

Attendance

Members of the Pensions Committee

Cllr Ian Brookfield (Chair)
Cllr Keith Inston (Vice-Chair)
Cllr Harbans Bagri
Cllr Alan Butt
Cllr Jasbir Jaspal
Cllr Stephen Simkins
Cllr Clare Simm
Cllr Paul Singh
Cllr Jane Stevenson
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Sandra Hevican (Sandwell Metropolitan Borough Council)
Cllr Angela Sandison (Solihull Metropolitan Borough Council)
Cllr Angela Underhill (Walsall Metropolitan Borough Council)
Malcolm Cantello (Trade Union Representatives)
Ian Smith (Trade Union Representatives)

Employees

Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Rachel Howe	Head of Governance and Corporate Services - West Midlands Pension Fund
Jill Davys	Assistant Director - Investments and Finance - West Midlands Pension Fund
Claire Nye	Director of Finance - City of Wolverhampton Council
Jennifer Pearce	Senior Auditor - City of Wolverhampton Council
Amy Regler	Head of Operations - West Midlands Pension Fund
Holly Slater	Governance Officer - West Midlands Pension Fund
Dereck Francis	Democratic Services Officer - City of Wolverhampton Council
Simon Taylor	Head of Pensions - 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 Councillor Steve Clark (Dudley Metropolitan Borough Council), Councillor John Mutton (Coventry City Council): Paul

Sweet (City of Wolverhampton Council) and Mr Martin Clift (GMB Trade Union representative).

The Chair welcomed Councillor Angela Underhill onto the Pensions Committee and Councillor Mohammad Afzal back onto the Committee. The Chair also reported that owing to pending changes to his employment Alan Phillips (GMB Trade Union observer representative) had decided to resign from the Committee. The Chair placed on record his thanks to Alan Phillips for his contributions to the work of the Committee and the Fund and asked that a letter of thanks on behalf of the Committee be sent to him.

2 **Notification of substitute members**

No notification of substitutes were received for the meeting.

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

There were no declarations of interests.

4 **Minutes of the previous meeting - 20 June 2018**

Resolved:

1. That minute 13 (Statement of Accounts 2017-2018) be corrected by the substitution of the name 'Jill Sanderson' for 'Angela Sanderson'.
2. That subject to 1 above, the minutes of the meeting held on 20 June 2018 be approved as a correct record and signed by the Chair.

5 **Matters arising**

With reference to minute 5 Malcom Cantello (Unison) asked whether there was any update on the appointment of the Fund's Custodian. Rachel Brothwood, Director of Pensions advised that there were no further developments with the review at this stage, confirming there was no set or pressing deadline for this to be completed.

6 **GMB Nomination to Pensions Committee**

The item was withdrawn from consideration.

7 **Annual Report and Accounts 2017/2018**

Jill Davys, Assistant Director – Investments and Finance presented for approval and publication on the Fund's website, the audited annual report and accounts for the year ending 31 March 2018. A full copy of the Annual Report and Statement of Accounts had been emailed to members of the Committee prior to the meeting. The Assistant Director invited members of the Committee to contact her within the next 15 days if they had any specific comments on the report. She also reported that some adjustments had been made to the accounts including how contributions are presented, on completion of the audit. A follow up Annual Audit Letter had been received from the Fund's external auditors, Grant Thornton. They had given an unqualified opinion on the Funds accounts. The Assistant Director informed the Committee that the Fund was confident that the items highlighted during the external audit would be fully addressed. The Integrated Transport Authority Annual Statement of Accounts went through the audit process with minor amendments.

The Chair informed the Committee that he had signed the Management Representations letter to Grant Thornton in July 2018. He reported that the accounts were in good order for a large organisation that had gone through a challenging year.

He placed on record his thanks to the Fund's officers for their hard work during the year and for the smooth transition of employees and assets to LGPS Central Ltd.

Resolved:

1. That the Annual Report for the year ending 31 March 2018 and its publication on the Fund's website following completion of the external audit be approved.
2. That Grant Thornton's Audit Findings Reports for West Midlands Pension Fund (WMPF) and West Midlands ITA Pension Fund (ITA) be noted.
3. That it be noted that the Management Representations letter to Grant Thornton was signed on 31 July 2018 by the Chair and the Director of Pensions on behalf of the Fund.

8 **Budget Monitoring 2018/2019 and Quarterly Accounts June 2018**

Jill Davys, Assistant Director – Investments and Finance presented the update report on the forecast outturn for the year against the Fund's operating budgets and quarterly accounts as at the end of June 2018.

