



INVESTMENT STRATEGY STATEMENT MARCH 2019



West Midlands Pension Fund

1 INTRODUCTION

This is the Investment Strategy Statement (the 'ISS') of the West Midlands Pension Fund (the Fund) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations'). In preparing the ISS, the Pensions Committee has consulted with such persons as it considered appropriate.

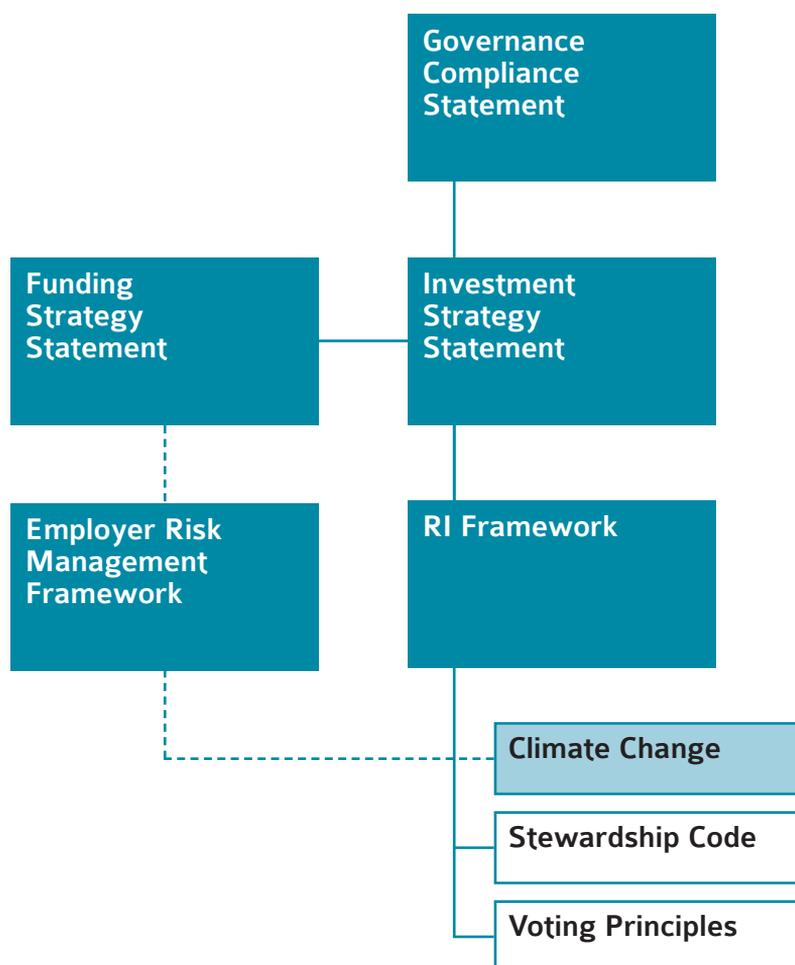
The City of Wolverhampton Council is the administering authority for the Fund under the regulations. The City of Wolverhampton Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Managing Director of the City of Wolverhampton Council delegates certain responsibilities to the Director of Pensions who, in turn, delegates to the internal officers and external fund managers. 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 of 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. 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.

The Fund's Statement of Investment Beliefs, as adopted by the Pensions Committee, are set out in Appendix C. These were extended in December 2018 to more explicitly document beliefs in relation to climate change.

The ISS is subject to 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 consultant.



2 FUND OBJECTIVES

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

The Committee aims to fund the Fund in such a manner that, in normal market conditions and within a reasonable period, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases. Following the introduction of the career average revalued earnings (CARE) Scheme from April 2014, benefits accrued after this date will be based on the salary in each year of service but will take account of future inflation increases.

The Fund's approach to delivery is based on the following objectives:

- Partnering for success
- Responsible asset owner, employer and local community partner
- Investing to increase capacity

- Drive efficiency and cost savings
- Engage to improve outcomes for customers

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

3 RISK

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. These risks are set out and monitored as part of a formal risk register. In summary, the principal risks affecting the Fund are as follows:

Funding Risks

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

The Fund manages this risk by setting a Strategic Investment Allocation Benchmark (SIAB) that seeks to achieve the appropriate balance between generating a satisfactory long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

- b The risk of changing demographics such as improvement in longevity and other demographic factors, increasing the cost of benefits.

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

- c **Systemic risk**, ie, the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund mitigates systemic risk through a diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles.

- d **Inflation risk**

The Fund mitigates inflation risk through holding a 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.

- e **Future investment return (discount rate) risk**

The funding and investment strategies are interlinked and discount rate risk is mitigated through derivation based on the underlying long term investment strategy.

Discount rates are considered annually in the review of the SIAB and triennially as part of the actuarial valuation.

f) **Currency risk**

The risk that the currency of the Fund's SIAB underperforms relative to sterling (ie, the currency of the liabilities).

