

Attendance

Members of the Pensions Committee

Cllr Stephen Simkins
Cllr Milkinderpal Jaspal (Chair)
Cllr Keith Inston
Cllr Phil Page
Cllr John Reynolds
Cllr Paul Singh
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Sandra Hevican (Sandwell MBC)
Cllr Bally Singh (Coventry City Council)
Cllr Councillor Alan Taylor (Dudley MBC)
Malcolm Cantello (Trade Union Observer Representative)
Ian Smith (Trade Union Observer Representative)

Employees

Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Tom Davies	Assistant Director - Investment Strategy - West Midlands Pension Fund
Jill Davys	Assistant Director - Investment Partnership - West Midlands Pension Fund
Fabrica Hastings	Democratic Service Assistant – City of Wolverhampton Council
Rachel Howe	Head of Governance and Corporate Services - West Midlands Pension Fund
Jaswinder Kaur	Democratic Services Manager (Host) - City of Wolverhampton Council
Lauren Pote	Governance Support Officer - West Midlands Pension Fund
Hayley Reid	Regulatory Governance Manager – West Midlands Pension Fund
Amy Regler	Head of Operations - West Midlands Pension Fund
Darshan Singh	Head of Finance - West Midlands Pension Fund
Holly Slater	Governance Officer - West Midlands Pension Fund
Simon Taylor	Assistant Director – Pensions - West Midlands Pension Fund
Kirsty Tuffin	Democratic Services Officer – City of Wolverhampton Council

Part 1 – items open to the press and public

Item No. *Title*

1 Apologies for absence (if any)

Apologies were received from Martin Clift, Councillor Jas Dehar, Councillor Rose Martin, Councillor Clare Simm, Councillor Joe Tildesley and Councillor Harman Banger.

Please note: Councillor Alan Taylor joined the meeting at 10:11 and Councillor Stephen Simkins joined at 10:53.

2 Declarations of interests (if any)

There were no declarations of interest.

3 Minutes of the Previous Meeting

That the minutes of the previous meeting held on 17 June 2020 be approved as a correct record and signed by the Chair, subject to the following amendment be added to section 8:

In response to a question from Cllr Reynolds, The Assistant Director, Investment Partnerships agreed to provide further information to the committee on the comparative performance of the energy companies, across the different sectors in which the Fund is invested, so that actual and projected return could be considered alongside the role of renewable energy and clean technology, noting the Fund's evidence based approach to investing over the long term. The Committee noted that the response to climate change requires a wider social and behavioural change to influence demand and the ongoing importance of engaging with policy makers and other investors to drive change.

As per item 8, point 4, of the minutes from the previous meeting be changed to include 'be noted'.

4 Matters arising

Rachel Brothwood, Director of Pensions, advised the Committee that the Management Representations letter to Grant Thornton had been agreed and that the Fund had published its Annual Report following delegation agreed by the Committee in June 2020, complying with the LGPS regulatory requirement to publish by 1 December.

Further to concerns raised by Ian Smith on the member impact of delay in an employer establishing an admission agreement with the Fund following TUPE transfer, Simon Taylor, Assistant Director, Pensions provided an update on employer engagement and the escalation in dialogue undertaken to resolve.

5 Budget Monitoring 2020/2021 and Quarterly Accounts - 30 September 2020

Darshan Singh, Head of Finance, presented the report on the forecast out-turn against operating budget for 2020/2021 and presented the quarterly accounts to 30 September 2020.

The Committee were advised that since 31 March 2020 the recovery in the markets and advanced employer contributions received relative to benefits paid had increased the estimated value of the West Midlands Pension Fund by £2.5billion. The increase in forecast investment costs was noted to be linked to both rising assets values and change in the strategic asset allocation.

Resolved:

1. That the delegation for the review and sign-off of the budget in connection with Fund premises to the Director of Pensions in consultation with the Chair and Vice Chair be approved.
2. That the quarterly accounts for the period ending 30 September 2020 which estimated the value of West Midlands Pension Fund at this date to be £17.8 billion, an increase of £2.5 billion (16%) since 31 March 2020 be noted.
3. That the West Midlands Pension Fund forecast out-turn for the year against operating budgets as at the end of September 2020 is an overspend of £6.3m primarily attributable to increased estimates for investment management costs on implementation of planned changes to the investment strategy be noted.

6 **Quarterly Investment Report to 30 September 2020**

Tom Davies, Assistant Director, Investment Strategy, presented the Quarterly Investment Report that outlined developments in investment markets, asset allocation and investment performance over the latest quarter in relation to the West Midlands Pension Fund (Main Fund and Admitted Body Sub Funds).

