West Midlands Pension Fund

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Integrated Transport Authority

Asset allocation and investment performance report
Quarter to March 2017

Jason Fletcher – Chief Investment Officer

West Midlands Pension Fund

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COMBINED AUTHORITY

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Contents

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Further information

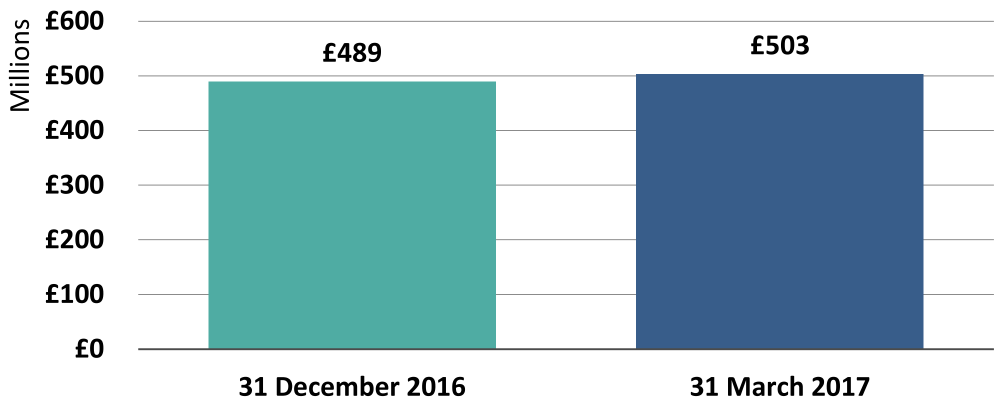
Our Fund's website

www.wmpfonline.com/wmita

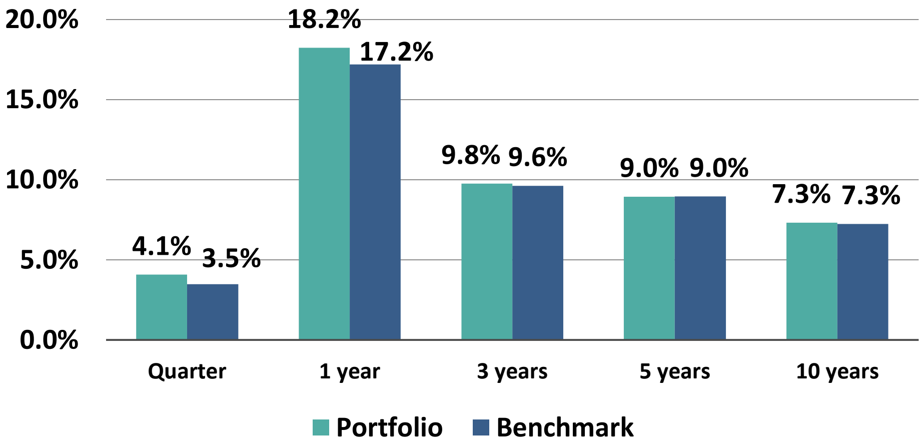
Please refer to the Fund's website for its Statement of Investment Principles

Executive Summary

Total market value (incl. Prudential Buy-in)



Gross total performance (excl. Prudential Buy-in)



Market summary

- Equity markets continued to make gains in the quarter with several leading indices reaching all-time highs
- Long-term government bond yields declined in the UK and US
- The Federal Reserve raised the US benchmark interest rate by 0.25%. The UK base rate remained at 0.25%
- Sterling strengthened as the US dollar weakened

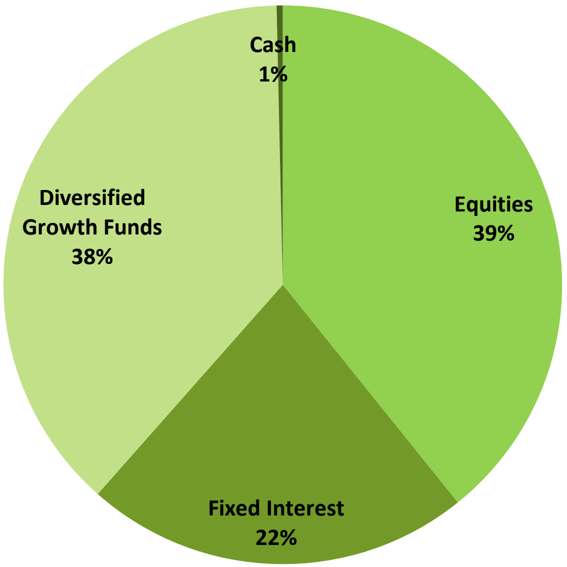
Performance summary

- The fund outperformed its bespoke benchmark by 0.6% over the quarter driven by outperformance from the Diversified Growth Fund (DGF) portfolio.
- Absolute returns for all equity asset classes were positive during the quarter. Pacific ex Japan was the strongest performer.
- The fixed interest portfolio produced a positive absolute return and generally performed in line with the benchmark.
- Over the 12 month period the fund outperformed the benchmark by 1%, this was mainly due to the performance from the DGF's.

Executive Summary

Asset allocation (excluding Prudential buy-in)

Asset class		Value (£)	Fund allocation	Policy target	Difference
Equities	£	97,283,195	39.2%	38.4%	0.8%
Fixed Interest	£	55,330,779	22.3%	22.4%	-0.1%
Diversified Growth Funds	£	94,558,812	38.1%	38.6%	-0.5%
Cash	£	876,433	0.4%	0.6%	-0.2%
TOTAL	**£**	**248,049,219**	**100.0%**	**100.0%**	**0.0%**