The Chair noted from the report that whilst it was early in the year, the cost-per-member was forecast to be lower than budgeted for in 2018/2019. Councillor Angela Sandison commented that she would expect the cost-per-member to reduce as the organisation grows. The Chair commented that ordinarily that would be the case. However, against the background of the increased expenditure the Fund incurred with the introduction of investment pooling and the setting up of LGPS Central Ltd, and to address other new demands placed on Funds, the cost-per-member would likely increase. In the long term the set-up costs would be recouped. That said, on the measure cost-per-member, the Fund was one of most cost-effective Funds.

Rachel Brothwood, Director of Pensions added that last year the Fund had significant underspend against the staffing budget as a number of posts were recruited through the year and later than planned. Actual expenditure would therefore be higher and the Fund is not expected to see the same level of underspend in the current financial year. The Fund was one of the lowest cost Funds in the LGPS and compared to other large UK pension schemes.

Resolved:

1. That the quarterly accounts for West Midlands Integrated Transport Authority Pension Fund for the period ending 30 June 2018 which show that the value of West Midlands ITA Pension Fund at this date was £497 million, an increase of £5 million from 31 March 2018 be noted.
2. That it be noted that the West Midlands Pension Fund outturn against operating budgets as at the end of June 2018 is an under spend of £1.04 million primarily attributable to lower external investment management costs.
3. That it be noted that the quarterly accounts for West Midlands Pension Fund for the period ending 30 June 2018 were presented at the meeting.

9 **Pensions Administration Report - April to June 2018**

Amy Regler, Head of Operations presented the report on work undertaken by the pensions administration service during the period 1 April to 30 June 2018 for both the Main Fund and the West Midlands Integrated Transport Authority Fund.

The Chair noted from the report that the Fund continued to grow in terms of the number of employers within the Fund and the case work and volume of enquiries it was now processing and commended the teams for maintaining the delivery of service.

Councillor Angela Sandison asked whether the Fund gave advice if a scheme member made enquiries about transferring out their pension. The Chair reported that it was not the role of the Fund to give advice. If the transfer value was below £30,000 the Fund was not required to satisfy itself that appropriate independent financial advice had been given. For transfers above £30,000 the Fund had to satisfy itself that the scheme member had obtained independent financial advice from a registered advisor before a transfer can proceed. Rachel Brothwood, Director of Pensions added that section 11 of the report set out the controls and protections in place to safeguard scheme members benefits when they are thinking of transferring their pension.

Malcolm Cantello (Unison) asked whether representations had been made to Government about the increased administrative burden and drain on Fund expenditure from implementing the Regulations relating to deferred member benefits. The Director of Pensions reported that this had been raised with the Scheme Advisory Board cost management, benefit design and administration committee, noting the impact on Funds, and that the timeframes given for implementation of new regulations were often short.

Councillor Stephen Simkins asked whether the Local Government Association (LGA) or the Local Government Information Unit could assist in putting the case forward. The Director reported that the LGA was the Secretariat for the Scheme Advisory Board. She undertook to submit a letter to the LGA with the Committee's concerns.

Resolved:

1. That the write-offs detailed in section 9.0 of the report be approved.
2. 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.
4. That the appointment of ITM to support with the reduction in outstanding leaver casework be noted.

10

Customer Engagement Update

Simon Taylor, Head of Pensions presented the update report on the Fund's customer engagement activity from 1 April to 30 June 2018, in line with its Customer Engagement Strategy.

The Chair reported that the Fund's customer engagement activity had been transformed over the years. He thanked all those involved.

Councillor Angela Sandison reported that she was pleased to see that a pensions roadshow event was delivered in Solihull Metropolitan Borough Council.

Resolved:

The engagement activity and informed service development be noted.

11 **Data Management Report April to August 2018**

Rachel Howe, Head of Governance and Corporate Services presented the report on the work undertaken in the Fund's management of data to ensure compliance with statutory and regulatory duties.

The Chair reported that he was pleased with the marked improvement in the quality of data received by the Fund and acknowledged the hard work that had gone into making that happen.

Resolved:

That the actions taken by the Fund in the management of data be noted.

12 **Governance Update Report April to September 2018**

Rachel Howe, Head of Governance and Corporate Services presented the update report on the work of the Fund in delivering a well governed scheme through the management of effective internal controls and a performance monitoring framework.

Referring to the Fund's key performance indicator 'retirement options to members', Malcom Cantello (Unison) commented that active members considering retirement needed information on their pension options in a timely manner. It was therefore important that the performance on the production of retirement quotes improved towards the target. The Director of Pensions explained that performance had been affected by the need to maintain the production of deferred members quotes which had seen a comparative increase following a statutory disclosure mailing. Malcolm Cantello added that members looking into their options for retirement deserved priority over deferred member quotes. The Director of Pensions agreed that the priority should be for members actively seeking to retire. The increase in demand for deferred member quotes has had a short-term impact. Systems development changes were being explored to make the Fund more resilient in the future to spikes in the volume of these types of enquiries.

