment of deferred benefits from age 55.
- Additional pension not awarded by the employer.
- Transfer of previous pension benefits not allowed to proceed as outside the 12 month period.
- The Tier of ill-health awarded.
- Incorrect estimate provided by an employer.

4.5 Two of the cases upheld were relating to ill-health and the other one was regarding delayed payment of AVC benefits. In relation to the ill-health case, the Pensions Ombudsman specifically mentioned the there was an appearance that the employer had made no decision relating to the ill-health and had solely relied on the decision made by the registered medical practioner.

5. Death grant

5.1 In this financial year three cases have been referred to the Legal Department for consideration. One case is ongoing and the other cases have successfully been resolved.

6. Application for admission body status

6.1 Organisations must satisfy one or more of the admission criteria before they can be admitted to the Main Fund following Pensions Committee approving the applications. Sometimes a decision is required which is not compatible with the cycle of Pensions Committee meetings. In these circumstances, Pensions Committee has delegated responsibility for approving such applications to the Director of Pensions in consultation with the Chair or Vice Chair of Pensions Committee.

6.2 The table below lists the applications received for admission to the West Midlands Pension Fund which have been approved by the Director of Pensions and either the Chair or the Vice Chair of Pensions Committee.

Employer name	Guarantee Status (Agreement)	No of employees (Scheme members) Agreement type	Status
Miquill Catering Ltd (Colton Hills Community School)	Wolverhampton City Council	10(2) Closed	Approved
Miquill Catering Ltd (Woodfield Junior School)	Wolverhampton City Council	8(8) Closed	Approved
Dolce Ltd (New Ossett School)	Birmingham City Council	TBC Closed	Approved
Aspens-Services Ltd (Joseph Leckie Academy)	Joseph Leckie Academy	11(10) Closed	Approved
Aspens-Services Ltd (Springfield House Community Special School)	Birmingham City Council	6(5) Closed	Approved
Aspens-Services Ltd (Paganel Primary School)	Birmingham City Council	7(3) Closed	Approved
Aspens-Services Ltd (St Martin's MAT)	St Martin's MAT	11(9) Closed	Approved
Dovetail Group (UK) Ltd (Dorridge Primary School)	Solihull MBC	1(1) Closed	Approved

7. Pensions in payment

7.1 Pensions in payment – Main Fund

The gross annual value of pensions in payment for the Main Fund to March 2017 was £412m, £16.8m of which (£8.1m for pensions increase and £8.7m for added year's compensation) was recovered from employing authorities and other bodies as the expenditure was incurred.

7.2 Monthly payroll details for the Main Fund were:

Month	Number	Value £
January 2017	74,455	31,608,086
February 2017	74,555	31,685,048
March 2017	88,193	32,670,125

The March figure includes pensioners paid on a quarterly basis.

7.3 **Pensions in payment – WMITA Fund**

The gross annual value of pensions in payment for the WMITA Fund to March 2017 was £23m, of which £4,500 for added year's compensation was recovered from employing authorities and other bodies as the expenditure was incurred.

7.4 Monthly payroll details for the WMITA Fund were:

Month	**Number**	**Value £**
January 2017	3,807	1,839,247
February 2017	3,814	1,840,566
March 2017	3,872	1,855,315

The March figure includes pensioners paid on a quarterly basis.

8. Write-off policy decisions

A write–off relates to pensions overpaid to members, after following the debt recovery policy, these cases become uneconomical to pursue or the estate has insufficient funds to recover. In general, an overpayment is generated by late notification of death of members.

A write-on relates to monies due to the members estate in order to make pension payments up to date of death. After correspondences, the legal representative is untraceable or does not wish to claim the funds.

8.1 Write-off analysis

The following write-offs of pension payments are reported in line with the Fund's policy:

	Main Fund		**WMITA Fund**	
Individual Value	**Number**	**Total**	**Number**	**Total**
Less than £100	6	178	0	0
£100 - £500	7	1,285	0	0
Over £500	5	10,894	0	0
TOTAL	**18**	**12,357**	**0**	**0**

8.2 Write-on analysis

	Main Fund		WMITA Fund	
Individual Value	**Number**	**Total**	**Number**	**Total**
Less than £100	4	145	0	0
£100 - £500	0	0	0	0
Over £500	0	0	0	0
TOTAL	**4**	**145**	**0**	**0**

9. Member and Employer Engagement

9.1 Web Portal

9.1.1 Work is continuing to increase awareness of the web portal facility for members and employers. There are currently over 46,000 members registered to use the web-portal facility with just under 29,000 of those having been authenticated as at 31 March 2017. A breakdown of those registered and authenticated between the Main Fund and WMITA is provided below:

Registered and authenticated
WMITA - 652
WMPF – 28,270

9.1.2 With the Fund increasing the functionality available on web portal and electronic working, we continually seek feedback on the services provided by the web portal to ensure they meet user's needs. As part of this review, the Fund have improved the registration process for members, enabling the issue of activation codes to authenticate accounts via email rather than through the post. This change not only reduces work for Fund Officers, but is a more efficient process for the member. Initial feedback is that this change has been welcomed by members. The Fund continues to review and simpify the web portal with improved registration and a wider upgrade planned for late 2017.

9.2 Member Services

9.2.1 In total, the Member Services Team has assisted 1291 members with pension related information over this period.

9.2.2 **Presentations**

Fund officers have continued to deliver presentations upon request from employers. The team provide support on a variety of pension topics that are requested by an employer for their employees.

The emphasis during this reporting period has been:

- Planning, developing and enhancing our service.
- Supporting those members who are at risk of redundancy or maybe facing reductions in pay.
- Providing support and guidance to members at local authority depot sites using the Pension Roadshow Bus.
- Planning and delivering joint Fund and Prudential events.
- Providing an overview of the scheme and communicating the benefits the scheme offers.

A total of 63 Fund presentations were delivered to 413 attendees, these presentations were held at a variety different employers, including the district councils, universities, schools/academies and other admitted bodies.

The feedback from these presentations was 51.3% of the members rated them as excellent, 35.2% as very good and 13% as good and 0.5% as satisfactory.

The Fund works in partnership with Prudential to deliver a joint presentation covering how the Scheme works and tax efficient methods of saving towards the future. During this period 21 of these presentations were delivered across 7 employers, 395 members attended.

9.2.3 **Roadshows**

During this reporting period the Fund started to deliver Roadshow events at our local authority sites. The roadshow Statistics for this reporting period are:

Location	Attendees
Coventry C.C.	72
Walsall M.B.C.	75
Birmingham C.C.	48
Totals	**195**

9.2.4 **Additional Support**

Further support has also been provided to members either through drop in sessions or scheduled one to one support sessions. In total, additional support was delivered to 288 members on an individual basis.

10. GMP Reconciliation

10.1 Contracting out of the state second pension (formerly SERPS) on a Guaranteed Minimum Pension (GMP) basis operated between 1978 and 1997. However, in April 2016 the Government replaced the earnings-related state pension arrangements with a single-tier State Pension.

10.2 The introduction of the single-tier state pension from April 2016 has brought about the end of contracting out for defined benefit (DB) schemes and has triggered a requirement for schemes to reconcile their contracted out membership and GMP records with those held by HM Revenue & Customs (HMRC).

