

Attendance

Members of the Pensions Committee

Cllr Stephen Simkins (Chair)
Cllr Milkinderpal Jaspal (Vice-Chair)
Cllr Jasbinder Dehar
Cllr Keith Inston
Cllr Phil Page
Cllr John Reynolds
Cllr Clare Simm
Cllr Paul Singh
Cllr Jane Stevenson
Cllr Sandra Hevican (Sandwell MBC)
Cllr Bally Singh (Coventry City Council)
Cllr Joe Tildesley (Solihull Metropolitan Borough Council)
Malcolm Cantello (Trade Union Observer Representative)
Martin Clift (Trade Union Observer Representative)

Employees

Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Paul Carter	Regulatory Governance Manager- West Midlands Pension Fund
Jill Davys	Assistant Director - Investments and Finance - West Midlands Pension Fund
Peter Farrow	Head of Audit – City of Wolverhampton Council
Dereck Francis	Democratic Services Officer - City of Wolverhampton Council
Rachel Howe	Head of Governance and Corporate Services - West Midlands Pension Fund
Amanda MacDonald	Client Lead Auditor - City of Wolverhampton Council
Amy Regler	Head of Operations West Midlands Pension Fund
Holly Slater	Governance Officer – West Midlands Pension Fund
Simon Taylor	Head of Pensions - West Midlands Pension Fund

External Auditors – Grant Thornton

Grant Patterson
Terry Tobin

Part 1 – items open to the press and public

Item No. *Title*

1 Apologies for absence (if any)

Apologies for absence were submitted on behalf of Councillor Muhammad Afzal (Birmingham City Council), Councillor Harman Banger (City of Wolverhampton Council), Councillor Rose Martin (Walsall Metropolitan Borough Council) and Ian Smith (Trade Union observer representative).

2 Notification of substitute members

No notification of substitutes were received for the meeting.

3 Declarations of interests (if any)

No declarations of interests were made.

4 Minutes of the previous meeting - 27 March 2019

Resolved:

1. That recommendation 4 to Minute 6 (Quarterly Investment Report to 31 December 2018) be corrected by the inclusion of the words 'Pension Fund' after the word 'Authority'.
2. The word 'repot' be corrected to 'report' where it occurs in the Minutes.
3. That subject to 1 and 2 above, the minutes of the meeting held on 27 March 2019 be approved as a correct record and signed by the Chair.

5 Matters arising

With reference to Minute 20 (West Midlands Integrated Transport Authority Pension Fund), Rachel Brothwood, Director of Pensions reported that the application had been submitted to the Ministry for Housing, Communities and Local Government on the merger of the WMITA PF and the West Midlands Pension Fund.

6 Appointments and Dates and Times of Meetings 2019-20

The Chair invited the Committee to note and confirm appointments onto the Pensions Committee and to agree the dates and times of its meetings and those of the Pensions Board for the 2019-2020 Municipal Year.

Malcolm Cantello, Unison noted that the previous Chair of the Committee (Councillor Ian Brookfield) had been appointed by the Minister for Local Government onto the Scheme Advisory Board. He asked whether any change was proposed to the appointment. Rachel Brothwood, Director of Pensions reported that this appointment had been made through the Local Government Association and that Councillor Brookfield was expected to retain the position.

Resolved

1. That it be noted that in accordance with the Constitution of the City of Wolverhampton Council at its Annual Meeting on 15 May 2019 the Council appointed Councillor Stephen Simkins as Chair of the Pensions Committee and Councillor Milkinder Jaspal as Vice-Chair of the Committee for the 2019-2020 Municipal Year.

2. That the appointment of the following Trades Union observer representatives onto the Committee for the Municipal Year 2019-2020 be confirmed:
 - Martin Clift and Ian Smith - UNITE
 - Malcolm Cantello – Unison
3. That the following dates and times of meetings of the Pensions Committee and Pensions Board for the Municipal Year 2019-2020 be confirmed:

Pensions Committee – 10 am

25 September 2019

11 December 2019

25 March 2019

Pensions Board - 2pm

2 July 2019

22 October 2019

21 January 2020

28 April 2020

7 Internal Audit Annual Report 2018-2019

Amanda MacDonald, Client Lead Auditor, presented a report on the outcome of the programme for internal audit reviews completed during 2018-2019.

