

Dear Councillor,

PENSIONS COMMITTEE - WEDNESDAY 24 MARCH 2021

I am now able to enclose, for consideration at next Wednesday 24 March 2021 meeting of the Pensions Committee, the following appendices that were unavailable when the agenda was printed.

Agenda No Item

10 **Corporate Plan 2021-2026 (Pages 3 - 24)**

[To receive the proposed Fund Corporate Plan 2021 – 2026.]

14 **External Audit Plan 2021 (Pages 25 - 72)**

[To receive an update on the plan for the external audit of the Fund's Annual Report and Accounts for 2020/2021.]

16 **Quarterly Investment Report to 31 December 2020 and Investment Strategy Statement Review 2021 (Pages 73 - 98)**

[To receive an update on developments in investment markets, asset allocation and investment performance over the latest quarter in relation to the West Midlands Pension Fund (Main Fund and Admitted Body Sub Funds).]

If you have any queries about this meeting, please contact the Democratic Services team:

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CORPORATE PLAN 2021 – 2026

Appendix A

Contributing together to create
sustainable futures for all

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Agenda Item No: 10



West Midlands Pension Fund

OUR FUND

The West Midlands Pension Fund is one of the largest UK Pension Funds serving in excess of 330,000 public sector employees and more than 750 employers across the West Midlands Region, holding assets under management of around £18 billion across a diversified portfolio designed to serve and deliver cashflow in support of our members' pension benefits.

The Fund has a long-standing history across the West Midlands region. Borne out of the historic West Midlands County Council, we work on behalf of the seven District Council Authorities to provide opportunities for members to plan for a retirement future which serves the needs of individual circumstance.

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£18.7bn assets under management

343,000 members

764 employers



Introduction From Director of Pensions

Our Corporate Plan for 2021-2026 has been developed following an unprecedented year for the Fund, our members and employers. The coronavirus pandemic has taught us a lot about the things we do well; those which are important and how we should continue to review and develop our Fund and the services we provide to ensure sustainable futures for all.

In a year in which many organisations were forced to come to a standstill and reduce service, we have adapted and been able to build new offerings to support our members and employers through uncertain times. Information and support services have moved online, our new employer hub has launched and although the demand and need for face to face engagement is still there, we have been able to provide a lifeline to many at a time of great need and unfortunately, personal loss. Our increasing need for technology and systems to develop to increase service accessibility, develop working efficiencies and enhance controls has come to the fore, with a focus on supporting and protecting our employees and customers as they interact with the Fund and their pension savings.

Events this year have reinforced more than ever the importance of strong governance, responsible investment practice, the value of diversity and inclusion

and need for proactive response to Climate Change. Alongside our accreditations for our administration, people and customer service, the development of our cyber strategy, investment engagement themes, investment pooling programme and publication of our investment Climate Risk assessment highlight the progress we are making to retain strong governance.

Our engagement network and commitments have broadened over the year as we look to increase collaboration for global influence and continue active stewardship in partnership to drive an increased pace of change, calling out where action is needed to protect human rights and increase responsible financial management. Sustainability and long term resilience are themes which flow through our investment strategy, engagement priorities and corporate agenda.

We continue to develop a programme of “growing our own” talent, equipping employees with the tools they need to succeed and support their well-being. Our recruitment programme has continued to see strong interest and will remain a key strand of our work towards enhancing equality diversity and inclusion with the Fund and the organisations we work with, delivering for our local people and communities within the West Midlands.

Looking ahead and over the next five years, our corporate plan seeks to build on progress to date. We have programmes in train to respond to Scheme regulatory change and increasing disclosure of action on Climate Change. Developing the Fund workspace and environment to support our people, service delivery and collaboration through new office premises is a priority for 2021 as we look to build on new working practices, live to the environmental and technological standards we expect from others and provide a central forum for a sustainable future within the Local Government Pension Scheme.

This plan has been developed in collaboration with our key stakeholders – our governing bodies (including member representatives), employers and employees. All will play a role in its delivery and ongoing progress review and we thank all for their support in our ongoing growth and development.



Rachel Brothwood
Director of Pensions

Executive Summary

In developing our Corporate Plan we have engaged with our People and Stakeholders and have taken stock of the world in which we operate to identify challenges, opportunities and risk which may determine our path over the next one to five years.

We have seen an appetite to continue to adapt the Fund’s approach in how we engage, communicate and support. With demand across all channels of delivery, there is greater opportunity to reach our customers. We will continue to develop our people and working environment to provide timely, accessible and cost

effective services. Recognising the growing complexity and interest in pension saving and how the contributions we collect are invested for the future, we recognise and embrace the opportunity for collaboration with our key stakeholders for mutual benefit.

A YEAR IN REVIEW

Our goals and ambitions 2020 – 2025

Our Service Plan 2020-2025 outlined three themes driving our service development and delivery

- **Information management** – improving the information we collect and hold to enable us to better know our customers and ensure we are using this to manage and improve performance
- **Risk management** – ensuring our financial and operational risk management practices were supporting implementation of our funding and investment strategy, supported by an evolving assurance framework
- **Efficiency and resourcing** – developing the tools and our people to increase capacity and manage ongoing change

Progress has been made in each of these areas, and the themes remain relevant as we continue to build our Corporate Plan for 2021-2025.



Our Corporate Priorities in 2020 Information Management | Risk Management | Efficiency and Resourcing



Internal Development; enhancing operational efficiencies

For the Fund, 2020 was a busy yet successful year with services maintained and transformed to enable ongoing support to our members and employers, the pandemic created opportunity to bring forward and roll out more rapidly online member and employer face to face support and system developments to support operational performance. The Fund has been recognised for these achievements across a number of accrediting bodies and industry organisations, most recently through becoming the first LGPS Fund in England and Wales to achieve PASA Accreditation in November 2020.



Social and Employer Responsibility; building partnerships

While the start of the financial year was a very uncertain time for markets, the Fund maintained its position as a long term investor focused on implementation of investment strategy which plays the most significant role in continuing to meet the long term liabilities of the Fund.

Throughout the year the Fund focussed engagement with employers on their own response to the Covid pandemic, supporting our understanding of their key issues through regular surveys and delivering support sessions.



For our own employees, we assessed the impact and risk of Covid with well being and safety being at the heart of our priorities and focus, ensuring we could maintain service delivery for our customers.

Our 2020 Climate Risk Disclosure report was prepared based on analysis undertaken by our investment pool company, and partner, LGPS Central Limited

Financial and information management; improving data

Most notably there has been a step change to the way organisations and their workforces interact, increasing opportunities for technology-led innovation but also placing a spotlight on accessibility, reliability and the ongoing need to respect and keep both online spaces and the data we hold informative, accurate and safe.

Over 2020/21 we have developed the Fund's Cyber Strategy, enhancing our monitoring and testing programme to further build our framework for continuing to develop resilience and protection of our information and data.

Alongside this, our new employer hub and enhanced electronic exchanges of data, together with our approach to employer engagement provide a platform for demonstrable success in improving the quality of our membership data records.

In partnership with our employers, and building on the success of our annual employer health check exercise, we have seen examples of noticeable advances in data quality aligned to structured improvement plans.

Our Corporate Priorities in 2020 Information Management | Risk Management | Efficiency and Resourcing

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Local and Regional Engagement

Across the pensions industry we have seen growing focus on pension saving and retirement planning, raising awareness of the issues which affect the value of retirement income and interest in how pension fund assets are invested and managed. The Pensions Schemes Act 2021 seeks to improve protections for pensions savers, with increased protection against pension scams, rising standards of governance for Scheme managers and step change in the governance of climate risk management. Across the Public Sector changes to LGPS regulations to remedy and develop Scheme benefits have the potential to pull on available resource of Funds while adding to the myriad of complexity within benefit calculations; supporting members through the review and potential adjustment to their benefits will be of paramount importance as we move forward.



Along with the growing complexity in scheme rules, member and employer numbers continue to grow, with increasing rates of movement due to role and employment changes and employer restructuring. We acknowledge the financial responsibility of our employers in providing the LGPS to members, and engage extensively across the employer-base to better understand the associated challenges and affordability pressures. It is paramount to our collaborative success that the Fund is able to engage employers to understand their requirements and challenges, to support delivery of services and inform members enabling decisions to be taken in relation to their pensions savings.

More broadly, the Fund has made allocations to investments which have provided support to finance small and medium size businesses, enable local housing development and sustainable energy projects.

Enhancing Operational Efficiencies

Despite the uncertainty of the last 12 months, a number of key ambitions set out in our 2020 Service Plan have been achieved, most recently with the launch of a new Employer Hub as part of the Fund's Digital Transformation Programme – the first group of employers transitioned across to the new platform during November 2020 following a period of extensive testing, with further roll out undertaken

through the first quarter of 2021/22. This is a key step forward in the Fund's delivery of its employer engagement, providing an enhanced self-service platform to support delivery of the Fund's Pension Administration Strategy and Data Management Strategy.

Investment pooling has continued to progress alongside implementation of change to investment strategy. Transition and increase in allocation to Emerging Market Debt has enabled this strategy to develop. Alongside this the Fund's climate change risk assessment from 2017/18 has been refreshed and enhanced to test resilience and aid monitoring of risk exposure.

Developing People and Skills

Our people and their ongoing development continues to be at the heart of prioritising service delivery. This year the Fund adapted its member engagement to ensure key information and support was still available to individuals affected by the uncertainty of the pandemic with our customer contact centre maintaining service delivery and our member services team adapting their offering to incorporate webinars and virtual one-to-one meetings to ensure information was still available to members in the comfort of their own homes.

- An achievement recognised in our reaccreditation for Customer Service Excellence, in November 2020.



Support and development of our own people has continued with recruitment and training through online platforms ongoing during the year. This year the Fund has seen an exponential increase in the rate of applications for the Fund's available roles reflecting a growing interest in the work of the Fund and the opportunities for career development within the region.

This was most notably recognised in our achieving Investors in People Gold in the Summer.

OUR VISION

“Contributing together to create sustainable futures for all”

As a public service pension scheme, the West Midlands Pension Fund is focussed on delivering value to our customers and stakeholders, ensuring information and support is available at the right time to enable pension members to effectively plan for their retirement and to support our employers in performing their role as they participate in the statutory local government pension scheme.

Now, more than ever, there is a motivation across the public and our own member and employers’ appetite to do more to address environmental and social issues, highlighted through global understanding of the pace and impact of climate change and through the awareness raised by Black Lives Matter which have both thrown a spot light on the actions all can take, including public bodies and employers, to do more to ensure equality, diversity and inclusion.

As we look forward to 2021 and consider our focus and priorities to 2026, we remain committed to ensuring our customers are educated, informed and engaged about their retirement income and have the opportunity to plan their retirement effectively while invoking confidence in our investment approach that aligns with their beliefs.



OUR PRIDE

P

Partnering for Success

We work with our partners, customers, peers and stakeholders to design, enhance and deliver services that meet their needs as well as supporting the wider LGPS and pension industry to shape the environment in which we work.

Through partnerships we are able to deliver our investment beliefs and support development of sustainable futures.

R

Responsible Asset Owner, Employer and Local Community Partner

Through our Responsible Investment Framework we support active stewardship, engagement and seek positive change to protect and enhance the Fund's assets, ensuring they deliver the returns to support the payment of members' pension benefits.

As an employer we work with our people through our focus on Equality and Diversity working with our staff forum to support and promote inclusion and opportunity. Our staff forum promotes charitable causes raising funds to support local and national bodies with charities nominated by their colleagues.

I

Investing to Increase Capacity

As the world of pensions becomes ever more complex, we are committed to investing in resource which supports efficiency in processes able to respond to the increasing numbers and demand of our customer base. Enhancing usability of self-service platforms and providing opportunity for customers to seek support and information while investing in our people, continuing to develop knowledge and understanding which supports the service delivery and providing career opportunities for the next generation of leaders. Having the right people with the right skills, knowledge and behaviour is fundamental to the work of the Fund and we have implemented a people development strategy to ensure the ongoing success of our people, developing an organisation able to respond to its customers' needs.

D

Delivering Value Added Services

As a public organisation we are committed to ensuring value for money in all our offerings, from resources, services and managing investment cost through transparent reporting. Through annual benchmarking we continue to assess our delivery ensuring there is value in our work.

E

Engage to Improve Outcomes for Customers

For the Fund, how we act as shareholders and owners says a lot about how we expect our assets to perform and how we expect the companies in which we hold those assets to behave in their industries. As a leader across the LGPS, our role on national bodies ensures the voices of our customers are heard by those with responsibility for change, placing our members and employers at the centre of decisions which impact their futures. Our Customer Engagement Strategy encourages engagement and feedback from our customers which serves to inform our delivery enhancing overall outcomes.