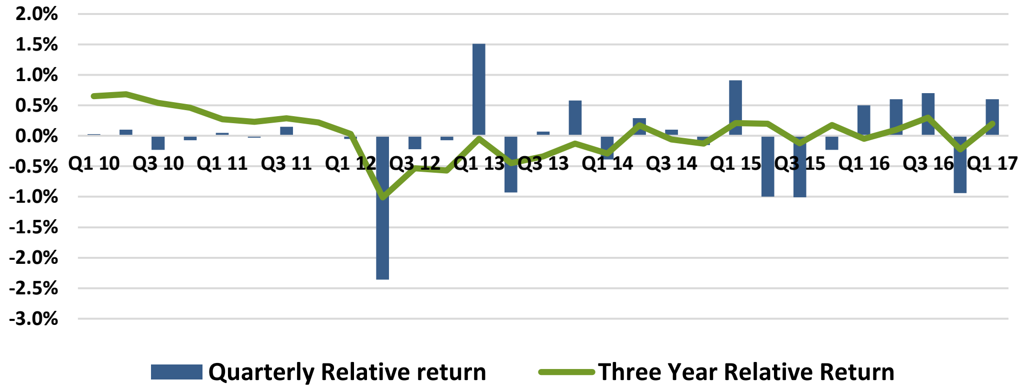


Please note that the above chart excludes the Prudential buy-in

Quarterly fund activity

- Rebalancing is considered when the cash balance exceeds £1 million and implemented when it exceeds £2 million. This trigger point was reached at the end of January 2017. Trading was done on 22 February 2017 to bring assets back to target allocations and invest excess cash.
- In addition there was the agreed monthly sale of units in UK Equities, Corporate Bonds and Index Linked gilts to meet the income distributions received from Legal & General.

Rolling relative quarterly performance history



Main report

Objectives

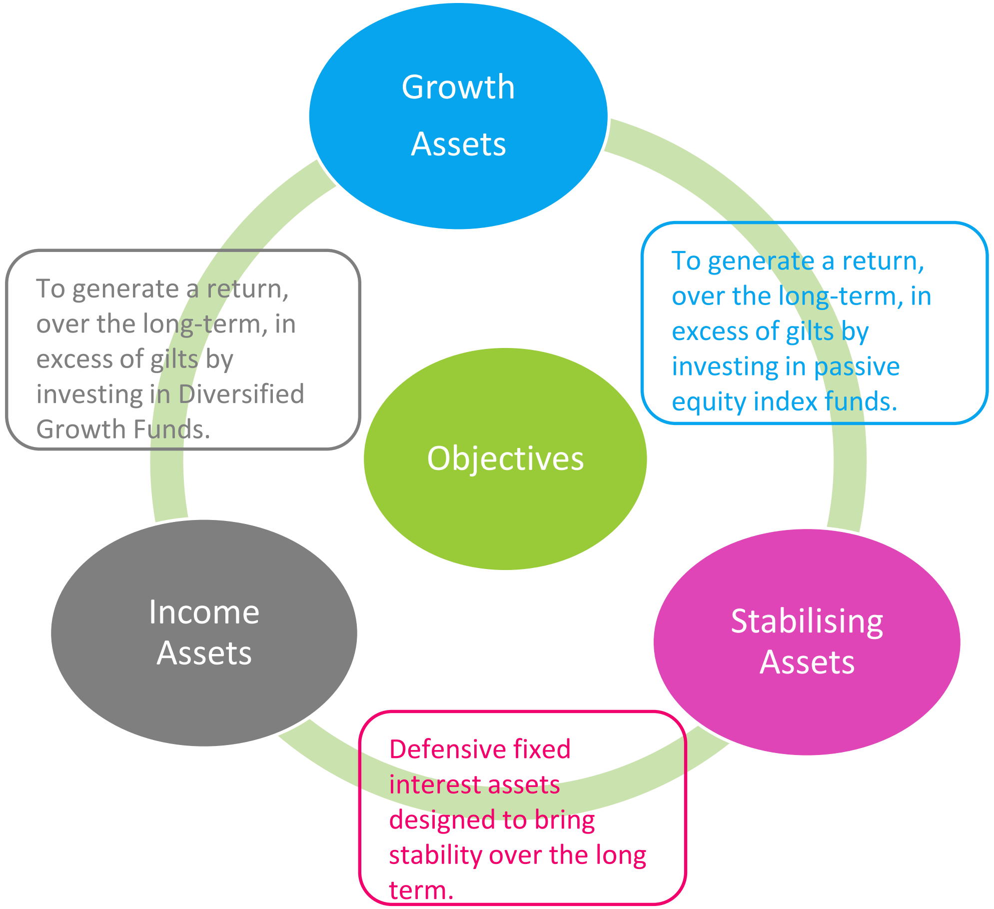
The primary objective of the Fund is to provide pension and lump-sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Authority aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases. In addition, the Fund has the following objectives:

- Have resources available to meet the Fund's liabilities for pensions and other benefits provided when they fall due.
- Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.
- Emphasise markets that over time are likely to give better returns having regard to the risks relative to the maturity of the Fund's liabilities.
- Acknowledge the risk of investing and have regard to best practice in managing that risk.

The Fund has used a buy-in and added stabilising assets to reduce the volatility and added diversified growth funds for diversification.

The key building blocks of the Fund's Investment Strategy are shown below.



Fund values and allocation - Combined

Asset allocation[1]

Asset Class	Value (£)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
Equities – L&G	97,283,195	39.2%	38.4%	0.8%	-3.0%
Diversified Growth Funds (DGF's)	94,558,812	38.1%	38.6%	-0.5%	3.0%
Total Growth	191,842,007	77.3%	77.0%	0.3%	**0.0%**
Fixed interest – L&G	55,330,779	22.3%	22.4%	-0.1%	0.5%
Cash	876,433	0.4%	0.6%	-0.2%	-0.5%
Total Defensive	56,207,212	22.7%	23.0%	-0.3%	**0.0%**
Prudential Buy-In[2]	255,020,000				
TOTAL	503,069,219	**100.0%**	**100.0%**	0.0%	**0.0%**

[1] A detailed Fund asset allocation is shown in Appendix 1

[2] Prudential Buy-In value is as at 31 March 2017, this is valued once a year.

Allocation comment

- There was no change to strategic asset allocations in the quarter, any movement from target allocations was due to market movements.
- The markets have been strong for equities resulting in overweight positions in these asset classes despite a rebalancing in February.
- DGF's are currently under allocated due to performance lagging behind equity and, until recently, bond market performance. This quarter's dull performance from the bond market has resulted in Growth assets in general being overweight relative to target allocations.
- Both Growth and Defensive asset allocations are within the tolerance ranges shown below:

  Growth **73% - 79%**
  Defensive **21% - 27%**

- Cash is slightly under allocated as at 31st March 2017.
- A wider review of Cashflow requirements is being undertaken following the 2016 Actuarial Valuation, now a new contribution schedule has been agreed.

