Appendix 1

West Midlands Integrated Transport Authority

Asset allocation and investment performance report
Quarter to March 2018

Jill Davys – Assistant Director – Investments and Finance

West Midlands Pension Fund

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West Midlands Pension Fund

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Contacts

Jill Davys – Assistant Director – Investments and Finance
- *jill.davys@wolverhampton.gov.uk*
- *01902 550555*

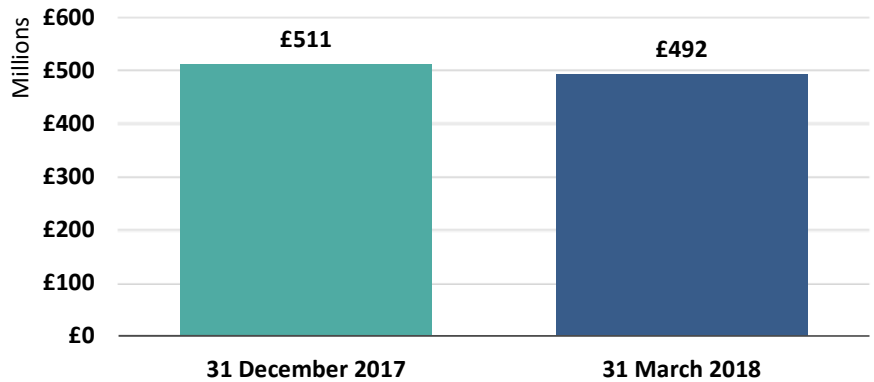
Further information

Our Fund's website
www.wmpfonline.com/wmita

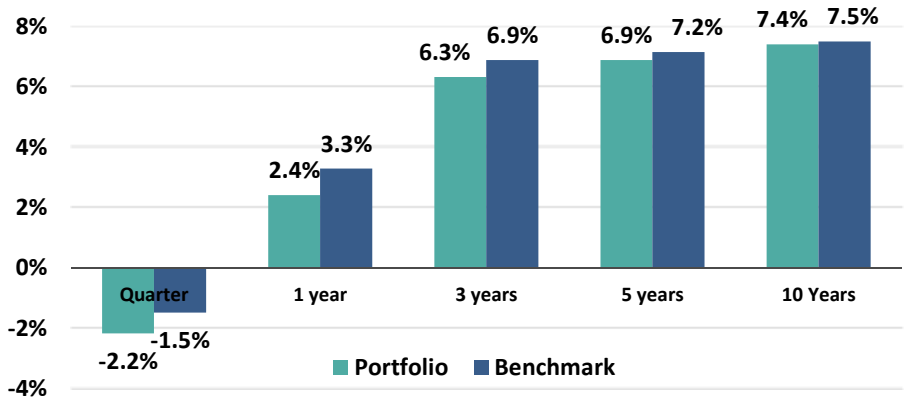
Please refer to the Fund's website for its Investment Strategy Statement

Executive Summary

Total market value (incl. Prudential Buy-in)



Gross total performance (excl. Prudential Buy-in)



Market summary

- Equity markets fell during the quarter as markets experienced a correction in February
- Long-term government bond yields rose in the UK and US amid expectations for higher growth and inflation
- US rates increased by 0.25% to 1.75% as the economic outlook strengthened. The UK base rate remained at 0.5%.
- Sterling continued to strengthen against the US dollar as the Bank of England suggested it could raise interest rates faster than previously anticipated

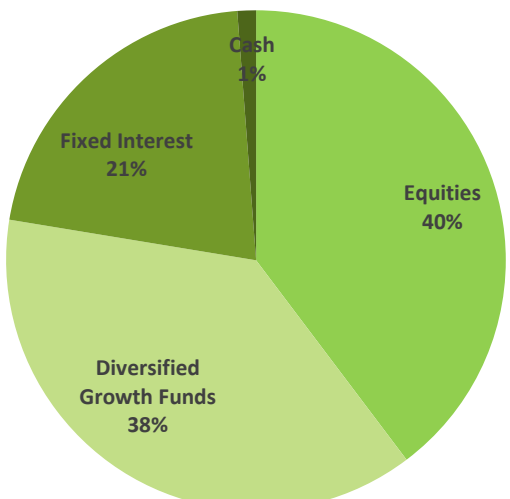
Performance summary

- The Fund underperformed the benchmark over the quarter returning -2.2% against the benchmark return of -1.5%. All asset classes returned negative performance with the exception of Index Linked Bonds and one of the DGFs' Baillie Gifford.
- The individual equity funds performed in line with their respective benchmarks. Japan and the Emerging Markets were the strongest performers.
- The fixed income portfolio slightly outperformed the benchmark returning -0.48% against -0.53%. Underperformance for the Fund was attributed to the DGF's which returned -0.93% against a benchmark of 1.04%.
- Over the 12 month period the fund underperformed the benchmark by 0.9%, this was mainly due to the performance of the DGF's, especially Newton.

Executive Summary

Asset allocation (excluding Prudential buy-in)

Asset class		Value (£)	Fund allocation	Policy target	Difference
Equities	£	100,691,599	39.7%	38.4%	1.3%
Diversified Growth Funds	£	96,088,381	37.9%	38.6%	-0.7%
Fixed Interest	£	53,814,509	21.2%	22.4%	-1.2%
Cash	£	3,017,764	1.2%	0.6%	0.6%
TOTAL	**£**	**253,612,254**	**100.0%**	**100.0%**	**0.0%**

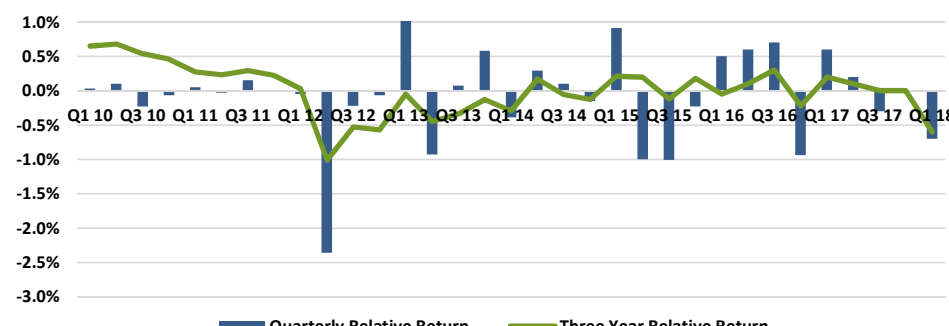


Please note that the above chart excludes the Prudential buy-in

Quarterly fund activity

- There was the agreed monthly sale of units in UK equities, corporate bonds and index linked gilts to meet the income distributions received from Legal & General.
- There was no other trading activity within the quarter.
- Cash was over allocated as at 31 March 2018. This over allocation to cash reflects the need to finance outflows over the next three months.
- A new Investment Strategy Statement was agreed at the Pensions Committee meeting on 21st March and will apply from April 2018. Appendix 3 set out the new strategic asset allocation, effective April 2018
- The policy targets and reporting contained within this quarterly update relate to the strategy that was in place for 2017-2018.