The Committee were advised that the main Fund benchmark had been met for the last quarter at 2.1% and performance had been marginally above benchmark on a 10 year basis, noting the short term volatility in emerging market equity and infrastructure as a result of the current environment, with expectation for recovery longer term. Strong equity market performance was noted, with both newer sustainable equity and Climate Factor strategies making a positive contribution and property income showing resilience relative to the wider market as a result of the sector weightings.

In response to a question from Malcolm Cantello (Unison) about the amount of cash held by the Fund, Tom Davies advised that the Fund was increasing allocation to infrastructure and private debt having made commitments, but that drawdown of those commitments would appear over time as due diligence is completed and timing is considered. Councillor Reynolds requested if the Fund looked to pursue further investment in China, that a report be brought to Committee on action taken with regard to stewardship of Human Rights.

Resolved:

1. That the global market and investment update paper prepared by the Fund's Investment Consultant, Redington be noted.
2. That the Asset Allocation and Performance Reporting for the West Midlands Pension Fund (WMPF), Main Fund and Admitted Body Sub Funds be noted.

7 **Responsible Investment**

Jill Davys, Assistant Director, Investment Partnerships, presented the report on the work undertaken in relation to responsible investment activities since the last Pensions Committee meeting.

The Committee were advised that engagement in climate change had extended beyond the more traditional energy sectors and included food, online retailers, transport utilities. Critical engagement had taken place through various groups, including Climate Action 100+ that would help drive the climate change agenda and disclosure of commitment and actions.

Jill Davys confirmed that the Fund had published its first standalone report on climate change related disclosure in line with recommendation made by the taskforce on climate related financial disclosure (TCFD). It was noted that the report demonstrates how actions taken by the Fund to date have acted to reduce exposure to transition risk within the portfolio.

Members noted correspondence received regarding the Fund's exposure to fossil fuels, with responses being prepared for issue, together with a further briefing on concerns raised.

Councillor Reynolds welcomed the focus on deforestation and noted the demand for soya and meat was a driver for climate change and an area where further engagement would be welcome.

Councillor Bally Singh welcomed the report and additional transparency, requesting greater active engagement and call-out of outliers, noting Exxon Mobil had more to do to demonstrate commitment to change.

Councillor Simkins noted the need for the Fund to consider in more detail, the opportunities for investment in new clean technologies, and the learning and skills to delivery these new industries.

Malcolm Cantello requested further information on engagement activity.

The Chair, Councillor Milkinderpal Jaspal, concluded the discussion noting the Committee would continue to monitor this area in context of the Fund's exposure and action required by all to address the root causes of climate change.

Officers agreed to continue to develop reporting and information in response to the requests made by the Committee.

Resolved:

1. That the Publication of the Fund's first stand-alone report prepared in line with recommendations from the Taskforce on Climate Related Financial Disclosure (TCFD) be approved.
2. That the Fund's engagement and voting activity for the three months ending 30 September 2020 be noted.
3. That the research and engagement activity undertaken by LAPFF as set out in the Quarterly Engagement Report, available on the LAPFF website:

https://lapfforum.org/wpcontent/uploads/2020/10/LAPFF_QER3_2020.pdf be noted.

4. That the voting and engagement activity of LGPS Central, as set out in the Quarterly Stewardship Report, available on the LGPS Central website: <https://www.lgpscentral.co.uk/wpcontent/uploads/2020/11/LGPSC-Quarterly-Stewardship-Update-Q2-2020-21-1.pdf> be noted.

8 **Pensions Administration Report from 1 July to 30 September 2020**

Amy Regler, Head of Operations, presented the report on the routine operational work undertaken by the pension's administration service areas during the period 1 July to 30 September 2020.

The Committee were advised that following an increase in some pension processes volumes had returned back to business as usual levels during the quarter, with target KPI's met in August 2020 and September 2020.

Key projects in the Digital Transformation Programme were now live following rigorous security testing, and development of new functionalities in the Employer Hub.

Resolved:

1. That the write-offs detailed in section 13 of this 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 impact of COVID19 on the workload across service areas supporting pension administration be noted.
4. That the update on progress of the Fund's Digital Transformation Programme be noted.
5. That the enhanced processes in place to routinely test and improve accuracy of Fund member records be noted.

9 **Customer Engagement Update**

Simon Taylor, Assistant Director, Pensions, presented the report on the Fund's customer engagement activity from 1 July 2020 to 30 September 2020 and future planned customer engagement activity in the context of the Fund's Customer Engagement Strategy.

