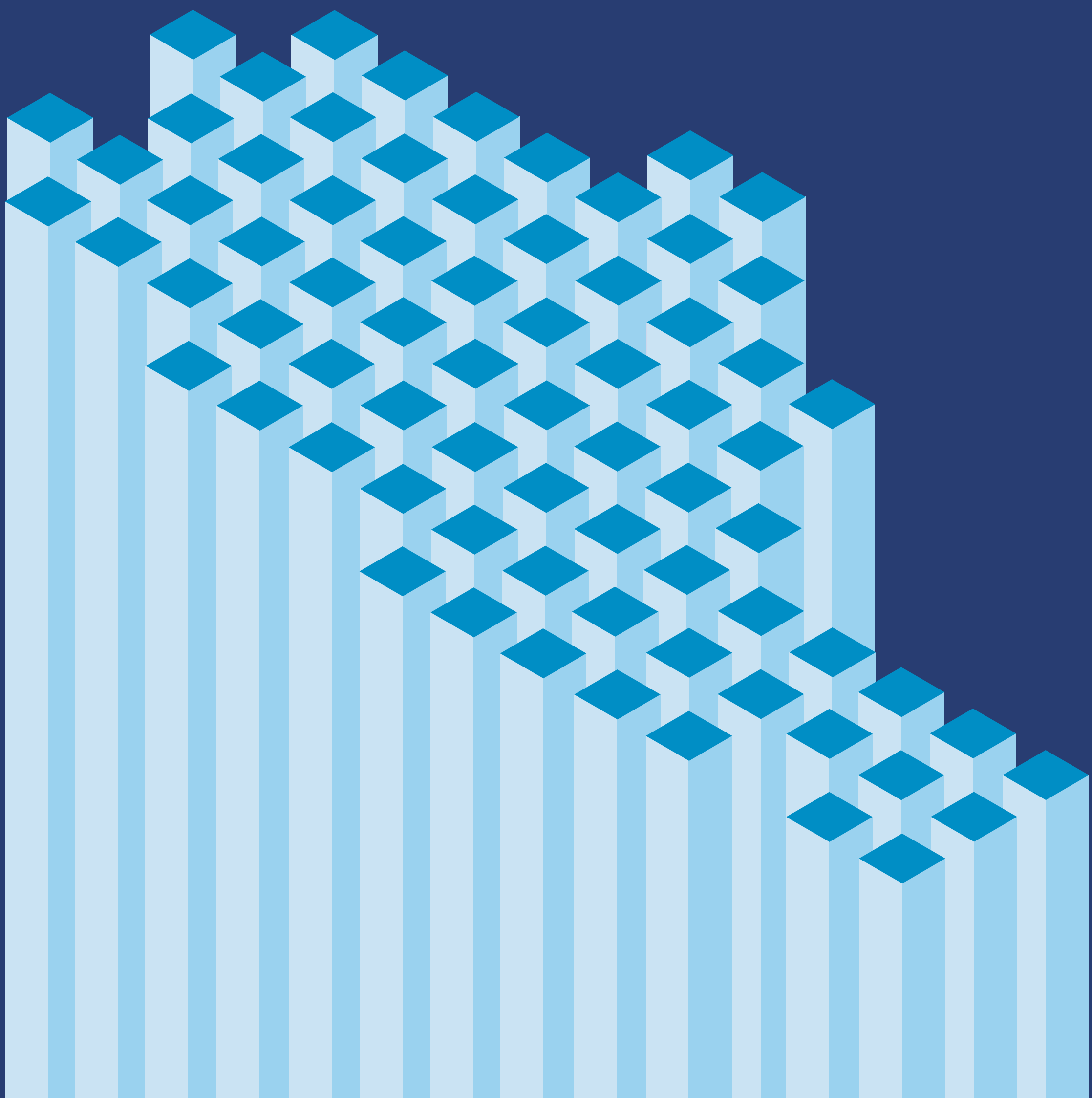
West Midlands Pension Fund

Annual Report 2009



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Chair's Statement

Councillor Mike Heap
Chair of the Superannuation Committee 2009/2010
October 2009

In these difficult times I am pleased to report that the West Midlands Pension Fund is helping a large number of families.

The Fund pays annually £250m in pension benefits and the average payment made to 60,056 individuals is £4,305 per annum with the range shown below:

1. Over 70% of Fund pensioners receive pensions of less than £5,000 per annum.
2. Only 0.91% of Fund pensioners receive annual pensions of more than £25,000 per annum.
3. Just over 24% of pensioners receive a pension of between £5,000 and £15,000 per annum.

Mapping the postcode of those receiving the £200m paid out annually to the 50,220 people living in the West Midlands urban area, to the information from *'The English Indices of Deprivation 2007'* shows the following:

- The majority of payments are into households in the most deprived areas of the West Midlands.
- Approximately £200m is paid to beneficiaries with a postcode located within the West Midlands urban area covering the seven district councils in and around the Birmingham area.
- The majority of beneficiaries live in the 30% most deprived areas.
- £85.8m per annum is paid in benefits to individuals (£3,400 per individual per annum) living in those areas giving a significant financial boost to families who have some of the lowest incomes per household.

The pensioner individuals in the most deprived wards are likely to be on the state minimum pension and having to claim a range of state benefits – finance-related, such as pension's credit and housing benefits, as well as support-related, such as attendance allowance or disability allowance. The Local Government Pension Scheme (LGPS) allows many to live fully or partially independently of finance-related benefits.

Despite the criticisms of public sector pensions, it is clear the LGPS assists many local families who are not the 'fat cats' as described by the press.

The promotion of the LGPS remains a priority as a sound basis for people who are eligible to build an adequate pension provision for their retirement. You will see from this report the committee members continue to work with the officers of the Fund to improve the quality of the service delivered.

Director of Pensions' Statement

Brian Bailey
Director of Pensions

There is no doubt that the recent turbulence experienced during 2008/2009 by the investment markets has been unprecedented; the press seems to have focused its attention on a number of issues, not least of which has been the cost of public sector pension provision.

On behalf of the Fund, I would like to take the opportunity to provide a factual position statement in respect of the West Midlands Pension Fund and the LGPS.

The LGPS is a national scheme for public sector workers not in the other main public sector schemes, such as the teachers and the uniformed police/fire schemes. It is a funded scheme; in other words, the contributions paid by employers and employees are put aside and invested for when resources are needed to meet pension payments.

The LGPS has been reviewed as recently as 2008 by the Government in consultation with employers and employee representatives. The objective is to produce a scheme that is affordable, viable and fair to all interested parties. The outcome has been a new defined-benefit scheme operating from 1 April 2008, with tiered contribution rates for employees and cost-sharing arrangements that will share future cost increases between employees and employers. Cost-sharing arrangements will limit and cap future increases for employers. The Scheme retirement age remains at 65 and the arrangements for ill-health retirement have changed, introducing strict eligibilty criteria.

The LGPS is different to other public sector pension schemes in that it has a fund set aside to meet its pension liabilities. There are a number of ways the fund can be valued. There is the standard actuarial valuation which is a regulatory requirement and is undertaken every three years. A number of assumptions are made in order to calculate over the very long-term what level of contributions are required to ensure the Fund is sufficient to meet all pension liabilities. At the 2007 valuation, the actuary calculated that at that point in time the funding level for the Fund was 82% and that, in order to ensure the Fund grew sufficiently to meet the projected liabilities, employing body contribution rates would need to average 16.5% and employee contributions 6.5% of pensionable pay. The next valuation is due in 2010.

The problem with the actuarial valuation is that it is based upon assumptions that are linked to factors that can be volatile, such as gilt and bond prices. This means that actuarial valuations can vary with market movements. Another way of looking at the funding level is to analyse cash-flows, and for the Fund there is a positive cash flow for the next 20 plus years; in other words, the current inflow from contributions and investments will meet pension payments well into 2030 already and probably beyond. Therefore, current funding is robust.

The Fund is in a cash 'surplus' for 20 plus years and can, therefore, implement an investment strategy that spans a number of economic cycles and 'ride out' periods when markets are offering poor value and wait for the upturn in the cycle. This enables the Fund to seek the higher returning assets such as equities, compared with the less risky but lower return assets.

The Fund has been advised by experts in this field and follows the advice given. The investment strategy is accepted by the actuary and is key in holding contribution rates. The actuary is estimating an investment return of 6.5% compared to inflation of 2.75% over the very long-term.

Prior to the bear market of 2008, the Fund's returns over medium/long-term were: +13.7% (three years), +13.8% (five years), +6.8% (ten years) per annum.

Obviously, pension funds with a high allocation to quoted equities and some areas of fixed interest were negatively impacted by the unprecedented market conditions of 2008.

Following the market conditions of 2008, the Fund has continued to pursue a strategy of further diversification introducing an allocation to absolute return strategies. The objective being to reduce the Fund's overall volatility and over-dependence on equities, putting it in a more robust position, while maintaining the estimated return targets.

The Fund recognises that in seeking higher returns there are increased risks associated with these greater returns. Higher returns are also generated by assets which require a long-term commitment, thus an investor receives a 'premium' return for not being able to access their capital for a pre-determined period. Risks are mitigated or managed by limiting exposure to any one investment and diversifying across managers and assets. The risk of a loss is minimised while capturing higher returns.

It is accepted that these investment risks can increase when there is:

i) regulatory failure
ii) fraud
iii) economic downturn

The Fund has suffered, like all investors, from these issues which are beyond its control. The Fund did not have an exposure to Madoff or Icelandic banks, but did hold bank shares. It held Enron and Poly Peck shares, although it is almost impossible to protect a fund from fraud if it invests in a quoted company, especially when there are numerous 'buy' recommendations from investment analysts. Venture capital is often regarded as a 'risky asset'. However, since the Fund has been investing in this asset class it has added over the long-term 1% per annum to the Fund's overall returns but, like quoted companies, it will underperform in a recession and there may be some loss in value over the short-term.

2008 was a challenging year, as nearly all asset classes lost value, for example certain areas of fixed interest became particularly distressed and in addition the non-correlation between asset classes diminished. The strong cash flow position of the Fund has meant that it was not forced to sell assets and is now benefiting from their rising value.

Superannuation Committee

Councillor M A Heap*
Chair - Wolverhampton City Council

Councillor C E Quarmby*
Vice Chair - Wolverhampton City Council

Councillor P A Bilson*
Wolverhampton City Council

Councillor F Docherty*
Wolverhampton City Council

Councillor L Clark*
Birmingham City Council

Councillor Mrs H Johnson*
Coventry City Council

Councillor Mrs A Millward*
Dudley Metropolitan Borough Council

Councillor V Silvester*
Sandwell Metropolitan Borough Council

Councillor G M Allport*
Solihull Metropolitan Borough Council

Councillor Zahid Ali*
Walsall Metropolitan Borough Council

Councillor S Evans
Wolverhampton City Council

Councillor Mrs G S Fellows
Wolverhampton City Council

Councillor S Hall
Wolverhampton City Council

Councillor S D A Jevon
Wolverhampton City Council

Councillor A D Johnson
Wolverhampton City Council

Councillor L Pugh
Wolverhampton City Council

Councillor T Singh
Wolverhampton City Council

Councillor T H Turner
Wolverhampton City Council

Observer Members 2008/2009

J Daly GMB

M Clift TGWU*

I Smith Amicus*

* denotes members of Investment Advisory Sub-Committee

Administering Authority

Wolverhampton City Council
Customer & Shared Services, Civic Centre,
St. Peter's Square, Wolverhampton
WV1 1SL.

