West Midlands Pension Fund

annual report and accounts 2013

West Midlands Pension Fund

CUSTOMER SERVICE EXCELLENCE
CSE

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Chair's Statement

Councillor Thomas (Bert) Turner
Chair Of Pensions Committee

2012/2013 has seen a number of changes for the West Midlands Pension Fund as the Local Government Pension Scheme prepares to move to a pension build-up scheme from 1 April 2014. During the year, the Fund consulted on an organisational restructure to assist in meeting these challenges, and the Government's call for evidence on the future structure of pension provision for local government employees.

The financial year saw the Fund create a dedicated project team to take forward the preparation for the implementation of LGPS 2014. In addition, automatic enrolment came into being and we have been busy assisting employers put these changes in place.

Another key successful focus of 2012/2013 was the enhancement to the trustee training policy and implementation of a structured training plan for the trustees and panel members of the Fund. This was designed to support all committee and panel members in the execution of their roles with regular training sessions and material produced for trustees to provide them with the wide industry knowledge required in their positions.

The Fund has strengthened its customer focus with member roadshows, retirement courses, employer events and support of our employers.

In the last year, the Fund has continued to engage with employers. An employers' annual general meeting, a first for the Fund, was held in December 2012. The number of employers continues to expand and, at the year-end, there were over 340 employers participating in the Fund, of which approximately 140 are academies.

The Fund is improving its service provision by adopting a more efficient method of engaging with its members and employers through launching a web portal facility to encourage more self-service. In the first six months following the formal launch of the platform, 2% of the membership has registered to use the facility and over 200 employer users representing 70 individual employers also use the service regularly. The web portal has enabled the production of pensioners' paper payslips to be greatly reduced with effect from April 2013.

During the year, as part of the Pensions Committee work plan, the investment strategy was revised and minor changes were made to the strategic asset allocation.

Ensuring a cost-efficient service is a key consideration for the Fund and, as the Fund moves towards industry changes, it is important that it streamlines the way it works and makes its business more efficient and customer focused. We are confident that we have already commenced on this journey, as it is important to ensure the Fund is able to meet any and all future challenges.

Director's Statement

Geik Drever
Director Of Pensions

The past financial year saw the West Midlands Pension Fund work towards preparation for the 2013 actuarial valuation exercise, the LGPS 2014 and responding to several strategic consultation papers in relation to the future structure of the LGPS and the governance framework. Part of the ground work included communicating the changes to our members and employers, and helping them prepare for the changes. Although there has been a delay in the required regulations being laid before Parliament, 2012/2013 saw us lay the foundations required to allow us to effectively carry out this work alongside 'business-as-usual'.

In February 2013, the organisational structure of the Fund was comprehensively reviewed and updated to enhance effectiveness and efficiency. The resulting changes affected every area of the service with the aim of constructing a dynamic and customer-focused organisation, which could position itself to provide value for money and excellent customer service. The benefits include a flatter structure, with more front line staff, that is well equipped to respond to changes in the industry.

The last financial year also saw the Fund work to increase its visibility within the pensions industry. A key component of this work was a rebranding exercise, following consultation with our stakeholders. The new logo and branding, launched in March 2013, has been very well received and is modern and easily identifiable. The West Midlands Pension Fund has also been featured in many publications throughout the last year, specifically in investment journals, websites and periodicals with particular positivity in investment in UK infrastructure projects including the Pensions Infrastructure Platform and the Investing for Growth initiative. We continue to collaborate with our colleagues to improve management of the LGPS as a whole.

In terms of investment performance, the Fund delivered an overall return of 12.4% for the year, significantly outperforming its bespoke benchmark return of 11.5%. The Fund's equity portfolios performed particularly well, delivering a return of 16.8% over the year. The rally in the equity markets was driven by strong economic data in the US, aggressive stimulus measures in Japan and an easing of the eurozone sovereign debt crises. Strong relative returns were also seen in the absolute returns and property portfolios, mainly due to good stock selection. A positive annualised return of 7.3% was achieved over the three years to 31 March 2013 outperforming its bespoke benchmark of 7.1%. Again, this was mainly due to stronger returns from UK and overseas equity markets.

The achievements of the past financial year have prepared us for the important tasks that will follow in the coming year, and also for other potential changes, including the future structure of the LGPS.

LGPS 2014
your new pension scheme

West Midlands Pension Fund

Pensions Committee 2012/2013

Wolverhampton City Council

Councillor T Singh* Chair (Chair till May 2013)
Councillor TH Turner* Vice-Chair (Chair from May 2013)
Councillor Z Shah (Vice-Chair from May 2013)
Councillor P Bilson*
Councillor N Clarke
Councillor M Evans
Councillor S Evans
Councillor M Heap*
Councillor A Johnson
Councillor L McGregor
Councillor J Reynolds
Councillor P Bateman MBE

*Denotes member of Investment Advisory Sub-Committee

Districts

Councillor P Walkling*	Birmingham City Council
Councillor Z Ali*	Walsall MBC
Councillor S Bains*	Coventry City Council
Councillor Q Zada*	Dudley MBC
Councillor A Martin*	Solihull MBC
Councillor V Silvester*	Sandwell MBC

Observer Members

M Cantello	Unison
M Clift	Unite
I Smith	Unite (Retired)

Administering Authority Officers

Delivery:
Civic Centre, St. Peter's Square,
Wolverhampton. WV1 1SL

S Warren	Chief Executive
S Kembrey	Chief Legal Officer (Until November 2012)
W Trainor	Chief Legal Officer (From March 2013)
M Taylor	Section 151 Officer
G Drever	Director of Pensions
N Perrins	Head of Pensions Administration
C Parlor	Head of Governance
P Wild	Head of Financial Control (Retired February 2013)
A Ellis	Communications Officer

Main External Advisers & Service Providers

Investments	Hymans Robertson LLP
Property	CBRE Global Investors J Fender, John Fender Consultancy
Pension Scheme Registration	No.10079176
Actuary	Mercer Human Resource Consulting Ltd
Custodian of Assets	HSBC Global Investment Services
Banker	National Westminster Bank Plc
Auditor	PricewaterhouseCoopers
AVC Providers	Prudential Assurance Company Ltd Equitable Life Assurance Society
Corporate Governance	Pensions Investment Research Consultants (PIRC)

HMRC References

SCON number	S2700178F
ECON number	E3900002R
PSTR number	00329946RE
PSTR sub-number	49/16109

Joint Consultative Forum (JCF)

The subjects considered by the panel during 2012/2013 include the following:

- New LGPS 2014 Proposals
- Lean systems update
- Pensions administration strategy
- Trustee Training policy
- Public Service Pensions Bill
- Communications Policy 2013
- West Midland Pension Fund Logo
- Policy statement for administering unclaimed benefits.

Participating Employers of the Fund at 31 March 2013

Scheduled Bodies

District Councils

Birmingham City Council
Coventry City Council
Dudley Metropolitan Borough Council
Sandwell Metropolitan Borough Council
Solihull Metropolitan Borough Council
Walsall Metropolitan Borough Council
Wolverhampton City Council

Major Employers

Centro
Staffordshire & West Midlands Probation Trust
West Midlands Fire & Civil Defence Authority
West Midlands Police Authority

Universities (former Polytechnics)

Birmingham City University
Coventry University
University of Wolverhampton (The)

Colleges of Further Education and Higher Education

Birmingham Metropolitan College
Bournville College of Further Education
Cadbury Sixth Form College
City College, Coventry
City of Wolverhampton College
Dudley College of Technology
Halesowen College
Henley College
Hereward College
Joseph Chamberlain College
King Edward VI College
Sandwell College
Solihull College
Solihull Sixth Form College
South and City College Birmingham
Stourbridge College
University College Birmingham
Walsall College

Other Bodies with no active members

Bickenhill Parish Council
Sandwell Homes Limited

Other Bodies

Ace Academy (Alexandra Academy)
Alderbrook School
Aldersley High School
Aldridge School - A Science College
Arden Academy Trust
ARK Academies
ARK Kings Academy
ARK Rose Primary Academy
ARK Tindal Primary Academy
Arthur Terry Learning Partnership
Aston Manor Academy
Aston University Engineering Academy
Balsall Common Primary Academy
Balsall Parish Council
Barr Beacon School Trust
Bartley Green School
Billesley Primary School
Birmingham Museums Limited
Bishop Vesey's Grammar School
Black Country University Technical College
Blakenhale Infants School
Blakenhale Junior School
Blue Coat Church of England Academy Limited (The)
BOA Birmingham Ormiston Academy
Castle Bromwich Parish Council
Caludon Castle School
Central Learning Partnership Trust (Heath Park Academy)
Charles Coddy Walker Academy
Chelmsley Wood Town Council
Chilwell Croft Academy
City of Wolverhampton Academy Trust
Collegiate Academy Trust (The)
Coundon Court
Ctc Kingshurst Academy
Croft Primary Academy
Deanery Church of England School
Dorrington Academy Trust
E-ACT Heartlands Academy
E-ACT North Birmingham Academy
E-ACT Shenley Academy
E-ACT Willenhall Academy
Earls High School (The)
EBN Free School
Education Central Multi Academy Trust
Erdington Hall Primary Academy
Fairfax School
Finham Park School
Fordbridge Parish Council
Four Dwellings Primary Academy
George Dixon Academy
Goldsmith Primary Academy
Grace Academy
Great Barr Primary School
Greenholm Primary School
Greenwood Academy
Hall Green Secondary School
Handsworth Wood Girls' School
Harborne Academy
Hillcrest School and Sixth Form Centre
High Arcal School Academy Trust (The)
Heart of England School
Hockley Heath Academy
Holly Hall Academy (The)
Holyhead School
John Henry Newman Catholic College (The)
Joseph Leckie Academy Trust
Jubilee Academy Mossley - ATT
King Edward VI Aston School (Academy)
King Edward VI Camp Hill School for Boys (Academy)
King Edward VI Camp Hill School for Girls (Academy)
King Edward VI Five Ways School (Academy)
King Edward VI Handsworth School (Academy)
King Edward VI Sheldon Heath Academy
Kings Norton Girl's School and Language College
Kings Rise Community Primary School
Kingshurst Parish Council
Kingswinford School and Science College (The)
Langley School
Lea Forest Primary Academy
Light Hall School
Lode Heath School
Lordswood Boys School
Lordswood Girls School and
Sixth Form Centre
Mansfield Green E-ACT Academy
Meriden Parish Council

Participating Employers of the Fund at 31 March 2013

- Merritts Brook E-ACT Primary Academy
- Mesty Croft Academy
- Moseley Park School
- Nansen Primary School
- Nechells Primary E-ACT Academy
- Ninestiles Academy Trust
- Oaklands Primary - Ninestiles Academy
- Oldbury Academy
- Oldknow Academy
- Ormiston Academies Trust
- Ormiston Forge Academy
- Ormiston George Salter Academy
- Ormiston Sandwell Community Academy
- Park Hall Academy
- Park Hall Infant Academy
- Park Hall Junior Academy
- Park View Educational Trust
- Parkfields Community School
- Percy Shurmer Primary School
- Perry Beeches - The Academy
- Plantsbrook School
- Queen Mary's High School (Walsall)
- Q3 Academy
- Queen Mary's Grammar School (Walsall)
- Reedswood E-ACT Primary Academy
- Rookery School
- Rough Hay Primary
- RSA Academy
- Ryder Hayes Academy Trust
- Sandwell Academy Trust Limited
- Sandwell Leisure Trust
- Shelfield Community Academy
- Shire Oak Academy Trust
- Shirestone Community Academy
- Short Heath School
- Sidney Stringer Academy Trust
- Smiths Wood Parish Council
- Solihull Community Housing Limited
- St Clements C of E Academy
- St John's C of E Primary School
- St Mary's C of E Junior & Infant School
- St Michael's C of E Primary School
- St Michael's Junior and Infants School
- St Patrick's Church of England
- Primary Academy
- St Peter's Collegiate School
- Streetly Academy (The)
- Sutton Coldfield Grammar School for Girls Academy Trust
- The Blue Coat Church of England Academy
- Tile Hill Wood School and Language College
- Timberley Academy Trust
- Tudor Grange Academy Solihull Trust
- Tudor Grange Primary Academy
- St James Valuation Tribunal Service (formerly Birmingham Valuation Tribunal)
- Victoria Park Primary Academy
- Walsall City Academy Trust Limited
- Walsall College Academies Trust (The Mirus Academy)
- Warren Farm Primary School
- West Walsall E-ACT Acdemy
- Westwood Academy
- Whitley Academy
- Windsor High School and Sixth Form
- Wilson Stuart School
- Wolverhampton Homes
- Wood Green Academy
- Woodlands Academy
- Woodlands Academy of Learning
- Woodview School

Participating Employers of the Fund at 31 March 2013

Admitted Bodies

With Active Members

- 4 Towers TMO Limited
- Acivico (Building Consultancy)
- Acivico (Design, Construction and Facilities Management)
- ACUA Limited
- Age Concern Birmingham
- Age Concern Birmingham (VSOP)
- Age Concern Wolverhampton
- Aspen Services Ltd (Gosford Park)
- Aston University
- BID
- Black Country Consortium Limited
- Black Country Museum Trust Limited (The)
- Black Country Partnership NHS Foundation Trust
- Bloomsbury Local Management Organisation Limited
- BME United Limited
- Brownhills Community Association Limited
- Bushbury Hill Estate Management Board Limited
- Chuckery Tenant Management Organisation Limited
- Coventry and Solihull Waste Disposal
- Company Limited (The)
- Coventry Heritage and Arts Trust
- Coventry Law Centre Ltd
- Coventry Sports Trust Limited
- CSW Partnership Limited
- Delves East Estate Management Limited
- Dovecotes TMO
- Edith Cadbury Nursery School
- Family Care Trust
- Friendship Care and Housing Limited (formerly Beechdale)
- Heart of England Care
- Home Start Northfield
- Home Start Stockland Green/Erdington
- Home Start Walsall
- Leamore Residents Association Limited
- Leisure & Community Partnership Limited
- Lieutenancy Services (West Midlands) Limited
- Life Education Centres West Midlands
- Light House Media Centre
- Manor Farm Community Association
- Marketing Birmingham Limited
- Midland Heart Ltd
- Millennium Point Trust
- Museum of British Road Transport Trust (Coventry) Limited
- Murray Hall Community Trust Limited
- Murray Hall Community Trust (Oldbury)
- Murray Hall Community Trust (Rowley)
- Murray Hall Community Trust (Wednesbury)
- Mytime Active
- New Park Village Tenant Management Organisation
- Northern Housing Consortium Limited
- Optima Community Association
- Palfrey Community Association
- Penderels Trust Limited (The)
- Pool Hayes Community Association
- Priory Family Centre
- Riverside Housing Association Limited (formerly Riverside Group Limited)
- Sandwell Arts Trust
- Sandbank Tenant Management Organisation Limited
- Sandwell Community Caring Trust (The)
- Sandwell Community Caring Trust (Sandwell Care Homes)
- Sandwell Inspired Partnership
- Sickle Cell and Thalassaemia Support Project (Wolverhampton)
- Solihull Care Limited
- Solihull Care Trust
- St Columba's Day Care Centre
- Steps to Work (Walsall) Ltd
- Titan Partnership
- University of Warwick
- Voyage Care Ltd (formerly Milbury Community Services)
- Walsall Housing Group Limited
- Watmos Community Homes
- West Midlands Transport Information Services Limited
- Whitefriars Housing Group Limited
- Wildside Activity Centre
- Wolverhampton Grammar School
- Wolverhampton Network Consortium
- Wolverhampton Voluntary Sector Council

Without Active Members

- Adoption Support
- All Saints Haque Centre
- Aquarius Action Projects
- Asian Welfare Centre
- Asian Women's Adhikar Association (AWAAZ)
- Belgrade Theatre Trust (Coventry) Limited
- Bilston and Ettingshall SureStart
- Birmingham and Solihull Connexions Services
- Birmingham and Solihull Learning Exchange (The)
- Birmingham Heartlands Development Corporation
- Black Business in Birmingham
- Black Country Connexions
- Black Country Museum Development Trust (The)
- BXL
- Cannon Hill Trust (now Midlands Arts Council)
- Cerebral Palsy Midlands
- Community Justice National Training Organisation
- Coventry Voluntary Service Council
- CV One Limited
- Druids Heath TMO
- Dudley Zoo Development Trust
- East Birmingham Family Service Unit
- Heath Town Estate Management Board
- Job Change Limited
- Metropolitan Authorities Recruitment Agency (METRA)
- Moseley and District Churches Housing Association Limited
- National Urban Forestry Unit
- National Windows (Homes Improvements) Limited
- Newman College
- Relate
- RM Education
- Sandwell Regeneration Company Limited
- Select Windows (Homes Improvements) Limited
- Serco Limited (Stoke)
- Smethwick Asra Limited
- Solihull Care Trust

Participating Employers of the Fund at 31 March 2013

Solihull Community Caring Trust
South Birmingham Family Services Unit
Springfield/Horseshoe Housing Management Co-operative Ltd
St Basil's Centre
Sunderland ARC Limited
Target Excel plc (Walsall MBC)
The Chris Laws Day Care Centre for Older People
TSB Bank plc (formerly Birmingham Municipal Bank)
University of Birmingham
University of Warwick
Walsall Enterprise Agency Limited
Walsall Regeneration Company Limited
Wednesbury Action Zone
West Bromwich Afro-Caribbean Resource Centre
West Midlands Councils (formerly West Midlands Leaders Board)
West Midlands (West) Valuation Tribunal
West Midlands Examinations Board (The)
West Midlands Local Authorities Employers' Organisation
Wolverhampton Community Safety Partnership
Wolverhampton Development Corporation Limited
Wolverhampton Family Information Service Limited
Wolverhampton Race Equality Council

Transferee Admission Bodies (Best Value)

With Active Members

Action for Children (Smethwick)
Action for Children (West Bromwich)
Agilisys Limited (Rowley/Smethwick)
Alliance in Partnership - Camp Hill
Alliance in Partnership - President Kennedy
Alliance in Partnership - Stoke Park
Amey LG Limited
APCOA Parking (UK) Limited
Balfour Beatty Workplace Limited (Coventry)
BAM Construct UK Limited
Bespoke Cleaning Services Limited
British Telecom plc
Capita IT Services Limited
Creative Support Limited
DRB Yew Tree Primary
Enterprise Managed Services Ltd - Solihull
Enterprise Managed Services (W-ton)
Elite Cleaning and Environmental Services
Harrison Catering Services Ltd
Housing 21
Initial Catering Services Ltd (Smethwick)
Integral UK Limited
KGB Cleaning & Support Services Limited
Lawrence Cleaning Limited (Parkfields)
Leisure Living Limited
Lend Lease Construction (EMEA) Four Dwellings School
Lend Lease Construction (EMEA) Moseley School
Lend Lease Construction (EMEA) Park View School
Lend Lease Construction (EMEA) Stockland Green Broadway School
Lend Lease Construction (EMEA) Waverley School
Lend Lease FM (Broadway School)
Lend Lease FM (EMEA) (George Dixon School)
Lend Lease FM (EMEA) (International School)
Lend Lease FM (EMEA) (Moseley School)
Lend Lease FM (EMEA) (Saltley School)
Mears Group plc
Mitie PFI Limited
Mouchel Limited
NSL Limited
NSL Limited (Solihull)
Premier Security Services Ltd
Premier Support Services (Holy Trinity RC)
Premier Support Services Ltd (Hodge Hill School)
Premier Support Services Ltd (Streetly School)
Premier Support Services Ltd (Trinity RC)
Quadron Services Limited
Regent Office Care Limited (COWAT)
Regent Office Care Limited (Henley College)
Regent Office Care Ltd (Willenhall)
Serco Limited
Service Birmingham Limited
Sodexo Limited
Taylor Shaw (Colton Hills)
Taylor Shaw Limited (COWAT)
Taylor Shaw (Hodge Hill)
Taylor Shaw Limited (St Albans)
Willmott Dixon Partnership Limited (North Contract)
Willmott Dixon Partnership Limited (South Contract)

Without Active Members

Accord Operations (Birmingham)
Alliance in Partnership - Aston
APCOA Parking (UK) Ltd Solihull
AWG Facilities Services Limited
Birmingham Accord Limited
Bovis Lend Lease Management Services
Burrowes Street Tenant Management Organisations Limited
Central Parking Systems
Enterprise (AOL) Limited (Shrewsbury)
Enterprise (AOL) Limited (Shropshire)
Forest Community Association
GF Tomlinson Birmingham Limited
Icare GB Limited
Interserve Project Services Limited (Smethwick Campus)
JDM Accord Limited (Shrewsbury & Atcham)
JDM Accord Limited (Shropshire)
JDM Accord Limited (Tamworth)
JDM Accord Limited (Telford & Wrekin)
Kite Food Services Limited
Liberata UK Limited
Methodist Homes for the Aged
Mitie Cleaning (Midlands) Limited - Birmingham City Council
Mitie Managed Services (S&SW) Limited
Mitie Managed Services (S&SW) Limited - Coventry
Mitie Cleaning (Midlands) Limited - Wednesfield
Mitie Property Services (UK) limited
MLA West Midlands
Morrison Facilities Services Limited
Redcliffe Catering Limited (Aston School)

Participating Employers of the Fund at 31 March 2013

Redcliffe Catering Limited (Bordesley Green Girls Sch)
Redcliffe Catering Limited (Camp Hill School)
Regent Office Care Limited
Regent Office Care Limited (City College)
Regent Office Care Limited (Whitefriars)
Research Machines plc
Revenue Management Services
Service Team Limited
South Warwickshire Tourism Limited
Strand Limited
Superclean Services
Target Excel Plc (Magistrates Courts)
Target Excel Plc (Solihull MBC)
Taylor Shaw Limited (COWAT)
Taylor Shaw Limited (St Albans)
Technology Innovation Centre
Temple Security Limited
Thomas Vale Construction plc
Veolia Environmental Serviced Cleanaway (UK) Limited
Vertex Data Science Limited
Wates Construction Limited (Birmingham)
West Midlands E-Learning Company

Other Major Employers who have Participated in the Fund
Birmingham International Airport Plc
Department of Transport
Department of Health and Social Security
Severn Trent Water Authority
West Midlands Magistrates Courts Committee

Member Training Report

The West Midlands Pension Fund aims to achieve good standards of governance in line with or exceeding best practice, and to further enhance the training and development of elected members in order to meet this aim, introduced a Trustee Training Policy in November 2012.

A major factor in the governance arrangements of the Fund is to ensure that Committee members and officers have the relevant skills and knowledge by applying the CIPFA Knowledge and Skills Framework, which will achieve this objective. Six areas of knowledge and skills have been identified as core technical requirements for those members associated with LGPS pension funds:

- pensions legislation, admission agreements and governance context
- pension accounting and auditing standards
- financial services procurement and relationship management
- investment performance and risk management
- financial markets and products knowledge
- actuarial methods, standards and practices

It is not the intention that members should individually become technical experts, but that collectively they have the ability, knowledge and confidence to question and challenge the information and advice they are given, and to make effective and rational decisions.

Training to members is delivered through various means, including:

- Presentations to Committee
- Internal training events
- Fund events such as the employer AGM and seminars
- Seminars and conferences offered by industry wide bodies, such as the LAPFF annual conference, LGC conferences and NAPF conferences.
- Local, free or low cost seminars and training events offered by the Fund's investment managers and advisors.
- Online training and reading

The elected members meet at least three times per year with local trade union representatives and receive updates on benefit administration changes and actuarial matters. At Committee meetings a wide range of topical issues are embraced, covering asset classes and investment products, the economy and market conditions. Delivery is by investment managers, consultants, investment specialists and senior officers of the West Midlands Pension Fund.

During 2012/2013 the Fund distributed a guide to assist elected representatives, officers, and advisors in the interpretation of investments. This guide was developed and presented in early 2013 and included information on the Fund's current position, plans for the future, an update on current markets and industry and regulatory developments. ESG investing (environmental, socially responsible and governance) is another area of member development and training. The Fund is a member of LAPFF, which is a body consisting of 55 UK public funds that engages with investee companies on issues such as climate change, child labour and breaches of the Combined Code. The Chair of Pensions Committee attends LAPFF meetings and its activities are reported on a quarterly basis to other members of Pensions Committee. LAPFF also advise on other areas including best practice and members receive presentations from managers specialising in ESG investment.

LAPFF holds an annual two-day conference which covers many different topics in addition to those mentioned above of which the Fund's Sub-Committee members attend. Issues addressed at the 2012 conference included:

- Pay reform – what shareholders should do about pay
- Shareholder spring
- People and investment value
- Investor concerns – media standards
- Banks, reputational, ethical crisis and accounting
- Investing in growth – how can local authority pensions contribute to the UK economic recovery?
- The Olympus crisis: what can investors learn?

Details of the training reports and presentations provided to trustees during 2012/2013 are as follows:

The Fund's private equity portfolio – The Carlyle Group The Fund's Strategic Investment Allocation Benchmark – Hymans Robertson	04/07/2012
Voting policy of the Fund – PIRC	17/10/2012
The role of the transition manager – Credit Suisse Management of in-house passive portfolios – David Evans, Portfolio Manager	16/01/2013
Detailed overview of investment strategy, asset classes and future developments (two days) – Hymans Robertson and In-house Team	30/01/2013 and 21/02/2013
Securities Lending – HSBC Global Farmland Funds – Insight investment	03/04/2013

Member Training Report

In summary, the West Midlands Pension Fund invests significant resources into the development of its Committee members, firmly believing that the returns over the long-term are essential to the effective governance and management of the Fund. Overall, the outlined training scheme agreed as part of the Fund's *Business Plan* is show below.

Area	Pensions Committee Reports	Presentation	Sub-Committee Reports	Sub-Committee Presentation	Sub-Committee Conferences/Seminars	Sub-Committee Visits	Off-site Training & Education
Investment governance	✓				LAPFF December Conference	Partial	✓
Investment							
i) Strategies	✓	Occasionally	✓	Occasionally		✓	✓
ii) Asset use	✓			✓	✓		✓
iii) Corporate governance	✓			✓			
iv) Economies	✓	Quarterly		✓	✓		✓
Role of members	✓ (Annual/Website)						

Introduction To The Fund

The Fund's main purpose

- To provide a sustainable and affordable final salary pension to its members, both present and future;
- To provide an effective and efficient service for the members of the Fund.

The aims of the Fund

- To encourage membership;
- To enable employer contribution rates to be kept as stable as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies, having regard to the benefits being paid and those due to be paid at a future date;
- To manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirement which lead to a strain on the Fund;
- To ensure that sufficient resources are available to meet all liabilities as they fall due via maximising returns from investments within reasonable risk parameters;
- To achieve excellent customer care whilst continuing to improve service delivery.

The Issues or Challenges Facing the Fund

i) The affordability of the LGPS, which has various elements:

- Delivering the investment strategy and returns over time that ease the pressure on funding levels;
- Responding to legislation changes in benefits awarded (such as LGPS 2014);
- Monitoring and working to increase membership of the Fund;
- Communicating Fund issues to interested parties;

ii) Demonstrating value for money.

iii) Demonstrating good governance in terms of the arrangements for managing the LGPS in the West Midlands, the individual investment holdings and the decision-making progress.

iv) Responding to the expectations from Government, the public, interested groups, etc. around:

- Corporate company behaviour of the Fund's investments;
- Sustainability;
- Social responsibility;
- Demand for effective and efficient communication and/or access to information;
- Requirement for public organisations to demonstrate efficient delivery of services and value-for-money.

v) Responding to changes in regulation, including investment, corporate governance and administration activities.

The Fund has 261,324 members and 342 Scheme employers as of 31 March 2013. The service aims to provide a quality service delivered cost effectively and within a published timescale. There are three main categories of membership, comprising of actively contributing members (97,330), members who have left employment but who have a deferred entitlement to pension benefits (78,679) and members in receipt of pensions (77,485 including beneficiaries).

A diversified portfolio of assets amounting to £9.8bn is managed primarily in-house by a team of investment professionals, having due regard to risk and return objectives and liability requirements.

Total Scheme members*
261,324

Scheme employers
342

Net assets of the Fund
£9.8bn

Total contributions
£411m

Contributing members
97,330

Deferred members**
78,679

Members in receipt of pension
77,485

*includes unpaid/unclaimed refunds and beneficiaries

**excludes unpaid/unclaimed refunds

Operations Report

Nadine Perrins
Head Of Pensions Administration

Since the last report, we have continued to implement a 'performance culture' ethos into the daily operational activities of the Fund. This year demonstrated how pension administration consistently met its key performance indicators. The focus will now move onwards to consistently improving data quality standards following The Pensions Regulator parameters.

Operational staff completed their professional qualifications in pensions, finance, management and project management (Prince 2) and senior managers similarly concluded a leadership development programme during the period. All of these qualifications are important as they will help assist staff to deliver the new LGPS 2014 regulations and assist all employers (currently 342) in implementing auto-enrolment and to understand their responsibilities, in terms of data exchange, and the changes required to payroll systems for the new regulations.

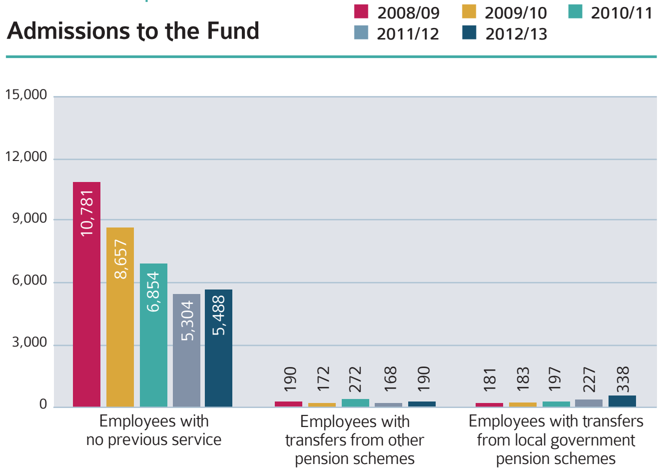
Our performance outturn shows that we have continued to streamlined processes using LEAN systems thinking and have achieved both monetary and capacity savings on the following processes in the last financial year.

As with the previous year, organisations requiring admitted body status to the Fund continued to grow, especially as more schools opt for academy status and authorities continued to outsource certain local government services to the private sector. During the last 12 months, customer services have received 40,871 telephone calls from Scheme members and 1,504 calls using the employer dedicated helpline number, a total of 42,375 calls.

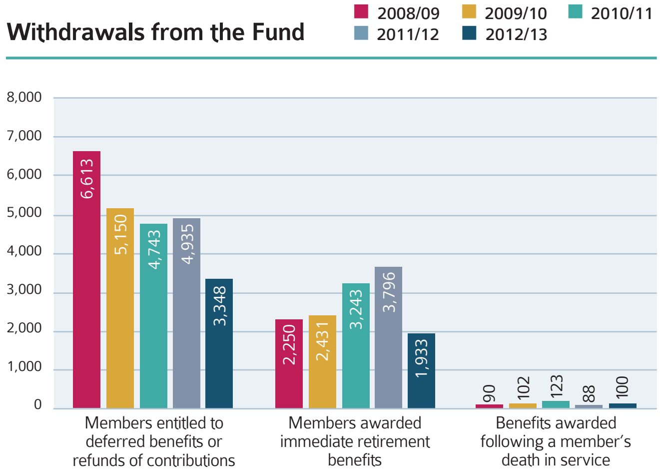
Pensions Committee and JCF receive a quarterly statistical report demonstrating trends and service increases, particularly at notification periods for deferred and annual benefits statements. Fund administration staff continue to focus heavily on the need to cleanse all data being received from employers; this is a vital exercise especially with forthcoming Scheme changes and it reflects concerns about the quality and timeliness of the data provided to the Fund by employers and members. We have developed a pensions administration strategy, which will be updated to incorporate the new key performance indicators. This was discussed with all employers to determine levels of performance both for themselves and the Fund and was highlighted as part of the Fund's first annual general meeting (AGM) in December 2012. The AGM was also used as an opportunity to promote the importance of 'partnership' working relationships at a time when auto-enrolment and the new 2014 regulations mean this is more essential than ever.

Membership Movements

Admissions to the Fund



Withdrawals from the Fund



In terms of the current Scheme, membership has not varied tremendously as the table below denotes; however, as a Fund, we continue to monitor trends, including opt-out patterns, and utilise events, publications and employer engagement to ensure a robust membership for the future and targeted member campaigns.

Since April 2012 the Fund continues to see improvements in longevity as shown in the table on the next page; however, during the year, the Fund has dealt with 150 death-in-service cases. A total of 6,016 members have joined the Scheme since 2012, of which, 338 were employees transferring in from other local government funds and 190 transferred into the Scheme from private schemes or other pension arrangements.

There were 1,933 retirements where members had left LGPS with immediate entitlement to benefits and a further 1,751 benefits were put into payment following the member reaching an age at which a deferred benefit could be bought into payment automatically, or where the member had elected to do so earlier than their normal retirement age.

Operations Report

Nadine Perrins
Head Of Pensions Administration

The Fund also dealt with deferring members who have ceased membership of the Fund before becoming entitled to the payment of immediate benefits. In total, there were 3,348 such cases.

At the Fund, continuous improvement is always a key consideration in our daily operational activities as we aim to work together, and in partnership with our employers, service contractors and partners to put the requirements and expectations of all our customers first in the delivery of our service. We strive to make the complex topic and function of pension administration into a simpler, straightforward service for all our customers. The Fund is committed to this through high team and individual performance as well as:

- providing a pension service in consultation with Scheme members and elected members;
- Working in partnership with all of our employers, using the pensions administration strategy, to provide quality data and working methods that enhance the customer experience;
- and by ensuring that all of our staff are supported through periods of organizational change and developed to a professional standard.