Fund values and allocation – NX and PB

NX[1]

Asset Class	Value (£)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
Equities – L&G	92,751,103	40.6%	40.0%	0.6%	-3.0%
Diversified Growth Funds (DGF's)	90,236,998	39.4%	40.0%	-0.6%	3.0%
Total Growth	182,988,101	80.0%	80.0%	0.0%	**0.0%**
Fixed interest – L&G	44,945,116	19.7%	19.4%	0.3%	0.6%
Cash	775,393	0.3%	0.6%	-0.3%	-0.6%
Total Defensive	45,720,509	20.0%	20.0%	0.0%	**0.0%**
TOTAL	228,708,610	**100.0%**	**100.0%**	0.0%	**0.0%**

PBL[1]

Asset Class	Value (£)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
Equities – L&G	4,532,092	23.5%	22.5%	1.0%	-1.5%
Diversified Growth Funds (DGF's)	4,321,814	22.4%	22.5%	-0.1%	1.5%
Total Growth	8,853,906	45.9%	45.0%	0.9%	**0.0%**
Fixed interest – L&G	10,385,663	53.7%	54.4%	-0.7%	0.2%
Cash	101,040	0.4%	0.6%	-0.2%	-0.2%
Total Defensive	10,486,703	54.1%	55.0%	-0.9%	**0.0%**
TOTAL	19,340,609	**100.0%**	**100.0%**	0.0%	**0.0%**

[1] A detailed Fund asset allocation for NX and PBL is shown in Appendix 1

Market review

Returns for Benchmark Indices as at 31 March 2017

Equities

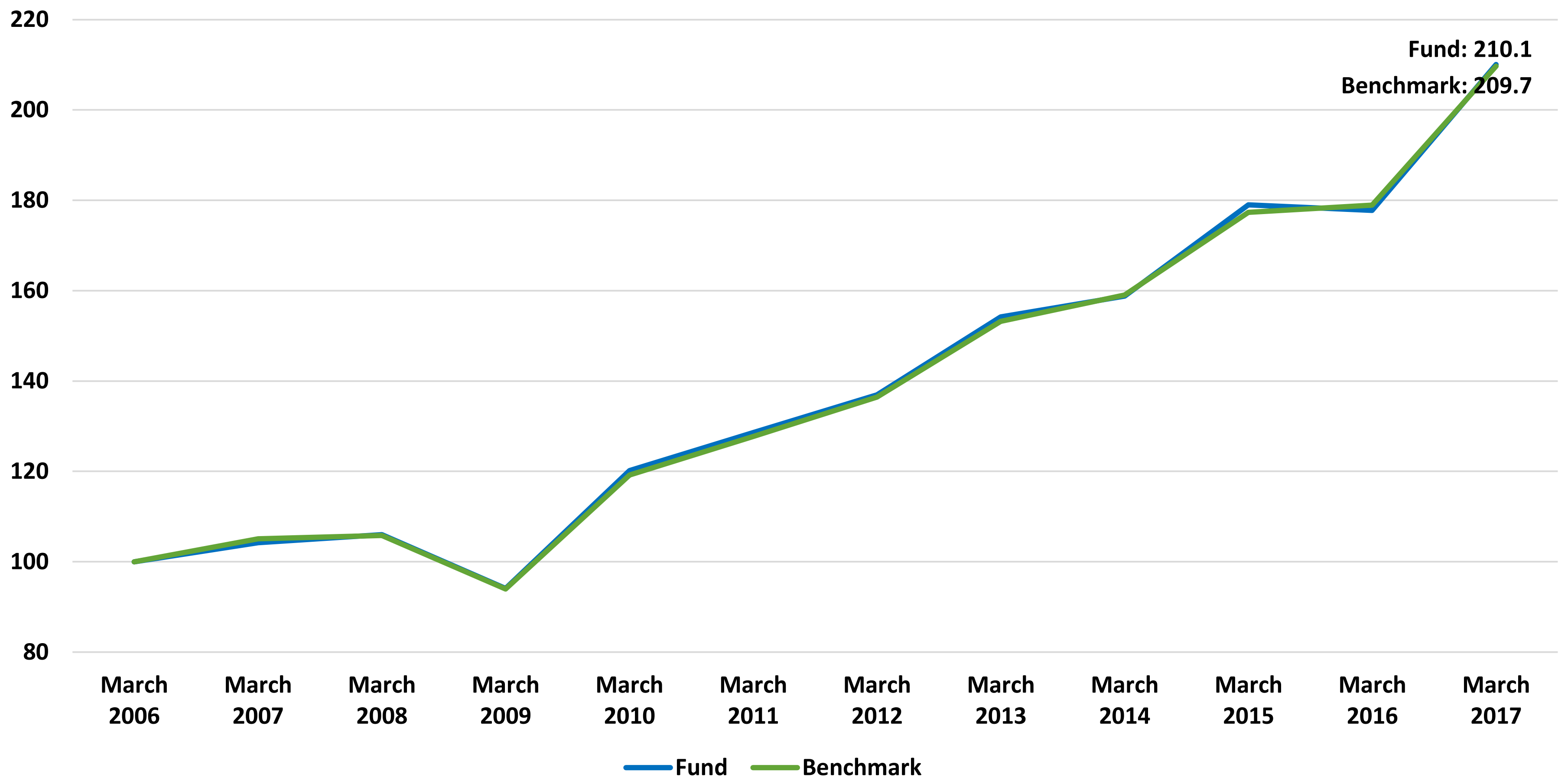
Equity markets continued to advance in the quarter with several leading indices reaching new highs. The UK market performed well on the strength of robust economic growth data while US equities benefitted from the anticipation of lower tax rates and higher government spending following the US election. European markets were buoyant amid speculation that the ECB might consider tighter monetary policy. Emerging markets enjoyed particularly strong performance supported by an upturn in global growth and reduced fears of protectionist US trade policy.

Fixed interest

The 10-year UK gilt yield decreased from 1.24% to 1.14% over the quarter as investors grew concerned over the potential for a ‘hard’ Brexit. The equivalent US yield fell from 2.44% to 2.39% on the prospect of tighter monetary policy. The Federal Reserve raised its benchmark interest rate by 0.25% on stronger economic growth and inflation data while UK interest rates were kept on hold at 0.25%. Sterling investment grade corporate bonds outperformed gilts despite credit spreads narrowing over the quarter.

