

**West Midlands Pension Fund  
Draft Statement of Investment Beliefs**

**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.

## **Organizational 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 Environmental, Social and Governance 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.

Dated 24 November 2014