Number of Members

Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Active	0	0	0	830	3,826	6,508	9,027	10,933	16,492	18,960	16,115
Beneficiary	15	65	186	228	47	10	17	31	100	235	406
Deferred	0	0	0	137	2,258	5,564	6,953	8,823	12,960	15,177	13,134
Deferred ex-spouse	0	0	0	0	0	0	0	7	23	52	41
Pensioner deferred	0	0	0	0	0	0	0	0	1	2	1
Pensioner	0	0	0	0	0	2	5	28	137	431	1252
Pensioner ex-spouse	0	0	0	0	0	0	0	0	0	0	0
Preserved refund	0	0	0	4	117	413	788	982	1,408	1,605	1,226
	15	**65**	**186**	**1,199**	**6,248**	**12,497**	**16,790**	**20,804**	**31,121**	**36,462**	**32,175**

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Active	10,128	3,799	609	101	2	0	0	0	0	0	**97,330**
Beneficiary	636	969	1,374	1,651	1,802	1,675	1,018	475	73	11	**11,024**
Deferred	11,011	2,167	110	39	70	63	34	3	0	0	**78,503**
Deferred ex-spouse	34	10	0	0	0	0	0	0	0	0	**167**
Pensioner deferred	4	1	0	0	0	0	0	0	0	0	**9**
Pensioner	6,586	17,650	15,319	10,454	7,271	4,524	2,103	570	98	4	**66,434**
Pensioner ex-spouse	1	12	8	2	2	2	0	0	0	0	**27**
Preserved refund	898	217	46	35	40	14	29	6	2	0	**7,830**
	29,298	**24,825**	**17,466**	**12,282**	**9,187**	**6,278**	**3,184**	**1,054**	**173**	**15**	**261,324**

Key Membership Statistics

Year	Active	Deferred	Preserved refunds	Pensioner	Beneficiary	Totals
31 March 2009	108,224	62,472	8,311	53,576	10,264	242,847
31 March 2010	104,612	69,605	8,181	56,433	10,438	249,269
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31 March 2013	97,330	78,679	7,830	66,461	11,024	261,324

Active members
The Fund has a total active membership of 97,330. Since 31 March 2012, the number of contributing employees in membership has increased by 1,852

Deferred members
These are former contributors who have left their pension rights with the Fund until they become payable at normal retirement date.

Pensioner members
Pensions and other benefits amounting to £445m each year are paid to retired members.

Financial Services Report

Julie Gibson
Member Services Manager

The primary functions performed by the Financial Services division are the payment of pensions, the collection of employer and employee contributions and day-to-day accounting for the Fund.

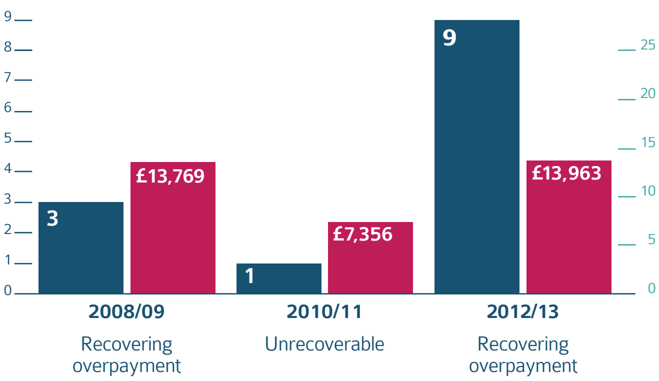
The administration and payroll computer system is used to pay £445 million per year to over 77,000 pensioner and beneficiary members. The number of members being paid has increased by 2.91% in the year, which reflects the continued consequences of employer staffing reductions and increased longevity of existing members.

The Fund continues to seek to minimise, and recover, where appropriate, any overpayments made to members. The majority of these cases arise from late notification of a member's death.

Year	Pension overpayment	% of gross pension
2008/09	£143,897.04	0.06%
2009/10	£114,321.45	0.04%
2010/11	£118,864.39	0.04%
2011/12	£182,531.21	0.06%
2012/13	£168,539.52	0.05%

The service is also responsible for the Fund's participation in the National Fraud Initiative, which is a biennial process undertaken in conjunction with the Audit Commission. Data has been analysed for the year 2011/12 and the necessary recoveries, arising from identified overpayments are being pursued. The results from the previous years are shown in the following table:

NFI results



Basic contributions to the Fund of £411 million were collected in the year.

In response to the need for more complex administration of contributions receivable, arising from the triennial valuation process, work has been undertaken to adjust the control structures used to ensure that all contributions due are collected by their required dates.

Communications Report

Antony Ellis
Communications Officer

During 2012/2013, the Fund continued to innovate in the ways in which to communicate with our stakeholders. The Fund is required to have a formal communications policy by the Scheme's rules. This policy currently sets out the following:

- How the Fund communicates with its stakeholders
- The format, frequency and method of communication
- How the Fund promotes the LGPS to prospective members and employers

The Fund revises the *Communications Policy Statement* annually, with it being formally agreed by the Pensions Committee every two years to ensure it reflects the wishes of the members and utilises any available advancements in technology.

The primary communication and marketing activity is to educate and inform members in relation to the LGPS and the options available by virtue of their membership. Within the past year, work has commenced to educate our members and employers about the changes to the Scheme brought about by changes to the Scheme from 1 April 2014, but also with other legislative changes including automatic enrolment. This education has been completed by various methods, including enclosures in benefit statements, tailored briefing notes to one-to-one meetings, roadshows and events.

We also ensure that all paper documentation forwarded to members is available on our website wmpfonline.com.

The Fund's website received 32,704 visits in the period from 1 April 2012 to 31 March 2013, which is an increase from 27,531 for the financial year 2011/2012.

Much of the increase in traffic on the website was of a result of the Fund's successful pilot of its self-service web portal facility which allows employers and members of the West Midlands Pension Fund to complete pensions tasks securely online, where previously they'd have had to send paper requests to the Fund's offices.

Work on retirement planning events continued throughout the year with many successful sessions held in the West Midlands area. Following requests by members, the events were rotated around the area during the period, with new venues being sought to access hard-to-reach groups or areas. With the content remaining largely the same, the opportunity has been taken to also provide an update to the recent 2014 LGPS developments. The events now cover the following:

- LGPS and the benefits it provides
- Tax tips
- The 2014 LGPS

The Fund will continue to further enhance these events over coming months, along with other communication material which will benefit members regarding the intended changes in 2014 and protections in place for members already in the LGPS.

In the past financial year, in December 2012, the Fund hosted its first annual general meeting. The event was part of the increased employer engagement that we have been promoting. The AGM included presentations on topics including the actuarial valuation, LGPS 2014, and included the chance for employers to get 'hands-on' with the web portal and request registration, of which over 70 employers now use the site on a regular basis.

Building on the success of the web portal and electronic briefing notes issued to employers, the Fund hopes to drive further electronic communication in the coming months as we believe swift and efficient dialogue between the Fund and our customers is an expectation now and for the future.

Investment Policy And Performance Report

Investment Strategy

Following the unprecedented market turmoil of 2008, the Pensions Committee approved a new benchmark in January 2009. The revised investment strategy quantified the investment risks being taken by the Fund and designed a benchmark that best balanced the risk and likelihood of improving the funding position over the medium to long-term. Essentially, it was a continuation of the process of diversification which had evolved from the 2004 and 2007 actuarial reviews.

Adjustments to the benchmark were made in 2011 and 2012. In 2012, the fixed interest allocation (20%) was split into stabilising (10%) and return seeking (10%) segments. The Fund's actual allocation as at 31 March 2013 is shown below, compared with the strategic risk bands agreed by the Pensions Committee:

Asset Allocation

Portfolio	Strategic risk bands %	Closing levels %	Closing market value £m
UK equities		9.9	970
Global equities		5.0	494
Total overseas equities		27.9	2,741
North America		9.6	943
Continental Europe		5.9	576
Pacific ex Japan		4.3	425
Japan		1.9	188
Emerging markets		6.2	609
Private equity		12.6	1,232
Total equities	**45.0-65.0**	**55.4**	**5,437**
UK gilts		2.0	197
Specialist fixed interest		3.3	321
Index linked gilts		6.8	664
Corporate bonds		4.8	473
Emerging market debt		3.3	325
Cash		3.3	325
Total fixed interest	**15.0-25.0**	**23.5**	**2,305**
Property		8.6	838
Absolute return		7.1	699
Infrastructure		3.3	326
Commodities		2.1	207
Total complementary	**20.0-30.0**	**21.1**	**2,070**
Total non-equities	**35.0-55.0**	**44.6**	**4,375**
Total	**-**	**100.0**	**9,812**

Trading activity was steady as the Fund's advisors, Hymans Robertson, continued their review of the Fund's Strategic Investment Allocation Benchmark (SIAB). All main asset classes closed within their wider strategic risk bands. The asset allocation continues to be monitored on a regular basis and the Committee is advised on a quarterly basis of any significant changes.

Cash Flow

Overall, the Fund is still cash flow positive with some £120m of new money becoming available for investment during 2012/13: £137m from investment income together with net outflows of £17m, made up of income received from contributions, net income from transfer values and all payments from the Fund, principally in respect of pensions and benefits.

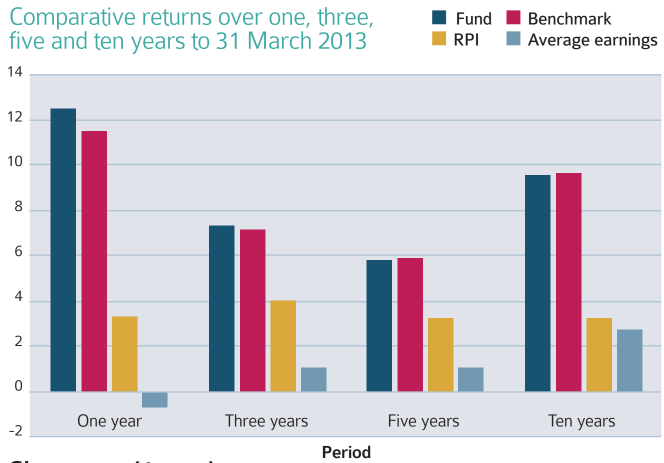
	Market value 31 March 2013 £m	£m	Net investment 2012/13 £m
UK equities	970		33
Overseas equities	2,741		44
Global equities	494		4
Private equity	1,232		-
Total equities		**5,437**	**81**
UK gilts & other fixed interest	518		-
Index-linked gilts	664		-
Non-government bonds	473		9
Emerging market debt	325		-
Cash	325		(24)
Total fixed interest		**2,305**	**(15)**
Property	838		51
Absolute return strategies	699		-
Other complementary investments*	533		3
Total complementary		**2,070**	**54**
Total		**9,812**	**120**

**other complementary investments include commodities, and infrastructure*

Investment Performance

The Fund's annualised returns over one, three, five and ten years compared to the benchmark, retail prices index (RPI) and average earnings are illustrated in the chart shown below.

Comparative returns over one, three, five and ten years to 31 March 2013



Short-term (1 year)

The Fund delivered a return of 12.4%, ahead of its bespoke benchmark of 11.5%. Relative outperformance was achieved in the equities, absolute return and property portfolios.

Investment Policy And Performance Report

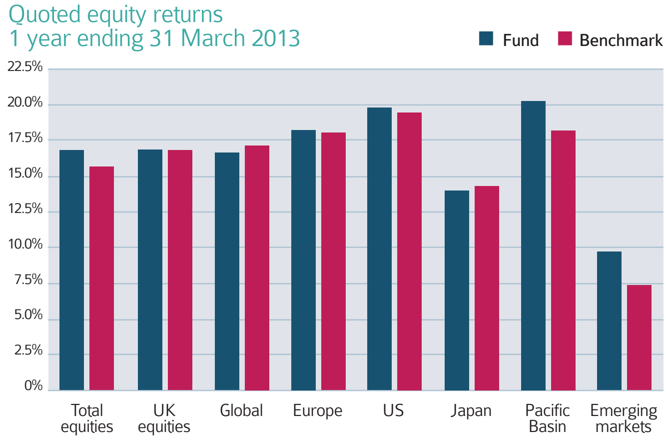
Medium-term (3 years)
A positive return of 7.3% per annum was achieved over the medium term by the Fund outperforming its bespoke benchmark return of 7.1% by 0.2%. This was mainly due to stronger returns from UK and overseas equity portfolios.

Long-term (10 years)
The Fund's long-term performance of 9.52% per annum is slightly below the benchmark of 9.64%, but remains comfortably ahead of increases in RPI and average earnings.

The returns of the different asset classes of the Fund for the year ended 31 March 2013 are detailed in the table below.

Quoted Equities

Quoted equity returns
1 year ending 31 March 2013

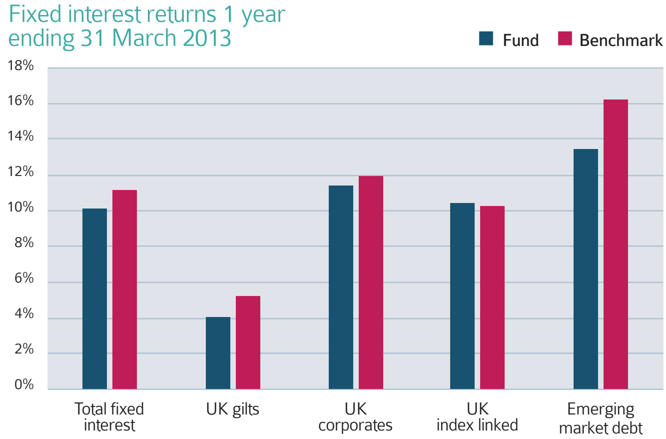


The Fund's quoted equities portfolios benefited from the overall rally within equity markets, delivering a return of 16.8% over the year. Initial concerns over the eurozone sovereign debt crisis receded as the European Central Bank announced plans for large-scale bond purchases. Performance in the US was driven by strong economic data and a partial resolution to the fiscal cliff while markets in Japan benefitted from the election of prime minister Shinzō Abe and his plans for more aggressive stimulus measures.

Relative outperformance was notably strong in the emerging markets portfolio; however, a number of externally managed funds within the global and European portfolios were redeemed because of persistent underperformance.

Fixed Interest Returns

Fixed interest returns 1 year
ending 31 March 2013

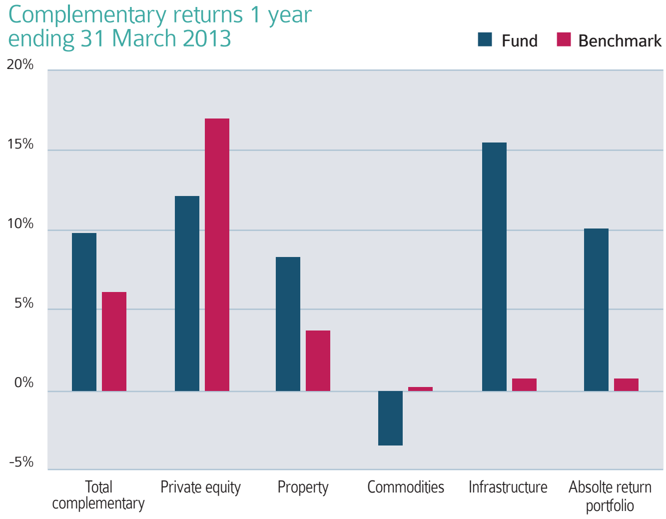


During the year ending 31 March 2013, fixed interest markets were once again dominated by uncertainty surrounding the eurozone area. A rally in the gilt market part way through the year was not sustained as positive sentiment returned to risk markets causing a sell off in gilts and a narrowing of credit spreads. The competing forces of high inflation and a challenging economic environment continued to create volatility in the UK market, and investing in gilts remained challenging as yields fell towards historically low levels. Concerns over Cyprus in March saw a return to risk aversion and gilts once again rallied. UK inflation as measured by the consumer prices index (CPI) began the year at 3.5% and fell steadily to 2.2% by September before rising again to reach 2.8% at the year-end. The Bank of England maintained the base rate at 0.5% for the whole of the year. The asset purchase program, Quantitative Easing, (QE) has reached £375bn with the possibility of more to come in 2013-14 following the appointment of Mark Carney as the new governor.

Positive returns were achieved across the range of fixed interest sectors with emerging market debt performing particularly strongly, returning 13.5%. Despite this performance the sector underperformed its benchmark by 2.7% due to poor country selection by two of the external fund managers. Conventional UK gilts was the worst performing sector, but still managed a positive return of 4.1%. The fund underperformed its benchmark by 1.2% due to overweight position in short dated gilts which in turn underperformed the broader All Stocks Index.

Complementary Returns

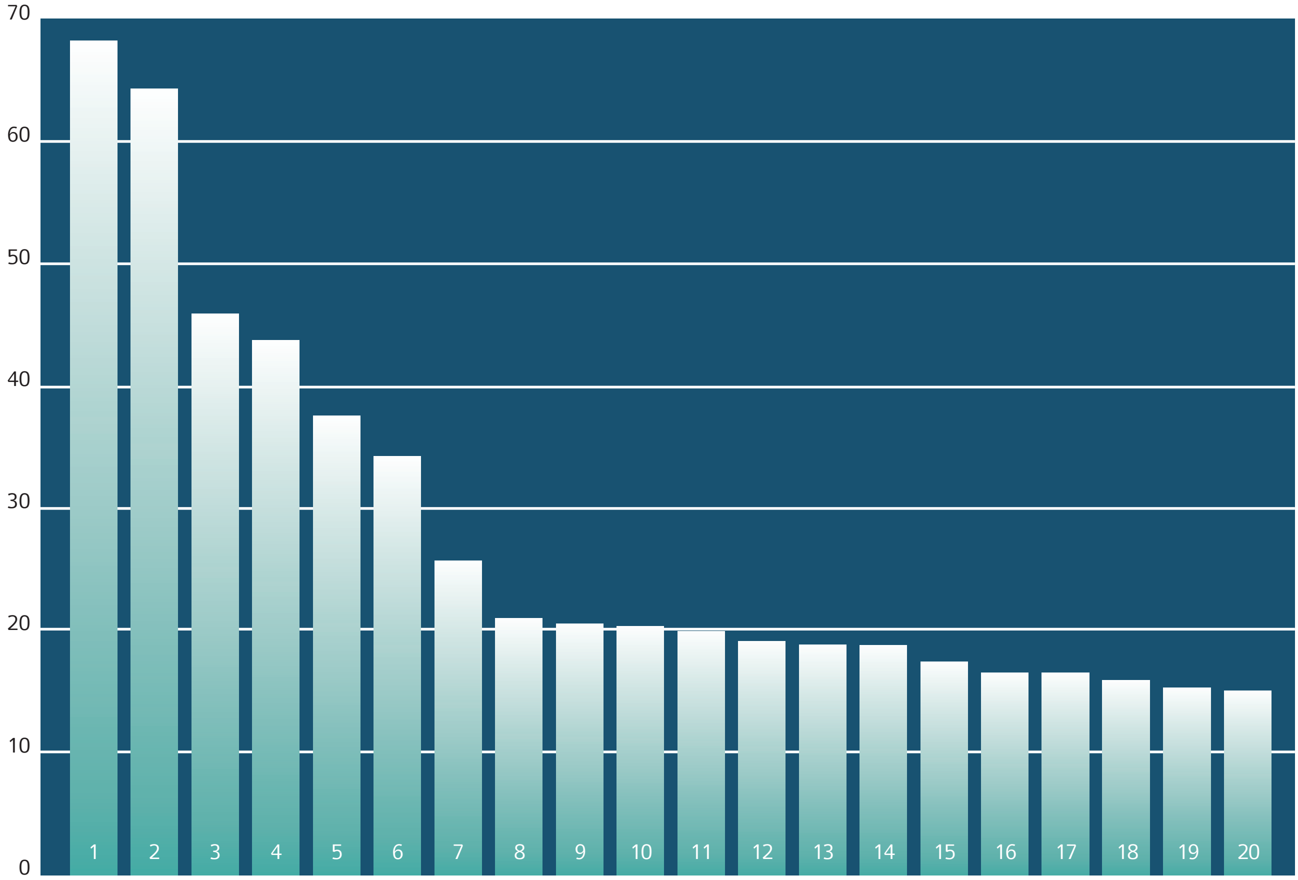
Complementary returns 1 year
ending 31 March 2013



There was mixed performance from complementary assets over the 12 months to 31 March 2013. Infrastructure was the best performing asset class returning 15.4% with notable contributions from several funds. Strong returns from the distressed credit funds underpinned the performance in the absolute returns portfolio which returned 10.0% for the year. Private equity increased by 12.1% for the year against the benchmark return of 16.9%. Performance was affected by the strong US dollar and valuations lagged the recovery in the US stock market. Property returned 8.2% for the year against a benchmark return of 3.6% as global real estate markets continued to recover. Commodities were again the worst performing asset class, resulting in a loss of 3.4% against a benchmark gain of 0.1%.

Top Twenty Equity Holdings

at 31 March 2013

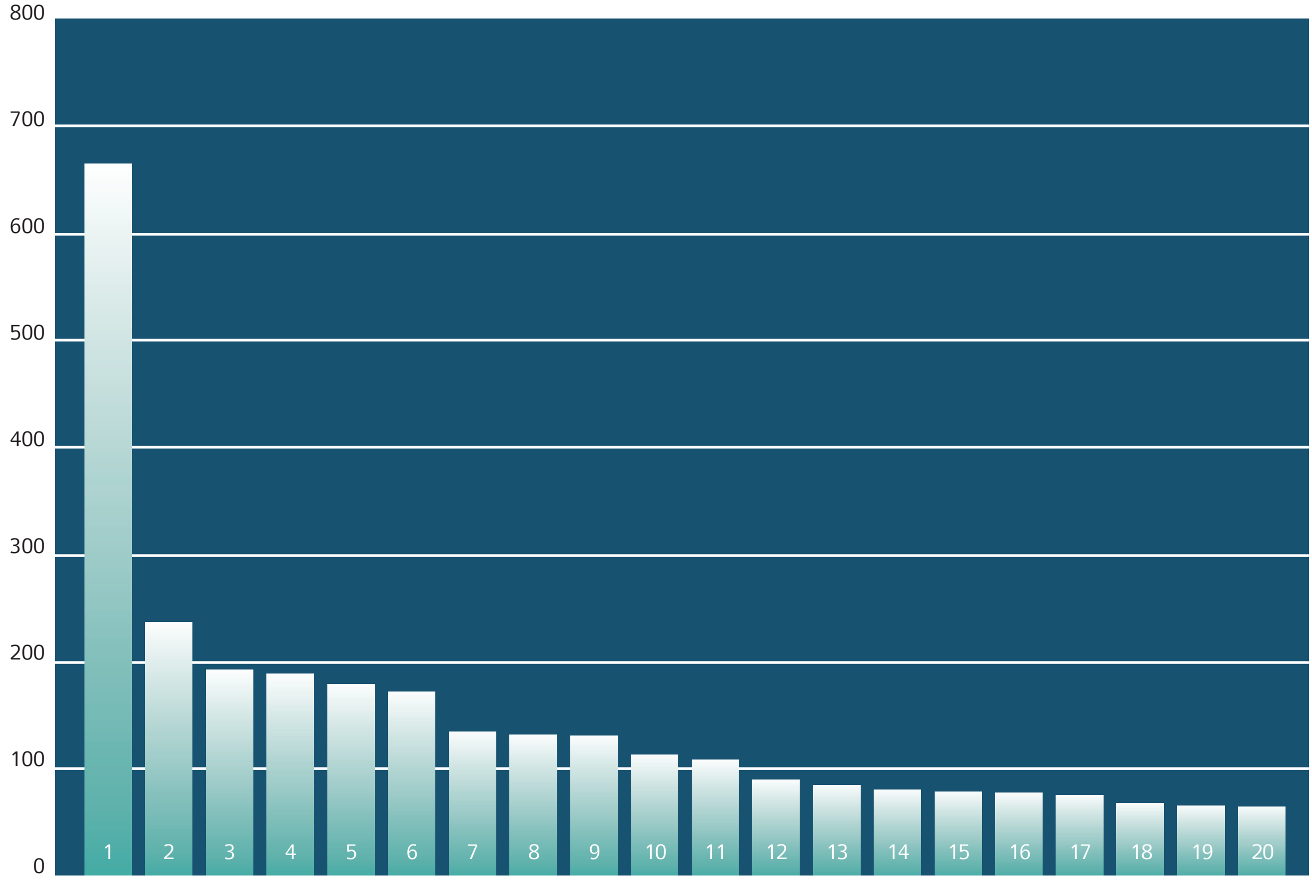


No.	Constituent name	Fund value GBP £m	% of Fund
1	Royal Dutch Shell	68.2	0.70
2	HSBC	64.4	0.66
3	Vodafone Group	45.9	0.47
4	BP	43.7	0.45
5	GlaxoSmithkline	37.7	0.38
6	British American Tobacco	34.2	0.35
7	Diageo	26.0	0.26
8	Apple Inc.	21.0	0.21
9	AstraZeneca	20.6	0.21
10	Exxon Mobil Corporation	20.5	0.21

No.	Constituent name	Fund value GBP £m	% of Fund
11	BHP Billiton	20.1	0.20
12	Rio Tinto	19.1	0.19
13	BG Group	18.9	0.19
14	Barclays	18.8	0.19
15	Nestle	17.7	0.18
16	Unilever	16.7	0.17
17	Standard Chartered Bk	16.7	0.17
18	SABMiller	16.1	0.16
19	Tesco	15.3	0.16
20	Reckitt Benckiser	15.1	0.15

Top Twenty Indirect Holdings

at 31 March 2013



No.	Constituent name	Fund value GBP £m	% of Fund
1	Legal & General - All Stocks Index Linked Gilts Fund	663.9	6.77
2	Schroder All Maturities Bond Fund	237.5	2.42
3	Blackrock Ascent Life European Equity Fund	193.3	1.97
4	MFS Global Equity Fund	190.4	1.94
5	Blackrock Global Composite Fund	178.8	1.82
6	Royal London Asset Management Corporate Bonds	173.9	1.77
7	Legal & General - All Stocks Index Fund	135.6	1.38
8	Aberdeen Emerging Markets Fund	132.5	1.35
9	Intech Equity Fund	131.1	1.34
10	Templeton Emerging Markets Investment Trust	113.9	1.16

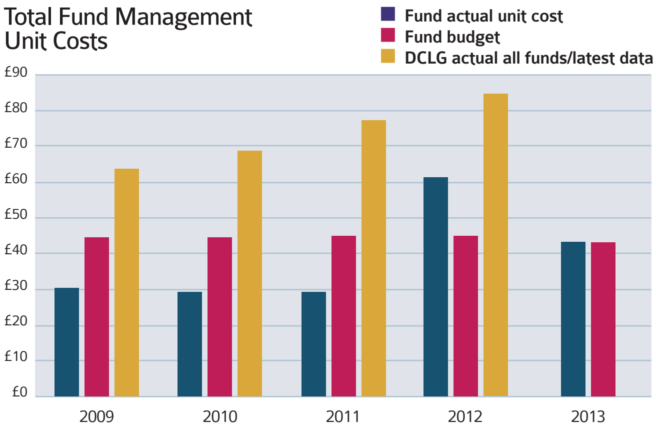
No.	Constituent name	Fund value GBP £m	% of Fund
11	Ashmore Emerging Markets Liquid Investment Portfolio	108.8	1.11
12	Schroders Emerging Markets Fund (Guernsey)	89.9	0.92
13	Capital International Emerging Markets Fund	85.1	0.87
14	Legal & General Overseas Bond Fund	81.3	0.83
15	Capital International Partners Emerging Market Debt Fund	78.9	0.80
16	CF Ruffer Total Return Fund	78.5	0.80
17	Pioneer Emerging Market Debt Fund	75.5	0.77
18	Emerging Markets Strategic Fund	66.5	0.68
19	Pictet Emerging Markets Fund	65.9	0.67
20	Aspect Diversified Fund	65.5	0.67

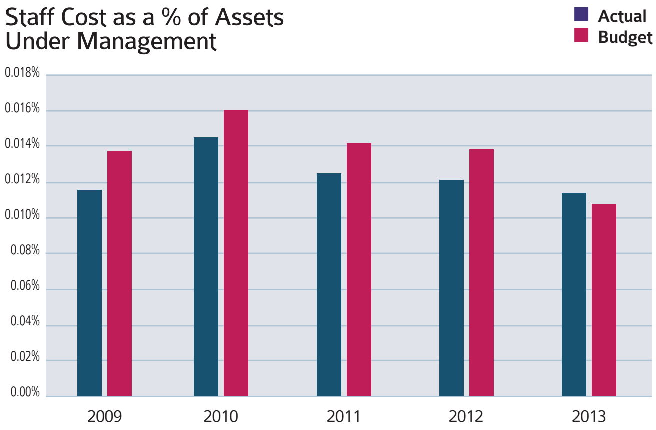
The following investments represent more than 5% of the net assets of the Scheme:

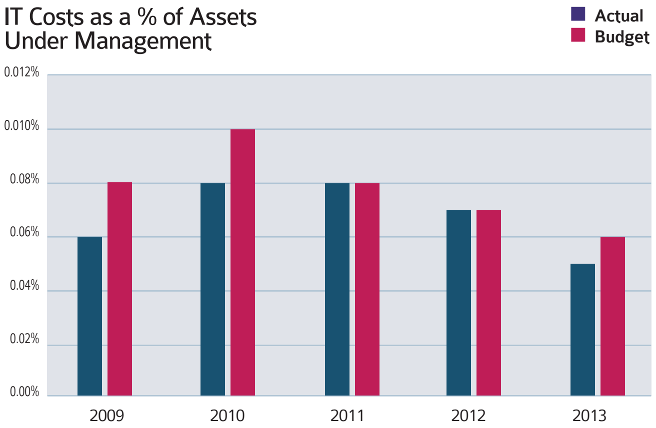
31 March 2012 Market value	31 March 2012 % of total market value	Security	31 March 2013 Market value	31 March 2013 % of total market value
512.6	5.8	Legal & General - All Stocks Index-Linked Gilts Fund	664.0	6.8

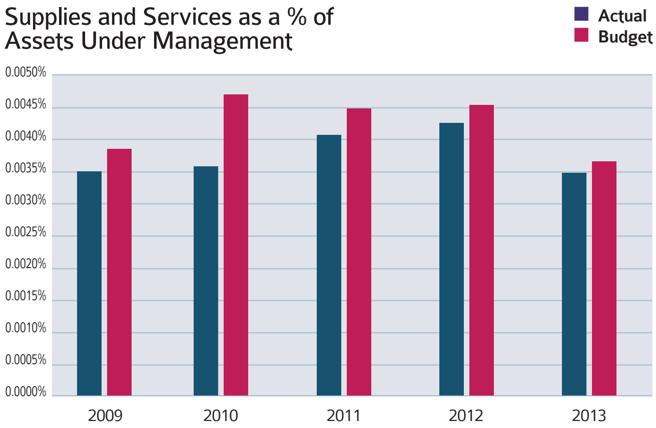
Overall Fund Statistical Information

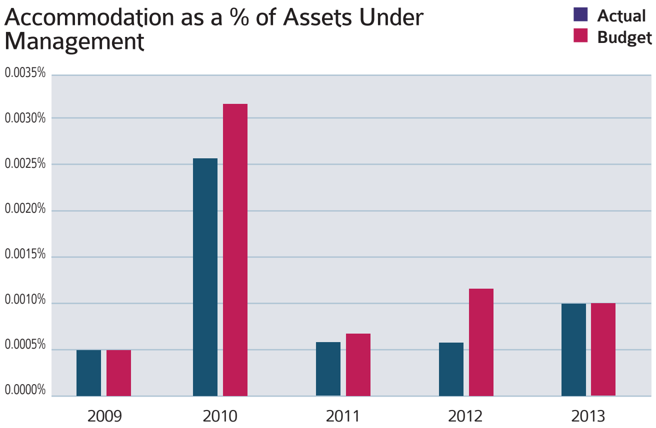
Fund Management Unit Costs as a % of Assets Under Management 2012/2013