Rolling relative quarterly performance history



West Midlands Pension Fund

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Main report

Objectives

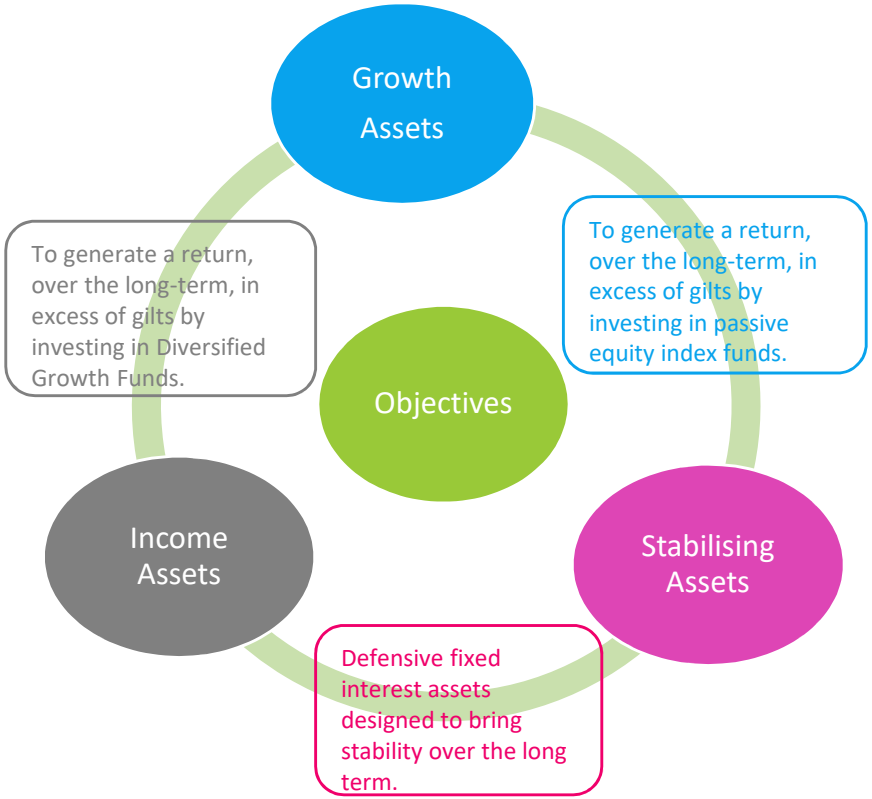
The primary objective of the Fund is to provide pension and lump-sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Authority 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:

- Have resources available to meet the Fund's liabilities for pensions and other benefits provided when they fall due.
- Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.
- 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.
- Acknowledge the risk of investing and have regard to best practice in managing that risk.

The Fund has used a buy-in and added stabilising assets to reduce the volatility and added diversified growth funds for diversification.

The key building blocks of the Fund's Investment Strategy are shown below.



Fund values and allocation - Combined

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West Midlands Pension Fund

Asset allocation

Asset Class	Value (£)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
Equities – L&G	100,691,599	39.7%	38.4%	1.3%	-1.2%
Diversified Growth Funds (DGF's)	96,088,381	37.9%	38.6%	-0.7%	0.1%
Total Growth	196,779,981	77.6%	77.0%	0.6%	**-1.1%**
Fixed interest – L&G	53,814,509	21.2%	22.4%	-1.2%	0.0%
Cash	3,017,764	1.2%	0.6%	0.6%	1.1%
Total Defensive	56,832,273	22.4%	23.0%	-0.6%	**1.1%**
Prudential Buy-In[1]	238,333,000				
TOTAL	491,945,254	**100.0%**	**100.0%**	0.0%	**0.0%**

[1] Prudential Buy-In value is as at 31 March 2018, this is valued once a year.

Allocation comment

- There was no change to strategic asset allocation in the quarter, any movement from target allocations was due to market movements. New strategic asset allocation targets have been set following a review of investment strategy and will be reported against in the next quarter's update.
- The markets have been negative in general for equities over the quarter, although there was a small reduction in the overweight position in this asset class.
- The allocation to DGFs has increased slightly following a quarter of outperformance relative to equity returns. These assets were still marginally below the target allocation.
- Whilst there were negative returns in the bond market, it outperformed the other asset classes. Growth assets in general are overweight and defensive assets are underweight relative to target allocations albeit by a reduced amount when compared to the previous quarter.
- Both Growth and Defensive asset allocations are within the tolerance ranges shown below, which were in force during the period under review:

Growth	**73% - 79%**
Defensive	**21% - 27%**

Fund values and allocation – NX and PBL

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West Midlands Pension Fund

NX[1]