CREATING SUSTAINABLE FUTURES

PEOPLE
SPACE
COLLABORATE

Our People in 2020:



Our People

Our people are our greatest asset and it is through their development and commitment to our customers that the Fund achieves success.

Having the right people with the right skills, knowledge and behaviour is fundamental to the work of the Fund and we have developed our People development strategy to ensure our organisation is able to respond to its customers' needs.

Ensuring people feel confident and effective in their roles is fundamental to the strategy as this leads to improved efficiency and productivity. Our strategy aims to promote an inclusive environment where all employees are able to contribute to the success of the Fund, as well as gaining satisfaction and reward in achieving their own personal development goals.

Through our "grow our own" we play an active role in providing opportunities to develop within the local community, the knowledge and skills which are relevant to the pension fund and financial service industry.

The success of our graduate program has been overwhelming with all cohorts going on to secure roles in their chosen career at the end of their program. This not only promotes the pension industry as a pathway to professional careers and therefore further raises awareness for retirement income planning, but also promotes our region as a place of opportunity bringing in talent from across the country and ensuring the region is a leader in growing employment opportunities across a range of sectors.



Creating sustainable futures for our People; developing employment opportunities in the West Midlands

CREATING SUSTAINABLE FUTURES

PEOPLE

SPACE
COLLABORATE



Inclusion and Opportunity

We are an equal opportunities employer offering inclusion in our success as we grow and succeed.

As a member of the Employers Network for Equality and Inclusion (ENEI) we aim to

- Ensure colleagues feel they are treated equally and fair regardless of age, disability, race, religion, gender and sexual orientation
- Develop our approach to being a more diverse and inclusive workforce which allows us to develop experiences and viewpoints to see issues in a different way and create solutions to business challenges

- Provide access to forums and training which support our understanding and awareness to be able to share ideas and initiatives between colleagues
- Support people to feel included, valued and accepted

As a Fund we are committed to ensuring change to drive increasing equality, diversity and inclusion (EDI) through evolving our working practices and recruitment strategy and ensuring those we work and invest with, drive to do the same. The Fund has established a dedicated programme of work to develop its internal and external support for EDI.

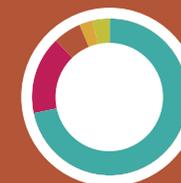
GENDER BALANCE OF THE FUND

| | |
|--------|-----|
| Male | 26% |
| Female | 74% |



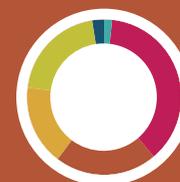
ETHNICITY

| | |
|------------|-----|
| White | 72% |
| Asian | 16% |
| Not Stated | 6% |
| Mixed | 3% |
| Black | 3% |



AGE

| | |
|--------------|-----|
| 20 and under | 2% |
| 21 - 30 | 32% |
| 31 - 40 | 25% |
| 41 - 50 | 15% |
| 51 - 60 | 24% |
| 61 and over | 3% |



LENGTH OF SERVICE

| | |
|--------------------|----|
| Less than 2 years | 57 |
| 2 years - 5 years | 52 |
| 5 years - 10 years | 10 |
| More than 10 years | 25 |
| More than 20 years | 30 |



Figures based on those employed in full time permanent positions at the Fund as at March 2021

Creating sustainable futures for our People; developing employment opportunities in the West Midlands

CREATING SUSTAINABLE FUTURES

PEOPLE
SPACE
COLLABORATE



Artist's impression of our future office space, Wolverhampton's i9 building

Our Environment

The Fund believes the environment it creates and uses plays a vital role in supporting its people, customers and stakeholders and how these interact, both in the West Midlands and the wider pensions industry and Local Government arena. The Local Government Pension Scheme continues to grow and experience significant change, creating opportunities for Funds to benefit from collaboration. With a central UK location and close proximity to multiple and major transport networks, the Fund premises provide a hub for training and collaboration and is a place where the Fund can set out and live to the standards it sets for others in ensuring buildings and technology are aligned to ambitions for a sustainable future.

As a Responsible Investor, employer and community partner, the Fund sets a high standard for properties in which it resides, invests and develops, working to ensure an increasing proportion of the portfolio meets, as a minimum the BREEAM rating of very good and an EPC rating of B.

Over 2021 the Fund is developing its own future space ensuring it provides an environment able to support flexible working, effective collaboration and delivers strong credentials to support in action on Climate Change.

The Fund's Responsible Investment Framework, goes further with themes on Responsible Financial Management and attention to Human Rights, including initiatives to support greater social equality and a just transition in response to climate change.

As we continue to challenge the action and pace of change in response to climate risk in our investment portfolio, the Fund has a nominated Green Champion to drive the Fund's own initiatives, such as recycling and reducing single use plastics.

Our premises, use and location provide an important role in instilling the confidence in the Fund as a leader within the industry and a source of information to assist in decision making at one of the most important stages in our members' lives.

£2bn Transitioned £2billion of equity holdings to sustainable & low carbon investment strategies

8% Increased investment in clean technology by 8% in last year

1/3 Reduced total equity carbon intensity by third relative to the benchmark

20% Reduced its weight of exposure to fossil fuel reserves by over 20% since 2019/20

Creating sustainable environments in which we work and invest

CREATING SUSTAINABLE FUTURES

PEOPLE
SPACE
COLLABORATE

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Our Customers and Stakeholders

As a public service pension scheme, the West Midlands Pension Fund is focussed on delivering value to our customers and stakeholders, ensuring information and support is available at the right time to enable pension members to effectively plan for their retirement and to support our employers in performing their role as they participate in the statutory local government pension scheme.

Working to ensure we are able to adapt and respond to continue to deliver a high quality and valued service that is responsive to the environment in which we work. Our core mission is to ensure that our members receive their pension benefits when they fall due, but more than that, to ensure our members are able to plan their retirement with access to information, guidance and support about the benefits they can receive and the options available to them. For our employers we seek to work in partnership aligned to mutual service delivery, to ensure they are able to fulfil their responsibilities to the Fund, are aware of their evolving pension liabilities and provide a valued service for their members.

We recognise the value in engagement with our partner organisations, be it other LGPS Funds, service providers or industry bodies and the need to continue to be alert and proactive to change. We engage early to inform debate and work in

collaboration to achieve good outcomes for the Fund and wider LGPS.

Not more than five years ago, pensions were more often than not dismissed as something to think about at the end of working life, now the focus has shifted with renewed motivation to ensure pension funds work with individuals throughout their working life to provide an income in retirement which ensures a good standard of living.

Through the Be Pensions Smart campaign and developing member self-service toolkit, the Fund seeks to inform members of the Local Government Pension Scheme of their pension savings, options and to engage and support all in planning for retirement. Our objectives this year extend to focus more on raising awareness of risks to pension saving, supporting members on the potential pitfalls of fraud and scams.

We aim to tailor our information and engagement to life events. This proves the most effective way to engage and facilitate understanding and positive action.

We believe, societal influences also shape the level of interest individuals have with their pension provider and have seen an increase in interest from our members on how their pensions are invested and our programme of active stewardship.

Creating opportunity for our members to ensure a sustainable living in retirement income

FUTURE OUTLOOK

Horizon / Risk

Although some plans had to be put on hold during 2020, a number of key changes continued to shape the LGPS and the pensions industry with the enactment of regulatory change and the evolving demand for informed pension choices.

As we move into the next phase of change we continue to monitor these developments and prepare to respond effectively

It is now more important than ever to have the best possible understanding of the world around us and that we review, prioritise, scrutinise and adapt effectively. The Fund's risk management framework supports us in doing this with ongoing review and challenge through an effective assurance program.

We continue to ensure that

- Implications for risk are highlighted at the right levels within the fund
- We share best practices to establish a common understanding of risks across all levels with the fund
- Actions and controls are closely monitored to ensure mitigation of risks

It is through this approach that we have identified a number of key drivers that will shape our service delivery over the course of the next 1 – 5 years.



DRIVERS FOR CHANGE

Regulatory Change and Increased Oversight of Reporting

- **McCloud**
- **Good Governance**
- **Statutory Guidance**
- **Cyber Risk**

The pensions industry is constantly moving ensuring it is able to maintain appropriate standards of governance and information.

The Fund engages in potential change through its role on various national groups supporting the discussion on proposed change and responding to consultations on new regulation. The focus for the Fund is on ensuring it is able to report and support the change through flexing of its own approach and resource.

This year the Fund has adopted its independent Cyber Risk Strategy designed to ensure effective management of the evolving and continuously changing risk environment across the cyber world.

Identify – Protect – Respond

Supporting Members

- **Pension Dashboards**
- **Pension Scams**
- **Complexity in scheme rules**
- **Increased demand for self service**

Individuals are becoming much more engaged with their pensions through national campaigns and an evolving perspective of pension as being an income in retirement.

The Fund is supporting that engagement through input to the development of data standards to support the pension dashboards. Through our pledge to support and

protect members from pension scams we have committed to warn members of the potential dangers of transferring out and to ensure appropriate advice has been received.

Ensuring further development of our pensions portal and member functionality will aid in navigating pension options and increase access to information.

Funding and Cost Management

- **Employer flexibilities**
- **Post Covid austerity**

Building on new LGPS regulations in September 2020, the Fund is further enhancing its approach to integrated risk management, including individual employer funding developments. Whether driven by exit, change in covenant or membership, the Fund is taking a proactive approach to engaging with employers on changes between formal triennial valuations, to aid in financial planning.

Investment Management

- Stewardship
- Responsible Investment
- Pooling

The Fund's investment strategy continues to evolve in response to the ever-changing investment and economic outlook. Our drive for return to support in meeting the cost of pension benefits is supported by governance arrangements which ensure active stewardship, engagement on key environmental, social and corporate governance issues and implementation through cost-effective investment vehicles.

Action to assess, monitor and manage the financial risks associated with Climate change will continue to progress, together with further integration of responsible investment beliefs into the day-to-day management of Fund investments.

Resourcing and Skills

- Growing complexity in scheme rules
- Competition in the market

Our ability to support our customers depends on our people being equipped and trained to manage and deliver a service that is responsive to our customers' needs.

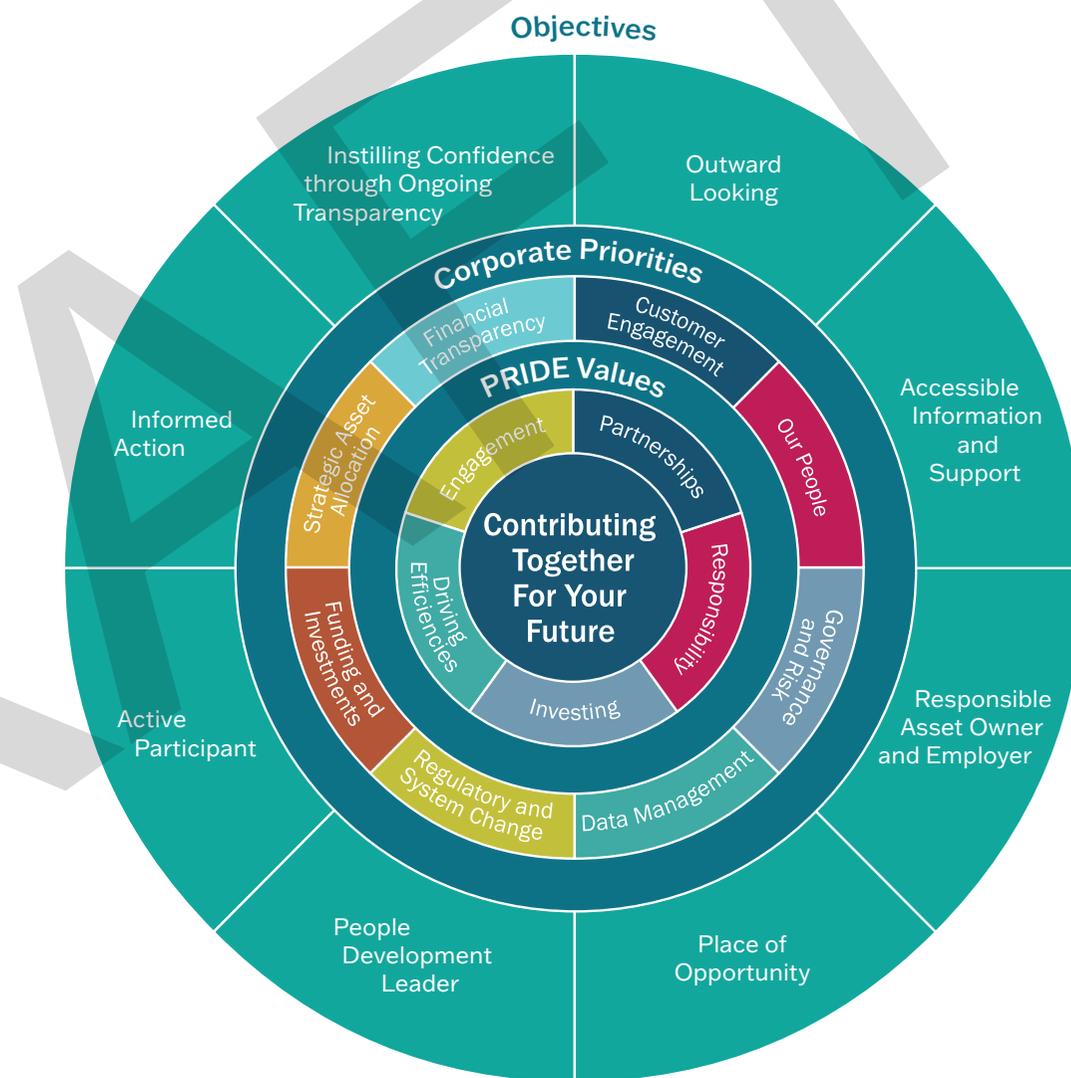
Change has been, and in the future, will continue to be, a consistent feature of the background against which the Fund delivers services for both its members and employers each year.

