Agenda Item No: **6**

Wolverhampton City Council **OPEN DECISION ITEM**

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|---|---|---|---|
| Committee / Panel | **PENSIONS** | Date | **17/04/2013** |
| Originating Service Group(s) | **WEST MIDLANDS PENSION FUND** | | |
| Contact Officer(s)/<br>Telephone Number(s) | **GEIK DREVER**<br>**2020** | | |
| Title/Subject Matter | **UPDATE OF FUND STRATEGY AND POLICY STATEMENTS** | | |

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**RECOMMENDATIONS**

The Committee is requested to approve the update of the Fund Strategies and Policy Statements as they relate to the Fund’s investment activity. These statements and policies being:

Statement of Investment Principles

Investment Strategy Statement

Compliance with Myners Principles

Social Responsibility Investment Statement

Governance Compliance Statement

Compliance with the Stewardship Code

Communication Policy Statement

Pensions Administration Strategy

## 1. Recommendations

**1.1** The Committee is requested to approve the update of the Fund strategies and policy statements as they relate to the Fund's investment activity. These statements and policies being:

**i) Statement of Investment Principles**

**ii) Investment Strategy Statement**

**iii) Compliance with Myners' Principles**

**iv) Social Responsibility Investment Statement**

**v) Governance Compliance Statement**

**vi) Compliance with the Stewardship Code**

**vii) Communications Policy Statement**

## 2. 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. As part of the valuation of the Fund's assets and liabilities, a review of the Funding Strategy Statement is required. As the statement is related to other Fund policies and statements, it is appropriate to review these at the same time.

**2.2** The regulatory background is as follows:

**Statement of Investment Principles (SIP)**

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.

The statement must cover the policy on:

- 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

**Compliance with Myners' Principles**

Regulation 9A (3A) of the regulations requires a fund to report on its compliance with the six principles (the Myners' principles).

The Fund's statement complies with the six principles.

**Funding Strategy Statement (FSS)**

Regulation 76A of the Local Government Pension Scheme Regulations 1997 first required a fund to have a funding strategy statement (FSS). Regulation 35 of the Local Government Pension Scheme (Administration Regulations 2008 now requires an authority to review its FSS, revise it following any material change in its policy on relevant matters or in its statement of investment principles (SIP) and publish a revised FSS.

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.

The FSS should include:

- 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.

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.

**Governance Compliance Statement**

Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 requires each administering authority (after consultation with interested parties) to prepare, maintain and publish a governance compliance statement.

The statement must set 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.

The governance compliance statement must also record 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.

Best practice would indicate that a fund should be clear in respect of its approach to a number of activities associated with the management of the fund's assets. The Fund therefore produces:

- Socially Responsible Investment Statement
- Compliance with the Stewardship Code Statement.

## 3. Fund Strategies and Policy Statement

**3.1** The following highlights the position of each statement and the nature of any updates:

**SIP April 2013**

The SIP, updated in consultation with the Fund's advisors, Hymans Robertson, follows the previous pattern and content of earlier statements. The key factors are the paragraph 2.2 on Risk has been expanded, in particular highlighting how risk is monitored and managed. There is an update following a change in government policy regarding Pension Fund holdings in Limited Liability Partnerships as part of paragraph 4.1.3. The remaining updates within the report reflect the SIAB update of 2012.

**Investment Strategy Statement April 2013**

This is produced to support the SIP and provide more technical details including the report from Morgan Stanley Investment Management that supported the changed investment strategy in 2009. There are no significant changes except to reflect lower expected returns as detailed in the SIP and SIAB review.

**Compliance with Myners' Principles 2013**

This statement has been refreshed, but contains no significant changes.

**Socially Responsible Investment Statement 2013**

This statement contains no significant changes.

**Governance Compliance Statement 2013**

This statement has been refreshed but contains no significant changes.

**Compliance with the Stewardship Code**

This is a new statement that 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.

**Communications Policy Statement**

This statement has been refreshed and updated to reflect the Fund's enhanced communications with members and employers, such as the web portal and AGM, and to reflect the changes to payslip provision. The Fund also has a Communications Strategy that has recently been updated in 2012.