R Carr
Chief Executive

S Kembrey
Chief Legal Officer,
Resources and Support

B Bailey
Director of Pensions

J Saunders
Chief Investment Officer

N Perrins
Chief Pensions Services Manager - Operations

P Wild
Head of Financial Services

M Crutchley
Head of Communication & Marketing

Superannuation Joint Consultative Panel

The subjects considered by the panel during 2008/2009 include:

- Membership of the Fund
- Numbers of pensioners and amounts in payment
- Reasons for retirements
- Pensions increase provisions
- Changes in social security, pension and disclosure legislation
- Audit of the accounts
- Investment management
- Provision of information to members, prospective members and beneficiaries
- Marketing of the Fund and the promotion of LGPS membership
- Additional voluntary contributions (AVCs)
- Applications for admission agreements

Main External Advisors

General

P Gale
Gartmore Investment Ltd

E A Owens
Mercer Investment Consulting Ltd

Property

J Fender
John Fender Consultancy

ING Real Estate Investment Management (UK) Ltd

Pension Scheme Registration Number
10079176

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

Actuary
Mercer Human Resource Consulting Ltd

Custodian of Assets
HSBC Global Investment Services

Banker
National Westminster Bank plc

Auditor
Local Government Auditor/PricewaterhouseCoopers

AVC Providers
Prudential Assurance Company Ltd
Equitable Life Assurance Society

National Association of Pension Funds (NAPF)
Membership No: 2135

Corporate Governance
Pensions Investment Research Consultants (PIRC)

Participating Employers of the Fund

at 31 March 2009

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
National Probation Service for England and Wales – West Midlands
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
University College Birmingham
Bournville College of Further Education
Cadbury Sixth Form College
City College, Birmingham
City College, Coventry
Dudley College of Technology
Halesowen College
Henley College
Hereward College
Joseph Chamberlain College
Josiah Mason College
King Edward VI College
Matthew Boulton College
Sandwell College
Solihull College
Solihull Sixth Form College
South Birmingham College
Stourbridge College
Sutton College
Walsall College
Wolverhampton College

Schools
King Edward VI Aston School
King Edward VI Camp Hill School for Boys
King Edward VI Camp Hill School for Girls
King Edward VI Five Ways School
King Edward VI Handsworth School

Other Bodies
Balsall Parish Council
Bickenhill Parish Council
Castle Bromwich Parish Council
Chelmsley Wood Parish Council
Fordbridge Parish Council
Grace Academy
Hockley Heath Parish Council *(terminated 31 March 2009)*
Kingshurst Parish Council
Meriden Parish Council
Q3 Academy
RSA Academy
Sandwell Academy
Sandwell Homes
Sandwell Leisure Trust
Smiths Wood Parish Council
Solihull Community Housing
Valuation Tribunal Service (was Birmingham Valuation Tribunal)
Walsall City Academy Trust Limited
Wolverhampton Homes

Admitted Bodies

With Active Members
Adoption Support
Age Concern Birmingham
Age Concern Wolverhampton
Aston University
BID
Beechdale Community Housing Association Limited
Black Business in Birmingham
Black Country Connexions
Black Country Consortium Limited
Black Country Museum Trust Limited (The)
Bloomsbury Local Management Organisation
BME United Limited
Brownhills Community Association Limited

Burrows Street Tenant Management Organisations Limited
Bushbury Hill Estate Managements Board Limited
BXL
Chuckery Tenant Management Organisation Limited
Coventry and Solihull Waste Disposal Company Limited
Coventry Heritage & Arts Trust
Coventry Law Centre
Coventry Sports Trust Limited
CSW Partnership Limited
CV One Limited
Delves East Estate Management Limited
Dovecotes TMO
Edith Cadbury Nursery School
Family Care Trust
Forest Community Association
Heart of England Care
Home Start – Northfield
Home Start – Stockland Green/Erdington
Home Start – Walsall
Leamore Residents Association Limited
Leisure and 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 Limited
Milbury Community Services Limited
Millennium Point Trust
MLA West Midlands *(terminated 31 March 2009)*
Murray Hall Community Trust
New Park Village Tenant Management Co-operative Limited
Northern Housing Consortium Limited
Optima Community Association
Palfrey Community Association
Pendrells Trust (The)
Pool Hayes Community Association
Regent Office Care (City College)
Riverside Group Limited
Sandbank Tenant Management Organisation Limited
Sandwell Community Caring Trust
Sandwell Mental Health NHS & Social Care Trust
Sandwell Regeneration Co.
Serco Limited (Stoke City Council)
Sickle Cell and Thalassaemia Support Project
Solihull Care Limited
Solihull Care Trust
South Warwickshire Tourism Limited
Springfield/Horseshoe Housing Management Co-operative Limited
St Columba Day Care Centre
Steps to Work (Walsall) Limited
Sunderland ARC Limited
Technology Innovation Centre *(terminated 31 March 2009)*
The Chris Laws Day Care Centre for Older People
The Museum of British Road Transport (Coventry) Limited
The Sandwell Leisure Trust
Titan Partnership
University of Warwick
Walsall Housing Group
Walsall Regeneration Company
Watmos Community Homes
West Midlands E-Learning Company
West Midlands Local Government Association
West Midlands Transport Information Services Limited
Whitefriars Housing Group
Wildside Activity Centre
Wolverhampton Childcare Agency
Wolverhampton Community Safety Partnership *(terminated 30 April 2009)*
Wolverhampton Grammar School
Wolverhampton Network Consortium
Wolverhampton Voluntary Sector Council

Without Active Members

All Saints Haque Centre
Aquarius Action Projects
Asian Welfare Centre
Asian Women's Adhikar Association (AWAAZ)
Belgrade Theatre Trust Limited
Bilston and Ettingshall SureStart
Birmingham and Solihull Connexions Services
Birmingham and Solihull Learning Exchange
Birmingham Heartlands Development Corporation
Black Country Museum Development Trust (The)
Cannon Hill Trust (now Midlands Arts Council)
Cerebral Palsy Midlands
Community Justice National Training Organisation

Coventry Voluntary Service Council
Druids Heath TMO
Dudley Zoo Development Trust
East Birmingham Family Service Unit
Heath Town Estate Management Board *(terminated 4 August 2008)*
Job Change Limited
Metropolitan Authorities Recruitment Agency (METRA)
Moseley and District Churches Housing Association Limited
National Urban Forestry Unit
Newman College *(terminated 31 March 2008)*
Relate
Smethwick Asra
Solihull Community Caring Trust
South Birmingham Family Services Unit
St Basil's Centre
TSB Bank plc (formerly Birmingham Municipal Bank)
University of Birmingham (Westhill)
Walsall Enterprise Agency Limited
Wednesbury Action Zone
West Bromwich Afro-Caribbean Resource Centre *(terminated 31 October 2008)*
West Midlands (West) Valuation Tribunal
West Midlands Examination Board
West Midlands Local Authorities Employers' Organisation
Wolverhampton Race Equality Council

Transferee Admission Bodies (Best Value)

Alliance in Partnership - Camp Hill
Amey Highways Limited
APCOA Parking (UK) Limited
Balfour Beatty Workplace Limited
BAM Construct UK Limited
British Telecom plc
Enterprise plc
Enterprise (AOL) Limited (Shrewsbury)
Enterprise (AOL) Limited (Shropshire)
Enterprise (AOL) Limited (Telford and Wrekin)
Enterprise Managed Services
Galliford (UK) Limited
GF Tomlinson (Birmingham) Limited
Housing 21
Inspace
Integral UK Limited
Leisure Living Limited
Liberata UK Limited
Mears Group plc
Methodist Homes for the Aged
Mitie Managed Services (S&SW) Limited
Mitie Managed Services (S&SW) Limited – Coventry
Mitie Cleaning (Midlands) Limited – Birmingham City Council
Mitie Cleaning (Midlands) Limited – Wednesfield
Mitie PFI Limited
Nationwide Windows (UK) Limited
Pell Frischmann
Redcliffe Catering Limited (Bordesley Green Girls School)
Select Windows (Homes Improvements) Limited
Serco Limited
Service Birmingham Limited
Strand Limited
Superclean Services – 31/5/2008
Target Excel plc (Walsall MBC)
Temple Security Limited
Thomas Vale Construction plc
Vertex Data Science Limited
Wates Construction Limited (Birmingham)

Without Active Members

Accord Operations (Birmingham)
Alliance in Partnership - Aston
AWG Facilities Services Limited
Birmingham Accord Limited
Central Parking Systems
JDM Accord Limited (Shrewsbury & Atcham)
JDM Accord Limited (Shropshire)
JDM Accord Limited (Tamworth)
JDM Accord Limited (Telford & Wrekin)
Kite Food Services Limited
Morrison Facilities Services Limited
Redcliffe Catering Limited (Aston School)
Redcliffe Catering Limited (Camp Hill School)
Research Machines plc
Revenue Management Services
Service Team Limited
Target Excel plc (Magistrates Courts)
Target Excel plc (Solihull MBC)
Veolia Environmental Services Cleanaway (UK) Limited

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 develops its trustees through training and education using a variety of means which include a minimum of two presentations built into quarterly meetings, ad hoc seminars and conferences plus a comprehensive website. The trustees meet 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 investment issues are embraced and include socially responsible investing (SRI) and corporate governance, asset classes and investment products, the economy and market conditions. Delivery is by investment managers, consultants, investment specialists and senior officers.

What differentiates the Fund from its peers is the provision of between two to four days' intensive off-site training when there is any proposed revision to the Fund's investment strategy, whether it is a change in benchmark or the introduction of new asset classes. This would normally follow the three-year actuarial valuation; however, when circumstances dictate, it is more frequent.

This was the case in the latter half of 2008 when market conditions were exceptional and the Fund responded by reviewing its investment strategy and its risk budget. The outcome was a revised benchmark with a greater allocation to alternatives for diversification purposes.

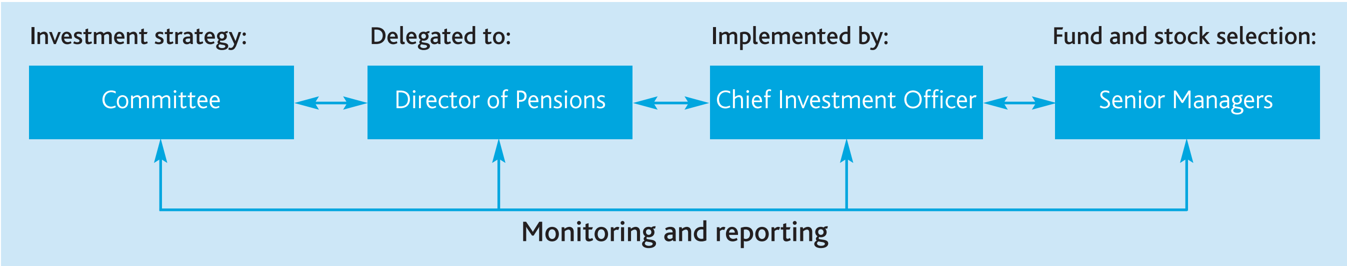
In order to explore the proposals, two days of intensive trustee training and education were undertaken on a residential basis in January 2009. Conference facilities at a London hotel were organised enabling the trustees to receive presentations from fund managers rather than marketeers, and to benefit form 14 hours of uninterrupted quality trustee training.

At the end of these two days, the trustees understood and were comfortable with the proposed revisions. They approved the new benchmark which primarily involved the introduction of an 8% allocation to absolute return strategies and a further 2% increase to emerging market equities, the Fund's benchmark revised to 50% equities, 35% alternatives and 15% fixed interest.

A skeleton agenda is detailed below:

Topic:	Delivered by:
• Reasons for proposed revision to benchmark • Review of Fund's risk budget • Concept behind absolute return strategies	• Fund's senior officers • Morgan Stanley Global Portfolio Solutions Team
• UK property – current portfolio, conditions and market opportunities.	• ING Property Advisers
• Distressed convertibles	• RWC Partners
• Emerging & frontier markets	• HSBC Investment Management • Nomura Asset Management • Aberdeen Asset Management
• UK companies financing fund	• Prudential/M&G
• Investing in natural resources	• Four Winds Capital Management
• The background and current overview of the hedge fund industry	• Fortune Group
• Absolute return strategies (hedge funds)	• Blue Crest Capital Management • Goodhart Partners • Coriolis Capital Ltd
• Absolute return strategies (non-hedge funds)	• Threadneedle Investment Management • Ruffer LLP

The increase in specialist managers associated with the Fund's increased allocation to alternatives, has required a fundamental reorganisation and strengthening of the resources to ensure there is adequate monitoring and strong governance. The Fund's trustees believe that good governance is one of the keys to the successful implementation of its investment strategy and, to this effect, they have put in place a governance structure that facilitates effective decision-making. The model allows the Fund's officers to react quickly, if required, to market conditions and opportunities, as experienced during 2009 following the market turmoil of 2008. This is referred to by Watson Wyatt as 'real-time' investing and is illustrated as follows:



Any new asset classes not already agreed to or any revision within the investment strategy will be considered and ratified by Committee at its quarterly meeting or ad-hoc if urgently required, while investment opportunities identified within asset classes already approved are signed off by the Chief Investment Officer and Director of Pensions. An example of the effectiveness of the Fund's governance structure was seen at the January 2009 committee, at which the trustees approved the revised investment strategy following two days of intensive education and training. During the eight months following that committee, the new benchmark has been implemented with investments made in 14 absolute return strategy opportunities with an emphasis on credit and distressed assets that offer exceptional short- to medium-term returns.