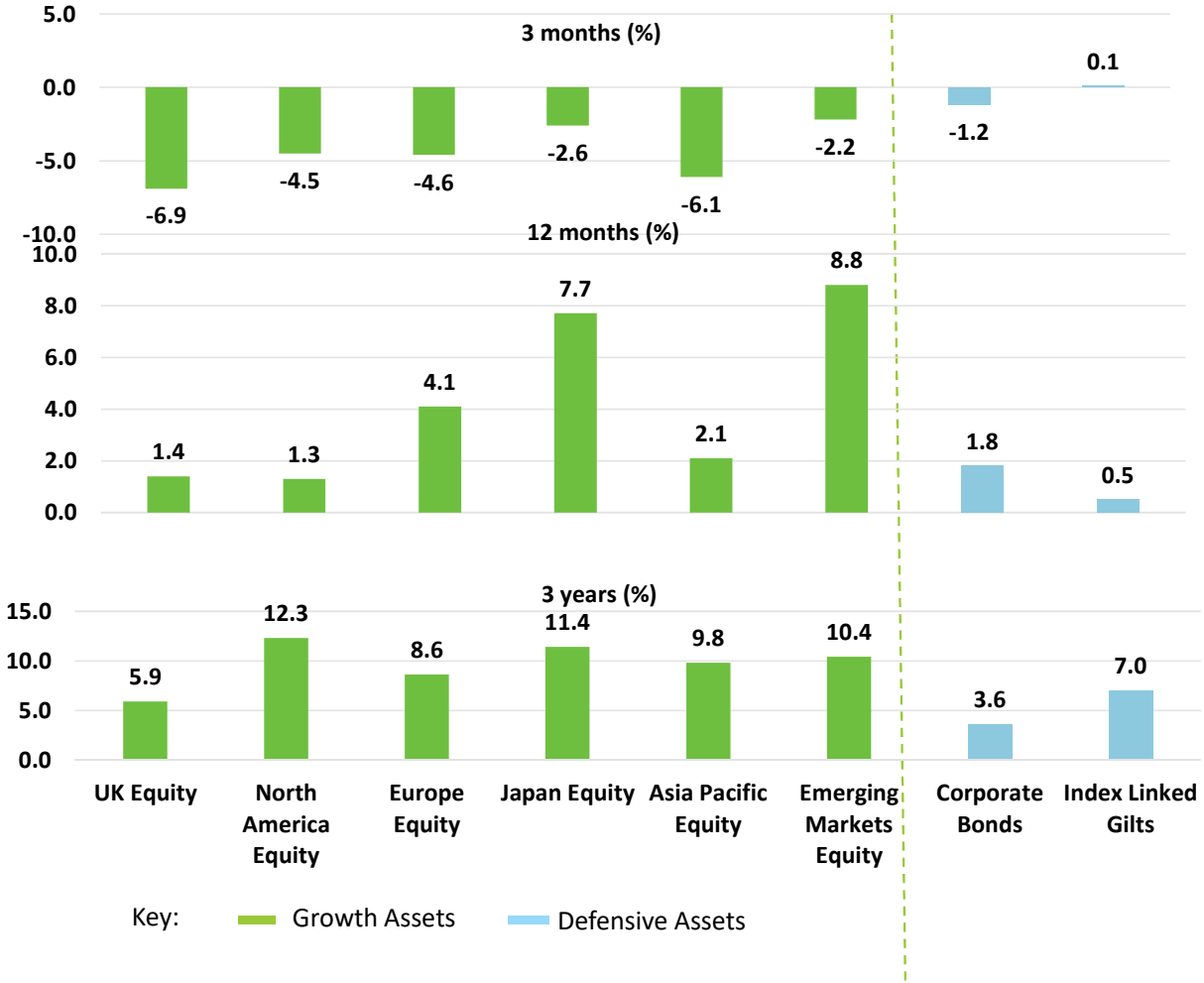
Asset Class	Value (£)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
Equities – L&G	96,000,193	40.9%	40.0%	0.9%	-1.4%
Diversified Growth Funds (DGF's)	91,694,936	39.1%	40.0%	-0.9%	0.1%
Total Growth	187,695,129	80.0%	80.0%	0.0%	**-1.3%**
Fixed interest – L&G	43,877,773	18.8%	19.4%	-0.6%	0.2%
Cash	2,916,724	1.2%	0.6%	0.6%	1.1%
Total Defensive	46,794,497	20.0%	20.0%	0.0%	**1.3%**
TOTAL	234,489,626	**100.0%**	**100.0%**	0.0%	**0.0%**

PBL[1]

Asset Class	Value (£)	Fund allocation %	Policy target %	Difference %	Change from previous quarter %
Equities – L&G	4,691,406	24.5%	22.5%	2.0%	-0.4%
Diversified Growth Funds (DGF's)	4,393,446	22.9%	22.5%	0.4%	0.2%
Total Growth	9,084,852	47.4%	45.0%	2.4%	**-0.2%**
Fixed interest – L&G	9,936,736	52.0%	54.4%	-2.4%	0.2%
Cash	101,040	0.6%	0.6%	0.0%	0.0%
Total Defensive	10,037,776	52.6%	55.0%	-2.4%	**0.2%**
TOTAL	19,122,628	**100.0%**	**100.0%**	0.0%	**0.0%**

Market review

Returns for Benchmark Indices (in GBP) as at 31 March 2018



Equities

After a strong start to the year global equity markets experienced a correction in February, resulting in the first negative quarter for global equities in over two years. Investor concerns over US inflation were exacerbated in March as trade tensions escalated between China and the US. UK equities were negatively impacted by an appreciation in the value of sterling relative to the dollar (a significant proportion of the revenue of major FTSE companies) while European markets suffered from contagion from the US. Emerging markets outperformed their developed counterparts driven by the weaker dollar and steady economic growth in China.

Fixed interest

The Bank of England maintained the base rate at 0.50% during the quarter but intimated that it was likely to raise rates faster than expected. The 10-year UK gilt yield rose from 1.19% to 1.35%. In the US, the Federal Reserve raised interest rates by 0.25% to 1.75% as the economy continued to strengthen, which contributed to a rise in the 10-year US Treasury yield from 2.41% to 2.74%. Global risk aversion resulted in the underperformance of investment grade corporate bonds relative to sovereign debt as credit spreads widened.