It is our goal to ensure that our people have the opportunity to develop with the changing environment in which we work, effecting flexible solutions to meet the changing demands of our customers and the way we deliver our business and services.



OUR GOALS AND AMBITIONS

Despite the events of 2020, the Fund has continued to grow. Our employee base continues to grow, both in numbers and skill, and we foresee growth areas in a number of our teams going forward both in terms of the **people** and the service offering. Our future **space** will support our ambition of becoming a regional hub for pensions knowledge, ensuring we continue to **collaborate** with our customers and stakeholders supporting their goals and ambitions as much as our own. These goals and ambitions have been identified as key in enabling the Fund to achieve its corporate priorities.



Outward Looking

Aware and evolving as the regulatory landscape and customer environment and expectations change

Through being aware of challenges and opportunities to collaborate on change we can recognise areas of alignment and potential conflict ensuring ongoing review of key strategy policy documents to ensure they respond to the changing environment in which we work. Over the next 1 – 5 years we will develop our policy on local investment working with partners to ensure opportunities align with our investment strategy and support the wider region.

Accessible Information and Support

Creating a space of opportunity for our members to feel educated, informed and enabled to take decisions about their retirement options

We will establish our future events programme, enabling both face to face and online interaction flexing our offering to the ask of our customers including the ongoing roll out of self service facilities building on the success of the initial launch of our employer hub in 2020.

We will continue to increase member awareness of retirement planning and scam risks through enhancing our information offering and ongoing review and development of long standing operational processes to drive and improve member data effecting efficiency in service delivery.

Responsible Asset Owner and Employer

Securing sustainable investment returns, influencing positive change locally and globally

Through our investment strategy we aim to meet the long term liabilities of the Fund through effective management and flexibility of assets, responsive to the changing markets in which we invest,

acknowledging our fiduciary duty through the application of our Responsible Investment framework and the continued engagement and campaign on behalf of our members ensuring our stewardship of assets supports effective change in company behaviour.

As a member of ENEI we will increase actions to support equality, diversity and inclusion (EDI) within the Fund and the organisations we work with as well as building on the initial work to Champion Climate change initiatives within our own organisation.

Engage our partners in the direction of the Fund and enhance our service delivery to effect long term flexibility in the services and support we offer

We will continue to build our in-house skills and expertise offering opportunity for customers to engage and inform their own understanding of pensions building knowledge to support understanding as well as offering a central region location to work with our peers and industry partners in shaping the LGPS. We will supporting our colleagues through the establishment of an agile employee working programme which works to support our future space as a hub for collaboration

Launching and developing careers and developing talent

Through our People Development Framework, we will enhance our offering as an employer through forward thinking with our resource needs enabling us to stay ahead, ensuring we can recruit, develop and retain the right people who can deliver excellence for our members and stakeholders. To enhance our Diverse workforce with a culture of learning and development, providing an opportunity for everyone to develop current skills in their role and enhance career aspirations through role specific development programs and a matrix approach to service delivery.

Place of Opportunity

People Development Champion

Active Participant

Take an active role to support our partners across the industry, recognising our role as a leader in the industry and the opportunities to shape the LGPS

Through our roles on national bodies and our recognition as a leader in the LGPS we will take a proactive approach to engagement responding to national concerns and consultations ensuring stakeholder perspectives are represented on matters most relevant to them.

Informed Action

Enhance data, information and risk management tools to support Fund decision making and policy development

Through developing business intelligence tools we will shape future direction of the Fund through informed foresight and proactive risk identification shaping services and policy in response and in preparation for future change which will support our foresight planning for both service delivery and resource needs identifying opportunities to create efficiency in our processes and enhance monitoring of our performance.

Instilling Confidence in our Service Delivery through Ongoing Transparency

Provide assurance and instil stakeholder confidence through transparency of reporting delivering accountability on our actions demonstrating value add

We will continue to seek external review of our delivery and performance through both elective and statutory assessment participating in industry wide benchmarking activities to establish progress against key service and value measures.

We will develop new ways of measuring the effectiveness of our governance in response to national oversight and regulation which will support good decision making and management of the Fund.



OUR COMMITMENT



Strong Governance

Providing assurance on the services we deliver with effective decision making.



Customer Focused

Enabling, educating and supporting our customers on complex issues flexing our services to our customer's evolving needs.



Global Influence

Shaping the industry in which we operate, leading by example on key issues, including regulatory change, investment cost management, and responsible investment.



Delivering for local people

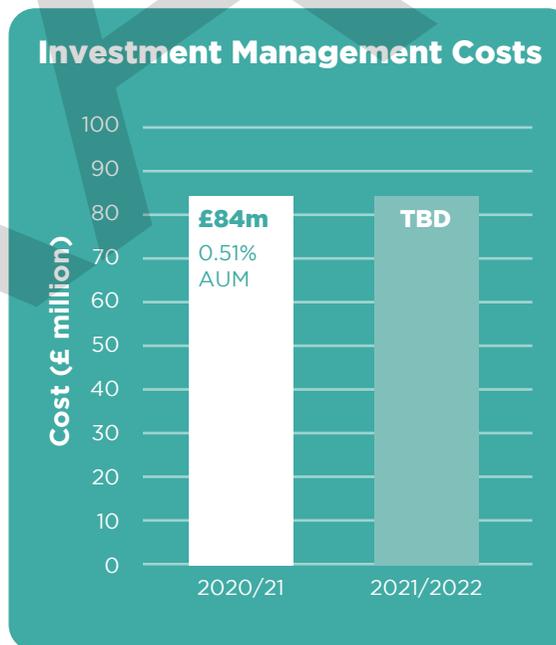
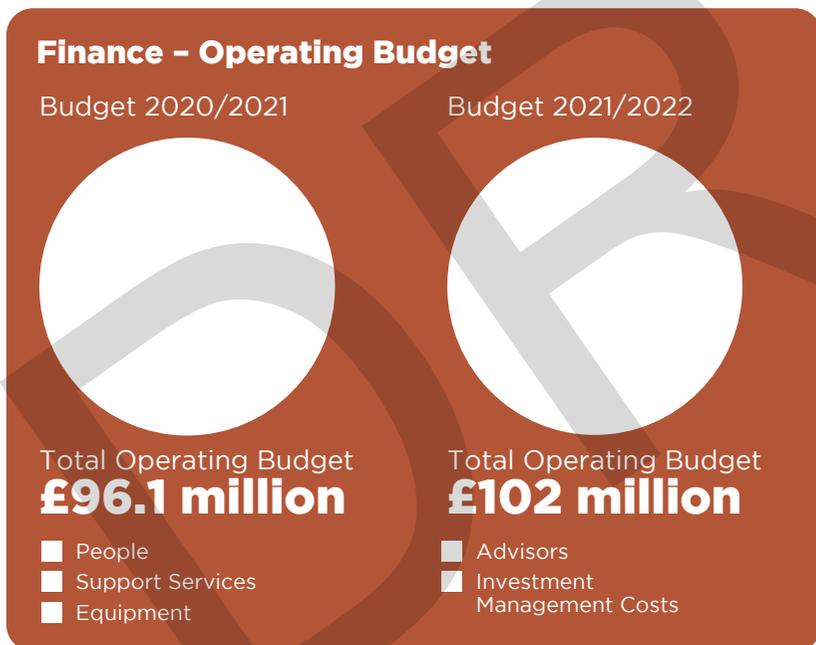
Enhancing our reach through developing our engagement model and supporting our communities through opportunity.

OUR RESOURCES

West Midlands Pension Fund



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CORPORATE PERFORMANCE FRAMEWORK



MISSION



CORE OBJECTIVES



CORPORATE PRIORITIES



KEY PERFORMANCE INDICATORS

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DRAFT



Councillor Milkinder Jaspal
Chair – Pensions Committee



Councillor Clare Simm
Vice Chair – Pensions Committee



Rachel Brothwood
Director of Pensions



Tom Davies
Assistant Director –
Investments Strategy



Darshan Singh
Head of Finance



Rachel Howe
Head of Governance and
Corporate Services



Simon Taylor
Assistant Director – Pensions



Amy Regler
Head of Operations



West Midlands Pension Fund

wmpfonline.com

West Midlands Pension Fund audit plan

Year ending 31 March 2021

West Midlands Pension Fund
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Section

Key matters

Introduction and headlines

Significant risks identified

Accounting estimates and related disclosures

Other matters

Progress against prior year recommendations

Materiality

Audit logistics and team

Audit fees

Independence and non-audit services

Appendix 1: Revised Auditor Standards and application guidance

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Pension Fund developments

The latest financial data available (quarter 3 accounts) indicates that the value of the Fund has rebounded significantly from a position of £15.3bn as at 31 March 2020 to an unaudited position of £18.7bn as at 31 December 2020. This is reflective of a reduction in the overall level of uncertainty in relation to the pandemic, a muted impact of the end of the Brexit transition period and increased stability in international energy markets (with a particular focus on resolution of the disputes between oil producing countries seen in the previous year).

However, as we touch on below, there remain specific challenges and uncertainties in relation to the wider economic and political environment which will draw our attention as auditors and which management must work to mitigate.

Page 27 Impact of Covid 19 pandemic

From an operational perspective, the Fund continues to manage the pandemic well, ensuring a continuation of the day to day financial management of the organisation and production of key financial information in line with agreed timetables. However, from our perspective as external auditors, remote working continues to present an operational challenge, in particular in relation to the time taken to obtain and process information in a remote setting.

At a higher level, whilst the pandemic situation broadly appears to be improving and optimism is returning to markets, there remain some specific areas where uncertainty remains. The Fund has some significant holdings in travel based assets which were a focus of our audit procedures on the prior period and will remain so this year due to the impact of continued lockdown restrictions on commuting and leisure travel. Furthermore, we anticipate that uncertainty in the property markets will remain as the possibility of increased unemployment and permanent changes to working and shopping patterns (amongst other factors) emerge. Whilst property markets do appear to have stabilised and few funds remain 'gated' we recognise there remains the possibility that the Fund's valuers will signal a material valuation uncertainty in relation to directly held property which will necessitate an increased level of focus by our team in this area and potentially in other property related assets. Further information on our approach is set out later in the report.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work is outlined further on in this report.
- We have determined that due to the nature of the governance arrangements that the administrative authority has put in place that formally the Audit & Risk Committee of the City of Wolverhampton Council are those charged with governance. However, as this acts upon recommendations from the Pensions Committee and our reports are shared with it we have determined that the Pensions Committee as the sub-group with whom we are required to communicate with. We will continue to provide you with sector updates via our Sector Updates and Progress Reports.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control per page 5.
- The Pension Fund's property valuer reported a material uncertainty in regards to the valuation of direct properties in 2019/20 due to the Covid 19 pandemic. Whilst property markets have stabilised uncertainty has continued in 2020/21. We have identified a significant risk in regards to the valuation of direct properties – refer to page 6.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Midlands Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the *Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of West Midlands Pension Fund*. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit & Risk Committee).

The audit of the financial statements does not relieve management or the Audit & Risk Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue recognition cycle (including those related to expenditure) contains fraudulent transactions (rebutted)
- Management override of controls
- The valuation of Level 3 investments is incorrect
- The valuation of Directly Held Property is incorrect

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £165m (PY £140m) for the Pension Fund, which equates to approximately 0.9% of your net assets as at 31 December 2020. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £8.25m (PY £7m).

