



West Midlands Integrated Transport Authority (ITA) Pension Fund

Statement of Investment Principles 2015

September 2015

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1. Introduction

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

1.2 Overall investment policy falls into two parts. The strategic management of the assets rests with the Integrated Transport Authority (the administering authority) who have delegated this responsibility to the Pensions Committee of the West Midlands Pension Fund (WMPF) which has representation from all district councils within the West Midlands. The Committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in Section 2 below.

The remaining elements of policy are part of the day-to-day management of the assets which is delegated to the external managers and the Strategic Director responsible for the West Midlands Pension Fund at the City of Wolverhampton Council and described in Section 3.

1.3 The roles of the committees are:

Role of Pensions Committee

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

Key Duties

a) Pensions Committee

- 1) Monitor compliance with the legislation and best practice.
- 2) Determine investment policy based on recommendation:
 - a) benchmark (medium-term)
 - b) monitor policy
- 3) Appoint committee advisers.

b) Investment Advisory Sub-Committee

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

c) Investment Strategy Panel

- 1) Monitor investment management arrangements.
- 2) Review strategic investment opportunities.
- 3) Monitor implementation of investment policy.
- 4) Monitor investment activity and performance of the Fund.
- 5) Oversee the administration of investment management functions of the Fund.

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.

2. Investment Objectives and Risk

2.1 Investment Objectives

The Authority has set the following objectives:

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

2.2 Risk

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

- i) The risk of deterioration in the Fund's funding level due to assets failing to grow in line with the cost of meeting the liabilities.

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.

- ii) The risk that the investment managers, in their day-to-day management of the assets, will not achieve the rate of investment return expected by the Authority.

The Authority recognises that investing in more growth-ordinated assets and the use of active investment managers involves such a risk. To help manage the volatility of the Fund's returns, the Authority invests in highly diversified core holdings, including a mixture of equities, bonds and diversified growth funds. The Fund is also invested in actively managed non-government fixed interest arrangements.

- iii) Any investment decision carries with it risks of different types (for example, risk of underperformance, risk from mismatching, risk from underfunding etc). The Authority recognizes these different types of risk and seeks to minimise them as far as possible by regular monitoring of the performance of the fund managers and regularly receiving advice from a range of professional advisors and ensuring that the Fund's portfolio is suitably diversified.
- iv) During 2012, the Fund arranged an insurance 'buy-in' of part of the current liabilities for pensions in payment to more effectively manage the investment, interest, inflation and longevity risks.

2.3 Investment Strategy

The Authority sets a long term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and the investment objectives set out above. This is reviewed at least every three years, after each actuarial valuation. The Authority believed that the investment strategy needed further action to lower the risks for employers, and sought to move to an insurance 'buy-in' of part of the liabilities for pensions in payment, this being implemented in 2012. It will not make tactical asset allocation decisions unless market movements or related issues suggest otherwise.

As a result of the buy-in impacting the liabilities of only one of the underlying employers, a separate 'non-buy-in' investment strategy was implemented for the participating employer that was not involved in the buy-in.

This strategy, together with the 'post-buy-in' strategy (for the employer that was involved in the buy-in) is outlined in section 3.1.1. As at 31 March 2015, the 'buy-in' policy represented 56% of the total Fund assets.

In 2015, the assets attributable to the Fund's two employers were unitised so that they are now separately identified. There is a governance benefit from unitisation – it is the best method of providing the level of robustness required when Fund assets are formally assigned to individual employers. It also provides greater flexibility for the future, facilitating bespoke investment strategy and management arrangements for each employer segment.

3. Day-to-Day Management of the Assets

3.1 Main Assets

The Authority invests the main assets of the Fund in portfolios operated by three external investment managers. The Authority is satisfied that the spread of assets by type and the investment managers' policies on investing in individual securities within each type provides adequate diversification of investments.

Asset Class		Manager
Equities Global Emerging markets	} Passive	Legal and General
Fixed interest Index-linked gilts		
Corporate bonds	Active	Legal and General
Diversified growth funds		Baillie Gifford Newton
Cash		City of Wolverhampton Council

3.1.1 Investment Performance Benchmark

The balance of the Fund, following the buy-in, has benchmarks as set out below, with risk bands applied either side of the benchmarks that, if breached, will trigger rebalancing.