Fund performance review

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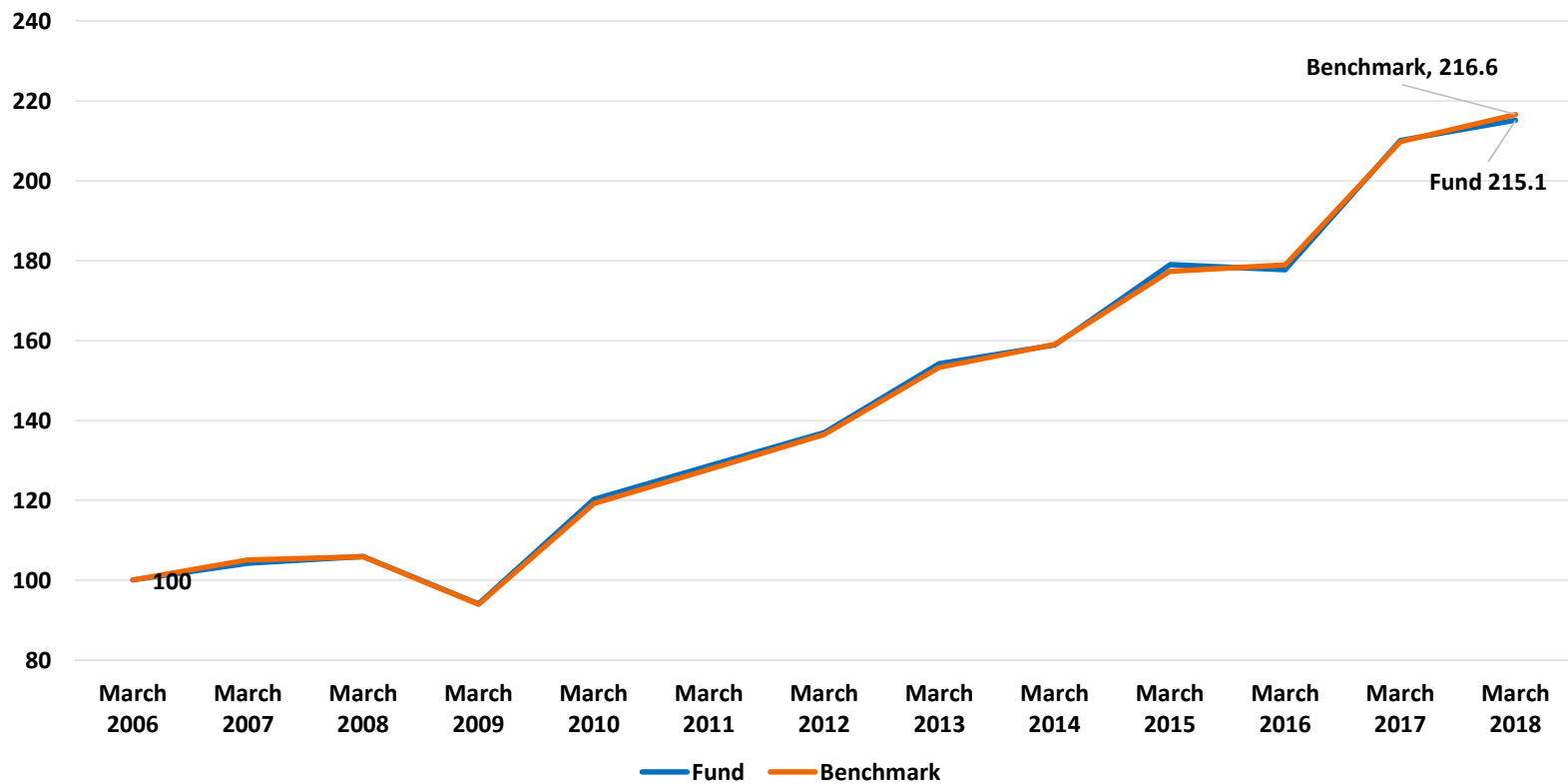
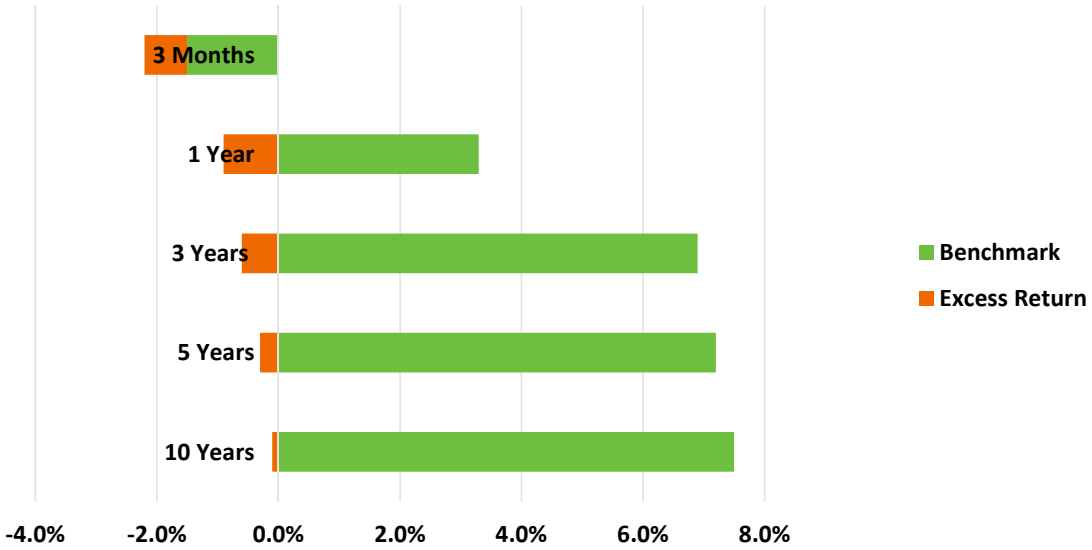
Long-term returns (rebased at 100 at 31 March 2006)



Fund performance review

Benchmark and excess returns to 31 March 2018



	Quarter to 31 March 2018	1 year	3 years p.a.	5 years p.a.	10 years p.a.
Benchmark	-1.5%	3.3%	6.9%	7.2%	7.5%
Excess Return	-0.7%	-0.9%	-0.6%	-0.3%	-0.1%

Source: HSBC

Fund performance commentary

The Fund underperformed its benchmark during the quarter returning -2.2% against a benchmark return of -1.5%. This was due to negative relative returns from the Diversified Growth Funds.

The Fund underperformed its benchmark over the year to 31 March 2018 by 0.9%, returning 2.4% against the benchmark of 3.3%. The underperformance over the 12 month period was driven by one of the Fund's diversified growth funds, Newton. However, this was partially offset by outperformance from the other diversified growth fund managed by Baillie Gifford.

The Fund also underperformed the benchmark return of 6.9% for the three years to 31 March 2018 returning 6.3%.

Around 50% of the fund is passively managed with the remainder being actively managed through the Diversified Growth Funds and the Corporate Bond Fund.

Fund performance

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Combined Fund Absolute and Relative Performance to 31 March 2018

	Absolute performance				Relative performance			
	Quarter	1 year	3 years p.a.	5 years p.a.	Quarter	1 year	3 years p.a.	5 years p.a.
Equities	-4.3%	3.9%	10.3%	10.7%	0.1%	0.1%	0.0%	0.2%
Diversified Growth Funds	-0.9%	1.6%	2.7%	3.4%	-1.9%	-2.5%	-1.5%	-0.8%
Bonds	-0.5%	1.2%	5.5%	6.1%	0.0%	0.3%	0.2%	0.2%
Total return	**-2.2%**	**2.4%**	**6.3%**	**6.9%**	**-0.7%**	**-0.9%**	**-0.6%**	**-0.3%**

National Express Absolute and Relative Performance to 31 March 2018

	Absolute performance		Relative performance	
	Quarter	1 Year	Quarter	1 Year
Equities	-4.3%	3.9%	0.1%	0.1%
Diversified Growth Funds	-0.9%	1.6%	-1.9%	-2.5%
Bonds	-0.5%	1.1%	0.0%	0.2%
Total return	**-2.2%**	**2.5%**	**-0.7%**	**-0.9%**

Preston Bus Absolute and Relative Performance to 31 March 2018

	Absolute performance		Relative performance	
	Quarter	1 Year	Quarter	1 Year
Equities	-4.3%	3.9%	0.1%	0.1%
Diversified Growth Funds	-0.9%	1.7%	-1.9%	-2.4%
Bonds	-0.5%	1.2%	0.1%	0.3%
Total return	**-1.6%**	**1.9%**	**-0.4%**	**-0.4%**

Source: HSBC

Policy Group reports

page 16 - Equities
page 17 - Diversified Growth Funds
page 20 - Bonds
page 21 - Cash

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Equities

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Equities policy group summary

- Equities form part of the Growth asset portfolio alongside the Diversified Growth Funds.
- All equities within the portfolio are passive investments managed by Legal & General designed to follow their individual benchmarks and tolerance ranges listed below:

Region	Benchmark	Tracking target
UK	FTSE All Share	+/- 0.25% p.a.
North America	FTSE World N America NetTax (UKPN)	+/- 0.5% p.a.
Europe	FTSE Dev Europe ex UK NetTax (UKPN)	+/- 0.5% p.a.
Japan	FTSE Japan NetTax (UKPN)	+/- 0.5% p.a.
Pacific ex Japan	FTSE Dev Asia ex Japan NetTax (UKPN)	+/- 0.75% p.a.
Emerging Markets	FTSE Emerging NetTax (UKPN)	+/- 1.75% p.a.