Audit logistics

Our interim visits will take place in March and April and our final visit will take place during the summer between June and September. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our audit fee is currently under discussion with management and our regulators. The scale fee for the audit is £37,436, however we anticipate that this will be uplifted as a result of changes to auditing standards in relation to estimates, additional regulatory requirements and operational pressures stemming from remote working arrangements as a result of the pandemic. We will communicate the agreed fee to the Committee in due course.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|--|---|
| The revenue cycle includes fraudulent transactions (rebutted) | <p>Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.</p> | <p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> - there is little incentive to manipulate revenue and expenditure recognition - opportunities to manipulate revenue and expenditure recognition are very limited; and - the culture and ethical frameworks of local authorities, including the administering authority for the Fund, City of Wolverhampton Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for West Midlands Pension Fund.</p> |
| Management over-ride of controls | <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of assets and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |

Significant risks identified (continued)

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|--|--|
| Valuation of Directly Held Property (Level 3 Investment) (Annual revaluation) | <p>The Council revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (expected to be around £1bn at the balance sheet date) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management engage the services of a valuer to estimate the value at the balance sheet date as well as an investment manager for the portfolio.</p> <p>We have therefore identified valuation of directly held property assets, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will;</p> <ul style="list-style-type: none"> • evaluate management’s processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • independently request year-end confirmations from the investment manager; • evaluate the competence, capabilities and objectivity of the valuation expert, engaging an auditor’s expert to assist; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • where available, review the investment manager service auditor report on design effectiveness of relevant controls. |
| Valuation of Level 3 Investments (Annual revaluation) | <p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair values of these assets.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Evaluate management’s processes for valuing Level 3 investments • Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment to ensure that the requirements of the Code are met; • Independently request year-end confirmations from investment managers, with an additional focus on ensuring use of appropriate IPEV (or equivalent) methodology in their valuation books, updated for most recent available guidance in relation to Covid 19; • For a sample of investments, test the valuation by comparing the valuation per the General Ledger (typically based on an investor statement as at the reporting date or, in the case of harder to value assets, the latest capital statement available adjusted for known cash movements in the final quarter of the year) to direct confirmation of capital balances from Investment Mangers and, where available, latest audited financial statements; • Complete sample testing of purchases and sales to prime documentation across the period to support our reconciliation of opening and closing balances; • Analyse the Fund’s holdings by sector, applying an additional layer of professional scepticism and challenge in relation to any assets with potential exposure to the pandemic or economic impact of Brexit; • Engage the Firm’s internal Actuary to provide assurance over the ITA Fund insurance buy-in. |

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Pension Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of directly held property
- Valuation of level 2 and level 3 investments

The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have engaged with management and obtained an understanding of the control environment around estimates via the Informing the Risk Assessment document, which will be presented separately to the Pension Committee. We would ask that Committee members familiarise themselves with the report, ensure that they understand the information provided around calculation of estimates and flag up any instances where the information supplied by management is inconsistent with their understanding.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

The Pension Fund is administered by City of Wolverhampton Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Pension Fund's financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings Report.

Issue and risk previously communicated

Update on actions taken to address the issue

Contributions – use of incorrect employer contributions rate by scheme employers
During the audit we noted a number of cases where employers used an incorrect Future Service Rate to calculate employer's contributions. In total, employers had applied a lower FSR rate which amounted to a net £150k overpayment of contributions. Although the impact identified was clearly trivial to the financial statements, there is a possibility that this may be a material issue for smaller employers themselves and could cause significant issues if encountered at a larger employer.

The Fund has controls in place to identify and highlight all instances where employers may not have applied the Future Service contribution rate as expected which we anticipate would identify any cases where this would significantly impact the financial statements.

We will consider whether this issue continues to impact the financial statements at year end and are also aware that management are looking to begin a process of automating some controls around receipt of contributions to make the process of identifying and investigating these issues more efficient. We will report to the Committee on this issue as we progress with our work.

Contributions – reconciliation between notional and cash value of contributions
As a result of the option to pre-pay Future and Past Service Contributions, this now results in frequent, substantial year on year variances on contributions receivable which present a challenge to the auditor in assessing completeness of the population.

Our review of this process for the current year is scheduled to take place during a later interim visit. We will report back to the Committee on progress against this recommendation in due course.

Third party cash balances
Audit procedures performed in relation to cash balances identified a small cash balance being held in a Fund bank account (and accounted for using the Fund's General Ledger system) which does not form part of the Fund's financial structure.

Per discussions with management during the last audit, our understanding is that, from October 2020, a separate bank account was set up to monitor the bank account in question. We are due to complete our review of this area in a subsequent interim visit and will report back to the Committee on progress against this recommendation in due course.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £165m (PY: £140m), which equates to approximately 0.9% of your net assets as at 31 December 2020. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

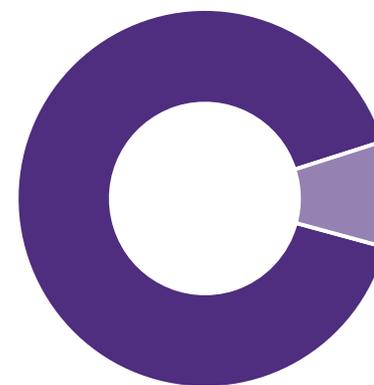
Matters we will report to the Pension Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Pension Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £8.25m (PY: £7m).

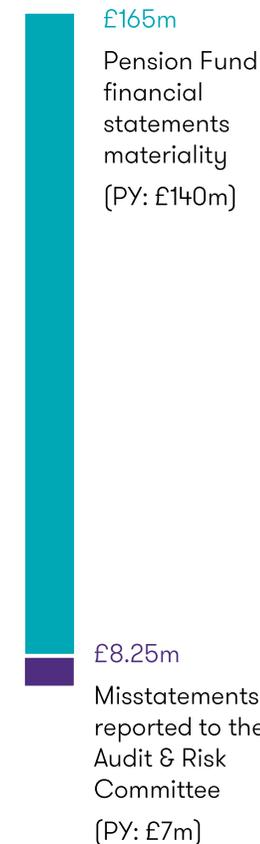
If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pension Committee to assist it in fulfilling its governance responsibilities.

Net assets {at 31 December 2020}

£18.67bn Pension Fund
(PY: £15.29bn)



Materiality



Audit logistics and team

Planning and risk assessment

Interim audit
March – April 2021

Pension Committee
March 2021

Audit Plan

Year end audit
Summer 2021

Pension Committee
TBC (Est Sept 2021)

Audit Findings Report / Audit Opinion

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Grant Patterson, Key Audit Partner

As your engagement lead, Grant will have the ultimate responsibility for the delivery of your audit service. He will lead our relationship with the Pension Fund and take overall responsibility for delivering high quality audits, which meet the highest professional standards while adding value.



David Rowley, Audit Manager

As the engagement manager, David is responsible for overseeing the delivery of our service and managing the audit process in respect of the West Midlands Pension Fund. He will be on hand to answer any queries, whilst ensuring an efficient audit process.



Elliot Baker, Audit Incharge

Elliot will work with relevant officers and our on site team to ensure the smooth planning and delivery of the audit. He will oversee our operational team and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for West Midlands Pension Fund to begin with effect from 2018/19. The scale fee for the 2020/21 audit is £37,436. Since 2018/19 there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. As noted above the scale fee for the 2020/21 audit is £37,436, however we anticipate that this will be uplifted as a result of:

changes to auditing standards in relation to estimates,

additional regulatory requirements and operational pressures stemming from remote working arrangements as a result of the pandemic

the need to engage auditor's experts to improve the level of assurance we require in relation to the valuation of directly held property

assets, the insurance buy-in held in relation to the former ITA pension fund and valuation of derivatives

Our proposed fee for 2020/21 is currently under discussion with management and our regulators and will be communicated to the Committee in due course.

We include details of our prior period and 2018/19 fees for reference.

| | Actual Fee 2018/19 | Actual Fee 2019/20 | Proposed fee 2020/21 |
|----------------------------------|--------------------|--------------------|----------------------|
| West Midlands Pension Fund Audit | £44,010 | £55,931 | TBC |
| Total audit fees (excluding VAT) | £44,010 | £55,931 | TBC |

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

| Service | Fees £ | Threats | Safeguards |
|--|-----------|---|--|
| Audit related | | | |
| Provision of IAS 19 Assurances to Scheme Employer auditors | 9,250 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,250 in comparison to the total scale fee for the audit of £37,436 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. Please note, the fee quoted here is an indicative fee based on the prior period. This may increase depending on the level of requests for assurance received. |
| Non-audit related | | No non-audit related services identified | |
| TOTAL | 9,250 | | |

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

| | Date of revision | Application to 2020/21 Audits |
|--|------------------|-------------------------------|
| ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements | November 2019 | ✓ |
| ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK) | January 2020 | ✓ |
| ISA (UK) 220 – Quality Control for an Audit of Financial Statements | November 2019 | ✓ |
| ISA (UK) 230 – Audit Documentation | January 2020 | ✓ |
| ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements | January 2020 | ✓ |
| ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements | November 2019 | ✓ |
| ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector | November 2019 | ✓ |

Appendix 1: Revised Auditor Standards and application guidance continued

| | Date of revision | Application to 2020/21 Audits |
|---|------------------|---|
| ISA (UK) 260 – Communication With Those Charged With Governance | January 2020 |  |
| ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment | July 2020 | |
| ISA (UK) 500 – Audit Evidence | January 2020 |  |
| ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures | December 2018 |  |
| ISA (UK) 570 – Going Concern | September 2019 |  |
| ISA (UK) 580 – Written Representations | January 2020 |  |
| ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) | November 2019 |  |
| ISA (UK) 620 – Using the Work of an Auditor’s Expert | November 2019 |  |
| ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements | January 2020 |  |

Appendix 1: Revised Auditor Standards and application guidance continued

| | Date of revision | Application to 2020/21 Audits |
|---|------------------|---|
| ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report | January 2020 |  |
| ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information | November 2019 |  |
| Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom | December 2020 |  |



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Informing the audit risk assessment for West Midlands Pension Fund 2020/21

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between West Midlands Pension Fund's external auditors and the City of Wolverhampton Council's Pensions Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Pensions Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Pensions Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Pensions Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Pensions Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Pensions Committee and supports the Pensions Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pension Funds's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from West Midlands Pension Fund’s management. The Pensions Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

| Question | Management response |
|---|--|
| 1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21? | Following the finalisation of the actuarial valuation as at 31 March 2019, a new certificate of future service contribution rates and past service deficit requirements became effective on 1 April 2020. A number of larger employers have chosen to pay their full three year future service and past service deficit contributions in advance as lump sums in April 2020. Consequently the 2020/21 accounts will report significantly higher contributions receivable as compared with 2019/20 and 2018/19. |
| 2. Have you considered the appropriateness of the accounting policies adopted by West Midlands Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? | Management has considered the appropriateness of the accounting policies adopted by the Fund and prepared a paper to confirm so for the Pensions Committee meeting in March 2021. There have been no events or transactions arising during the year which are expected to result in the Fund changing an accounting policy or adopting a new accounting policy. |
| 3. Is there any use of financial instruments, including derivatives? | During 2020/21, the Fund has made use of both Forward Foreign currency and Futures derivative contracts. |
| 4. Are you aware of any significant transaction outside the normal course of business? | Management is not aware of any significant transaction outside the normal course of business. |

General Enquiries of Management

| Question | Management response |
|---|---|
| 5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? | Management is not aware of any such circumstances. |
| 6. Are you aware of any guarantee contracts? | WMPF does not itself act as guarantor for any contracts, however it does have in place contingent assets which exist upon the occurrence of one or more specified future events, at the bequest of the Fund. Examples of these contingent assets include a known guarantor (which agrees to cover all liabilities or a proportion of liabilities), security over other assets (for instance, property or securities), bonds, and Escrow accounts. |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? | There are no loss contingencies existing. |
| 8. Other than in house solicitors, can you provide details of those solicitors utilised by West Midlands Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years? | Legal advisors – Eversheds for employer admissions. Eversheds were appointed under the LGPS Frameworks to carry out this work. Investment matters with Squire Patton Boggs also utilised through the LGPS Framework No outstanding litigations from previous year. |
| 9. Have any of the West Midlands Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? | No such items have been reported that would lead to an impact on the Fund's financial statements. |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted? | The Fund's appointed advisers are listed in its Annual Report along with a description of the nature of their relationship to the Fund. |

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Pensions Committee and management. Management, with the oversight of the Pensions Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Pensions Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As West Midlands Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Pensions Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Pensions Committee oversees the above processes. We are also required to make inquiries of both management and the Pensions Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from West Midlands Pension Fund's management.