**Pensions Administration Strategy**

The Pensions Administration Strategy was reported to Committee in November 2012 and further updates will be provided accordingly.

The Fund statements are bulky when published in paper form and, therefore, only those with significant amendments are attached to this report. They are all available on the Fund's website and copies will be available at the meeting.

West Midlands Pension Fund

# Statement of Investment Principles 2013

April 2013

# Statement of Investment Principles 2013

## 1. Introduction

**1.1** The West Midlands Pension Fund has drawn up this Statement of Investment Principles ('the SIP') to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This statement is available to anyone with an interest in the Fund and the public generally. The Fund has consulted with such persons as it considers appropriate including obtaining advice from its consultants in preparing this statement.

**1.2** Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Pensions Committee established by Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions. The committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in section 2 on page 3. The Investment Advisory Sub-Committee has oversight of the implementation of the management arrangements and comprises representatives from the seven district councils and two local trade unions. The committees meet at least four times a year. A Joint Consultative Panel made up of local trade union members meets three times a year.

**1.3** The roles of the members and committee are:

**Pensions Committee Member Principal Accountabilities**

1. To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations in the West Midlands.
2. To put in place and monitor the arrangements for the administration of contributions and payments of benefits as required by the regulations, and the proper management and investment of monies held for the purpose of paying benefits.
3. To determine and review the provision of resources made available for the discharge of the function of administrating authority.

### Key Duties

**a) Pensions Committee**

1) Monitor compliance with legislation and best practice.
2) Determine admission policy and agreements.
3) Monitor pension administration arrangements.
4) Determine investment policy based upon a medium-term benchmark and quarterly reviews outlining a short-term position.
5) Monitor policy.
6) Appoint committee advisers.
7) Determine detailed management budgets.

**b) Investment Advisory Sub-Committee**

1) Monitor investment management arrangements.
2) Review strategic investment opportunities.
3) Monitor and review portfolio structures.
4) Monitor implementation of investment policy.
5) Advise on the establishing of policies in relation to investment management, including the appointment and approval of terms of reference of independent advisers of the Fund.
6) Monitor investment activity and performance of the Fund.
7) Oversee the administration of investment management functions of the Fund.

**The Council delegation to Pensions Committee is as follows:**

a) To exercise the functions of the Council in relation to the administration of the West Midlands Pension Fund arising by virtue of the Local Government Pension Scheme (Administration) Regulations 2008, and any subsequent related legislation.

b) To exercise all the general powers and duties of the Council granted to Cabinet and cabinet teams and standing bodies provided that those parts of the Council's Financial Procedure Rules and Contracts Procedure Rules which relate to the acquisition and disposal of land and the approval of expenditure, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Fund.

c) To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.

d) To ensure that consideration is given to the impact which the committee's policies and provision of services have with regard to environmental matters.

**The key delegation to the Investment Advisory Sub-Committee is as follows:**

a) To advise on the establishing of policies in relation to investment management including the appointment and approval of terms of reference of independent advisers to the Fund.

b) To monitor investment activity and the performance of the Fund.

c) To oversee the investment management functions of the Fund.

The Director of Pensions oversees the implementation of committee policy and the management of the day-to-day functions that support its implementation.

**1.4** This SIP has been prepared taking into account the most recent actuarial valuation and the Funding Strategy Statement (FSS). The SIP is updated as part of any significant changes on an ongoing basis, for example, appointment of new managers, or new major investment areas or benchmark changes.

**1.5** Related Fund policies and statements are:

- Funding Strategy Statement
- Statement of Investment Principles
- Socially Responsible Investment Statement
- Compliance with Myners
- Compliance with the UK Stewardship Code
- Governance Compliance Statement

## 2. Investment Objectives and Risk

**2.1 Objectives**

i) Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.

ii) Emphasise markets that over time are likely to give better returns.

iii) Acknowledge the risk of investing and have regard to best practice in managing that risk.

iv) Have resources available to meet the Fund's liabilities for pensions and other benefits provided when they fall due.

v) Identify innovative return enhancing investment opportunities.