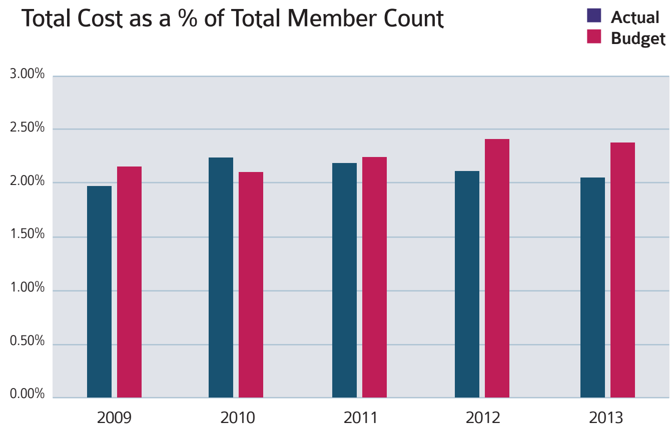


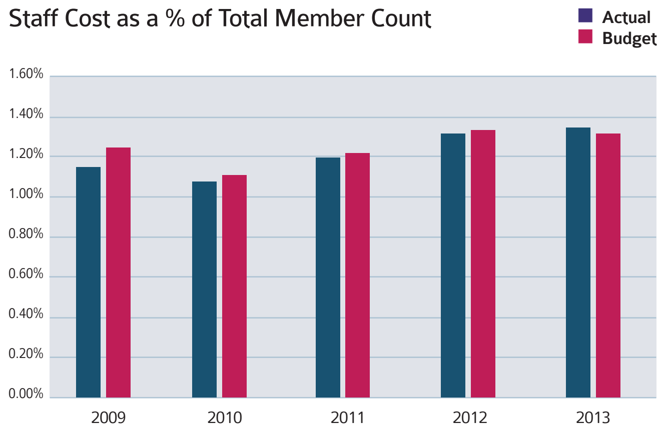


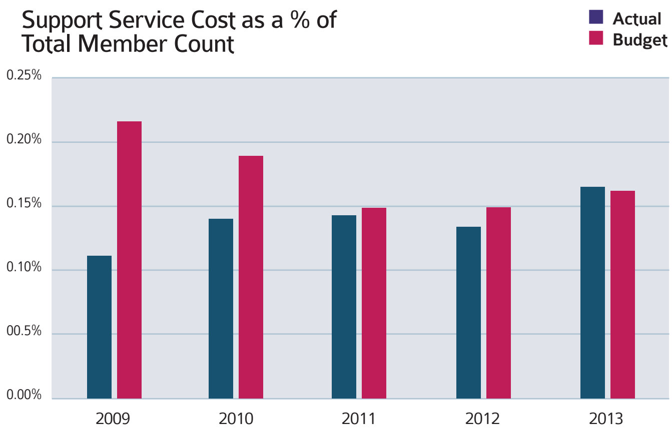


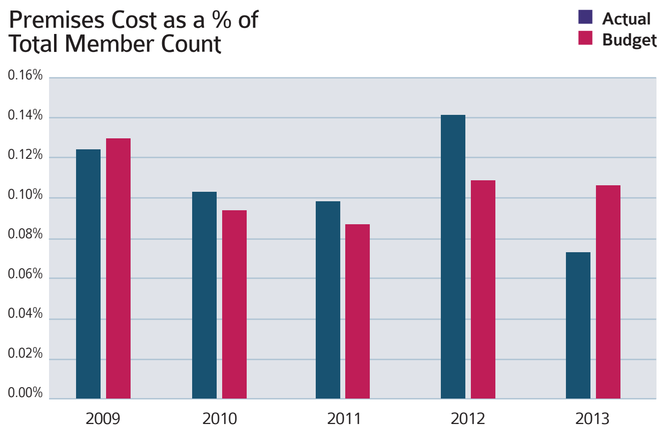
Overall Fund Statistical Information

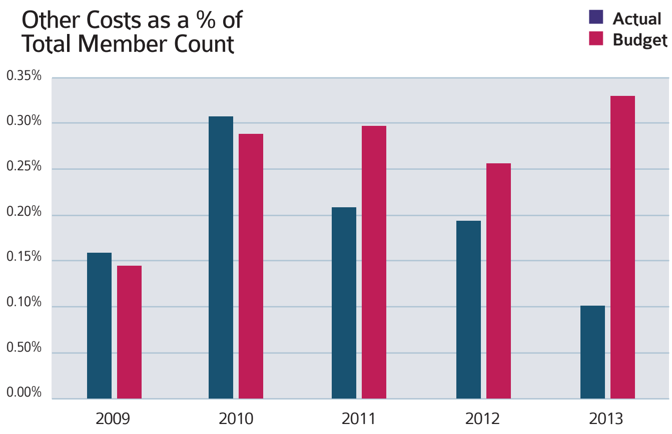
Benefit Operations Costs as a % of Total Member Costs 2012/2013

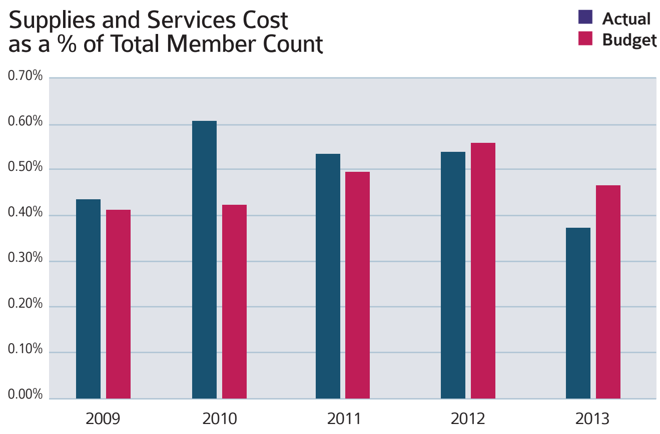












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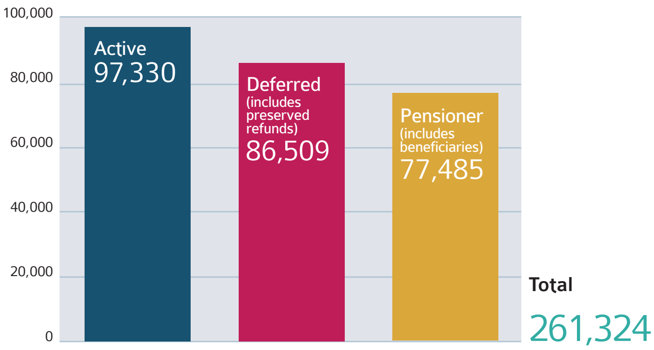
Benefit Operations Staff/Fund Member Ratios



Average Cases per Member of Benefits Operations Staff

Number of processes

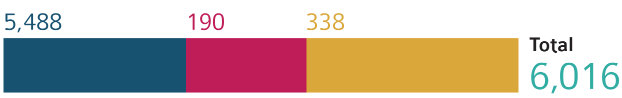
Processes outstanding as at 31 March 2012	Processes completed 2012/13	Processes outstanding as at 31 March 2013
12,861	133,311	14,989

Average processes per member of staff

Processes outstanding as at 31 March 2012	Processes completed 2012/13	Processes outstanding as at 31 March 2013
135	1,234	139

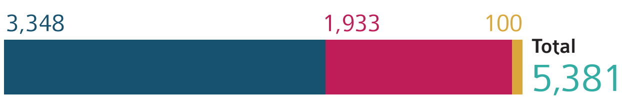
Benefit Operations Membership Movement

Member Movements During the Year - Admissions to the Fund



- Employees with no previous service
- Employees with transfers from other pension schemes
- Employees with transfers from other local government pension schemes

Withdrawals from the Fund



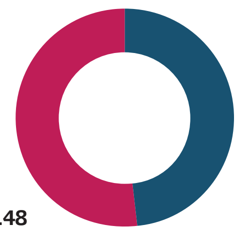
- Members entitled to deferred benefits, etc.
- Members awarded immediate retirement benefits
- Benefits awarded following a member's death in service

Complaints - Number of Complaints

The number of complaints processes started in 2012/2013: 22

Comparison of Operating Costs with Other Funds

CIPFA provide an annual benchmarking service for LGPS funds who choose to participate in their CIPFA Pensions Club. The 2012/2013 analysis provides a comparison of member service costs per Scheme member, with the full set of participating funds.



West Midlands Pension Fund	**£20.48**
Latest full CIPFA Club average	**£21.42**

Large urban area funds have similar costs to West Midlands Pension Fund.

Overall Fund Statistical Information

Number of Members

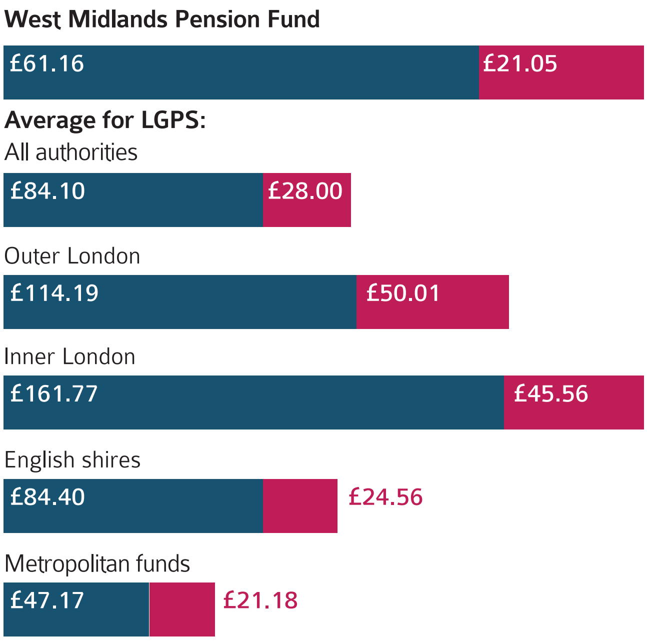
Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Active	0	0	0	830	3,826	6,508	9,027	10,933	16,492	18,960	16,115
Beneficiary	15	65	186	228	47	10	17	31	100	235	406
Deferred	0	0	0	137	2,258	5,564	6,953	8,823	12,960	15,177	13,134
Deferred ex-spouse	0	0	0	0	0	0	0	7	23	52	41
Pensioner deferred	0	0	0	0	0	0	0	0	1	2	1
Pensioner	0	0	0	0	0	2	5	28	137	431	1252
Pensioner ex-spouse	0	0	0	0	0	0	0	0	0	0	0
Preserved refund	0	0	0	4	117	413	788	982	1,408	1,605	1,226
	15	**65**	**186**	**1,199**	**6,248**	**12,497**	**16,790**	**20,804**	**31,121**	**36,462**	**32,175**

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Active	10,128	3,799	609	101	2	0	0	0	0	0	**97,330**
Beneficiary	636	969	1,374	1,651	1,802	1,675	1,018	475	73	11	**11,024**
Deferred	11,011	2,167	110	39	70	63	34	3	0	0	**78,503**
Deferred ex-spouse	34	10	0	0	0	0	0	0	0	0	**167**
Pensioner deferred	4	1	0	0	0	0	0	0	0	0	**9**
Pensioner	6,586	17,650	15,319	10,454	7,271	4,524	2,103	570	98	4	**66,434**
Pensioner ex-spouse	1	12	8	2	2	2	0	0	0	0	**27**
Preserved refund	898	217	46	35	40	14	29	6	2	0	**7,830**
	29,298	**24,825**	**17,466**	**12,282**	**9,187**	**6,278**	**3,184**	**1,054**	**173**	**15**	**261,324**

Comparisons of Operating Costs With Other Funds

The government collects information from all LGPS funds – on their administration and fund management costs – on a yearly basis. The latest figures for 2011/2012 and these show the following comparison:

- Fund management (£ per Scheme member)
- Administration costs (£ per Scheme member)



Internal Dispute Resolution Procedure (IDRP)

During the financial year 2012/2013, nine cases were received.

Of these cases, six were non-medical matters and three related to ill-health matters. The latter cases were referred for independent medical opinion where appropriate.

In total, one case was upheld and eight were dismissed.

Overall Fund Statistical Information

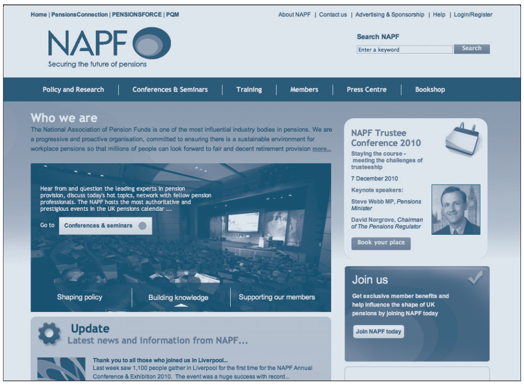
Management Performance - Number and Trend of Top Ten Case Types

Processes commenced in 2012/13...	...of which, processes completed in 2012/13	...of which, outstanding processes at 31 March 2013	Commenced and completed in the period 2012/13
Joiner processes commenced in 2012/13... 11,157	10,411	746	93%
Refund processes commenced in 2012/13... 222	188	34	85%
Retirement processes commenced in 2012/13... 2,105	2,070	35	98%
Deferment processes commenced in 2012/13... 5,790	4,644	1,146	80%
Deferred retirement processes commenced in 2012/13... 1,751	1,722	29	98%
Death-in-service processes commenced in 2012/13... 150	108	42	72%
Death in deferment processes commenced in 2012/13... 165	120	45	73%
Death in retirement processes commenced in 2012/13... 2,228	1,860	368	83%
Maintain member data processes commenced in 2012/13... 18,456	17,903	553	97%
Change of address and/or bank processes commenced in 2012/13... 8,904	8,885	19	99%

Overall Fund Statistical Information

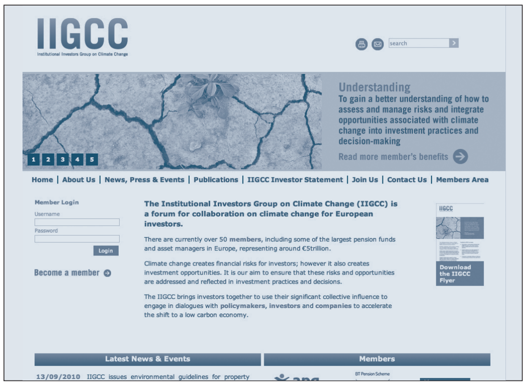
List of Bodies of Which the Fund is a Member:

National Association of Pension Funds (NAPF)



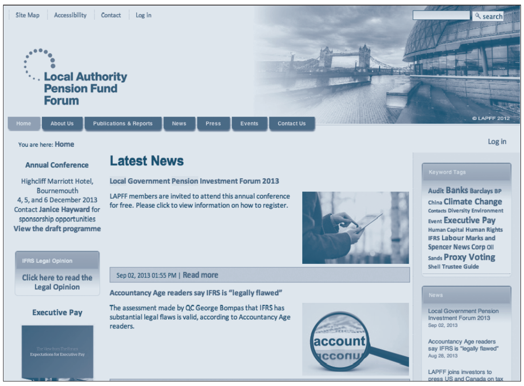
The National Association of Pension Funds (NAPF) seek to influence the outcome of, and proactively shape, UK pension policy to achieve a viable and sustainable workplace pensions sector that instils public confidence. This means for a fair and affordable pensions system and an environment that encourages good workplace pensions.

Institutional Investors Group on Climate Change (IIGCC)



The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. The IIGCC brings investors together to use their significant collective influence to engage in dialogues with policymakers, investors and companies to accelerate the shift to a low carbon economy.

Local Authority Pension Fund Forum (LAPFF)

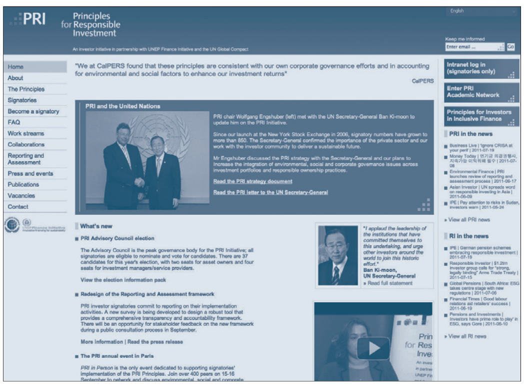


The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

Hedge Funds Standards Board (HFSB) – (www.hfsb.org)

The Hedge Fund Standards Board (HFSB) is the guardian of the Standards drawn up by international investors and hedge fund managers to create a framework of discipline for the hedge fund industry. The Standards serve the interests of all market participants and of the economy at large.

United Nations Principles for Responsible Investment (UNPRI)



The United Nations-backed Principles for Responsible Investment Initiative (PRI) is a network of international investors working together to put the six Principles for Responsible Investment into practice.

Risk Management

The Fund has to manage a wide range of risks and evaluate how this will be achieved. It is done through regular review, analysis, effective controls and management action, both proactive and reactive.

The Fund's objectives are achieved through a risk management framework.

The key elements are:

- Annual risk management review involving senior officers and use of a detailed template designed to cover all significant Fund activities. This is supported by the work of internal audit and specialist expertise engaged regularly in respect of operational investment risks supported by the use of the compliance testing programme.
- The external audit of the Fund's accounts and activities through experienced private sector staff supported by experienced pension partners combined with an actuarial expertise.
- Analysis of key processes enabling appropriate internal control procedures to be developed and maintained.
- A robust process for developing, monitoring and managing the investment strategy, and associated risk budget.

A key element to risk management is the structured delegation of powers from the Council to the Pensions Committee and then to the Director of Pensions, supported by senior officers. To complement the delegation, there is an extensive and detailed accountability back to committee on how these delegations have been exercised on a regular basis, with the Director submitting an Annual Assurance report. The purpose of the Annual Report is to demonstrate that the Fund meets its objectives, is adequately resourced, managed to high professional standards, meets legislative requirements and best practices (when appropriate) and has high customer service functions satisfaction. In particular, risk management arrangements are robust and the reports to Pensions Committee have given that assurance.

Investment risk is potentially significant and recognised as falling into distinct areas: market risk (beta) and manager skill (alpha). The structure of the investment strategy reflects this and is designed with the support of external expert advice.

Details are contained in the Investment Strategy, Statement of Investment Principles and the Funding Strategy Statement. The operational management of the investment strategy is covered by a compliance testing programme, designed with the help of Deloitte, leading to quarterly reports to the Pensions Committee. This provides continual monitoring and review of investment activity and associated risks. In addition, Deloitte also review the compliance testing programmes. The Fund's approach to risk is dynamic, hence the investment strategy was subject to a major review in January 2009 by the Investment Sub-Committee in response to the unprecedented market turmoil of 2008, and a further revision in April 2011 to complete the phased implementation.

The investment strategy is monitored weekly by officers, enabling appropriate corrective action to be taken if deemed necessary. A quarterly report is submitted to the Investment Sub-Committee on the current asset allocation relative to the benchmark and the actions taken during the quarter to implement the Pensions Committee's investment policy. Any positions outside the short term TAA and strategic risk ranges are reported and explained. The risks associated with the operational payment of benefits and recording of pensioner records produces a complex set of risks, which are mitigated with the use of an IT system that is thoroughly and regularly tested, combined with the technical hierarchy checking of output by pension staff.

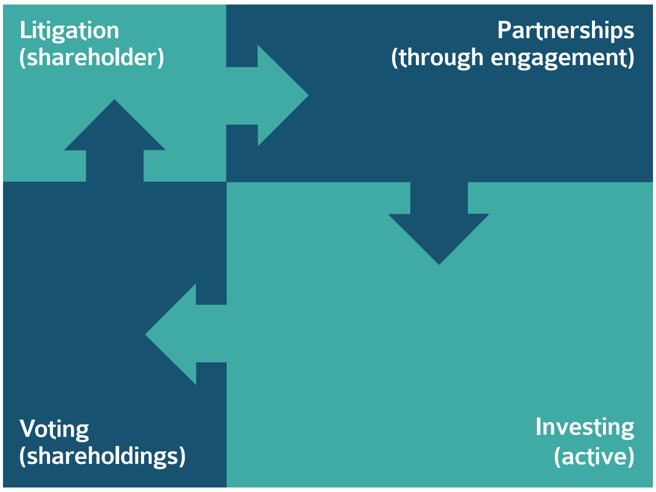
It is recognised that Fund services are very dependent upon third party contracts ranging from IT through to investment managers. All are subject to regular review and monitoring, with compliance visits targeted at the more significant risk areas.

Corporate Social Responsibility & Corporate Governance

The Fund's ethos is that corporate governance is not something to be separately considered, but is mainstream and integral to its overall investment strategy.

There are essentially four elements to the Fund's approach. Each one can be undertaken separately, though are most effective when combined, representing best practice:

ESG Best Practice



Although the Fund believes that litigation, engagement through partnerships and active investing are all essential elements of the corporate governance process, it acknowledges that global voting is a particularly effective tool being transparent, simple and in the public domain.

In 1999, the Fund began to exercise its right to vote at UK shareholder meetings and in the years since has expanded this to include voting all equity holdings in the US, Europe, Japan and the Pacific region. During the 12 months ending March 2013, the Fund voted globally at over 1,700 company meetings opposing more than 28% of all resolutions.

The overall analysis of the Fund's voting at UK meetings for the 12 months ending March 2013 is as follows:

	Number of UK AGMs	**% of total Fund oppose votes**
AGMs in total	345	
Voted in favour of all resolutions	3	
Voted against in respect of:		
Appointment of directors		40
Remuneration reports		20
Appointment of auditors		12
Issue/re-purchase of shares		11
Report & accounts		8
Executive pay		4
Corporate donations		2
Corporate actions		2
Articles of association		1

Once again, the appointment of non-executive directors attracted a high level of opposition, hence where there appears to be insufficient independent representation on the board of directors, the Fund will vote against the appointment.

Investor opposition to executive remuneration reports continued to receive a high level of institutional attention during the year as shareholder opposition to unjustified levels of remuneration continues to be a contentious issue. The Fund is reluctant to reward management for poor or irresponsible behaviour and in such circumstances will oppose the remuneration report regardless of the economic backdrop.

The Fund continues to be a signatory of the United Nations Principles of Responsible Investment. As such, there is a requirement for signatories to comply with the following principles.

1) To incorporate ESG issues into investment analysis and decision-making.
2) To be active owners and incorporate ESG issues into ownership policies and practices.
3) To seek appropriate disclosure on ESG issues by the entities in which investments are made.
4) To promote acceptance and implementation of the principles within the investment industry.
5) To work together to enhance effectiveness in implementing the principles.
6) To report on activities and progress towards implementing the principles.

The principles allow the Fund to demonstrate its commitment to ESG issues and to further collaborate with other signatories to better understand ESG issues and improve best practice.

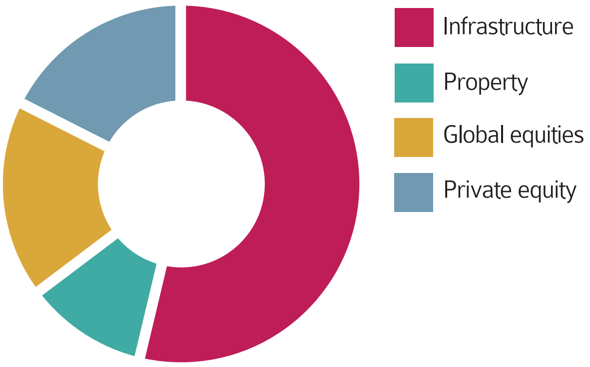
In addition to voting, the Fund works in partnership with a US lawyer to return value back to the Fund through class actions where shareholder value has been lost through fraudulent or irresponsible corporate behaviour, recovering to date almost $1,200,000.

The Fund continues to be an active member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is made up of 56 UK public funds with combined assets of over $115bn. As a group they are able to engage as a united front with investee companies on issues such as gender diversity, environmental standards, health & safety issues and breaches of best practice including the UK Corporate Governance Code. Executive remuneration has been an important governance issue for LAPFF for many years, and over the past few years, LAPFF has focused on the subject of incorporating non-financial performance metrics into long-term reward. They believe that poor management of non-financial areas such as risk management can be detrimental to performance and that such measures could be used more effectively to align the interests of managers and owners.

Corporate Social Responsibility & Corporate Governance

The Fund has actively committed to date somewhere in the region of 2% of its assets to ESG investing (environmental, social and governance), as it perceives this to be a sustainable, long-term growth story. These investments include funds in alternative and clean energy, climate change, regeneration of brown field sites, waste and a pure water play, the essential common criteria being that they are attractive on fundamental investment grounds and perceived as sustainable. There is no set target for the Fund's ESG investments as it perceives it as mainstream, with holdings across most asset classes.

Examples of such investments are illustrated in the following chart:



Infrastructure
HG Renewable Power
Impax New Energy
Pictet Clean Energy
Sarasin New Power
Four Winds Waste
Four Winds Aqua
Riverstone/Carlyle
Khosla Ventures
Blackstone Cleantech
Impax New Energy Fund II

Property
Igloo Urban Regeneration
Bridges Sustainable

Global Equities
Sarasin OekoSar
Impax Environmental
Governance for Owners

Private Equity
Virgin Green
Climate Change Capital
Bridges Community Ventures I
Bridges Community Ventures II
Bridges Community Ventures III
Robeco Sam Co-Inv Fund III
Robeco Sam Fund of Funds III
Robeco Sam Sec Fund III

In summary, the Fund believes that achieving best practice in this area will have a material impact on the Fund's long-term returns, hence its integration into the Fund's investment strategy. Although there is strong pressure for corporates to reduce costs in the current climate, it is good business sense to demonstrate responsible and sustainable policies and practices which should enhance a company's reputation, efficiency and long-term profitability, benefiting both its own stakeholders over the long term and those of the Fund.

Compliance With The Myners' Report

Introduction
In 2000, UK government commissioned Paul Myners to undertake a review of institutional investment, publishing a report in 2001 which became established as the Myners' Principles on Good Investment Governance. The principles were updated through a Treasury report in October 2008, *'Updating the Myners' Principles: A Response to Consultation'*.

Local government pension funds are required, by regulation, to produce a statement on their compliance with the Myners' Principles on the basis of 'comply or explain', including the statement in their annual report. CIPFA produces guidance and advises on the application of the Myners' Principles to local government pension funds. This guidance (Investment Decision Making and Disclosure 2009) has been followed in the production of this statement.

Executive Summary
The West Midlands Pension Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice. The power to establish and maintain pension funds is set out in various local government regulations, some of which establish limits and controls on investment activity. The Myners' Principles support and complement these regulations. The Secretary of State has previously highlighted the principle contained in Roberts v Hapwood whose administering bodies exercise their duties and powers under regulations governing the investment and management of funds:

A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others

The Myners' Principles are seen as supporting this approach. This statement links with and is supported by the Fund's Investment Strategy, SIP (Statement of Investment Principles), FSS (Funding Strategy Statement) and Governance Strategy, where much supporting detail is contained.

Compliance With The Myners' Report

Principles	Key points	Demonstration of Compliance
Principle 1: Effective Decision-Making		
Administering authorities should ensure that: – decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effective and monitor their implementation; and – those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	1) Elected members have a fiduciary duty to the Fund, Scheme members and local taxpayers. 2) Functions can be delegated and investment managers used, but overall responsibility rests with members. 3) Proper advice should be taken and the regulations define this as: "the advice of a person who is reasonably believed...to be qualified by his ability in and practical experience of financial matters." 4) The Wednesbury Principle (1945) applies to all parties involved in the arrangements and ensures they direct themselves properly in law and demonstrate reasonable behaviour. 5) All councils must appoint one of its officers to have responsibility for ensuring arrangements are in a place for the proper/financial administration of its financial affairs. 6) The role of the Pensions Committee and key officers should be clear in the Council's constitution. 7) Best governance practices should be followed. 8) The Superannuation Committee should ensure it has appropriate skills and is run in a way to facilitate effective decision-making.	The Fund produces a business plan and a medium-term financial plan, together with supporting codes and policies: – Investment Strategy – SIP (Statement of Investment Principles) – FSS (Funding Strategy Statement) – Governance Statement The functions delegated and the administration of the Fund's activities are undertaken with appropriately trained staff, use of professional advisors where necessary, in accordance with the Council's constitution and Fund's compliance manual and procedures.
Principle 2: Clear Objectives		
An overall investment objective(s) should be set out for the fund that takes account of the Scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and Scheme employers, and these should be clearly communicated to advisors and investment managers.	1) A three-yearly actuarial valuation as required by regulation. 2) A full range of investment opportunities should be considered. 3) A strategic asset allocation should be used and reviewed regularly. 4) Robust investment management agreements should be used. 5) The targeted investment return and associated risks should reflect the liabilities, assets held and link to the actuarial process. 6) The provision for taking proper advice should be demonstrated.	The Fund takes a range of specialist advice in formulating its Investment Strategy, SIP and FSS, ensuring all link to the common objectives that arise from the actuarial process with emphasis on managing investment risk relative to fund cash flows and need for stable contribution rates. These policies are reviewed regularly and interim valuations used to track progress between valuations. The Superannuation Committee places significant emphasis on reviewing and monitoring the investment strategy with regular reviews and input from professional and experienced advisors. The Investment Sub-Committee regularly reviews new investment opportunities and make up of asset portfolios.

Compliance With The Myners' Report

Principles	Key points	Demonstration of Compliance
Principle 3: Risks and Liabilities		
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	1) The Superannuation Committee should set a clear investment objective. 2) Investment risk should be fully evaluated, monitored and the link to employing bodies' ability to meet liabilities recognised. 3) Appropriate guarantees should be used to protect against employer default. 4) The need for affordable, stable contributions should be reflected in the work of the Pension Committee. 5) The Superannuation Committee should satisfy itself about the standards of internal controls applied are sound and robust. 6) An understanding of risk should be demonstrated and reported upon.	Members set the Fund's investment strategy having regard to the liabilities and achieving stable affordable contributions, consulting with interested parties regularly. The investment setting process takes account of short-term market volatility, but with strong positive cash flows places great emphasis on the medium to long-term view. The Fund's annual report includes a statement on overall risk management of all activities.
Principle 4: Performance Assessment		
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to Scheme members.	1) Extensive formal performance measurement of investments, managers and advisors should be in place and relate to the investment objectives. 2) Effectiveness of the Superannuation Committee should be reported upon at regular intervals. 3) Returns should be measured on a quarterly basis in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile.	The overall investment objectives link to portfolios and the individual investment objectives. The performance measurement is made up of targets driven by the investment strategy and its component parts. An external measurement service is used to provide robust and reliable information. Off-target performance is reviewed by the Superannuation Committee and Investment Sub-Committee and appropriate action agreed. The regular annual report details the work and achievement of the Committee.

Compliance With The Myners' Report

Principles	Key points	Demonstration of Compliance
Principle 5: Responsible Ownership		
Administering authorities should: – adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. – include a statement of their policy on responsible ownership in the statement of investment principles. – report periodically to Scheme members on the discharge of such responsibilities.	1) Disclose approach to company governance matters and socially responsible issues in SIP. 2) Define expectations of managers on company governance matters. 3) The Institutional Shareholders' Committee of Principles for institutional shareholders and/or agents should be followed.	The Fund co-ordinates its corporate governance activity, voting its holding in companies with the help of a specialist advisor, in accordance with its company voting template. It publishes on a quarterly basis its actions, and a clear statement of its position on SRI matters is produced. Works in partnership with other funds are actively promoting good company governance, eg, LAPFF.
Principle 6: Transparency and Reporting		
Administering authorities should: – act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. – provide regular communication to Scheme members in the form they consider most appropriate.	1) Maintain a sound governance policy and demonstrate its implementation. 2) Maintain a communication policy and strategy. 3) Ensure all required strategies and policies are published in a clear transparent manner. 4) Annual reports are a demonstration of accountability to stakeholders and should be comprehensive and readily available.	The Fund produces and reviews regularly its key policy and strategy documents, publishing them on its website. All members, actives, deferred and pensioners receive regular communications on the Fund's activities and performance. A comprehensive annual report is produced.

Accounts for the year ended 31 March 2013

Statement of the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the West Midlands Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £8,008 million represented 75% of the Fund's past service liabilities of £10,662 million (the 'funding target') at the valuation date.

The valuation also showed that a common rate of contribution of 11.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the 'funding target' the deficit would be eliminated by an average additional contribution rate of 6.2% of pensionable pay for 25 years. This would imply an average employer contribution rate of 18.1% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. These contributions were determined having regard to the individual circumstances of each employer and included specific allowances for early retirement costs. Additional payments will be made by employers where the non-ill-health early retirement costs exceed the allowances certified.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the 'funding target' and the common contribution rate were as follows:

	For past services liabilities (funding target)	For future services liabilities (common contribution rate)
Rate of return on investments (discount rate)		
- pre retirement	6.5% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases	4.75% per annum	4.75% per annum
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2013

Independent Auditors' Report to the Members of Wolverhampton City Council

We have audited the pension fund accounting statements included in the pension fund annual report of Wolverhampton City Council for the year ended 31 March 2013 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Respective Responsibilities of the Assistant Director of Finance – (Section 151 Officer) and the Auditor
The Assistant Director of Finance - (Section 151 Officer) is responsible for the preparation of the pension fund accounting statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. Our responsibility is to audit and express an opinion on the pension fund accounting statements in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for Wolverhampton City Council's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the Audit of the Accounting Statement
An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Wolverhampton City Council and the overall presentation of the accounting statement. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited accounting statement. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Accounting Statements
In our opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013, and the amount and disposition of the fund's assets and liabilities as at 31 March 2013 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters
In our opinion, the information given in the Annual Report for the financial year for which the pension fund accounting statements are prepared is consistent with the accounting statements.

Matters on Which We Are Required to Report by Exception
We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Richard Bacon

Richard Bacon
for and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
Birmingham
21 October 2013

Notes:
a) The maintenance and integrity of the Wolverhampton City Council's website is the responsibility of senior officers; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Responsibilities

The Council's Responsibilities
The council is required to:

i) Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Assistant Director Finance.

ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

iii) Approve the Statement of Accounts.

The Assistant Director Finance's Responsibilities
The Assistant Director Finance is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Assistant Director Finance has:

i) Selected suitable accounting policies and then applied them consistently.

ii) Made judgements and estimates that were reasonable and prudent.

iii) Complied with the Code.

The Assistant Director Finance has also:
i) Kept proper accounting records which were up to date.

ii) Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the Assistant Director Finance
I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the council as at 31 March 2013 and its income and expenditure for the year ended the same date.

Mark Taylor
Assistant Director Finance
26 September 2013

Member Approval of the Accounts
Responsibility for member approval of the council's Statement of Accounts lies with the Audit Committee. The Statement of Accounts was presented by the Assistant Director Finance to the Audit Committee on 23 September 2013, and was formally approved at that meeting.

Councillor Keith Inston
Chair, Audit Committee
27 September 2013

Fund Account

2011/12 £m		Notes	2012/13 £m
	Contributions and benefits		
412.7	Contributions receivable	**P7**	410.9
65.1	Transfers in	**P8**	22.6
16.2	Other income	**P9**	16.2
494.0	**Total contributions and other income**		**449.7**
469.2	Benefits payable	**P10**	445.1
41.3	Payments to and on account of leavers	**P11**	15.8
0.3	Other payments		0.2
5.4	Administration expenses	**P12**	5.3
516.2	**Total benefits and other expenditure**		**466.4**
(22.2)	**Net reductions from dealings with members**		**(16.7)**
	Returns on investments		
179.4	Investment income	**P13**	136.8
(72.6)	Changes in value of investments		846.0
92.7	Profit and losses on disposal of investments		97.7
(15.6)	Investment management expenses	**P12**	(11.3)
183.9	**Net return on investments**		**1,069.2**
161.7	**Net increase in the Fund during the year**		**1,052.5**
8,672.1	**Net assets of the Fund at the beginning of the year**		**8,833.8**
8,833.8	**Net assets of the Fund at the end of the year**		**9,886.3**

Net Assets Statement

2011/12 £m		Notes	2012/13 £m
	Investment assets (at market value)	**P14**	
158.8	Fixed interest securities		173.9
861.2	UK equities		943.5
1,735.6	Overseas equities		2,072.5
5,236.3	Pooled investment vehicles		5,729.4
615.4	Property		567.6
43.7	Foreign currency holdings		82.9
139.3	Cash deposits		241.1
0.2	Other investment assets		-
11.1	Outstanding dividend entitlement and recoverable withholding tax		15.4
8,801.6	**Investment assets**		**9,826.3**
	Investment liabilities (at market value)	**P14**	
-	Other investment liabilities		(0.1)
-	**Investment liabilities**		**(0.1)**
8,801.6	**Net investment assets**		**9,826.2**
70.0	**Current assets**	**P17**	**73.2**
(37.8)	**Current liabilities**	**P18**	**(13.1)**
8,833.8	**Net assets of the Fund at the end of the year**		**9,886.3**

The accounts summarise the transactions of the Scheme and deal with the net assets at the disposal of the Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the actuarial certificate/statement.