Another area of trustee development and training is within the corporate governance and SRI arena. The Fund is a member of LAPFF, which is a body consisting of 49 UK public funds that engages with investee companies on issues such as climate change, child labour and breaches of the Combined Code. The Chair attends LAPFF meetings and its activities are reported on a quarterly basis to Committee. LAPFF holds an annual two-day conference covering many different topics including those issues just cited. However, they also focus on other areas surrounding best practice and receive presentations from managers specialising in SRI and sustainable investments. The Fund's trustees have been attending this for a number of years.

In summary, the Fund invests a huge amount of resources into training and developing its trustees, firmly believing that the returns over the long-term far outweigh the input.

In addition to previously detailed training, the outlined trustee training scheme agreed as part of the Fund's *Business Plan* is as follows:

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

Details of the relevant linked and awareness-raising training reports and presentations provided to the Superannuation Committee during 2008/2009 are as follows:

Details	Superannuation Committee Date
Information on the LGPS and LGPS developments/implementation	April 2008 June 2008 September 2008 December 2008
Governance activity report on LAPFF meeting	April 2008 June 2008 September 2008 December 2008 (including LAPFF Annual Report 2008)
Investment strategy (Gartmore-led) and economic updates	April 2008 June 2008 September 2008 December 2008

Committee management for the municipal year is detailed earlier in this report and further information on individual Members, meetings and attendance can be found at: www.decisionmaking.wolverhampton.gov.uk/CMISWebPublic/

Introduction to the Fund

The Fund's main purpose is:

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

The Fund has over 242,000 members and 180 Scheme employers. The service endeavours 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 employed at one of the Scheme employers (108,000), members who have left employment but who have a deferred entitlement (70,000) and members in receipt of pensions, paid monthly (63,000).

A diversified portfolio of assets amounting to £6.5bn is managed primarily in-house by a team of investment professionals, having due regard to risk and return with the objectives and liability requirements.

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 benefits being paid and those due to be paid at a future date;
- Manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding;
- Encourage membership;
- Ensure that sufficient resources are available to meet all liabilities as they fall due;
- Maximise the returns from investments within reasonable risk parameters;
- Achieve excellent customer care;
- Continually improve service delivery.

The purpose of the Fund is to:

- Receive monies in respect of contributions, transfer values and investment income;
- Pay out monies in respect of Scheme benefits, transfer values, costs, charges and expenses;
- To be a source of technical information for interested parties and good practice;
- To maintain an accurate database;
- To carry out Fund investment business;
- To provide funds to pay out monies in respect of Scheme benefits, transfer values, costs, charges and expenses.

The issues or challenges facing the Fund, can be summarised as follows:

i) The affordability of the LGPS which has various elements:
  a) Delivering the investment strategy and returns over time that ease the pressure on funding levels;
  b) Responding to legislation changes in benefits awarded;
  c) Monitoring and increasing the membership of the Fund;
  d) Communicating the 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 process.

iv) Responding to the expectations arising from Government, the public, interested groups, etc around:
  a) Corporate company behaviour of the Fund's investments;
  b) Sustainability;
  c) Social responsibility;
  d) Demand for communication and access to information;
  e) Need for public organisations to demonstrate their ability and worth.

v) Responding to changes in regulation both in investments and administration activities.

The Fund's activities are delivered through four business units; their reports follow.

Operations Report

The Fund continues to work on the process and procedures required to reflect the 2008 regulatory changes, with the majority of procedures having been reviewed or revised to take account of the new Scheme regulations. The Fund continues to strengthen its position in relation to staff knowledge, and considerable work has been undertaken to broaden staff knowledge and the depth of that knowledge during the year. Staff have been actively engaged at all levels to review procedures and to seek, where possible, improvement or refinement to ensure the level of service for our members is improved. Work continues on this area and a compliance testing of the Fund administration system is due to be completed during the first quarter 2010/11 to ensure the Fund benefits and processes are operating effectively.

Customer Services has been improved and resources have been realigned to ensure the support for Fund employers is actively managed, where appropriate. New initiatives are being introduced following the development of the call-handling facility and it is expected that these will provide improved customer service to Fund members during 2009/10.

The priority over the year has been to prepare for the 2010 valuation, with particular emphasis being placed on ensuring that employers have submitted the necessary paperwork to ensure that the data held by the Fund is robust and up to date. This process will continue over the intervening months up to the 31 March 2010 valuation exercise.

The contributions paid by employers in 2008/09 were set by the 2007 valuation. During recent years there has been pressure on contribution rates from inflation and the well-documented from improvements in longevity.
The 31 March 2010 valuation exercise will set contribution rates from 1 April 2011.

The experience for the funding level has been relatively poor since the 2007 valuation, principally due to the difficult investment market returns and a fall in the discount rates that are used to calculate liabilities.

The 2010 valuation will, however, be forward-looking and be based on long-term forecasts and expectations.

Nadine Perrins
Chief Pensions Services Manager - Operations

The position is more complicated for transferee admission bodies and community admission bodies as these rates may be varied between valuations. The Fund is currently reviewing the position of all admitted bodies to see whether any are in a position to ensure that all such liabilities are identified along with any short- to long-term funding implications.

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
Number of members											
Active				458	3,679	7,499	8,815	12,623	18,028	19,412	15,773
Deferred				63	1,550	4,022	4,957	7,495	10,956	11,989	11,241
Preserved refund				9	168	533	823	1,094	1,554	1,586	1,147
Pensioner						1	4	33	186	455	1,084
Beneficiary	10	40	148	276	92	4	12	28	85	189	318

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+
Number of members										
Active	12,342	6,228	1,113	131	3					
Deferred	10,656	2,826	186	60	93	61	21	2	1	
Preserved refund	790	330	70	50	29	20	25	8		
Pensioner	2,639	12,628	12,965	9,889	7,253	4,406	2,311	637	136	5
Beneficiary	522	787	1,145	1,465	1,715	1,580	1,237	507	127	11

Over the last five years these figures can be tracked as follows:

Year	Active	Deferred	Preserved Refunds	Pensioner	Beneficiary	Totals
31 March 2005	100,897	45,187	8,501	46,647	9,243	210,475
31 March 2006	104,364	49,073	8,411	47,896	9,432	219,176
31 March 2007	105,512	53,408	8,324	49,537	9,766	226,547
31 March 2008	107,845	58,082	8,239	51,180	10,005	235,351
31 March 2009	108,224	62,472	8,311	53,576	10,264	242,847

Active Members

The Fund has a total active membership of 108,224.
Since 31 March 2008, the number of contributing employees in membership has decreased by 379.

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 over £234 million each year are paid to retired members.

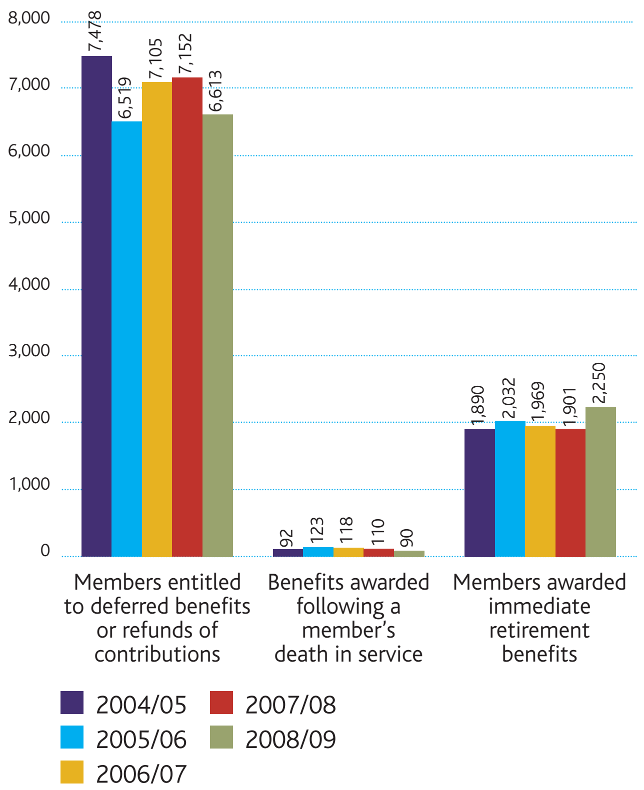
During the year, the Fund dealt with 90 death in service cases.

There were 11,152 members who joined the Fund during the period, of which 181 had transfers into the Fund from other LGPS administrators and 190 had transfers initiated from private schemes or other pension arrangements.

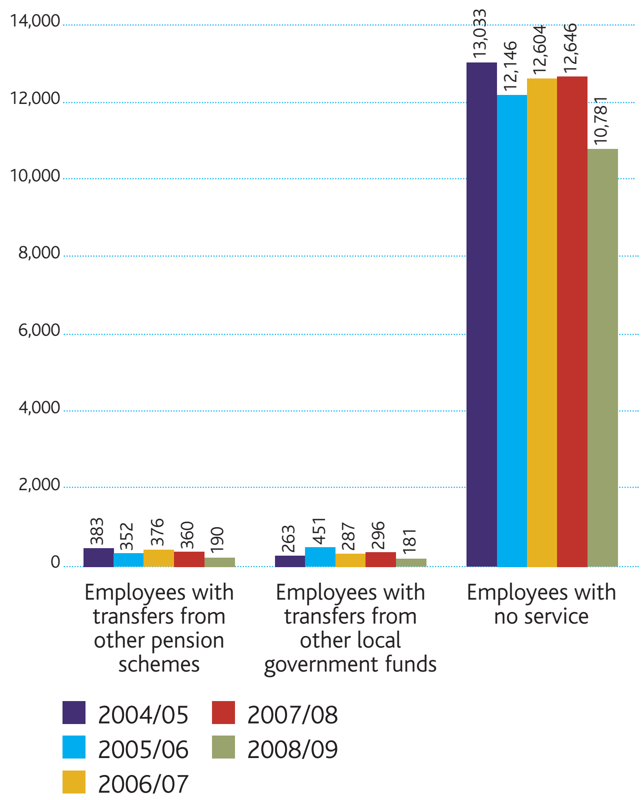
There were 3,677 retirements, of which 2,250 were retirements where members had left the LGPS with immediate entitlement to benefits. 1,427 were due the member reaching an age at which a deferred benefit could be bought into payment automatically, or where the member had elected to do so early.

The Fund also dealt with transfers out to other pension arrangements during the year (including other LGPS funds) along with the setting up of deferred benefits, where members had left the Scheme but had no immediate entitlement to benefits. In total, there were 6,613 such cases.

Withdrawals from the Fund



Admissions to the Fund



Financial Services Report

Phil Wild
Head of Financial Services

Financial Services

The transition to the new UPM payroll system was completed during the 2008/09 year and the new payroll system went live in order to run the April 2009 payroll. This was a major project for the Fund and the transfer of legacy information from the existing mainframe application across to the UPM application was made successfully and without any delay or adverse service impact to pensioner members. Fund staff worked in conjunction with City Council ICTS staff and staff from the HMRC and Civica in order to obtain Revenue and Customs' approval for the payroll system going forward. The revised arrangements will not only provide a more stable platform which is more efficient at data transfer from the main pension system, but one which has added flexibility and integrity.

During the year, the division was responsible for making pension payments in excess of £259m and have worked to minimise the overpayment of pensions not recovered to a limit which is now around 0.06% of the gross pensions paid. The majority of overpayments are made when the late notification of a death means that the pension payroll has already been processed for the month or where the physical payment has been made to an account. Due regard is given to the amounts involved and the distress that could be caused to the member's relatives if the Fund pursued trivial overpayments.