Fraud risk assessment

| Question | Management response |
|--|--|
| <p>1. Have West Midlands Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Pension Fund's risk management processes link to financial reporting?</p> | <p>The Pension Fund accounts are consolidated into the accounts of City of Wolverhampton Council.</p> <p>Fraud risks are identified by the City's Internal Audit function in their audit plan covering the Pension Fund. All fundamental systems which feed the City's Statement of Accounts including the Pension Fund accounts are reviewed annually to ensure that controls in place are satisfactory.</p> <p>The Statement of Pension Fund Accounts is also subject to an analytical review each year which considers any significant or material changes to figures to confirm that the accounts are presented without such misstatements.</p> |
| <p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p> | <p>No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.</p> |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within West Midlands Pension Fund as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p> | <p>There have been no such instances.</p> <p>The Fund reports on a quarterly basis its risk management to the Pensions Committee and Local Pensions Board noting movements in risks together with horizon scanning potential future events which could impact service delivery. In addition the Fund's Pensions Committee adopted its investment risk and assurance framework at its March 2020 meeting.</p> <p>On an annual basis the Fund delivers a Risk Management workshop to its governing bodies.</p> <p>Pensions Committee receives a quarterly Governance Assurance report which reports on an exception basis any issues highlighted through the Fund's assurance program. No instances of fraud have been reported this year.</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within West Midlands Pension Fund where fraud is more likely to occur?</p> | <p>No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.</p> <p>The Fund has recently reviewed and enhanced its process for authorising Transfer out and death grant payments to ensure a robust decision making process in the processing of high level payments as well as enhancing delegations to sign off those process within the Operations Teams.</p> |
| <p>5. What processes do West Midlands Pensions Fund have in place to identify and respond to risks of fraud?</p> | <p>Specific fraud risks are identified in the internal audit planning process noted above; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with the Pension Fund. This is done through the Council's Anti - Fraud, Bribery and Corruption Policy, Whistle Blowing Policy and supported by bespoke Fund training sessions on cyber crime and data protection. In addition systems and processes are designed by managers and users to minimise the risk of fraud and corruption with controls built into all UPM system processes.</p> <p>In relation to pensioner payroll, the Fund undertakes monthly mortality screening with a third party provider and also participates in the biennial National Fraud Initiative scheme. Any queries identified are investigated and resolved.</p> <p>Investment Managers and their Administrators send internal control reports and these are reviewed by the Fund's Compliance team and any exceptions reported on.</p> <p>Internal Audit also review the internal control reports as part of their annual audit cycle.</p> <p>Pension Committee meetings monitor the Fund's investment managers and business risk including fraud.</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>6. How do you assess the overall control environment for West Midlands Pension Fund, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p> | <p>The Fund has adopted an internal controls framework and a risk management process in the development of the Fund's Strategic risk register. Copies provided.</p> |
| <p>7. Are there any areas where there is potential for misreporting?</p> | <p>No, as detailed above, there are compensatory controls in place to flag any overrides of controls.</p> |

Fraud risk assessment

| Question | Management response |
|--|---|
| <p>8. How do West Midlands Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported?</p> | <p>The Pension Fund follows the Council's Whistle Blowing policy and guidelines. The Whistle Blowing policy is available to the public and all contractors. The terms and conditions within Pension Fund contracts also include ethical considerations for contractors and suppliers. The vision and values for the Pension Fund identify the need for staff to act with integrity in all undertakings and presented to all employees as part of their induction into the Fund.</p> <p>Staff are encouraged to report their concerns about fraud as set out in the speaking up about wrongdoing (Whistle Blowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.</p> <p>Management are not aware of any significant issues being reported.</p> |
| <p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p> | <p>High risk posts are identified as those with access to financial systems and with responsibility for authorising payments. A staff structure chart can be provided on request.</p> |
| <p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>None identified.</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>11. What arrangements are in place to report fraud issues and risks to the Pensions Committee? How does the Pensions Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p> | <p>The Internal Audit Risk Based Plan is approved by the Audit Committee of City of Wolverhampton Council and the Pensions Committee in relation to pensions issues before commencement each year.</p> <p>Internal Audit complete a robust review of internal controls on a risk basis and reports regularly to the Audit Committee.</p> <p>The Pensions Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, the Audit Committee receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes. The Pension Fund members are informed at their meetings of any pension based issues.</p> |
| <p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p> | <p>Management are not aware of any whistle blowing complaints in relation to the Pension Fund.</p> |
| <p>13. Have any reports been made under the Bribery Act?</p> | <p>No reports have been made under the Bribery Act.</p> |

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Pensions Committee, is responsible for ensuring that West Midlands Pension Fund's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Pensions Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

| Question | Management response |
|---|---|
| <p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does West Midlands Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Pension Fund's regulatory environment that may have a significant impact on the Pension Fund's financial statements?</p> | <p>The Pension Fund has a Head of Governance and Head of Finance who provide assurance that all relevant laws and regulations have been complied with.</p> <p>The Director of Pensions at the West Midlands Pension Fund provides expertise and advice for Pension Fund requirements.</p> <p>The Pension Fund is obliged to follow the Local Government Pensions Scheme Regulations.</p> <p>The Pensions Committee receive reports of compliance from officers, who are suitably qualified. Any non compliance would be reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues. These would cover the pension fund as applicable.</p> <p>Each year the Pensions Fund's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Pension Fund has a robust corporate governance and risk management process in place which is based on approved policies and procedures.</p> |
| <p>2. How is the Pensions Committee provided with assurance that all relevant laws and regulations have been complied with?</p> | <p>The Pensions Committee receive reports of compliance from officers who are suitably qualified. Any non compliance would be reported to management and the Pensions Committee via Internal Audit reports.</p> |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p> | <p>There have been no instances of non-compliance with laws and regulations since 1 April 2020 with an ongoing impact on the 2020/21 financial statements.</p> |
| <p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p> | <p>The Head of Finance is not aware of any actual or potential litigation or claims that would affect the financial statements.</p> |

Impact of laws and regulations

| Question | Management response |
|--|--|
| 5. What arrangements does West Midlands Pension Fund have in place to identify, evaluate and account for litigation or claims? | Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Pensions Fund. Any potential liabilities would be highlighted each year in the Pensions Fund's Statement of Accounts and accounted for in accordance with accounting standards. |
| 6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance? | Management is not aware of any such reports of non-compliance. |

Related Parties

Issue

Matters in relation to Related Parties

West Midlands Pension Fund are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by West Midlands Pension Fund;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Pension Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Pension Fund, or of any entity that is a related party of the Pension Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Pension Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

| Question | Management response |
|---|---|
| <p>1. Have there been any changes in the related parties disclosed in West Midlands Pension Fund's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and West Midlands Pension Fund • whether West Midlands Pension Fund has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions | <p>There have been no changes in the related parties disclosed in the 2019/20 financial statements.</p> |
| <p>2. What controls does West Midlands Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p> | <p>The Fund keeps a register of all Pension Committee and Pension Board member interests which it is required to publish on its website. The Fund has a compliance manual which outlines specific roles required to disclose personal interests covering senior managers and those in the investments and finance team.</p> <p>The Fund has a personal dealing policy for managing individual staff members' own investment interests to ensure there is no conflict with Fund investment strategy.</p> |
| <p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p> | <p>Transactions with related parties are conducted at 'arms length' and are subject to the same controls for authorisation and approval as non related party transactions.</p> |
| <p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p> | <p>All transactions are in the normal course of business.</p> |

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|--|--|
| 1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures? | <p>Private Equity and Infrastructure investment holdings are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p> <p>Direct property is valued at fair value by external independent property valuation experts.</p> |
| 2. How does the Pension Fund's risk management process identify and addresses risks relating to accounting estimates? | Having identified a reasonably possible range of outcomes for methods and assumptions employed, sensitivity analysis is prepared (either provided by the external expert or calculated within the Fund itself) to help inform management's view of the point estimates. |
| 3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates? | <p>In the case of material estimates where valuation cannot be based on unambiguous observable market data alone and requires various valuation techniques relying on the application of significant specialised knowledge and judgement, management recognises the need to procure professional expertise.</p> <p>The relevant professionals advise management who will seek to understand the different options in terms of assumptions and methods available to the experts before agreeing the option that is deemed most appropriate for the circumstances and the source data that will be required.</p> |
| 4. How do management review the outcomes of previous accounting estimates? | When the actual year end external valuations of Private Equity and Infrastructure investment holdings are received, management compares them to the respective historical valuation estimates. Variances are analysed and queried with a view to improving the estimation process. |
| 5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these? | No changes have been made to estimation processes during 2020/21. |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|--|--|
| <p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p> | <p>In the case of material estimates where valuation cannot be based on unambiguous observable market data alone and requires various valuation techniques relying on the application of significant specialised knowledge and judgement, management recognises the need to procure professional expertise. An actuary advises on the defined benefit liability estimate, a property valuer prepares the quarter end direct property valuation and independent investment consultants review the reasonableness of level 3 asset valuations.</p> |
| <p>7. How does the Pension Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p> | <p>In the case of material estimates where valuation cannot be based on unambiguous observable market data alone and requires various valuation techniques relying on the application of significant specialised knowledge and judgement, management employs the services of relevant professional experts to prepare estimates.</p> |
| <p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p> | <p>The Fund undertakes annual assurance confirmation of the controls environment for its fund managers requiring the submission of their Internal Control Reports (AAF/ISAE/SOC1). For those managers who do not undertake such a review they are requested to complete a Pension Fund Compliance Monitoring Form. Exceptions are noted from these documents with material exceptions being investigated further and reported through to the Assistant Directors of Investments.</p> |
| <p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. | <p>The significant accounting estimates are the defined benefit liability valuation, the year end value placed on the insurance buy-in contract, the valuation of direct property holdings portfolio and the valuation of the Fund's other level 3 assets (private equity and infrastructure holdings).</p> <p>Management recognises the need for specialised skills and judgement in developing these estimates and procures the relevant professional expertise. Management understands and then agrees the assumptions and methods to be used by the experts in support of their calculations.</p> <p>Having identified a reasonably possible range of outcomes for methods and assumptions employed, sensitivity analysis is prepared (either provided by the external expert or calculated within the Fund itself) to help inform management's view of the point estimates.</p> |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|--|
| 10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? | Management is not aware of any such transactions, events or conditions. |
| 11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable? | Management considers the arrangements as reasonable. |
| 12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ? | Pensions Committee are assured via the annual external audit of the Pension Fund Statement of Accounts which is prepared using the arrangement for accounting estimates where appropriate. |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether Management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|------------------------|---|---|--|---|---|
| Pension Fund Liability | The administering authority engage the Actuary who provides the estimate of the pension liability. | Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year. | Consulting actuary | As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. | No |
| Private Equity | Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | December valuation is received and cash flow adjustments are used to roll forward the valuation to 31 March as appropriate. Valuation is then compared to the year end capital statement to determine any significant fluctuations. | Custodian and Fund Manager Capital Statement | | No |

Appendix A Accounting Estimates (Continued)

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether Management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---------------|--|--|--|--|---|
| Accruals | Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received. | Review financial systems to identified where goods have been received but not paid for. Requests of service managers to identify any other goods or services received or provided but not paid for. | No | Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used. | No |
| Contributions | If March values will not be readily available at the time of compiling the accounts then there maybe a degree of estimation involved in calculating month 12 contributions. Finance team would then estimate the month 12 contributions based on actual figures to the end of March 2021. | Management reconcile this estimate of contributions to the actuals received for month 12. | No | Monthly contributions are usually based on known values. Where month 12 figures are estimated the latest available information is used. | No |

Appendix A Accounting Estimates (Continued)

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether Management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|----------------------------|---|---|--|--|---|
| Property Valuations | <p>Property is valued at fair value by property valuations experts.</p> <p>If March values will not be readily available at the time of compiling the accounts then there maybe a degree of estimation involved in the valuation.</p> | <p>December valuation is received and cash flow adjustments are used to roll forward the valuation to 31 March as appropriate.</p> <p>Valuation is then compared to the year end valuation to determine any significant fluctuations.</p> | Property valuer | | No |
| Provisions for liabilities | <p>Accruals are made in the year end financial statements but there have been no provisions for liabilities this year.</p> | | | | |

Appendix A Accounting Estimates (Continued)

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether Management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--|--|--|--|--|---|
| Non Adjusting events – events after the balance sheet date | Reasonable estimates will be used to assess significant post balance sheet events unless actual numbers become available between year end and finalisation of the accounts for audit purposes. | Review financial systems to assess whether significant financial transactions or adjustments to valuations have taken place post the year end. | No | | No |



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INVESTMENT STRATEGY STATEMENT MARCH 2021

Appendix B



West Midlands Pension Fund

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1 INTRODUCTION

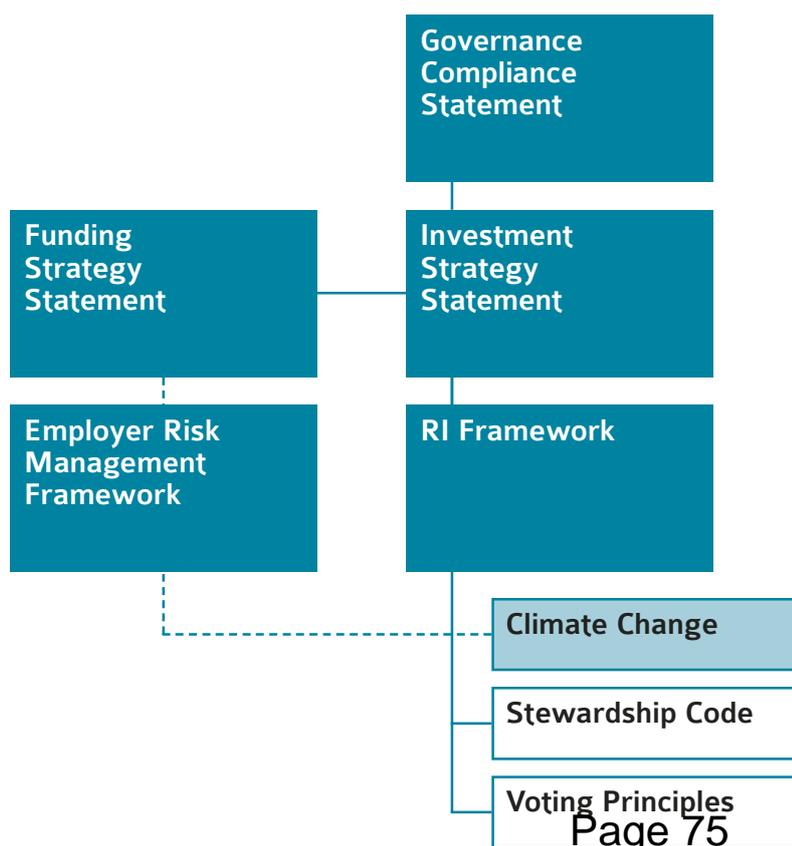
Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS'). This ISS has been prepared by the West Midlands Pension Fund (the Fund) in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance. In preparing the ISS, the Pensions Committee has consulted with such persons as it considered appropriate. This statement updates and replaces the March 2020 ISS for both the WMPF main fund and the previously separate West Midlands Integrated Transport Authority Pension Fund (WMITAPF) Investment Strategy Statements. This statement was approved by Pensions Committee on 24 March 2021.