Fund performance review

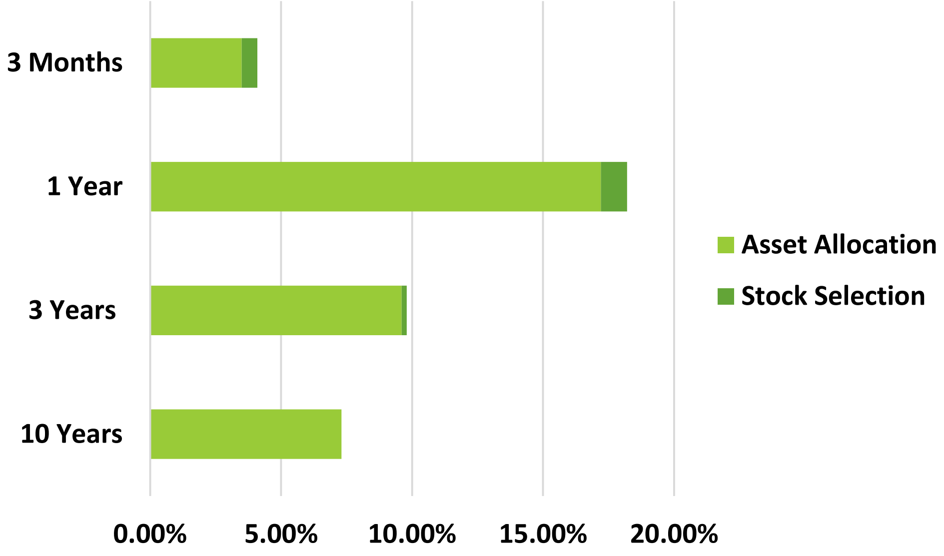
Long-term returns (rebased at 100 at 31 March 2017)



Fund performance review

Asset allocation / stock selection absolute performance attribution

Asset allocation – combined benchmark (beta) returns from each policy group
Stock selection – combined active (alpha) returns from each policy group



	Quarter to 31 March 2017	1 year	3 years p.a.	10 years p.a.
Asset allocation	3.50%	17.20%	9.60%	7.30%
Stock selection	0.60%	1.00%	0.20%	0.00%

Fund performance commentary

The Fund outperformed its benchmark during the quarter returning 4.1% against a benchmark return of 3.5%. This was due to positive relative returns from the Diversified Growth Funds.

The Fund outperformed its benchmark over the year to 31 March 2017 by 1.0%, returning 18.2% against the benchmark of 17.2%. The outperformance over the 12 month period was driven by one of the Fund's diversified growth funds, Baillie Gifford. However, this was partially offset by underperformance from the other diversified growth fund managed by Newton.

The Fund returned 9.8% p.a. for the three years to 31 March 2017 compared to the benchmark return of 9.6%. Due to the high allocation to passive investments within the portfolio, which successfully matched the benchmark, the slight outperformance was predominantly attributable to the diversified growth funds.

Impact of stock selection is approximated by relative performance of active managed funds, with asset allocation making up the balance.

Around 50% of the fund is passively managed with the remainder being actively managed through the Diversified Growth Funds and the corporate bond fund.

Source: HSBC

Fund performance

Combined Fund Absolute and Relative Performance

	Quarter to 31 Mar 2017	1 year	3 years p.a.	5 years p.a.	Quarter 1	1 year	3 years p.a.	5 years p.a.
Equities	6.70%	32.50%	14.50%	13.40%	0.70%	0.10%	0.20%	0.00%
Bonds	2.00%	14.50%	10.30%	8.70%	0.10%	0.00%	0.10%	0.50%
Diversified Growth Funds	2.50%	6.60%	4.50%	N/A	1.52%	2.50%	0.30%	0.00%
Total return	**4.10%**	**18.20%**	**9.80%**	**9.00%**	**0.60%**	**1.00%**	**0.20%**	**0.00%**

National Express Absolute and Relative Performance

	Absolute performance		Relative performance	
	Quarter to 31 Mar 2017	1 Year	Quarter to 31 Mar 2017	1 Year
Equities	6.70%	27.11%	0.10%	-0.04%
Bonds	2.00%	17.16%	0.10%	-0.15%
Diversified Growth Funds	2.50%	5.96%	1.50%	1.80%
Total return	**4.20%**	**16.54%**	**0.70%**	**0.74%**

Preston Bus Absolute and Relative Performance

	Absolute performance		Relative performance	
	Quarter to 31 Dec 2016	1 Year	Quarter to 31 Dec 2016	1 Year
Equities	6.80%	32.50%	0.20%	0.10%
Bonds	1.90%	14.60%	0.00%	0.00%
Diversified Growth Funds	2.50%	6.60%	1.50%	2.50%
Total return	**3.20%**	**16.70%**	**0.40%**	**0.60%**

Source: HSBC

Policy Group reports

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Equities

Equities policy group summary

- Equities form part of the Growth asset portfolio alongside the Diversified Growth Funds.

- All equities within the portfolio are passive investments managed by Legal & General designed to follow their individual benchmarks and tolerance ranges listed below:

Region	Benchmark	Tracking target
UK	FTSE All Share	+/- 0.25% p.a.
North America	FTSE World N America NetTax (UKPN)	+/- 0.5% p.a.
Europe	FTSE Dev Europe ex UK NetTax (UKPN	+/- 0.5% p.a.
Japan	FTSE Japan NetTax (UKPN)	+/- 0.5% p.a.
Pacific ex Japan	FTSE Dev Asia ex Japan NetTax (UKPN)	+/- 0.75% p.a.
Emerging Markets	FTSE Emerging NetTax (UKPN	+/- 1.75% p.a.

- There has been no change to asset allocation with market movements accounting for all changes since the last quarter. All sales and purchases in the quarter were part of a rebalancing exercise to bring assets back to target valuations.

- The managers have kept well within their tolerance ranges during the quarter.