Post-Buy-In Strategy

Asset Class	%
Global equities	34.0
Emerging market equities	6.0
Total equities	40.0
Diversified growth funds	40.0
Index-linked	10.0
Corporate bonds	10.0
Total bonds	20.0
	100.0

Non-Buy-In Strategy

Asset Class	%
Global equities	19.1
Emerging market equities	3.4
Total equities	22.5
Diversified growth funds	22.5
Index-linked	27.5
Corporate bonds	27.5
Total bonds	55.0
	100.0

3.1.2 Expected Return on the Investments

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the 2013 actuarial valuation. The individual portfolios should match or exceed the specific market benchmarks set for each portfolio over time.

3.1.3 Investment Restrictions

The investment managers are prohibited from holding investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

3.2 Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Equitable Life and the Prudential Assurance Company Limited. Members have the option to invest in with-profits funds, unit-linked funds and deposit funds. The Authority monitors from time to time the suitability and performance of these vehicles. No new business is being placed with Equitable Life.

3.3 Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund is mature in terms of benefit liabilities and has a strong cash outflow on a regular basis. However, following implementation of the insurance buy-in, the Fund is currently cashflow-positive, and the need to realise investments is reviewed as appropriate by the Investment Strategy Panel.

3.4. Monitoring the Investment Managers

The performance of the investment managers is independently measured. In addition, officers of the Fund meet the investment managers regularly to review their management of the portfolio together with the reasons for the background behind the investment performance. The Investment Strategy Panel meets at least quarterly to review markets and managers.

3.5. Advisers

The Fund uses a range of advisors in addition to its own specialist officers as follows:

HSBC	Performance measurement, unitisation
Hymans Robertson	Investment advice
Barnett Waddingham	Actuarial matters and investment matters relative to liabilities
City of Wolverhampton Council Officers of the West Midlands Pension Fund	Day-to-day management and administration of the Fund to include governance management of cashflows and pension administration

Fees paid to advisors are agreed on an individual basis for a fixed sum or scale reviewed annually or as work is commissioned.

4. Corporate Governance and Responsible Investment (RI)

- i) The Authority recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Authority considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society.
- ii) The Fund supports good corporate governance in the companies in which it invests and the challenging of companies who do not meet the standards or reasonable expectations set by their peers.
- iii) Responsible investment is taken as giving consideration to issues that give risk to a variety of concerns – for example, employment practices, human rights, use of natural resources, environmental issues and external business standards. This links to, and covers, the issues around sustainability that have a rapidly growing significance for companies from a legislative, reputational and practical operational standpoint.
- iv) Lack of good governance interferes with a company's ability to function effectively and is a threat to the Fund's financial interest in that company.
- v) The Fund is also a member of the Local Authority Pension Fund Forum. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest.

5. Compliance with this Statement

The Authority will monitor compliance with this statement. In particular it will obtain confirmation from the investment managers that they exercised their powers of investment with a view to giving effect to the principles contained in the statement so far as is reasonably practicable. The Authority undertakes to advise the investment managers promptly and in writing of any material change to this statement.

6. Compliance with Myners

Following from the Myners' Report into Institutional Investment in the UK, the Government, after consultation, indicated it would take forward all of the report's recommendations and identified ten investment principles to apply to pension schemes.

These principles covered 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 consolidated into six. The Fund supports the principles and complies with the principles. Full details of compliance are set out in the Fund's Myners' Compliance Statement which can be found on the Fund's website.

7. Review of this Statement

The Authority will review this statement in response to any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. This review will occur annually.

8. Stocklending

Stocklending is undertaken in respect of the Fund's quoted equities holdings held in pooled investment vehicles managed by Legal & General as permitted by the LGPS (Management and Investment of Funds) Regulations 2009 and operates within the limits set by the regulations. Stocklending may also take place in other pooled investment vehicles held by the Fund.

The lending of equities is through the custodian to the pooled investment vehicles with a formal agreement in place and approved collateral.

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