In response to questions the Lead Client Auditor confirmed that the Committee would receive a year- end report on the audit plan for 2019-2020, as received by the Committee in March 2019, in June 2020. The report would contain a summary of any issues that arise during the work on the plan and progress made on the implementation of recommended actions. Progress on implementation of recommendation actions from prior audits is also monitored. Referring to the audit work on Annual Benefit Statements, the Client Lead Auditor reported that the two recommendations related to systems improvements and increasing the access to Annual Benefit Statements, both of which had been taken forward by the Fund since the writing of the report.

In response to a question on the presentation of regular monitoring information on the issue of annual benefits statements, Rachel Brothwood, Director of Pensions confirmed that the Committee would continue to receive updates through monitoring included within the Fund's key performance indicators, reported to Committee each quarter. She also confirmed that the Senior Management Team routinely monitor progress on the delivery of actions highlighted in internal audit reports.

Resolved:

That the internal audit report for 2018-2019 be noted.

8 Governance Update Report

Rachel Howe, Head of Governance and Corporate Services reported on the main highlights from the update on the work of the Fund to deliver a well governed scheme and on the current regulatory environment in which the Fund operates.

Malcolm Cantello, Unison commented on employee exit payments and the proposal by Government to implement a £95,000 cap on payments to individuals who leave public sector employment. Rachel Brothwood, Director of Pensions reported that the proposal was subject to consultation and that the Fund would be noting concerns raised by Committee in its response, including the potential impact on individuals with long-term service earning average salaries.

Councillor Philip Page asked for further information on late trades referred to in the report. The Head of Governance and Corporate Services reported that they were occasions when the execution had not been completed on time or not at all. The reasons for which could be varied. The Fund monitored any incidents and raised them with the broker and the Fund's Custodian. The late trades had not resulted in any detriment to the Fund.

Councillor Bally Singh asked about the availability of online Pensions Committee member training. The Head of Governance and Corporate Services reported that the Pensions Regulator had created a trustee toolkit that was available online. The link could be circulated to members. She also undertook to circulate the slides from the recent training event.

The Chair asked whether the Fund was taking action to mitigate the risk of a challenge by a scheme member against the application of a £95,000 cap on their pension pay-out. The Director of Pensions informed the Committee that there was a lack of clarity on the implementation of the proposal. The draft LGPS regulations had not been issued with the consultation. The Local Government Association had published its response, highlighting a number of technical issues for consideration.

Resolved:

1. That the Training Policy developed for members of the Fund's governing bodies be approved.
2. That the top ten risks for this quarter and their movement be noted.
3. That the quarterly compliance monitoring be noted.
4. That updates on the current regulatory environment within the LGPS be noted.
5. That completion of the Fund's voluntary engagement with the Pensions Regulator, assisting development of knowledge and understanding of governance in practice for the LGPS be noted.
6. That the training hours of the Pension Committee due to be published in the Fund's Annual report and accounts be noted.

9 **Annual Report of the Local Pensions Board**

Rachel Howe, Head of Governance and Corporate Services presented the report on the work undertaken by the Local Pensions Board during 2018-2019. The production of the annual report was a legislative requirement.

Resolved:

That the report be noted.

10 **Quarterly Investment Report to 31 March 2019**

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

Councillor John Reynolds suggested a slight amendment to the future presentation of the table on WMPF asset class, in order make clearer the assets that fall within 'stabilising assets'

Councillor Bally Singh asked how the Fund was performing against benchmarks and whether the Fund was investing in emerging markets such as Africa. The Assistant Director confirmed that the Fund reported its performance against benchmarks similar to those adopted by other Funds in the public and private sector. Benchmarks are routinely reviewed to ensure they remain appropriate and following significant change in the portfolio during 2018/19, the current review is expected to lead to some change, with outcomes to be reported to Committee in September. Regarding the emerging markets, the Fund had some exposure and has been holding an overweight position in emerging market equities. There is no specific allocation to Africa but regional opportunities and how the Fund accesses these, will be reviewed with the Investment Advisory Panel, as they arise.