Regional performance Combined Fund

			Absolute Performance			Relative Performance		
	Value (£)	% Of Equity Portfolio	Quarter to 31 Mar 2017	1 year	3 years p.a.	Quarter to 31 Mar 2017	1 year	3 years p.a.
UK	9,696,658	10.0%	4.40%	22.50%	7.90%	0.40%	0.50%	0.20%
North America	29,003,022	29.8%	5.00%	35.10%	20.60%	0.20%	0.10%	0.10%
Europe (ex-UK)	24,583,781	25.2%	7.40%	28.10%	9.70%	0.00%	-0.20%	-0.10%
Japan	9,322,998	9.6%	3.70%	33.00%	17.80%	0.10%	0.20%	0.00%
Pacific ex Japan	9,807,012	10.1%	11.90%	37.90%	13.00%	0.20%	0.50%	0.20%
Emerging Markets	14,869,724	15.3%	9.20%	36.10%	12.90%	0.30%	0.50%	0.00%
TOTAL	97,283,195	100%	6.70%	32.50%	14.50%	0.70%	0.10%	0.20%

Source: HSBC

- Global equity markets took higher US interest rates in their stride with only a modest market correction following the Federal Reserve's decision to raise rates in March.
- The Dow Jones index continued to rise to new all-time highs as lower tax rates and higher government spending was priced into the North American market following President Trump's election.
- The FTSE 100 also moved to all time highs. Consumer staples, telecoms and utilities fared well, partially due to them being 'bond proxies' in an environment where bond yields are in general declining. Energy and mining stocks were impacted by lower commodity prices. Mid-cap stock produced strong returns and the FTSE 250 index outperformed the FTSE 100.
- European stocks delivered solid gains with strong German economic growth and rising core inflation levels.
- Emerging markets were stand out performers following falling concerns over the geopolitical implications of a Trump presidency and a cyclical upturn in the Chinese economy.

Diversified Growth Funds (DGF'S)

West Midlands Combined Authority | West Midlands Pension Fund

DGF policy group summary

- The Diversified Growth Funds are located within the Growth portfolio and account for 40% of the total fund AUM (Excl Prudential Buy-in). There are 2 managers (Baillie Gifford and Newton) who split the allocation approximately evenly.
- This asset class is designed to create equity like returns but with lower volatility. In strong equity markets the DGF's performance is likely to lag behind but they should provide downside protection in less favourable market environments.
- The targets for the two funds are shown in the table below;

Region	Benchmark	Target return
Baillie Gifford	Diversified Growth Fund	Base Rate + 3.5%
Newton	Real Return Fund	LIBOR + 4.0%

- There has been no change to asset allocation with market movements accounting for all changes since the last quarter and the purchase of additional exposure to bring assets back to their target allocation.
- The managers have outperformed their target returns over all periods since inception. A long term analysis of the diversified growth performance can be found on page 20.

DGF performance Combined Fund

			Absolute Performance			Relative Performance		
	Value (£)	% Of DGF Portfolio	Quarter to 31 Mar 2017	1 year	3 years p.a.	Quarter to 31 Mar 2017	1 year	3 years p.a.
Baillie Gifford	47,280,913	50.0%	3.00%	11.00%	6.00%	2.07%	7.10%	2.00%
Newton	47,277,899	50.0%	1.90%	2.20%	N/A	0.86%	-2.16%	N/A
TOTAL	**94,558,812**	**100%**	**2.50%**	**6.60%**	**4.50%**	**1.52%**	**2.50%**	**0.30%**

**Baillie Gifford inception date 22 November 2012. *Newton inception date 23 October 2014 less than three years.*
Source: HSBC

Newton

Newton outperformed the target return for the quarter although it underperformed the target over the 12 month period. Equities were the strongest performers in the quarter. Equity protection was once again expensive and a negative contributor to returns. Gold and government bonds produced positive returns. Corporate bonds, exposure to Mexican government bonds and UK infrastructure were also positive contributors.
During the quarter the managers added to defensive equities, Mexican government bonds and emerging market equities. The managers trimmed the gold equity exposure and reinvested the proceeds in physical gold.

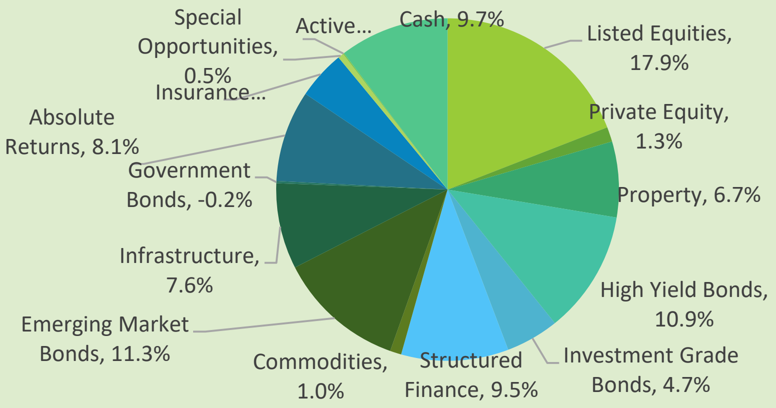
Baillie Gifford

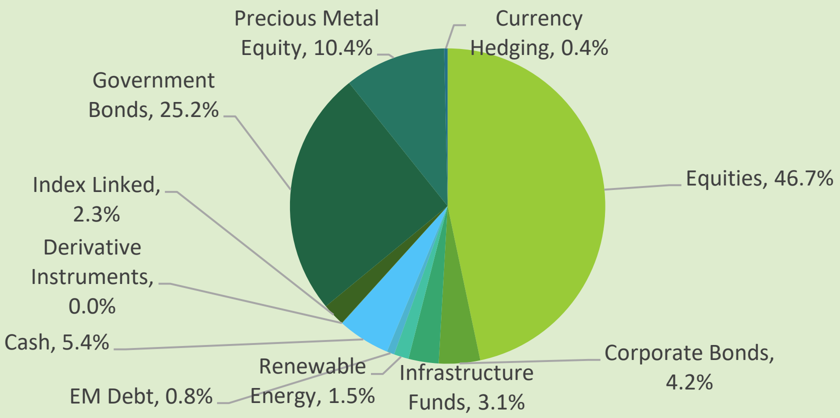
The main positive performances during the quarter came from the fund's listed equity and emerging market bond positions. Active currency was a small detractor to performance. Over the 12 month period the managers long US dollar position resulted in a positive active currency contribution. Listed equities were the main contributor to performance with high yield bonds also performing well. All asset classes over the 12 months produced positive contributions with the exception of a small negative contribution from Absolute Returns.
Over the quarter 2% was added to investment grade credit and a small addition was made to emerging markets hard currency bonds. Developed market government bonds were also added to in the form of US inflation linked bonds. Reductions were made to emerging market local currency, listed equities and high yield credit although all were relatively small adjustments.