- There has been no change to asset allocation with market movements accounting for all changes since the last quarter.
- The managers have kept well within their tolerance ranges during the quarter.

Regional performance Combined Fund

			Absolute Performance			Relative Performance		
	Value (£)	% Of Equity Portfolio	Quarter to 31 March 2018	1 year	3 years p.a.	Quarter to 31 March 2018	1 year	3 years p.a.
UK	9,488,459	9.4%	-6.9%	1.4%	6.1%	0.0%	0.1%	0.2%
North America	29,380,510	29.2%	-4.6%	1.3%	12.3%	-0.1%	0.0%	0.0%
Europe (ex-UK)	25,600,688	25.4%	-4.4%	4.1%	8.5%	0.2%	0.0%	-0.1%
Japan	10,034,868	10.0%	-2.6%	7.7%	11.5%	0.0%	0.2%	0.1%
Pacific ex Japan	10,013,437	9.9%	-5.9%	2.1%	10.1%	0.2%	0.2%	0.3%
Emerging Markets	16,173,637	16.1%	-2.1%	8.8%	10.5%	0.1%	0.0%	0.1%
TOTAL	**100,691,599**	**100%**	**-4.3%**	**3.9%**	**10.3%**	**0.1%**	**0.1%**	**0.0%**

Source: HSBC

- Global equity markets continued to move higher in January 2018, however markets corrected sharply in February as concerns rose over geopolitical risks, potential trade wars and rising government bond yields.
- This volatility continued into March with an escalation in trade tensions between the US and China leading to investor nervousness.
- As a result, global equity markets delivered negative returns overall for investors during the first quarter, with pan-European, US and Japanese indices all retreating, This was the first negative quarter for over two years.
- Emerging Markets were also volatile over the period although they did outperform developed markets as a whole. This was due to weakness in US dollar, above-trend global growth and rises in the prices of key commodities.

Diversified Growth Funds (DGF'S)

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DGF policy group summary

- The Diversified Growth Funds are located within the Growth portfolio and account for 40% of the total fund AUM (excl. Prudential Buy-in). The allocation is split approximately equally between two managers (Baillie Gifford and Newton).

- This asset class is designed to create equity-like returns but with lower volatility. In strong equity markets the performance of the DGFs is likely to lag behind but they should provide downside protection in less favourable market environments.

- The targets for the two funds are shown in the table below:

Region	Benchmark	Target return
Baillie Gifford	Diversified Growth Fund	Base Rate + 3.5%
Newton	Real Return Fund	LIBOR + 4.0%

- There has been no change to asset allocation with market movements accounting for all changes since the last quarter.

- Baillie Gifford has outperformed their target returns since inception, although Newton has marginally underperformed. A long term analysis of the diversified growth performance can be found on page 19.

DGF performance Combined Fund

	Value (£)	% Of DGF Portfolio	Absolute Performance			Relative Performance		
			Quarter to 31 March 2018	1 year	3 years p.a.	Quarter to 31 March 2018	1 year	3 years p.a.
Baillie Gifford	49,832,041	51.9%	0.7%	5.4%	5.0%	-0.3%	1.5%	1.1%
Newton	46,256,340	48.1%	-2.6%	-2.2%	0.3%	-3.7%	-6.6%	-4.1%
TOTAL	96,088,381	100%	-0.9%	1.6%	2.7%	-1.9%	-2.5%	-1.5%

**Baillie Gifford inception date 22 November 2012. *Newton inception date 23 October 2014*
Source: HSBC

Newton

Newton underperformed its target return for the quarter, over the 12 month period and since inception. The main detractors for the portfolio were equity holdings, including Albermarle, Vakrangee and some health care and tobacco positions. Cisco systems and the derivative protections both provided positive contributions to performance. Prudential and Suncor Energy were bought whilst Vodafone and Suntory Beverage & Food were sold. There was a sale of some US Treasury and Australian sovereign debt positions and profits were taken from some gold-mining positions.

Baillie Gifford

The main positive performance during the quarter came from the fund's Absolute Return portfolio. The majority of the contribution to performance came from the VIX futures positions. Active currency positions are used to hedge against various economic outcomes, and these were the second largest contributor to performance. In particular a long position in Japanese Yen against short positions in Korean won and Australian dollar performed well. Being short US dollar also added to the performance.

Infrastructure was the main detractor from performance due to negative sentiment around the area of Public Private Initiative (PPI). Baillie Gifford feel that this is now a cheap, attractive opportunity and have added to these positions.

Listed Equities were also negative over the quarter, but longer term they are still the best performing asset class. There was also a negative contribution from the Property portfolio.

