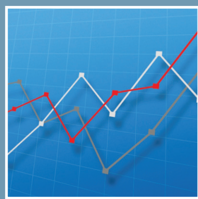
West Midlands Pension Fund



Statement of Investment Principles 2015

September 2015

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1. Introduction

This is the Statement of Investment Principles (the 'Statement') of the West Midlands Pension Fund (the Fund) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations"). In preparing this Statement, 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, who is also the Head of Paid Service, delegates certain responsibilities to the Strategic Director of Pensions who, in turn, delegates to officers. To assist in its role, the Pensions Committee has delegated responsibility for investment specific decisions to the Investment Advisory Sub-Committee which has oversight of the implementation of the management arrangements for the Fund's assets and comprises of representatives from the seven district councils and two local trade unions. In addition, the Fund has the statutory local Pensions Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty. Finally, the Investment Advisory Panel advises the Strategic Director of Pensions on investment issues relating to the Fund. Neither the Pensions Board or the Investment Advisory Panel have any decision-making powers.

This statement has been adopted by the Pensions Committee.

The Statement is subject to review at least annually and from time to time on any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. In preparing this statement, the Committee has considered advice from the investment practice of Hymans Robertson LLP.

The responsibilities of relevant parties are set out in Appendix B.

The Fund's Statement of Investment Beliefs, adopted by the Pensions Committee, are set out in Appendix D.

Related Fund policies and statements are as follows and are publicly available on its website:

- Funding Strategy Statement
- Responsible Investment Framework
- Compliance with Myners
- Compliance with the UK Stewardship Code
- Governance Compliance Statement

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, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

In addition, the Fund has the following objectives:

- To improve our funding level
- To provide excellent customer service
- To achieve target investment returns
- To become a top-performing fund

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 asset allocation benchmark 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 as longevity and other demographic factors improve, increasing the cost of benefits.

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

c) Systemic risk, 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 highly diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles.

Asset Risks

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

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

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

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

The Fund manages asset risk as follows:

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

e) Environmental, social and governance (ESG) risks that are not given due consideration by the Fund or its investment managers. The Fund actively addresses this potential risk through implementation of its Responsible Investment (RI) Framework and its compliance with the UK Stewardship Code for Institutional Investors. Both documents are available on the Fund's website.

Operational Risk

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

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

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

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

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

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

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

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 A) 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 Committee monitors investment strategy relative to the agreed asset allocation benchmark. In addition to ongoing monitoring the investment strategy is formally reviewed annually at Pensions Committee meetings set aside for that purpose. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation.

5. Day-to-Day Management of the Assets

Internally-Managed Assets
A significant amount of investment is carried out by the Fund internally. The majority of quoted equities are managed in-house, both passively and actively. Where appropriate skills are not available internally, external investment managers are used.

External Investment Managers
The Fund has appointed a number of 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.

The Fund may invest in, but is not limited to, quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property, infrastructure, insurance linked securities and loans either directly, through pooled funds or via partnership agreements. The Fund may also 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.

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

The managers appointed, and the mandates they manage, are detailed in Appendix A.

Expected Return on the Investments
Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation. The individual portfolios are expected to match or exceed the specific targets set for each portfolio over time.

Investment Restrictions
The investment management arrangements prohibit the holding of investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund operates at the limits set by the lower level of control under Regulation 14(2), and within the limits for contributions to partnerships, the upper limit for which was increased to 30% from 1 April 2013. This enables investments in private equity and other assets such as infrastructure and global property.

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

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 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 and a number of the Fund's alternative investments, which together represent around 33% of total assets, may be difficult to realise quickly in certain circumstances.

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

6. 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.

7. Stocklending

Stocklending is undertaken in respect of the Fund's quoted equities holdings through the custodian as permitted by the LGPS (Management and Investment of Funds) Regulations 2009 and operates within the limits set by the regulations. There is a formal stocklending agreement and approved collateral. Stocklending may also take place in pooled investment vehicles held by the Fund.