10.3 GMP reconciliation allows administrators to check their contracted out records against those held by HMRC, resolving any differences between the two sets of records. HMRC have set up a Scheme Reconciliation Service (SRS) to assist pension scheme administrators to reconcile their records for all non-active members (which includes; Early leaver, Pensioner, Widow, Widower/Civil Partner, Incomplete record) against HMRC records.

10.4 This work for the Fund is being managed in 3 key stages:
- Stage 1: Comparison of the HMRC data with the Fund data and analysis of mismatches on members, contracted out dates and GMP amounts.
- Stage 2: Resolving disputed membership and agreeing GMP amounts.
- Stage 3: Updating the pension administration system and preforming rectification calculations where necessary.

10.5 Stage 1 has been completed for deferred and pensioner members, stage 1 for active members is being progressed Stage 1 involves the reconciliation of the data it holds against the record of HMRC and has engaged with a third party reconciliation provider, who are completing a detailed analysis of the two sets of data. To date 46,000 discrepancies for non active members have been raised with HMRC, current turnaround times for HMRC responses are 4 to 8 months.

10.6 The Active member data was received from HMRC on 4 April 2017. The Fund is considering the options available for reconciliation of the active data but it will broadly need to mirror the 3 stages of the reconciliation process for the non active member data.

10.7 In February 2017 the Fund responded to the Government consultation on indexation and equalisation of GMP in public service pension schemes. The outcome of this may impact the scope of reconciliation work that the Fund will be required to undertake. The Government has confirmed whilst the written responses were broadly supportive of the aims of the regulations, the responses have raised a number of issues which require further consideration and the Government does not expect to be in a position to respond before autumn 2017.

11. Exit Payment Update

11.1 Since the power to make regulations to restrict public sector exit payments became effective 1 February 2017 under the Enterprise Act 2016 no further information on the timing for commencement of the cap has been released. The exit cap remains dormant. We await a further consultation from DCLG on how to apply the exit cap and the impact on pensions, which are expected to be affected by the inclusion of early retirement starin costs in the capped payment amount.

12. General Data Protection Regulation (GDPR)

12.1 GDPR is regulation from the European Union which was approved by the EU Parliament on 14 April 2016 and is effective from 25 May 2018. GDPR tightens the requirements which impact how pension schemes obtain member consent for the data they hold and process. The Fund is currently making preparations for the new regulations.

13. Financial implications

13.1 The report contains financial information which should be noted.

13.2 Employees of organisations who become members of the Local Government Pension Scheme will contribute the percentage of their pensionable pay as specified in the Regulations. The Fund's actuary will initially, and at each triennial valuation, set an appropriate employer's contribution rate based on the pension assets and liabilities of the individual employer.

14. Legal implications

14.1 The Fund on behalf of the Council will enter into a legally binding contract with organisations applying to join the Local Government Pension Scheme under an admission agreement.

15. Equalities implications

15.1 This report has implications for the Council's equal opportunities policies, since it deals with the pension rights of employees.

16. Environmental implications

16.1 The report contains no direct environmental implications.

17. Human resources implications

17.1 This report has implications for the Council's human resources policies since it deals with the pension rights of employees.

18. Corporate landlord implications

18.1 The report contains no direct corporate landlord implications.

19. Schedule of background papers

19.1 None.

20. Schedule of appendices

20.1 Appendix A: Overall membership numbers

20.2 Appendix B: Process analysis

20.3 Appendix C: Detailed process analysis

20.4 Appendix D: Customer service statistics

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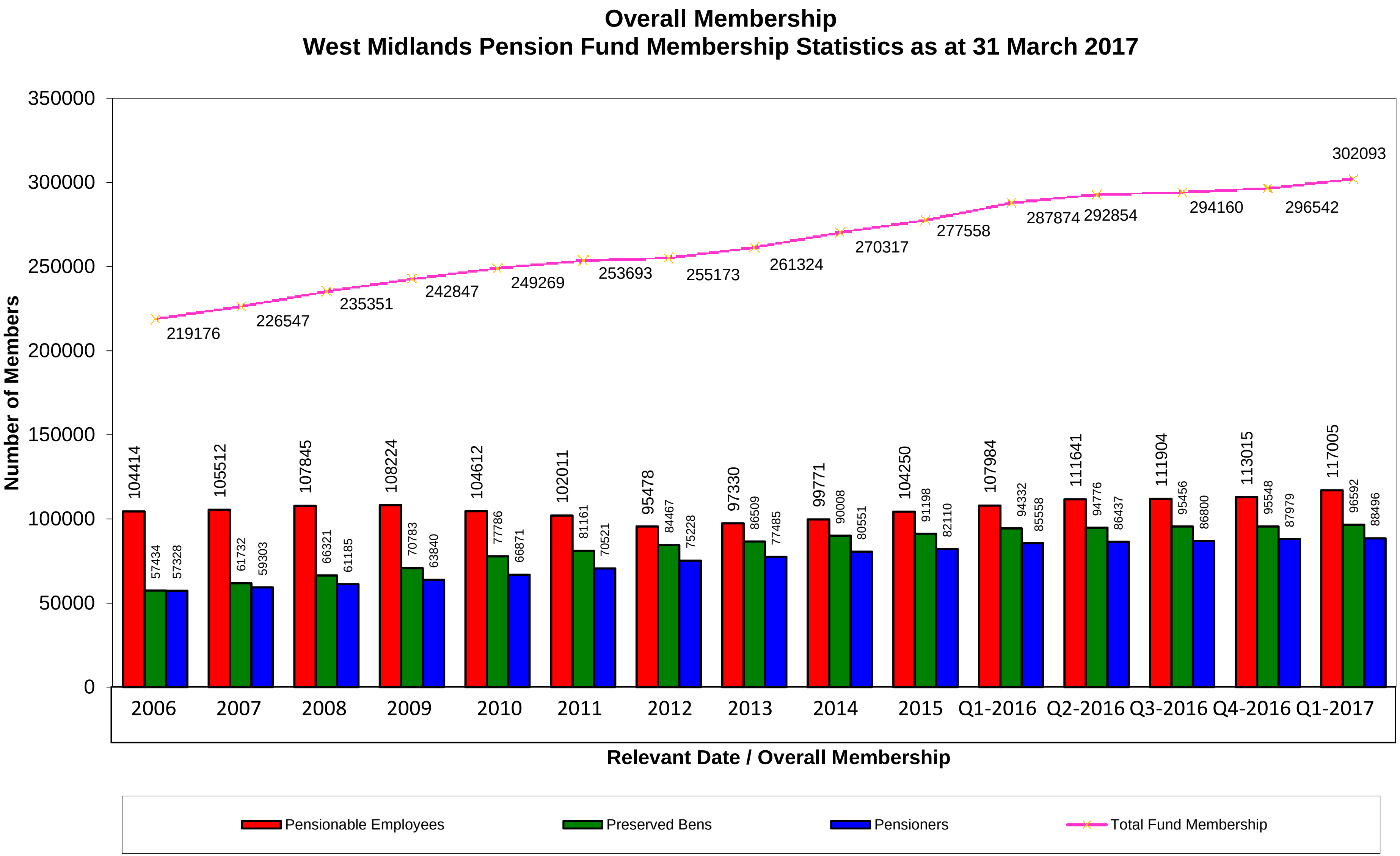
Appendix A