(DGF) – underlying strategy

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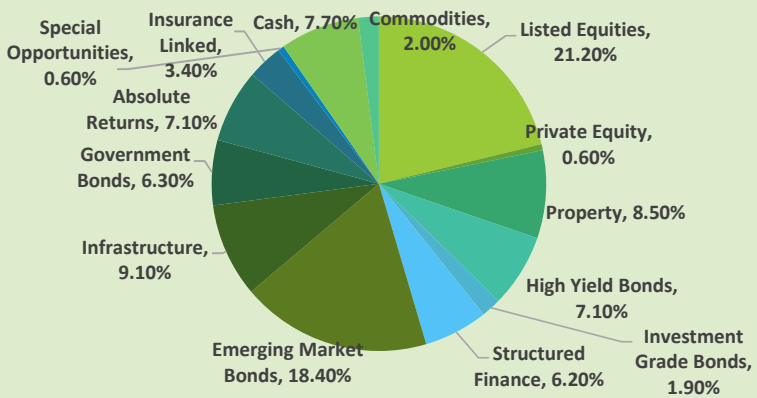
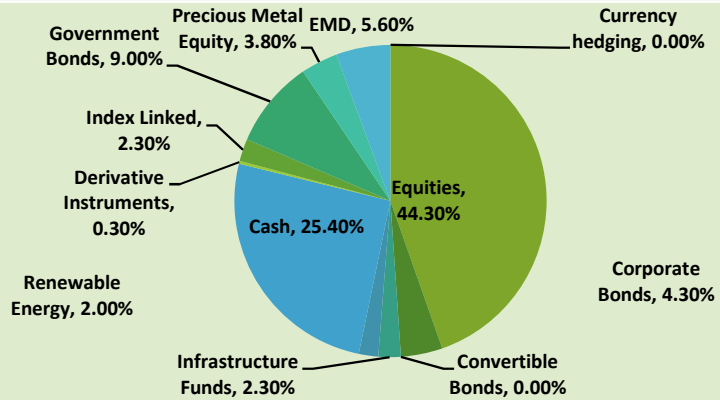
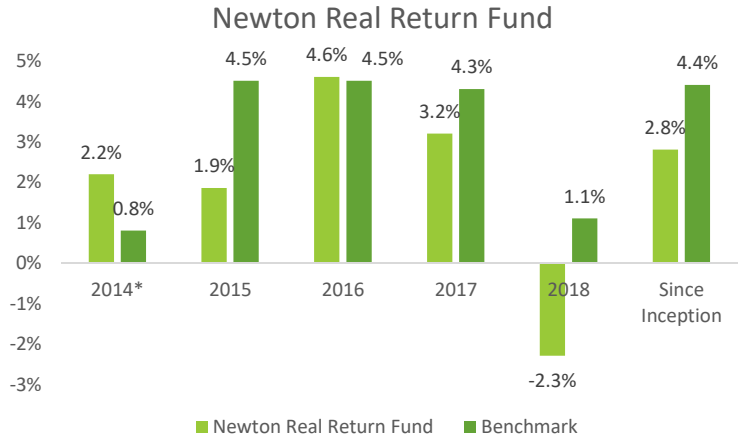
	Baillie Gifford	Newton (BNY Mellon Company)
Fund Launch	December 2008	March 2004
WMITA Investment	November 2012	October 2014
AUM	£6.4billion	£9.6 billion
Target Returns	LIBOR + 3.5% over a rolling 5 year period	LIBOR + 4% over a rolling 5 year period
Liquidity	Daily dealing.	Daily dealing. Fund is open for business
leverage	None	None
Volatility	Aim to be less than 10% p.a.	Less than equities
Strategy	Baillie Gifford believe that diversity produces returns and helps protect against market volatility. The portfolio will include allocation to the majority of asset classes although the level of allocation can vary dependant on market conditions. The allocation to alternative asset classes is higher with Baillie Gifford than most of their competitors. In general their portfolio will be far more diversified than many of their peers as shown below. The managers invest in collective investment schemes (including their own specialist funds) as well as direct investments.	Newton seek to preserve capital through a mixture of security selection, diversification and simple hedging strategies. Diversification is seen as important within the portfolio but the managers have an unconstrained ability to move between the asset classes and can take allocations down to zero if they feel that the market environment demands it. Newton have a single portfolio of predominantly direct or liquid investments. They aim to return a performance that is somewhere between equities and bonds and as the chart below shows the meaningful allocations are between equities and bonds.
Asset allocation as at 31 December 2017		

- In general both funds look to protect capital in negative markets, and with both some performance will be lost when markets are performing strongly leaving returns looking muted alongside market indices.
- Both funds use hedging and derivatives within the portfolios, usually for protection purposes.

Diversified Growth and Asset Comparisons



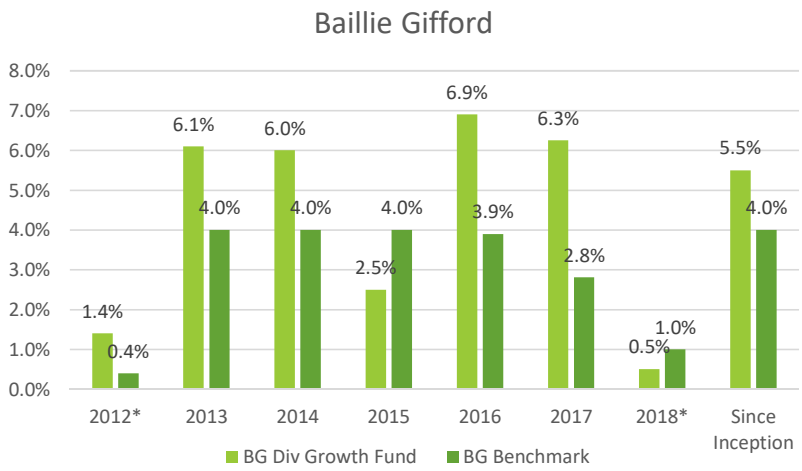
Source: Newton
**** 2014 and 2018 not full 12 months***
Since Inception figure is annualised

Newton

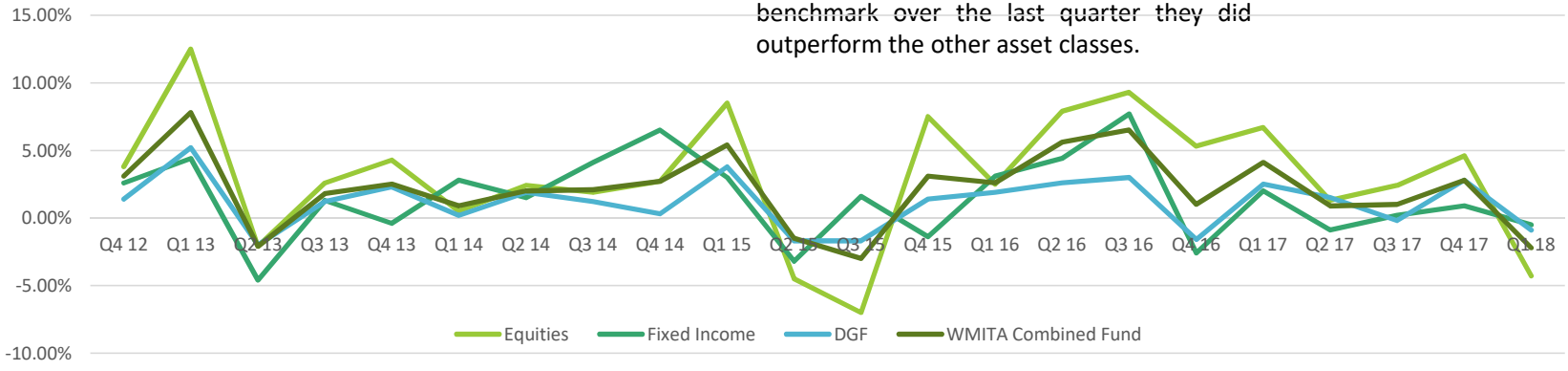
The Fund has underperformed versus benchmark over the quarter and for the full year. The managers have underperformed the benchmark since inception (inception date October 2014). As the graph shows whilst there was a positive start to the investment, 2015 and 2017 were difficult years which has continued into the first quarter of 2018. Given the poor performance of Newton, they are being put on close watch to assess whether there are more fundamental issues with the way in which the portfolio is being managed.