The notes form part of these financial statements.

Notes to the Pension Fund Statements

General

The West Midlands Pension Fund is administered by Wolverhampton City Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund.

The City Council Pensions Committee administers the pension fund function. It meets at approximately quarterly intervals, and has members from each of the seven metropolitan district councils in the West Midlands region. An Investment Advisory Sub-Committee and a Joint Consultative Panel have been established to deal with the two areas of management and administration of the Fund.

The Fund is administered under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulations. This includes:

i) the LGPS (Benefits, Membership and Contribution) Regulations 2007 (as amended);

ii) the LGPS (Administration) Regulations 2008 (as amended); and

iii) the LGPS (Management and Investment of Funds) Regulations 2009.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions within are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently, employer contribution rates range from 14.7% to 25.3% of pensionable pay.

The Fund's Statement of Investment Principles (SIP) can be found in the annual report and on the Fund's website: www.wmpfonline.com

2) Basis of Preparation

The statement of accounts summarises the Fund's transactions for the 2012/2013 financial year and its position at the year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/2013 which is based upon International Financial Reporting standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at *note 5* of these accounts.

3) Statement of Accounting Policies

3(a) Inclusion of Income and Expenditure
Membership of the Fund is available for all local government employees including non-teaching staff of schools and further and higher education corporations in the West Midlands region, together with employees of admitted bodies.

Fund Account

In the Fund account, income and expenditure are accounted for in the year in which they arise by the creation of debtors and creditors at the year-end, where necessary. However, provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year-end *(see note 8)*.

i) Contribution Income

Contributions receivable have been included in the accounts on the accruals basis at the rates set out in *notes 1 and 5* for basic contributions. Additional contributions as notified by employers for the period have also been included.

Where member-employing organisations have not submitted certified returns of contributions payable by the due date for preparation of these accounts, an estimate has been made based on the monthly returns of these bodies.

ii) Transfers To and From Other Schemes

Transfer values represent the amounts received and paid during the year for members who had either joined or left the Scheme as at 31 March 2013, calculated in accordance with the Local Government Pension Scheme Regulations *(see notes 8 and 11)*. They are accounted for when trustees of the receiving scheme have agreed to accept the transfer.

iii) Investment Income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amounts not received by the end of the reporting period, where known to be due, have been accrued for in the accounts.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

iv) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at 31 March 2013 relating to the financial year 2012/2013.

Notes to the Pension Fund Statements

v) Foreign Currency Transactions
Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2013.

3(b) Valuation of Investments
The market values of investments as shown in the net assets statement have been determined as follows:

i) Quoted Securities
Securities have been valued at the bid-market price ruling on 31 March 2013 where a quotation was available on a recognised stock exchange or unlisted securities market.

ii) Unquoted Securities
The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor report has not been received from the fund manager, the security is valued at cost.

iii) Pooled Investment Vehicles
Pooled investment vehicles are stated at the bid-point of the latest prices quoted or the latest single market prices. In the case of the pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the Fund.

iv) Freehold and Leasehold Properties
These have been valued at their open market value. Property is valued by the Fund’s valuers on an annual basis. The market values included in these accounts are contained in a valuation report by Knight Frank LLP, Chartered Surveyors as at 31 March 2013. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. The valuation undertaken at 31 March 2013 was therefore one-third full valuation, and the remaining two thirds desktop valuations. Agricultural properties were valued by Savills plc, agricultural valuers at the same date

v) Foreign Currencies
Investments held in foreign currencies have been valued as set out in paragraphs 3bi to 3bii above and translated at exchange rates ruling at 31 March 2013.

vi) Movement in the Net Market Value of Investments
Any gains or losses arising on translation of investments into sterling are accounted for as a change in market value of investment.

3(c) Cash and Cash Equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

3(d) Financial Liabilities
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

3(e) Investment Management Expenses
All investment management expenses are accounted for on an accruals basis.

External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments, either being managed or in safe custody, and as such will fluctuate as the valuations change. In addition, performance-related fees are negotiated with a number of managers and performance-related fees totalled £2.2m in 2012/2013 and £7.0m in 2011/2012.

Where a management fee notification has not been received by the 31 March, an estimate is used for inclusion in the Fund account. The cost of using advice from external consultants is included in investment management fees.

The cost of in-house management is charged to the Fund, as is an element of the administering authority's officers time spent on management of the Fund.

3(f) Membership
Overall membership of the Fund at the end of the year was as follows:

31 March 2012		31 March 2013
95.5	Active members	97.3
75.2	Pensioner members	77.5
84.5	Deferred members	86.5

A detailed list of member bodies is shown on page 6 of the annual report.

4) Critical Judgements in Applying Accounting Policies

Unquoted Private Equity Investments
The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor valuation report has not been received from the fund manager, the security is valued at cost. The value of unquoted private equity at 31 March 2013 was £1,232.0m (£1,099.0m at 31 March 2012).

Notes to the Pension Fund Statements

Fund liability

The Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years.
The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in *note 5*. This estimate is subject to significant variances based on changes to the underlying assumptions.

4a) Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Actuarial Present Value of Promised Retirement Benefits

Uncertainties
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Mercer Limited, the Fund's consulting actuaries, are engaged to provide expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions
The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability, however an increase in assumed earnings inflation or assumed life expectancy would significantly increase the pension liability as detailed by the Fund's consulting actuary below:

Change in assumptions – year ended 31st March 2013	Approx % increase in liabilities	Approx monetary value £m
0.5% p.a. decrease in discount rate	9%	1,481.0
1 year increase in member life expectancy	2%	304.0
0.5% p.a. increase in salary increase rate	3%	398.0
0.5% p.a. increase in pensions increase rate*	7%	1,058.0

**including allowance for change to deferred pension increases*

Private Equity

Uncertainties
Private equity investments are not publicly listed and, as such, there is a degree of estimation involved in the valuation.

Effect if actual results differ from assumptions
The total private equity investments in the financial statements are £1,232.0m. There is a risk that this investment may be understated or overstated in the accounts. Given a tolerance of say +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/-£62.0m.

Hedge Funds

Uncertainties
Hedge funds valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the directors or independent administrators judge necessary. Where these investments are not publicly listed, there is a degree of estimation involved in the valuation.

Effect if actual results differ from assumptions
The total hedge funds value in the financial statements is £507.0m. There is a risk that these investments may be understated or overstated in the accounts. Given a tolerance of say +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/-£25.0m.

5) Actuarial Valuation of the Fund

A full actuarial valuation of the Fund was made as at 31 March 2010 by the Fund's actuary, P Middleman of Mercer Human Resource Consulting Limited. The actuary has determined the contribution rates with effect from 1 April 2011 to 31 March 2014. On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £8,008.0m represented 75% of the funding target of £10,622.0m at the valuation date.
The valuation also showed that a common rate of contribution of 11.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the funding target the deficit would be eliminated by an average additional contribution rate of 6.2% of pensionable pay for 25 years. This would imply an average employer contribution rate of 18.1% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. These contributions were determined having regard to the individual circumstances of each employer and included specific allowances (zero for some employers) for early retirement costs. Additional payments will be made by employers where the non-ill-health early retirement costs exceed the allowances certified.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. For certain employers, in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions, for the duration of the employer's deficit recovery period.

Notes to the Pension Fund Statements

As a result of the valuation, a revised rates and adjustments certificate was prepared for the three years commencing 1 April 2011. The rates payable by the unitary authorities were certified as follows:

Future Service Rate (% of pay) plus lump sum (£)	2011/2012	2012/2013	2013/2014
Birmingham City Council	12.1% plus £26,500,000	12.1% plus £27,800,000	12.1% plus £29,100,000
Coventry City Council	12.1% plus £6,300,000	12.1% plus £6,600,000	12.1% plus £6,900,000
Dudley MBC	11.8% plus £5,500,000	11.8% plus £5,700,000	11.8% plus £6,000,000
Sandwell MBC	11.7% plus £7,500,000	11.7% plus £7,900,000	11.7% plus £8,300,000
Solihull MBC	11.7% plus £4,100,000	11.7% plus £4,300,000	11.7% plus £4,500,000
Walsall MBC	11.7% plus £7,700,000	11.7% plus £8,000,000	11.7% plus £8,400,000
Wolverhampton City Council	12.2% plus £7,100,000	12.2% plus £7,400,000	12.2% plus £7,800,000

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the funding target and the common contribution rate were as follows:

	For past service liabilities	For future service liabilities
Rate of return on investments:		
- Pre retirement	6.5% per annum	6.75% per annum
- Post retirement	5.5% per annum	6.75% per annum
Rate of pay increases:	4.75% per annum	4.75% per annum
Rate of increases in pensions in payment (in excess of guaranteed minimum pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The administering authority determined that certain employers with a lesser financial covenant (based on criteria set by the administering authority) would have their contribution requirement assessed with reference to more cautious actuarial assumptions based on gilt yields. Further details surrounding this approach can be found in the FSS and the administering authority's separate document on admitted bodies.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26
IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	2012/2013	2013/2014
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.25% per annum	4.15% per annum
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	2.5% per annum	2.4% per annum

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2012 and 31 March 2013 were £13,226.0m and £15,611.0m respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (4.2% pa versus 4.9% pa), and in addition there was a reduction in inflation expectations (from 2.5% pa to 2.4% pa). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS 26 of about £1,765.0m.

Notes to the Pension Fund Statements

6) Taxation

1) Value Added Tax
The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

2) Taxation of Overseas Investment Income
The Fund receives interest on its overseas bonds gross, but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets. Where relief is available, it may be either in full at source (USA, Belgium, Australia Finland and Norway), or partial relief by claim (Austria, Denmark, France, Germany, Netherlands, Switzerland and Spain).

In some markets (Poland, Canada, Italy, and Sweden) tax is deducted at the treaty rate so that no further adjustment is required, and there are also markets (Malaysia, Hong Kong and Singapore) where no double taxation agreements exist and where the full amount is payable.

7) Contributions Receivable

Contributions receivable are analysed below:

2011/12 £m		2012/13 £m
	Employers	
281.3	Basic contributions	294.8
6.7	Deficit funding	-
0.2	Augmented membership	0.5
13.9	Additional cost of early retirement	8.3
302.1		**303.6**
	Employees	
109.5	Basic contributions	106.4
1.1	Additional contributions	0.9
110.6		**107.3**
412.7	**Total contributions**	**410.9**

The deficit contributions included in the prior year related to Centro which are included within basic contributions in the current year. The additional contributions above represent the purchase of added membership or additional benefits under the Pension Scheme and are included in the revenue accounts.

During 2011/12 several organisations made small augmented membership payments as one-offs to remove liability relating to individual employees who had left their employment.

- One admitted body, BXL Services, went into liquidation with an outstanding liability identified by the actuary of £4.0m. It is anticipated that the Fund will receive in the order of £0.3m once the liquidation is finalised.

- A further admitted body, Adoption Support, terminated their agreement in January 2012 without the necessary funds to meet their outstanding liabilities of £0.1m. The Fund has since recovered £0.03m from the remaining assets.

Payments can be analysed by type of member body as follows:

2011/12 £m		2012/13 £m
31.0	Administering authority	30.8
360.4	Scheme employers	361.4
21.3	Admitted employers	18.7
412.7	**Total**	**410.9**

8) Transfers In

2011/12 £m		2012/13 £m
65.1	Individual transfers in from other schemes	22.6

Following the transfer of Staffordshire Probation staff from Staffordshire Pension Fund on 1 April 2010, the Fund received a payment of £46.0m on 27 March 2012. A further payment of £3.8m was received on 10 August 2012 to be included in 2012/13.

9) Other Income

2011/12 £m		2012/13 £m
	Benefits recharged to employers	
9.3	Compensatory added years	9.1
6.9	Pensions increases	7.1
16.2	**Total**	**16.2**

10) Benefits Payable

2011/12 £m		2012/13 £m
	Pensions	
299.9	Retirement pensions	328.8
24.4	Widows' pensions	25.7
0.9	Children's' pensions	1.0
2.8	Widowers' pensions	3.1
0.1	Ex-spouse	0.1
0.1	Equivalent pension benefits	0.1
328.2	**Total pensions**	**358.8**
	Lump-sum benefits	
130.3	Retiring allowances	74.6
10.7	Death grants	11.7
141.0	**Total lump-sum benefits**	**86.3**
469.2	**Total benefits payable**	**445.1**

Notes to the Pension Fund Statements

The total benefits payable can be analysed by type of member body as follows:

2011/12 £m		2012/13 £m
37.5	Administering authority	38.1
405.1	Scheme employers	379.7
26.6	Admitted employers	27.3
469.2	**Total**	**445.1**

11) Payments To and On Account of Leavers

2011/12 £m		2012/13 £m
16.5	Individual transfers out to other schemes	12.8
24.8	Bulk pension transfer increases	3.0
41.3	**Total**	**15.8**

A payment of £25.1m, including interest, was made in November 2012, relating to the bulk transfer of pensions increase. £24.8m of this was accrued in the prior year.

12) Investment and Administration Expenses

Costs incurred in the management of the investments of the Fund and the administration of the Fund have been charged to the Fund in accordance with the Local Government Pension Scheme regulations and can be analysed as follows:

2011/12 £m		2012/13 £m
	Administration	
4.9	Pensions administration	4.8
0.4	Actuarial fees	0.5
0.1	Audit fees	-
5.4	**Total administration**	**5.3**
	Investments	
13.1	External management of investments	8.8
2.2	In-house management of investments	2.1
0.1	Property and legal fees	0.1
0.2	Safe custody expenses	0.3
15.6	**Total investments**	**11.3**

The pensions administration function and the in-house management of investments are performed by Wolverhampton City Council and the costs shown in the table above are recharged to the Fund each year on an estimated basis with an end of year adjustment for actual costs shown as receivable or payable in the accounts. This is a related party transaction as Wolverhampton City Council is also a member body of the Fund. Key management personnel who are employees of the administering authority and members of the Fund are disclosed in the administering authority's statement of accounts along with details of remuneration and pensions contributions.

Performance related fees are negotiated with a number of managers. Included in external management of investments in are performance related fees of £2.2m in 2012/2013 and £7.0m in 2011/2012.

13) Investment Income

Investment income is analysed below:

2011/12 £m		2012/13 £m
	Dividends and interest	
	Fixed interest securities	
8.5	UK private sector – quoted	8.5
	Equities	-
33.9	UK	33.2
45.9	Overseas	43.6
	Pooled investment vehicles	
32.4	UK	22.8
23.0	UK - reinvested income, prior years	-
3.3	Overseas equities	1.8
0.4	Private equity	0.1
0.7	Interest on cash deposits	0.9
1.1	Stocklending	0.9
(2.4)	Overseas taxation	(1.9)
146.8	**Total dividends and interest**	**109.9**
43.0	Property management income	35.7
(10.4)	Property management expenses	(8.8)
32.6		**26.9**
179.4	**Total investment income**	**136.8**

Stocklending

The stocklending programme provides for direct equity investments to be lent. At the year-end the value of quoted equities on loan was £43.9m (2012: £69.6m) in exchange for which the custodian held collateral worth £50.5m (2012: £74.0m). Collateral consists of acceptable securities and government debt.

Notes to the Pension Fund Statements

14) Net Investment Assets

Further analysis of the market value of investments as set out in the net assets statement is given below:

Segregated accounts are held separately from the main account by the global custodian and contain assets managed by some of the Fund's external managers.

2011/12 £m		2012/13 £m
	Fixed interest securities	
158.8	UK companies – segregated (external)	173.9
158.8		**173.9**
	UK equities	
861.2	Quoted	943.5
861.2		**943.5**
	Overseas equities	
1,438.1	Quoted	1,713.4
297.5	Quoted – segregated (external)	359.1
1,735.6		**2,072.5**
	Pooled investment vehicles	
	Managed funds	
188.8	UK quoted, fixed interest	196.4
416.3	Other fixed interest	646.4
870.7	UK quoted, index linked	963.2
828.9	Overseas equities	858.8
232.3	UK unquoted equities	255.5
1,339.2	Overseas unquoted equities	1,509.7
699.3	UK absolute returns	593.0
92.2	Overseas absolute returns	105.9
32.8	UK property	37.6
194.6	Foreign property	225.7
	Unit trusts	
3.5	UK quoted equities	26.6
329.1	Overseas equities	303.6
8.6	Overseas property	7.0
5,236.3		**5,729.4**
	Property	
589.1	UK freehold	532.7
26.3	UK leasehold*	34.9
615.4		**567.6**

2011/12 £m		2012/13 £m
	Foreign currency holdings	
29.5	United States dollars	29.6
1.0	Euro	34.0
1.0	Canadian dollars	1.5
1.1	Danish kroner	1.1
1.9	Hong Kong dollars	0.4
0.4	Swedish kroner	3.2
0.7	Swiss francs	4.3
1.1	Japanese yen	2.0
0.5	Norwegian kroner	1.2
0.6	Singapore dollars	-
4.2	Australian dollars	1.1
0.6	Hungarian florints	1.2
-	Polish zloty	0.9
0.3	Turkish lira	1.2
0.8	Czech koruna	1.2
43.7		**82.9**
	Cash deposits	
139.3	UK	241.1
	Other investments	
0.2	Broker balances	(0.1)
11.1	Outstanding dividend entitlement and recoverable withholding tax	15.4
8,801.6	**Total net investment assets**	**9,826.2**

* All leasehold properties are held on long leases

Notes to the Pension Fund Statements

The proportion of the market value of investment assets managed in-house and by each external manager at the year-end is set out below.

31 March 2012 Market value	31 March 2012 % of total market value		31 March 2013 Market value	31 March 2013 % of total market value
3,077.2	35.0	In-house	3497.3	35.6
24.2	0.3	Managers: UK quoted	26.6	0.3
107.7	1.2	Managers: US quoted	131.1	1.3
174.9	2.0	Managers: European quoted	193.3	2.0
34.4	0.4	Managers: Japanese quoted	37.6	0.4
97.1	1.1	Managers: Pacific Basin	107.4	1.1
556.9	6.3	Managers: Emerging markets	609.3	6.2
484.5	5.5	Managers: Global equities	493.9	5.0
1,634.6	18.6	Managers: Fixed interest	1,979.9	20.2
236.0	2.7	Managers: Indirect property	270.3	2.8
-	0.0	Managers: Emerging market debt	-	0.0
202.7	2.3	Managers: Commodities	206.8	2.1
269.9	3.1	Managers: Infrastructure funds	326.5	3.3
791.5	9.0	Managers: Absolute return	698.9	7.1
1,098.9	12.5	Managers: Private equity	1,231.9	12.6
8,790.5	**100.0**		**9,810.8**	**100.0**
11.1		Outstanding dividend entitlement and recoverable withholding tax	15.4	
8,801.6		**Total investment assets**	**9,826.2**	

15) Investment Market Value Movements Analysis

The change in the value of investments during 2012/2013 is set out below:

	Value as at 31 March 2012 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 March 2013 £m
Fixed interest securities	158.8	-	-	15.1	173.9
UK equities	840.5	30.2	(22.8)	95.6	943.5
Overseas equities	1,779.3	186.8	(154.5)	260.9	2,072.5
Pooled investment vehicles	5,213.3	817.6	(800.9)	499.4	5,729.4
Property	615.4	13.4	(36.2)	(25.0)	567.6
	8,607.3	**1,048.0**	**(1,014.4)**	**846.0**	**9,486.9**
Broker balances	0.2				(0.1)
Outstanding dividend entitlement and recoverable withholding tax	11.1				15.4
Foreign currency	43.7				82.9
Cash deposits	139.3				241.1
Total investments	**8,801.6**				**9,826.2**

The 2012/13 opening balances vary from the 2011/12 closing balances due to the reclassification of investment assets.

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year excluding profits and losses realised on sales of investments during the year. The returns on investments shown in the Fund account includes an amount of £97.7m which represents profit on sale of the Fund's assets.

Purchases also include transfers in of investments, takeover of shares etc. and invested income. Sales proceeds include all receipts from sales of investments, transfers out of investments, takeover proceeds etc. and reductions in cash deposits including profits or losses realised on the sale.

There were 114 late payments amounting to £3.9m of contributions during the year which constituted employer-related investments until the amounts were received. Other than this, there were no employer-related investments.

Notes to the Pension Fund Statements

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £0.4m (2011-2012: £0.6m).

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

The change in the value of investments during 2011/2012 is set out below:

2011/12 £m		2012/13 £m
126,009	Equities - UK quoted	141,434
424,768	Equities - overseas quoted	243,344
550,777	**Total**	**384,778**

	Value as at 31 March 2012 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 March 2013 £m
Fixed interest securities	152.8	-	-	6.0	158.8
UK equities	975.3	20.4	(74.4)	(60.1)	861.2
Overseas equities	1,901.5	53.9	(155.3)	(64.5)	1,735.6
Pooled investment vehicles	4,871.0	1,100.5	(774.9)	39.7	5,236.3
Property	571.1	46.7	(8.8)	6.4	615.4
	8,471.7	**1,221.5**	**(1,013.4)**	**(72.5)**	**8,607.3**
Broker balances	-				0.2
Outstanding dividend entitlement and recoverable withholding tax	12.3				11.1
Foreign currency	28.3				43.7
Cash deposits	99.3				139.3
Total investments	**8,611.6**				**8,801.6**

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year excluding profits and losses realised on sales of investments during the year. The returns on investments shown in the Fund account includes an amount of £97.7m which represents profit on sale of the Fund's assets.

Net gains and losses on financial instruments

2011/12 £m		2012/13 £m
	Financial assets	
(72.6)	Fair value through profit and loss	846.0
(72.6)	**Total**	**846.0**

Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2012			31 March 2013	
Carrying value £m	Fair value £m		Carrying value £m	Fair value £m
		Financial assets		
8,607.3	8,607.3	Fair value through profit and loss	9,486.9	9,486.9
194.3	194.3	Loans and receivables	339.3	339.3
8,801.6	**8,801.6**	**Total**	**9,826.2**	**9,826.2**

Notes to the Pension Fund Statements

Valuation of Financial Instruments Carried at Fair Value
The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Criteria utilised in the instrument classifications are detailed below:

Level 1
Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which West Midlands Pension Fund has invested. These valuations are prepared in accordance with the *International Private Equity and Venture Capital Valuation Guidelines*, which follow the valuation principles of IFRS and US GAAP. The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2013	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	5,538.4	1,484.3	2,464.2	9,486.9
Loans and receivables	339.3	-	-	339.3
Total financial assets	**5,877.7**	**1,484.3**	**2,464.2**	**9,826.2**

Values at 31 March 2012	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	4,976.6	1,267.7	2,362.9	8,607.2
Loans and receivables	194.3	-	-	194.3
Total financial assets	**5,171.0**	**1,267.7**	**2,362.9**	**8,801.6**

Notes to the Pension Fund Statements

16) Investment Capital Commitments

Investment commitments at the end of the financial year in respect of future payments were:

2011/12 £m		2012/13 £m
1,071.4	Non-equities	808.7
184.5	Property	139.0
1,255.9	**Total**	**947.7**

These commitments relate to outstanding commitments due on funds held in the private equity, property and infrastructure portfolios.

17) Current Assets

Investment commitments at the end of the financial year in respect of future payments were:

2011/12 £m		2012/13 £m
	Debtors and prepayments	
	Contributions receivable	
7.6	• Employers	21.6
8.8	• Employees	8.4
43.7	Wolverhampton City Council	42.5
60.1	**Total debtors and prepayments**	**72.5**
9.9	Cash	0.7
70.0	**Total current assets**	**73.2**

Note: Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it has now been calculated by Mercer Limited that the Fund is due to receive a total of £27.7m. This is to be paid in ten equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3.3m. The balance due included in 'Other Receivables' is £19.4m (2011/12: £24.9m). During 2012/13 two payments were received and deducted from the debtor.

2011/12 £m		2012/13 £m
	Analysis of debtors	
49.8	Other local authorities	51.5
10.3	Other entities and individuals	21.0
60.1	**Total**	**72.5**

18) Current Liabilities

Investment commitments at the end of the financial year in respect of future payments were:

2011/12 £m		2012/13 £m
	Creditors and receipts in advance	
(4.5)	Pensions and lump-sum benefits	(4.1)
(8.5)	Other creditors	(8.9)
-	Trustee account	(0.1)
(24.8)	Bulk transfer pension increases	-
(37.8)	**Total**	**(13.1)**

The bulk transfer pension increases amount of £24.8m included within current liabilities at 31 March 2012 relates to amounts owed in respect of back payments to cover pre-October 1986 pension increase payments between 1995 and 31 March 2012 for former retiring employees of West Midlands Passenger Transport Executives. A payment of £25.1m, including interest, was made in November 2012.

2011/12 £m		2012/13 £m
	Analysis of creditors	
(3.1)	Central government bodies	(3.2)
(1.8)	Other local authorities	(0.1)
(32.9)	Other entities and individuals	(9.8)
(37.8)	**Total**	**(13.1)**

19) Additional Voluntary Contributions

As well as joining the Fund, Scheme members can pay into an additional voluntary contribution (AVC) scheme run by two AVC providers. Contributions are paid directly from Scheme members to the AVC providers.

The contributions are not included within the fund accounts, in line with regulation 4 (2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009. The table below shows the activity for each AVC provider in the year.

2011/12			2012/13	
Equitable Life £m	Prudential £m		Equitable Life £m	Prudential £m
3.9	**28.1**	**Opening value of the Fund**	**2.9**	**27.5**
-	8.5	Income	-	7.3
(1.1)	(10.3)	Expenditure	(0.4)	(5.0)
0.1	1.2	Change in market value	0.2	0.4
2.9	**27.5**	**Closing value of the Fund**	**2.7**	**30.2**

Notes to the Pension Fund Statements

20) Post-Year-End Transactions

There were no major events following the end of the financial year that would affect the validity of the figures shown in the statements.

21) The Nature and Extent of Risks Arising From Financial Instruments

There were no major events following the end of the financial year that would affect the validity of the figures shown in the statements.

Risk Management
The Fund's activities expose it to a variety of financial risks including:

Investment Risk - **the possibility that the Authority will not receive the expected returns**

Credit Risk - **the possibility that the other parties might fail to pay amounts due to the Authority.**

Liquidity Risk - **the possibility that the Authority might not have funds available to meet its commitments to make payments.**

Market Risk - **the possibility that financial loss might arise as a result of stock market movements. Currency risk, other price risk and interest rate risk are types of market risk.**

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Policies covering specific areas relating to the Fund are as follows:

Investment Risk
In order to achieve its statutory obligations to pay pensions, the Fund invests its assets (including employer and employee contributions) in a way that allows it to meet its liabilities as they fall due for payment. It does this by matching assets to liabilities through the triennial actuarial valuation followed by an appropriate asset allocation. During the year, the Fund targeted an 80% exposure to 'growth' assets, such as equities, property and other alternatives with equity-like returns, but with less volatility and lower correlation to quoted equities. The remaining 20% being allocated to 'matching' assets, such as UK bonds or gilts which provide the best match for liabilities, ie, payments of benefits to members in future years.

Risks in growth assets include market risk (the greatest risk), issuer risk and volatility, which are partly mitigated by diversification across asset classes, global markets and investments funds. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of 'growth' assets would increase the costs of funding. 'Matching' assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk. Emerging market debt, although within fixed interest, is not viewed as a 'matching' asset.

Counterparty Risk
In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable; that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

Legal agreements are implemented and continuous monitoring of counterparties is undertaken by Fund officers in relation to suitability and performance, in addition to compliance with regulatory and Fund specific requirements.

Credit Risk
The Fund's deposits with financial institutions as at 31 March 2013 totalled £239.3m in respect of temporary loans and treasury management instruments. The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the *Compliance Manual*. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by Fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Notes to the Pension Fund Statements

Proposed counterparties are assessed using an amalgamation of credit ratings and market research with the resulting 'score' determining the suitability and individual limit in each case. Due diligence is conducted on potential money market funds with criteria such as AAA rating, same day access and minimum assets under management being prerequisite. A credit rating sensitivity analysis as at 31 March 2013 is shown below:

Credit Rating Sensitivity Analysis Summary	Rating	Balances as at 31 March 2013 £m	Balances as at 31 March 2012 £m
Money market funds			
AIM STIC Global Sterling Portfolio	AAA	79.4	13.2
HSBC Sterling Liquidity Fund	AAA	81.7	12.2
Northern Trust Global Sterling Fund	AAA	1.2	1.2
Short-term deposits			
Banco Santander	A+	8.0	10.0
Barclays	A+	9.0	-
Principality Building Society	BBB+	-	5.0
Coventry Building Society	A	5.0	5.0
West Bromwich Building Society	BBB-	-	5.0
Newcastle Building Society	BB+	5.0	1.0
Bank deposit accounts			
Nat West Liquidity Select	A	50.0	86.1
Total		**239.3**	**138.7**

Liquidity Risk
The Fund has a comprehensive daily cashflow management procedure which seeks to ensure that cash is available as needed. Due to the cashflow management procedures and the liquidity of certain asset types held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities. The Fund actually uses this liquidity risk to its benefit, taking advantage of the illiquidity premium found in investments such as private equity.

Foreign Exchange Risk
The Fund's exposure to foreign exchange risk is managed through the diversification of portfolios across sectors, countries and geographic regions, along with continuous monitoring and management of holdings. In addition, the Fund's currency exposure is managed in line with the daily cash management policy.

Securities Lending
As at 31 March 2013, £43.9m of stock was on loan to an agreed list of approved borrowers through the Fund's custodian in its capacity as agent lender. The loans were covered by non-cash collateral in the form of equities, gilts, DBVs and G10 sovereign debt, totalling £50.5m, giving a margin of 15%.

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Income from stocklending amounted to £0.9m during the year and is detailed in *note 13* to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. There is, however, an obligation to return collateral to the borrowers; therefore, its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

Reputational Risk
The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance, ensures that reputational risk is kept to a minimum.

Other Price Risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk, which arises from investments held by the fund for which the future price is uncertain. The Fund mitigates price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund investment strategy.

Notes to the Pension Fund Statements

Other Price Risk - Sensitivity Analysis
Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's performance advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

Price Risk Asset type	Value as at 31 March 2013 £	% Change	Value on Increase £	Value on decrease £
UK equities	970.2	16.0%	1,125.4	814.9
Global equities (ex UK)	3,234.7	19.0%	3,849.3	2,620.1
Property	837.9	14.5%	959.4	716.4
Corporate bonds (short-term)	80.4	7.1%	86.2	74.7
Corporate bonds (medium-term)*	639.6	10.4%	706.1	573.1
Corporate bonds (long-term)	182.8	18.5%	216.6	148.9
UK fixed gilts (short-term)	103.9	2.9%	106.9	100.8
UK fixed gilts (medium-term)**	127.4	7.9%	137.5	117.3
UK fixed gilts (long-term)	46.5	12.9%	52.5	40.5
UK index linked gilts (short-term)	192.5	3.3%	198.9	186.2
UK index linked gilts (medium-term)	93.0	5.9%	98.4	87.5
UK index linked gilts (long-term)	378.4	8.5%	410.6	346.3
Commodities	206.8	13.8%	235.4	178.3
Cash	323.9	0.8%	326.5	321.3
Private equity	1,231.9	27.8%	1,574.3	889.4
Infrastructure	326.5	14.4%	373.5	279.5
High-yield debt***	135.5	13.1%	153.3	117.7
Absolute return/diversified growth	698.9	11.8%	781.4	616.4
Total Assets	**9,810.8**	**11.1%**	**10,899.8**	**8,721.8**

*includes exposure to emerging market debt (£325.0m) and loans (£57.7m)
**includes exposure to overseas bonds (£81.3m)
***includes mezzanine debt (£24.1)

Currency Risk - Sensitivity Analysis
Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK. The following tables summarise the Fund's currency exposure as at 31 March 2013:

Currency Risk (by Asset Class)

Asset type	Value as at 31 March 2013 £	% Change	Value on Increase £	Value on decrease £
Overseas equities	3,234.7	13.0%	3,655.2	2,814.2
Private equity	1,056.8	13.0%	1,194.1	919.4
Fixed interest	646.4	13.0%	730.5	562.4
Alternatives	558.8	13.0%	631.4	486.1
Property	232.7	13.0%	263.0	202.5
Liquid assets	323.9	13.0%	366.1	281.8
Total	**6,053.3**	**13.0%**	**6,840.3**	**5,266.4**

Notes to the Pension Fund Statements

Interest Rate Risk
The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

2011/12 £m		2012/13 £m
138.7	Cash & cash equivalents	239.3
44.3	Cash balances	84.7
2,651.1	Fixed interest securities	1,034.3
2,834.1	**Total**	**1,358.3**

Asset Type	Carrying amount as at 31 March 2013 £M	Change in year in the net assets available to pay benefits +180BPS £M	-180BPS £M
Cash & Cash Equivalents	239.3	4.3	(4.3)
Cash Balances	84.7	1.5	(1.5)
Fixed Interest Securities	1,034.3	(18.6)	18.6
Total change in assets available	**1,358.3**	**(12.8)**	**12.8**

22) Impairment for Bad and Doubtful Debts

The following additions and write offs of pension payments were reported in this financial year, in line with the Fund's policy:

Write on Analysis	Number	Total £
Less than £50	6	132.75
£50 - £100	1	88.33
£100 - £500	1	180.86
Over £500	1	764.65
Total	**9**	**1,166.59**

Write off Analysis	Number	Total £
Less than £50	5	118.52
£50 - £100	21	1,477.71
£100 - £500	16	2,515.27
Over £500	7	9,658.04
Total	**49**	**13,769.54**

Annual Governance Statement 2012/2013

Scope of Responsibility

Wolverhampton City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This code is incorporated within the Council's constitution, which is available for review on the Council's website. The council is also responsible for the strategic management and administration of the West Midlands Pension Fund with the Council's Chief Executive, Monitoring Officer and Section 151 Officer holding specific responsibilities for supporting the members of the Pensions Committee in their role.