Fund overpayments during the last five years:

Year	Overpayment	%
2004/05	£56,899	0.03
2005/06	£124,314	0.06
2006/07	£99,785	0.04
2007/08	£194,478	0.08
2008/09	£143,897	0.06

Percentage of the annual pension payroll

As a result of the Fund's participation in the National Fraud Initiative (NFI), 11 cases of overpayment have been identified to date which has resulted in recovery of over £30,000 with further investigations still ongoing.

NFI Results

Year	Number of cases	Value of overpayment	Action taken
2004/05	7	£10,855	Recovering overpayment
2006/07	4	£20,290	Recovering overpayment
2008/09	In progress		

Contributions Due to the Fund

Contributions of over £378m were received during the year: this amounted to £262m employers' contributions and £116m employee's contributions.

Distribution of overall contributions is as follows:

Authority	Total contributions
Birmingham	**£125,553,848.33**
Coventry	**£29,609,333.04**
Dudley	**£32,227,570.78**
Sandwell	**£31,183,586.59**
Solihull	**£14,087,975.69**
Walsall	**£24,799,279.22**
Wolverhampton	**£29,496,852.34**
Others	**£91,935,870.50**
Total	**£378,894,316.49**

Communication and Marketing Report

Mark Crutchley
Head of Communication & Marketing

During the 2008/2009 year, the primary communication and marketing activity was to update the basic Scheme information available for members bringing it in line with the new LGPS regulations from 1 April 2008.

A full suite of new Scheme guides were produced including:

- **Joining the LGPS - What's In It For Me?**
- **Short Guide**
- **All About Your Scheme**
- **All About Your Deferred Benefits**
- **All About Your Retirement Benefits**

The Fund continues to update information as it is required, retaining previous versions of some guides as information from some employers is still being supplied in relation to pre-1 April 2008 leavers and joiners. It is anticipated that during the 2009/10 year, this will be come unnecessary and the older versions of booklets will be archived as required.

Due to the introduction of the new LGPS in April 2008, the Fund was not in a position to issue benefits statements with benefits estimates that would have been meaningful. The Fund, therefore, wrote to individual members via the Fund's publication *'The Reliable Source'*.

This document was not only used to satisfy disclosure of information requirements, but it also provided members with background information on the changes to the LGPS from 1 April 2008.

During the later half of the year, the Fund developed further the previous work undertaken with Prudential on retirement planning. As part of the initiative, the Fund offered the opportunity for Scheme members to attend a pre-retirement seminar that would provide the member with valuable information and guidance on how to make more of their money in retirement. A team of retirement 'experts' would be on hand to answer any specific questions, and the events would be held at three locations across the region, with each location having three events at 10.30am, 2.30pm and 5.30pm.

As over 70 members attended each of the evening events, the initial response validated the Fund's perception that such events would be well-received and welcomed by members.

The seminar covers the following:

- **LGPS and the benefits it provides**
- **Tax tips**
- **Protecting your inheritance**
- **Securing the best pension income for you**
- **Unlock the value tied up in your home**

The Fund will be working, over the next 12 months, to enhance this service and is also looking to expand the service to cover potential new members via an 'introduction to pensions seminar'. Fund officers will also be working with employers to ensure members are aware of the benefits provided by the LGPS in face-to-face surgery sessions that are used to answer specific workplace issues, raised by employers and employees alike.

During the 2008/2009 financial year, the Fund has kept employers up to date with developments in the pensions arena and, specifically, the LGPS by using the employer publication *'The Brief'*. Employers are also sent regular email updates to ensure that they are briefed on topical issues. Local Government Employers (LGE) bulletins and circulars are also distributed this way and include details of any courses or training sessions run by the Fund for the benefit of employers.

The Fund continues to develop the formal Communications Policy Statement which sets out:

- How we communicate with our stakeholders.
- The format, frequency and method of our communications.
- How we promote the Scheme to prospective members and employers.

This policy is to review this statement annually to ensure it reflect the wishes of the members and utilises any available advancements in technology.

LGPS DVD

The Fund has worked with the organisation on the production of a promotional DVD for the new Scheme. Members may view this on the Fund's website. It is also used by employers at induction and other events to promote the Scheme to prospective and new members.

Investment Policy and Performance Report

Judy Saunders
Chief Investment Officer

During 2008/2009, the West Midlands Pension Fund undertook a major review of its investment strategy as detailed in the *Investment Strategy Statement 2009*. The Fund had already embarked on a process of diversification as a result of the 2004 and 2007 actuarial reviews which led to a substantial increase in its allocation to alternative or complementary assets, modestly increasing the Fund's overall returns while reducing the risk. The Fund is structured to generate between 7% and 8% p.a. from market returns over the long-term combined with an additional 1% to 2% p.a. from manager skill. These expected returns should enable the Fund to meet its liabilities over the long-term.

Investment Policy

Investment policy comprises two main elements: a) the Committee's longer-term asset allocation benchmark and b) the shorter-term tactical asset allocation. Following the unprecedented market turmoil of 2008, the Superannuation 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.

The Fund's asset allocation as at 31 March 2008 is summarised as follows:

31 March 2008	Benchmark		Actual
	%	%	%
UK equities		30.0	30.9
Overseas regional equities		24.0	26.1
North America	5.5		5.4
Europe	9.5		11.0
Japan & Pacific Basin	6.0		5.9
Emerging markets	3.0		3.4
Global equities		6.0	6.0
Total quoted equities		**60.0**	**63.0**
UK gilts		4.7	4.9
UK index-linked gilts		4.7	5.3
UK non-government bonds		4.6	3.8
Cash		1.0	3.0
Total fixed interest		**15.0**	**17.0**
Private equity		7.0	6.0
Property		10.0	7.3
Emerging market debt		2.0	1.8
Active currency		2.0	1.2
Commodities		2.0	2.3
Infrastructure		2.0	1.4
Total complementary		**25.0**	**20.0**
Total		**100.0**	**100.0**

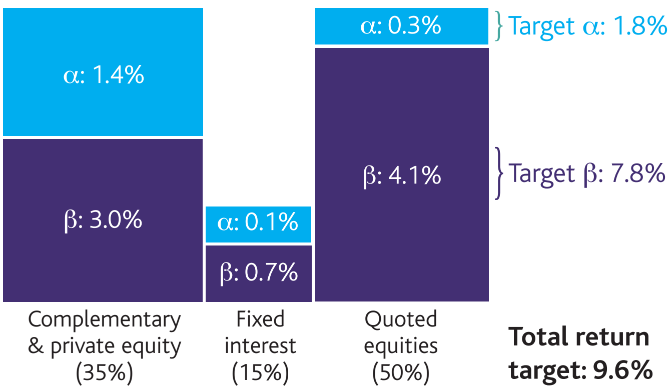
The revised strategy involved a further 10% reduction in quoted equities primarily the UK market, introducing an 8% allocation to absolute return strategies and a further modest increase in emerging market equities. In addition, the Fund's private equity allocation transferred to 'equities' from 'complementary' as it is closely aligned to quoted equities.

The Fund's asset allocation as at 31 March 2009 is summarised as follows:

31 March 2009	Benchmark		Actual
	%	%	%
UK equities		14.0	19.6
Overseas equities		30.0	25.1
North America	8.0		5.6
Europe (ex-UK)	11.0		8.6
Japan & Pacific Basin	5.5		5.7
Emerging markets	5.5		5.2
Global equities		6.0	5.8
Private equity		10.0	8.7
Total equities		**60.0**	**59.2**
Gilts		4.7	6.0
Index-linked gilts		4.7	7.0
UK non-government bonds		4.6	4.6
Cash		1.0	3.1
Total fixed interest		**15.0**	**20.7**
Property		9.0	7.7
Absolute return strategies		8.0	4.6
Commodities		3.0	3.0
Emerging market debt		2.0	2.8
Infrastructure		3.0	2.0
Total complementary		**25.0**	**20.1**
Total		**100.0**	**100.0**

The Fund's 'actual' allocation to complementary assets was underweight by 5% as investment in this asset class takes considerably more resources and time than the mainstream asset classes as thorough due diligence is required before any commitment can be made. Conversely, fixed interest, which includes cash, was 5% overweight.

The objective behind the revised strategy was to marginally reduce volatility by a further 10bp to 11.3%, while increasing the overall target return by 30bp to 9.6%. The Fund's long-term beta target is 7.8% pa over a 20 year time horizon and it expects to achieve 50% of this from its allocation to quoted equities with a further 40% from alternatives. Any alpha generated over and above market returns is seen as 'the icing on the cake' and will contribute positively to the funding level. The revised investment strategy is designed to deliver alpha of around 1.8% and the Fund's expectations are that the majority of it, in fact 80%, will be generated by the complementary assets, being illustrated as follows:



NB: Return targets are recognised as falling into distinct areas – market return (beta) and manager skill (alpha).

Growth of Fund

At the beginning of the year, the Fund's market value was £7,370m. By the end of March 2009, the value of the Fund was £5,989m, which reflects net cash flows and a depreciation in market value due to the very poor markets experienced during 2008. Taking the ten-year period from 1 April 1999, the total growth in value has amounted to £1,455m from a starting value of £4,534m.

Cash Flow

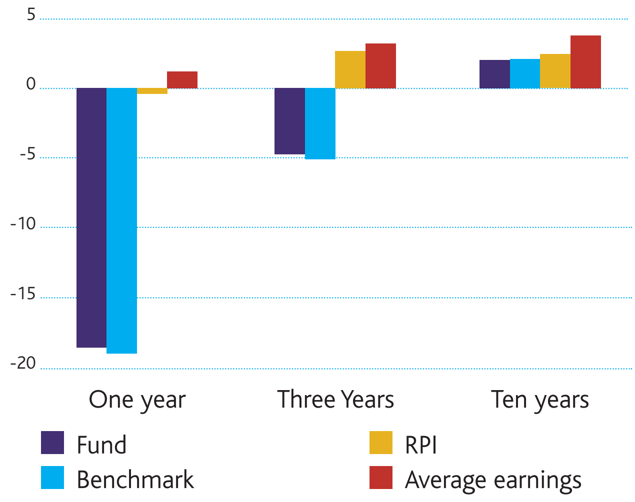
The Fund is still cash flow positive with some £213m of new money becoming available for investment during 2008/09 – £140m from investment income, together with £73m made up of income received from contributions and net income from transfer values, after taking account of all payments from the Fund, principally in respect of pensions and benefits.

	Market Value 31 March 2009 £m	£m	Net Investment 2008/09 £m
UK equities	1,170		(450)
Overseas equities	1,505		33
Global equities	346		-
Private equity	542		130
Total equities		**3,543**	**(287)**
UK gilts	359		-
Index-linked gilts	422		40
Non-government bonds	274		32
Cash	186		-
Total fixed interest		**1,241**	**72**
Property (including overseas)	459		94
Absolute return strategies	274		275
Other complementary investments	472		59
Total complementary		**1,205**	**428**
Total		**5,989**	**213**

Investment Performance

Fund returns over one, three and ten years, compared to its benchmark, retail prices index (RPI) and average earnings are illustrated in the following chart:

Comparative Returns Over One, Three and Ten Years to 31 March 2009



Investment Management

The tactical investment policy of the Fund is considered at each quarterly meeting of the Superannuation Committee. The approved policy is implemented by the Investments Division within Pension Services. The Division consists of a number of specialist teams which reflect the asset allocation and functions of the Fund. These teams cover compliance and risk, quoted equities, complementary investments with fixed interest, treasury management and investment accounting.

The Division manages approximately 60% of total investments in-house, with the balance invested in external pooled vehicles or specialist segregated funds. The proportion of the Fund managed externally has grown in direct response to the Fund's increased allocation to complementary assets which require management by external specialists.

