

Pensions Committee

Minutes - 6 September 2017

Attendance

Members of the Pensions Committee

Cllr Ian Brookfield (Chair)
Cllr Keith Inston (Vice-Chair)
Cllr Harbans Bagri
Cllr Peter Bilson
Cllr Jasbir Jaspal
Cllr Louise Miles
Cllr Phil Page
Cllr Paul Singh
Cllr Tersaim Singh
Cllr Wendy Thompson
Cllr Keith Chambers (Walsall MBC)
Cllr Steve Clark (Dudley MBC)
Cllr Sandra Hevican (Sandwell MBC)
Cllr Changese Khan (Birmingham City Council)
Cllr John Mutton (Coventry City Council)
Cllr Angela Sandison (Solihull MBC)
Malcolm Cantello (Trade Union Representatives)
Alan Phillips (Trade Union Representatives)
Ian Smith (Trade Union Representatives)

Employees

Geik Drever	Strategic Director of Pensions - West Midlands Pension Fund
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Head of Finance - West Midlands Pension Fund
Amanda MacDonald	Client Lead Auditor - City of Wolverhampton Council
Jason Fletcher	Chief Investment Officer - West Midlands Pension Fund
Dereck Francis	Democratic Services Officer - City of Wolverhampton Council
Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Claire Nye	Director of Finance - City of Wolverhampton Council
Michael Marshall	Responsible Investment Officer - 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 of Mr Martin Clift, UNITE.

2 **Notification of Substitute Members**

No notification of substitutes were received for the meeting.

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

Councillor Louise Miles declared a non pecuniary interest in agenda item 17 so far as she is an employee of the University of Wolverhampton.

4 **Minutes of the previous meeting - 21 June 2017**

Resolved:

1. That the resolution to Minute No. 15 (Annual Report of the Local Pensions Committee) be corrected by the deletion the words 'Pensions Committee' where it appears twice.
2. That subject to 1. above, the minutes of the previous meeting held on 21 June 2017 be approved as a correct record and signed by the Chair.

5 **Matters arising**

There were no matters arising from the minutes of the previous meeting that were not otherwise covered in reports on the agenda for the meeting.

6 **Economic and Market Update - July 2017**

Jason Fletcher, Chief Investment Officer outlined the salient points of the economic and market update quarterly report 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.

7 **Responsible Investment Activities**

Jason Fletcher, Chief Investment Officer outlined the salient points of the updated report on the work undertaken by the Investment team regarding their responsible investment activities between the period 1 January to 31 March 2017.

In response to questions from Members, Michael Marshall Responsible Investment Officer stated that engagement with companies was continuing and that the Fund were actively working with LAPFF to encourage responsible investment practice in the Fund's investments. Michael stated that engagement was a long term process to ensure long term change in the companies the Fund engages with.

Referring to the Fund's investment in Hanwha Corp, Cllr Louise Miles requested her objection to the investment be minuted. The Director of Pensions confirmed further updates on the engagement would be provided in advance of the next meeting.

In response to Malcolm Cantello, the Chief Investment Officer reported that there was no further update regarding National Express and their union relations in the US. The Fund's concerns were raised at the National Express Plc's Annual General Meeting.

The Chair referred to resolutions the Fund had received from Birmingham City Council calling for the Fund to disinvest from fossil fuels companies. He said that he hoped that the Council would be happy with the Committee's position to not

disinvest. Regarding Hanwha, he added that there may come a time when the Fund should consider the investment with Hanwha but that the Fund must give the dialogue a chance for now to see what transpires.

In response to Malcolm Cantello, the Responsible Investment Officer explained the Fund's voting position at Sports Direct AGM in September 2018, Rachel Brothwood, Director of Pensions went on to explain why in the Fund's view that continued engagement with Sports Direct was to achieve a positive outcome for the Fund as an investor and that the situation was being closely monitored.

The Chair noted that engagement with National Express Plc about its union relations in the US had now proved successful with the company meeting with the US union, marking an improvement in the company-union relations. The Fund's engagement had therefore concluded.