Overall Membership
West Midlands Pension Fund Membership Statistics as at 31 March 2017
Number of Members
Relevant Date / Overall Membership
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Q1-2016
Q2-2016
Q3-2016
Q4-2016
Q1-2017
219176
226547
235351
242847
249269
253693
255173
261324
270317
277558
287874
292854
294160
296542
302093
Pensionable Employees
Preserved Bens
Pensioners
Total Fund Membership

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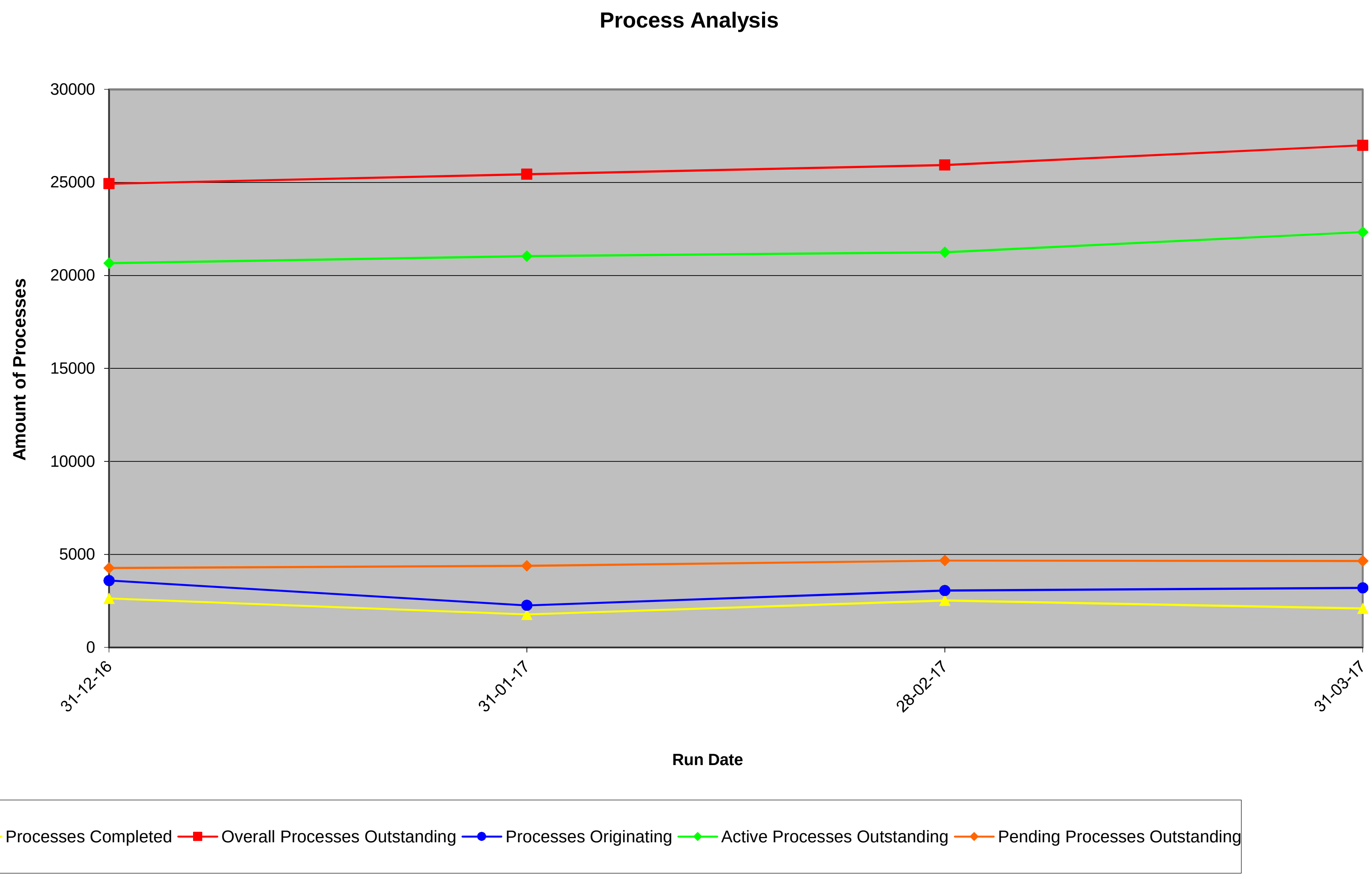
Process Analysis
Amount of Processes
30000
25000
20000
15000
10000
5000
0
31-12-16
31-01-17
28-02-17
31-03-17
Run Date
Processes Completed
Overall Processes Outstanding
Processes Originating
Active Processes Outstanding
Pending Processes Outstanding

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WEST MIDLANDS PENSION FUND

2016/17

Pension Committee Statistical Report
Detailed Process Analysis

Appendix C

Active & Deferred members

Process type	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	April	May	June	July	August	September
Joiners and Rejoiners (Bulk)	8,763	6,403	11,138	13,558	9,816	16,688	3,413	1,088	792	1739	1619	1037
Changes in circumstances eg change in hours	18,759	15,303	12,385	11,273	6,391	8,752	651	417	462	631	737	570
Deferments	5,939	7,818	5,741	6,728	5,664	8,340	864	561	553	518	788	766
Active Retirements (Employer retirements)	3,317	3,950	2,475	2,279	2,351	2,775	260	168	211	264	333	242
Deferred Retirements	3,332	2,970	2,971	2,726	2,301	3,421	280	279	496	296	266	184
Deaths of members	295	262	287	285	230	379	34	33	50	38	28	19

Pensioner members

Process type	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	April	May	June	July	August	September
Changes in circumstances:-												
Data eg Passwords, NI Numbers	1,310	1,804	1,865	2,017	2,604	4,548	151	146	259	208	198	264
Changes of Address	2,420	2,681	2,131	1,732	1,733	2,237	291	306	242	194	196	199
Changes of Bank	2,927	2,531	2,783	3,420	3,281	1,573	310	211	216	150	189	177
Deaths of pensioners	2,085	2,145	2,101	2,546	2,454	1,702	237	231	247	187	207	231

Payroll							Monthly	Monthly	Quarterly	Monthly	Monthly	Quarterly
Actual number paid	792,724	837,189	870,804	895,018	913,864	888,954	72,622	72,595	79,468	72,938	71,178	80,290

YTD 2016/17 compared to 2015/16

(1) 21% increase representing an overall increase in membership due to automatic enrolment, and greater multiple part time posts per member
(2) 27% decrease reflecting that hours changes are only required for protected members
(3) 47% decrease since simplification to web portal registration was introduced
(4) 16% increase due to greater focus of verifying the validity pensioner addresses
(5) 44% increase in bank changes perhaps reflects the competitive market in current accounts
(6) 65% increase representing the Funds move to a more mature scheme profile of membership