Portfolio Construction

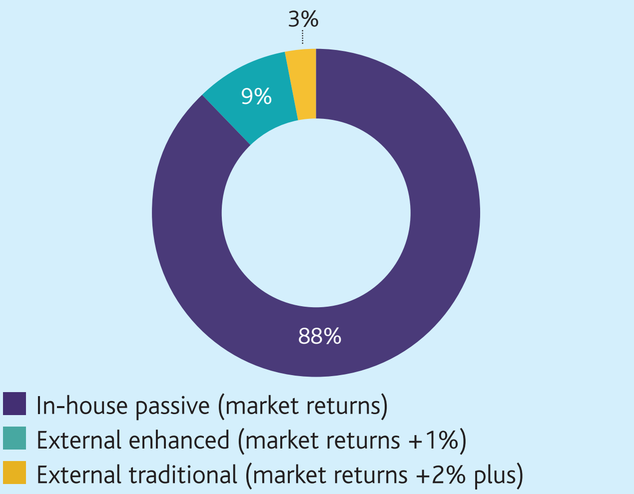
The Fund recognises that the mainstream quoted equities and fixed interest markets are the most efficient, thus passive management tends to dominate with the majority managed in-house. Although most use of specialist managers is within alternatives, the Fund still uses them in mainstream assets where inefficiencies and market opportunities exist. Examples of this are found within emerging market equities and global equities, both asset classes being managed on an active basis by external specialists. The structure and performance of the Fund's various portfolios are described in the following section.

Portfolio Commentaries

UK Equities

The market value of the UK equity portfolio as at 31 March 2009 was £1,170m representing 19.6% of the total Fund. A breakdown of the constituent portfolios is illustrated in the following pie chart:

UK Equities
Asset distribution as at 31 March 2009



The UK equity market fell sharply during the year as a result of the global financial crisis and the weakening world economy. Banking and financial stocks particularly suffered sharp falls following news that investment bank Lehman Brothers had filed for bankruptcy, and governments around the world stepped in to stabilise the financial system and to stimulate the economy.

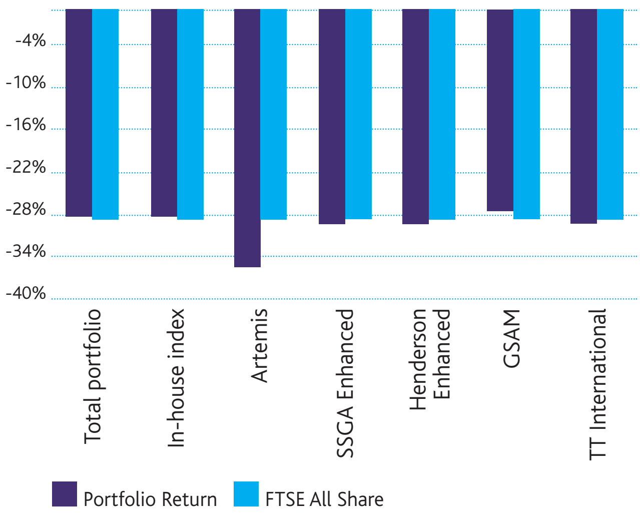
Annualised Returns

Period to 31 March 2009	West Midlands Pension Fund % pa	Benchmark (FTSE All Share) % pa
One year	-28.5	-29.3
Three years	-9.0	-9.0
Five years	-0.9	-0.9

The figures show that the return from the Fund's UK equities portfolios has closely tracked that of the FTSE All Share Index over the short- to medium-term.

The one-year performance of the total UK equity fund and its constituent portfolios is illustrated in the following bar chart:

UK Equities Performance
One year to 31 March 2009



UK Equities (continued)

The bar chart on the previous page illustrates that the in-house index fund delivered above benchmark return. As a result of the unprecedented market conditions, all trading activity was halted in the latter part of 2008 which left the passive fund with some stock misweights versus the benchmark. This actually worked to the Fund's advantage, resulting in 110 basis points outperformance against the FTSE All Share Index.

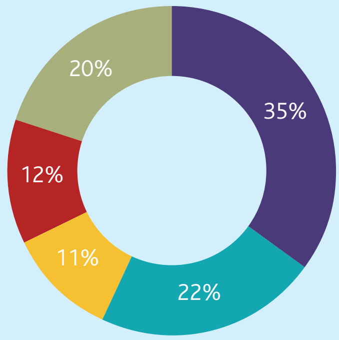
The active managers as a group only returned near benchmark performance at -29.2% versus an index return of -29.3%. The majority of the active portfolio was invested in enhanced indexation strategies with a modest risk/return target. The Fund's experience of this approach has been disappointing and during 2008, the funds under management by GSAM and SSGA were substantially reduced.

The ongoing investment strategy of reducing UK equities in order to further invest in complementary assets to achieve the revised benchmark continued during 2009.

Overseas Equities

The market value of the overseas equity portfolio as at 31 March 2009 was £1,505m, representing 25.1% of the total Fund.

Overseas Equities
Asset distribution as at 31 March 2009



The major downturn in the world economy during the year was reflected in sharply falling global equity markets. Policymakers and central banks throughout the world introduced a series of fiscal measures in an attempt to support economic growth.

Annualised Returns

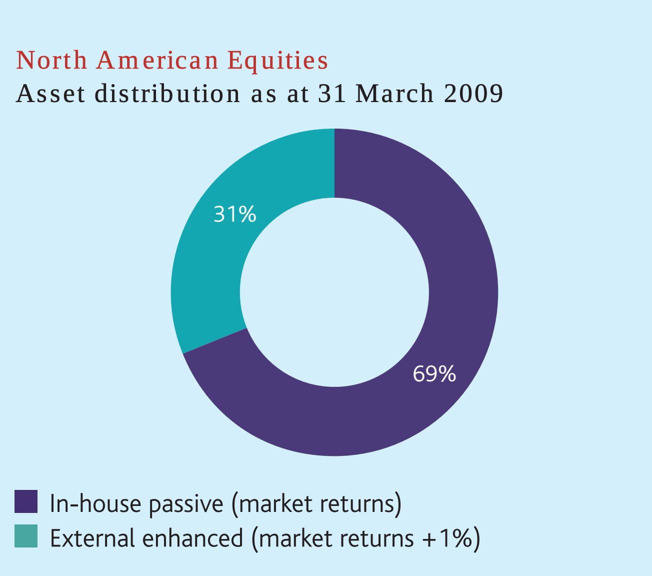
Period to 31 March 2009	West Midlands Pension Fund % pa	Bespoke Benchmark* % pa
One year	-22.9	-22.4
Three years	-4.5	-4.4
Five years	+4.4	+4.5

*The benchmark is a combination of the regional indices weighted on a pro-rata basis.

The figures show that the Fund's overseas equities portfolios were close to the benchmark return over the short- to medium-term.

North America

The market value of the North American equity portfolio as at 31 March 2009 was £335m representing 5.6% of the Fund. A breakdown of the constituent portfolios is illustrated in the following pie chart:



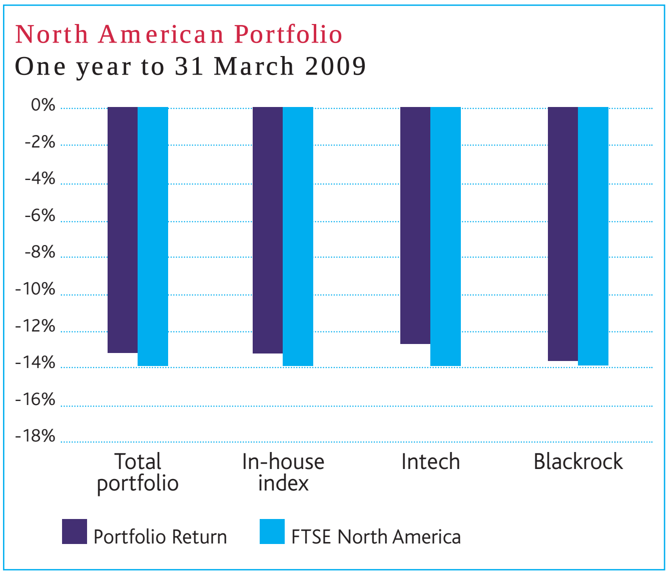
Equity markets came under heavy selling pressure as the global economy spiralled into recession, sparked by the turmoil within the financial sector. Throughout the year, the Federal Reserve and the US Treasury took active measures in an attempt to give support to the weakening economy and to encourage spending. Nevertheless, the S&P 500 index of leading US stocks fell almost 40%.

Annualised Returns

Period to 31 March 2009	West Midlands Pension Fund % pa	Benchmark (FTSE NA) % pa
One year	-13.2	-14.0
Three years	-6.9	-6.8
Five years	+0.9	+1.1

With the largest part of the portfolio designed to reflect the performance of the FTSE North America index, the figures demonstrate that the return has tracked closely that of the benchmark.

The one-year performance of the North American fund and its constituent portfolios is further illustrated in the following bar chart:



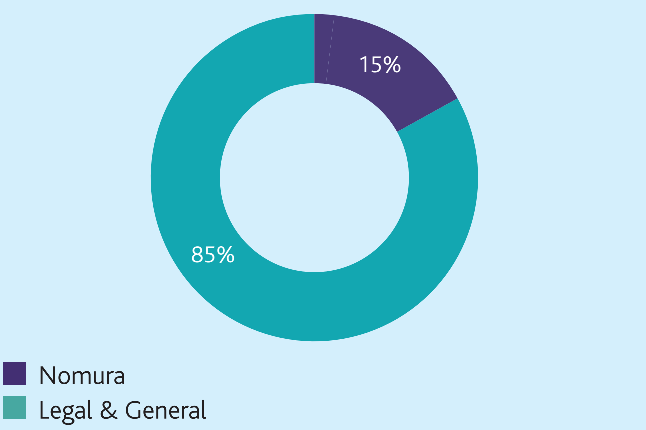
As with the UK passive fund, all trading activity on the US index fund was halted in the latter part of 2008 which left the passive fund with some stock misweights versus the benchmark. This actually worked to the Fund's advantage, resulting in an outperformance of 70bps versus the benchmark.

The enhanced index managers also managed to outperform their benchmarks. Intech returned the strongest relative performance due to their weighting in higher volatility stocks which moved in their favour.

Japan

The market value of the Japanese equity portfolio as at 31 March 2009 was £170m representing 2.8% of the Fund. A breakdown of the constituent portfolios is illustrated in the following pie chart:

Japanese Portfolio
Asset distribution as at 31 March 2009



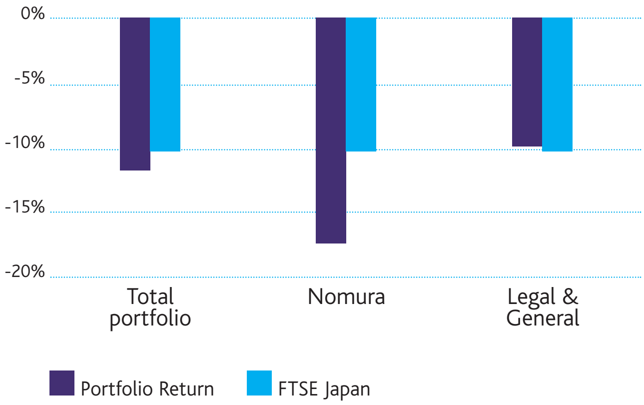
The Japanese market remains mired in recession. Exports and capital investment are still falling and domestic demand continues to contract. A government stimulus package to ease credit conditions and boost growth was produced only late in the year and has not yet had time to take effect.

Annualised Returns

Period to 31 March 2009	West Midlands Pension Fund % pa	Bespoke (FTSE Japan) % pa
One year	-11.1	-10.6
Three years	-13.4	-12.0
Five years	-1.6	-0.7

The figures show a modest underperformance against the index over the short- to medium-term.

Japanese Portfolio
Performance 2009

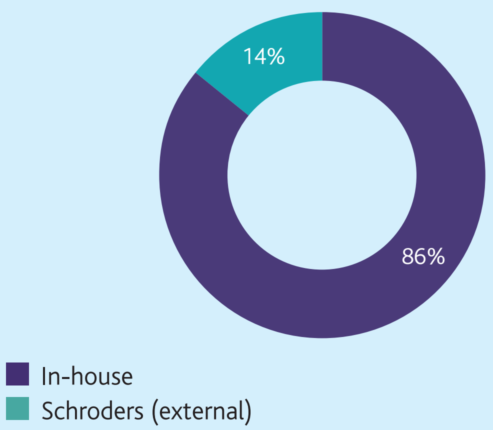


The portfolio is managed externally by two asset managers. Legal and General run a passive portfolio and closely matched the performance of the index. Nomura run an active portfolio and underperformed the benchmark significantly over the year, both stock selection and sector allocation contributing negatively to performance.