Resolved:

1. That an update to the Responsible Investment Framework in which the West Midlands Integrated Transport Authority fund is formally included within the scope of the framework attached at Appendix 1 to the report be approved.
2. That the Fund's voting and LAPFF's engagement activity for the three months ending 30 June 2017, including Appendix 2 to the report be noted.
3. 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/qrtly-engagement-reports/>
4. That the update provided on the recent engagement activities with Hanwha Corporation 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 had responded to a motion from Birmingham City Council calling on WMPF to divest from fossil fuels companies.

8 **The Markets in Financial Instruments Directive II (MiFID II) - Opt Up to Professional Client**

Jason Fletcher, Chief Investment Officer presented the update report on the final policy statement issued by the Financial Conduct Authority in July 2017, confirming the rules for implementation of an EU directive which would (without action) impact on the client categorisation of Local Government Pension Scheme's and the Fund's ability to implement investment strategy. Under the directive the Funds (West Midlands Pension Fund and West Midlands Integrated Transport Authority Pension Fund) would be reclassified as Retail Clients in a change from their current status as Professional Client. The Chief Investment Officer explained the implications of the classification for the Funds and why they would need to 'opt up', and the process and considerations. The deadline for completing the process of reclassifying the Funds was 3 January 2018.

The Director of Pensions explained that in accordance with the regulations responsibility for the classification of investors was determined by each of the Funds individual investment managers. The Fund was currently treated as a Professional

client and sees no reasons why collectively the investment managers would not agree to 'opt up' the Fund to Professional Client status. In the event that a manager did not support the Fund's request they would need to provide a reason for this which could be challenged. The Committee would be updated on progress in December 2017.

Resolved:

1. That the opt-up of the Funds to Professional Client status be approved.
2. That the Director of Pensions be authorised to request the Funds' existing investment managers treat both the West Midlands Pension Fund and West Midlands Integrated Transport Authority Fund as Professional Clients.
3. That it be required that all future manager appointments (including LGPS Central) are subject to classification of the Fund as a Professional Client.
4. That the delegations in place in relation to investment decisions as summarised in 4.6 of the report be confirmed.
5. That the greater clarity now available on the criteria local authorities administering LGPS pension funds must meet to "opt-up" and retain Professional Client status be noted.
6. That the protections available to Retail Clients which are not available following opt-up to Professional Client be noted.
7. The impact reclassification to Retail Client would have on the Funds' ability to invest be noted.

9 **Annual Report and Accounts 2016/17**

David Kane, Head of Finance, presented for approval, and publication on the Fund's website, the audited annual report for the year ending 31 March 2017. Only minor changes had been made to the draft report and accounts as presented to the Committee in June 2017.

John Gregory from the Fund's external auditors, Grant Thornton was in attendance. He presented the key findings from their audit as contained in their report 'Audit Findings for the West Midlands Pension Fund. Grant Thornton anticipated providing an unqualified opinion in respect of the Fund's financial statements.

The Chair welcomed the findings from the external auditor. He particularly noted the external auditor's findings on the pressures the Fund had experienced to complete the audit and that would exist in 2017/18 as result of a requirement to complete and audit the 2017/18 accounts by 31 July 2018, and the disruption to Pension Fund staff that would be caused by the commencement of LGPS Central from April 2018 and the impact this could have on the closedown and audit process.

Resolved:

1. That the Annual Report for the year ending 31 March 2017, and its publication on the Fund's website following completion of the external audit be approved.
2. That the Grant Thornton's Audit Findings Report be noted.

3. That it be noted that the Management Representation letter had been finalised and would be signed by the Chair on behalf of the Fund.

10

Service Plan Monitoring 2017/18 and Quarterly Accounts June 2017

David Kane, Head of Finance presented the report on performance against the Fund's key performance indicators (KPIs), the forecast outturn for the year against operating budgets and the position on the quarterly accounts for the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority (WMITA) Pension Fund for the period end of June 2017.

