



West Midlands PTA Pension Fund

Statement of Investment Principles

March 2008

1. Introduction

1.1. The West Midlands Passenger Transport Authority (PTA) Pension Fund has drawn up this statement of Investment Principles ('the statement') to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. This statement is available to anyone with an interest in the Fund and the public generally.

1.2. Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Pension Fund Committee established by the PTA (the administering authority) which has open representation from the admitted bodies. The Committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in Section 2 below. The remaining elements of policy are part of the day-to-day management of the assets which is delegated to the external managers and the director responsible for the West Midlands Pension Fund at Wolverhampton City Council and described in Section 3.

1.3. The roles of the members and Committee are:

Role Of Pensions Committee

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

4. To monitor compliance with legislation and best practice.
5. To determine and recommend investment policy:
 - (a) benchmark (medium-term)
 - (b) monitor policy.
6. To appoint committee advisors.
7. To monitor investment management arrangements.
8. To review strategic investment opportunities.
9. To appoint and dismiss segregated managers.
10. To monitor implementation of investment policy.

2. Investment Objectives and Risk

2.1. Investment Objectives

The Authority has set the following 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 having regard to the risks relative to the maturity of the Fund's liabilities.
- (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.

2.2. Risk

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

- (i) The risk of a deterioration in the funding level of the Fund due to investment markets not responding as forecast. The diversification of the investments balances this risk against the objective of seeking the better performing markets in which there is relatively good liquidity.
- (ii) The risk that the investment managers, in their day to day management of the assets, will not achieve the rate of investment return expected by the Authority. The Authority recognises that the use of active investment managers involves such a risk and does not use active equity managers. To limit their exposure to the risk of significantly underperforming, the Authority invests approximately 80% of the Fund's investments in highly diversified core holdings, a mixture of equities and bonds, producing a high level of probability of achieving near market rates of return at a relatively low cost. 20% of the Fund is invested and actively managed in fixed interest. It is divided between non-government bonds (10%) and gilts (10%).
- (iii) Any investment decision carries with it risks of different types (for example risk of underperformance, risk from mismatching, risk from underfunding etc). The Authority recognises these different types of risk and seeks to minimise them as far as possible by regular monitoring of the performance of the fund managers, seeking advice from the actuary on the suitability of the assets with regard to the Fund's liabilities, regularly receiving advice from a range of professional advisors and ensuring that the Fund's portfolio is suitably diversified.

2.3. Investment Strategy

The Authority sets a long term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and the investment objectives set out above. This is reviewed at least every three years, after each actuarial valuation. From 1 April 2005, due to the changing nature of the Fund and revised investment strategy, asset allocation was reviewed on an annual basis unless significant issues arose that suggest an in year review. The Authority believes that the investment strategy is currently appropriate for controlling the risks identified in 2.2. given the liability profile of the Fund and its financial position. It will not make tactical asset allocation decisions unless market movements or related issues suggest otherwise. The only movement between asset classes will be as a result if re-balancing control ranges are breached.

3. Day-to-Day Management of the Assets

3.1. Main Assets

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

The managers used are listed below.

Asset Class	Manager
Equities	
UK } Passive	Legal and General
Overseas }	
Fixed interest	
UK gilts	Passive Legal and General
UK index-linked	
Non-government bonds	
Non-government bonds active	Barclays Global Investors
UK gilts active	Barclays Global Investors
Cash	Wolverhampton City Council

3.1.1. Investment Performance Benchmark

The benchmark from April 2008 is as set out below with risk bands applied either side of the benchmark that, if breached, will trigger rebalancing.

Asset Class	%
UK equities	21.0
Overseas equities	24.0
Europe	10.0
North America	7.0
Japan	2.75
Pacific Basin	1.75
Emerging markets	2.5
Total equities	45.0
Index-linked	15.0
UK gilts	20.0
UK corporate bonds	20.0
Total bonds	55.0
	100.0

3.1.2. Expected Return on the Investments

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

3.1.3. Investment Restrictions

The investment managers are prohibited from holding investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

3.2. Additional Assets

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

3.3. Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund is mature in terms of benefit liabilities and has a strong cash outflow on a regular basis. The current policy on realising investments to meet benefit outgoings, etc is reviewed quarterly and cash realisations are usually taken to assist in balancing to the asset allocation benchmark.

3.4. Monitoring the Investment Manager

The performance of the internally managed assets and of the external investment managers is independently measured. In addition, officers of the Fund meet the investment managers regularly to review their management of the portfolio together with the reasons for the background behind the investment performance. The Investment Advisory Sub-Committee meets at least quarterly to review markets and managers.

3.5. Advisers

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

Mercer	Actuarial matters, selection of investment managers, policy and investment matters relative to liabilities
Wolverhampton City Council Officers of the West Midlands Pension Fund	General investment advice, management of cashflows, and pension administration

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

4. Corporate Governance and Socially Responsible Investment (SRI)

- (i) The Authority recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Authority considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society.
- (ii) The Fund supports good corporate governance in the companies in which it invests and the challenging of companies who do not meet the standards or reasonable expectations set by their peers.
- (iii) 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.
- (iv) Lack of good governance interferes with a company's ability to function effectively and is a threat to the Fund's financial interest in that company.
- (v) The Fund is also a member of the Local Authority Pension Fund Forum. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

5. Compliance with this Statement

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

6. Compliance with Myners

- 6.1.** Following from the Myners' Report into Institutional Investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations and identified ten 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 Fund supports the principles as it represents industry 'best practice'. The Fund has evaluated its position in relation to the Myners' Principles and believes that it is Myners' compliant.

7. Review of this Statement

The Authority will review this statement in response to any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. This review will occur no less frequently than every three years to coincide with the actuarial valuation.

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