Councillor Jane Stevenson asked whether the weakness of the retail sector throughout 2018 and so far this year had necessitated altering the property strategy towards the sector going forward and whether offloading of retail assets were planned. The Assistant Director acknowledged the concern and agreed the position was under consideration as part of the investment strategy but that the Fund had benefited from being significantly underweight in the retail sector. The Assistant Director went on to reference some recent purchases as part of the portfolio confirming the Fund would only make acquisitions in the retail area when the assets met strict investment criteria, including level of expected yield. In terms of the overall strategy for the retail sector, it was one of caution.

Referring to the Fund's cash balances, Malcolm Cantello, Unison asked whether the Fund should consider changing the target percentage for the level of cash it held. The Assistant Director reported that the Fund expected cash balances to move slightly above or below the 2% policy target. Aside from this, balances were considered in the context of potential collateral requirements for the currency hedging programme and the returns available on short term deposits.

Councillor Milkinder Jaspal noted that in difficult times it was good to hold cash balances. The Chair added that with uncertainty in the sectors the Fund needed to be prudent and maintain appropriate cash balances.

Resolved:

1. That the global market and investment update paper prepared by the Fund's adviser, Redington, included at appendix A to the report be noted.
2. That the Quarterly Asset Allocation and Performance Reporting for the West Midlands Pension Fund be noted.
3. That the Quarterly Asset Allocation and Performance Reporting for the West Midlands Integrated Transport Authority Pension Fund be noted
4. That the updated information received in relation to the Fund's investment costs transparency reporting be noted.

Responsible Investment Activities

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

Councillor John Reynolds welcomed the focus on climate risk and opportunities. He suggested that a good message to communicate to pension scheme members was the work the Fund was engaged in to respond to climate risk. He also suggested that 'human rights' be incorporated into the Fund's priority engagement themes for 2019-2020. Councillor Bally Singh referred to the climate emergency and asked whether the Fund could use that to consider climate net zero and setting itself targets for investments being target net zero.

In response to questions and comments made, Jill Davys, Assistant Director investments and Finance reported that Human Rights was a particular focus of engagement within the programme of activity undertaken within the LGPS Central pool. More information would be included in future update reports. The Director of Pensions informed the Committee that the Fund was working with LGPS Central to develop a climate risk monitoring platform to develop a suite of metrics to consider the Fund's exposure to climate risk over time. The Director also gave an update on the engagement with Lockheed Martin, being taken forward by LAPFF on behalf on the Fund.

The Chair added that equal pay should be a key part of the Funds social strategy going forward.

Councillor Milkinder Jaspal reported that whilst climate risk and Human Rights are important issues, the Fund needed to take a balanced approach in terms of its investments. Scheme members would want to see the Fund achieving returns on its investments.

Resolved:

1. That the Fund's updated Responsible Investment Framework be approved
2. That the Fund's updated Voting Principles (UK) be approved
3. That the Fund's updated statement of Compliance with the UK Stewardship Code for Institutional Investors be approved
4. That the Fund's voting and LAPFF's engagement activity for the three months ending 31 December 2018, including Appendix D be noted.
5. That the issues discussed in the LGPS Central Quarterly Stewardship Report which is available on the LGPS Central website be noted:
<https://www.lgpscentral.co.uk/responsibleinvestment/>
6. That the issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on the LAPFF website:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/> be noted.

12 **Statement of Accounts 2018-19**

Jill Davys, Assistant Director, Investments and Finance presented for approval the draft Statement of Accounts for the year ending 31 March 2019. The draft accounts had been certified by the Fund's Section 151 Officer as required by regulations and would now be subject to external audit.

Grant Patterson and Terry Tobin from the Fund's external auditors, Grant Thornton were in attendance for this item. They gave an update on progress with the audit of the Fund's accounts and in relation to the more advanced audit of the West Midlands Integrated Transport Authority Pension Fund, for which they anticipated issuing an unqualified opinion.

In response to questions Grant Thornton explained how materiality was applied in relation to the Fund and that 'trivial' items identified below the materiality level would be reported to the Fund's Senior Management Team. They were required to record all matters it finds during the audit. Malcolm Cantello, Unison said that he was pleased to hear that the external auditors reported, through discussion with the Funds management, on 'trivial' items highlighted through the external audit.

Councillor John Reynolds commented that the Fund should look at the management costs in context of the returns on investment.