The ISS outlines the Fund's investments objectives and investment beliefs, identifies the risks the Fund faces and outlines how these risks are controlled/mitigated. In defining the implementation of the Fund's investment strategy, the ISS sets out the Strategic Investment Allocation Benchmark (SIAB) including the permitted ranges for different investment asset types.

The ISS also outlines the Fund's views on Responsible Investment (RI) and how RI is integrated into the investment decision making process and the role it plays in the way the Fund selects and stewards its assets.

The ISS is supported by the Funding Strategy Statement (FSS) and the Fund's employer covenant monitoring framework. Together these ensure an integrated approach to funding and investment strategy and risk management supporting the Fund in meeting the regulatory funding requirements.

The statements and framework relate as follows and are supported by a broader framework of policies in investments, most notably those relating to Responsible Investment:



Investment Governance Framework

The City of Wolverhampton Council is the administering authority for the Fund under the regulations. The City of Wolverhampton Council delegates responsibility for the administration and management of the Fund to the Pensions Committee who, in turn, delegates certain responsibilities to the Director of Pensions. The Investment Advisory Panel advises the Director of Pensions on investment issues relating to the Fund.

The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's assets and comprises representatives from the seven district councils and three local trade unions. The Fund has a statutory Local Pensions Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty.

The Investment Advisory Panel includes two external advisers alongside the Director of Pensions, Assistant Director and Head of Investments. Neither the Local Pensions Board nor the Investment Advisory Panel have any decision-making powers. Roles and responsibilities are set out in more detail in Appendix A.

The Committee's investment objectives are represented by the Strategic Investment Allocation Benchmark (SIAB) included as Appendix B. This reflects the Committee's views on the appropriate balance between generating long-term investment return and taking account of market volatility and the risk and nature of the Fund liabilities.

ISS Review

The ISS is subject to fundamental review at least every three years and from time to time on any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which are judged to have a bearing on the stated investment policy. In line with other Fund policies, the ISS is reviewed annually. In preparing the ISS, the Committee has considered advice from the Fund's investment and risk consultants.

Following a process of public consultation undertaken by the Ministry of Housing Communities and Local Government (MHCLG), Regulations were laid before parliament providing for the merger of the former West Midlands Integrated Transport Authority (WMITA) pension fund into that of the main West Midlands Pension Fund. Those regulations came into force on 8 November 2019 and apply retrospectively to effect merger from 1 April 2019.

In conjunction with the merger, former employers of the WMITA pension fund now participate in the main West Midlands Pension Fund with associated assets and liabilities transferred to two separate admission body funds (ABF). For the purposes of the 2021 Investment Strategy Statement (and thereafter) the associated investment strategy statements for the new separate ABFs are included as appendices to this ISS (appendices D and E).

The Fund has undertaken a consultation process with key stakeholders which have included group consultation meetings on the valuation and high-level investment strategy. Employers have been issued with a copy of the draft ISS and the draft has been published on the Fund's website pending approval by Pensions Committee. The two employers covered by the ABFs have also been consulted on their individual investment strategies, where applicable, which are incorporated in the appendices to the ISS.

2 PURPOSE OF THE ISS

The aims and purpose of a pension fund operating within the Local Government Pension Scheme (LGPS) are set out in the LGPS Regulations and the Public Service Pension Act 2013. With regard to funding, they can be summarised as follows.

The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable primary and total contribution rates to be kept as nearly constant as possible; and
- seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- receive and invest monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses, as defined in the GPS regulations and as requirement in the LGPS (Management and Investment of Funds) Regulations 2016.

The purpose of the ISS is:

- To set out the governance arrangements for investment
- To set out the Fund's investment objectives
- To define the Fund's investment beliefs
- How the Fund will manage investment-related risks
- How the Fund incorporates responsible investment
- To set out the Fund's strategic investment asset benchmark (SIAB) and ranges allowed to provide flexibility

3 INVESTMENT OBJECTIVES

The primary objective of the Fund is to ensure that the Fund is able to meet the pension promises (liabilities) made to scheme members as they fall due. To meet this objective the Fund sets the investment strategy so that the target level of return is achieved over the longer-term and that sufficient cashflow is generated so that its liabilities can be met.

The Fund has a range of other objectives which include considering the needs of all key stakeholders which are supplementary to the aims of the Fund.

The funding objectives are set out in the Funding Strategy Statement.

4 INVESTMENT BELIEFS

The Fund's Statement of Investment Beliefs are set out in Appendix C which underpin the Fund's approach to investment strategy and how it is implemented. These beliefs underpin the ISS and cover:

- Financial market beliefs – The Fund adopts a long-term approach to investing as its liabilities stretch far into the future but in so doing seeks to also take a proactive approach to the management of assets taking into account the risk/return profile of different investment opportunities over a range of time periods
- Governance beliefs – The Fund believes having effective governance structures and policies will enable rigorous and tested decision making and will add value to the Fund over the longer term. Transparency and cost effectiveness provide key tenets of being a well governed Fund.
- Investment strategy – The Fund's investment strategy will encompass its approach to risk management, risk tolerance, liquidity and levels of return required to meet its strategic objectives. The Fund will set its strategic asset allocation to deliver the long-term returns required to meet its funding needs taking into account diversification, the requirement to remain agile, risk and cost of implementation, recognising that risk should be viewed both qualitatively and quantitatively.
- Responsible investment – As long-term owners of capital (assets), the Fund believes that investing responsibly is key to ensuring the long-term value of the assets in which it invests is protected and where possible, enhanced. Investing responsibly and engaging as long-term owners reduces risk over time and has been proven to positively impact investment returns. The Fund is integrating responsible investment into the way it selects and stewards all assets.
- Climate change – The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate changes poses both risks and opportunities to the Fund's investments. The Fund will consider the impact of climate change in both its asset allocation and individual investments when making decisions.

5 IDENTIFICATION AND MANAGEMENT OF RISKS

Evaluation of risks that may impact on the investment strategy of the fund and expectation of future returns is crucial in determining the appropriate measures to mitigate those risks. The ISS identifies key risks specific to the Fund and the management or controls made to mitigate those risks:

| Financial Risks | Management / Control |
|---|--|
| <p>Investment risk - Assets do not deliver the return required to meet the cost of benefits payable from the Fund; potential drivers:</p> <ul style="list-style-type: none"> • Inappropriate asset allocation and risk management • Investment market performance/volatility • Manager underperformance • The possibility that inflation is higher than expected increasing the Fund’s liabilities and/or that the assets held deliver a level of return lower than inflation | <ul style="list-style-type: none"> • Investment strategy considered in context of Fund liabilities and return requirement set within the Funding Strategy Statement • Asset liability modelling and stress testing to set strategic benchmarks within Investment Strategy Statement (ISS), with annual review • Regular monitoring of strategic asset allocation and returns relative to benchmark • Regular monitoring of manager performance • Diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles • Mitigates inflation risk through holding a diversified portfolio of growth and inflation-linked assets. Inflation risk is considered annually in the review of the SIAB and triennially as part of the actuarial valuation |
| <p>Increasing maturity and benefit cashflow requirement; potential drivers:</p> <ul style="list-style-type: none"> • Falling contribution income and increasing total benefit payments as more members start to draw their benefits • Declining active membership due to change in local authority service delivery models • Increasing reliance on income-generating assets | <ul style="list-style-type: none"> • Investment strategy review develop based on future benefit cashflow projection • Modelling of investment strategy and future asset income streams • Regular monitoring of membership movements and liability profile |
| <p>Changing scheme regulations and guidance – impacting scheme benefits, funding strategy, actuarial valuations, investment strategy; potential drivers include:</p> <ul style="list-style-type: none"> • Changes to scheme benefits from the LGPS cost management process • Changes to the approach for setting actuarial factors (for example on early retirement) | <ul style="list-style-type: none"> • Ongoing horizon scanning and consideration on the Fund risk register • Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding • Participation in national review and consideration of emerging issues within the LGPS |

| Financial Risks | Management / Control |
|--|--|
| <ul style="list-style-type: none"> • Changing regulations and guidance for administering authorities within the LGPS | |
| <p>Asset risks (the portfolio versus the SIAB)</p> <ul style="list-style-type: none"> • 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. • Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. • Currency risk that the currency of the Fund's assets underperforms relative to the SIAB. • Manager underperformance when the Fund managers fail to achieve the rate of investment return assumed in setting their mandates. | <p>Asset risks at the fund level are mitigated by the setting and review of the SIAB. At the asset class level asset risks are mitigated by risk controls within individual asset mandates.</p> <ul style="list-style-type: none"> • Constraining how far Fund investments deviate from the SIAB by setting diversification guidelines and the SIAB strategic ranges; • Investing in a range of investment asset mandates, each of which has a defined objective, performance benchmark, eligibility criteria and permitted ranges for individual securities which, taken in aggregate, constrain risk within the Fund's expected parameters; • Investing across a range of liquid assets, including quoted equities and bonds. This recognises the Fund's need for some access to liquidity in the short term; • Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process; • Appointing several investment managers. In doing so the Fund has considered the risk of underperformance by any single investment manager |
| <p>Responsible investment (RI) risks that are not given due consideration by the Fund or its investment managers.</p> | <ul style="list-style-type: none"> • The Fund actively addresses environmental, social and governance risks through implementation of its Responsible Investment (RI) Framework and its Compliance with the UK Stewardship Code for Institutional Investors. Key elements include selection, stewardship and disclosure. |
| <p>Climate change - The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate changes poses both risks and opportunities to the Fund's investments. The Fund will consider the impact of climate change in both its asset allocation and individual investments when making decisions.</p> | <ul style="list-style-type: none"> • Establishment of a separate climate change framework and strategy setting out its approach to this risk • Monitoring and measuring the impact of climate change risks |

| Operational Risks | Management / Control |
|--|--|
| Investment pooling: <ul style="list-style-type: none"> • Expected benefits and cost savings do not emerge over the long-term | <ul style="list-style-type: none"> • Investment Pool Risk Register • Collaboration on product development – protocol in place • Monitoring and management of costs |
| Transactional: <ul style="list-style-type: none"> • Transition risks – unexpected costs or losses arising from transition of assets • Custody – risk of losing economic rights to Fund assets when in custody or being traded • Credit or counterparty – potential default of counterparty • Financial recording of assets is inaccurate | <ul style="list-style-type: none"> • Professional advice from specialist transition managers, due diligence and oversight on transitions • Use of global custodian for directly held assets, contractual management and accounting records • Due diligence prior to appointment, review of credit ratings, internal controls reporting and compliance monitoring • Reconciliation of assets, internal and external audit |

6 INVESTMENT STRATEGY

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund (set out in Appendix B) taking into account both the liability structure and the Fund's objectives. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The investment beliefs in Appendix C also help in formulating the investment strategy.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark and strategic ranges.

The Fund will be diversified across multiple asset classes with different risk return expectations and correlations to deliver the targeted return of the Fund. Appendix B shows the Strategic Investment Allocation Benchmark (SIAB) and strategic ranges.