**2.2 Risk**

i) The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

ii) **Funding Risks**

a) The risk of a deterioration in the funding level of the Fund. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark reflecting optimum correlation between asset classes and diversification. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

b) The risk of changing demographics as longevity and other demographic factors improve, increasing the cost of benefits.

The Fund monitors this by reviewing mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

c) Systemic risk as the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

   The Fund seeks to mitigate systemic risk through a diversified portfolio with a split between active management (alpha) and market returns (beta). Within the allocation to alpha there is a diverse range of specialist managers with varying targets of risk and return. In addition, the alpha budget is designed to enhance returns from identifying market inefficiencies. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

iii) **Asset Risks**

a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

b) Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

c) Currency risk that the currency of the Fund's assets underperforms relative to sterling (ie, the currency of the liabilities).

d) Manager underperformance when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

   The Fund manages asset risk as follows:

   - It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines.
   - By investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
   - By investing across a range of assets, including quoted equities and bonds, the Fund has recognised the need for some access to liquidity in the short term.
   - Robust financial planning and clear operating procedures for all significant activities.
   - The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, it is comfortable taking this risk.
   - In appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.

iv) **Operational Risk**

a) Transition risk of incurring unexpected costs in relation to the transition of assets among managers.

   When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers in order to mitigate this risk.

b) Custody risk of losing economic rights to Fund assets, when held in custody or when being traded. These risks are managed by:

   - The use of a global custodian for custody of assets.
   - The use of formal contractual arrangements for all investments.
   - Maintaining independent investment accounting records.

c) Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:

   - Maintaining a comprehensive risk register with regular reviews.
   - Operation of robust internal compliance arrangements.
   - In-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund. Greater detail can be found in the Investment Strategy Statement

## 3. Investment Strategy

The Fund sets a long-term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and its investment objectives. The strategy used to be reviewed at least every three years after each actuarial valuation, and monitored on an ongoing basis to facilitate any necessary changes. The review is now moving to an annual basis which may or may not result in a change in benchmark more frequently.

The majority of the Fund's expected returns (6.0%) comes from its market investments and 0.9% from its active budget. Although the Fund only has a combined 35% allocation to 'complementary' asset classes and private equity, around 50% of the target active returns are expected to be derived from these. These allocations are made in order to better manage and improve the risk return on investments, and have led to a medium-term target of 25% complementary, 20% fixed-interest and 55% equities (includes a 10% allocation to private equity). Further details can be found in the Fund's Investment Strategy Statement.

The Fund's investment in complementary asset classes seeks to increase the overall expected returns while reducing the overall level of expected risk due to the effect of diversification. Volatility also forms part of the overall equation, acknowledging there is market risk plus active risk (associated with any active management). The key is to find investments where the extra alpha more than offsets any increase in volatility.

The strategy has, over recent years, set a trend of further diversifying the Fund's overall risk away from an overdependence on the equity risk premium. As part of this trend, complementary investments have included investments in 'absolute return strategies'.

It also seeks to position the Fund's equity exposure to reflect global GDP, in addition to market capitalisation.

Tactical asset allocation decisions are taken on a quarterly basis by the Pensions Committee. These decisions are controlled around limiting the variations to the strategic benchmarks and supported by views on capital markets' views and asset classes as provided by the Fund's advisors. It was agreed at the Pensions Committee in November 2012 that current tactical asset allocation decisions are temporarily suspended until full implementation of the ongoing SIAB review has taken place.

## 4. Day-to-Day Management of the Assets

### 4.1 Investment Portfolios

The investment strategy is implemented through the development of investment portfolios within each asset class detailed in the benchmark. The portfolios will be constructed from funds and products that are accepted by the Investment Advisory Sub-Committee and satisfy the relevant investment management regulations and operational due diligence requirements.

The investment opportunities will be accessed through the following range of methods.

A significant amount of investment is carried out by the Fund's own Pension Fund Investment Division (PFID) and is designed to manage approximately 45% of the Fund's investments. The majority of quoted equities are managed in-house, either on a passive or active core basis, the latter having relatively low alpha and volatility targets.