In response to questions on how the Fund benchmarks itself, the Assistant Director, Investments and Finance reported that the Fund engages with an external firm CEM to benchmark the Fund's performance and costs. Based on the most recent analysis of the five years to 2019, the Fund compared favourably to LGPS and non-LGPS peers, demonstrating that the Fund investment strategy offered good value for its costs on implementations. The Director of Pensions reported that the Fund was also part of a steering group looking at wider benchmarking of governance and administration costs.

Resolved:

1. That the draft Statements of Accounts for the year ending 31 March 2019 be approved.
2. That it be noted that the draft accounts have been certified by the Section 151 Officer as required by regulations.
3. That it be noted that the draft Annual Report and Accounts for West Midlands Pension Fund would 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. That it be noted that the audit of the accounts for the West Midlands ITA Pension Fund is nearing completion and the auditors anticipate issuing an unqualified opinion.

13 **Budget Monitoring 2018-19 and Quarterly Accounts March 2019**

Jill Davys, Assistant Director, Investments and Finance presented the report on the outturn for the year against operating budgets and quarterly accounts as at the end of March 2019.

Malcolm Cantello, Unison said that with LGPS Central being operational for over a year, he expected to be seeing a reduction in external management costs. The Assistant Director reported that the investment management costs were an absolute and based on the cost of assets being managed, LGPS Central was on target to deliver the long-term savings projected. There was a recognition nationally that the cost of the investment pooling process would be high to start with as would the cost of transitioning assets, but long-term would deliver savings.

Councillor Bally Singh asked how transparent and user friendly was the information on the Fund's costs to pension scheme members. The Director of Pensions confirmed that the Fund was transparent with its members on management costs through both Fund member communications and reporting to Committee, Local Pension Board and employer forums.

Resolved:

1. That the quarterly accounts for the period ending 31 March 2019 be noted, which show that:
 - the value of West Midlands Pension Fund at this date was £15.7 billion, an increase of £294 million from 31 March 2018;
 - the value of West Midlands Integrated Transport Authority Pension Fund at this date was £491.7 million, a decrease of £0.3 million from 31 March 2018.
2. That it be noted that the outturn against operating budgets as at the end of March 2019, is an over spend of £8.7million, primarily attributable to greater transparency over reported investment management costs following early adoption of new industry-wide reporting templates developed with the Cost Transparency Initiative.

14

Business Performance and Data Management

Rachel Howe, Head of Governance and Corporate Services presented an update on the work of the Fund in delivering improved data quality in line with the Pension Regulator's Code of Practice and an end of year overview of Fund performance against its set objectives.

Resolved

1. That the reviewed and updated Data Management Strategy be approved.
2. That the progress of work on the Monthly Submissions project be noted.
3. That the work to progress delivery of Annual Benefit Statements be noted.
4. That the Fund's Key Performance Indicators as an annual review be noted.
5. That the work of the Fund on delivering its Digital Transformation Programme be noted.
6. That the progress of Guaranteed Minimum Pension (GMP) Reconciliation be noted.

15 **Pensions Administration Report 1 January to 31 March 2019**

Amy Regler, Head of Operations presented the report which provided an overview of the work undertaken by the pensions administration service during the period 1 January to 31 March 2019 for both the Main Fund and the West Midlands Integrated Transport Authority (WMITA) Pension Fund.

Resolved:

1. That the write-offs detailed in section 10.0 of the report be approved.
2. That the applications approved by the Director of Pensions and the Chair or Vice-Chair of Pensions Committee for admission to the West Midlands Pension Fund be noted.
3. That the pensions administration activity for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund), in particular the increasing work volumes be noted.

16 **Customer Engagement Update**

Simon Taylor, Head of Pensions presented the main highlights from the update report of the Fund's customer engagement activity from 1 January to 31 March 2019, in line with its Customer Engagement Strategy.

In response to a question from Councillor Bally Singh, the Head of Pensions reported that the Fund does incorporate questions within its surveys that were akin to 'net promoter score', a management tool to gauge the loyalty of a firm's customer relationships.

Resolved

1. That the Communication Policy included at appendix A to the report be approved.
2. That the engagement activity and informed service development be noted.

17 **Exclusion of press and public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information falling within the paragraph 3 of Schedule 12A of the Act.