Councillor Paul Sigh welcomed the report, particularly the increase in the value of the Main Fund and the WMITA Fund during the quarter and the forecast underspend against operating budgets.

The Chair reiterated the praise for the projected forecasted underspend. In relation to the Fund's internal spend, he wanted to have the right staff and the right number of staff in place to carry out the Fund's business. Rachel Brothwood, Director of Pensions reported that there was currently a high level of activity within both the Fund and LGPS Central. The Fund was recruiting and continued to review its teams to ensure they are equipped and resourced. The Fund needed to strike the right a balance between developing its own staff and recruiting to bring in specialised knowledge and skills, noting this would bring sustainable and efficient resource.

Councillor Peter Bilson noted that cost savings achieved were from external management costs, which was one of the concerns from Birmingham City Council. He commended the Fund for the savings achieved in this area.

Malcolm Cantello expressed concern at the statistics noted on the performance indicator 'retirement options to members in 15 days'. He also asked whether there was a calculator on the Fund's website that scheme members could access to assist them in considering their pensions options. The Director responded stating that there had been a delay in receiving a number of factors from Government which had caused a delay in updating the Fund's software systems. This in turn impacted the Fund's ability to calculate retirement benefits and increasing requests to data queries and delay from late issue of calculation factors which were all being addressed. The Director of Pensions stated that extra resource was being allocated in this area and that the Fund were working through a number of national groups to encourage DCLG to issue the revaluation orders sooner. In terms of an on-line calculator, the Fund's new web portal had recently been launched. The Fund was keen to look at the online services it offered to members and its ability to develop and provide scheme members with more information.

Resolved:

1. That the performance against the Fund's key performance indicators as at the end of June 2017 be noted.
2. That the forecast outturn against operating budgets as at the end of June 2017, which is an under spend of £8.8 million be noted:
3. That it be noted that the quarterly accounts for the period ending 30 June 2017, show that:

- a. the value of West Midlands Pension Fund at this date was £15.1 billion, an increase of £855.5 million from 31 March 2017;
- b. the value of West Midlands ITA Pension Fund at this date was £517.4 million, an increase of £14.5 million from 31 March 2017.

11 **Accounting Policies 2017/18**

David Kane, Head of Finance submitted for endorsement accounting policies to be used in preparing the Funds' accounts for the 2017/18 financial year. No significant changes had been made from the 2016/17 accounting policies.

Resolved:

The West Midlands Pension Fund and the West Midlands Integrated Transport Authority Pension Fund accounting policies for the 2017/18 financial year be endorsed.

12 **Risk and Compliance Monitoring 1 April to 30 June 2017**

Rachel Howe, Head of Governance presented the compliance monitoring report for the period 1 April 2017 – 30 June 2017. She drew the Committee's attention to the addition of a new risk to the Fund's top ten risks; the exception reporting from the compliance monitoring programme; and the intention to complete the Pensions Regulator Code of Practice compliance monitoring on an annual basis rather than quarterly since it was considered to be more an assurance tool rather than a monitoring tool.

The Chair referred to the updated Trustee Training policy and thanked Trustees for their commitment in undertaking training over and above the requirement of 22 hours per year. He looked forward to their continued commitment throughout the year.

Resolved:

1. That the top ten risks for West Midlands Pension Fund referred to in Appendix 1 to the report be noted.
2. That the compliance monitoring for the quarter and the resolutions put in place to address non-compliance be noted.
3. That the Markets in Financial Instruments Directive II (MiFID II) classification process be noted.
4. That the changes to the Trustee Training Policy to reflect practice throughout the year be noted.

13 **Pensions Administration Report from 1 April to 30 June 2017**

Rachel Brothwood, Director of Pensions presented the report on work undertaken by the pensions administration service during the period 1 April to 30 June 2017 for both the West Midlands Pensions Fund (the Main Fund) and the West Midlands Integrated Transport Authority Pensions Fund (WMITA Pensions Fund). She particularly highlighted the workflow statistics and performance against key performance indicators; increase in the total number of scheme members and employers, including academies; the work of Customer services; pensions in payments; and the pensions roadshow events.