Pension Committee Statistical Report
Detailed Process Analysis

2016/17

October	November	December	January	February	March	YTD 2016/17

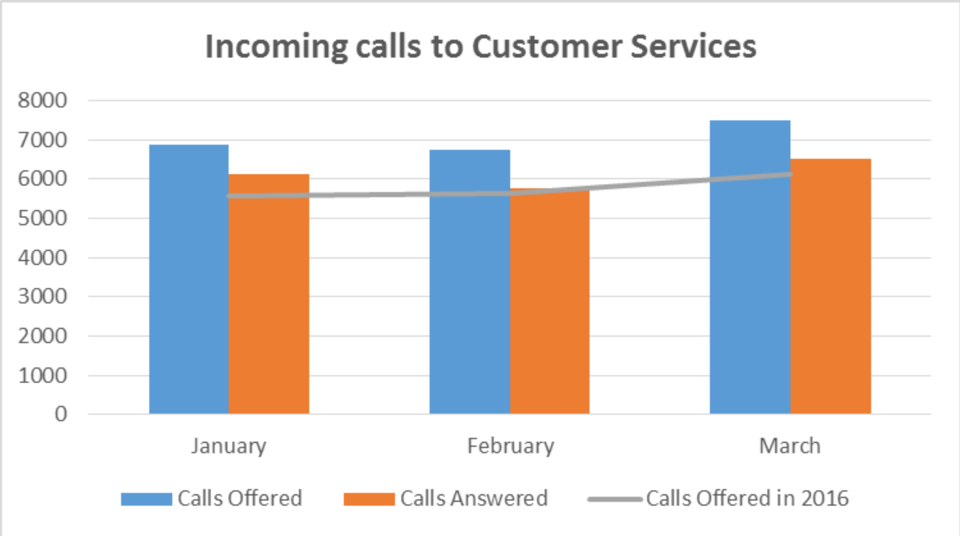
3220	632	713	2507	2323	1144	20,227	(1)
454	487	313	595	481	572	6,370	(2)
650	598	711	858	625	686	8,178	
213	194	165	151	146	246	2,593	
296	462	233	377	297	86	3,552	
36	17	26	47	38	33	399	

224	180	138	262	188	209	2,427	(3)
220	202	141	173	195	230	2,589	(4)
159	167	149	138	149	257	2,272	(5)
179	234	195	312	282	271	2,813	(6)

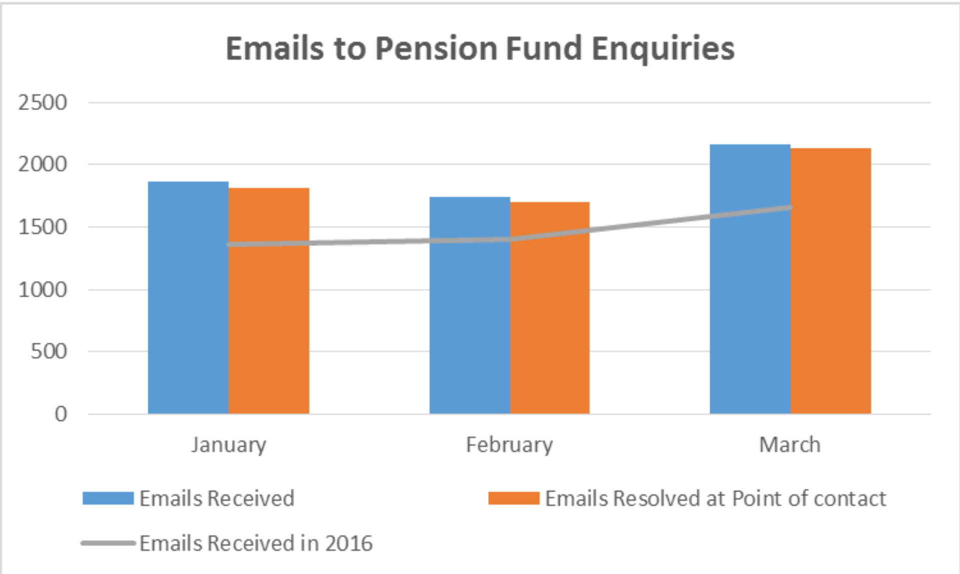
Monthly	Monthly	Quarterly	Monthly	Monthly	Quarterly	Total
73,667	74,024	81,290	74,455	74,555	88,193	915,275

West Midlands Pension Fund

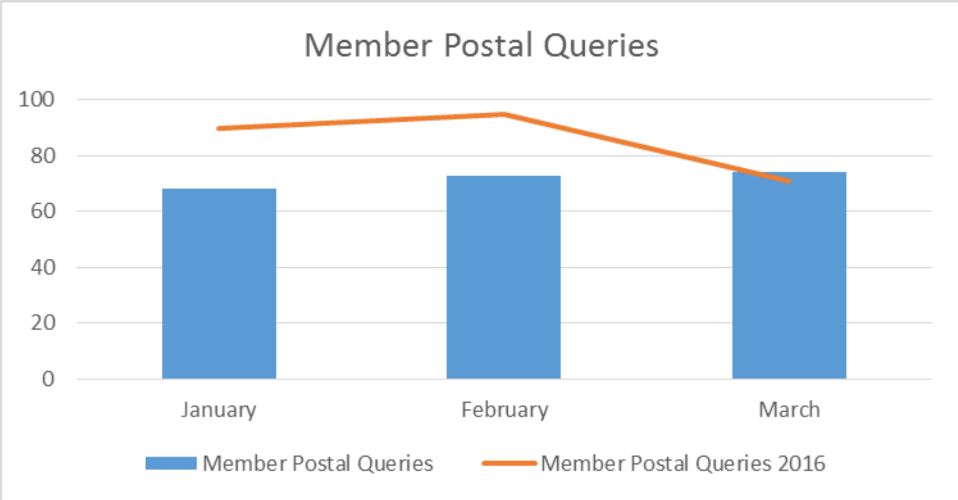
Appendix D: Customer Service Statistics 1 January 2017 - 31 March 2017



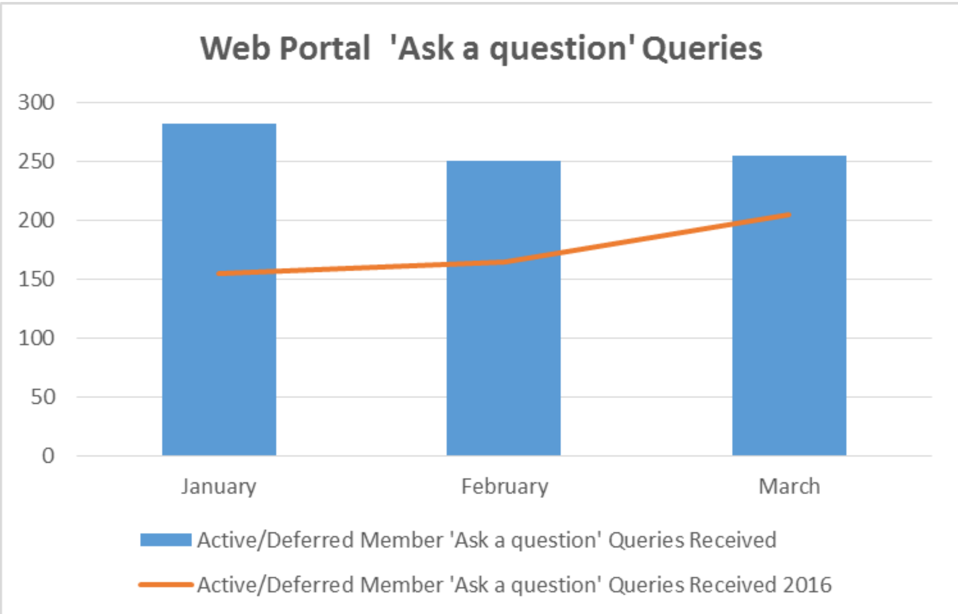
	January	February	March
Calls Offered	6885	6728	7476
Calls Answered	6109	5755	6519
Calls Offered over same period in 2016	5579	5641	6125
Answer Rate (target 85%)	91.80%	91.80%	87.20%