The Committee were advised that the Fund had transitioned its offering to digital in response to the pandemic, with success seen in the delivery of 32 virtual webinars and 396 follow up telephone consultations with individual pension members. Feedback on these sessions were extremely positive with roll out of Virtual Employer Peer Group also taking place over the quarter, and further online coaching sessions planned. The Fund had met with the Customer Service Excellence (CSE) assessor to discuss customer engagement and were awaiting the final report back but were pleased to be able to report the Fund's re-accreditation with "compliance plus" status.

Resolved:

1. That the proposed further postponement to review the Pensions Administration Strategy (PAS) and the associated consultation be approved.
2. That the engagement activity and customer support provided aligned to the Covid-19 restrictions be noted.

10 **Pensions Administration Benchmarking and Accreditation**

Amy Regler, Head of Operations, presented the report on the benchmarking exercises undertaken in relation to 2019/2020 for the delivery of Fund's Pension Administration Services.

The Committee were advised that the Fund participated in the annual benchmarking exercises in Pension Administration to help assess improvements and assess value add in the service offering. 2018/2019 had been the first year that CEM benchmarking had undertaken review of LGPS pension administration functions. The Fund has seen a service score improvement for 2019/2020 compared to 2018/2019 in areas such as; average call waiting times and the percentage of members registered on the online portal.

The Committee were advised that the West Midlands Pension Fund were the first Local Government Pension Fund in England and Wales to successfully achieve the Pension Administration Standards Association (PASA) accreditation which would remain in place for three years. Members thanked all the team for their hard work.

Resolved:

1. That the initial results and key outcomes of the benchmarking exercises undertaken for 2019/2020 for the Fund's Pension Administration Services be noted.
2. That the achievement of the Pension Administration Standards Association (PASA) Accreditation be noted.

11 **Governance and Assurance**

Rachel Howe, Head of Governance, presented the report on the work of the Fund to deliver a well governed scheme.

The Committee were advised that the Fund had submitted the tPR's Annual Scheme return to the regulator ahead of the 15 December 2020 deadline. A final run of Annual Benefit Statements would take place on 11 December to maximise production of 2020 statements.

Resolved:

1. That the latest strategic risk-register and areas closely monitored in the current environment be noted.
2. That the compliance monitoring activity undertaken during the quarter be noted.
3. That the Fund's Key Performance Indicators and the action taken to support service delivery be noted.

12 **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.

13 **Employer Covenant and Funding Regulations**

Simon Taylor, Assistant Director, Pensions, presented the report on the steps being taken to align employer funding in the context of recent regulatory change with increased relevance in light of the ongoing Covid-19 pandemic.

The Committee were advised that in light of regulatory change, the Fund would consult with its employers on the proposed changes before bringing an updated Funding Strategy Statement to Committee for approval.

The Assistant Director, Pensions confirmed the Fund's approach in the management of the exit payment cap.

Resolved:

1. That the results of the most recent employer survey and indicators of increased employer covenant risk being actively monitored be noted.
2. That Regulatory change and considerations underway for funding strategy and recovery of strain costs be noted.
3. That an interim approach had been agreed for processing member benefits following the introduction of the Exit Payment regulations in November 2020, pending change to the LGPS Regulations be noted.
4. That the ongoing consideration of Academy employers and pooling of funding costs within the LGPS be noted.

14 **Covid-19 Response Update**

Rachel Howe, Head of Governance, presented the report on the Fund's response to the current global pandemic and the steps being taken to mitigate service delivery impact during further phases of lockdown.

Resolved:

1. That the steps taken by the Fund in response to the Covid pandemic and the ongoing assessment of service delivery impact be noted.

15 **Investment Strategy and Activity Update**

Tom Davies, Assistant Director, Investment Strategy, presented the report on investment strategy and activity in the West Midlands Pension Fund and Admitted Body Sub Funds over the quarter.

The Committee were advised of forthcoming changes and actions taken to review and develop sub fund strategies, including those being developed and reviewed in partnership with the LGPS Central pool.

Resolved:

1. That the update on the development and implementation of investment strategies for the main Pension Fund and Admitted Body Sub Funds be noted.
2. That the Product developments and planned transitions to the LGPS Central pool be noted.

16

LGPS Central Pool

Rachel Brothwood, Director of Pensions, presented the report on the outcome of a review of the LGPS Central pool progress and the case for pooling in the context of the West Midlands Pension Fund.

The Committee were advised that the Fund were awaiting published statutory guidance and updated regulations for consultation from Ministry of Housing, Communities and Local Government (MHCLG). Working Groups, involving nine different organisations, had been established to agree actions to further progress the ambition of the Central pool.

Resolved:

1. That the review of pooling progress relative to Statutory requirements and the aims and objectives of the Central pool Strategic Business Plan be noted.