(DGF) – underlying strategy

	Baillie Gifford	Newton (BNY Mellon Company)
Fund Launch	December 2008	March 2004
WMITA Investment	November 2012	October 2014
AUM	£6.4billion	£9.6 billion
Target Returns	LIBOR + 3.5% over a rolling 5 year period	LIBOR + 4% over a rolling 5 year period
Liquidity	Daily dealing. The fund is soft closed and will not accept new money except as part of clients rebalancing.	Daily dealing. Fund is open for business
leverage	None	None
Volatility	Aim to be less than 10% p.a.	Less than equities
Strategy	Baillie Gifford believe that diversity produces returns and helps protect against market volatility. The portfolio will include allocation to the majority of asset classes although the level of allocation can vary dependant on market conditions. The allocation to alternative asset classes is higher with Baillie Gifford than most of their competitors. In general their portfolio will be far more diversified than many of their peers as shown below. The managers invest in collective investment schemes (including their own specialist funds) as well as direct investments.	Newton seek to preserve capital through a mixture of security selection, diversification and simple hedging strategies. Diversification is seen as important within the portfolio but the managers have an unconstrained ability to move between the asset classes and can take allocations down to zero if they feel that the market environment demands it. Newton have a single portfolio of predominantly direct or liquid investments. They aim to return a performance that is somewhere between equities and bonds and as the chart below shows the meaningful allocations are between equities, bonds and gold.

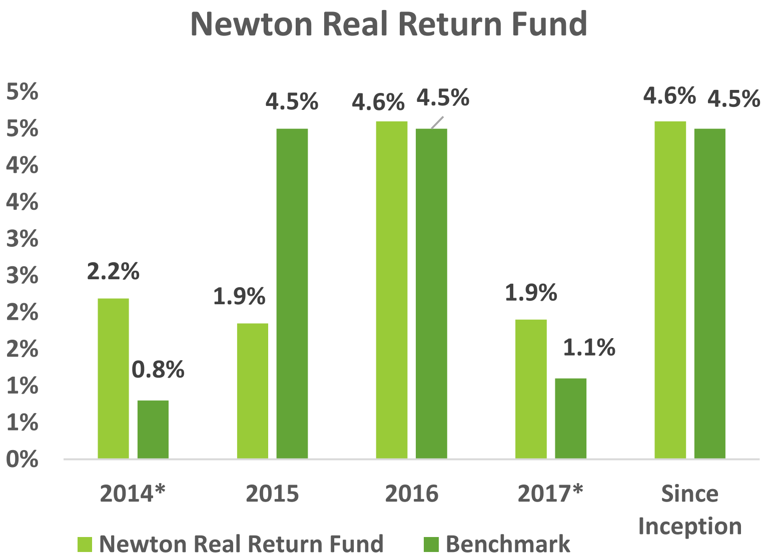
Asset allocation as at 31 December 2016





- In general both funds look to protect capital in negative markets, and with both some performance will be lost when markets are performing strongly leaving returns looking muted alongside market indices.
- Both funds use hedging and derivatives within the portfolios, usually for protection purposes.

Diversified Growth and Asset Comparisons



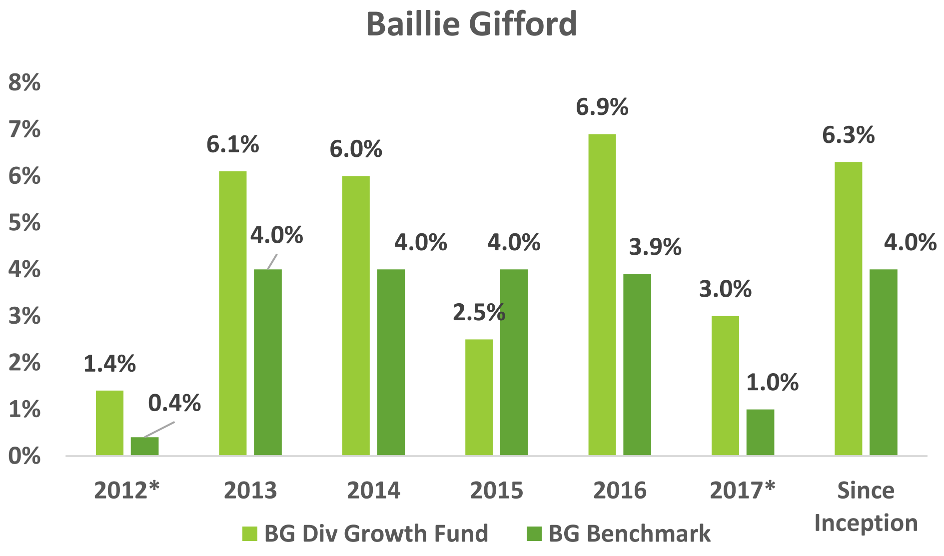
Source Newton
** 2014 and 2017 not full 12 months*
Since Inception figure is annualised