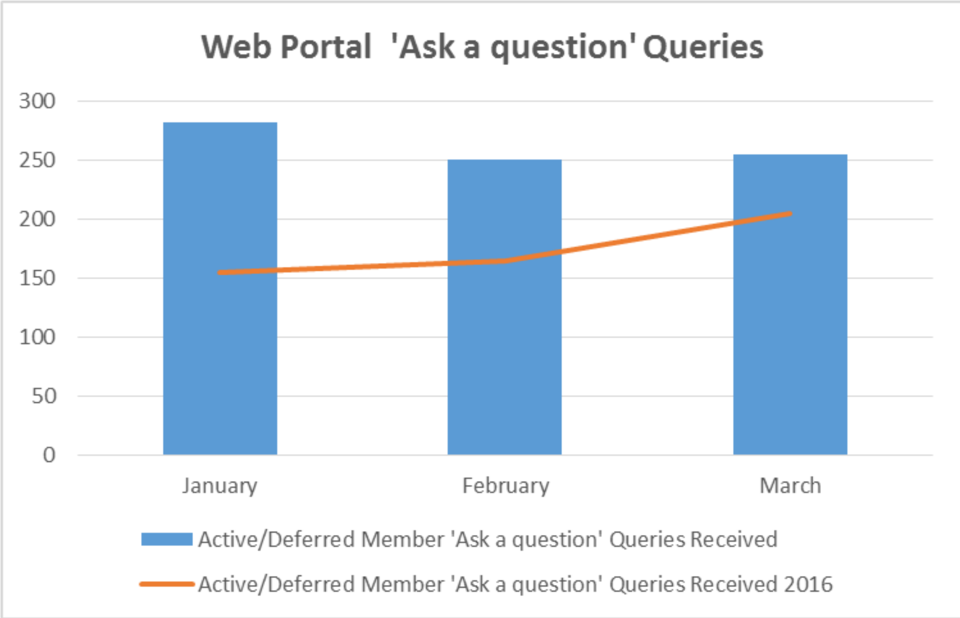
	January	February	March
Emails Received	1864	1746	2161
Emails Resolved at Point of contact	1810	1700	2134
Emails Received over same period in 2016	1359	1402	1660
% of emails resovled at point of contact	97.10%	97.36%	98.70%



	Member Postal Queries	Member Postal Queries 2016
January	68	90
February	73	95
March	74	71



	Active/Deferred Member 'Ask a question' Queries Received	Active/Deferred Member 'Ask a question' Queries Received 2016
January	282	154
February	250	164
March	254	205



	January	February	March
Visitors to Reception 2017	177	179	160
Visitors to Reception 2016	213	282	214

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Agenda Item No: 18

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Data quality and employer performance – quarterly update	
Originating service	Pensions	
Accountable employee(s)	Rachel Howe Tel Email	Head of Governance 01902 552091 Rachel.Howe@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions 01902 551715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

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

1.0 Purpose

1.1 To provide an update to Pensions Committee on the progress being made by the Fund to continue to improve data quality, summarise the plans in place to make further improvements to data quality and to report the performance of employers against key performance standards as detailed in the Pension Administration Strategy (PAS).

2.0 Background

2.1 The Fund has always placed the retention of good quality data high on its list of priorities, however the importance has heightened more recently following greater scrutiny from the Pensions Regulator together with the forthcoming changes in Data Protection legislation.

2.2 A summary of the activity undertaken by the Fund to identify and act on poor data quality is listed below:

- comparison of data record keeping against the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014
- application of charges/re-charges on employers to reflect late receipt of annual return files and poor quality of data
- review of annual return errors and issue of analysis to employers
- regular engagement with district councils in regards to outstanding data items and production of action plans where required
- independent high level review of the work carried out by the Fund
- Data mapping exercise in readiness for tighter controls under the General Data Protection Regulations
- Review of the Fund’s processes for deferred member data and the use of tracing services
- Procurement of microfiche scanning and review of the digitisation process.

2.3 The Fund’s Pension Administration Strategy (PAS), most recently revised from April 2017, sets the performance and quality standards for employers and the Fund. The efficient delivery of the benefits of the scheme is reliant upon effective administrative procedures being in place between the Fund and scheme employers. Most notably the timely exchange of accurate information in relation to Fund members. The administration strategy sets out the expected levels of performance of the Fund and scheme employers, and provides details about the monitoring of performance levels.

3.0 Outstanding Data – Progress

3.1 The Fund has and continues to take a number of actions to engage with employers to improve the quality of data held. These include:

- Detailed review of the errors encountered in the annual return process
- Reporting back to individual employers on the issues with their files and data gaps for further investigation

- Plans for the development of wider employer briefing and coaching
- Face-to-face meetings with larger employers with regular follow-up on the actions Required

3.2 Following this increased engagement with employers, the Fund has received the 2017 Annual Returns with 97% of employers returning their files by 31 May 2017, compared to 92% last year. The typical known issues to date include, missing notifications for joiners and leavers, missing hours for casual workers, historic errors from previous annual returns processes, and records with no contributions received.

3.3 The Fund continues to work with employers to monitor and review progress in reducing these data errors. Feedback has been given to employers on the 2016 Annual Returns files in September 2016 and the Fund is working through the 2017 Returns. Based on the files received to date, the data indicates an improvement year on year with the annual errors reported for 2016 at 11,674 and those reported this year at 9850.

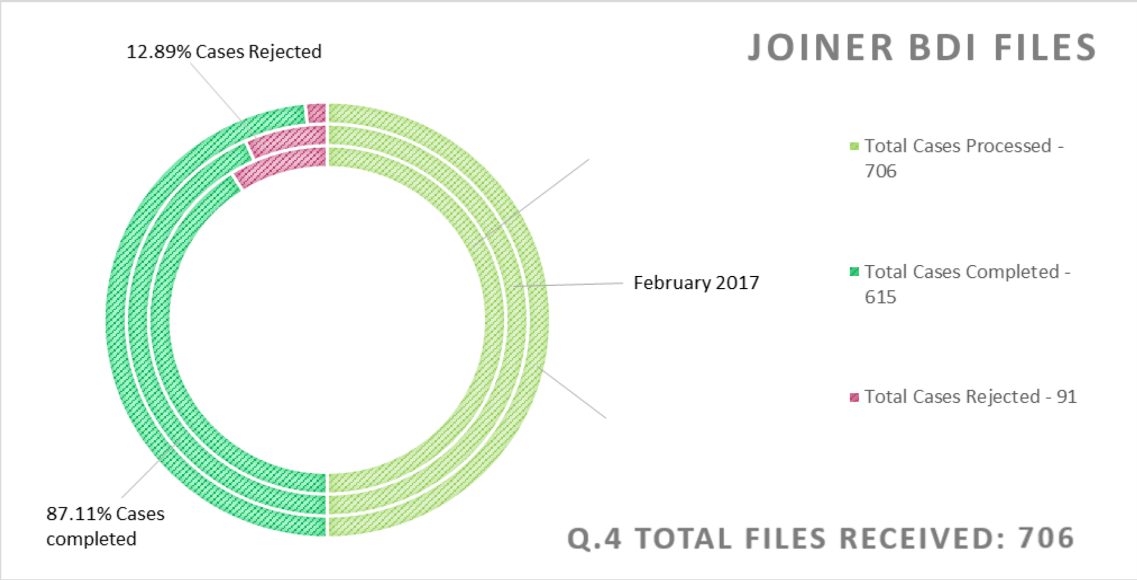
3.4 The Fund is working with employers to support the acceleration in the reduction of outstanding data. Regular updates and meetings are being held with key employers and performance is being monitoring on a regular basis. In addition work is currently underway to focus engagement with those employers where progress could be improved.