Wolverhampton Homes is the Council's arm's length (housing) management organisation (ALMO) and is a company wholly owned by the Council. The control of the ALMO is through the Board which has representatives drawn from one-third council, one-third tenants and one-third independent.

The management agreement between the Council and Wolverhampton Homes sets out the contractual arrangements between the parties and the governance arrangements and a new 15-year management agreement has recently been approved by both the Council and the Wolverhampton Homes Board for adoption from April 2013.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The systems of risk management and internal control are based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the council for the year ended 31 March 2013 and up to the date of approval of the annual report and statement of accounts.

Annual Governance Statement 2012/2013

The Governance Framework and Review of Effectiveness throughout 2012/13
The Council has the following Corporate Plan aims and themes: Encouraging Enterprise and Business, Empowering People and Communities, Re-Invigorating the City and Confident, Capable Council, which are underpinned by the governance environment. This environment is consistent with the six core principles of the CIPFA/ SOLACE framework.

The key elements of the systems and processes that comprise the council's governance framework, and where assurance against these is required, are described below.

Core principles of the CIPFA/ SOLACE framework	Assurances required	Governance framework providing assurance	Review of Effectiveness	Issues identified
Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area Members and officers working together to achieve a common purpose with clearly defined functions and roles Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Developing the capacity and capability of members and officers to be effective Engaging with local people and other stakeholders to ensure robust public accountability	• Delivery and communication of an agreed corporate plan • Quality services are delivered efficiently and effectively • Clearly defined roles and functions • Management of risk • Effectiveness of internal controls • Compliance with laws, regulation, internal policies and procedures • Value for money and efficient management of resources • High standards of conduct and behaviour • Public accountability • Published information is accurate and reliable • Implementation of previous governance issues	• The Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer) • Council, Cabinet and Committees • Scrutiny function • Audit Committee (and 2 x Sub-Committees) • Standards Committee • Internal and External Audit • Strategic Executive Board • Corporate Development Board • Directors Assurance Statements • Corporate and business plans • Medium Term Financial Strategy • Corporate Risk Register and Risk Strategy • Codes of Conduct • Business Planning and Performance Management Framework • Whistleblowing and other anti-fraud related policies • Complaints System • Governance Statement Working Group • Financial Regulations • Procurement and Contract Procedure Rules • Committee Management Information Systems	• Statement of Accounts 2012/13 • External Audit Report to Those Charged with Governance (ISA 260) Report 2012/13 • Annual Internal Audit Report 2012/13 • Annual Audit Committee Report 2012/13 • Local Government Ombudsman Report 2012/13 • Care Quality Commission Reviews • Safeguarding Children's Board Annual Report 2012/13 • Safeguarding Adult's Board Annual Report 2012/13 • Quality Assurance and Compliance team reviews • Scrutiny reviews • Annual Governance Statement – follow up of 2011/12 issues	• FutureSpace: Corporate Landlord • Information Governance • Partnership Governance • Contract Monitoring • Procurement • Savings Targets • Resilience function • Equalities

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West Midlands Pension Fund
The West Midlands Pension Fund have completed their own *'Assurance Framework – Supporting the Annual Governance Statement'* which identified that there had been no adverse matters arising from the work behind their assurance framework.

Wolverhampton Homes
Wolverhampton Homes have included a statement of corporate governance within the company's financial statements for 2012/13. This states that the control framework has been reviewed by the company's audit committee on behalf of the board of Wolverhampton Homes and found to be effective. The review included an assurance statement from the company's internal auditors.

In reviewing the council's priorities and the implications for its governance arrangements, the Council carries out an annual review of the elements that make up the governance framework to ensure it remains effective.

The key changes to the governance framework during the year include:

- The transition of public health services to the council from 1 April 2013 and the appointment by the Council of the Director of Public Health.
- The establishment of the health and well-being board as a committee of the council which has responsibility for tackling local health inequalities.
- A councillor review group looked at the relationship between the executive and scrutiny. Receiving all-party support, it developed the role of scrutiny, helping to shape policy development as well as holding the executive to account. It has been supported by councillor and officer training, as well and the production of a scrutiny handbook and practice notes on the way scrutiny is undertaken.

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the councillors and senior officers within the council who have responsibility for the development and maintenance of the governance framework, internal audit's annual report, the scrutiny function and also by reports made by the Council's external auditors and other review agencies and inspectorates, as noted above.

Internal audit has concluded that, based on the work undertaken during the year of area's key risk, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by internal audit, it can provide reasonable assurance that the council has adequate and effective governance, risk management and internal control processes. Key areas of concern have been included within the governance issues noted below.

There is a requirement to report in this statement that the authority is not fully compliant with CIPFA's Statement on the Role of the Section 151 Officer in Local Government (2009) as the Section 151 Officer post is not at the same level in the Authority as members of the Corporate Management Team and they do not report directly to the Chief Executive. However, alternative arrangements are in place whereby the Section 151 Officer attends meetings of the Corporate Management Team and has direct access to the Chief Executive when required.

A number of issues were identified in the *2011/2 Annual Governance Statement* and an update of the progress made in implementing the actions to improve these areas is included over the next pages. Where sufficient progress has not been made, the issues have been included in the 2012/13 issues.

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Progress on the Governance Issues from 2011/12
The table below describes the governance issues identified during 2011/12 and the progress made against these during 2012/13.

2011/12 - Key areas for improvement	Update on position and implication for the 2012/13 Annual Governance Statement
Partnership governance arrangements include responsibility for monitoring performance and managing risk. Improvements are required to the risk management arrangements within the major partnerships, in order to ensure that the risks associated with joint working are adequately identified and managed by the Council in conjunction with the appropriate partner. A partnership protocol has been agreed. Work continues in collating a partnership register and a reporting mechanism whereby the status of partnerships in which the Council is involved at a significant level are monitored. This is to ensure that adequate risk management arrangements are in place.	While a partnership protocol has been agreed, progress in the completion of a partnership register and the management and reporting of partnership risks continues and is therefore work in progress. **Carried forward to 2012/13**
The Council still has to implement **Single Status**, a national agreement between the National Joint Council (NJC) for Local Government and Signatory Trades Unions made on 1 April 1997. The Council has a dedicated project team to implement and govern this process. During the year, the cabinet has developed and approved a strategy for addressing the risks relating to historic equal pay claims and has commenced a process of implementing this and also meeting the requirements under the single status agreement.	The Council implemented a collective agreement on 1 April 2013. The potential for reintroducing pay inequalities is being managed by the Pay Strategy Board who have management oversight of the Wolverhampton pay and conditions strategy. The equal pay claims strategy continues to be implemented and is progressing well within the agreed governance arrangement so is therefore no longer considered a governance issue.
The Council invited the Information Commissioner's Officer to carry out a consensual audit in order to provide the basis for an improvement plan. Basic frameworks are now in place and additional resources are being targeted at **information governance**. However, detailed policies, process and training need to be embedded to reduce the profile of this ongoing governance issue.	While action has commenced, the Council did receive critical in-year reviews by the Information Commissioners office in August and December 2012. Therefore, this area has been carried forward while the recommendations from these reviews are implemented. **Carried forward to 2012/13**
Elections are due in November for **Police and Crime Commissioner**. There are currently many uncertainties around the likely impact on local issues, but there are likely to be significant governance issues around proper scrutiny and appropriate representation on the Police and Crime Panel, as well as ensuring local democratic accountability.	Officers of the Council have been in regular contact with the new Police and Crime Commissioner and proposals have been put forward by the PCC for the development of Local Police and Crime Boards (LPCB) to significantly increase the role of communities.

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Action Plan for the Significant Governance Issues Identified During 2012/13 Which Will Need Addressing in 2013/14
Based on the Council's established risk management approach, the following issues have been assessed as being 'significant' for the purpose of the 2012/13 annual governance statement. Over the coming year, appropriate actions to address these matters and further enhance governance arrangements will be taken. These actions will address the need for improvements that were identified in the review of effectiveness and their implementation will be monitored as part of the next annual review and risk management arrangements in place.

2012/13 - Key improvement areas and actions for Implementation	Responsibility and expected implementation date
FutureSpace: Corporate Landlord The management of and responsibility for the Council's property assets is currently split between two directorates. Several initiatives and proposals for maintenance programmes and better targeted use of properties have been put forward. It is necessary that clarity of ownership and control of decision making is determined to ensure effective progress is made. Also, work is ongoing to improve the co-ordination of responsibilities as the Council develops the role of a 'corporate landlord' between the directorates, along with the continued development of a 'one-council' approach to the use of land and assets and the development of options and a strategy to utilise available properties for community use that are not Council-owned property.	Strategic Director – Delivery Strategic Director – Education and Enterprise 31 March 2014
Information Governance Following critical in-year reviews by the Information Commissioners office in August and December 2012, the Council is putting in place a robust framework and effective working practices, including: • An established and operational information governance board • Mapped out work programme and resources • A new information governance structure • Information governance policies have been approved • Training programmes are underway	Strategic Director – Delivery Chief Legal Officer (SIRO) Head of Policy 31 December 2013
Partnership Governance Partnerships are increasingly common and increasingly important to the Council, in order to deliver the corporate plan and respond to the localism agenda. These partnerships take many forms. For example, formal arrangements such as strategic service delivery partnerships, statutory partnerships and looser, informal relationships with community groups or the 'third sector'. Although each of these partnerships is formed to generate beneficial outcomes, they also carry different types of risks and governance can be problematic. In addition, some of the Council's partnerships have been in place for a number of years and the 'health' and governance arrangements of these partnerships have not been systematically reviewed to ensure they continue to contribute effectively to the corporate priorities. Therefore, the Council is to adopt a revised systematic and consistent approach to identifying its significant partnerships. Once the significant partnerships have been identified, a systematic review of the governance arrangements and the 'health' of each partnership will be carried out to ensure they continue to contribute to the corporate priorities and provide value for money. The findings of the reviews and the risks associated with these partnerships will then be reported to officers and Councillors with portfolio responsibilities.	Strategic Director – Delivery Chief Legal Officer March 2014
Contract Management and Monitoring The Council has historically had an inconsistent approach to its contract monitoring. New processes are being put in place to ensure that contracts can be monitored and reviewed on an ongoing basis for value for money in the future.	Strategic Director - Delivery Head of Procurement 31 December 2013

Annual Governance Statement 2012/2013

2012/13 - Key improvement areas and actions for Implementation	Responsibility and expected implementation date
Partnership Governance Partnerships are increasingly common and increasingly important to the Council, in order to deliver the corporate plan and respond to the Localism agenda. These partnerships take many forms. For example, formal arrangements such as strategic service delivery partnerships, statutory partnerships and looser, informal relationships with community groups or the 'third sector'. Although each of these partnerships is formed to generate beneficial outcomes they also carry different types of risks and governance can be problematic. In addition, some of the Council's partnerships have been in place for a number of years and the 'health' and governance arrangements of these partnerships have not been systematically reviewed to ensure they continue to contribute effectively to the corporate priorities. Therefore, the Council is to adopt a revised systematic and consistent approach to identifying its significant partnerships. Once the significant partnerships have been identified, a systematic review of the governance arrangements and the 'health' of each partnership will be carried out to ensure they continue to contribute to the corporate priorities and provide value for money. The findings of the reviews and the risks associated with these partnerships will then be reported to officers and Councillors with portfolio responsibilities.	Strategic Director – Delivery Chief Legal Officer March 2014
Contract Management and Monitoring The Council has historically had an inconsistent approach to its contract monitoring. New processes are being put in place to ensure that contracts can be monitored and reviewed on an on-going basis for value for money in the future.	Strategic Director - Delivery Head of Procurement 31 December 2013
Procurement The Interim Head of Procurement had raised concerns over past tendering processes and the failure to follow the Council's Contract Procedure Rules. Following an independent review, these concerns were supported by the findings of Internal Audit who identified a number of cases of inconsistencies and ambiguities at various stages of the procurement processes. The recommendations arising from the audit review were agreed with the Interim Head of Strategic Sourcing, who is putting in place a whole range of improved working practices over the coming months.	Strategic Director – Delivery Head of Procurement 31 December 2013
Savings Targets While the Council's current and historical savings targets have been largely delivered, there are still a limited number of such targets that have not yet been and also some, where proposals are yet to be developed. A failure to meet these targets will adversely impact upon the Council's ability to meet its objectives. Close monitoring of the situation continues at both senior officer and Councillor level.	Strategic Director - Delivery Assistant Director - Finance 31 March 2014
Resilience Function (Emergency Planning and Business Continuity) The Council has identified issues in its ability to respond fully to its responsibilities under the Civil Contingencies Act. The Cabinet has approved the creation of a new Resilience Team in 2013/14 to bring together the separate Emergency Planning and Business Continuity functions. This is to underpin the delivery of the new Major Incident Plan and suite of subsidiary plans. The Resilience Team will operate within new governance arrangements and report to a Board. . The Board will oversee the delivery of the adopted project plan for Resilience that will be reviewed monthly by the Strategic Executive Board. Annual audits will also be conducted to validate progress against the project plan.	Strategic Director – Delivery Assistant Director - Delivery 31 March 2014
Equalities The Council has identified issues in its ability to respond fully to its responsibilities in respect of equalities and consultation. An Equalities Project Board has been formed and approved an equalities work programme. This programme identifies ways of mainstreaming and promoting best equalities practice. Appropriate measures will be implemented during 2103/14.	Strategic Director – Delivery 31 March 2014

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2012/13 - Key improvement areas and actions for Implementation	Responsibility and expected implementation date
Procurement The interim Head of Procurement had raised concerns over past tendering processes and the failure to follow the Council's contract procedure rules. Following an independent review, these concerns were supported by the findings of internal audit who identified a number of cases of inconsistencies and ambiguities at various stages of the procurement processes. The recommendations arising from the audit review were agreed with the interim Head of Strategic Sourcing, who is putting in place a whole range of improved working practices over the coming months.	Strategic Director – Delivery Head of Procurement 31 December 2013
Savings Targets While the Council's current and historical savings targets have been largely delivered, there are still a limited number of such targets that have not yet been and also some, where proposals are yet to be developed. A failure to meet these targets will adversely impact upon the Council's ability to meet its objectives. Close monitoring of the situation continues at both senior officer and councillor level.	Strategic Director - Delivery Assistant Director - Finance 31 March 2014
Resilience Function (Emergency Planning and Business Continuity) The Council has identified issues in its ability to respond fully to its responsibilities under the Civil Contingencies Act. The cabinet has approved the creation of a new resilience team in 2013/14 to bring together the separate emergency planning and business continuity functions. This is to underpin the delivery of the new major incident plan and suite of subsidiary plans. The resilience team will operate within new governance arrangements and report to a board. The board will oversee the delivery of the adopted project plan for resilience that will be reviewed monthly by the Strategic Executive Board. Annual audits will also be conducted to validate progress against the project plan.	Strategic Director – Delivery Assistant Director - Delivery 31 March 2014
Equalities The Council has identified issues in its ability to respond fully to its responsibilities in respect of equalities and consultation. An equalities project board has been formed and approved an equalities work programme. This programme identifies ways of mainstreaming and promoting best equalities practice. Appropriate measures will be implemented during 2103/14.	Strategic Director – Delivery 31 March 2014

Future Assurance

Regular progress reports on the implementation of the above actions from these key improvement areas will be produced by Audit Services and reported to the Audit Committee throughout 2013/14. In addition the following two areas, while not identified as significant governance weaknesses during 2011/12, do represent key challenges to the council for the year ahead and their success will play an important role if the council is to achieve its key aims:

Confident, Capable Council

Achieving the 'Confident, Capable Council' objective depends on the creation of a strong corporate core for the organisation and on delivering high quality, cost-effective services. There is a large transformational programme the Council is undertaking in order to deliver this, and the good governance of this programme will be key.

FutureWorks Programme

The Council is currently involved in the procurement of a substantial new IT system that will also support the required business transformation in order to help it achieve its objectives. The Council will need to continue to manage the risks around the general governance and structure of this programme and through the general programme controls it will bring.

Certification

To the best of our knowledge, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our annual review.

Simon Warren	Councillor Roger Lawrence
Chief Executive	**Leader of the Council**
22 July 2013	22 July 2013

Statement of Investment Principles 2013

Statement of Investment Principles 2013

The Council's Responsibilities

1. Introduction

1.1 The West Midlands Pension Fund has drawn up this Statement of Investment Principles ('the SIP') 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 consulted with such persons as it considers appropriate including obtaining advice from its consultants in preparing this statement.

1.2 Overall investment policy falls into two parts.
The strategic management of the assets is fundamentally the responsibility of the Pensions Committee established by Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions.
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 on page 3.
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 committees meet at least four times a year. A Joint Consultative Panel made up of local trade union members meets three times a year.

1.3 The roles of the members and committee are:

Pensions Committee Member Principal Accountabilities

1. To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations in the West Midlands.
2. To put in place and monitor the arrangements for 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 administrating authority.

Key Duties

a) Pensions Committee

1) Monitor compliance with legislation and best practice.
2) Determine admission policy and agreements.
3) Monitor pension administration arrangements.
4) Determine investment policy based upon a medium-term benchmark and quarterly reviews outlining a short-term position.
5) Monitor policy.
6) Appoint committee advisers.
7) Determine detailed management budgets.

b) Investment Advisory Sub-Committee

1) Monitor investment management arrangements.
2) Review strategic investment opportunities.
3) Monitor and review portfolio structures.
4) Monitor implementation of investment policy.
5) Advise on the establishing of policies in relation to investment management, including the appointment and approval of terms of reference of independent advisers of the Fund.
6) Monitor investment activity and performance of the Fund.
7) Oversee the administration of investment management functions of the Fund.

The Council delegation to Pensions Committee is as follows:

a) To exercise the functions of the Council in relation to the administration of the West Midlands Pension Fund arising by virtue of the Local Government Pension Scheme (Administration) Regulations 2008, and any subsequent related legislation.

b) To exercise all the general powers and duties of the Council granted to Cabinet and cabinet teams and standing bodies provided that those parts of the Council's *Financial Procedure Rules and Contracts Procedure Rules* which relate to the acquisition and disposal of land and the approval of expenditure, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Fund.

c) To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.

d) To ensure that consideration is given to the impact which the committee's policies and provision of services have with regard to environmental matters.

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The key delegation to the Investment Advisory Sub-Committee is as follows:

a) To advise on the establishing of policies in relation to investment management including the appointment and approval of terms of reference of independent advisers to the Fund.

b) To monitor investment activity and the performance of the Fund.

c) To oversee the investment management functions of the Fund. The Director of Pensions oversees the implementation of committee policy and the management of the day-to-day functions that support its implementation.

1.4 This SIP has been prepared taking into account the most recent actuarial valuation and the Funding Strategy Statement (FSS). The SIP is updated as part of any significant changes on an ongoing basis, for example, appointment of new managers, or new major investment areas or benchmark changes.

1.5 Related Fund policies and statements are:

- Funding Strategy Statement
- Statement of Investment Principles
- Socially Responsible Investment Statement
- Compliance with Myners
- Compliance with the UK Stewardship Code
- Governance Compliance Statement

2. Investment Objectives and Risk

2.1 Objectives

i) Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.

ii) Emphasise markets that over time are likely to give better returns.

iii) Acknowledge the risk of investing and have regard to best practice in managing that risk.

iv) Have resources available to meet the Fund's liabilities for pensions and other benefits provided when they fall due.

v) Identify innovative return enhancing investment opportunities.

2.2 Risk

i) The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

ii) **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 reflecting optimum correlation between asset classes and diversification. 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 as 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 seeks to mitigate systemic risk through a diversified portfolio with a split between active management (alpha) and market returns (beta). Within the allocation to alpha there is a diverse range of specialist managers with varying targets of risk and return. In addition, the alpha budget is designed to enhance returns from identifying market inefficiencies. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

iii) **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.

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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.

iv) **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. Greater detail can be found in the Investment Strategy Statement

3. Investment Strategy

The Fund sets a long-term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and its investment objectives. The strategy used to be reviewed at least every three years after each actuarial valuation, and monitored on an ongoing basis to facilitate any necessary changes. The review is now moving to an annual basis which may or may not result in a change in benchmark more frequently.

The majority of the Fund's expected returns (6.0%) comes from its market investments and 0.9% from its active budget. Although the Fund only has a combined 35% allocation to 'complementary' asset classes and private equity, around 50% of the target active returns are expected to be derived from these. These allocations are made in order to better manage and improve the risk return on investments, and have led to a medium-term target of 25% complementary, 20% fixed-interest and 55% equities (includes a 10% allocation to private equity). Further details can be found in the Fund's Investment Strategy Statement.

The Fund's investment in complementary asset classes seeks to increase the overall expected returns while reducing the overall level of expected risk due to the effect of diversification. Volatility also forms part of the overall equation, acknowledging there is market risk plus active risk (associated with any active management). The key is to find investments where the extra alpha more than offsets any increase in volatility.

The strategy has, over recent years, set a trend of further diversifying the Fund's overall risk away from an overdependence on the equity risk premium. As part of this trend, complementary investments have included investments in 'absolute return strategies'.

It also seeks to position the Fund's equity exposure to reflect global GDP, in addition to market capitalisation.

Tactical asset allocation decisions are taken on a quarterly basis by the Pensions Committee. These decisions are controlled around limiting the variations to the strategic benchmarks and supported by views on capital markets' views and asset classes as provided by the Fund's advisors. It was agreed at the Pensions Committee in November 2012 that current tactical asset allocation decisions are temporarily suspended until full implementation of the ongoing SIAB review has taken place.

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4. Day-to-Day Management of the Assets

4.1 Investment Portfolios

The investment strategy is implemented through the development of investment portfolios within each asset class detailed in the benchmark. The portfolios will be constructed from funds and products that are accepted by the Investment Advisory Sub-Committee and satisfy the relevant investment management regulations and operational due diligence requirements.

The investment opportunities will be accessed through the following range of methods.

A significant amount of investment is carried out by the Fund's own Pension Fund Investment Division (PFID) and is designed to manage approximately 45% of the Fund's investments. The majority of quoted equities are managed in-house, either on a passive or active core basis, the latter having relatively low alpha and volatility targets.

Where the appropriate skills are not available internally, some specialist external funds and managers are used. The managers used are listed at Appendix A on page 9.

The management of private equity and some of the other complementary assets involves selecting specialist funds to construct portfolios. UK direct property is also managed through a specialist manager, alongside close in-house involvement. The Fund takes final decisions on all, except minor, property matters. Index-linked bonds are managed externally on a passive basis; all UK corporate bonds are managed externally, predominantly on an active basis. UK gilts are managed externally within a passive mandate.

On occassions 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.

4.1.2 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 actuarial valuation. The individual portfolios are expected to match or exceed the specific targets set for each portfolio over time. The Investment Strategy Review 2012 indicated the total return target for the Fund is 6.9%, which is split between the returns expected from core/passive investments (the core return of 6.0%) and those from actively-managed investments (0.9%).

4.1.3 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), except for contributions to partnerships where it has resolved to work to the upper limit of 15% under Regulation 14(3). This limit will increase to 30% from 1 April 2013. This reflects the level of investments planned for 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.

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

4.3 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. There is no current policy on realising investments to meet benefit outgoings etc, as the Fund's cashflow is positive. The majority of the Fund's investments may be realised quickly if required. Property and private equity, which together represent around 19% of total assets, may be difficult to realise quickly in certain circumstances.

4.4 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.

Advisers

The Fund uses a range of advisers in addition to its own specialist officers. These are detailed in Appendix C on page 71.

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5. Corporate Governance and Socially Responsible Investment (SRI)

5.1 Fund Responsibilities

The Fund recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Fund 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.

The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards or reasonable expectations set by their peers.

The Fund's approach is part of its overall investment management arrangements and its active governance policy.

In order to fulfil this responsibility, The Fund communicates with companies and exercises the rights (including the voting rights) attaching to investments in support of its corporate governance policies. The Fund's voting rights are an asset and will be used to further the long-term interests of the Fund beneficiaries. As a general principle, votes will be used to protect shareholder rights, to minimise risk to companies from corporate governance failure, to enhance long-term value and to encourage corporate social responsibility. It is the Fund 's policy to vote against a company's report and accounts where there is insufficient disclosure on environmental, employee and community policy. A copy of the Fund 's corporate governance policy and a summary of its voting actions can be found on the website at wmpfonline.com

Socially responsible investment is taken as giving consideration to issues that give risk to social 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.

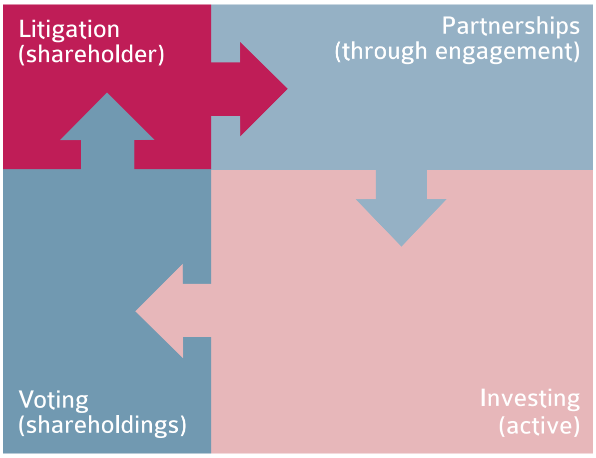
The Fund's policy statement on SRI and its position relating to the UK Stewardship Code can be found in a separate statement on the website.

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.

5.1 Approach to SRI

The Fund's approach to corporate governance and SRI divides into four areas of activity.

ESG Best Practice



a) Voting Globally

The first approach, voting, is certainly not a 'box-ticking' exercise, as the Fund regularly votes against resolutions.

The Fund, through a proactive voting policy, in partnership with PIRC, votes its share rights constructively based upon a comprehensive analysis of company voting issues.

The Fund's voting policy and activity is detailed in its annual report and accounts and on the Fund's website, where it is reported on a quarterly basis.

b) Engagement Through Partnerships

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns. It does this through:

- LAPFF.
- Voting on shareholder resolutions.
- Joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. 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. See the LAPFF website for further details: www.lapfforum.org

Statement of Investment Principles 2013

The Fund continues to actively develop corporate governance partnerships as it believes this will maximise the influence of shareholders, will lead to best practice and will promote high standards on a global basis. Current partners include the Institutional Investors Group on Climate Change.

b) Shareholder Litigation
The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund, in partnership with a US law firm and other shareholders, submits class actions globally where possible and where appropriate.

d) Active Investing
The fourth and most challenging activity for the Fund in this particular field is actively seeking SRI investments for a proportion of Fund assets, provided these meet the Fund's requirements of strong returns combined with best practice in SRI and/or corporate governance.

Such investments include alternative energy, clean energy, urban regeneration and activists' funds.

5.3 **Environmental Concerns**
The corporate performance of companies and their value as investments are increasingly affected by environmental factors. In pursuance of a prudent and environmentally responsible response by companies, the Fund will encourage and support companies that demonstrate a positive response to SRI and environmental concerns.

The Fund expects companies to:

- Make a commitment to achieving environmental excellence.
- Institute regular monitoring of their environmental impacts.
- Establish procedures which will lead to incremental improvements in environmental performance.
- Comply with all current environmental and other relevant legislation and to seek to anticipate future legislative changes.
- Make available to shareholders regular and detailed reports of progress made towards attaining improved environmental standards.
- Seek to take all reasonable and practical steps to minimise or eliminate environmental damage.
- Actively and openly engage in discussion on the environmental ethical effects of their business.
- Take environmental matters seriously and produce an environmental policy which is effectively monitored.

6. Compliance with this Statement

The Fundwill 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.

7. 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.

8. Review of this Statement

The Fund 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 no less frequently than every three years to coincide with the actuarial valuation.

9. Stocklending

The Fund undertakes stocklending for its quoted equity holdings and is considering it for other asset classes, as permitted by the LGPS (Management and Investment of Funds) Regulations 2009 and operates within the limits set by the regulations.

The lending of equities, held in segregated mandates, is through the Fund's custodian with a formal agreement in place and approved collateral to protect the Fund's interests. Regular reviews of the lending programme take place with the custodian. Stocklending may also take place in pooled vehicles held by the Fund.

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Appendix A - Portfolio Structure April 2013

The structure summary is as follows:

Equities	
UK	PFID
North America	PFID; Intech
Europe	PFID: Blackrock
Far East	PFID plus specialist funds
Global	MFS Investment Management
	Blackrock
	PFID through specialist funds
Emerging markets	PFID through specialist funds
Private equity	PFID through specialist funds
Complementary investments	
PFID through a selection of specialist funds	
Fixed interest	
UK gilts	PFID through specialist funds
UK index-linked	PFID through specialist funds
UK corporate bonds	PFID through specialist funds
	Royal London Asset Management
Cash	PFID
Direct property	CBRE
Indirect property	PFID through specialist funds

PFID - Pension Fund Investment Division (Direct)

Statement of Investment Principles 2013

Appendix B - Investment Benchmark

		Medium-Term Asset Allocation January 2013	Medium-Term Strategic Ranges
	%	%	%
Quoted equities		**45**	**35-55**
UK	10.0		
Europe	6.0		
North America	9.0		
Japan & Far East	6.5		
Emerging markets	8.5		
Global equities	5.0		
Private equity	10.0		
Total equities		**55**	**45-65**
Fixed interest		**20**	**15-25**
UK index-linked	5.5		
UK gilts	4.0		
UK corporate bonds	5.0		
Emerging market debt	4.5		
Cash	1.0		
Complementary		**25**	**20-30**
Direct property	7.0		
Indirect property	2.0		
Commodities	3.0		
Infrastructure	3.0		
Absolute return strategies	10.0		
Total non-equities		**45**	**35-55**
Total Fund		**100**	

- Fund's asset allocation to equity markets reflects global GDP by region, market capitalisation and regional wealth, but with a higher weighting to the UK and emerging markets.
- Fund's overall exposure to UK is of the order of 33%
- Regional overseas equities:
  50% US and Europe
  50% Asia and Emerging Markets
- Fixed interest:
  50% stabilising
  50% others

Note: Medium-term strategies ranges set deliberately wide and only around specific asset classes to facilitate tactical asset allocation within sub-sectors. As mentioned previously in the report tactical asset allocation decisions are currently suspended whilst SIAB review is implemented.

The risks of diverging from the benchmark are monitored and evaluated through a weekly risk/return model, which is also submitted to the quarterly Pensions Committee.

Statement of Investment Principles 2013

Appendix C - Advisers April 2013

Hymans Robertson	Investment policy, general investment matters.
Mercer Human Resource Consulting	Actuarial matters.
CBRE	Commercial and industrial property matters, day-to-day management of properties and transactions, involving the sale and purchase of property (excluding agricultural).
John Fender Consultancy	Independent property advice
Knight Frank	Agricultural property management matters
Knight Frank	Independent property valuations
Savills	Independent agricultural property valuations.
Entec	Planning matters (agricultural holdings).
Lawrence Gould	Independent agricultural property advice.
Deloitte	Investment management practices and regulations.
PIRC	Company governance issues.
HSBC	Stocklending.

Appendix D - List of Suitable Investments

Within the investment management regulations for the LGPS, the following are considered acceptable investments for meeting the Fund's investment strategy.

- Quoted equities
- Private equity
- Contract of insurance (relevant)
- Unlisted securities
- Property
- Cash deposits
- Fixed interest
- Commodities
- Infrastructure
- Derivatives in accordance with the Fund's compliance requirements

Appendix E - List of Acceptable Investment Vehicles

- Direct holdings
- Limited partnerships
- Pooled vehicles
- Structured products (as defined by the LGPS regulations)
- Hedge fund strategies

Appendices

Funding Strategy Statement 2013

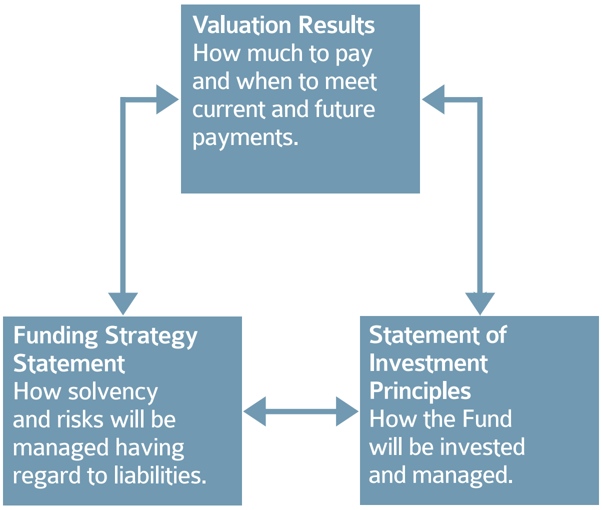
Funding Strategy Statement 2013

1. Introduction

1.1 The LGPS Regulations require funds to produce a Funding Strategy Statement (FSS) having regard to the guidance produced by CIPFA. This statement has been drawn up by the West Midlands Pension Fund in accordance with the regulations and following consultation.

1.2 The FSS complements and adds to the Statement of Investment Principles (SIP). The Investment Strategy Statement (ISS) is a supporting document, alongside the actuarial valuation, together with their supporting documentation.

1.3 The statements relate as follows:



1.4 The Fund's actuary takes account of the FSS in his actuarial work for the Fund, most notably, the actuarial valuation process.

1.5 The FSS reflects the statutory nature of the Local Government Pension Scheme (LGPS), particularly the defined benefit nature and the benefit payable guarantee. The FSS sets out how benefits will be funded over the long term through an accountable, transparent process with full disclosure of relevant details and assumptions.