Baillie Gifford

Inception date November 2012. As the graph shows the managers have outperformed the target returns since inception. Although the managers have underperformed the benchmark over the last quarter they did outperform the other asset classes.



Source: Baillie Gifford
**** 2012 and 2017 not full 12 months***
Since Inception figure is annualised



As the graph shows, equities have been the most volatile asset class over the time period.

The diversified growth portfolio has been the most stable relative to the other invested asset classes.

Performance figures taken from manager reports

Bonds

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- The bond portfolio is a defensive portfolio consisting of Index Linked bonds, Corporate Bonds and Cash.
- The bond assets are managed by Legal & General and are divided between two funds:
  - Index linked Bonds – a passive investment.
  - Corporate Bonds – an active investment targeting 75 bps above the benchmark over a 3 year time period.
- Benchmarks and tolerance ranges for the two funds are shown in the table below:

Region	Benchmark	Tracking target
Index Linked Bonds	FTSE A Index-Linked All Stocks	+/- 0.25% p.a.
Corporate Bonds	Markit iBoxx GBP Non-Gilts (All Stocks)	Active Fund

Policy group activity

There was no change to asset allocation during the quarter. The only purchases and sales were to fund the nominal dividend distributions that are paid into the cash account monthly from L&G and a sale of index linked gilts for cash flow purposes.

Defensive Portfolio

	Value (£)	% Of Defensive Portfolio	Absolute Performance			Relative Performance		
			Quarter to 31 March 2018	1 year	3 years p.a.	Quarter to 31 March 2018	1 year	3 years p.a.
Index Linked Bonds	27,122,195	47.72%	0.1%	0.5%	7.0%	0.0%	0.0%	0.0%
Corporate Bonds	26,692,314	46.97%	-1.1%	1.8%	3.8%	0.1%	0.5%	0.2%
Cash	3,017,764	5.31%	Working Capital			Working Capital		
TOTAL	**56,832,273**	**100%**	**-0.5%**	**1.2%**	**5.5%**	**0.0%**	**0.3%**	**0.2%**

Source: HSBC

- **Index Linked -** The sector matched the benchmark during the quarter, returning 0.1%. Over the 12 month period the portfolio also matched the benchmark returning 0.5%. The fund and index had a modified duration (i.e. sensitivity to interest rates) of 23.1 years and the real yield was -1.6%. The fund held all 28 stocks in the index.

- **Corporate Bonds -** The fund has outperformed the benchmark (Markit iBoxx GBP Non-Gilts All Stocks) over the quarter and the last 12 months, although it has underperformed over the longer term its target (benchmark + 75bps). Overweight positions in selected financial services and the manager's underweight stance in subordinated bank debt all contributed to performance. The off-benchmark exposure to high yield detracted from performance

- The Corporate Bond portfolio is split as follows:

Non-Financials	Financials	Collateralised	Sovs/Sub-Sovs/Supra	Government Bonds	Cash
35.6%	33.1%	13.6%	6.8%	7.3%	3.6%

- **Cash –** Cash was over allocated at 31 March 2018 to meet forthcoming pension benefit payments for the following quarter.

Cash

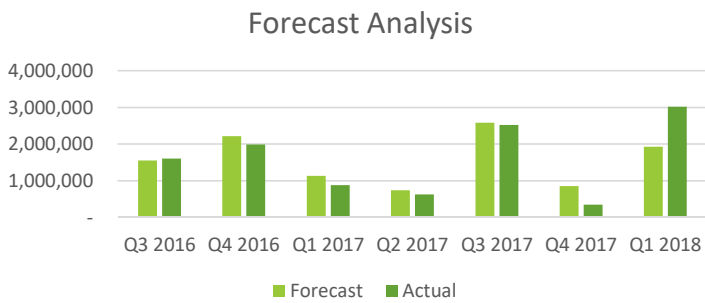
WEST MIDLANDS COMBINED AUTHORITY

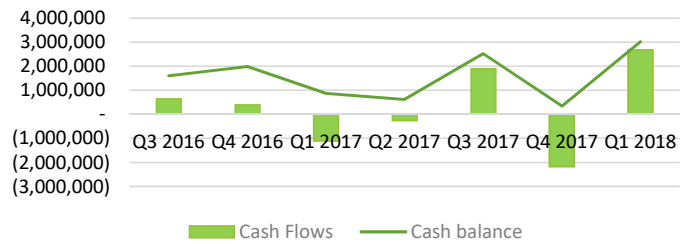
West Midlands Pension Fund

Cashflow (£)	
Cash balance 31 December 2017	339,811
Inflows	
Contributions	4,869,716
Pre 1986 transfer	893,554
Prudential	4,062,231
Legal and General Distributions	375,500
Bank Interest	3,705
Outflows	
Pensions, Retirements etc.	(7,526,753)
Net Jan – Mar Inflow	2,677,953
Cash balance 31 March 2018	3,017,764
NOTE:	
AIM Deposit Account Balance 31 March 2018	2,960,000
Accrued Interest 31 March 2018	1,238

Cashflow Forecast (£)	
Cash balance 31 March 2018	3,017,764
Inflows	
Contributions	983,287
Pre 1986 transfer	460,000
Prudential	4,058,206
Legal and General Distributions	380,250
Bank Interest	3,000
Outflows	
Pensions, Retirements etc.	(7,432,824)
Net Apr - June Outflow	(1,548,081)
Cash balance 30 June 2018	1,469,683
NOTE:	
AIM Deposit Account Balance 30 June 2018 (estimate)	1,410,000
Accrued Interest 30 June 2018 (estimate)	1,000

- Pre-1986 transfer - A regular transfer of monies WMCA has paid to the main fund which is then transferred to the ITA fund to cover actual pensions paid in respect of pension increase on pre-1986 pension elements, where the cost is met by WMCA.
- Unless separately identified in the table above cashflow excludes administration, management expenses and professional fees incurred during the quarter.
- External management fees (detailed in Appendix 3), with the exception of Newton who deduct at source, are invoiced and paid by the Fund.
- The cashflow was positive during the quarter. As at 31 March 2018 £2,960,000 was invested in the AIM Deposit Account. This accrued approximately £1,238 in interest over the quarter.
- LGIM investments were split into three policies. In February 2018 an administration exercise took place to move all assets into one policy. There was no cost to this exercise.