Newton

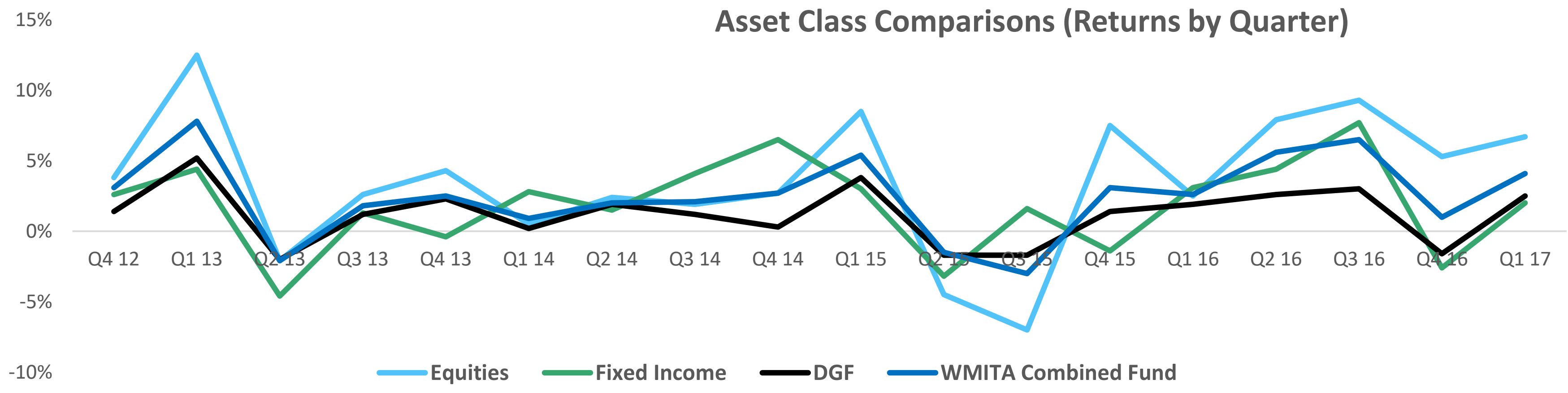
A relatively new investment (inception date October 2014). The managers have marginally outperformed the benchmark since inception. As the graph shows there has been a positive start to 2017 and 2015 was a difficult year for the managers.

Baillie Gifford

Inception date November 2012. As the graph shows the managers have outperformed the target returns since inception. Similar to Newton they have had a strong start to 2017 and outperformed every year with the exception of 2015.



Source Baillie Gifford
** 2014 and 2017 not full 12 months*
Since Inception figure is annualised



As the graph shows over the time period equities has been the more volatile asset class.

The diversified growth portfolio has been the most stable.

Performance figures taken from manager reports

Bonds

Bonds policy group summary

- The bond portfolio is a defensive portfolio consisting of Index Linked bonds, Corporate Bonds and Cash.
- The bond assets are managed by Legal & General and are divided between two funds:
- Index linked Bonds – a passive investment.
- Corporate Bonds – an active investment targeting 75bps above the benchmark over a 3 year time period.
- Benchmarks and tolerance ranges for the two funds are shown in the table below:

Region	Benchmark	Tracking target
Index Linked Bonds	FTSE A Index-Linked All Stocks	+/- 0.25% p.a.
Corporate Bonds	Markit iBoxx GBP Non-Gilts (All Stocks)	Active Fund.

Policy group activity

There has been no change to asset allocation during the quarter. The only purchases and sales have been to fund the nominal dividend distributions that are paid into the cash account monthly from L&G and trades completed to bring assets back to target allocations as part of the rebalancing exercise in February 2017.

Defensive Portfolio

	Value (£)	% Of Defensive Portfolio	Absolute Performance			Relative Performance		
			Quarter to 31 Mar 2017	1 year	3 years p.a.	Quarter to 31 Mar 2017	1 year	3 years p.a.
Index Linked Bonds	28,121,626	50.03%	1.90%	20.00%	13.10%	0.00%	0.10%	0.00%
Corporate Bonds	27,209,153	48.41%	2.00%	9.20%	7.60%	0.20%	0.00%	0.10%
Cash	876,433	1.56%	Working Capital			Working Capital		
TOTAL	**56,207,212**	**100%**	**2.00%**	**14.50%**	**10.30%**	**0.10%**	**0.00%**	**0.10%**

Source: HSBC

- **Index Linked -** The sector matched the benchmark during the quarter, returning 1.9%. Over the 12 month period the portfolio marginally outperformed the benchmark returning 20.0% against the benchmark return of 19.9%. The fund and index had a modified duration (i.e. sensitivity to interest rates) of 23.0 years and the real yield was -1.7%. The fund held all 28 stocks in the index.

- **Corporate Bonds -** The fund has outperformed the benchmark over the quarter (Markit iBoxx GBP Non-Gilts (All Stocks), although it has not reached its target returns (benchmark + 75bps). Financial and collaterised bonds in general fared well. Energy and Mining companies lagged on the back of lower commodity prices.

  The Corporate Bond portfolio is split as follows:

Non-Financials	Financials	Collateralised	Sovs/Sub-Sovs/Supra	Government Bonds	Cash
34.9%	27.2%	18.1%	8.2%	9.3%	2.3%

- **Cash –** as at 31st March 2017 £0.8m of the cash balance was invested in the AIM Deposit Account. This fund earned approximately £237 in interest over the quarter. Cash is slightly over allocated as at 31st December 2016. A rebalancing exercise was carried out February 2017. There is a wider review of Cashflow requirements currently being undertaken following the 2016 Actuarial Valuation and the updated contribution schedule.

Cash

Cashflow (£)	
Cash balance 31 December 2016	1,987,883
Inflows	
Contributions	2,788,923
Pre-1986 transfer	884,215
Income from Prudential pensioner buy-in	4,218,597
L&G Income Distributions	364,750
L&G Net Redemption	7,300,000
Bank Interest	6,667
Outflows	
Pensions, Retirements etc.	(8,074,602)
Baillie Gifford Subscription	(2,700,000)
Newton Subscription	(5,900,000)
Net Oct - Dec inflow	(1,111,450)
Cash balance 31 March 2017	876,433

Cashflow Forecast (£)	
Cash balance 31 March 2017	876,433
Inflows	
Contributions	1,071,954
Pre-1986 transfer	447,723
Income from Prudential pensioner buy-in	4,125,297
L&G Income Distributions	380,000
L&G Index Linked Redemption	990,000
Outflows	
Pensions, Retirements etc.	(7,156,193)
Net Jan - Mar outflow	(141,218)
Estimated cash balance 31 March 2017	735,214

- Pre-1986 transfer - A regular transfer of monies WMCA has paid to the main fund which is then transferred to the ITA fund to cover actual pensions paid in respect of pension increase on pre-1986 pension elements, where the cost is met by WMCA.
- Unless separately identified in the table above cashflow excludes administration, management expenses and professional fees incurred during the quarter.
- External management fees (detailed in appendix 3), with the exception of Newton who deduct at source, are invoiced and paid by the WMCA who are reimbursed by the Fund every 6 months.
- The cashflow was negative during the quarter. As at 31 March 2017 there was £815,000 invested in the AIM Deposit Account. This accrued approximately £237 in interest over the quarter.