1.6 The LGPS is a long-established, well-managed, funded final salary scheme. Nevertheless, all public sector pension schemes are currently undergoing review by the Public Service Pension Commission lead by Lord Hutton. The long-term outcome of this review is unknown at present, but there may be substantial changes emerging in due course.

1.7 The Fund, like many other similar public and private sector funded schemes, has a gap between its assets and pension liabilities which this strategy addresses.

1.8 A number of factors have contributed to the funding gap and contribution rates for employers:

a) investment returns relative to movement in liabilities;

b) increases in longevity of pensioners;

c) falling long-term interest rates.

There are some steps that the actuary can take to assist employing bodies. These include:

a) recognising the long-term nature of local government, so that deficits are recovered over time. At the 2004 valuation, the period was increased to 25 years from 13 years. Active service and drawdown of benefits will occur over a long period going forward and this has been maintained at 25 years;

b) phasing increases in contributions over six years where appropriate;

c) recognising such financial' improvements' as a reduction in ill-health retirements, prevalence of spouse's and dependants' benefits on a member's death, and anticipated likely changes to the LGPS emerging from the Hutton review;

d) giving weight to a balanced investment strategy.

1.9 The Fund, since it was established in 1974, has seen variations in its funding level as did the earlier district funds. The funding level has previously dipped to 75% and recovered. Over this long period, there has been a consistent approach with the actuarial valuation process, the link to an investment strategy and balanced management of the risks. The current arrangements continue this approach. The critical element is securing diversified investment market returns from world markets. The Fund has a long record of achieving solid returns for all of its portfolios. The approach adopted is to ensure a priority is given to achieving at least a market return and, as recommended best practice indicates, use asset allocation to deliver a substantial part of the investment target.

1.10 As the pursuit of returns becomes ever more complex, combined with the prospect of diminishing returns, the Fund is becoming increasingly aware of the need to balance the relationship between the different asset classes, their returns, their volatility and their correlation with equities. This constitutes the 'risk budget'.

Funding Strategy Statement 2013

2. The Purpose of the Funding Strategy Statement in Policy Terms

2.1 The purpose of this FSS is:

- To establish a clear and transparent fund-specific strategy which will identify how employers' liabilities are best met going forward.
- To support the regulatory requirement to maintain employer contribution rates as nearly constant as possible.
- To take a prudent longer term view of funding those liabilities.

2.2 The Fund currently has a strong net cash inflow. The FSS supports the process of ensuring adequate funds are put aside on a regular basis to meet future benefit liabilities. The LGPS regulations specify the approach and requirements, the implementation of the funding strategy is the responsibility of the Fund acting on expert advice and following consultation.

2.3 The FSS is a comprehensive strategy for the whole Fund. It balances and reconciles the many direct interests that arise from the nature of the Scheme, and funding of the benefits now and in the future.

2.4 The solvency of the Fund is a long-term management issue. Currently, the net cash inflow is over [£150m] pa, but it is essential that funds are made available to ensure all future benefits payments can be met when they become due.

3. Aims and Purposes of the Fund

3.1 The aims of the Fund are to:

- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies having regard to the liabilities.
- Manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding.
- Ensure that sufficient resources are available to meet all liabilities as they fall due.
- Maximise the returns from investments within reasonable risk parameters
- Minimise the risks to the Fund from its admission arrangements by strengthening its admission arrangements and pursuing a policy of positive engagement.

3.2 The purpose of the Fund is to:

- Receive and invest monies in respect of contributions, transfer values and investment income.
- Pay out monies in respect of Scheme benefits, transfer values, costs, charges and expenses. The Local Government Pension Scheme Regulations and in particular the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 define these purposes.

4. Responsibilities of the Key Parties

4.1 The LGPS regulations set out the responsibilities of the key parties which are summarised below.

Further details are available on the Fund's website where operational and management arrangements are set out.

4.2 The administering authority (Wolverhampton City Council) through its Pensions Committee:

- Collects employer and employee contributions.
- Invests surplus monies in accordance with the regulations and agreed strategy.
- Ensures that cash is available to meet liabilities as and when they fall due.
- Manages the valuation process in consultation with the Fund's actuary.
- Prepares and maintains a FSS and a SIP.
- Monitors all aspects of the Fund's performance and funding. Amends the FSS and SIP as appropriate. The administering authority discharges its responsibilities with the active involvement from the major employers, the district councils and trade unions representatives combined with consultation with interested parties.

4.3 The individual employers:

- Deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the regulations).
- Pay all contributions, including their own as determined by the actuary, promptly by the due date.
- Exercise discretions within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Scheme benefits and early retirement strain.
- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.
- Discharge their responsibility for compensatory added years which the administering authority pays on their behalf and is subsequently recharged to them.

Funding Strategy Statement 2013

4.4 The Fund's actuary:

- Prepares valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.
- Sets employer's contribution rates in order to secure the Fund's solvency having regard to the aims of maintaining contribution rates that are as constant as possible.
- Prepares advice and calculations in connection with bulk transfers and individual benefit- related matters.

5. Solvency Issues and Target Funding Levels

5.1 The Fund currently has a strong net cash inflow and can, therefore, take a medium to long-term view on determining employing body contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long-term view. It allows short-term investment market volatility to be managed so as not to cause volatility in employing body contribution rates.

5.2 Nevertheless, the Fund recognizes the different characteristics of the variety of participating employer organisations, and will set funding strategy appropriately having regard to factors such as:

- strength of covenant, and security of future income streams;
- support or guarantor arrangements from Scheme employers;
- prospective period of participation in the Fund, and specifically the implications if the employer has closed membership of the scheme to new employees.

Taking these factors into account, case-by-case assessment review of contribution requirements may, in some cases, prove necessary as part of the triennial valuation process.

5.3 The Fund's policy as regards participation of non-scheduled Scheme employers, including termination issues, is set out in the comprehensive publication (August 2009) *'Information and Guidance on Arrangements for Admitting Non-Scheduled Bodies'*.

5.4 The LGPS regulations require the long-term funding objectives to achieve and maintain assets sufficient to cover 100% of the projected accrued liabilities. The level of assets necessary to meet this 100% funding objective is known as the funding target. The role of the actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements.

The approach to the actuarial valuation process and key assumptions used at each three-yearly valuation are consulted upon and the valuation forms part of the consultation undertaken with the FSS.

Determination of the Funding Target and Recovery Period

5.5 The principal method and assumptions to be used in the calculation of the funding target are set out in the Appendix.

5.6 Underlying these assumptions there are two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment returns can play a valuable role in achieving adequate funding over the longer term.

5.7 As part of each valuation, separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer, a pro-rata principle is adopted. The general approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

5.8 The administering authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- A maximum deficit recovery period of 25 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the administering authority considers this to be warranted (see deficit recovery plan below).
- In current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply where substantial deficits apply. As a result in addition to the maximum deficit recovery period of 25 years, the Fund will operate a standard deficit recovery period, set at 20 years at the 2010 valuation.
  All employer's will be required to adopt a deficit recovery period in line with the standard period (or shorter) before any reduction in overall contributions would be allowed.
- With effect from April 2011 employer contributions will be expressed and certified as two separate elements:
  - a percentage of pensionable payroll in respect of future accrual of benefits
  - a schedule of fixed £s amounts, increasing annually in line with the valuation funding assumption for long-term pay growth, in respect of deficit recovery subject to review from April 2014 based on the results of the 2013 actuarial valuation.

Funding Strategy Statement 2013

- Where increases in employer contributions are required from 1 April 2011, the increase from the contributions payable in the year 2010/11 may be implemented in steps, over a maximum period of six years.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate guidance published by the Fund.
- Any employing body with a surplus of assets over liabilities may have the surplus applied over a period that assists the process of smoothing or avoiding increases in contributions over a valuation cycle.
- The Fund's approach will reflect the ability of employing bodies to meet their pension liabilities and resources available to them when their circumstances have changed suddenly.
- In determining a contribution rate, a prudent approach will be taken to balancing any potential reductions in contributions with the strength of the employing body covenant risk.

  Consequently, the administering authority may, at its discretion, levy contributions for a particular employer that are below, or above, those initially certified by the actuary, where it is deemed appropriate to assist with smoothing or control of contribution rates.
- Where the administering authority does levy an alternative contribution plan for a particular employer, as described above, this will represent an employer-specific funding plan, and will be agreed and documented separately.
- Academies will be treated in accordance with the factors and legislation that lead to their creation. All will be considered to have the same covenant strength as any scheduled body, and their contribution rates will be calculated to meet the broad intentions of ensuring they are in a similar financial position in respect of pension liabilities pre- and post-transfer to academy status.

5.9 In determining the above objectives, the administering authority has had regard to:

- the responses made to the consultation with employers on the FSS principles;
- relevant guidance issued by the CIPFA Pensions Panel;
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose; and
- the administering authority's views on the strength of the participating employers' covenants in achieving the objective.

5.10 In certain instances, and in particular for Fund employers which are considered by the administering authority to provide a high level of covenant, an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the funding target. This higher level of return assumed will, in particular reflect the actual investment strategy of the Fund, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these recovery plan calculations are set out in the Appendix.

5.11 Due to exceptional budgetary pressures, for this valuation only, there will be a reserve established for the local authorities to cover the cost of non- ill-health premature retirements (ie, costs arising from the early payment of Scheme benefits) and the cost of the conversion of the historic CAY benefits under Regulation 12B of the Benefit Regulations. This is allowable up to the maximum allowance agreed with the administering authority in conjunction with the actuary and as detailed in separate correspondence and discussions with the local authorities. The contributions required to establish this reserve have been built into contributions to the extent that it is allowable within the parameters set out in this Funding Strategy Statement.

5.13 There will be an overall reserve, established as a contingency to protect the Fund against funding shortfalls, where employers without a guarantor cease participation in the Fund and cannot pay to remove any deficit. The reserve will initially be at a level of £3 million as at 31 March 2010 and the contributions required to establish this reserve have been built into rates assessed for all employers within the Fund at this valuation. This reserve is subject to review at subsequent actuarial valuations.

The Normal Cost of the Scheme (Future Service Contribution Rate)

5.12 In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the 'normal cost'). The method and assumptions for assessing these contributions are also set out in the Appendix.

Funding Strategy Statement 2013

6. Links to the Investment Policy Set Out in the Statement of Investment Principles (SIP)

6.1 The Fund has, for many years, regularly used an asset liability study or some other form of stochastic modelling in order to assist the process of formulating a strategic asset allocation.

The outcomes are reflected in the Fund's SIP. The Fund's updated investment strategy has been supporting part of the consultation on the valuation and the FSS. A revised SIP has been produced to reflect the FSS and Investment Strategy.

7. The Identification of Risks and Countermeasures

7.1 Evaluating risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks. The FSS identifies those key risks specific to the Fund and the measures being taken or assumptions made to counter those risks.

7.2 Some of the key risks taken into account and responses are:

Financial

- Unexpected market-driven events.
- Investment markets fail to perform in line with expectations.
- Market yields move at variance with assumptions.
- Investment fund managers fail to achieve performance targets over the longer term.
- Asset allocations in volatile markets may lock in past losses.
- Pay and price inflation significantly more or less than anticipated.
- The effect of a possible increase in employer's contribution rate on service delivery and employers in general. The Fund has undertaken a regular review of its investment strategy taking into account investment risk and future benefit payments to determine a bespoke investment strategy that for a variety of future economic outcomes gives a high degree of certainty that the investment objectives will be achieved. The Fund is moving to a yearly review from 2011. Short-term investment management decisions to reflect anticipated market changes are strictly controlled against the investment strategy or benchmark.

Investment management briefs reflect the importance of capturing at least a market rate of return and minimising the risk of significantly underperforming an investment market. Further information is available in the SIP and on the Fund's website.

Demographic

- The longevity horizon of beneficiaries continues to expand.
- Cost of early retirements
  The Fund has in place policies and procedures to identify for employing bodies the impact of these factors and agrees how they will be managed in terms of annual contribution rates and/or as special additional contributions.

The Fund is exploring insurance cover for some of the death in service costs.

Regulatory

- Changes to regulations, eg, more favourable benefits package, potential new entrants to Scheme.
- Changes to national pension requirements and/or Inland Revenue rules. These changes agreed and proposed are evaluated and taken into account in the actuarial valuation and closely monitored between valuations in case any action is required.

Major employing bodies are invited to make provision within their contribution rate, or make contributions to the Fund as cases are approved for early retirement and other employing body discretions that, when exercised, alter future liabilities.

Governance

- Administering authority unaware of structural changes in an employer's membership (eg, large fall in employee members, large number of retirements).
- Administering authority not advised of an employer closing to new entrants.
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

The Fund has established inter-valuation monitoring and working relations with its employers to ensure changes are detected, discussed, evaluated and appropriate action agreed. This includes regular reviews of funding levels, bond arrangements where appropriate and the assessment of the financial standing of employers that are not tax-raising bodies.

Employers

- Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy. The Fund's approach to the outcome of the valuation has had regard to balancing the needs of funding the liabilities and the cost to employers. This is reflected in the approach to the phasing of increase, the recovery period for meeting any funding gap, together with the risks associated with the investment strategy. It is considered the approach adopted represents an 'affordable' solution taking all factors into account.

Funding Strategy Statement 2013

A risk assessment of the sustainability of all employers has been undertaken seeking to establish the risk of an employer failing to meet their pension liabilities. The analysis has looked at the following levels of risk:

Low Risk

Scheduled and resolution bodies as statutory entities that are either required, or can choose to offer membership of the LGPS. This category would cover:

- A local authority, or equivalent.
- A body for which the Fund has a guarantee of liabilities from a local authority (or its equivalent).
- A body which receives funding from local or central government (eg, colleges and universities).
- A body which has a funding deficiency guarantee from local or central government.
- A best value-type body for which a local authority within the Fund effectively stands as the ultimate guarantor on the termination of the admission agreement as a result of Regulation 78(2A).

Medium Risk

Scheduled bodies not considered as low risk and admitted bodies with no statutory underpin but:

- Can provide satisfactory evidence of financial security (eg, parent company guarantee, bond, indemnity, insurance).
- Is part of a group of related or pooled bodies which share funding on default.

High Risk

An admitted body:

- With no external funding guarantee or reserves.
- With a known limited lifespan or fixed contract term of admission to the Fund.
- Which has no active contributors and/or is closed to new joiners.
- Which relies on voluntary or charitable sources of in come.

This analysis indicates the risk to the Fund's solvency and ability to meet prior liabilities to be low. It will, however, continue to be monitored. A number of small bodies have significant financial challenges due to falling revenues. The Fund will work with these bodies to ensure all interests are considered and an acceptable funding strategy for the pension liabilities is achieved that does not put the Fund's position at an increased risk. In respect of bodies that have fixed-term funding, the aim is that a fully funded position should be achieved with a high degree of certainty by the end of the funding period. Further information is available in the separate admission bodies funding policy document.

Appendix

Actuarial Valuation as at 31 March 2010

Method and Assumptions Used in Calculating the Funding Target Method

The actuarial method to be used in the calculation of the funding target is the 'projected unit' method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the 'attained age' method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Financial Assumptions

Investment Return (Discount Rate)

A yield based on market returns on UK government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an asset outperformance assumption (AOA) of 2% pa for the period pre-retirement and 1% pa post-retirement. The AOAs represent the allowance made, in calculating the funding target, for the long-term additional investment performance on the assets of the Fund relative to the yields available on long-dated gilt stocks as at the valuation date. The allowance for this outperformance is based on the liability profile of the Scheme, with a higher assumption in respect of the 'pre-retirement' (ie, active and deferred pensioner) liabilities than for the 'post-retirement' (ie, pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the Fund will have different mixes of active, deferred and pensioner members, adopting a different pre/post-retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the Fund practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a 'mirror image' investment strategy to the whole Fund. Therefore, in completing the calculations for individual employers, a single, composite, pre- and post-retirement AOA of 1.435% pa has been calculated which, for the Fund as a whole, gives the same value of the funding target as the separate pre- and post-retirement AOAs.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for CPI as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, less an adjustment.

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The adjustment is taken to be 0.8% pa and is in respect of two factors:

- The perceived premium investors are prepared to pay to protect against future inflation rises (known as an inflation risk premium).
- The expectation that CPI is expected to increase at a lower rate than the retail prices index (RPI). An adjustment is required in respect of this, as the index-linked investments used to determine the market rate of inflation are indexed with reference to the RPI, and so determine a 'market view' of RPI.

Salary Increases
The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% pa over the inflation assumption as described above. This includes allowance for promotional increases.

Pension Increases
Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with CPI (eg, guaranteed minimum pensions in respect of service prior to April 1997).

Full details of the assumptions adopted are set out in the actuary's formal valuation report.

Method and Assumptions Used in Calculating the Cost of Future Accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities. The financial assumptions in relation to future service (ie, the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (ie, return in excess of price inflation) of 3.75% pa with a long-term average assumption for price inflation of 3.0% pa. These two assumptions give rise to an overall discount rate of 6.75% pa.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the regulations for stability in the 'common rate' of contributions. In market conditions at the effective date of the 2010 valuation, this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market-related basis used for the assessment of the funding target.

At each valuation, the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the AOAs used for the funding target is fully taken into account in assessing the funding position.

Summary of Key Whole Fund Assumptions Used for Calculating Funding Target and Cost of Future Accrual (the 'Normal Cost') for the 2010 Actuarial Valuation

Long-term gilt yields		
Fixed interest		4.45% pa
Index-linked		0.7% pa
Adjustment for inflation risk premium and CPI		(0.8%)pa
Implied CPI price inflation		3.0% pa
Past service funding target financial assumptions		
Investment return pre-retirement		6.45% pa
Investment return post-retirement		5.45% pa
Salary increases		4.75% pa
Pension increases		3.0% pa
Future service accrual financial assumptions		
Investment return		6.75% pa
Salary increases		4.75% pa
Pension increases		3.0% pa
Principal demographic assumptions		
Mortality assumptions	**Table**	**Adjustment**
Male normal health pensioners	S1PMA CMI 2009 M (1%)	103%
Female normal health pensioners	S1PFA CMI 2009 F (1%)	96%
Male ill-health pensioners	As for male normal health pensioners + 3 years	
Female ill-health pensioners	As for female normal health pensioners + 3 years	
Male dependants	S1PMA CMI 2009 M (1%)	124%
Female dependants	S1PFA CMI 2009 F (1%)	109%
Male future dependants	S1PMA CMI 2009 M (1%)	108%
Female future dependants	S1PFA CMI 2009 F (1%)	103%

Commutation – one half of members take maximum lump-sum; others take 3/80ths

Funding Strategy Statement 2013

Assumptions Used in Calculating Contributions Payable Under the Recovery Plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers, the required contributions are adjusted to allow for the following variation in assumptions during the period of the recovery plan:

Investment Return on Existing Assets and Future Contributions

An overall additional return of 3.0% pa above the liabilities consistent gilt yield (4.45% pa effective as at the valuation date) reflecting the underlying investment strategy of the Scheme and, in particular, including the assets of the Scheme that underlie the pensioner as well as the non-pensioner liabilities.

This is equivalent to a total rate of investment return of 7.5% pa effective as at the 2010 valuation date. The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

The above variation to assumptions in relation to the recovery plan can only be applied for those employers which the administering authority deems to be of sufficiently high covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and, therefore, for which no recovery plan is applicable). Where the variation in the assumptions does apply, the resultant total contribution rate(s) implemented following the 2010 valuation will be subject to a minimum of both:

- the contribution rate(s) originally planned for 2010/11 onwards based on the 2007 actuarial valuation, and
- the normal future service contribution rate for the employer concerned.

Appendices

Socially Responsible Investment Statement 2013

Socially Responsible Investment Statement 2013

The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active governance policy.

a) Definitions

i) Governance Background

The corporate governance requirements on companies and investors has built over the years based upon a number of reports, codes and legislative requirements. These include the following:

- Companies Act.
- UK listing requirements.
- Model code covering
  - Insider trading
  - Financial services legislation
  - Market abuse issues
- Identified good practice from Cadbury, Greenbury, Hampel reports
- Turnbull report on governance requirements, covering:
  - System of internal control
  - Financial risk
  - Operational risk
  - Reputational risk
  - Compliance
  - Risk management
- Myners' principles.
- Higgs and Smith reports.
- Overriding pensions legislation.
- Combined code covering arrangements for:
  - Board of directors
  - Directors' remuneration
  - Relations with shareholders
  - Accountability and audit
  - Audit committees
- Accounting requirements.
- Stewardship code.
- A robust response to socially responsible and sustainable issues relevant to their sector.

Social responsibility means giving consideration to issues that give rise to social 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, reputation and practical operational stand point.

ii) Engagement on Company Governance Issues

Responding to socially responsible investment issues is within the Fund's approach to corporate governance. The Myners' principles indicate funds should follow an active shareholder engagement approach which the Fund does using its position to influence the corporate practices of companies in which it invests.

The reasons for shareholder engagement are:

i) To improve the position of companies by increasing the prospects of them creating wealth for shareholders and interested parties by minimising business risks and maximising business opportunities.

ii) Address the risks to the Fund's assets that arise from poor governance.

iii) Recognised as good practice.

iv) Expectation of pension funds by many interested parties (directly and indirectly).

Shareholder engagement is achieved by:

i) Writing to company management.

ii) Special meetings with companies.

iii) Questions and discussions with companies at routine meetings and AGMs.

iv) Joining in or supporting campaigning or pressure groups.

v) Issuing public statements/briefings.

vi) Proxy voting.

vii) Preparing or supporting shareholder resolutions.

viii) Investing in specified vehicles looking to improve governance standards and sustainability through positive action.

iii) UN Principles of Reasonable Investment (PRI)

The UN in 2006 with the support of major institutional investors launched the UN Principles of Responsible Investment:

a) The Framework of the PRI

The PRI consists of six statements, each of which contains four to eight suggested actions to comply with PRI. The Fund supports this approach. The principles of responsible investment require formal signing to agree the following:

1) We will incorporate ESG (environmental, social and governance) issues into investment analysis and decision-making.
2) We will be active owners and incorporate ESG issues into our ownership policies and practices.
3) We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4) We will promote acceptance and implementation of the principles within the investment industry.

Socially Responsible Investment Statement 2013

5) We will work together to enhance our effectiveness in implementing the principles.

6) We will each report on our activities and progress towards implementing the principles.

There are three types of signatories who may comply with PRI: asset owners, investment managers and professional service partners. Asset owners are long-term investors including pension funds, endowments and government funds.

b) PRI vs SRI

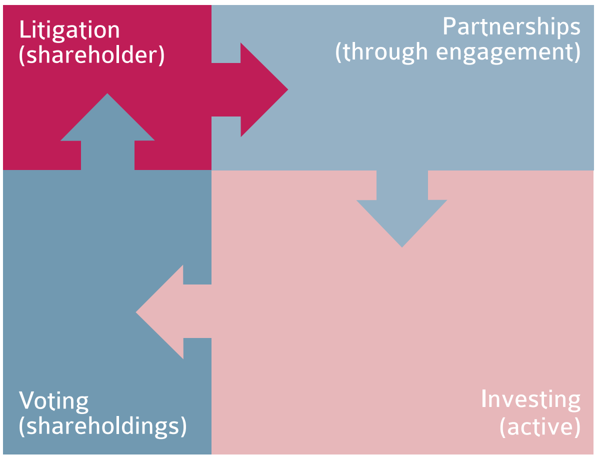
While PRI shares some of the same concepts as SRI, such as active ownership and the use of ESG criteria, the two differ in important ways. PRI operates across the totality of investment options and discourages negative screening, whereas SRI is often focussed on a certain strategy and may screen to eliminate potential investments. PRI is also designed to work with the fiduciary requirements of all institutional investors, not just those concerned with SRI.

PRI seeks to eventually increase investment returns while lowering risk, which will be accomplished through the signatories' pooling of resources and research to better understand ESG issues while lowering the costs of active ownership. The principles will also allow members to work together to address various problems, such as managing for the short-term and ignoring environmental costs. Resolution of these issues may lead to more stable and profitable market conditions.

b) The Fund's Engagement Process

More than twenty years ago, the Fund's committee identified that a lack of good governance interfered with a company's ability to function effectively and was a threat to the Fund's financial interest in that company. Accordingly, the committee recognised that it had an obligation to be more proactive and acted by developing a bespoke corporate governance voting policy produced in conjunction with its voting partner, PIRC. Today, the Fund's approach to corporate governance and SRI has further developed and divides into four areas.

ESG Best Practice



i) Voting Globally

The first approach, voting, is certainly not a 'box-ticking' exercise, as the Fund regularly votes against resolutions.

The Fund, through a proactive voting policy, votes its shares constructively based upon a comprehensive analysis of company voting issues.

The Fund aims to vote at the majority of company AGMs where it has a direct interest. Where possible and practical, the Fund votes on its overseas holdings.

The Fund's voting policy and activity is summarised in its annual report and accounts and published on the Fund's website, where activity is reported on a quarterly basis following a report to each main Pensions Committee meeting.

ii) Engagement Through Partnerships

The Fund's second approach involves working in partnerships with like-minded bodies.

The Fund recognises that to gain the attention of companies in addressing governance concerns it needs to join with other investors with similar concerns. It does this through:

a) LAPFF

b) Voting on shareholder resolutions

c) Joining appropriate lobbying activities

d) Funding research into governance issues

In terms of its engagement approach with other investors, it is most significant through LAPFF. It is a founding member of LAPFF, an influential body comprising of over fifty public section pension funds based in the UK with combined assets of more than £90bn. LAPFF exists to promote the investment interests of local authority pension funds and believes that standing as a single group maximises their influence as shareholders, promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.
The work of LAPFF is detailed on its website: www.lapfforum.org

iii) Shareholder Litigation

A third approach adopted by the Fund in order to encourage corporate management to behave responsibly and honestly is through shareholder litigation. The Fund, in partnership with a US law firm and other shareholders, submits class actions where possible and where appropriate.

iv) Active Investing

The fourth and most challenging activity for the Fund in this particular field is actively seeking SRI investments, provided these meet the Fund's requirements on fundamental investment grounds. To date, the Fund has committed around 3.0% of its total assets in investments where strong returns are combined with best practice in SRI and/or corporate governance.

Examples can be found across all the Fund's investments. In the private equity portfolio, there are the Bridges Community Development Venture funds and a late stage private equity fund focussing on the clean technology sector. The property portfolio

Socially Responsible Investment Statement 2013

has made a commitment to the Igloo Urban Regeneration Fund, which only develops brownfield sites across the UK, combining sustainability and environmental considerations alongside above average property returns. The Fund's global quoted equity portfolio has an alternative energy fund, while there is a shareholder activist fund in the UK quoted equity portfolio, the latter actively encouraging management to act in the best interests of its stakeholders.

The Fund considers that such investments should form part of the mainstream asset classes and not be viewed as separate, as ideally, going forward SRI and corporate governance should form an integral part of the investment process meeting the Fund's main objective of investing in assets that generate consistent and strong returns.

c) Environmental Considerations

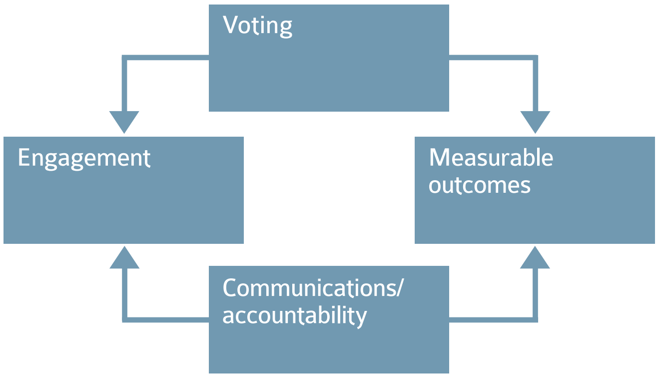
Environmental issues continue to grow in importance for the corporate performance of companies, and their value as investments are increasingly affected by environmental factors. In pursuance of a prudent and environmentally responsible response by companies, the Fund will encourage and support companies that demonstrate a positive response to SRI and environmental concerns.

The Fund expects companies to:

- Make a commitment to achieving environmental excellence.
- Institute regular monitoring of their environmental impacts.
- Establish procedures which will lead to incremental improvements in environmental performance.
- Comply with all current environmental and other relevant legislation and to seek to anticipate future legislative changes.
- Make available to shareholders regular and detailed reports of progress made towards attaining improved environmental standards.
- Seek to take all reasonable and practical steps to minimise or eliminate environmental damage.
- Actively and openly engage in discussion on the environmental ethical effects of their business.
- Take environmental matters seriously and produce an environmental policy which is effectively monitored.

d) Measuring the Fund's Governance Activity in its Investments

In responding to the responsibilities of seeking good governance of its individual holdings, the Fund has identified four key measurable elements:



In analysing the Fund's action in these four areas, it has identified the following as measures it is to achieve to demonstrate good governance of the assets it holds in a meaningful and measurable format.

i) Voting at company AGMs and EGMs
- Voting policy in place
- Detailed specific voting template applied
- Votes cast in UK
- Votes cast in US
- Votes cast in Europe
- Votes cast in other countries
- Regular reports to members
- Information available to interested parties
- Clear accountability between shares held and votes cast
- Costs of voting known

ii) Measurable outcomes
- Percentage of votes cast
- Example of changed company behaviour linked to Fund's voting actions

iii) Engagement
- Direct meetings with companies
- Direct sponsorship of governance research
- Joint engagement with others
- Meet Myners' requirements

iv) Communication/Accountability
- Annual report details governance activity
- Information on website on governance
- Information on website on votes cast

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Details of the outcomes can be found on the following websites:

- **Local Authority Pension Fund Forum (LAPFF)**
  www.lapfforum.org
- **West Midlands Pension Fund**
  www.wmpfonline.com

The Fund's priorities are moving to being set by its approach to risk management – improving the governance of its individual holdings thereby reducing the risk of company failure and loss of value.

The Fund takes the opportunity to vote at AGMs and EGMs largely to express its support for the company management, but also to express concern about company governance issues where appropriate.

The concerns are identified by reference to:

i) The Fund's voting policy statement.

ii) Governance issues that may arise during the year that impact on a company's management and could impact on shareholder values.

The Fund is working to identify governance issues in its underlying investment holding companies which could damage its long-term financial interests. The risk analysis is based upon the following potential adverse impacts on a company's:

i) Reputation.

ii) Falling short of its peers on social, environmental or ethical trends.

iii) Slow in responding to social changes and trends.

iv) Falling short of its peers on meeting reporting standards.

v) Comparatively weak board structure in terms of make-up, expertise, independence.

By identifying these governance risks in companies, the Fund aims, through its engagement strategy, to improve the governance weaknesses and protect its long-term value as shareholders.

Appendices

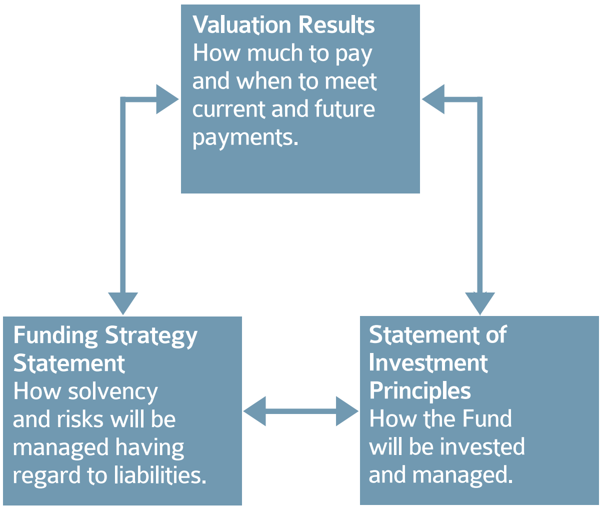
Investment Strategy Statement 2013

Investment Strategy Statement 2013

1. Introduction

1.1 This Investment Strategy Statement (ISS) is produced to outline the Fund's investment strategy and how the risk and return issues have been managed relative to the Fund's investment objectives and underlying pension liabilities.

1.2 The ISS is also a key supporting statement to the Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP). The relationship can be illustrated by the diagram below:



1.3 The Fund reviews its investment strategy regularly to reflect actuarial valuations, worldwide market trends and investment opportunities. The last major review was in 2009.

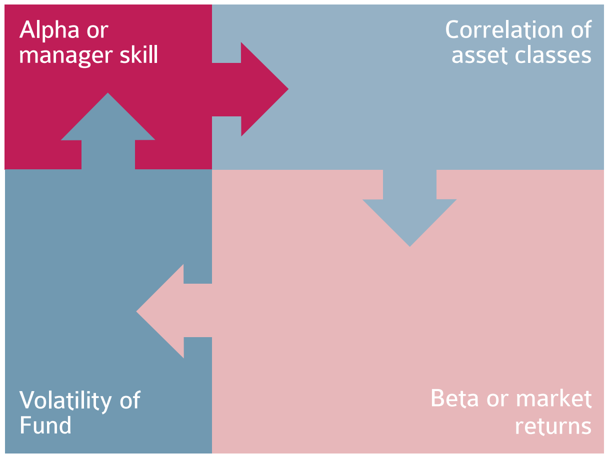
1.4 In addition to the FSS and SIP, related Fund statements are:

- Compliance with UK Stewardship Code for Institutional Investors
- Governance Compliance Statement
- Socially Responsible Investment Statement
- Compliance with Myners' Principles

2. Risk Budget

2.1 As the pursuit of returns becomes ever more complex, combined with the prospect of diminishing returns, the Fund is becoming increasingly aware of the need to balance the relationship between the different asset classes, their returns, their volatility and their correlation with equities. This constitutes the 'risk budget'.

2.2 The Fund's risk budget can be considered as having four elements, illustrated as follows:



2.3 i) The market returns from the asset classes are structured to deliver the current target return of 6.0% pa.

ii) Ideally the excess returns should deliver anything over and above the 6.0% pa and will contribute positively to the funding level. The investment strategy is designed to deliver an actively managed return of around 0.9%.

iii) Volatility tends to dictate whether the 6.9% pa is likely to be delivered smoothly over the years or more in peaks and troughs. Combining different asset classes reduces overall volatility. There are two types of volatility, one associated with market returns and one with active management.

iv) Correlation reflects the relationship between the different asset classes, for example, commodities and property have a low correlation to quoted equities and are more likely to generate modest positive returns when quoted equities are performing poorly. Using different asset classes with negative or low correlation is the key diversification, smoothing returns and protecting downside risks of underperforming the investment objectives.