Malcolm Cantello asked whether there was anything the Fund could do with its scheme employers to give appropriate advice, Simon Taylor, Head of Pensions reported that the Fund continued to engage with employers. Like the Fund they had peaks and troughs in their workloads and the Fund was reliant upon them providing information in order to respond to requests for pensions quotes. The Fund continues to monitor the timeliness of issues of information to scheme members and payment to members following receipt of confirmed retirement decisions.

Resolved:

1. That the work underway with LGPS Central and Partner Funds to establish a robust and consistent approach to monitoring compliance in the investment pool be noted.
2. That the Fund's risk register and the mitigations in place to manage risk at the Fund be noted.

3. That the Fund's Key Performance Indicators be noted.
4. That the delivery of the Fund's objectives to date and an update on our corporate objectives as noted in the Fund's Service Plan 2018 – 2023 be noted.
5. That the progress of the Fund in delivering benefit statements to members be noted.

13

Quarterly Investment Report to 30 June 2018

Jill Davys, Assistant Director – Investments and Finance presented the quarterly investment report that covered the range of investment issues, primarily the economic and investment background, the Fund's responsible investment activities, an update on LGPS Central investment pooling and the quarterly performance of both the West Midlands Pension Fund and the West Midlands Integrated Transport Authority.

Councillor Angela Sanderson commented that from the report it appeared that Brexit was having mixed effects on the Fund. She asked whether it would be adversely affect in future. She also noted from the report that the global active equities had not performed well compared to the benchmark. The Assistant Director reported that following the Brexit decision there had been an impact in the markets, the main effect being on currency. The Fund had put in place currency hedging arrangements in response to movements in currency. However, the ability to differentiate between whether changes in the markets were as a result of Brexit or merely normal market changes was unclear. Regarding the internal active portfolio, the Assistant Director explained how the portfolio was currently being managed and that the Fund was in the process of putting together an action plan to take the risk out of the portfolio as part of the preparation for transition to a pooling sub-fund.

Referring to the Fund's stewardship themes theme for 2018, particularly 'diversity', Councillor Angela Sanderson said that the Fund needed to be careful how it pressed for improvements in this area. She did not believe in quotas and felt that the best candidate should be appointed to a post. The Chair noted that the stewardship theme was about moving the obstacles that are in place and creating a level playing field.

Rachel Brothwood, Director of Pensions reported that the Fund's engagement on diversity was wider than gender.

Councillor Steve Simkins asked about training packages available to Fund employees to support them in their development and to enable them to apply for senior positions. The Chair commented that the stewardship theme focused more on the companies the Fund invests and at investment managers and was challenging them on their approach on these issues.

Responding to Councillor Steve Simkins, the Head of Governance and Corporate Services reported that the Fund had a workforce development strategy, the aim of which was to grow and develop its own employee base and had recently commenced its graduate and trainee programme.

Councillor Harbans Bagri asked for an update on currency hedging. The Director of Pensions reported that the Fund was broadly at a neutral position on currency hedging. The gains made during the third quarter of 2017-2018 had eroded by more

recent falls in sterling. The Assistant Director - Investments and Finance added that the Fund was looking to make its currency hedging programme more proactive.

Councillor Jasbir Jaspal informed the Committee that she had received correspondence about the Fund's investments in fossil fuels. The Head of Governance and Corporate Services reported that the Fund regularly received correspondence which is reviewed and responses provided with reporting back to the Committee. The Chair requested that if members of the Committee received correspondence from persons regarding the Fund's investments, they should forward it to the Fund's officers for support with responses. Members could also bring the issue to the Committee for discussion. He noted that the Fund was, seeking to directly influence the companies it invested in through engagement. The Committee had to balance pension scheme members interests and the duty to pay pensions against any concerns, whilst managing material financial risks.

Resolved:

1. That the global economic and market update paper prepared by the fund's adviser, Hymans Robertson be noted.
2. The Fund's Responsible Investment Activities including: the Fund's voting activity for the three months ending 30 June 2018, including Appendix B; 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/> ; progress against the Fund's 2018 stewardship themes; other activity undertaken to ensure the Fund continues to develop and support its approach to Responsible Investment.
3. That the update on Investment Pooling be noted.
4. That the quarterly Performance Reporting for the West Midlands Pension Fund be noted
5. That the Quarterly Performance Reporting for the West Midlands Integrated Transport Authority be noted.

14 **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

15 **Investment Strategy and Activity Update**

Jill Davys, Assistant Director – Investments and Finance presented the report on an update on investment strategy and activity in the Fund over the last quarter and on an update on the West Midlands Integrated Transport Authority (WMITA) Fund's investment strategy. The report 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.