- The chart on the far left shows that the cash forecast over the last five quarters has generally been a close estimate of the actual bank balance with exception of the last two quarters.
- The chart alongside shows a large outflow in Q1 this was mainly due to a rebalancing exercise that quarter. The substantial inflow in Q3 2017 and Q1 2018 was due to contributions which are now paid twice yearly.

Appendices

Appendix 1 – Current Fund Position
Appendix 2 – Risk management
Appendix 3 – Future Medium Term Strategic Asset Allocation

Appendix 1 – Current Fund position Combined Fund

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

Asset allocation – as at 31 March 2018

Asset class		Fund allocation %	Policy target %	Difference %	Change from Previous Quarter %
UK	9,488,459	3.7%	3.9%	-0.2%	-0.3%
North America	29,380,510	11.6%	11.5%	0.1%	-0.4%
Europe (ex UK)	25,600,688	10.1%	9.6%	0.5%	-0.3%
Japan	10,034,868	4.0%	3.8%	0.2%	0.0%
Pacific (ex Japan)	10,013,437	3.9%	3.8%	0.1%	-0.2%
Emerging Markets	16,173,637	6.4%	5.8%	0.6%	0.0%
Total equities	**100,691,599**	39.7%	38.4%	1.3%	-1.2%
Diversified Growth Funds (DGF's)					
Baillie Gifford	49,832,041	19.7%	19.3%	0.4%	0.4%
Newton	46,256,340	18.2%	19.3%	-1.1%	-0.3%
Total DGF's	**96,088,381**	37.9%	38.6%	-0.7%	0.1%
Total Growth	**196,779,981**	77.6%	77.0%	0.6%	-1.1%
Fixed interest – L&G					
Index Linked Bonds	27,122,195	10.7%	10.9%	-0.2%	0.1%
Corporate Bonds	26,692,314	10.5%	11.5%	-1.0%	-0.1%
Total fixed interest	**53,814,509**	21.2%	22.4%	-1.2%	0.0%
Cash	3,017,764	1.2%	0.6%	0.6%	1.1%
Total Cash	3,017,764	1.2%	0.6%	0.6%	1.1%
Total Defensive	**56,832,273**	22.4%	23.0%	-0.6%	1.1%
Prudential Buy-In	**238,333**				
TOTAL	**253,850,587**	**100.0%**	**100.0%**	0.0%	**0.0%**

Appendix 1 – Continued
Fund positions – NX and PBL (as at 31 March 2018)

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

NX

Asset class	Value (£)	Fund allocation %	Policy target %	Difference %
Equities – L&G				
UK	9,041,291	3.86%	4.0%	-0.1%
North America	28,034,433	11.96%	12.0%	0.0%
Europe (ex UK)	24,415,750	10.41%	10.0%	0.4%
Japan	9,550,505	4.03%	4.0%	0.0%
Pacific (ex Japan)	9,535,678	4.03%	4.0%	0.0%
Emerging Markets	15,422,536	6.58%	6.0%	0.6%
Total equities	**96,000,193**	40.9%	40.0%	1.0%
Diversified Growth Funds (DGF's)				
Baillie Gifford	47,530,434	20.3%	20.0%	0.3%
Newton	44,164,502	18.8%	20.0%	-1.2%
Total DGF's	**91,694,936**	39.1%	40.0%	-0.9%
Total Growth	**187,695,129**	80.0%	80.0%	0.1%
Fixed interest – L&G				
Index Linked Bonds	22,396,789	9.6%	9.4%	0.2%
Corporate Bonds	21,480,984	9.2%	10.0%	-0.8%
Total fixed interest	**43,877,773**	18.7%	19.4%	-0.7%
Cash				
Cash	2,916,724	1.2%	0.6%	0.6%
Total Defensive	**46,794,497**	20.0%	20.0%	0.0%
TOTAL exc Buy In	**234,489,626**	100.0%	100.0%	0.1%

PBL

Asset class	Value (£)	Fund allocation %	Policy target %	Difference %
Equities – L&G				
UK	447,168	2.4%	2.3%	0.1%
North America	1,346,077	7.0%	6.6%	0.4%
Europe (ex UK)	1,184,938	6.2%	5.6%	0.6%
Japan	484,363	2.5%	2.3%	0.2%
Pacific (ex Japan)	477,760	2.5%	2.3%	0.2%
Emerging Markets	751,101	3.9%	3.4%	0.5%
Total equities	**4,691,406**	24.6%	22.5%	2.1%
Diversified Growth Funds (DGF's)				
Baillie Gifford	2,301,607	12.0%	11.3%	0.7%
Newton	2,091,839	10.9%	11.2%	-0.3%
Total DGF's	**4,393,446**	22.9%	22.5%	0.4%
Total Growth	**9,084,852**	47.5%	45.0%	2.5%
Fixed interest – L&G				
Index Linked Bonds	4,725,406	24.7%	27.0%	-2.3%
Corporate Bonds	5,211,331	27.3%	27.4%	-0.1%
Total fixed interest	**9,936,736**	52.0%	54.4%	-2.4%
Cash				
Cash	101,040	0.6%	0.6%	0.0%
Total Defensive	**10,037,776**	52.6%	55.0%	-2.4%
TOTAL	**19,122,628**	100.0%	100.0%	0.0%

Appendix 2 – Risk management

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

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 a deterioration in the funding level of the Fund due to investment markets not performing as forecast. The diversification of the investments balances this risk against the objective of seeking the better performing markets in which there is relatively good liquidity.

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 the use of active investment managers involves such a risk. To limit their exposure to the risk of significantly underperforming, the Authority invests the Fund's investments in highly diversified core holdings, a mixture of equities, bonds and diversified growth funds producing a high level of probability of achieving near market rates of return at a relatively low cost. 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 recognises these different types of risk and seeks to minimise them as far as possible by regular monitoring of the performance of the fund managers, seeking advice from the actuary on the suitability of the assets with regard to the Fund's liabilities, 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 and longevity risks.

V. A review of the investment risk and strategy was undertaken in conjunction with 2016 Actuarial Valuation.

Appendix 3 – Target Asset Allocation

Approved by Pensions Committee 21 March 2018

WEST MIDLANDS COMBINED AUTHORITY

West Midlands Pension Fund

Asset class	Total Fund %	National Express % (post-buy-in)*	Preston Bus % (non-buy-in)
Growth			
Quoted equities	27.6	28.0	22.5
Diversified growth funds	37.0	38.3	22.5
Total growth	**64.6**	**66.3**	**45.0**
Income and stabilising			
Fixed income	22.3	19.7	54.4
LDI	13.0	14.0	0.0
Cash	0.1	0.0	0.6
Total income and stabilising	**35.4**	**33.7**	**55.0**

*The buy-in represented 50% of NX assets as of 31 December 2017.

The tolerance ranges for the combined fund are as follows:

60% - 70% Growth
30% - 40% Defensive