Resolved:

1. That the write-offs detailed in section 8.0 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) be noted.

14

Data Quality Report

Rachel Howe, Head of Governance presented the report on a high-level overview of where the Fund was against key performance indicators set by the Pensions Regulator relating to data quality. The report also provided the Committee with assurance for the action the Fund was taking with employers to improve data. This included the recruitment of two Data Managers to lead the Business Performance and Data team which had increased in size by 10 staff since last year; moving to monthly submission of data returns from employers by 1 September 2017; and the appointment of a Relationship Management Officer to lead on engagement with employers on the Fund including data quality.

Resolved:

1. That the quality of data held by the Fund in comparison to the standards set by the Pensions Regulator be noted.
2. That the work of the Fund to improve the quality of data held be noted.
3. That the ongoing monitoring of Data Quality of the Fund be noted.

15

Fund Structure and Governance

Rachel Brothwood, Director of Pensions presented the update report on staffing at the Fund due to take effect from 1 October 2017 following the retirement of the Strategic Director of Pensions (Geik Drever) and the appointment of the Fund's Chief Investment Officer (Jason Fletcher) to the same role within LGPS Central.

Mr Ian Smith asked whether there would be an open agreement regarding access to the Pensions Fund, for staff who are TUPE transferred to LGPS Central. The Director of Pensions advised that it would be a matter for LGPS Central to decide and a proposal was awaited from them.

The Chair congratulated the Fund's Chief Investment Officer on his appointment to the same role at LGPS Central and the Director of Pensions who would formally take over responsibility for leading the West Midlands Pension Fund with all delegations transferring to her with effect from 1 October 2017.

The Chair and members of the Committee paid tribute to the Strategic Director of Pensions, her work record, ethos, stature and influence in the wider role of the Pensions which have been significant. During her time with Wolverhampton she enhanced the pensions role and had been the driving force behind LGPS Central. Her drive and determination would be sorely missed and the Fund owed her a great debt. The Committee congratulated her on her achievements and thanked her for all her work and wished her the very best for the future.

The Strategic Director thanked the Committee for its kind words. She reported that the work had been a good challenge and she had been grateful for the opportunity she had been given to lead the Fund and for all the support she received. She also reported that the progress the Fund had made over the years had been a team effort. She expressed her gratitude to the Director of Pensions and the Senior Management Team for their backing and for support in progressing the implementation and set up of LGPS Central. She also thanked the members for all their support to her over the years.

Resolved:

That the contents of the report be noted.

16 Exclusion of the press and Public

Resolved:

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

Part 2 - exempt items, closed to press and public

17 Employer Covenant Update

Councillor Louise Miles declared a disclosable non pecuniary interest in the report in so far as she is an employee of the University of Wolverhampton.

Rachel Brothwood, Director of Pensions presented the update report on the oversight of the employer covenant strength of all participating employers in the Fund and on discussions following the completion of the 2016 actuarial valuation process, including the ongoing Academisation discussions. The report also contained a summary of case studies that had arisen giving rise to exceptional steps being taken to mitigate the Fund's exposure to default on pension liabilities and retrieve payment of exit liabilities. The Director informed the Committee that in the case of the academy that had now closed, the Fund would be seeking to recover the exit debt for the academy from the Department for Education in accordance with its academy guarantee.

The Chair commented that the case studies showed the steps officers had taken to protect the Fund and at the same time support the financial viability of organisations going forward.

Resolved:

1. That the revised employer watch list, to take into account the results of the 2016 actuarial valuation be noted.
2. That the updated covenant review for the Further Education and Higher Education sectors and the associated implications be noted.
3. That the case studies detailed within the report and the associated outcomes/next steps be noted.

18 **Asset Allocation and Investment Performance - Period to 30 June 2017**

Jason Fletcher, Chief Investment Officer reported on the major transactions within the quarterly asset allocation and investment performance report for the Fund, and on the position of the portfolio at the end of the reporting period to 30 June 2017.