Where the appropriate skills are not available internally, some specialist external funds and managers are used. The managers used are listed at Appendix A on page 9.

The management of private equity and some of the other complementary assets involves selecting specialist funds to construct portfolios. UK direct property is also managed through a specialist manager, alongside close in-house involvement. The Fund takes final decisions on all, except minor, property matters. Index-linked bonds are managed externally on a passive basis; all UK corporate bonds are managed externally, predominantly on an active basis. UK gilts are managed externally within a passive mandate.

On occassions the Fund has used futures for protecting its quoted equity allocation while in the process of implementing its benchmark. The Fund will give serious consideration to any structured product or derivative that is considered to be a 'permitted' investment under LGPS regulations and that is considered to be the most efficient use of the Fund's assets within the risk budget.

*4.1.2 Expected Return on the Investments*

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation. The individual portfolios are expected to match or exceed the specific targets set for each portfolio over time. The Investment Strategy Review 2012 indicated the total return target for the Fund is 6.9%, which is split between the returns expected from core/passive investments (the core return of 6.0%) and those from actively-managed investments (0.9%).

*4.1.3 Investment Restrictions*

The investment management arrangements prohibit the holding of investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund operates at the limits set by the lower level of control under Regulation 14(2), except for contributions to partnerships where it has resolved to work to the upper limit of 15% under Regulation 14(3). This limit will increase to 30% from 1 April 2013. This reflects the level of investments planned for private equity and other assets such as infrastructure and global property.

Operating within the investment regulations, the Fund determines investments that are acceptable and approved as such by the Investment Advisory Sub-Committee. The valuation of specific investments from those acceptable are made using the Fund's due diligence procedures and in accordance with its Investment Compliance Manual.

### 4.2 Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Equitable Life and the Prudential Assurance Company Limited. Members have the option to invest in with-profits funds, unit-linked funds and deposit funds.

The Fund monitors, from time to time, the suitability and performance of these vehicles. No new business is being placed with Equitable Life.

### 4.3 Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. There is no current policy on realising investments to meet benefit outgoings etc, as the Fund's cashflow is positive. The majority of the Fund's investments may be realised quickly if required. Property and private equity, which together represent around 19% of total assets, may be difficult to realise quickly in certain circumstances.

### 4.4 Monitoring the Performance of Fund Investments

The performance of the internally managed assets and of the external investments is independently measured. In addition, officers of the Fund meet external investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance. The Investment Advisory Sub-Committee meets at least quarterly to review markets, asset classes and funds.

### Advisers

The Fund uses a range of advisers in addition to its own specialist officers. These are detailed in Appendix C on page 11.

## 5. Corporate Governance and Socially Responsible Investment (SRI)

### 5.1 Fund Responsibilities

The Fund recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Fund considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society.

The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards or reasonable expectations set by their peers.

The Fund's approach is part of its overall investment management arrangements and its active governance policy.

In order to fulfil this responsibility, The Fund communicates with companies and exercises the rights (including the voting rights) attaching to investments in support of its corporate governance policies. The Fund 's voting rights are an asset and will be used to further the long-term interests of the Fund beneficiaries. As a general principle, votes will be used to protect shareholder rights, to minimise risk to companies from corporate governance failure, to enhance long-term value and to encourage corporate social responsibility. It is the Fund 's policy to vote against a company's report and accounts where there is insufficient disclosure on environmental, employee and community policy. A copy of the Fund 's corporate governance policy and a summary of its voting actions can be found on the website at wmpfonline.com

Socially responsible investment is taken as giving consideration to issues that give risk to social concerns – for example, employment practices, human rights, use of natural resources, environmental issues and external business standards. This links to, and covers, the issues around sustainability, that have a rapidly growing significance for companies from a legislative, reputational and practical operational standpoint.

