



Pensions Committee

25 June 2014

Report title Update of Fund Strategy and Policy Statements

Originating service Pension Services

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Report to be/has been considered by

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the update of the Fund strategies and policy statements.
2. Agree the discontinuance of the Investment Strategy Statement for the reasons set out in the report.

Recommendations for noting;

The Committee is recommended to:

1. Note the contents of this report

1.0 Purpose

- 1.1 To provide an update on the changes and updates required to the Fund's Strategy and Policy Statements detailing reasons for those changes.

2.0 Background

- 2.1 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.

3.0 Statement of Investment Principles (SIP)

- 3.1 Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires a fund to prepare, maintain and publish a written statement of investment principles, governing the policy on the investment of pension fund monies.

- 3.2 The statement must cover:

- the type of investments which are to be held;
- the balance between different types of investment;
- risk;
- the expected return on investments;
- the realisation of investments;
- the extent to which social, environmental and ethical considerations are taken into account;
- the exercise of rights (including voting rights) attached to investments; and
- stock lending

- 3.3 The SIP has been updated to reflect the changes agreed by the Investment Advisory Sub-Committee in March 2014 and is attached as Appendix 1.

4.0 Investment Strategy Statement

- 4.1 It is proposed that this statement is discontinued. It is not mandatory and no longer provides up to date information that cannot be obtained from other publicly available sources (SIP and annual reports).

5.0 Compliance with Myner's Principles

- 5.1 The Fund is required to report on its compliance with the six principles (the Myner's principles) those being
- Effective decision making – right people making the right decisions
 - Clear objectives – relevant to the scheme and communicated to managers
 - Risk and Liabilities – awareness and understanding of the risks and tolerance to them
 - Performance assessment – formal processes for managers and trustees
 - Responsible ownership – established policy to discharge responsibilities as an investor including monitoring voting and if necessary intervention
 - Transparency and reporting – keep the members and other stakeholders informed
- 5.2 The Fund's statement complies with the six principles.
- 5.3 Other than a change in the date of the policy (2013 to 2014), the policy remains the same.

6.0 Funding Strategy Statement (FSS)

- 6.1 This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.
- 6.2 The FSS is reviewed in detail every three years as part of the triennial valuation and is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.
- 6.3 The Department for Communities and Local Government stated that the purpose of the FSS is
- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
 - to support the regulatory requirement to maintain as near as possible constant employer contribution rates; and
 - to take a prudent long term view of funding those liabilities.
- 6.4 The FSS includes:
- the aims and purpose of the FSS in policy terms;
 - the responsibilities of the key parties;
 - the solvency issues and target funding levels;
 - links to investment policy set out in the statement of investment principles; and
 - key risks and controls.

- 6.5 The strategy should state the measures that will be taken when a valuation reveals that the Fund is in surplus or deficit and how employer contribution rates will be adjusted to restore the solvency position over a period of years (the recovery period). The recovery period, applicable for each participating employer, will be set by the Administering Authority in consultation with the Fund actuary and the employers, with a view to balancing the various funding requirements against the risks involved.
- 6.6 To supplement the FSS the Fund has drafted a Policy on Termination Funding for Employers. This document details the West Midlands Pension Fund's (the Fund) policy on the methodology for assessment of ongoing contribution requirements and termination payments on the cessation of an employer's participation in the Fund This document also covers the Fund's policy on admissions into the Fund and sets out the considerations for current and former admission bodies.
- 6.7 The FSS was revised by Committee in March 2014 as part of the 2013 Actuarial Valuation exercise.

7.0 Social Responsibility Investment Statement (SRI)

- 7.1 Other than changes in the date (2013 to 2014) and in the SRI investments mentioned in the Statement (specifically the holding in an alternative energy fund, which has been sold) the policy remains the same.

8.0 Governance Compliance Statement

- 8.1 The statement sets out whether a fund delegates any part of their pension fund to a committee, sub-committee or officer, and must record the frequency of meetings, terms of reference and employee representation. If a fund delegates, the statement must record:
- the frequency of committee or sub-committee meetings;
 - the delegation's terms of reference, structure and operational procedures; and
 - whether the committee or sub-committee includes representatives of employing authorities or members, and if so, whether these representatives have voting rights.
- 8.2 The governance compliance statement also records the extent to which the delegation (or absence of a delegation) complies with the Secretary of State's guidance and, to the extent it does not comply, the reasons for not complying.
- 8.3 The Governance Compliance statement is not being reviewed at this time due to the significant changes being brought in under the Public Service Pensions Act 2013. We are currently awaiting Regulations which will detail the requirements for the Fund and its governance. The Statement will be reviewed as part of those changes.

9.0 Compliance with the Stewardship Code

9.1 This statement links the Fund's approach as set out in its relevant statements to the FRC Stewardship recommended practices. The FRC wants those involved in equity investing to formally commit themselves to acting as responsible asset owners and state this by publishing a compliance statement and recording the fact for publication on the FRC website. The Fund has met this best practice requirement.

9.2 Other than a change in the date of the policy (2013 – 2014) the policy remains the same.

10.0 Communications Policy Statement

10.1 The Fund has identified six distinct groups with whom it needs to communicate:

- Pension Committee members
- Scheme members
- Prospective Scheme members
- Scheme employers
- Fund staff
- Other bodies

10.2 This document outlines the Fund's policy concerning communications with these groups

10.3 This policy has been updated and refreshed to take into account the Fund's updated web portal service and the electronic delivery of benefit statements. A copy of the Policy is attached as Appendix 2.

11.0 Pensions Administration Strategy

11.1 Other than a change in the date of the policy (2013 – 2014) the policy remains the same.

12.0 Policies

12.1 Policies refreshed to reflect 2014 updates are available in electronic form on the Fund's web portal. Those with changes other than those constituting a refresh are attached as appendices.

13.0 Financial implications

13.1 There are no financial implications.

14.0 Legal implications

14.1 The Fund is meeting its legal obligations in the annual review of its policies.

15.0 Equalities implications

15.1 As the review of the policies is an annual task and simply updates/refreshes existing policies, it is not considered that there are any equalities implications other than those already considered at the original drafting of the policy

16.0 Environmental implications

16.1 None identified

17.0 Human resources implications

17.1 None identified

18.0 Corporate landlord implications

18.1 None identified

19.0 Schedule of background papers

19.1 The Fund statements are quite bulky when published in paper format and therefore, only those with significant amendments are attached to this report. They are available on the Fund's website www.wmpfonline.com.

19.2 For legislative references please see www.legislation.gov.uk