4.0 Employer performance against the Pension Administration Strategy

4.1 Alongside monitoring outstanding data items, the Fund is reviewing and enhancing the performance management framework for performance against the employer standards specified in the PAS. The performance standards focus on timeliness and quality and covers, but is not limited to, the following key areas:

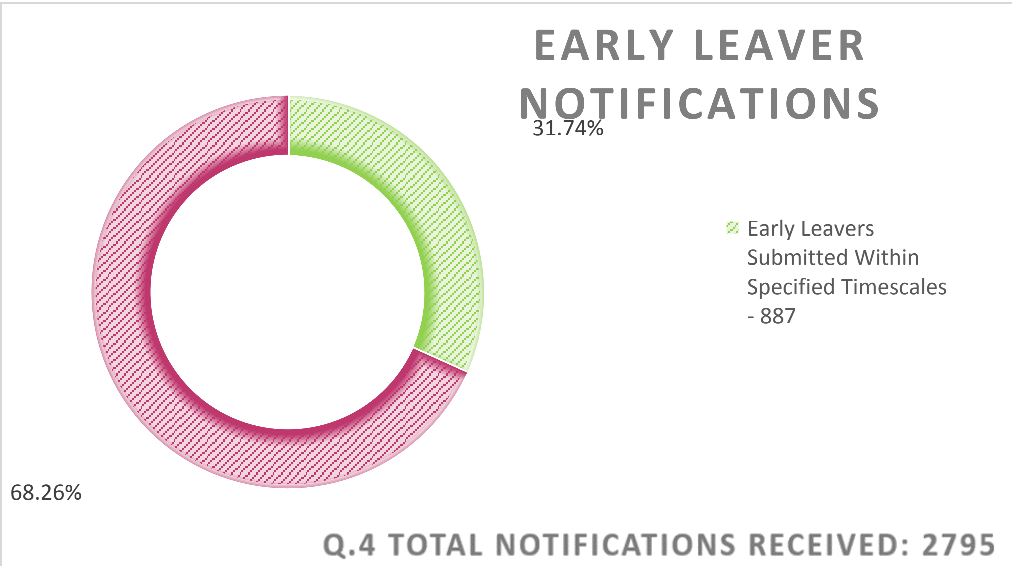
- Submission of joiner information
- Notification of leavers (early leaver and retirees)
- Submission of annual return data
- Response to queries raised by the Fund

4.2 From January 2017 – March 2017 the Fund received a total of 706 bulk joiner files from employers. On average the Fund rejected 13% of the joiner data files received due to the quality of the data provided, this can be due to missing mandatory fields or incorrect formatting. Employers are required to notify the Fund of new joiners to the scheme within 6 weeks of a member joining. On average from the files submitted from January 2017 – March 2017, the average timeframe was 11 months and 3 weeks.

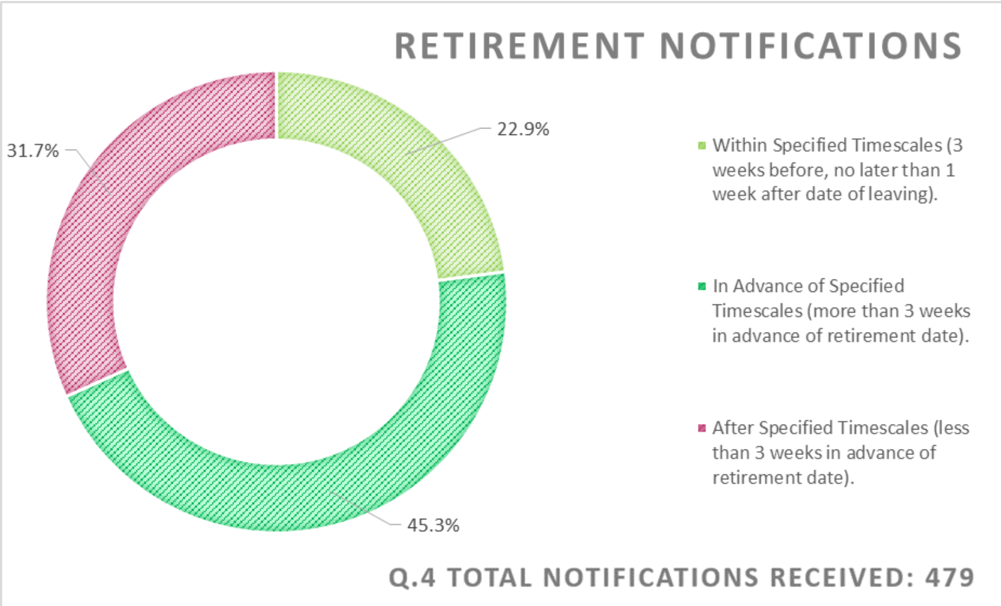


4.3 Employers are required to notify the Fund when members leave employment either as an early leaver or due to retirement. To enable the efficient processing of member benefits there are specified timescales for notifying the Fund.

4.4 Overall, from January 2017 – March 2017 an improvement has been seen in the quality of the bulk joiner files submitted by employers and the timeliness of the notification of members leaving early. However, overall the timeliness of submissions of early leaver notifications has shown a slight decrease since Q3. This is detailed in Appendix A.



4.5 Employers are required to notify the Fund when members leave employment either as an early leaver or due to retirement. To enable the efficient processing of member benefits there are specified timescales of 3 weeks before and no later than 1 week after the date of leaving. From January 2017 – March 2017, 68% of retirement notifications were received either in advance of or within the specified timescale of 3 weeks before and no later than 1 week after the date of leaving.



4.6 From January 2017 – March 2017, 32% of early leaver notifications were received within the specified timescales of within 30 days of the month end of the date of the member leaving. An average timescale of 193 days (following the date the member left employment) was achieved across all employers. With the work underway to reduce outstanding data items, it is expected that a high volume of the cases not achieving KPI will be due to employer's actioning outstanding missing leaver notifications.

4.7 The Fund are engaging with employers in regards to their performance against these standards, to highlight areas for improvement, to understand the issues they experience and where further support can be provided. This engagement has been initiated in the first instance with the district councils, and a dashboard detailing their performance has been developed for each of these key areas.

4.8 To support employers with submission of leaver data to the Fund, a review has been undertaken of the structure and layout of the form and a guidance document produced. This document is designed to support employers with their understanding the requirements to reduce the number of queries raised.