The Fund will use risk attribution provided by independent advisors to assess diversification benefits.

7 DAY-TO-DAY MANAGEMENT OF THE ASSETS

Investment Management Structure

The Pensions Committee retains responsibility for the investment strategy of the Fund but has delegated oversight of its implementation to the Director of Pensions, advised by the Investment Advisory Panel.

The day-to-day management of the Fund's investments is led by the Assistant Directors, supported by an internal team, investment consultant and external managers including the pool company, LGPS Central Limited. Further details are set out in Appendix A.

The Internal Investment Committee (IIC) is responsible for the day-to-day management and oversight of the assets including implementation of the strategic asset allocation within the benchmark ranges set out in the SIAB. This is supported by the Investment Advisory Panel and advice from the appointed investment consultants.

External Investment Managers

The Fund has appointed a number of external investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The investment managers are required to comply with LGPS investment regulations and operate within investment mandates set by the Fund. External managers are also expected to comply with the Fund's requirements on cost transparency.

Investment Pooling

A significant amount of investment is implemented through LGPS Central Limited following the setting up of a local authority shareholder owned FCA-regulated company, alongside seven Partner Funds and launched in April 2018. This comprises a mix of directly managed sub-funds along with a number of advisory mandates which the Fund has in place to assist with the day-to-day management of the assets. Both the individual sub-funds and the advisory portfolios are set a clear investment mandate with an accompanied investment process.

Oversight of performance is the responsibility of the IIC.

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 discount rate). The individual mandates are expected to match or exceed the specific targets set for each portfolio over time.

Suitable Investments

Subject to the LGPS regulations on allowable investments the fund may invest in a wide range of assets and strategies including quoted equity, government and non-government bonds, currencies, money markets, commodities, traded options, financial futures and derivatives, alternative strategies (including insurance linked securities and loans), private equity and debt markets, infrastructure and property. Investment may be made in-house, in segregated mandates, indirectly (via pooled funds or partnership agreements), in physical assets or using derivatives. The Fund will also use external managers to carry out stock lending ensuring suitable controls/risk parameters are put in place to prevent losses.

The Fund may make use of derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Utmost Life (from January 1st 2020) 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.

Realisation of Investments

The Fund's liquidity characteristics are monitored on a regular basis and the majority of the Fund's investments may be realised quickly, if required. The Fund will ensure that the liquidity of the investments is suitable to meet future cashflow requirements. In general, the Fund's investment managers have discretion in the timing of realisations of individual, underlying investments and in considerations relating to the liquidity of those investments. Private equity, infrastructure and a number of the Fund's alternative investments, may be difficult to realise quickly in certain circumstances.

Monitoring the Performance of Fund Investments

The performance of all assets and investments is independently measured by an external provider. In addition, officers of the Fund meet or engage with all investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance. The Pensions Committee meets regularly and reviews markets and Fund performance at least annually.

8 DAY-TO-DAY CUSTODY OF THE ASSETS

The Fund invests a significant proportion of its assets in third party investments schemes, including through LGPSC Central. Separately, for certain directly invested assets the Fund has appointed a custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

9 SECURITIES LENDING

Securities lending is undertaken in respect of the Fund's quoted equities holdings through the custodian/asset servicer. There is a formal securities lending agreement and approved collateral management framework to control and mitigate risk. Securities lending may also take place in pooled investment vehicles held by the Fund including those developed with LGPS Central Limited.

10 INVESTMENT POOLING

The Fund is part of the LGPS Central pool with the objective that the pooled investments can expect to benefit from lower investment costs and the opportunity to access alternative investments on a collective basis. As a local authority-owned and FCA-registered investment manager, the pool company, LGPS Central Limited is required to provide governance, transparency and reporting to give the Fund assurance that its investment instructions are being carried out appropriately. The Fund monitors the performance and management of its assets with LGPSC Ltd (either directly in sub-funds or through advisory and other forms of agreements) on a quarterly basis. It undertakes its oversight arrangements both collectively with other Partner Funds but also individually to assess whether the investments are meeting the Fund's longer-term strategic requirements.

The Fund intends to invest the majority of its assets through the LGPS Central Pool, transitioning over time and maintaining operational cash balances within the Fund. The Fund is likely to continue to hold a number of legacy assets and may hold assets outside the pool to meet specific strategic investment requirements not available through the pool or more effectively managed outside. These will continue to be managed by the Fund given liquidity and the potential for significant loss of value should these assets need to be redeemed to meet the requirement to transition assets.

Investment strategy is set by the Pension Committee who also continues to oversee implementation of the investment strategy with the assistance of Fund officers and independent advisors. This includes the transition of assets to the LGPS Central Pool and ongoing monitoring of those arrangements, through the pool's governance framework.

11 RESPONSIBLE INVESTMENT

The Fund's approach to responsible investment is set out below and further detailed in its Responsible Investment Framework. The Fund believes that effective management of financially material responsible investment (RI) including climate change risks should support the Fund's requirement to protect returns over the long term. The Fund seeks to integrate responsible investment factors (adding corporate governance, environmental and social factors to the existing financial factors) into the investment process across all relevant asset classes. The Fund votes on all investments where possible and engages with companies when engagement will add value to the Fund.

The Fund is a signatory to the Stewardship Code (see www.wmpfonline.com) and the Principles of Responsible Investment. The Fund works with like-minded investors to promote best practice in long-term stewardship of investments. The Fund will not seek to exclude investments that are not barred by UK law.

RI Beliefs and Guiding Principles

The Fund's RI beliefs and guiding principles underpin its RI approach and are set out in detail in the Fund's Responsible Investment Framework.

RI Integration

The Fund believes that effective management of financially material RI risks should support the Fund's requirement to protect and potentially enhance returns over the long term. Investment managers incorporate RI into their investment process. With regard to climate change risk, the Fund recognises that the scale of the potential impact is such that a proactive and precautionary approach is needed in order to address it setting out in more detail the Fund's approach to climate change within its separate Climate Change Framework and Strategy.

The Fund considers RI to be relevant to the performance of the entire Fund across all asset classes. RI investments will be considered where any non-financial benefit is aligned with a positive financial benefit.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

Engagement Versus Exclusion

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is risk but also opportunity in holding companies that have weak governance or financially material RI issues. Thus, the Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. The Fund extends this principle of 'engagement for positive change' to the due diligence, appointment and monitoring of external fund managers who are at an early stage of developing their RI approach.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. The Fund will continue to monitor the success of both its individual but also collective engagement with companies.

Voting

Where practical, the Fund aims to vote in every single market in which it invests in alignment with corporate governance best practice guidelines. In the interests of sending a consistent signal to investee companies, the Fund has decided to use a third-party provider for analysis of governance issues and executing its proxy voting rights across all markets in which it invests. At the present time, the Fund believes that the advantage of a consistent signal outweighs the inherent disadvantages to disconnecting the voting function from the investment and engagement decisions of external fund managers.

12 CLIMATE CHANGE

The Fund takes an evidenced based approach to the risks around climate change and acknowledges the potential financial risks that climate change pose to the Fund's investments. The Fund has developed and published a separate Climate Change Framework and Strategy, setting out how it intends to manage both the risks and opportunities of climate change and how it intends to integrate climate change into its broader strategy and asset management. The Fund has set targets and will monitor and manage delivery of those targets and report back to Pensions Committee on progress. The Climate Change Framework and Strategy is subject to annual review by the Committee.

13 COMPLIANCE WITH THIS STATEMENT

The Fund will 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.

14 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.

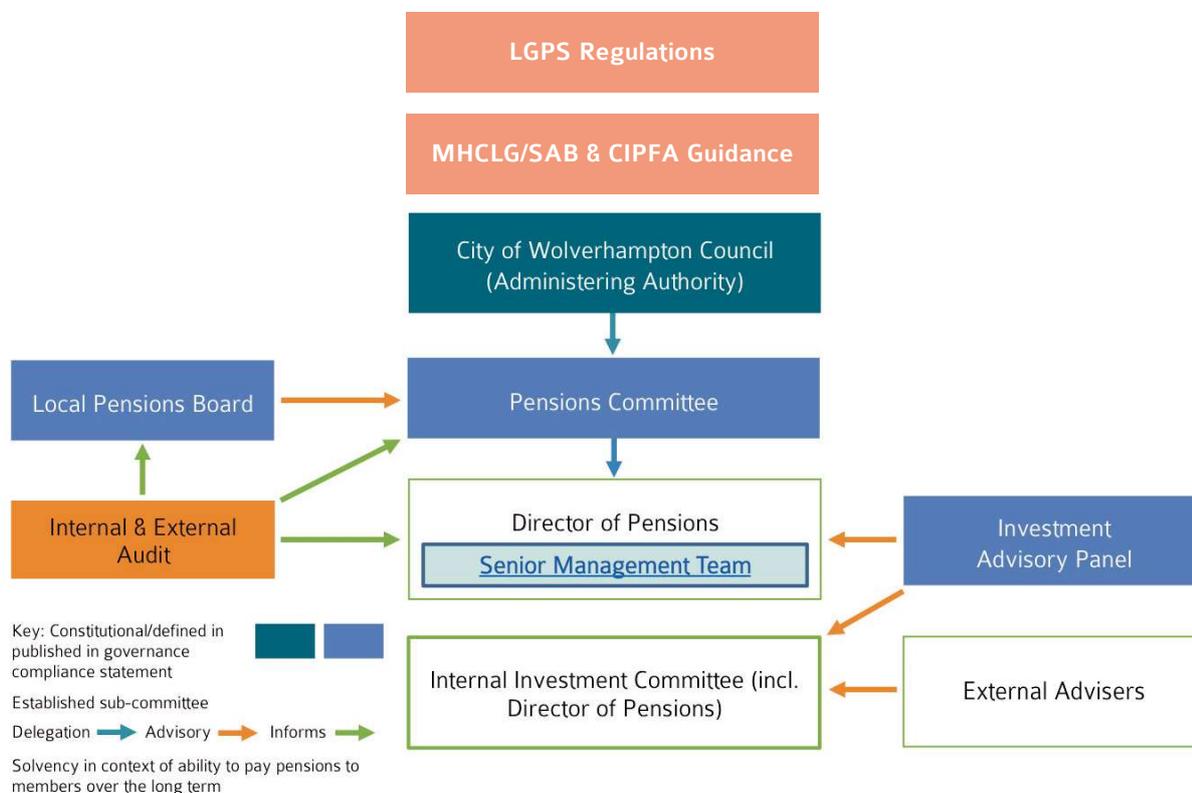
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LIST OF APPENDICES

- **Appendix A** – Roles and Responsibilities
- **Appendix B** – WMPF Main Fund Strategic Investment Allocation Benchmark (SIAB) and Ranges
- **Appendix C** – Statement of Investment Beliefs
- **Appendix D** – WMPF Separate Admission Fund NX Strategic Asset Allocation
- **Appendix E** – WMPF Separate Admission Fund PBL Strategic Asset Allocation

APPENDIX A: ROLES AND RESPONSIBILITIES

The regulatory and governance framework in place to manage investment strategy includes:



The roles and responsibilities of the different bodies in the governance structure are outlined below:

| | |
|--------------------------------------|---|
| Pensions Committee | <ul style="list-style-type: none"> Effect decisions on the management and administration of the Fund including investment decisions, annual approval of the Investment Strategy Statement |
| Local Pensions Board | <ul style="list-style-type: none"> Review the process of effective decision-making |
| Director of Pensions | <ul style="list-style-type: none"> Delegation for day to day management of Pension Fund including investments and implementation of investment strategy |
| Investment Advisory Panel | <ul style="list-style-type: none"> Supports the Director of Pensions and Internal Investment Committee with strategic advice, challenge, market commentary and oversight of portfolio management |
| Internal Investment Committee | <ul style="list-style-type: none"> Day-to-day asset allocation and investment strategy decision-making and implementation of investment strategy, together with oversight and monitoring of investment management arrangements |
| Investment Advisors | <ul style="list-style-type: none"> Provision of advice on markets, investment strategy, risk management and individual investment ideas |
| Internal & External Audit | <ul style="list-style-type: none"> Review process, decisions and implementation and to provide assurance to those charged with governance of the Pension Fund |

The roles of the members and the Committee are as follows:

To exercise all those functions of City of Wolverhampton Council which are required to be performed by its role as Administering Authority for the Local Government Pension Scheme under the Public Services Pensions Act 2013 (and any associated legislation) adhering to the principles required by Statutory Guidance and the Code of Practise issued by The Pensions Regulator.