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2.4 i) One of the main challenges facing the Fund going forward is which asset classes offer a greater likelihood of generating superior returns. Some asset classes are more efficient or most information relevant to valuing stock is freely available, so there is less opportunity to select outperforming assets. This makes it harder for manager skill to deliver superior returns over the market return.

ii) Some markets are less efficient – an example of this being emerging market equities. As a result, the Fund only has actively managed funds for this asset class. The opposite is found in quoted UK equities where there are few market inefficiencies. The Fund has most of its UK equities investments in a passive fund structured to deliver expected market returns and is managed in-house.

iii) Although it is impossible to separate market and actively managed returns within all asset classes, the Fund is attempting to identify those assets where excess returns should be stronger and more readily obtained. This is particularly true in the area of complementary investments, where it is widely believed that superior manager skill is greater.

iv) Nearly half of the Fund's expected market return comes from its passively managed equity portfolios, although 40% is now also generated by its complementary assets.

v) The complementary assets represent 35% of the total Fund and should generate around 50% of its active returns.

The introduction of these complementary asset classes increases the overall returns while reducing the overall level of risk due to diversification. Volatility also forms part of the overall equation, acknowledging there is market risk plus active risk (associated with any active management). The key is to find investments where the return from active risk more than offsets any increase in volatility.

vi) The Fund’s experience of complementary investments gives confidence in the strategy, and supports the development of the strategy further.

2.5 The Fund has appointed a specialist adviser to work with Fund officers on a regular annual review of the investment benchmark.

3. Investment Strategy Background

3.1 Although the Fund remains committed to the equity risk premium over the long-term, there has been a move over recent years from equities into complementary investments as part of the ongoing management of investment risk and overall process of diversification. Further small switches from equities to complementary investments will take place when considered appropriate, and is a natural development of the management of the risk budget.

3.2 Pursuing a high allocation to equities has served the Fund well over the long-term, however, it is a fairly high-risk strategy relying heavily on the performance of one volatile asset class. The introduction of complementary asset classes reduces the overall risk while achieving the same expected returns, when fixed interest markets offer such poor returns. If structured correctly, complementary investments can also maintain the same overall risk, but slightly increase returns. In addition, in times of equity bear markets, fixed interest and complementary investments should provide an element of cushioning the fall in the overall Fund value.

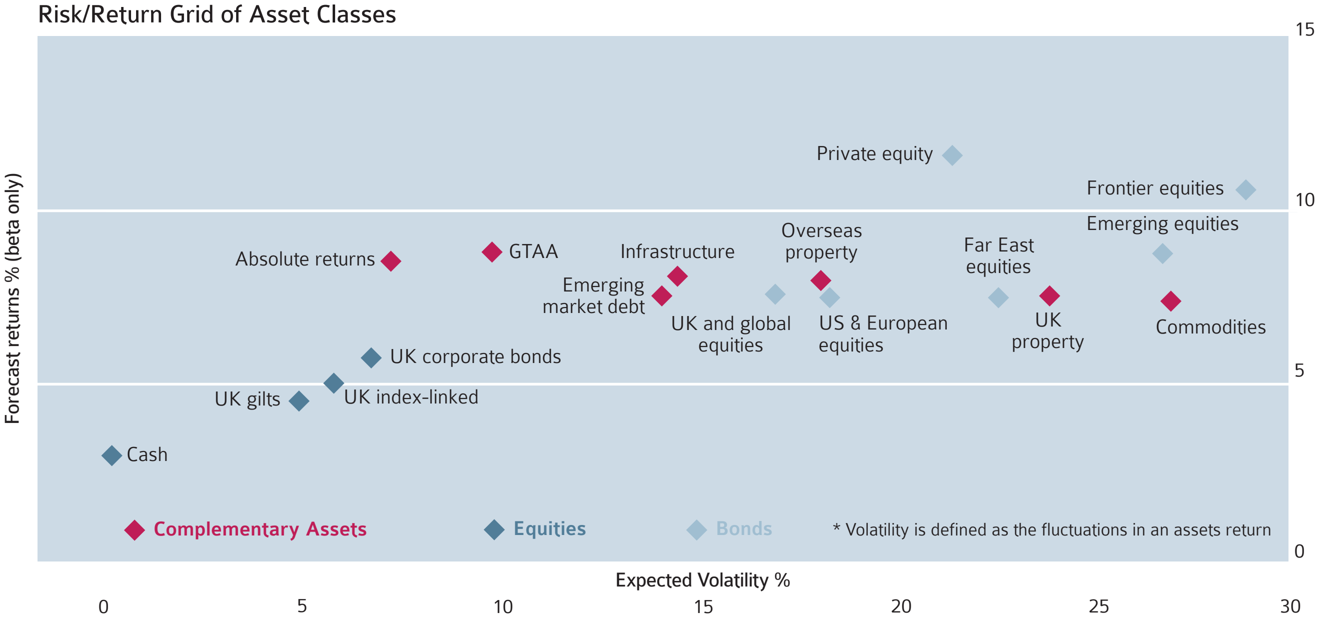
3.3 The market returns from the asset classes are structured to deliver the long-term return target, currently 7 to 8% pa as required by the actuarial review.

3.4 As already referred to in the risk budget, combining different asset classes with low or negative correlation will reduce the overall volatility of the total Fund.

Investment Strategy Statement 2013

3.5 The expected risk and return characteristics of different asset classes is illustrated below:

Risk/Return Grid of Asset Classes



3.6 The greatest risk in the budget is the high allocation to equities. This has been reduced by introducing new or further increasing existing complementary investments which have similar returns, but a low or negative correlation to quoted equities. Although some have high individual volatility, combining them with quoted equities lowers the overall volatility of the Fund and provides diversification.

3.7 In addition, the introduction of these asset classes can decrease the exposure to unrewarded risks such as interest rate and inflation, and increases exposure to those risks which are potentially rewarded (fund manager skill, illiquidity and inefficient markets).

3.8 In considering the suitability of an asset class or investment, the following criteria are evaluated for their acceptability to the Fund:

First level

- Must contribute to risk/return (performance/diversification) objectives.
- Must be legal and appropriately regulated.
- Assist efficient portfolio management.

Second level

- Transparency
- Liquidity
- Management fees
- Reputation
- Conflict with other objectives (eg, corporate governance)
- Leverage
- Access

3.9 Against this background, the Pensions Committee agreed in reviews, as part of the overall management of the risk budget, to continue the general direction of travel, with a phased reduction in equities. This has changed the benchmark as follows:

	2013 Benchmark %	2009 Benchmark %	2007 Benchmark %
UK equities	10.0	14.0	30.0
Global	5.0	6.0	6.0
Europe	6.0	11.0	9.5
US	9.0	8.0	5.5
Japan	6.5	3.0	3.0
Pacific Basin		2.5	3.0
Emerging markets	8.5	5.5	3.0
Total equities	**45.0**	**50.0**	**60.0**

The complementary and fixed instrument elements of the benchmarks being increased. These long-term changes are shown in the Appendix.

4. Investment Strategy

4.1 Due to the unprecedented turmoil and volatility experienced in the financial markets during 2008, it was seen as necessary and prudent to undertake a major review of the investment strategy in 2009.

Investment Strategy Statement 2013

4.2 The target objectives remained the same and are as follows:

i) Retain the same level of return at a slightly lower level of risk, or

ii) Increase the overall level of returns at the same level of risk, or

iii) Ideally, increase the overall level of returns at a slightly lower level of risk.

4.3 The senior officers of the Fund worked in partnership with the Morgan Stanley Investment Management - Global Portfolio Solutions team to ascertain which particular combination of asset classes, as set out in the graph 3.5 achieved the three objectives listed in 4.2.

4.4 As a result of analysing a number of factors including expected market returns and volatility, expected correlations, expected shortfall risks and various economic scenarios, a revised investment strategy evolved with phased changes. These changes being dependent on the success of earlier phases and capacity to manage the implementation.

4.5 The revised benchmark as agreed at the January 2009 committee is shown below set out, together with the allocations as at April 2013 following the increase in exposure to the complementary investments:

	Medium-Term Asset Allocation	
	January 2009 %	**April 2013 %**
Quoted equities	**50**	**45**
UK	14.0	10.0
Europe	11.0	6.0
North America	8.0	9.0
Japan & Far East	5.5	6.5
Frontier & emerging markets	5.5	8.5
Global equities	6.0	5.0
Private equity	10.0	10.0
****Total equities**	**60**	**55**
Fixed interest	**17**	**20**
UK index-linked	4.7	5.5
UK gilts	4.7	4.0
UK corporate bonds	4.6	5.0
Emerging market debt*	2.0	4.5
Cash	1.0	1.0
Complementary	**23**	**25**
Property	9.0	9.0
Commodities	3.0	3.0
Infrastructure	3.0	3.0
Absolute return strategies	8.0	10.0
Total non-equities	**40**	**45**
Total Fund	**100**	**100**

*Emerging market debt transferred from 'Complementary' to 'Fixed interest'
**Includes private equity.

4.6 i) Almost half of the market return is expected to be generated by quoted equities, while the majority of all the return from manager skill is expected to be derived from complementary and private equity investments.

ii) The long-term market return is maintained at between 7% and 8% and it is this return that is vital for the Fund to meet its long-term liabilities. Any additional returns will be 'banked' for when markets do not deliver.

iii) The target has dropped at this review from 7.6% to 6.9% as return expectations from the different asset classes, in particular quoted equities, have been revised downwards.

iv) The revised investment strategy continues to meet the Fund's objectives and the level of volatility is also expected to fractionally fall from 11.4% to 11.3%. Thus achieving the best possible objective as specified in 4.2. iii).

More detailed analysis carried out by Morgan Stanley in 2009 is included in the appendices. There is continual reference to a potential future target strategy which shows further improvement in the risk/return relationship achieved by a further reduction in equities. As at April 2013, this future strategy has been virtually fully implemented.

4.8 Earlier SIPs can be found on the Fund's website giving background to the current review.

Investment Strategy Statement 2013

Appendices i) to vi) Morgan Stanley Investment Management

Information extracted from the asset allocation analysis (the 'Analysis') conducted by Morgan Stanley Investment Management Ltd ('Morgan Stanley').

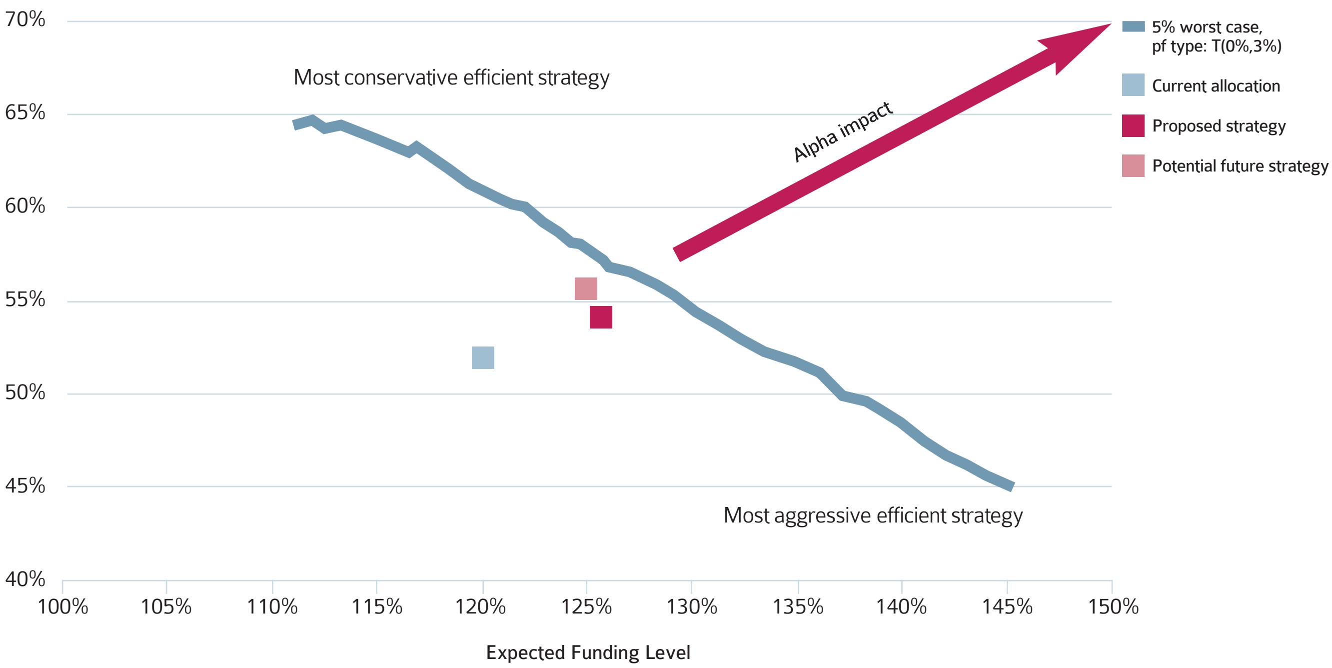
Appendix i
Investment Strategy (including 3% risk budget)

The graph contains the position of the current allocation, the proposed strategy and the potential future strategy. The potential future strategy comes closest to efficiency in this risk space, compared with the current and the proposed, although the current is by far the worst. Adding alpha improves the risk profile of the Fund further in the direction of the arrow.

	Current Allocation	Proposed Strategy	Potential Future Strategy
Equity	64%	60%	50%
Fixed income	20%	15%	15%
Complementary	16%	25%	35%
5% worst case funding (2028)	52.0%	54.3%	55.7%
Expected funding (2028)	120.0%	125.6%	124.8%

Investment Strategy Risk Analysis

5% Worst Case Funding Level



Past performance is not necessarily a guide to future performance. This analysis requires the use of quantitative models that make assumptions on risks and returns in the forecast horizon, and are no guarantee of results achieved in reality. Please also refer to the important risk warning at the end of the document.

Investment Strategy Statement 2013

Appendix ii
Expected Volatility and Return

This table shows expected risk/return characteristics of the current portfolio, the proposed portfolio as well as the potential future strategy.

- The current allocation has
  - lowest expected return
  - highest expected volatility

Expected Risk/Return Characteristics			
Asset Mix	Return	Volatility	Sharpe Ratio
Current allocation	7.6%	11.4%	0.27
Proposed strategy	7.8%	11.3%	0.29
Potential future strategy	7.8%	10.5%	0.32

Appendix iii
Expected Shortfall Risks

The table shows shortfall risks of selected portfolios. A shortfall risk is the probability of not achieving a certain return target.

For instance, the current allocation has a probability of 26.2% of not returning at least 0.0% on a one-year horizon.

- The potential future strategy has the lowest shortfall risks
  - measured in two dimensions
    - investment horizon
    - return target
  - The proposed strategy is in between the current and the potential future strategy

Shortfall Risks: Risk a Return Below:									
	One-Year Horizon			Five-Year Horizon			10-Year Horizon		
Asset Mix	r < -3%	r < 0%	r < 8%	r < 0%	r < 5%	r < 8%	r < 0%	r < 5%	r < 8%
Current allocation	17.7%	26.2%	53.6%	7.7%	34.7%	58.0%	2.2%	28.9%	61.3%
Proposed strategy	16.9%	25.2%	52.7%	6.8%	32.7%	56.1%	1.7%	26.3%	58.6%
Potential future strategy	14.9%	23.4%	52.6%	5.2%	30.8%	55.8%	1.1%	23.9%	58.2%

Appendix iv
Expected Value-at-Risk

The table shows the value-at-risk of selected portfolios. The value-at-risk is the maximum expected loss at a certain level of confidence.

For instance, the current allocation has an expected maximum loss of 16.4% at a 99.0% confidence level in any given year.

- The potential future strategy has the lowest value-at-risk
  - measured in two dimensions
    - investment horizon
    - return target
  - The proposed strategy is in between the current and the potential future strategy

Expected Value-at-Risk Relative to Target r at Confidence Level c, as Percentage of Invested Capital									
	One-Year Horizon			Five-Year Horizon			10-Year Horizon		
Asset Mix	c = 90% r = 0%	c = 95% r = 0%	c = 99% r = 0%	c = 90% r = 0%	c = 95% r = 0%	c = 99% r = 0%	c = 90% r = 0%	c = 95% r = 0%	c = 99% r = 0%
Current allocation	6.6%	10.1%	16.4%	0.0%	5.1%	19.2%	0.0%	0.0%	9.9%
Proposed strategy	6.2%	9.7%	15.9%	0.0%	3.5%	17.7%	0.0%	0.0%	6.9%
Potential future strategy	5.3%	8.5%	14.4%	0.0%	0.4%	14.1%	0.0%	0.0%	0.9%

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Appendix v
Risk Diversification

The risk diversification parameter shows how well or poorly diversified the asset mix is. We calculate three different numbers:

1) Diversified shows the volatility if all correlations are minimal.
2) Actual is the actual volatility of the asset mix.
3) Undiversified is the volatility in case all correlations are 1.

- The potential future strategy has the lowest implied correlation
  - the proposed strategy is in between the current and the potential future strategy

Expected Risk/Return Characteristics			
Asset Mix	Return	Volatility	Sharpe Ratio
Current allocation	7.6%	11.4%	0.27
Proposed strategy	7.8%	11.3%	0.29
Potential future strategy	7.8%	10.5%	0.32

Appendix vi
Economic Factor Exposure

Economic factor exposure shows how each asset mix would have performed under different economic circumstances.

The potential future strategy has the best economic factor return profile.

The proposed strategy is in between the current and the potential future strategy

Economic Factor Exposure									
	Factor Return Profile				Probability of Positive Return				
Asset Mix	Lower Inflation, Slower Growth	Higher Inflation, Slower Growth	Lower Inflation, Faster Growth	Higher Inflation, Faster Growth	Lower Inflation, Slower Growth	Higher Inflation, Slower Growth	Lower Inflation, Faster Growth	Higher Inflation, Faster Growth	Total
Current allocation	4.1%	-9.8%	7.9%	18.8%	55.2%	48.4%	61.3%	82.8%	61.7%
Proposed strategy	4.7%	-8.9%	9.3%	18.9%	58.6%	48.4%	64.5%	82.8%	63.3%
Potential future strategy	5.4%	-8.0%	9.7%	18.6%	58.6%	51.6%	61.3%	82.8%	63.3%

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Definitions

Alpha α
Statistical measure of the incremental return added by an investment manager through active management.

Beta β
Indicates the sensitivity of a security or portfolio to movements in the market index. Securities/portfolios with a beta of greater than one are expected to be more volatile than the market as a whole, outperforming in rising markets and underperforming in failing ones.

Efficient strategy
Line of expected funding level that graphs the characteristics of different asset classes to produce the best trade-off between risk and overall return.

Risk Budget
A mathematical assessment of the total amount of risk that an investor is prepared to take and the allocation of that risk between the various possible asset classes based on a target level of return.

Risk Warning

Past performance is not necessarily a guide to future performance. The value of investments and income from them may fall as well as rise and the investor may not receive back the amount invested. Investments may be in a variety of currencies and, therefore, movements in the value of currencies may also affect the value of an investor's holdings. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor's reference currency and the base currency of the investments.

International investing involves certain risks including currency fluctuations and controls, nationalisation or expropriation, confiscatory taxation, restrictions on foreign investments and on repatriation of capital, less governmental supervision and regulation, less liquidity, the potential for market volatility and political and social instability.

High-yield securities: investment in higher yielding securities is speculative as it generally entails increased credit and market risk. Such securities are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk) and may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity.

Morgan Stanley

The analysis was conducted by Morgan Stanley solely for the benefit of the trustees of the West Midlands Pension Fund and cannot be relied on by anyone else including Scheme members of the West Midlands Pension Fund. This Investment Strategy Statement (ISS) has not been reviewed by Morgan Stanley. Morgan Stanley does not provide advice on or accept responsibility for the content of the ISS.

Investment Strategy Statement 2013

Appendices: Statistical and Trend Information

Trend in Pension Fund Benchmarks
Appendix 1

	1996 %	1996 %	1999 %	1999 %	2001 %	2001 %	March 2004 %	March 2004 %	June 2007 %	June 2007 %	January 2009 %	January 2009 %	2013 %	2013 %
Equities														
UK Equities		59.5		57.5		56.0		37.0		34.0		14.0		10.0
Overseas		24.5		25.5		27.0		27.0		26.0		30.0		30.0
North America	6.5		7.0		8.0		8.0		6.0		8.0		9.0	
Japan & Far East	7.5		7.5		7.5		6.5		6.0		5.5		6.5	
Continental Europe	8.0		8.5		9.0		10.0		11.0		11.0		6.0	
Emerging markets	2.5		2.5		2.5		2.5		3.0		5.5		8.5	
Global equities		0.0		0.0		0.0		6.0		6.0		6.0		5.0
		84.0		**83.0**		**83.0**		**70.0**		**66.0**		**50.0**		**45.0**
Fixed Interest														
UK fixed interest		0.0		0.0		0.0		5.0		4.3		4.7		4.0
UK index-linked		8.0		8.0		8.0		5.0		4.4		4.7		5.5
Corporate bonds		0.0		0.0		0.0		5.0		4.3		4.6		5.0
Emerging market debt		-		-		-		-		-		-		4.5
Cash		1.0		1.0		1.0		0.0		1.0		1.0		1.0
		9.0		**9.0**		**9.0**		**15.0**		**14.0**		**15.0**		**20.0**
Complementary														
Private equity		2.0		3.0		3.0		5.0		6.0		10.0		10.0
Property		5.0		5.0		5.0		8.0		8.0		9.0		9.0
Currency		-		-		-		-		1.5		-		-
Emerging market debt		-		-		-				1.5		2.0		-
Infrastructure		-		-		-		2.0		1.5		3.0		3.0
Commodities		-		-		-				1.5		3.0		3.0
Absolute return strategies		-		-		-		-		-		8.0		10.0
		7.0		**8.0**		**8.0**		**15.0**		**20.0**		**35.0**		**35.0**
		100%		**100%**		**100%**		**100%**		**100%**		**100%**		**100%**

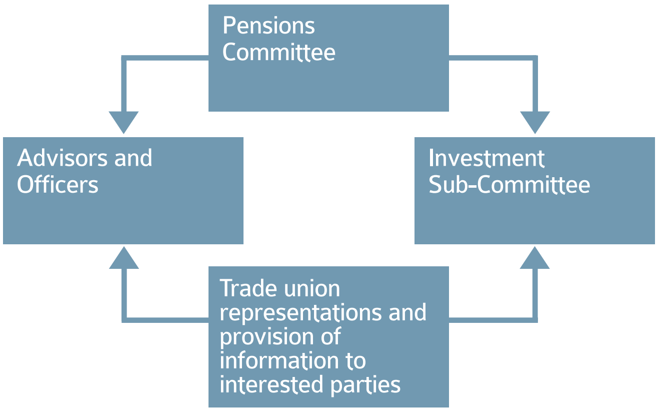
Trend Total Return Targets 1994 – 2013
Appendix 2

Governance Compliance Statement 2013

Governance Compliance Statement 2013

Governance of the Fund

The Fund's governance arrangement has four elements:



Pensions Committee

The management of the administration of benefits and strategic management of the assets is fundamentally the responsibility of the Pensions Committee established by Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions. The Committee administers the Scheme in accordance with the regulations and best practice, and determines the strategic management of the assets based upon the professional advice it receives and the investment objectives set out.

The roles of the Members and the Committee are as follows:

1 To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations in the West Midlands.

2 To put in place and monitor the arrangements for 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 administrating authority.

The key duties in discharging this role are:

1) To monitor compliance with legislation and best practice.

2) To determine admission policy and agreements.

3) To monitor pension administration arrangements.

4) To determine investment policy based upon a medium-term benchmark and quarterly reviews agreeing a short-term tactical position relative to the benchmark.

5) To monitor policy.

6) To appoint committee advisors.

7) To determine detailed management budgets.

The Council delegation to Pensions Committee is as follows:

a) To exercise the functions of the Council in relation to the administration of the West Midlands Metropolitan Authorities Pension Fund arising by virtue of the Local Government Pension Scheme Regulations 1997, and any subsequent related legislation.

b) To exercise all the general powers and duties of the Council granted to Cabinet and cabinet teams and standing bodies, provided that those parts of the Council's *Financial Procedure Rules and Contracts Procedure Rules* which relate to the acquisition and disposal of land and the approval of expenditure, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Fund.

c) To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.

d) To ensure that consideration is given to the impact which the Committee's policies and provision of services have with regard to environmental matters.

Investment 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:

1) To monitor and review investment management functions.

2) To review strategic investment opportunities.

3) To monitor and review portfolio structures.

4) To monitor implementation of investment policy.

5) 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.

6) To monitor investment activity and the performance of the Fund.

7) To oversee the administration and investment management functions of the Fund.

The 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 Chief Executive, Director of Pensions and Senior Finance and Legal Officers from Wolverhampton City Council.

Governance Compliance Statement 2013

Trade Union Representations and Provision of Information to Interested Parties

The Fund invites relevant trade unions to send local representatives to a Joint Consultation Panel which meets at least three times per year to consider the activities of the Fund and elect four representatives to the Pensions Committee and two to the Investment Sub-Committee. Although these representatives do not have voting rights they are treated as equal members of the committees, for example they have access to all committee papers, officers, meetings and training as if they were Council members and have an opportunity to contribute to the decision-making process.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties. This is achieved through the Fund's communication strategy.

Advisors and Officers

Investments and pensions administration are complex areas and the Fund recognises the need for its Pensions Committee and Investment Advisory Sub-Committee to receive appropriate and timely advice. Against this background, its principal advisors are as follows:

i) High level advice on general management from the Chief Executive of Wolverhampton City Council.

ii) Legal and general administrative advice and management from the Senior Legal Officer of Wolverhampton City Council who is also the monitoring officer for the Council.

iii) Financial and technical advice from the Director of Pensions who is the lead senior support officer and has direct responsibility for the in-house management, as well as implementing the investment strategy through a team of professionally qualified staff and external managers.

v) Senior pensions staff responsible for pensions benefits administration and communications.

vi) Senior Finance Officer of Wolverhampton City Council is the Section 151 officer of Wolverhampton City Council and that responsibility applies to the Fund. The Senior Finance Officer is also the investment management monitoring officer as set out in the Fund's investment compliance manual.

vii) A range of external specialist advisors are appointed covering areas such as:

- Investment policy, quarterly asset allocation and general investment matters.
- Actuarial matters.
- Selection of investment managers, policy and investment matters relative to liabilities.
- Commercial and industrial property matters, day-to-day management of properties and transactions involving the sale and purchase of UK property.
- Independent property advice.
- Company governance issues.
- Investment strategies and asset allocation.

Other specialist advisors are used as and when needed.

Details of the Fund's advisers are published in the Fund's *Annual Report and Accounts*.

Role of Council Members

Wolverhampton City Council is responsible for administering and discharging the functions as administering authority for the West Midlands Pension Fund. In addition to discharging the administration of benefits, recording of contributions, etc, the Council is also responsible for the investment of the Fund monies. Because the Fund covers the majority of local government employees in the West Midlands, as well as many admitted bodies, representatives from all seven district councils serve on the Committee and the Investment Sub-Committee. There is also active representation on behalf of the employees and pensioners from trade union representatives. Investments are a special area for members to consider as it is different to normal Council business.

When considering the advice and determining investment policy, members are effectively acting as trustees and as such need to understand the special obligations placed upon trustees. These responsibilities are additional to those carried out as an elected member of a local authority. Members' duties as trustees are to manage the Fund in accordance with the regulations and to do so prudently and impartially on behalf of all the beneficiaries. This sometimes means that they may have to make decisions that in other political circumstances they may choose not to make.
The overriding consideration for them as trustees, however, has to be for the benefit of the Fund and its contributors and beneficiaries. The advice of the Fund's advisors is very important in discharging this responsibility. Trustees can delegate some of their powers but not the responsibilities that go with them. They are not expected to be qualified to give investment advice or to initiate investment policy. They must be aware of what is proposed by their advisors and be sure that it is relevant to the needs of the Fund and within their powers.

In practice, trustees typically discharge their duty by ensuring that they have a systematic and clear way of agreeing their investment policy with managers and advisors they employ. Testing adherence to policy on a regular basis is essential. These requirements will consist of meetings and regular written reports with professional advisors whose skills and judgements can be relied upon. So far as the Fund is concerned, the advice is provided mainly by Council officers and the advisers detailed in the *Annual Report and Accounts*.

In addition to the setting of policy and investment parameters for the Fund, there should be a formal meeting each year at which the investment returns are reviewed. There might well be other formal meetings of trustees to which managers make a brief report, or supplement their written material. The following are extracts from leading court judgements made about the role of trustees. These extracts stress the independent fiduciary duty required of a trustee and the requirement to put the needs of the beneficiaries first at all

Governance Compliance Statement 2013

times. These comments apply to all trustees, including members, involved in pensions work.

The Duty of Trustees

The duty of the trustees is to exercise their powers in the best interests of the present and future beneficiaries of the trust. Holding the scales impartially between different classes of beneficiaries is paramount. They must, of course, obey the law but, subject to that, they must put the interests of their beneficiaries first.

When the purpose of the trust is to provide financial benefits for the beneficiaries, the best interests of the beneficiaries are normally their best financial interests. In the case of a power of investment, the power must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investment in question and the prospect of the yield of income and capital appreciation, both have to be considered in judging the return from the investment.

Standard Required of a Trustee

The standard required of a trustee in exercising his powers of investment is that he must take such care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he felt morally bound to provide.

That duty includes the duty to seek advice on matters which the trustees do not understand, such as the making of investments, and on receiving that advice to act with the same degree of prudence. This requirement is not discharged merely by showing that the trustee has acted in good faith and with sincerity. Honesty and sincerity are not the same as prudence and reasonableness. Accordingly, although a trustee who takes advice on investments is not bound to accept and act upon the advice, unless in addition to being sincere he/she is acting as an ordinary prudent person would act.

View of Secretary of State

The Secretary of State for the Environment has previously indicated that administering authorities should pay due regard to the principle contained in Roberts v Hopwood in exercising their duties and powers under the regulations governing the investment and management of funds. In that case, Lord Atkinson said:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly businesslike manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons, the body stands somewhat in the position of trustees or managers of others."

Members and Officers' Knowledge and Skills

Member and officer knowledge and skills is recognised as important, and a range of measures are in place to equip members to undertake their role.

This is a major factor in the governance arrangements of the Fund in ensuring Committee members and officers have the relevant skills and knowledge. The Fund applies the CIPFA Knowledge and Skills Framework to achieve this objective.

Framework

Six areas of knowledge and skills have been identified as core technical requirements for those associated with LGPS pension funds:

- pensions legislation and governance context
- pension accounting and auditing standards
- financial services procurement and relationship management
- investment performance and risk management
- financial markets and products knowledge
- actuarial methods, standards and practices

It is not the intention that Committee members should individually become technical experts, but collectively they have the ability, knowledge and confidence to question and challenge the information and advice they are given, and to make effective and rational decisions.

Officers advising members and implementing decisions should have a more detailed knowledge appropriate to their duties.

Officers are expected to demonstrate their professional competency against the framework through appropriate 'continuing professional development' (CPD) arrangements'.

The Fund has an approved Trustee Training Policy in place, and includes in its annual report and accounts details of the knowledge and skills development undertaken by its Committee members. It is being proposed that it will become a regulatory requirement for funds to explain their compliance with the CIPFA framework and in particular cover:

- how the framework has been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the identified training needs

Representation of Other Interested Parties

The Fund is open to any organisation with a direct interest attending the regular committee meetings to observe proceedings, and the Fund will engage with employing bodies on significant issues affecting them so their views can be taken into account before a decision is made, eg, three-yearly actuarial valuations.

The Fund will provide information on its website and directly to employing bodies on issues in which they may have an interest.

The Joint Consultative Panel is seen as the main area of involvement of active, deferred and pensioner members.
The Fund does engage directly with individual members providing relevant and interesting information, the content determined by the responses to the information provided and requested.

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Origins of the Fund and Responsibilities

Following the 1974 reorganisation, all Council employees in the area (excluding teachers, police and fire officers) were members of the West Midlands Superannuation Fund with the former county council as administering authority. The 1986 reorganisation led to Wolverhampton Council becoming the administering authority for the Fund and local government employee pensions other than teachers, police and fire officers in the West Midlands. Responsibility for discharging the administering authority role is delegated to the Pensions Committee which has representatives from the district councils as the largest employers and four trade union representatives nominated from the Joint Consultative Panel of trade union representatives from the region.

The changes in responsibility for the delivery of Council services has seen a growing number of private sector firms and voluntary organisations becoming members of the Fund in respect of the workforce that delivers public services.

The LGPS regulations set out the responsibilities of the key parties which are summarised below. Further details are available on the Fund's website where operational and management arrangements are set out.

The administering authority (Wolverhampton City Council):

- Collects employer and employee contributions.
- Invests surplus monies in accordance with the regulations and agreed strategy.
- Ensures that cash is available to meet liabilities as and when they fall due.
- Manages the valuation process in consultation with the Fund's actuary.
- Prepares and maintains an FSS (Funding Strategy Statement) and an SIP (Statement of Investment Principles), both after consultation with interested parties.
- Monitors all aspects of the Fund's activities and funding.

The administering authority discharges its responsibilities with the active involvement from the major employers, the district councils and trade union representatives combined with consultation with other interested parties.

The individual employers:

- Deduct contributions from employees' pay.
- Pay all contributions as determined by the actuary, promptly by the due date.
- Exercise discretions within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, early retirement funding strain.
- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.
- Discharge their responsibility for compensatory added years which the administering authority pays on their behalf and is subsequently recharged to them.