4.9 The Fund is due to present to employers at its Mid Year Review and will discuss both Fund and Employer performance in this area feeding back on lesson learned in the new monthly returns process and the progress of implementation prior to all employers going live in September.

5.0 Transition to Monthly Data and Contribution Submissions with employers

5.1 After the successful pilot in January employers were able to provide feedback on the current process, which has enabled the Fund to enhance the process and produce documentation to further support employers and the Fund. An employer user guide, navigation video and FAQ's document are a couple of pieces of the key support documentation that has been produced and are available on the Fund's website.

5.2 The transition dates for employers to submit their monthly file spans from April 2017 – September 2017, with the below highlighted go-live dates along with the number of employers who are due to commence at each date:

- April – 473 (147 confirmed, 326 default)
- May – 2
- June – 20
- July – 35
- August – 0
- September – 75

5.3 Since the go-live date of April, the Fund has received approximately 100 files from employers. The employers are permitted to submit one data file containing new joiners, member changes, member/employer contributions, which will produce a financial remittance advice and identify leavers by the 19th of each month. The Fund will contact those employers who have not submitted their files and provide support if necessary.

5.4 The Fund needs to complete the Annual Returns process before it can commence the Monthly Data Submissions procedure. The Fund is regularly communicating with employers, such as through the Employer Brief and Employer Peer Group, to keep them up to date with this process.

6.0 Financial implications

6.1 The late receipt of membership data and/or data errors can increase the administration cost of the Fund. Scheme regulations enable the Fund to recover additional costs incurred as a result of poor employer performance. As detailed above the Fund has issued charges to recover costs for the late submission of annual return files. The Fund are also looking at recharging for additional costs incurred for additional work required for the resolution of large volumes of outstanding data.

7.0 Legal implications

7.1 The Fund has a legal duty to meet with legislation and statutory best practice, failure to do so may open the fund to challenge from the Pensions Regulator or the National Scheme Advisory Board and may incur severe penalties from the ICO with the implementation of the General Data Protection Regulations.

7.2 The Fund is able to impose penalties on employers (to cover any fines or costs incurred) through its adopted pension administration strategy.

8.0 Equalities implications

8.1 There are no implications contained within this report

9.0 Environmental implications

9.1 There are no implications contained within this report

10.0 Human resources implications

10.1 There are no implications contained within this report

11.0 Corporate landlord implications

11.1 There are no implications contained within this report

12.0 Schedule of background papers

12.1 12.1 Pension Administration Strategy 2017

12.2 Public Service Pensions Act 2013
http://www.legislation.gov.uk/ukpga/2013/25/contents

12.3 The Pensions Regulator's code of Practice
http://www.thepensionsregulator.gov.uk/doc-library/codes.aspx

12.4 The Scheme Advisory Board's statutory guidance.
http://www.lgpsboard.org/index.php/about-the-board/board-guidance

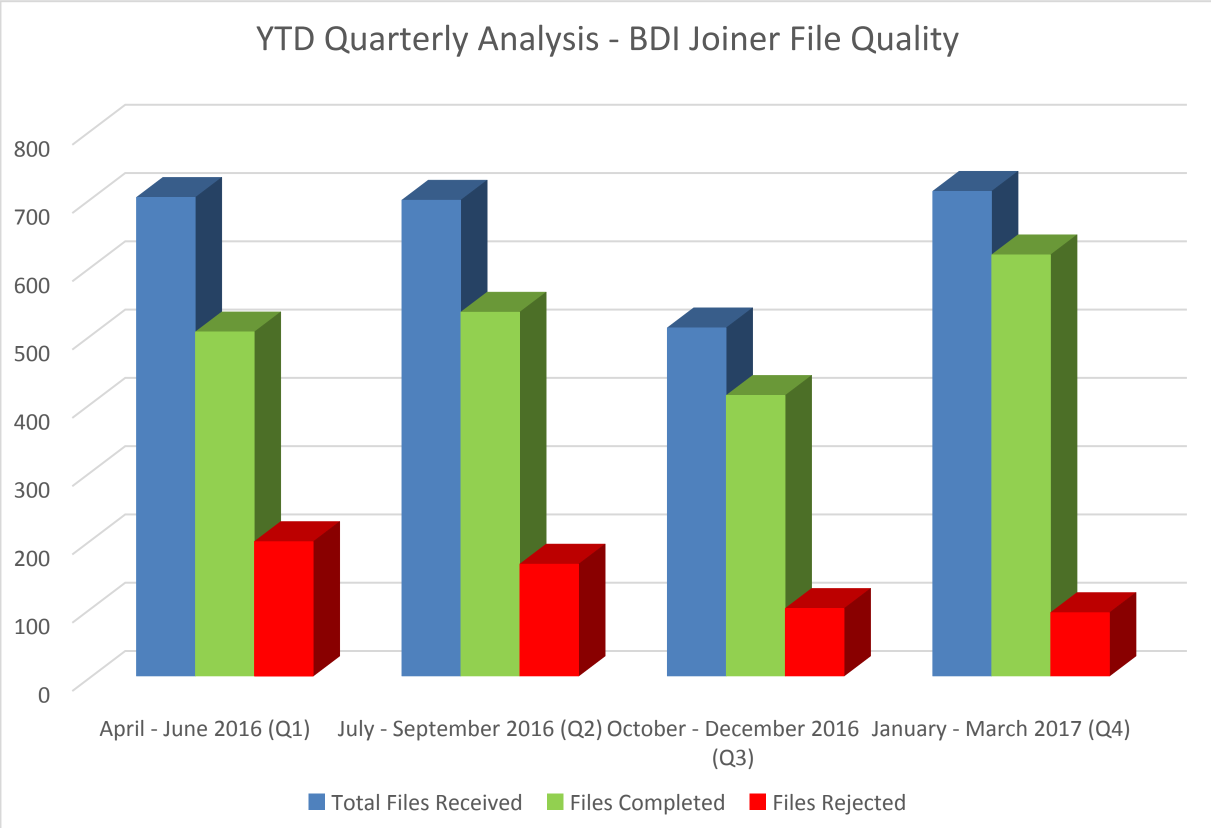
12.5 General Data Protection Regulations
https://ico.org.uk/for-organisations/data-protection-reform/overview-of-the-gdpr/