The currency risk of the benchmark is considered annually in the review of the SIAB. Recommended changes will be expressed through changes in the benchmark and implemented by the investment managers.

The Fund is aware that investing in overseas equities introduces an element of currency risk, and has implemented a passive hedging strategy to cover approximately 50% of its overseas equity assets. In addition the Fund will consider taking additional action to mitigate potentially significant risks as and when they are identified.

Asset Risks (the Portfolio Versus the SIAB)

- a Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- b Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- c Currency risk that the currency of the Fund's assets underperforms relative to the SIAB.
- d Manager underperformance when the Fund managers fail to achieve the rate of investment return assumed in setting their mandates.
- e Responsible investment (RI) risks that are not given due consideration by the Fund or its investment managers.

The Fund manages these asset risks by:

- constraining how far Fund investments deviate from the SIAB by setting diversification guidelines and the SIAB strategic ranges;
- investing in a range of investment mandates, each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters;
- 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; and
- 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.

- **Climate change risk** – the Fund believes that there may be significant climate change risk which could impact on its ability to meet its long-term liabilities and will look to assess, monitor and manage these risks within the portfolio and has established a separate climate change policy setting out its approach to this risk.

The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme (Management and Investment of Funds) Regulations (as updated).

Operational Risk

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

When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers in order to mitigate this risk when it is cost effective to do so.

- b Custody risk of losing economic rights to Fund assets, when held in custody or when being traded.

These risks are managed by:

- the use of a global custodian for custody of assets;
- the use of formal contractual arrangements for all investments; and
- maintaining independent investment accounting records.

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

- maintaining a comprehensive risk register with regular reviews;
- operation of robust internal compliance arrangements;
- in-depth due diligence prior to making any investment; and
- maintaining an approved counterparty list with regular review of credit ratings.

The Fund monitors and manages risks in all areas through a process of regular scrutiny/oversight and reporting of KPIs of its service providers and audit of the operations they conduct for the Fund.

4 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 objectives set out above. 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. Outperformance of 0.5% per annum over rolling three-year periods above the customised benchmark for the Fund is targeted.

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

If ranges are breached, then appropriate action is taken by the fund manager. In addition to ongoing monitoring, the investment strategy is formally reviewed by Pensions Committee each year. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation.

5 DIVERSIFICATION

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.

6 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 Director - Investment and Finance, 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 team is responsible for the day-to-day management 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.

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 Assistant Director, Investments & Finance working with the Director of Pensions.

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.

Investment Restrictions

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

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, 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. Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it will not be held.

When new asset classes are proposed, approval is sought from the Pensions Committee after receiving advice on their suitability and diversification benefits.

The Fund may make use of contracts for difference and other 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 Equitable Life and the Prudential Assurance Company Limited. Members have the option to invest in with-profits funds, unit-linked funds and deposit funds.

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

Realisation of Investments

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

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 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.

7 DAY-TO-DAY CUSTODY OF THE ASSETS

The Fund has appointed a custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

8 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. Securities lending may also take place in pooled investment vehicles held by the Fund including those developed with LGPS Central Limited

9 POOLING

The Fund is part of the LGPS Central pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to more uncorrelated asset classes. 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 intends to invest all its assets into the LGPS Central pool, transitioning over time and maintaining operational cash balances within the Fund. Investment strategy will continue to be set by the Pension Committee who will also continue to oversee implementation of the investment strategy with the assistance of Fund officers and independent advisors.

10 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.

RI Integration

The Fund believes that effective management of financially material RI risks should support the Fund's requirement to protect 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.

RI investments will be considered where any non-financial benefit is aligned with a positive financial benefit.

The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

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.

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.

11 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.

12 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.

LIST OF APPENDICES

- **Appendix A** – Roles and Responsibilities
- **Appendix B** – Strategic Allocation Investment Benchmark (SIAB) and Ranges
- **Appendix C** – Statement of Investment Beliefs

APPENDIX A: ROLES AND RESPONSIBILITIES

Pensions Committee is the decision-making body of the Fund.

The City of Wolverhampton Council each year at annual council appoints elected councillors to sit on the Pensions Committee and invites nominations from the six other metropolitan district councils to sit as full members. These nominations are received each year.

As a statutory public service scheme, the Fund has a different legal status compared with trust-based schemes in the private sector. Although those making decisions relating to the Fund are required, in many ways, to act as if they were trustees in terms of their duty of care, they are subject to a different legal framework.

The key duties in discharging this role are:

- to monitor compliance with legislation and best practice;
- to determine admission policy and agreements;
- to monitor pension administration arrangements;
- to determine investment policy based upon a medium-term benchmark and quarterly reviews;
- to monitor policy;
- to appoint Committee advisors; and
- to determine management budgets.