Appendices

Appendix 1 – Full Fund asset allocation
Appendix 2 – Risk management
Appendix 3 – External managers’ fees

Appendix 1 – Current Fund position Combined Fund

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

Asset allocation – as at 31 March 2017

Asset class		Fund allocation %	Policy target %	Difference %	Change from Previous Quarter %
Equities – L&G					
UK	9,696,658	3.9%	3.9%	0.0%	0.1%
North America	29,003,022	11.7%	11.5%	0.2%	-1.5%
Europe (ex UK)	24,583,781	9.9%	9.6%	0.3%	-0.3%
Japan	9,322,998	3.7%	3.8%	-0.1%	-0.7%
Pacific (ex Japan)	9,807,012	4.0%	3.8%	0.2%	-0.2%
Emerging Markets	14,869,724	6.0%	5.8%	0.2%	-0.4%
Total equities	**97,283,195**	39.2%	38.4%	0.8%	-3.0%
Diversified Growth Funds (DGF's)					
Baillie Gifford	47,280,913	19.1%	19.3%	-0.2%	1.0%
Newton	47,277,899	19.0%	19.3%	-0.3%	2.0%
Total DGF's	**94,558,812**	38.1%	38.6%	-0.5%	3.0%
Total Growth	**191,842,007**	77.3%	77.0%	0.3%	0.0%
Fixed interest – L&G					
Index Linked Bonds	28,121,626	11.3%	10.9%	0.4%	-0.1%
Corporate Bonds	27,209,153	11.0%	11.5%	-0.5%	0.6%
Total fixed interest	**55,330,779**	22.3%	22.4%	-0.1%	0.5%
Cash	876,433	0.4%	0.6%	-0.2%	-0.5%
Total Cash	876,433	0.4%	0.6%	-0.2%	-0.5%
Total Defensive	**56,207,212**	22.7%	23.0%	-0.3%	0.0%
Prudential Buy-In	**255,020,000**				
TOTAL	**503,069,219**	**100.0%**	**100.0%**	0.0%	**0.0%**

Appendix 1 – Continued
Fund positions – NX and PBL (as at 31 March 2017)

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

NX

Asset class	Value (£)	Fund allocation %	Policy target %	Difference %
Equities – L&G				
UK	9,239,678	4.0%	4.0%	0.0%
North America	27,674,241	12.1%	12.0%	0.1%
Europe (ex UK)	23,445,910	10.3%	10.0%	0.3%
Japan	8,872,995	3.9%	4.0%	-0.1%
Pacific (ex Japan)	9,339,102	4.1%	4.0%	0.1%
Emerging Markets	14,179,177	6.2%	6.0%	0.2%
Total equities	**92,751,103**	40.6%	40.0%	0.6%
Diversified Growth Funds (DGF's)				
Baillie Gifford	45,097,135	19.7%	20.0%	-0.3%
Newton	45,139,863	19.7%	20.0%	-0.3%
Total DGF's	**90,236,998**	39.4%	40.0%	-0.6%
Total Growth	**182,988,101**	80.0%	80.0%	0.0%
Fixed interest – L&G				
Index Linked Bonds	23,048,200	10.1%	9.4%	0.7%
Corporate Bonds	21,896,916	9.6%	10.0%	-0.4%
Total fixed interest	**44,945,116**	19.7%	19.4%	0.3%
Cash				
Cash	775,393	0.3%	0.6%	-0.3%
Total Defensive	**45,720,509**	20.0%	20.0%	0.0%
TOTAL exc Buy In	**228,708,610**	100.0%	100.0%	0.0%

PBL

Asset class	Value (£)	Fund allocation %	Policy target %	Difference %
Equities – L&G				
UK	456,980	2.4%	2.3%	0.1%
North America	1,328,782	6.9%	6.6%	0.3%
Europe (ex UK)	1,137,870	5.9%	5.6%	0.3%
Japan	450,002	2.3%	2.3%	0.0%
Pacific (ex Japan)	467,911	2.4%	2.3%	0.1%
Emerging Markets	690,547	3.6%	3.4%	0.2%
Total equities	**4,532,092**	23.5%	22.5%	1.0%
Diversified Growth Funds (DGF's)				
Baillie Gifford	2,183,778	11.3%	11.3%	0.0%
Newton	2,138,036	11.1%	11.2%	-0.1%
Total DGF's	**4,321,814**	22.4%	22.5%	-0.1%
Total Growth	**8,853,906**	45.9%	45.0%	0.9%
Fixed interest – L&G				
Index Linked Bonds	5,073,426	26.2%	27.0%	-0.8%
Corporate Bonds	5,312,237	27.5%	27.4%	0.1%
Total fixed interest	**10,385,663**	53.7%	54.4%	-0.7%
Cash				
Cash	101,040	0.4%	0.6%	-0.2%
Total Defensive	**10,486,703**	54.1%	55.0%	-0.9%
TOTAL	**19,340,609**	100.0%	100.0%	0.0%

Appendix 2 – Risk management

Risk

There are various risks to which any pension scheme is exposed. The Authority has considered the following risks and believes that they do not exceed an acceptable level:

I. The risk of a deterioration in the funding level of the Fund due to investment markets not performing as forecast. The diversification of the investments balances this risk against the objective of seeking the better performing markets in which there is relatively good liquidity.

II. The risk that the investment managers, in their day-to-day management of the assets, will not achieve the rate of investment return expected by the Authority. The Authority recognises that the use of active investment managers involves such a risk. To limit their exposure to the risk of significantly underperforming, the Authority invests the Fund's investments in highly diversified core holdings, a mixture of equities, bonds and diversified growth funds producing a high level of probability of achieving near market rates of return at a relatively low cost. The Fund is also invested in actively managed non-government fixed interest arrangements.

III. Any investment decision carries with it risks of different types (for example, risk of underperformance, risk from mismatching, risk from underfunding etc). The Authority recognises these different types of risk and seeks to minimise them as far as possible by regular monitoring of the performance of the fund managers, seeking advice from the actuary on the suitability of the assets with regard to the Fund's liabilities, regularly receiving advice from a range of professional advisors and ensuring that the Fund's portfolio is suitably diversified.

IV. During 2012, the Fund arranged an insurance 'buy-in' of part of the current liabilities for pensions in payment to more effectively manage the investment, interest and longevity risks.

V. A review of the investment risk and strategy was undertaken in conjunction with 2016 Actuarial Valuation.