The Fund's actuary:

- Prepares valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.
- Sets employers' contribution rates in order to secure the Fund's solvency having regard to the aims of maintaining contribution rates that are as constant as possible.

Compliance and Best Practice

The Fund is required to publish a compliance statement under Regulation 73A of the Local Government Pension Scheme Regulations and review that statement on an ongoing basis under Regulation 31 of the 2008 Regulations. There is also a requirement to declare their compliance in meeting the guidance given by Secretary of State.

The Fund aims to comply fully with the guidance given by the Secretary of State and relevant guides produced by CIPFA.

Communications Policy Statement 2013

Communications Policy Statement 2013

Introduction
Your comments on how the West Midlands Pension Fund communicates – good or bad – with any of our stakeholders are welcome.

If you want to get in touch with us about the way in which we communicate, please contact us using the details found later in this document.

In April 2006, the Local Government Pension Scheme Regulations were amended to state that each pension fund administering authority is required to prepare, publish and review regularly its communications policy statement.

This document outlines the Fund's policy concerning communications with the following people and organisations.

The Fund has identified six distinct groups with whom it needs to communicate:

- Pension Committee members
- Scheme members
- Prospective Scheme members
- Scheme employers
- Fund staff
- Other bodies

Diversity of Communication
The Fund's communication material is designed within the boundaries of the channel for which it is meant.

Printable publications are made available on the Fund's website at wmpfonline.com, and contain links and information that wouldn't be possible to incorporate into a printed version.

All information is also available in alternative formats (for example, Braille and large print), but may take additional time to prepare as it may not be readily available at the date of publication of a Scheme leaflet or booklet. The Fund will strive to reduce any additional period required to prepare such information where it can, but if one-off personalised information is requested in either Braille or large text format, it can take up to ten working days for it to be prepared.

A truly effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to its customers. Set out in this document are the channels which may be used to meet those communication needs. The Fund aims to use the most appropriate communication medium for the audiences receiving the information. It is recognised that this may involve using more than one method of communication for each group.

Pension Committee Members
Committee members receive directly all meeting papers and full access to all Fund material produced for employers, employees' pensions and third parties. As part of its main website at wmpfonline.com, the Fund provides information which contains the relevant Scheme booklets and information.

In accordance with the trustee training policy, knowledge building and training is provided via the Fund's officers, advisors and external experts with regards to investment and administration matters.

The Fund has embraced the CIPFA knowledge and skills framework, and will work to expand elected members' knowledge upon this framework.

The role of the elected member through the Pension Committee is also supplemented by sub-committees, such as the Investment Advisory Sub-Committee, at which specific advice can be provided by officers and external advisors. The seven district councils in membership of the Fund are represented at meetings, as are the trade unions who attend all meetings on an observer basis, but whose views are given equal weighting.

The trade union representatives are generally Scheme members in that they are active, deferred or pensioner members. The work of the trade union members is supported by a Joint Consultative Panel of trustees and trade union representatives.

Scheme Members
Internet
The Fund has established an extensive website at wmpfonline.com containing Scheme details and leaflets, etc. There are also links to other organisations relevant to Scheme members, for example, AVC providers, employers' organisations, etc.

Benefits Statements
An annual benefits statement is sent direct to the home address of all members who are contributing to the Fund at the previous financial year-end and do not form a pending pension transaction. Benefit statements are sent direct to the home address of deferred members where a current address is known. Active and deferred members are able to register for the Fund's web portal facility, where a copy of individual benefits statements are available to view or print at any time.

All members are encouraged to inform the Fund directly of any change of address. The Fund has a formal policy on dormant records and members are provided with this information at various times.

The Fund also takes reasonable steps to ensure we maintain a current and accurate address database subject to the accepted Royal Mail format – PAF (postal address format).

Scheme Literature
An extensive range of Scheme literature is produced by the Fund and is supplied to employing bodies and Scheme members directly. Copies of Scheme literature form part of the Fund's website at wmpfonline.com

As changes to the Scheme are announced and implemented, the literature will be updated accordingly and posted on the Fund's website at wmpfonline.com

Communications Policy Statement 2013

Pay Advices
The Fund issues a pay advice to all monthly paid Scheme pensioners in April. In the months of May through to March, we will only send a pay advice when there is a variance of £10 in their gross or net payment. For Scheme pensioners that are paid quarterly and annually, the Fund will issue a pay advice every time a payment is made (June, September, December and March). Scheme pensioners can also register to use the Fund's web-portal application where the pay advice can be viewed and printed at any time following the payment date.

Scheme pensioners are issued an annual end-of-year certificate (P60) to comply with HMRC guidance which will be provided in March 2013 and will continue on an annual basis accordingly.

The pay advice is used as a multifunctional communication mechanism, messages are included on the reverse each time they are produced. The Fund's website will continue to display updates for pensioners to convey specific messages, for example, pensions increase and HMRC taxation information.

Correspondence
The Fund uses both surface mail and email to receive and send correspondence, all staff have access to send and receive email. The Fund will, where appropriate, down stream access (DSA) providers to minimise costs for large bulk mailing such as annual benefits statements, but it will research services offered by the DSA providers to ensure the service offered is in accordance with that expected of a mail carrier, and that it will not impact on the end-delivery service to customers where relevant.

Dedicated Telephone Helpline
Members: 0300 111 1665
A dedicated low-call rate telephone customer service centre is provided for Scheme members and is widely publicised in Scheme literature. A password security system has been implemented which allows Scheme members to transact a significant proportion of their pensions business without having to enter into formal correspondence.

Pensions Roadshows
The Fund stages biennial pension roadshows where it visits the civic buildings of the seven district councils. Outside these events, satellite roadshows are held at outlying employer sites, particularly when there may be organisational changes occurring which have pensions implications.

The self-contained vehicle provides an opportunity for officers to go onsite and meet with Scheme members while having the full range of communication material present, as well as colleagues from Prudential who are the Fund's AVC partner. This can be done with the minimum of disruption to employers, as the vehicle can be located at workplace locations without the need for employers to find a suitable meeting room.

A concerted effort is currently being made to broaden this onsite work, and employers are being invited to seek assistance with pension matters at the earliest opportunity. In the current climate, this service has provided a good way of dealing with members' enquires face-to-face in order that full support can be given to them and their employees.

Pension Clinics and Surgeries
Officers of the Fund attend employer sites to see members on a one-to-one basis where requested to do so. This can be at the request of an employer where there is significant change to employment terms or at the request of members who feel they are unaware of the benefits of the LGPS.

The emphasis of these events is to reassure members about the benefits offered by the Scheme or to explain in greater detail where members have a challenge in understanding the complex make-up of the LGPS benefit structure. These sessions are offered to employers at no cost and continue to be a practical way of resolving issues within the workplace, promoting the LGPS and the Fund's reputation and willingness to respond to member queries.

Club Together
The Fund provides pensioners with an annual magazine through the affinity group, *Club Together*. The magazine is published by the affinity group and the Fund use the distribution as a vehicle to include a newsletter providing relevant pension information

Existence Validation: Pensioners Living Abroad
The Fund undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.

The costs of the exercise is usually outweighed by the number of validations that lead to pensions being suspended or stopped early due to the death of the member where we have yet to be informed.

Web Portal Facility
An online portal provides members with a secure access to their Local Government Pension Scheme records. The facility provides members with the opportunity to keep the Fund updated with their personal details, ask questions, access annual benefit statements and run pension estimate calculations. Pensioners of the Fund are also able to view pension pay information via the portal.

Prospective Scheme Members

Scheme Booklet
All new prospective Scheme members will be provided with a link to the Fund's website at wmpfonline.com and Scheme booklet upon appointment by their employer.

Website
The Fund's website at wmpfonline.com will contain specific information for non-joiners. It will highlight the process by which a member should be given the relevant information to make an informed choice, as well as detailing the administrative process that should be followed to opt out of the Scheme.

Non-Joiner Campaigns
The new joiner campaigns have been superseded by the introduction of the automatic enrolment legislation.

Corporate Induction Courses
Where required, Fund officers will attend corporate induction events in order to present to prospective Scheme members the benefits of joining the LGPS.

A 'one-on-one' surgery will also be offered to take account of individual queries that may be raised at such meetings.

Communications Policy Statement 2013

Pension Roadshows
As well as being a valuable aid for pensioners and current Scheme members, roadshows will be used to target specific non-members with support being enlisted from the DWP and in-house AVC providers.

This will ensure members receive the information required to make an informed choice with regards to their pension provision.

Trade Unions
We will work with the relevant trade unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension-related issues are communicated effectively with the trade unions.

Scheme Employers

Internet
The Fund has established an extensive website at wmpfonline.com containing Scheme details and leaflets, etc.

Dedicated Telephone Helpline
Employers: 0300 111 6516
A dedicated low-call rate employer customer service line was introduced during 2010/2011. This allows the Fund to respond to employer generated telephone calls as a priority at peak times, rather than introduce automated telephone responses.

Technical Newsletter
A technical newsletter, entitled *Employer's Briefing Note* is issued on a monthly basis to all employers. This medium is also used to communicate any issues that are currently under debate. Changes to the regulations which impact upon the employer's function or their employees are also covered.

Employers' Manual
An employers' manual is issued to assist the smaller employers in discharging their pensions administration responsibilities.

Ill-Health Retirements
A Guidance Manual for Approved Doctors has been circulated to appropriate employers within the Fund.

All Employer Meetings
The Fund has introduced an annual general meeting for employers which is used to communicate strategic issues, Fund performance, legislation changes and triennial valuation matters. Meetings may also be arranged in addition to the annual general meeting in order to address specific topics, for example, consultation meetings were organised when the draft regulations were released in connection with the 2014 changes to the Scheme

Access to Computerised Pensions Administration System, Fund Website and Web Portal
Each major employer has access through the internet to the pension records of their current employees, together with a calculation suite for the provision of estimates direct to employees. It is intended, through development of a second generation version of our current computerised pensions administration system, to achieve greater web compatibility and the transmission of data electronically.

All employers have the opportunity to use the Fund's online portal which has been developed to improve efficiency and convenience for both employers and members of the Fund. The portal provide benefits to employers which include the ability to make online changes to active member details such as changes in hours and change of address, provide the facility to calculate early retirement estimates and employer early retirement costings, as well as view pension records for their active members.

Fund Staff

The Fund's day-to-day management is headed up by the Director of Pensions. For day-to-day functionality, the principal functions are carried out by:

Investments
Management of the Fund's investments to meet the funding objectives.

Operations
Recording of personal records of beneficiaries, maintenance of these records and calculation and award of benefits.

Communications
Development and implementation of the Fund's communication strategy and marketing of the Scheme to members and potential members.

Systems
Maintenance and development of IT infrastructure, protection of data and development of administrative and operations systems.

Financial Services
Management of pension payroll together with control and processing of records supporting administrative activities.

Support Services
Administrative and other support to senior managers to enable the activities of the Fund to be discharged together with the management of reception, enquiries and related activities.

Management Meetings

SMT Senior Management Team
Senior managers from the relevant sections are required to attend a monthly meeting with the Director of Pensions to discuss strategic and workload issues.

Staff Standards
Staff are expected and will be supported in order that they can operate within the following standards:

i) Public expectations of how staff from the Fund should operate.

ii) Professional body standards to which staff are members.

iii) The Council's constitution.

iv) Specific service standards, eg, investment compliance manual, benefits, operating service standards.

v) With an attitude and approach that directly delivers a responsive, friendly, professional service and supports colleagues in achieving this objective.

vi) In accordance with the West Midlands Pension Fund service defined operating practices.

Communications Policy Statement 2013

Team Meetings
Office and/or team meetings are held on a regular basis. Any items arising from such meetings can be escalated through senior managers to SMT.

Intranet
Service intranets give all staff access and contain such information as procedure manuals, core briefings, LGPC circulars, etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner.

Induction
All new members of staff undergo an induction, and an induction/personnel manual is available to all staff. The Fund has introduced a performance appraisal scheme for staff which is backed by a balanced scorecard approach. There is, therefore, a responsibility on all staff to ensure effective communication at all levels across the service.

Internet
All staff are able to use the corporate network in order to access the internet.

Emails
All staff have access to the email facility.

Lean Review Groups and Project Management
Major developments within the service are usually achieved through the formation of Lean review groups, who represent the individual groups within the service and staff whose work is affected by such developments. This ensures a shared understanding of the issues and ensures service-wide involvement in their solutions. The Investment Division complies with FSA requirements in order to benchmark its work and operating standards. All major projects are subject to formal management arrangements.

Director of Pensions
The Director of Pensions maintains an open-door policy, and attempts to make herself available to all staff.

Chief Pension Service Manager
On a similar basis, the Chief Pension Service Manager responds to senior staff and other enquiries as they arise, when required.

Website
The Fund has maintained a website for several years at wmpfonline.com

While this is intended primarily as a means of external communication, access to the site does prove helpful to Fund staff. Where necessary, information is also made available on the Fund's intranet.

Other Bodies - Opportunities For Exchanges Of Information And Communication Of Pensions Issues

Trade Unions
Trade unions in the West Midlands are valuable ambassadors for the Scheme. They ensure that details of the Local Government Pension Scheme's availability are brought to their members' attention, and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

Shrewsbury Pensions Officers' Group
Pensions officers from administering authorities in the region meet regularly in order to share information and ensure uniform interpretation of the Local Government Pension Scheme, and other prevailing regulations.

The Press
The Fund has developed a strong media profile through its success in pension industry awards, articles authored by Fund officers and press releases to stakeholders.

Seminars
Fund officers regularly participate at seminars and conferences.

Joint Consultative Panel
A Joint Consultative Panel meets quarterly at which elected representatives from the district councils in membership of the Fund are present, together with a wide audience of trade union representatives. These meetings are informed of the issues being discussed by Scheme trustees and broader pensions matters which may be of interest to trade unions and their members.

Communications Policy Statement 2013

Media Matrix

Communication Material	Paper-based	Electronic Form (PDF)	Intranet for Staff	Website	Web Portal	Large Sight Copy	Braille	When Published	When Reviewed
Short Guide to the LGPS	Upon request	✓	✓	✓	✗	Upon request	Upon request	Constantly available	Quarterly
All About Your Scheme	Upon request	✓	✓	✓	✗	Upon request	Upon request	Constantly available	Quarterly
All About Your Retirement Benefits	Upon request	✓	✓	✓	✗	Upon request	Upon request	Constantly available	Biannually
All About Your Deferred Benefits	Upon request	✓	✓	✓	✗	Upon request	Upon request	Constantly	Biannually
Benefits Statements	Upon request	Non-personalised form	✓	Non-personalised form	✓	Upon request	Upon request	Annually	Annually
Information Sheets (various)	Upon request	✓	✓	✓	✗	Upon request	Upon request	Constantly available	Constant review
Report and Accounts	Upon request	✓	✓	✓	✗	Upon request	Upon request	Annually	Annually
Glossary of Pension Terms	Upon request	✓	✓	✓	✗	Upon request	Upon request	Annually	Annually
The Role of Actuary and Advisor	Upon request	✓	✓	✓	✗	Upon request	Upon request	Annually	Annually
Pension Fund Background Note	Upon request	✓	✓	✓	✗	Upon request	Upon request	Annually	Annually
Customer Charter (our service standards)	Upon request	✓	✓	✓	✗	Upon request	Upon request	Constantly available	Annually
Employers' Manual	Upon request	✓	✗	✗	✗	Upon request	Upon request	Constantly available	Annually
Pay Advice	Upon request	✗	n/a	✗	✓	Upon request	Upon request	Produced monthly	After each publication
Press Articles	Upon request	✓	✓	✓	✗	Upon request	Upon request	As required	After each publication

Administering Authority Policy Statement 2013

Administering Authority Policy Statement 2013

Under LGPS regulations, the Fund is required to formally publish its policy on 'discretions'. 'Discretions' is taken to include where the administering authority is required to carry out a task, but an element of choice is seen to exist as to how the task is completed.

Unless stated otherwise, the references to regulations are to the Local Government Pension Scheme (Administration) Regulations 2008, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 & the Local Government Pension Scheme Regulations 1997 (as amended).

The following prefixes will be used in this document to indicate the relevant regulations:

- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Admission of Admission Bodies [Regulation A5 & A6]
The Fund is obliged to admit transferee admission bodies, for example, as a result of the transfer of the service or assets by means of a contract or other arrangement. The Fund will usually admit community admission bodies, provided it is satisfied about the long-term financial security of the body or it has a public sector guarantee.

Admission of Admission Bodies [Regulation A7(6)]
The administering authority will be involved in the formulation of the admission agreement and, in particular, any termination provisions that are to be included in accordance with the Fund's agreed termination funding policy.

Further Restrictions on Eligibility [Regulation A12]
The Fund will review individually all possible admissions to the Scheme, where a person may be a member of the Scheme despite being entitled to be a member of the National Health Service Pension Scheme for England and Wales ('the NHS Scheme').

Medical Examination Required for Purchase of Additional Survivor Benefits A24A(3)
Where an election has been made for the purpose of additional survivor benefits, the Fund will require a satisfactory medical before agreeing to a request to pay additional survivor benefits contributions (ASBCs), the cost of which will be met by the Scheme member.

Future Costs [A38A]
The Fund will obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as a result of 'cost sharing' and the Fund, after consultation with the Fund's actuary, deems it necessary to obtain a new certificate for those employing bodies significantly affected by the changes to regulations.

Costs of Administration [A42(7)]
The Fund reserves the right to charge directly for any administrative functions that are impeded or unjustly prolonged by the actions of an employing body, for example, to recover additional cost incurred due to the late notification of information that directly has an impact on the payment of benefits for a Scheme member or dependants/nominated persons. Regular administration costs are charged to all employing bodies by way of the contribution rates certified as part of the triennial actuarial valuation of the Fund.

Right to Terminate Admission Agreement [ASch3]
The Fund shall retain the right to terminate an admission agreement in the event of:

a) the insolvency, winding up or liquidation of the transferee admission body;

b) a breach by that body of any of its obligations under the admission agreement (but where the breach is capable of remedy only where it has not been remedied within a reasonable time); or

c) a failure by that body to pay any sums due to the Fund within a reasonable period after receipt of a notice from the administering authority requiring it to do so.

Intervals for Payment of Employee Contributions [Regulation B3]
The Fund requires that all contributions should be credited to the Fund by the 19th of the month following that in which they were deducted (apart from AVCs as these should be remitted directly to the AVC provider, again by the 19th of the month following that in which they were deducted).

Right to Extend Period for Cancelling Notice to be Submitted [Regulation A19]
The Fund reserves the right to extend the normal 12-month period following end of relevant reserve forces leave for 'cancelling notice' to be submitted requesting that the service should not be treated as relevant reserve forces service.

Administering Authority Policy Statement 2013

Distribution of Death Grant
[Regulation B23, B32, B35, TSch1 & L155]
Normally, the Fund will pay a death grant to nominated beneficiaries. Where no nomination has been made, the Fund will pay a death grant to the deceased's personal representatives. Where both of these options are seen to be inappropriate or impossible, the Fund may pay the grant (as determined by the Chief Legal Officer) between surviving nominees or personal representatives, or any person appearing to the Fund to have been a relative or dependant of the deceased at any time.

Where a death grant does not exceed £5,000, the Fund will usually pay it without the production of grant of probate, a will or letters of administration.

Financial Dependence of Nominated Cohabitee on Scheme Member or Financial Interdependence of Nominated Cohabitee and Scheme Member [Regulation B25]
The Fund will provide the appropriate parties with the details of the evidence required to determine financial dependence of nominated cohabitee on a Scheme member or financial interdependence of nominated cohabitee and a Scheme member.

Child's Pension - Ignoring Breaks in Education or Training
[Regulation B26]
The Fund will accept short breaks, and also gap years, as being interruptions in education and will restart a suspended children's pension at the end of such a break or gap. When the Fund has determined that education has ceased, we are unlikely to restart a child's pension.

Child's Pension – Determining Recipients
[Regulation B28, B34 & B37]
Where there is more than one eligible child, the Fund will normally divide a children's pension equally between the eligible children. Where a child is under 18, we will normally pay his/her pension to the person who has the care of the child, to be applied for the benefit of that child.

Request for Early Payment of Benefits [Regulation B30(2)]
Where the employer no longer exists, the Fund may exercise the discretion to allow early payment of the deferred benefit. The Fund will consider each case fairly and on its own merit but, as the cost will have to be spread across all employers, the cost has to be justifiable.

Reinstatement of a Suspended Tier 3 Ill Health Pension
[Regulation B30A(3)]
Where the employer no longer exists, the Fund may exercise the discretion to put the deferred benefit back into payment. The Fund will consider each case fairly and on its own merit but, as the cost will have to be spread across all employers, the cost has to be justifiable.

No Reduction to the Benefits [Regulation B30(5) & B30A(5)]
Where the Fund has decided to allow the payment of benefits under regulation B30(2) or B30A(3), it can decide on compassionate grounds to waive the reduction. The Fund will consider each case on its own merit but, as the cost will have to be spread across all employers, the cost has to be justifiable.

Request for Early Payment of Deferred Benefits on Ill Health
[Regulation B31(4)]
Where the employer no longer exists, the Fund will obtain an opinion from an independent registered medical practitioner and decide whether the deferred member meets the criteria of permanent ill health and a reduced likelihood of gainful employment.

Reinstatement of a Suspended Tier 3 Pension on Ill Health
[Regulation B31(7)]
Where the employer no longer exists, the Fund will obtain an opinion from an independent registered medical practitioner and decide whether the member has become permanently incapable of undertaking any gainful employment.

Commutation of Small Pensions [Regulation B39 & T14]
The Fund will normally commute pensions that are below certain amounts.

No Double Entitlement Benefits Due Under Two or More Regulations [Regulation B42]
Where no relevant election is held, the Fund will decide, and notify the member or their representatives, which benefit should be paid, if benefits are due under two or more regulations, in respect of the same period of Scheme membership.

Agreement with Employing Authority to Include Cost of Augmentation in Employer Contributions [Regulation A40]
When an employer augments a member's service, the Fund will usually want the cost of this paid to the Fund in advance of payment to the member. For some employers – mainly local authorities – we will also allow the extra cost to be funded via extra employer contributions over a period as agreed by the Fund's actuary.

Agreeing Extension to Period for Payment for Augmentation as Lump-Sum [Regulation A40]
The Fund will require an employer to pay the cost of augmentation in advance. We will only grant an extension to the standard payment procedures in exceptional circumstances.

Medical Examination Required for Purchase of ARCs
[Regulation A23]
The Fund may require that members wishing to purchase additional membership provide satisfactory medical evidence to ensure they can be reasonably expected to complete the contract undertaken and not retire due to a pre-existing medical condition on health grounds.

Additional Voluntary Contributions – Minimum Contributions
[Regulation A25]
The Fund will require AVC providers to accept AVCs that in amount are at least equal to the minimum amount specified in Regulation 2(8) of the Pension Schemes (Voluntary Contributions Requirements and Voluntary and Compulsory Membership) Regulations 1987, and also lesser amounts that are in respect of extra life cover.

Administering Authority Policy Statement 2013

Investment of AVCs [Regulation A25]
The Fund's current AVC providers are Equitable Life Assurance Society & The Prudential Assurance Co Ltd. These providers will be reviewed from time to time.

Purchase of AVC Annuities from Insurance Company [Regulation A26(2)]
As far as is practicable, the Fund will give effect to the member's wishes. In the absence of any preference being expressed, the Fund will provide details of the funds available from the AVC provider to whom contributions were paid.

Provision of Estimates in Relation to Transfers of AVCs/FSAVCs [Regulation A28]
The Fund has determined that it will not charge for such estimates.

Governance Policy [Regulation A31]
The Fund has published a governance policy which is available on the Fund's website at the following address: www.wmpfonline.com

Establishment of an 'Admission Agreement Fund' [Regulation A32]
The Fund has chosen not to set up an admission agreement fund.

Production of Funding Strategy Statement [Regulation A35]
The Fund was required to produce a Funding Strategy Statement on or before 31 March 2005. A copy of this document is contained on our website at the following address: www.wmpfonline.com

Revision of Employer's Contribution Rate [Regulation A38]
The Fund will obtain additional rate and adjustments certificates regarding employer contributions as appropriate.

Strain on Fund [Regulation A41(2)]
The Fund will require employers to make appropriate payment to the Fund following redundancy, flexible retirement or waiver (in full or in part) of any actuarial reduction on flexible retirement. Such costs should be paid to the Fund prior to the payment of any benefits to a member (where no such allowance has been made in a previous valuation).

Employer Contributions – Dates for Payment [Regulation A42]
All contributions (apart from additional voluntary contributions) should be credited to the Fund without delay by the 19th of the month following that in which they fall due.

Information Provided by Employers about Contributions – Frequency and Format [Regulation A42]
The Fund will provide to employers upon request the specified formats that employers are to use for their year-end returns. A timetable will be issued each year to inform employers of the deadline to submit this data along with any format changes that will be required. The Fund requires this data to be submitted to the Fund no later than the third week in May.

Notice to Recover Costs Due to Employer's Performance [Regulation A43]
The Fund will review from time to time whether to issue an employer with notice to recover additional costs incurred as a result of the employer's level of performance.

Employer Payments – Interest on Overdue Payments [Regulation A44]
The Fund reserves the regulatory prescribed right to require interest to be paid when payments are overdue by more than one month. Interest due under paragraph A44 (1) or payable to a person under regulation A45(5) (deduction and recovery of member's contributions), A46(2) (rights to return of contributions) or A51 (interest on late payment of certain benefits) must be calculated at one per cent above base rate on a day-to- day basis from the due date to the date of payment and compounded with three-monthly rests.

Extension of Time Period for Capitalisation of Added Years Contract [Regulation TSch1 & L83]
The Fund will apply the prescribed three-month time limit.

Recovery of Unpaid Employee Contributions as Debt/ from Benefits [Regulation A45]
The Fund will, where practicable, deduct any unpaid employee contributions from benefits that are derived from membership to which the unpaid contributions relate.

Pensions Increase Payments by Employers to the Fund [Regulation B38]
A former employing authority can have pensions increase liabilities that have not been provided for by employer contributions. If this is certified by the Fund's actuary, we may require further cash payments to be made, at intervals agreed with the Fund's actuary. Depending on the amounts required, the interval specified may be monthly, quarterly or annually.

Making Payments in Respect of Deceased Persons Without Probate, etc [Regulation A52]
The Fund will normally make payments due in respect of deceased persons without the production of probate or letters of administration of estates, where the amounts due are below the amount specified in any order under section 6 of the Administration of Estates (Small Payments) Act 1965.

Payments for Persons Incapable of Managing Their Affairs [Regulation A52A]
The Fund may decide to pay some or all of the benefit to someone else to be applied for the benefit of the member, where it appears that the person is incapable of managing their affairs by reason of mental disorder or otherwise.

Independent Registered Medical Practitioners – Approval by Administering Authority [Regulation A56]
The Fund has a number of approved doctors for the giving of certificates regarding permanent incapacity. Employers are free to refer more for approval. Some smaller employers may only consult from a prescribed and limited list of those that have been approved. A list of approved doctors is maintained on the Fund's website at the following address: www.wmpfonline.com

Administering Authority Policy Statement 2013

Procedure to be Followed When Exercising Stage 2 Internal Dispute Resolution Procedure Appeals Regarding Administering Authority Decisions [Regulation A60]

You can ask the Fund to take a fresh look at your complaint in any of the following circumstances:

- you are not satisfied with the nominated person's first-stage decision.
- you have not received a decision or an interim letter from the nominated person, and it is three months since you lodged your complaint.
- it is one month after the date by which the nominated person told you (in an interim letter) that they would give you a decision, and you have still not received that decision.

This review would be undertaken by a person not involved in the first stage decision. You will need to send the Fund your complaint in writing.

The Fund will consider your complaint and give you a decision in writing.

Stage 2 appeals should be sent to:

Mr S Warren
Chief Executive
Wolverhampton City Council
Office of the Chief Executive
Civic Centre
St. Peter's Square
Wolverhampton
WV1 1NX

If you are still unhappy following the Fund's second stage decision, you can take your case to the Pensions Ombudsman provided you do so within three years from the date of the original decision (or lack of a decision) about which you are complaining.

Appeal to the Secretary of State Against Employer Decision [Regulation A63]

The Fund will appeal to the Secretary of State if the Fund believes an employer has made (or failed to make) a decision or committed an act that is both wrong in law and material, and where we have been unable to persuade the employer to alter its actions (or inactions).

Specify Information to be supplied by Employers to Enable Administering Authority to Carry Out its Function [Regulation A64]

The Fund will from time to time set out and specify the information to be supplied by employers to enable the administering authority to discharge its functions; this information will further be supplemented with additional information as and when required in a format to be determined by the administering authority.

Pensions Administration Strategy [Regulation A65]

The Fund may inform employers in a written form from time to time of a written pensions administration strategy and, if so, the matters it will include will be:

a) procedures for liaison and communication with employing authorities in relation to which it is the administering authority;

b) the establishment of levels of performance which the administering authority and its employing authorities are expected to achieve in carrying out their Scheme functions by:

   i) the setting of performance targets,

   ii) the making of agreements about levels of performance and associated matters, or

   iii) such other means as the administering authority considers appropriate;

c) procedures which aim to secure that the administering authority and its employing authorities comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

d) procedures for improving the communication by the administering authority and its employing authorities to each other of information relating to those functions;

e) the circumstances in which the administering authority may consider giving written notice to any of its employing authorities under Regulation 43(2) on account of that authority's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

f) the publication by the administering authority of annual reports dealing with:

   i) the extent to which that authority and its employing authorities have achieved the levels of performance established under sub-paragraph (b), and

   ii) such other matters arising from its pension administration strategy as it considers appropriate; and

g) such other matters as appear to the administering authority, after consulting its employing authorities and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

In the absence of such a policy as detailed above the Fund's current practice and procedures will apply.

Formulate Policy on Functions Under Part 7 [Regulation A66]

This document details how the Fund will generally exercise the discretionary functions of the administering authority. An item not covered elsewhere is the provision of a scheme for shared cost additional voluntary contributions. One of these is created when a Scheme employer so resolves, but thus far no such resolution has been made. If one is created, the Fund will make the necessary arrangements for contributions to be invested.

Administering Authority Policy Statement 2013

Communications Policy [Regulation A67]
The Fund has published a communications policy which is available on the Fund's website at the following address: www.wmpfonline.com

Provision of Annual Statements [Regulation A68]
The Fund will resolve to issue an annual benefits statement to each of its active, deferred and pension credit members. The first such statement will be issued on or before 1 April 2010 and subsequent statements will be issued on or before 1 April in each year after that year. The statement will contain an illustration of the amount of benefit entitlement, in respect of the rights that may arise under the Scheme.

Abatement of Pensions on Re-employment [Regulation A70]
The Fund has resolved (with effect from 1 September 2006) not to abate pensions on re-employment, having regard to the enactment of regulations introducing flexible retirement. Some pensioners have been awarded extra pensions by their former employing authorities to compensate them for retiring early. When this happens, the extra pensions, called additional compensatory benefits, are often paid along with the Fund's retirement pension.

These extra pensions may be abated upon re-employment or upon subsequent retirement, in accordance with the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended).

Bulk Transfers (Transfers of Undertakings etc) [Regulation A81]
The Fund will agree to pay or transfer to the trustees or managers of the new Scheme, for the benefit of the relevant members, an amount equal to that becoming due under Regulation A81, as amended.

Transfers Into the Fund [Regulation A83]
The Fund will allow the acceptance of a transfer value and credit it to its pension fund, where a request under paragraph A83 (1) is duly made. If a person who becomes an active member has relevant pension rights, he may request his fund authority to accept a transfer value for some or all of those rights from the relevant transferor.

Transfers into the Fund Extension of the 12-Month Time Limit [Regulations TSch1 & L122A]
Subject to the written permission of the appropriate employing body/authority, the Fund will agree to accept a payment where an extension of the 12-month time limit has been granted by the employer.

Occupational Pension Schemes (Transfer Values) Regulations 1996
The Fund will provide statements of transfer values in accordance with the above regulations. If a request for a statement is made within a year of an earlier request, the Fund reserves the right to charge for this information (we will provide the statement at a charge of £150 plus VAT).

Spouses' Pensions Arising Under 1995 Regulations Payable for Life
The Fund has deemed that any spouses' pension that comes into payment is payable for life. This does not apply to spouses' pensions that ceased prior to 1 April 1998.

Charging of Administration Costs to the Fund [Regulation L4 (3) LGPSR 1995]
We have decided to pay out of the Fund the costs of its normal day to day administration. These costs include those relating to investments. Some costs are recharged to employers – for example, fees for special actuarial work. See also 'Costs of Administration [A42(7)]'.

Permanent Reductions in Pay: Certificates of Protection [TSch 1 L23(9)]
The Fund will make an election on behalf of a deceased member to determine that the final pay period provides the most beneficial pay figure to be used in the calculation of the benefits.

Time Limits for Acceptance of Restitution Transfer Values [TSch1 & L122A]
The Fund will review each case on its individual merits before determining if such a payment can be accepted.

Partial Restitution Payments [TSch1 & L122A]
The Fund will review each case on its individual merits before determining if such a payment can be accepted.

Pension Credit Liability [TSch1 & L147]
Where awarded, pension credit members will be dealt with as bona fide members of the LGPS.

Final Pay: Reductions [B10(2)]
Where a member dies before giving notice to the Fund that he/she wishes to have his/her final pay based on the average of three years consecutive annual pensionable pay ending 31 March within the period of 13 years ending with the member's last day as an active member, the Fund will give notice on behalf of the deceased member.

Meaning of 'Eligible Child' [B26(4)]
The Fund is unlikely, subject to an assessment of the personal circumstances presented, to pay a child's pension to a child who commences full-time education or vocational training after the member's death and has reached aged 18 but is under age 23.

Meaning of 'Eligible Child' [B26(6)]
The Fund will, for the purpose of the above regulation treat a dependent child who is disabled within the meaning of the Equality Act 2010 as an eligible child.

Children's Pensions [B27(5)]
The Fund will normally pay the whole or part of a child's pension to another person to be applied for the benefit of the child.