Councillor Angela Sanderson commented that in terms of property, given the retail sector was not performing should the Fund continue to invest in the sector. The Assistant Director reported that the Fund looked at all opportunities and their potential for the best returns.

Resolved:

1. That the delegation to the Director of Pensions and Assistant Director, Investments and Finance to agree the arrangements for the transition of Fund assets to LGPS Central Ltd Global Equity sub-fund as appropriate be reconfirmed.
2. That the delegation to the Director of Pensions and Assistant Director, Investments and Finance to agree the arrangements for investment to LGPS Central Ltd Private Equity sub-fund for the 2018 vintage and further vintage as appropriate be confirmed.
3. That the update on investment strategies for the main Pension Fund and the WMITA Fund be noted.
4. That highlights of recent activity within the Pension Fund be noted.
5. That the Fund's proposals to liquidate the existing internal global equity portfolio and develop a sustainable equity mandate and appoint specialist managers in this area be noted.

16

West Midlands Integrated Transport Authority Pension Fund - Investment Strategy Review

Rachel Brothwood, Director of Pensions presented the report that sought approval to a change in the Investment Strategy for the West Midlands Integrated Transport Authority Pension Fund with a move to increase stabilising asset allocation, for the smaller, more mature element of the Fund.

Councillor Stephen Simkins reported that in the future the West Midlands Combined Authority could be responsible for the West Midlands Fire and Rescue Authority (WMFA) and West Midlands Police. He asked whether entrants come into the LGPS. The Director of Pensions reported she had spoken to the s151 Officer for the WMCA on the proposed changes with a view to understanding proposals for pension arrangements and would follow up on the WMCA pension scheme due diligence.

Resolved:

1. That change to the strategic allocation of assets within the Preston Bus Ltd section of the West Midlands Integrated Transport Authority (WMITA) Fund, to reduce the allocation of growth assets from 45% to 15% and increase the allocation to stabilising assets from 55% to 85%, introducing an allocation to Liability Driven Investments (LDI), in line with the strategy approved for the larger West Midlands Travel element of the Fund in March 2018 be approved.
2. That authority be delegated to the Director of Pension and Officers of the Fund to agree further detail and implementation of the changes in investment

strategy with review and approval of an updated Investment Strategy Statement, documenting the changes at the Pensions Committee meeting in December 2018.

17 **West Midlands Integrated Transport Authority Fund- Outcomes from the Government Actuary Department (GAD) Section 13 Review**

Rachel Brothwood, Director of Pensions presented the report on an overview of the outcomes of the Government Actuary Department (GAD) Section 13 review in relation to the West Midlands Integrated Transport Authority (WMMITA) Fund and update on the action officers are taking in response to the proposed recommendations to the Ministry of Housing Communities and Local Government (MHCLG).

Resolved:

1. That the proposed principles for considering a merger of the West Midlands Integrated Transport Authority (WMITA) Fund into the main West Midland Pension Fund be approved, and it be noted that this is subject to further due diligence and discussion with the Ministry of Housing Communities and Local Government (MHCLG).
2. That subject to outcomes of further due diligence, authority be delegated to the Director of Pensions and Section 151 Officer, to take the discussion forward and agree documentation to facilitate implementation.
3. That the recommendation from GAD and the discussions ongoing with West Midlands Combined Authority (WMCA) and the Participating Employers to develop a response to the employer-risk inherent in this Fund be noted.

18 **Pension Fund Structure and Service Development**

Rachel Brothwood, Director of Pensions presented the report on the internal Fund structure, by service area noting how it was evolving to facilitate service development and following the creation of the LGPS Central investment pool. It also provided an update on the steps being taken by the Fund to increase the utilisation of apprenticeships, one-year university placements and graduate trainee roles to support development of employees, increase the pool of potential new hires and increase the profile of the Fund as a leading employer.

The Chair commented that he was pleased the Fund had taken the opportunities regarding promoting local talent and developing its employees.

Malcolm Cantello (Unison) also commented that an issue for the Fund's staffing was that it was trying to compete for staff when it was part of the Local Authority Single Status arrangements. He asked whether there was any progress on the appointment of support for the Assistant Director -Investments and Finance. The Director Pensions reported that the recruitment process was ongoing.

The Chair commented that in terms of competing for staff the Fund provided a different offer to the private sector and looked to grow and develop its own employees.

Resolved:

[NOT PROTECTIVELY MARKED]

1. That the internal Fund structure at as April 2018, updated to reflect service restructuring and the transfer of employees to LGPS Central be noted.
2. That the action being taken by the Pension Fund to support workforce development and recruitment, together with additional resource being utilised to support change and service development be noted.