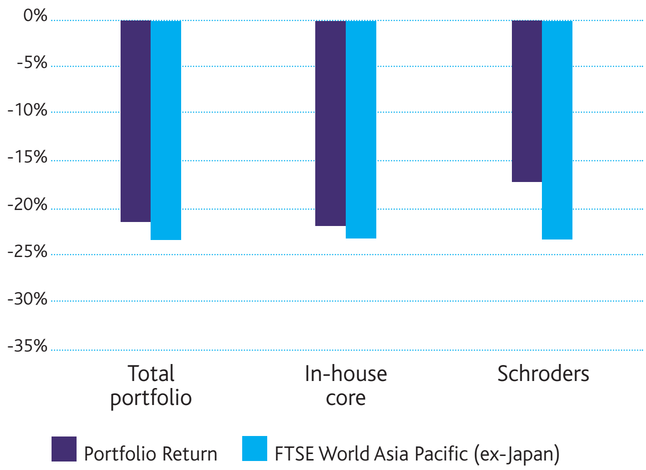
Pacific Basin (ex-Japan)

The market value of the Pacific Basin portfolio as at 31 March 2009 was £174m representing 2.9% of the Fund. A breakdown of the constituent portfolios is illustrated in the following pie chart:

Pacific Basin Portfolio
Asset distribution as at 31 March 2009



Pacific Basin (ex-Japan) Portfolio
Performance 2009



The majority of the Fund's Pacific Basin assets are managed internally on an active basis, the portfolio taking sector and country weightings away from the index within a controlled risk environment. The externally managed Schroder's portfolio is also actively managed. Strong stock selection and country overweighting away from the index, plus a focus on better quality companies led to a relatively strong outperformance against the benchmark.

The global economic slowdown had a significant impact on Asian markets. The economic realities of the region include a poor earnings picture, weak external demand and increased pressures of deflation. Most Asian economies were better positioned to withstand the effects of the downturn but were unable to escape its effects completely.

Annualised Returns

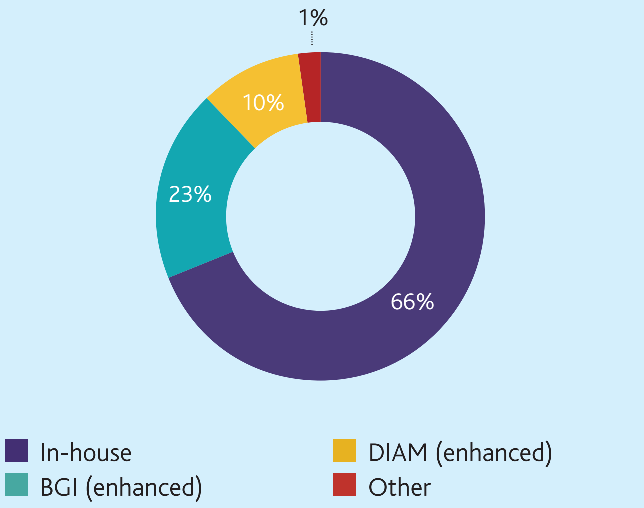
Period to 31 March 2009	West Midlands Pension Fund % pa	Benchmark FTSE Asia Pacific (ex-Japan) % pa
One year	-21.5	-23.1
Three years	+2.8	-1.4
Five years	+11.5	+8.4

The portfolio has outperformed its benchmark over the short- to medium-term.

Europe

The market value of the European equity portfolio as at 31 March 2009 was £518m representing 8.6% of the Fund. A breakdown of the constituent portfolios is illustrated in the following pie chart.

Structure of European Equities Portfolio



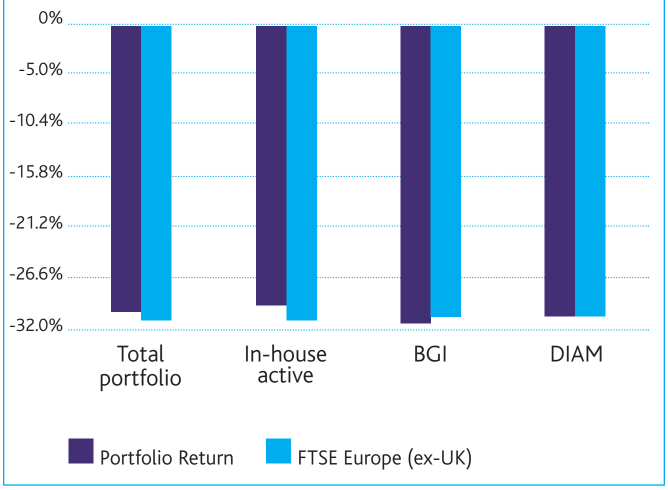
In the first half of the period, European equities markets were fairly benign as commodity prices boomed and oil hit $120. In the second half, global credit markets suddenly collapsed in total leading to aggressive liquidation especially by hedge funds and the complete demise of once formidable institutions such as Fortis and Hypo. Interventions by European governments and the ECB began to stabilise markets at the end of the period.

Annualised Returns

Period to 31 March 2009	West Midlands Pension Fund % pa	Bespoke (FTSE Europe) % pa
One year	-30.3	-31.1
Three years	-7.4	-7.3
Five years	+4.7	+5.2

The portfolio delivered close to index performance over the short- to medium-term.

European Portfolio
Performance to 31 March 2009

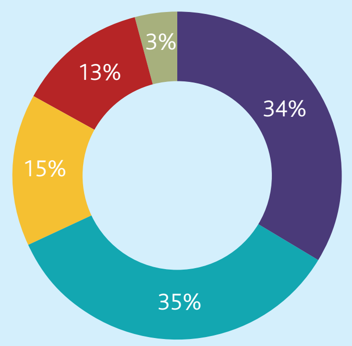


The one-year performance of the European fund and its constituent portfolios is illustrated as above and shows that the total portfolio outperformed the benchmark during the year. The strongest relative performance came from the in-house portfolio. Due to unprecedented market conditions in September 2008, trading was suspended and this remained in place at period end. Despite the suspension, the in-house portfolio outperformed the benchmark by 1.6% due to successful country and sector allocation.

Global Equities

The market value of the global equity portfolio as at 31 March 2009 was £346m representing 5.8% of the Fund. A breakdown of the constituent portfolios is illustrated in the following pie chart:

Structure of Global Equities Portfolio



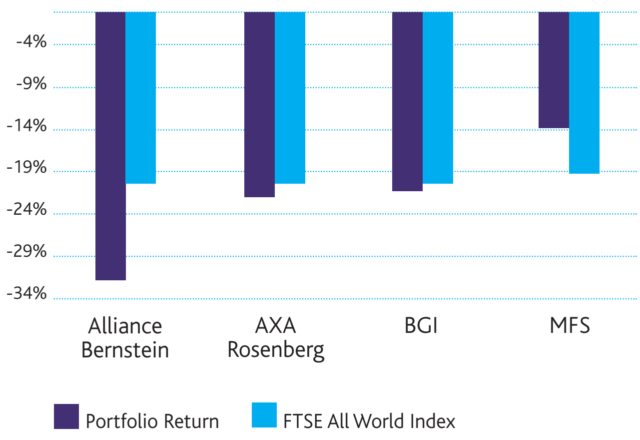
The year was dominated by the financial and liquidity crisis and efforts by global governments to inject stimulus into their deteriorating economies. Managers with more defensive strategies generally performed better.

Annualised Returns

Period to 31 March 2009	West Midlands Pension Fund % pa	Benchmark FTSE All World % pa
One year	-20.9	-20.4
Three years	-7.1	-6.8
Five years	+2.4	+2.9

The figures show modest underperformance over the short- to medium-term.

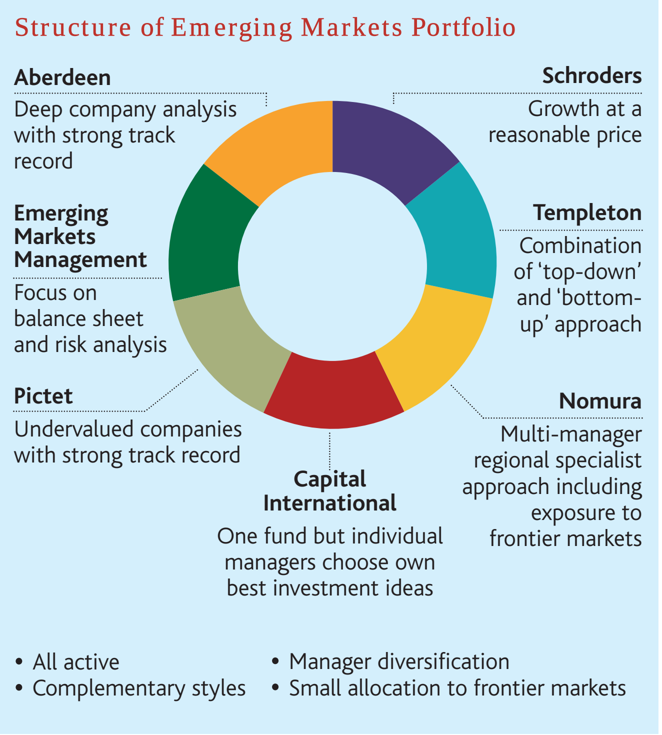
Active Global Equity Portfolio
Performance to 31 March 2009



The portfolio is managed actively predominantly by four managers. MFS considerably outperformed its benchmark benefiting from underweight positions in financial companies, while Alliance Bernstein underperformed by a large margin due to exposure to riskier stocks.
AXA Rosenberg and BGI both slightly underperformed due to issues with their quantitative models.

Emerging Markets

The market value of the emerging markets portfolio as at 31 March 2009 was £308m representing 5.2% of the Fund. A breakdown of the constituent portfolios is illustrated in the following pie chart:



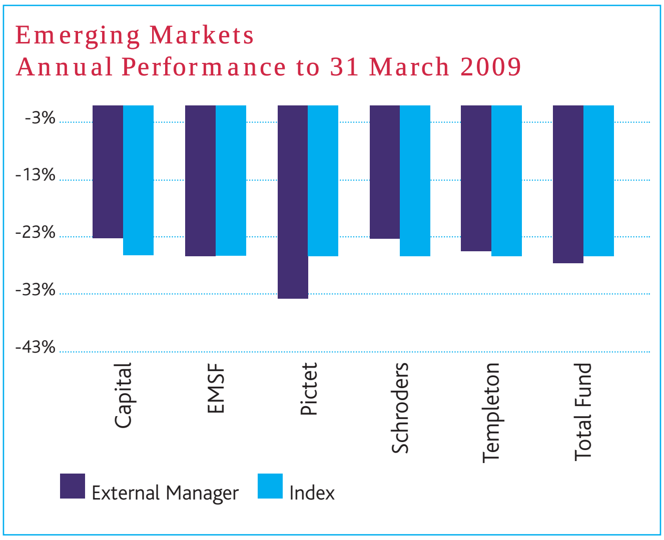
Emerging markets, just like their developed counterparts, were badly hit by the global slowdown. Economies with balance of payments deficits such as Central and Eastern Europe were particularly affected.

Annualised Returns

Period to 31 March 2009	West Midlands Pension Fund % pa	Benchmark % pa
One year	-27.4	-26.3
Three years	-2.5	-0.3
Five years	+11.8	+13.4

The figures show that the total portfolio has underperformed its benchmark over the short- to medium-term.

Following a review of investment strategy the Fund increased its allocation to emerging markets. This led to the funding of two new managers, Aberdeen and Nomura, in February 2009. The one-year performance of the other five active managers is shown below:

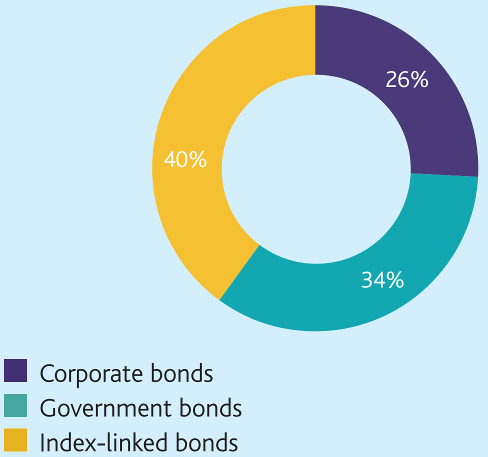


Best relative performance during the year came equally from Capital International and Schroders. Capital's returns were boosted by being overweight Russia, plus strong stock selection in Egypt, Thailand and Taiwan. Schroders performance was helped by being overweight China and underweight India, plus positive stock selection in Korea, Hungary and Indonesia.