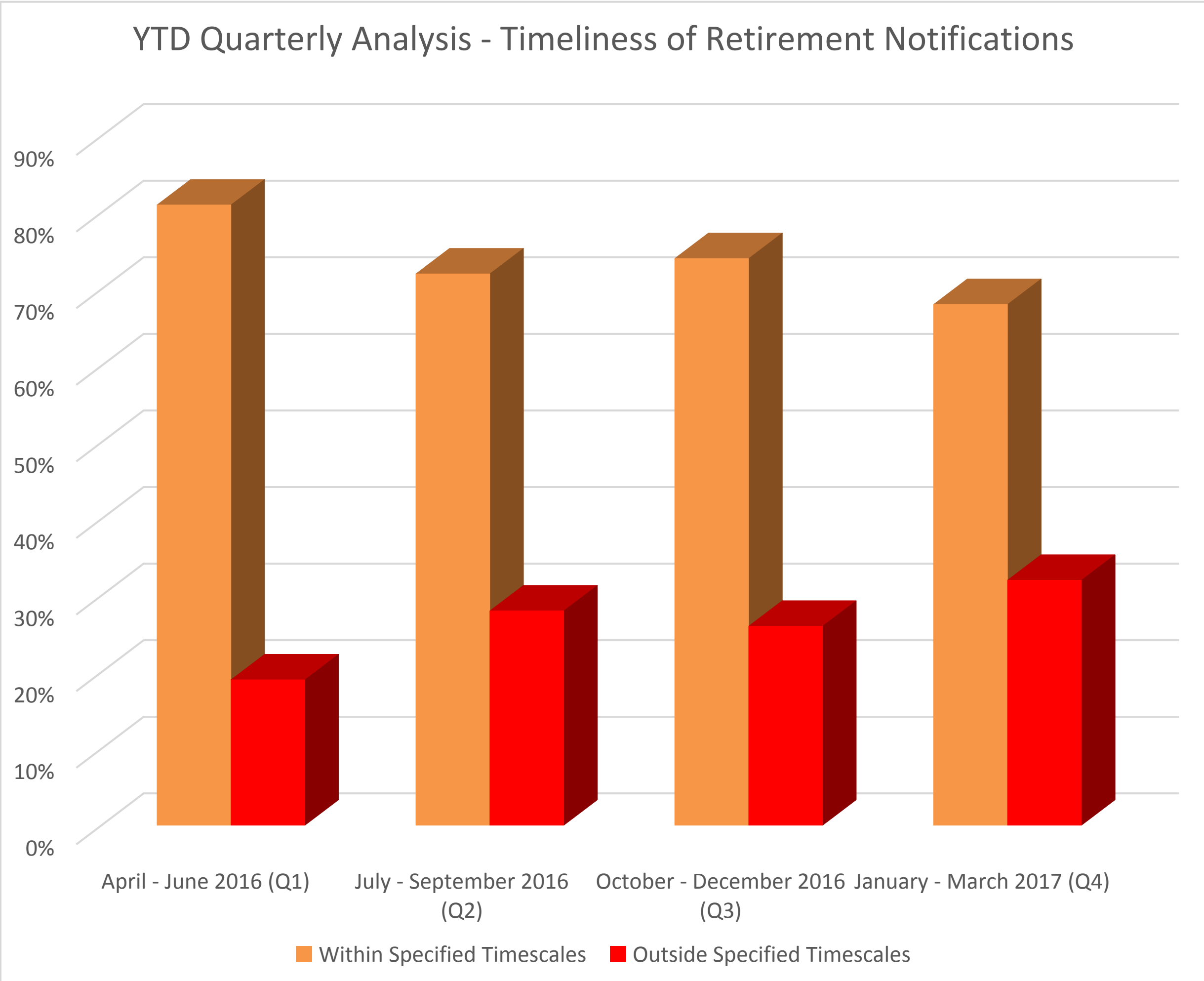
13.0 Schedule of Appendices

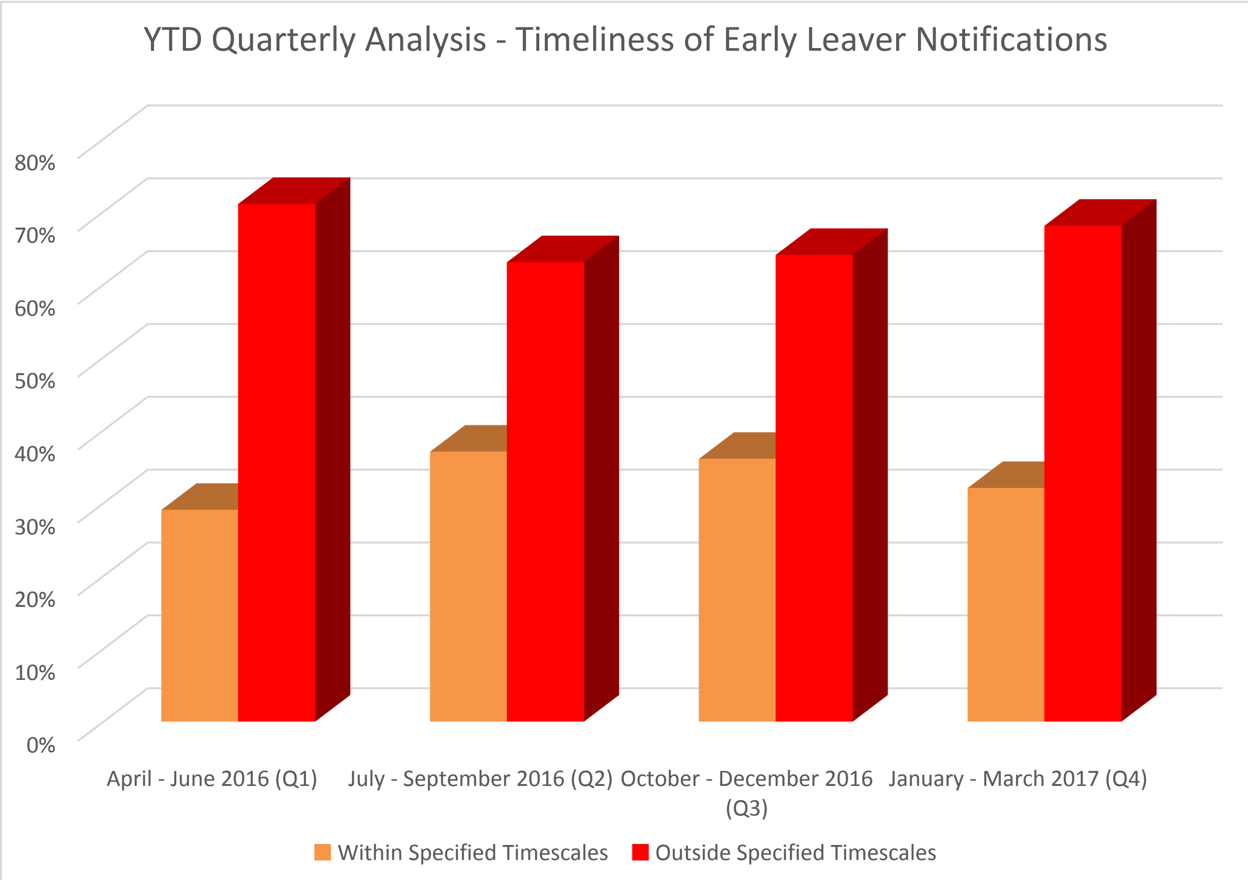
13.1 Appendix A - Quarterly analysis (YTD) of employer performance against key standards in the PAS

Appendix A

Quarterly analysis (YTD) of employer performance against key standards in the PAS




YTD Quarterly Analysis - Timeliness of Retirement Notifications
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
April - June 2016 (Q1)
July - September 2016 (Q2)
October - December 2016 (Q3)
January - March 2017 (Q4)
Within Specified Timescales
Outside Specified Timescales


YTD Quarterly Analysis - Timeliness of Early Leaver Notifications
80%
70%
60%
50%
40%
30%
20%
10%
0%
April - June 2016 (Q1)
July - September 2016 (Q2)
October - December 2016 (Q3)
January - March 2017 (Q4)
Within Specified Timescales
Outside Specified Timescales

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