The Pensions Committee also has oversight of the implementation of the management arrangements and key duties are:

- to monitor and review investment management arrangement including implementation through the LGPS Central pool;
- to review strategic investment opportunities;
- to monitor and review portfolio structures;
- to monitor implementation of investment policy;
- to advise on the establishing of policies in relation to investment management including the appointment and approval of independent advisors to the Fund;
- to monitor investment activity and the performance of the Fund; and
- to oversee the administration and investment management functions of the Fund.

The Director of Pensions oversees the implementation of the ISS and the management of the day-to-day operational functions through the delivery of Fund services. The Committee are advised and supported by the Director of Pensions, Senior Pensions Officers of the Fund, Independent advisors 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

The Investment Manager carries 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: STRATEGIC ALLOCATION INVESTMENT BENCHMARK AND RANGES

	Medium-term asset allocation March 2018		Medium-term strategic range
	%	%	%
Growth			
Quoted equities	48.0		
Private equity	10.0		
Special opportunities	2.0		
Total growth		60	50-70
Income			
Property	10.0		
Emerging market debt	3.5		
Other fixed interest	3.5		
Real assets and infrastructure	6.0		
Insurance-linked	3.0		
Total income		26	16-36
Stabilising			
UK index-linked	5.0		
Government bonds	2.0		
Corporate bonds	2.0		
Cash/liquid assets	2.0		
Cashflow matching	3.0		
Total stabilising 1		4	9-19
Total Fund		100	

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:

Financial Market Beliefs

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for skilled active managers.
- In making investments in illiquid assets, a return premium should be sought.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.
- The Fund believes that investing for the long term can add value to the fund as it allows the Fund manager to focus on long-term value and use short-term volatility to establish favourable investments.
- Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it should not be held.
- Currency risk should be reviewed and managed according to the benchmark set for currency hedging.

Investment Strategy/Process Beliefs

Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.

Risk should be viewed both qualitatively and quantitatively. Particular focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Equities are expected to generate superior long-term returns relative to government bonds.
- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management will be considered.
- Operational, counterparty, conflicts of interest and reputational risk need assessment and management, in addition to investment risk.
- Concentrated portfolios (smaller numbers of holdings or fewer external managers) allow for greater investment focus, lower investment costs and enable more focused engagement with responsible investment.

- 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.

Organisational Beliefs

- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- Internal asset management (including internal management at LGPS Central Ltd) benefits the Fund through lower costs, greater transparency, customised responsible investment and increased focus. Management areas where it is difficult or not possible to obtain the right expertise should be managed externally.
- When outperformance of a desired benchmark is not possible, the Fund will use index funds, financial instruments or proxies (investments that share similar characteristics) to gain exposure to the asset class in the most cost-effective way.
- Investment costs are necessary to generate outperformance in asset classes where outperformance is achievable. Investment costs are a certain cost that should be fully transparent and managed by the operator in the best interests of the Fund.

Responsible Investment Beliefs

- Effective management of financially material ESG risks including climate change risks should support the Fund’s requirement to protect 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.

Evidence-Based Beliefs Related to Climate Change

The Economics of Climate Change

- 1 Following the Intergovernmental Panel on Climate Change (“IPCC”), we acknowledge that the Earth’s climate is changing as a result of anthropogenic activity. Unabated, such change would be devastating for our way of life.
- 2 Consistently with Lord Stern’s research, we hold that the economic damages of unabated climate change are greater than the costs of precautionary mitigation.
- 3 We believe that climate change is financially material across all major asset classes. In support of fiduciary duty, the risks and opportunities presented by climate change should be mitigated and exploited by asset allocation decisions, by individual investment decisions, and through purposeful stewardship.
- 4 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.
- 5 We strongly support the Paris Agreement on climate change.

The Energy Transition

- 6 An ambitious and just energy transition, aligned with the Paris Agreement, requires global greenhouse gas emissions (“GHGs”) to peak around 2020, and to decline to net zero well before the end of this century.
- 7 The energy transition will not occur by focussing only on suppliers of energy. The demand for energy must also undergo a major transformation.
- 8 We think that market mechanisms, including a sufficient and stable carbon pricing regime, are important policy instruments to achieve meaningful GHG reductions.
- 9 It is possible for a high-emitting company to shift its business model and thrive in the transition to a low carbon future.

Purposeful Climate Stewardship

- 10 We would be less likely to realise a Paris-aligned energy transition were responsible investors to cease owning and stewarding high emitting companies. Strong governance is essential for climate awareness and risk management.
- 11 No individual investor is influential enough to act alone, nor is the investment industry sufficient to achieve the required rate of change. Policy makers, consumers, companies and investors all have a role to play.
- 12 Climate-aware decisions can only be made with accurate, relevant, complete, and comparable data.

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