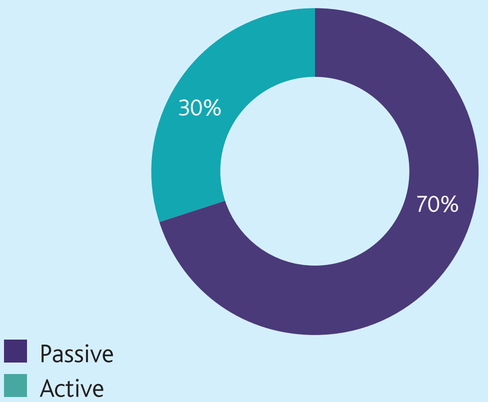
Fixed Interest & Liquid Assets

The market value of the fixed interest equity portfolio (including cash) as at 31 March 2009 was £1,241m representing 20.7% of the total Fund. A breakdown of the bond portfolios is illustrated in the following pie chart:

Fixed Interest
Asset distribution as at 31 March 2009



Passive v Active
Management style as at 31 March 2009



The total portfolio is externally managed predominantly on a passive basis with all of the index linked and most of the UK gilts managed by Legal & General.

Fixed interest markets endured a tumultuous time in a year that was dominated by two significant events. Firstly, the collapse of Lehman Brothers in mid-September provoked widespread concern over the fragility of the banking system. This led to a period of global risk aversion, with gilts rallying at the expense of corporate bonds as credit spreads widened to record levels.

During the year, interest rates were drastically reduced from 5.25% to 0.5% in a series of cuts designed to kick-start the economy and to encourage consumer spending. Falling inflation expectations led to a comparatively poor performance for index-linked bonds.

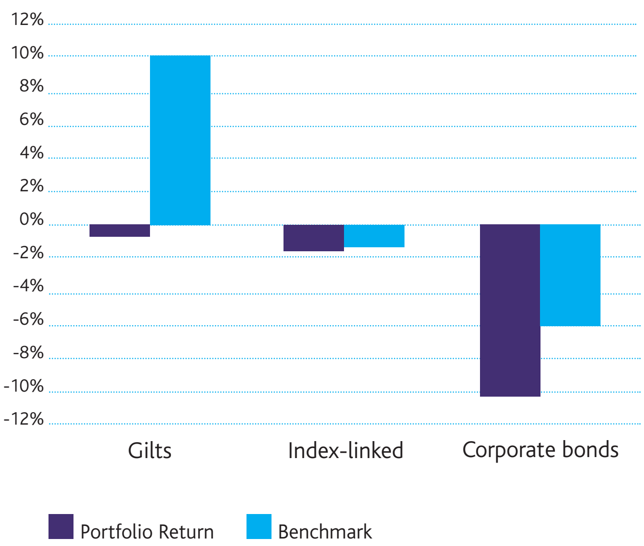
Annualised Returns

	West Midlands Pension Fund	Bespoke Benchmark
One year	-3.6%	+1.1
Three years	+1.6%	+3.0
Five years	+3.4%	+4.5

The Fund's total fixed interest performance against the benchmark has been poor over the short- to medium-term.

The 12 month returns for the Fund's fixed interest portfolios are shown below:

Fixed Interest Annual Returns
as at 31 March 2009



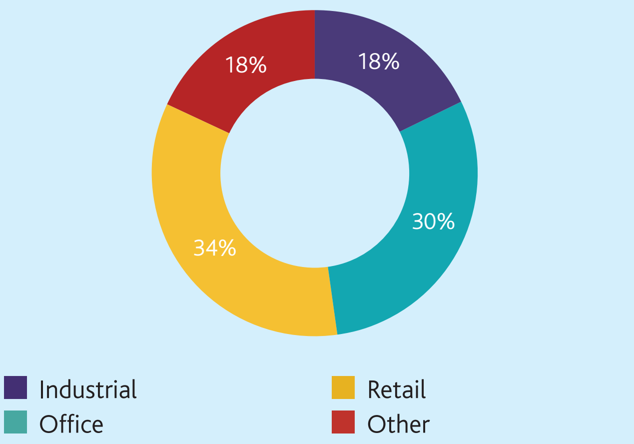
The Fund's gilt portfolio which is primarily passively managed suffered a particularly poor year attributable to the active manager's exposure to bank capital and asset backed securities. The fund managed by ECM has experienced a steady reversal of fortune since April 2009 regaining much of the value previously lost.

Stock and sector selection, principally, exposure to financial bonds aversely affected the performance of one of the Fund's two corporate bond managers, Royal London Asset Management. The other manager, Schroder, outperformed the benchmark.

Property
The market value of the property portfolio as at 31 March 2009 was £459m representing 7.7% of the Fund, with 75% being in UK direct property and 25% in indirect property, predominantly overseas.

Direct Property (£374m)
A breakdown of the constituent portfolios is illustrated in the following pie chart:

Property Portfolio Sector Allocation



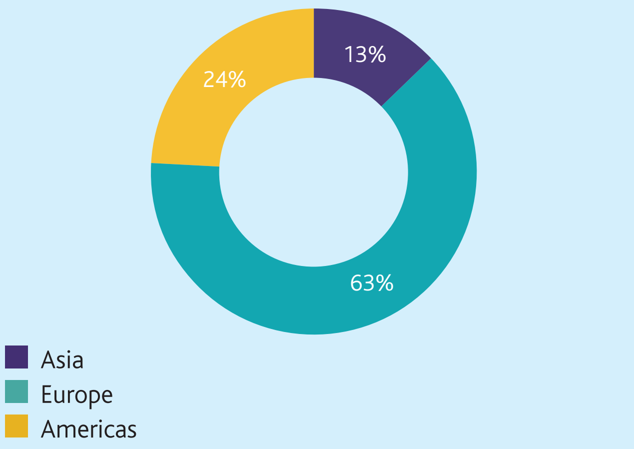
The last twelve months proved to be dramatic for property as the collapse of Lehman's and the ensuing freezing of credit markets hit property capital values hard as financing for deals dried up.

With credit disappearing seemingly overnight, the property market reacted rapidly by marking down values aggressively. Toward the end of the financial year, there appeared a slowing in the rising of yields; however, significant capital erosion had already taken place which in the case of the UK averaged just over 30%.

Rental levels were more robust over the twelve-month period; however, by calendar year-end, the combined effect of these two factors resulted in a disappointing total return of -25.3% for the Fund's direct investments, which was fractionally better than the index return of -25.5%.

Indirect Property (£85m)
The Fund invests in overseas property through a number of specialist funds – its geographical distribution is illustrated as follows:

Geographical Allocation of Indirect Portfolio

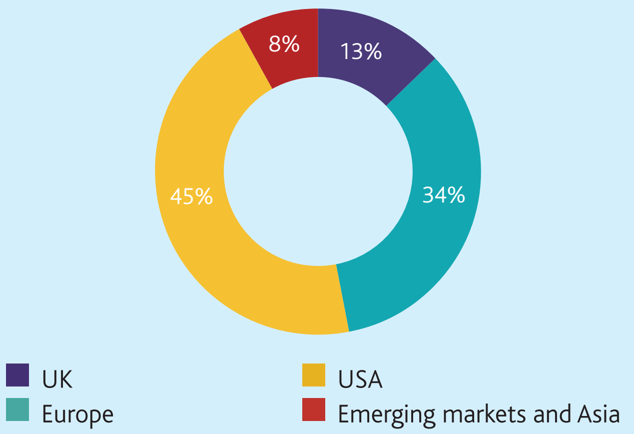


The return targets of these overseas funds are higher than that of the UK core property portfolios, hence the volatility will also be greater. Approximately 60% of the funds are managed on a 'value added' basis with the balance being 'opportunistic'. As at 31 March 2009 there were investments in 11 funds

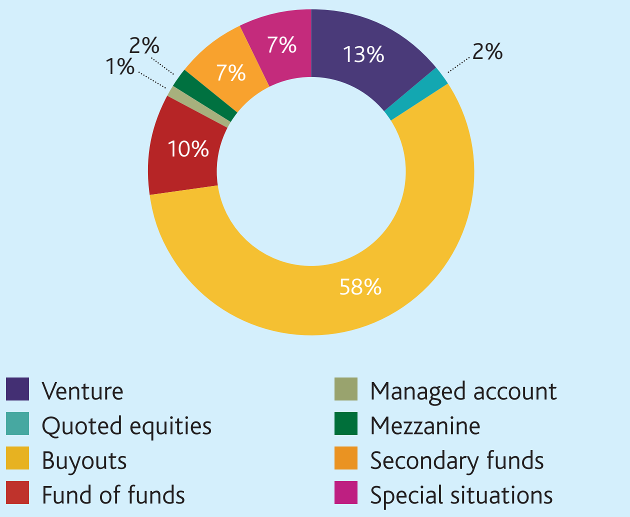
Some of the managers had significantly deployed capital and as such were exposed to the downturn, which was reflected in valuations. The majority, however, took stock of their positions and have either scaled back on investing activity or temporarily ceased altogether. This leaves the managers with significant resources to deploy as and when they determine conditions conducive to strong returns.

Private Equity Portfolio
The market value of the private equity portfolio as at 31 March 2009 was £522m representing 8.7% of the total Fund and in excess of 80 managers. A breakdown of the constituent portfolios on a geographical and sector basis is illustrated in the following pie charts:

Private Equity
Geographical Analysis



Private Equity
Sector Analysis



A number of investments were impacted by the global recession and the tightening of credit following the collapse of Lehman Brothers in September 2008. The latter half of the year saw a number of firms trying to reset covenant levels and get waivers from their banks, particularly those that were financed, or even refinanced, at very high valuations and high debt multiples during the easy credit periods of 2006 and 2007. Other managers were cost-cutting and tightening cashflow as well as acquiring weaker competitors to strengthen their position in the market. The sharp drop in value of quoted equities had a big impact, as the 'denominator effect' took hold, on a number of limited partners' allocations to the asset class, restricting their ability to make investments as they were already over-allocated. The Fund was able to portray itself as a quality investor and so was able to gain access to previously restricted managers.

Annualised Returns

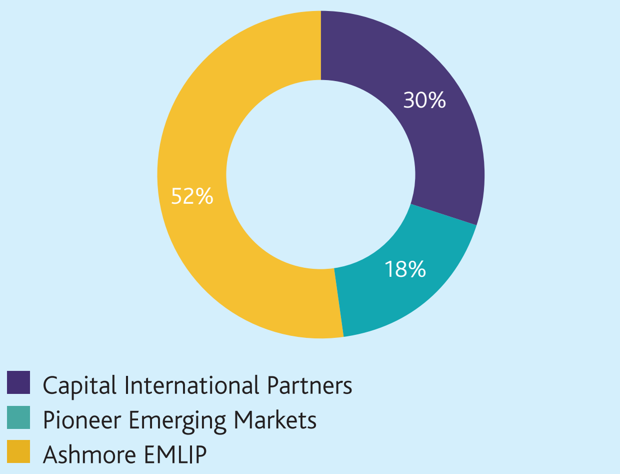
	West Midlands Pension Fund	Benchmark
One year	-3.2%	-2.5
Three years	10.3%	n/a
Five years	18.2%	n/a

The table above shows the performance of the unquoted portfolio over the short- to medium-term. Until very recently, there was no recognised industry benchmark. It is expected that the performance of the unquoted sector will, as usual, lag that of quoted equities so that 2009 performance will not demonstrate a strong recovery.

Emerging Market Debt

As at 31 March 2009, emerging market debt represented 2.8% of the Fund's total assets, approximately £166 million in monetary terms.