In response to a question from Malcolm Cantello, the Chief Investment Officer confirmed that the Fund's cash balances were over benchmark weight at the end of the quarter and that there were plans to deploy the cash.

Councillor Angela Sandison commented that the 12.4% return for the three years to June 2017 was impressive and she noted the key contributors to this was strong performance from the insurance linked and real assets and infrastructure portfolios.

Resolved:

That the contents of the asset allocation and investment performance report for the period ended 30 June 2017 be noted.

19 **Asset Allocation and Investment Monitoring Performance Quarter Two - 1 April to 30 June 2017 West Midlands Integrated Transport Authority (WMITA) Pension Fund**

Jason Fletcher, Chief Investment Officer reported on some of the major activity which had taken place during the period ended 30 June 2017 within West Midlands Integrated Transport Authority (WMITA) Pension Fund, and on the implementation of its investment strategy.

The Chief Investment Officer also reported that in accordance with the rules to implement the MiFID II regulations referred to in minute 8 above, the WMITA Pensions Fund would need to replicate the process of the West Midlands Pension Fund (the Main Fund) to 'opt up' and be classified as a Professional Client.

Resolved:

That the contents of the asset allocation and investment monitoring report for the period ended 30 June 2017 be noted.

20 **Investment Risk Management**

Jason Fletcher, Chief Investment Officer presented the report on progress with setting up the passive currency hedge on the equities benchmark of the West Midlands portfolio and on the investments made using the index futures tools that the Committee approved in April 2017. The report focused on the investment costs, improved efficiency and value added from using these tools.

Malcolm Cantello queried whether the estimated annual cost of the currency management programme would impinge on LGPS Central and its cash flow. The Chief Investment Officer and the Director of Pensions advised that it would be a matter for the Fund to determine the arrangements for the provision of the passive currency management programme.

Resolved:

1. That the Strategic Investment Allocation Benchmark be changed to reflect the passive currency management programme that is being put in place.
2. That the officer's update on the use of index futures and the development of a passive currency management programme be noted.

21 **Investment Pooling Update**

Rachel Brothwood, Director of Pensions reported on progress made with the implementation and set up of LGPS Central (a jointly owned investment management company) in line with the Government's overall timescale of 1 April 2018 for all administering authorities in England and Wales to enter into joint (pooled) arrangements.

The programme continued to progress to schedule. Feedback from the Department for Communities and Local Government was that the Government was pleased with the progress made and the direction of travel of LGPS Central. The Financial Conduct Authority (FCA) also indicated that it did not envisage any delay in them granting the necessary approvals for the operator licence for LGPS Central. The Director also reported on the resourcing of LGPS Central including the appointment of its Board and Senior Management Team; the adoption, by LGPS Central Board, of all the legal documents required; and the issue of voting 'A' shares to the individual Funds as shareholders.

Resolved:

1. That the progress to date with the implementation of LGPS Central be noted.
2. That the adoption of the company's key legal documents and issue of shares to the Partner Funds be noted.
3. That the setting up of Practitioners' Advisory Forum with the Director of Pensions representing the Fund on this Forum be noted.

22 **Cleveland Planning Application Update**

Jason Fletcher, Chief Investment Officer reported that following the planning inquiry on a scheme to develop up to 1,000 homes on the Fund's agricultural land in Cleveland, the Secretary of State (SoS) had now made his decision. The SoS had determined to support the Fund's application thereby granting consent to the scheme. The deadline for lodging an appeal against the determination had now expired.

Resolved:

That the contents of the report be noted.

23 **Red Funnel Ferries Acquisition**

Jason Fletcher, Chief Investment Officer reported on the Fund's recent acquisition of a substantial stake (44%) in the Isle of Wight ferry operator, Red Funnel. The investment was the largest single investment in the Fund's history, marking a move toward direct investment and with this, lower leakage of performance via management costs and increased governance.

Resolved:

That the report be noted.