8. Responsible Investment

The Fund's approach to responsible investment (RI) is highlighted below and further detailed in our Responsible Investment Framework.

Beliefs and Guiding Principles
The Fund's RI beliefs and guiding principles underpin its RI approach.

ESG integration
The Fund believes that effective management of financially material ESG risks should support the Fund's requirement to protect returns over the long term. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them.

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 of financially material ESG 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 its 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.

9. 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.

10. 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 – Fund Structure and Investment Benchmarks
Appendix B – Roles and Responsibilities
Appendix C – List of Advisers
Appendix D – Statement of Investment Beliefs

Appendix A - Fund Structure as of September 2015

Equities	
UK	In-house
North America	In-house
Europe	In-house
Far East	In-house
Global	MFS Investment Management
	Blackrock
	In-house
Emerging markets	AGF Investments
	BMO
	Mondrian Investment Partners
Private equity	In-house through specialist funds
Fixed interest	
UK gilts	In-house through specialist funds
UK index-linked	In-house through specialist funds
UK corporate	In-house through specialist funds
	Royal London Asset Management
Cash	In-house
Alternative investments	
In-house through a selection of specialist funds	
Direct property	CBRE
Indirect property	In-house through specialist funds

Appendix A - Investment Benchmark as of September 2015

		Medium-Term Asset Allocation September 2015	Medium-Term Strategic Ranges
	%	%	%
Quoted equities		**48**	**40-60**
UK	8.0		
Europe	7.5		
North America	7.5		
Japan & Far East	7.5		
Emerging markets	7.5		
Global equities	10.0		
Private equity	10.0		
Total equities		**58**	**50-70**
Fixed interest		**19**	**15-25**
UK index-linked	5.0		
UK gilts	2.0		
Cashflow matching	3.0		
Corporate bonds	2.5		
Emerging market debt	2.5		
Other fixed interest	2.0		
Cash	2.0		
Alternative		**23**	**15-25**
Direct property	7.0		
Indirect property	3.0		
Real assets & infrastructure	6.0		
Absolute return strategies	7.0		
Total non-equities		**42**	**30-50**
Total Fund		**100**	

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Appendix B - Roles and Responsibilities

Pensions Committee
Pensions Committee consists of 'trustees' who sit as the decision-making body of the Fund.

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 and are not trustees in the strict legal sense.

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 agreeing a short-term tactical position relative to the benchmark;
- to monitor policy;
- to appoint Committee advisors; and
- to determine detailed management budgets.

Investment Advisory Sub-Committee
The Investment Advisory Sub-Committee has oversight of the implementation of the management arrangements and comprises representatives from the seven district councils and two local trade unions.

The Committee meets at least four times a year and its key duties are:

- to monitor and review investment management functions;
- 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 terms of reference 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 Strategic Director of Pensions oversees the implementation of Committee policy and the management of the day-to-day operational functions through the pensions staff delivering Fund services. The Committee and its elected members are advised and supported by the Managing Director, Strategic Director of Pensions and Senior Finance and Legal Officers from the City of Wolverhampton Council.

Pensions Board
The role of the 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 (officer) and five member (trade union) 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 scheme rules.

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

Appendix C - Advisers as of September 2015

Hymans Robertson
Investment policy, general investment matters.

Barnett Waddingham
Actuarial matters

CBRE
Commercial property management

Knight Frank
Agricultural property management matters

Knight Frank
Independent property valuations

Savills
Independent agricultural property valuations.

AMEC
Planning matters (agricultural holdings).

PIRC
Company governance issues.

HSBC
Stocklending.

Scott Jamieson
Independent Investment Adviser –
Investment Advisory Panel

Appendix D - 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 investors.
- 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.

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 is preferred.
- Operational, counterparty and reputational risk need assessment and management, in addition to investment risk.
- 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 benefits the Fund through lower costs, greater transparency and increased focus. Management areas where it is difficult or not possible to obtain the right expertise should be managed externally.

Responsible Investment Beliefs

- Effective management of financially material ESG 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.

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