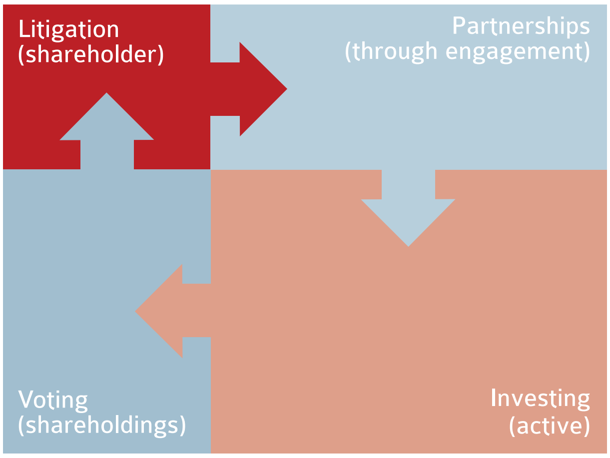
The Fund's policy statement on SRI and its position relating to the UK Stewardship Code can be found in a separate statement on the website.

Lack of good governance interferes with a company's ability to function effectively and is a threat to the Fund's financial interest in that company.

## 5.2 Approach to SRI

The Fund's approach to corporate governance and SRI divides into four areas of activity.

**ESG Best Practice**




### a) Voting Globally

The first approach, voting, is certainly not a 'box-ticking' exercise, as the Fund regularly votes against resolutions.

The Fund, through a proactive voting policy, in partnership with PIRC, votes its share rights constructively based upon a comprehensive analysis of company voting issues.

The Fund's voting policy and activity is detailed in its annual report and accounts and on the Fund's website, where it is reported on a quarterly basis.

### b) Engagement Through Partnerships

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns. It does this through:

- LAPFF.
- Voting on shareholder resolutions.
- Joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest. See the LAPFF website for further details: www.lapfforum.org

The Fund continues to actively develop corporate governance partnerships as it believes this will maximise the influence of shareholders, will lead to best practice and will promote high standards on a global basis. Current partners include the Institutional Investors Group on Climate Change.

### c) Shareholder Litigation

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund, in partnership with a US law firm and other shareholders, submits class actions globally where possible and where appropriate.

### d) Active Investing

The fourth and most challenging activity for the Fund in this particular field is actively seeking SRI investments for a proportion of Fund assets, provided these meet the Fund's requirements of strong returns combined with best practice in SRI and/or corporate governance.

Such investments include alternative energy, clean energy, urban regeneration and activists' funds.

### 5.3 Environmental Concerns

The corporate performance of companies and their value as investments are increasingly affected by environmental factors. In pursuance of a prudent and environmentally responsible response by companies, the Fund will encourage and support companies that demonstrate a positive response to SRI and environmental concerns.

The Fund expects companies to:

- Make a commitment to achieving environmental excellence.
- Institute regular monitoring of their environmental impacts.
- Establish procedures which will lead to incremental improvements in environmental performance.
- Comply with all current environmental and other relevant legislation and to seek to anticipate future legislative changes.
- Make available to shareholders regular and detailed reports of progress made towards attaining improved environmental standards.
- Seek to take all reasonable and practical steps to minimise or eliminate environmental damage.
- Actively and openly engage in discussion on the environmental ethical effects of their business.
- Take environmental matters seriously and produce an environmental policy which is effectively monitored.

## 6. Compliance with this Statement

The Fundwill monitor compliance with this statement. In particular, it will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement, so far as is reasonably practicable.

## 7. Compliance with Myners

Following from the Myners' report of 2000 into institutional investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations identifying investment principles to apply to pension schemes.

These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives, focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

The Myners' principles have since been updated, and the Fund continues to support and comply with them. Full details of compliance are set out in the Fund's Compliance with Myners' Statement which can be found on the Fund's website.

## 8. Review of this Statement

The Fund will review this statement in response to any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. This review will occur no less frequently than every three years to coincide with the actuarial valuation.

## 9. Stocklending

The Fund undertakes stocklending for its quoted equity holdings and is considering it for other asset classes, as permitted by the LGPS (Management and Investment of Funds) Regulations 2009 and operates within the limits set by the regulations.

The lending of equities, held in segregated mandates, is through the Fund's custodian with a formal agreement in place and approved collateral to protect the Fund's interests. Regular reviews of the lending programme take place with the custodian. Stocklending may also take place in pooled vehicles held by the Fund.