18 **Investment Strategy and Activity Update**

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

In response to questions, the Assistant Director, Investment and Finance reported on the proposals for a low carbon factor-based ACS sub-fund and how it would operate. The Assistant Director also explained that the request to reaffirm the delegation on implementing changes to the Fund's strategic currency hedging policy, would enable

the Fund to move outside the agreed guidelines if market conditions changed significantly. Members of the Committee supported the request but asked that the delegation be exercised in consultation with the Chair and Vice-Chair of the Committee and that it be reported back to the Committee when the delegation is exercised.

The Chair asked that the Fund consider how it could drive through efficiencies on its investments through the Investment Strategy Statement (ISS). The Assistant Director reported on pieces of work that would be taking place that would contribute to that aim. The review of the Strategy by the Investment Advisory Panel, the work on the actuarial valuation; CEM's benchmarking work regarding the efficiency and effectiveness of the Fund would all inform review of the ISS. The Assistant Director undertook to report back on any new areas for efficiency in implementation during the course of the year.

Resolved:

1. That authority be delegated to the Director of Pensions and Assistant Director- Investments and Finance following consultation with the Chair and Vice-Chair of the Pensions Committee to implement changes to the Fund's strategic currency hedging policy in conjunction with advice received from the Fund's Investment Advisory Panel (IAP) and that it be reported back to the Committee when the delegation is exercised.
2. That the update on investment strategies for the main Pension Fund (WMPF) and the WMITA (West Midlands Integrated Transport Authority) Pension Fund be noted.
3. That highlights of recent activity within the Pension Fund be noted.

19

LGPS Central Investment Pooling

Rachel Howe, Head of Governance and Corporate Services presented on an overview of the roles required to ensure the delivery of investment pooling in line with statutory requirements and to seek appropriate nominations to the Joint Committee and Shareholder representative.

Malcolm Cantello, Unison commented that with West Midlands Integrated Transport Authority Pension Fund's eventual involvement in investment pooling, he hoped that there would not be a double cost impact, should merger proceed. Jill Davys Assistant Director, Investment and Finance reported that there should not be any transition costs for the WMITA PF on merger as assets would be expected to be re-registered in name-only. Transition costs for investment pooling within LGPS Central are considered on a case-by-case basis.

Resolved:

1. That the Chair of the Pensions Committee be appointed to the Joint Committee for the LGPS Central Investment Pool and the Vice-Chair of the Committee be appointed as substitute.
2. That the Director of Pensions be appointed to act as Shareholder representative at LGPS Central Limited company meetings.

20 **Annual Report on the Investment Advisory Panel and the Investment and Funding Strategy Panel for West Midlands Integrated Transport Authority Pension Fund**

Jill Davys, Assistant Director, Investments and Finance presented the report on the activities of the Investment Advisory Panel (IAP) and the West Midlands Integrated Transport Authority Pension Fund (WMITA PF) Strategy Panel (Investment and Funding) during 2018/2019.

Resolved:

That the work of the Investment Advisory Panel and the WMITAPF Strategy Panel (Investment and Funding) for 2018/2019 be noted.

21 **2019 Actuarial Valuation Update**

Simon Taylor, Head of Pensions presented the report on an update on progress of the 2019 actuarial valuation.

Resolved:

1. That the report and the associated update on progress with the 2019 actuarial valuation of both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Pension Fund (the WMITA Fund) be noted.
2. That the update on the associated employer covenant review in the context of the Fund's Integrated Risk Management Framework, to include exposure aligned to climate risk and the FE College review be noted.

22 **Pension Fund Structure 2019**

Rachel Brothwood, Director of Pensions presented the report on an overview of staffing within the Fund service structure, together with proposed changes to support service delivery and day-to-day decision making.

In response to questions from the Committee, the Director of Pensions reported on the current position regarding filling of vacancies in the Fund's structure. The structure included Graduate Management Trainees that were appointed as part of a rolling programme over a two-year period and one year placements, primarily targeted at those required to undertake an industrial placement as part of their degree. The Director confirmed that training programmes were being applied to support the Fund's objective to grow organically.

Resolved:

1. That the pension Fund service structure at as April 2019, together with the overview of proposed changes to support service delivery through recruitment to key roles and ongoing development of the graduate and training programme be noted.
2. That the recruitment proposed for the investment team to support the Fund in development and delivery of investment strategy and responsible investment activity, alongside the ongoing implementation of investment pooling be noted
3. That the overview of the Fund's internal management structure be approved.