The key duties in discharging this role are:

- 1 To act as Pension Scheme Manager for the administering authority in the management and administration of the local government pension scheme for the West Midlands.
- 2 To be responsible for compliance with legislation and best practice
- 3 To undertake training as outlined in the Fund's Pensions Committee and Pensions Board Training Policy.
- 4 To review and agree the Investment Strategy Statement, Responsible Investment Statement and Funding Strategy Statement for the Fund.
- 5 To monitor funding and investment activity and the performance of the Fund's investments;
- 6 To produce and maintain an Administering Authority Statement, Pension Administration Strategy, Governance Compliance Statement, Communications Statements and publish a Pension Fund Annual Report;
- 7 To determine employer admission policy and agreements;
- 8 To appoint and monitor an investment pool operator to manage the assets of the Fund;
- 9 To appoint Committee advisors;
- 10 To determine detailed management budgets; and the Fund's Service Plan
- 11 To administer all aspects of the West Midlands Pension Fund on behalf of City of Wolverhampton Council.

Further information about the role of the Pensions Committee is available in the Pensions Committee Terms of Reference which can be found in the City of Wolverhampton Council Constitution.

The Director of Pensions oversees the implementation of Fund policy and the management of the day-to-day operational functions through the Fund's service areas. The Committee are advised and supported by the Chief Executive, Director of Pensions, Assistant Director, Section 151 Officer, Monitoring Officer, Heads of Service and Senior Finance and Legal Officers from the City of Wolverhampton Council.

Local Pensions Board

The role of the Local Pensions Board is to assist in the good governance of the scheme through the monitoring of Fund performance and adherence to statutory duties.

The Board consists of six employer and six member representatives consisting of five employer and five member representatives together with two City of Wolverhampton councillors, each sitting one as an employer representative and one as a member representative.

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with statutory duties.

Investment Advisory Panel

The Investment Advisory Panel advises the Director of Pensions on investment issues relating to the Fund.

The Investment Manager

Appointed Investment Managers carry out the investments for the Fund. Investment managers encompass both LGPS Central Limited and external providers with investment activity governed by investment management agreements (external providers) and the terms of the LGPS Central Limited Authorised Contractual Scheme and other legal entities (eg, limited partnerships).

The Fund also maintains a number of investment advisory agreements with LGPS Central Limited which are subject to review on an ongoing basis.

APPENDIX B: WMPF MAIN FUND STRATEGIC INVESTMENT ALLOCATION BENCHMARK AND RANGES

| Medium-term asset allocation March 2021 | | | |
|---|----------|--------------|--------------|
| | Target % | Total % | Range % |
| Growth | | 50.00 | 40-60 |
| Liquid growth | | 42.0 | |
| Developed market equities | 30.0 | | |
| Emerging market equities | 12.0 | | |
| Illiquid growth | | 8.0 | |
| Private equity | 6.0 | | |
| Special opportunities | 2.0 | | |
| Income | | 38.00 | 30-50 |
| Liquid income | | 14.0 | |
| Multi-asset credit | 5.5 | | |
| Corporate bonds | 4.0 | | |
| Emerging market debt | 4.5 | | |
| Illiquid income | | 24.0 | |
| Infrastructure | 9.0 | | |
| Property | 9.0 | | |
| Diversified private credit | 6.0 | | |
| Stabilising and low risk | | 12.0 | 5-20 |
| Stabilising | | 7.0 | |
| Government bonds | 2.0 | | |
| Index-linked bonds | 3.0 | | |
| Cash | 2.0 | | |
| Stabilising low risk | | 5.0 | |
| Index-linked bonds | 1.0 | | |
| Corporate bonds | 2.0 | | |
| Multi-asset credit | 1.0 | | |
| Private credit (lower risk) | 1.0 | | |
| Total | | 100.0 | |

APPENDIX C: STATEMENT OF INVESTMENT BELIEFS

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

Headline beliefs

Objectives beliefs – As a pension fund the primary objective is to ensure that the Fund is able to meet the pension promises (liabilities) made to scheme members as they fall due. The Fund has a range of other objectives which include considering the needs of all key stakeholders which are supplementary to the primary objective

Financial market beliefs – The Fund takes a long-term approach to investing as its liabilities stretch into the future.

The Fund has a proactive approach to the management of assets taking into account the risk/return profile of different investment opportunities over a range of time periods.

Governance beliefs – The Fund believes having effective governance structures and policies will enable rigorous and tested decision making and will add value to the Fund over the longer term. Transparency and cost effectiveness provide key tenets of being a well-governed Fund.

Investment strategy – The Fund's investment strategy will encompass its approach to risk management, risk tolerance, liquidity and levels of return required to meet its strategic objectives. The Fund will set its strategic asset allocation to deliver the long-term returns required to meet its funding needs taking into account diversification, the requirement to remain agile, risk and cost of implementation, recognising that risk should be viewed both qualitatively and quantitatively.

Responsible investment – As long-term owners of capital (assets), the Fund believes that investing responsibly is key to ensuring the long-term value of the assets in which it invests is protected and where possible, enhanced. Investing responsibly and engaging as long-term owners reduces risk over time and has been proven to positively impact investment returns. The Fund is integrating responsible investment into the way it selects and stewards all assets.

Climate change – The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate changes poses both risks and opportunities to the Fund's investments. The Fund will consider the impact of climate change in both its asset allocation and individual investments when making decisions.

Objectives

Headline objectives – As a pension fund the ultimate objective is to ensure that the Fund is able to meet the pension promises (liabilities) made to scheme members as they fall due. The Fund has a range of other objectives which include considering the needs of all key stakeholders which are supplementary to the primary objective.

- Setting clear and well-defined objectives are essential to reflect the Fund's long-term direction of travel
- Use of an integrated risk management framework including interlinking with both employer covenant monitoring and funding work to assist in delivering the sustainability of the Fund

- To meet the changing needs of the Fund's scheme membership and employer base, noting in particular the growing number of both members and employer but also changing workforce patterns and nature of employment and employers in the Fund.
- The Fund's asset allocation will reflect a risk-based assessment of its ability to meet its long-term pension liabilities taking into account funding levels, cash flow and balancing risks to long term sustainability of contributions

Financial market beliefs

Headline financial market beliefs – The Fund takes a long-term approach to investing as its liabilities stretch into the future and in so doing seeks to take a proactive approach to the management of assets taking into account the risk / return profile of different investment opportunities over a range of time periods

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. The Fund monitors the long-term returns (10 years plus) of asset classes and their level of risk through assessing the level of volatility over time
- Markets are dynamic and asset values can become distorted over time providing opportunities for the Fund to benefit from the mispricing of assets
- There are opportunities for the Fund to access a level of illiquidity premium by its ability to invest longer term in illiquid assets where there is evidence that it is beneficial to do so
- Diversification is a key risk management tool for the long-term investment of Pension Fund assets
- Investing for the long-term can enable the Fund to use short term volatility to acquire investments when attractively priced
- The Fund does not need to own an asset class/investment strategy where it is not expected to help in delivering the required risk-adjusted return.
- The Fund recognises that currency management including the use of currency hedging is another risk management tool
- The Fund believes that the use of derivatives e.g. market futures and currency forwards can enable the Fund to implement its investment strategies and make asset allocation changes in a cost effective and efficient way.

Governance and organisational beliefs

Headline Governance and Organisational Beliefs – The Fund believes having effective governance structures and policies will enable rigorous and tested decision making and will add value to the Fund over the longer term. Transparency and cost effectiveness provide key tenets of being a well-governed Fund.

- Effective governance and clear decision-making structures promote clear accountability, audit and transparency in decision making leading to appropriate levels of challenge and improved investment outcomes
- Internal investment management can lead to lower costs, improved transparency and greater responsiveness in meeting the Fund's broader strategic objectives including those aligned with responsible investment.

- The Fund will assess and select the most appropriate benchmarks or absolute return targets for individual asset classes and will use a customised benchmark for the Fund as a whole
- The Fund will assess its performance against its customised benchmark and will assess its longer performance against relevant peer groups both national and international comparatives to assess the value add that the Fund is delivering
- The Fund will assess a range of implementation routes to accessing asset classes and individual investment opportunities, this will include the use of the investment pool company
- Investment costs are a certain cost versus investment performance which provides for an uncertain outcome and the Fund believes that investment costs should be fully transparent and assessed as part of any investment decision.
- Effective cost management will enhance investment returns. Cost should be transparent and assessed within decision making and monitored to ensure investments continue to offer VFM
- Investment costs are an important determinant in assessing investments, but net of fees performance is a more important factor in delivering investment performance
- Effective manager monitoring, and oversight is critical for risk management and enhancing outcomes
- Effective implementation and structuring of investment portfolios should enhance the long-term returns to the Fund

Investment Strategy Beliefs

Headline strategy beliefs – The Fund’s investment strategy will encompass its approach to risk management, risk tolerance, liquidity and levels of return required to meet its strategic objectives. The Fund will set its strategic asset allocation to deliver the long-term returns required to meet its funding needs taking into account diversification, the need for flexibility, risk and cost of implementation.

- Taking a long-term perspective on investment strategy will deliver better outcomes for the Fund
- SAA is a key determinant of risk and return and the Fund believes that this will add greater value than individual manager or stock selection over time
- SAA targets needs to encompass flexibility to be able to take account of market volatility and enable the Fund to manage cashflows
- Alternative asset classes add further diversity to the portfolio and improve its risk-return characteristics
- Active management can add value over time, but it is not guaranteed and can be hard and more expensive to access. Where active strategies are not considered to add value, a passive approach will be selected
- Managing fees and costs matter especially in low-return environments. Fee arrangements with our Fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund’s long-term interests

- Strategic asset allocation is the most important driver of the Fund's investment outcome. The asset allocation process balances diversified risks against the expected additional returns for these risks. The main sources of return for the Fund for bearing risk ('risk premia') are equity, credit, and illiquidity.
- Diversification through effective portfolio construction is a key technique available to investors for spreading risk across a range of factors and improving risk-adjusted returns

Responsible investment beliefs

Headline responsible investment beliefs – As long-term owners of capital, the Fund believes that investing responsibly is key to ensuring the long-term value of the assets in which it invests. Investing responsibly and engaging as long-term owners reduces risk over time and positively impacts investment returns. The Fund will integrate responsible investment into the way it manages all assets.

- Effective management of financially material ESG risks including climate change risks should support the Fund's requirement to protect and optimise returns over the long term
- Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events
- There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.
- Responsible Investment should be integrated into the investment process
- The Fund will manage responsible investment factors through engagement rather than exclusions.
- The Fund may take into account non-financial factors when making investment decisions, provided that it is able to demonstrate no significant financial detriment from doing so
- The Fund believes working collaboratively with other investors will deliver improvements to the way in which companies are managed and the provides the opportunity to influence wider policy which could impact on the long term returns to the Fund

Climate change beliefs

Headline climate change beliefs – The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate changes poses both risks and opportunities to the Fund's investments. The Fund will consider the impact of climate change in both its asset allocation and individual investments when making decisions.

- The Fund believes there is overwhelming evidence to support the fact that climate change is impacting on the environment and that this will have longer term consequences for the Fund's financial returns if not managed.
- Climate change has the potential to impact the funding level of the pension fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy

- We believe that a transition to a low carbon economy is essential and that carefully designed and targeted government and company policies can ensure a just transition for workers and communities, with substantial economic and social benefits. In addition, public finance will be important as a cross cutting mechanism to invest in human capital and inclusive growth
- The Fund will collaborate with other investors to campaign for positive changes to policy both nationally and at a company level to bring about change aligned to the Paris accord of 1.5 to 2.0 degrees scenarios
- The Fund will adopt a focused climate change policy which will be monitored and measured to ensure that the Fund is delivering against policy targets set within its climate change policy
- In order to assess progress for the Fund towards a lower carbon economy it is essential for the Fund to measure its climate risk exposure at regular intervals

APPENDIX D: WMPF SEPARATE FUND WMTL STRATEGIC INVESTMENT ALLOCATION BENCHMARK AND RANGES

| WMTL medium term asset allocation March 2021 | | |
|--|--------------|---------|
| | Target % | Range % |
| Return seeking (equities) | 16.0 | 14-18 |
| Alternative credit | 48.0 | 42-54 |
| Stabilising gilts & bonds (including LDI) | 36.0 | 32-40 |
| Total | 100.0 | |

The above excludes the value of the buy-in policy held to support meet a portion of the pensioner liabilities.

| WMTL target hedge ratios | |
|--------------------------|--------------|
| Interest rates | 60% |
| Inflation | 40% |
| Total | 100.0 |

APPENDIX E: WMPF SEPARATE FUND PBL STRATEGIC INVESTMENT ALLOCATION BENCHMARK AND RANGES

| PBL medium term asset allocation March 2021 | | |
|---|--------------|---------|
| | Target % | Range % |
| Return seeking (equities) | 15.0 | 10-20 |
| Alternative credit | 26.0 | 20-35 |
| Stabilising gilts & bonds (including LDI) | 58.5 | 50-70 |
| Cash | 0.5 | 0-2 |
| Total | 100.0 | |

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