## Appendix A - Portfolio Structure April 2013

The structure summary is as follows:

| | |
|---|---|
| **Equities** | |
| UK | PFID |
| North America | PFID; Intech |
| Europe | PFID: Blackrock |
| Far East | PFID plus specialist funds |
| Global | MFS Investment Management |
| | Blackrock |
| | PFID through specialist funds |
| Emerging markets | PFID through specialist funds |
| Private equity | PFID through specialist funds |
| **Complementary investments** | |
| PFID through a selection of specialist funds | |
| **Fixed interest** | |
| UK gilts | PFID through specialist funds |
| UK index-linked | PFID through specialist funds |
| UK corporate bonds | PFID through specialist funds |
| | Royal London Asset Management |
| Cash | PFID |
| Direct property | CBRE |
| Indirect property | PFID through specialist funds |

**PFID -** Pension Fund Investment Division (Direct)

## Appendix B - Investment Benchmark

| | % | Medium-Term Asset Allocation January 2013 % | Medium-Term Strategic Ranges % |
|---|---|---|---|
| **Quoted equities** | | **45** | **35-55** |
| UK | 10.0 | | |
| Europe | 6.0 | | |
| North America | 9.0 | | |
| Japan & Far East | 6.5 | | |
| Emerging markets | 8.5 | | |
| Global equities | 5.0 | | |
| Private equity | 10.0 | | |
| **Total equities** | | **55** | **45-65** |
| **Fixed interest** | | **20** | **15-25** |
| UK index-linked | 5.5 | | |
| UK gilts | 4.0 | | |
| UK corporate bonds | 5.0 | | |
| Emerging market debt | 4.5 | | |
| Cash | 1.0 | | |
| **Complementary** | | **25** | **20-30** |
| Direct property | 7.0 | | |
| Indirect property | 2.0 | | |
| Commodities | 3.0 | | |
| Infrastructure | 3.0 | | |
| Absolute return strategies | 10.0 | | |
| **Total non-equities** | | **45** | **35-55** |
| **Total Fund** | | **100** | |

- Fund's asset allocation to equity markets reflects global GDP by region, market capitalisation and regional wealth, but with a higher weighting to the UK and emerging markets.
- Fund's overall exposure to UK is of the order of 33%
- Regional overseas equities:
  50% US and Europe
  50% Asia and Emerging Markets
- Fixed interest:
  50% stabilising
  50% others

**Note:** Medium-term strategies ranges set deliberately wide and only around specific asset classes to facilitate tactical asset allocation within sub-sectors. As mentioned previously in the report tactical asset allocation decisions are currently suspended whilst SIAB review is implemented.

The risks of diverging from the benchmark are monitored and evaluated through a weekly risk/return model, which is also submitted to the quarterly Pensions Committee.

## Appendix C - Advisers April 2013

**Hymans Robertson**
Investment policy, general investment matters.

**Mercer Human Resource Consulting**
Actuarial matters.

**CBRE**
Commercial and industrial property matters, day-to-day management of properties and transactions, involving the sale and purchase of property (excluding agricultural).

**John Fender Consultancy**
Independent property advice

**Knight Frank**
Agricultural property management matters

**Knight Frank**
Independent property valuations

**Savills**
Independent agricultural property valuations.

**Entec**
Planning matters (agricultural holdings).

**Lawrence Gould**
Independent agricultural property advice.

**Deloitte**
Investment management practices and regulations.

**PIRC**
Company governance issues.

**HSBC**
Stocklending.

## Appendix D - List of Suitable Investments

Within the investment management regulations for the LGPS, the following are considered acceptable investments for meeting the Fund's investment strategy.

- Quoted equities
- Private equity
- Contract of insurance (relevant)
- Unlisted securities
- Property
- Cash deposits
- Fixed interest
- Commodities
- Infrastructure
- Derivatives in accordance with the Fund's compliance requirements

## Appendix E - List of Acceptable Investment Vehicles

- Direct holdings
- Limited partnerships
- Pooled vehicles
- Structured products (as defined by the LGPS regulations)
- Hedge fund strategies

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Wolverhampton
WV1 9LS
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