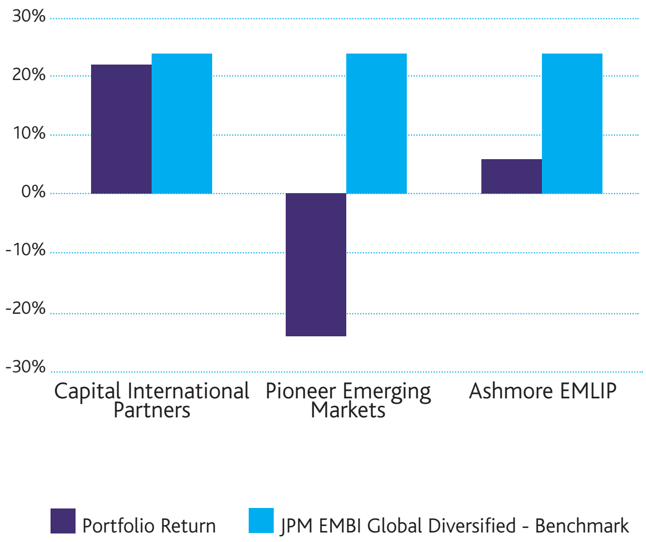
Structure of Emerging Market Debt



The deterioration in global financial conditions has taken a toll on emerging countries, which have not been able to withstand the global downturn. Most emerging market countries have learnt from past experience and have been proactive in attempting to stimulate their economy, with measures including cutting interest rates and increasing government expenditure.

The one-year returns for the Fund's managers are shown below:

Emerging Market Debt Annualised Returns as at 31 March 2009

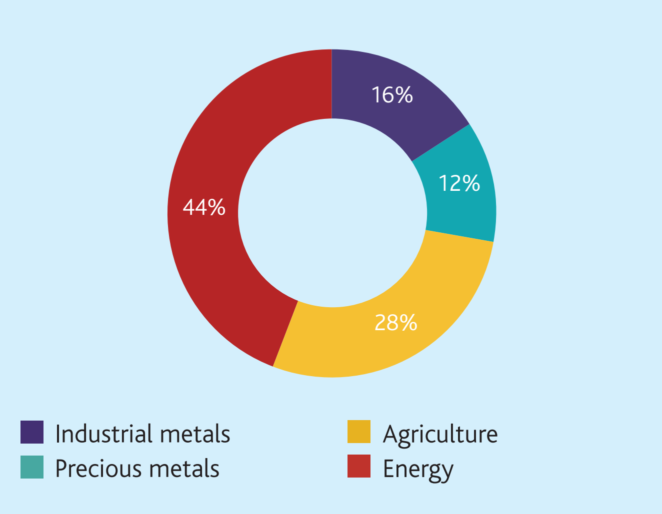


Emerging market debt is a relatively new area of investment for the Fund, and as yet there is no three-year history. The one-year return to 31 March 2009 was +2.6% compared to the benchmark return of +23.8% due predominantly to Pioneer having an exceptionally poor 12 months, returning -24%. Since April 2009, this fund has strongly reversed the underperformance, regaining much of the lost value.

Commodities

As at 31 March 2009, commodities represented 3% of the Fund's total assets – £180 million in monetary terms.

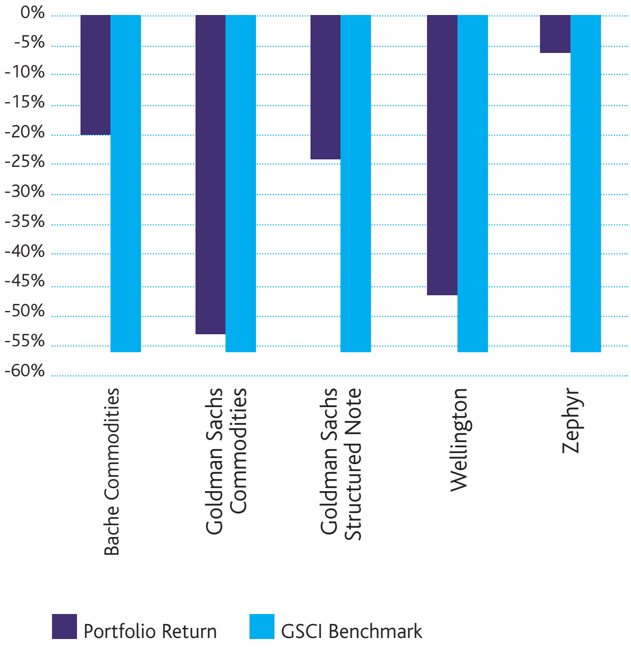
The sector weightings of the Fund's total commodities portfolio are illustrated below:



Historically, commodities perform best when other assets are underperforming, with the exception of 2008, as well as providing a hedge against inflation. As they are a finite resource, the Fund's managers should be able to take full advantage of GDP recovery on a global basis.

There are five specialist managers, all with different approaches that complement each other when combined, each vehicle structured against different indices or bespoke benchmarks in order to protect returns, reduce overall volatility and to provide further diversification.
The portfolio has no exposure to 'plain vanilla' indexation. All five funds have an element of active management, three pure alpha and two with enhanced beta strategies.

Commodities Annual Return
as at 31 March 2009



The total commodities portfolio returned -17.9% over the 12 months to 31 March 2009. The most widely used index is that of the GSCI which has an 80% weighting in energy returning a very disappointing -56% over the same period. The performance of the individual managers is shown above. The fund managed by GSAM was the weakest, delivering -53%, while the Zephyr fund, a hedge fund consisting of approximately 30 commodity traders, was by far the strongest, returning -5.6%.

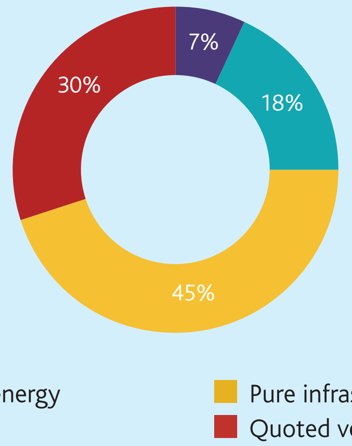
As yet there is no three-year performance history for these funds.

Infrastructure

The market value of the portfolio stood at £125m as at 31 March 2009 representing 2% of the total Fund.

Infrastructure

Asset distribution as at 31 March 2009



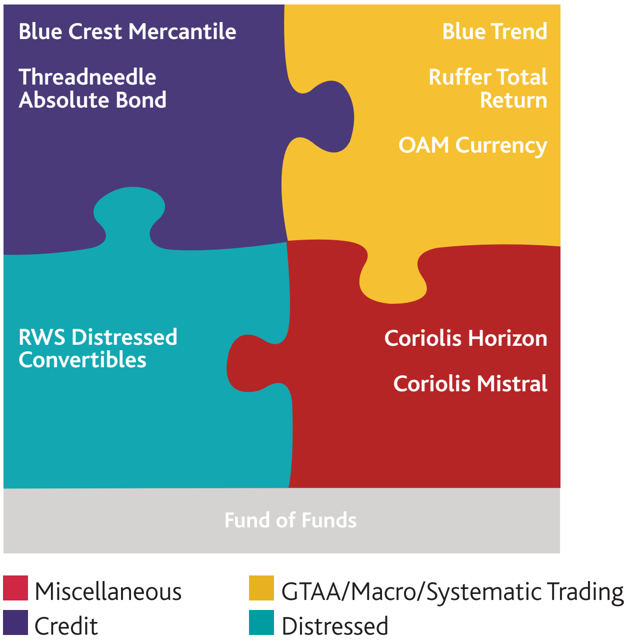
The dearth of credit post-Lehman led to reduced financing and transaction activity for infrastructure funds and poor economic conditions impacted on the performance of service industries.

The Fund holds a number of investments in 17 funds across the infrastructure spectrum covering the different sectors as illustrated above.

Over the 12 months, the Fund's infrastructure portfolio returned -17.7%. As yet there is no recognised benchmark against which performance can be measured. However, as more funds invest in this asset class a recognised index will emerge as it has with regards to private equity and hedge fund investment.

Absolute Return Strategies

As at 31 March 2009, the market value of the absolute return portfolio stood at £275m representing 4.6% of the total Fund. The investments are split into five categories as shown below:

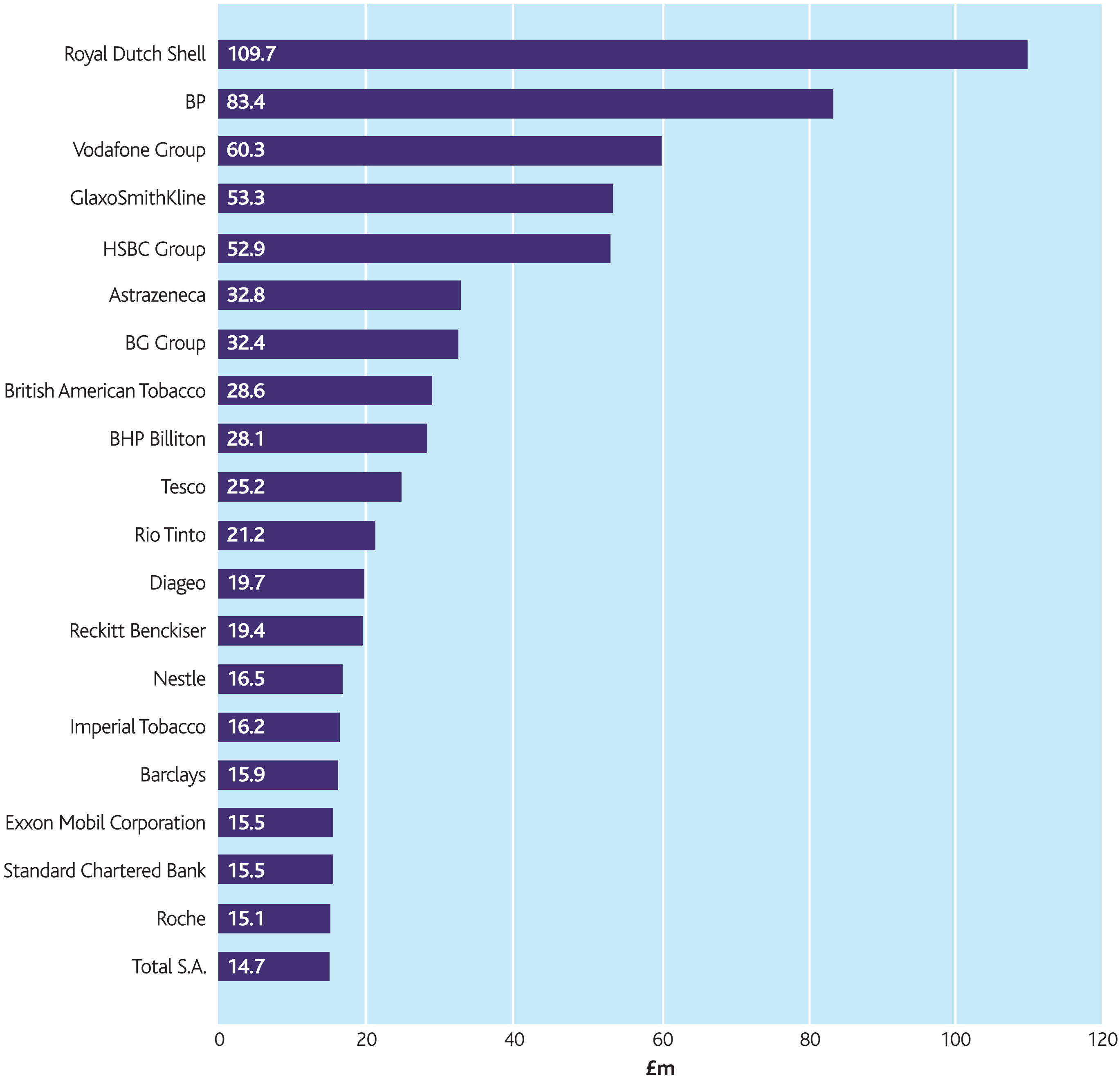


In January 2009, the Fund's investment strategy was revised to incorporate an 8% allocation to an 'absolute return strategy' portfolio. This has been designed to capture, among other things, short- to medium-term opportunities that emerged from the market turmoil of 2008. There is a specific allocation to distressed assets and a separate allocation to credit, both areas having particularly suffered during 2008 and both expected to recover sharply generating some attractive returns going forward.

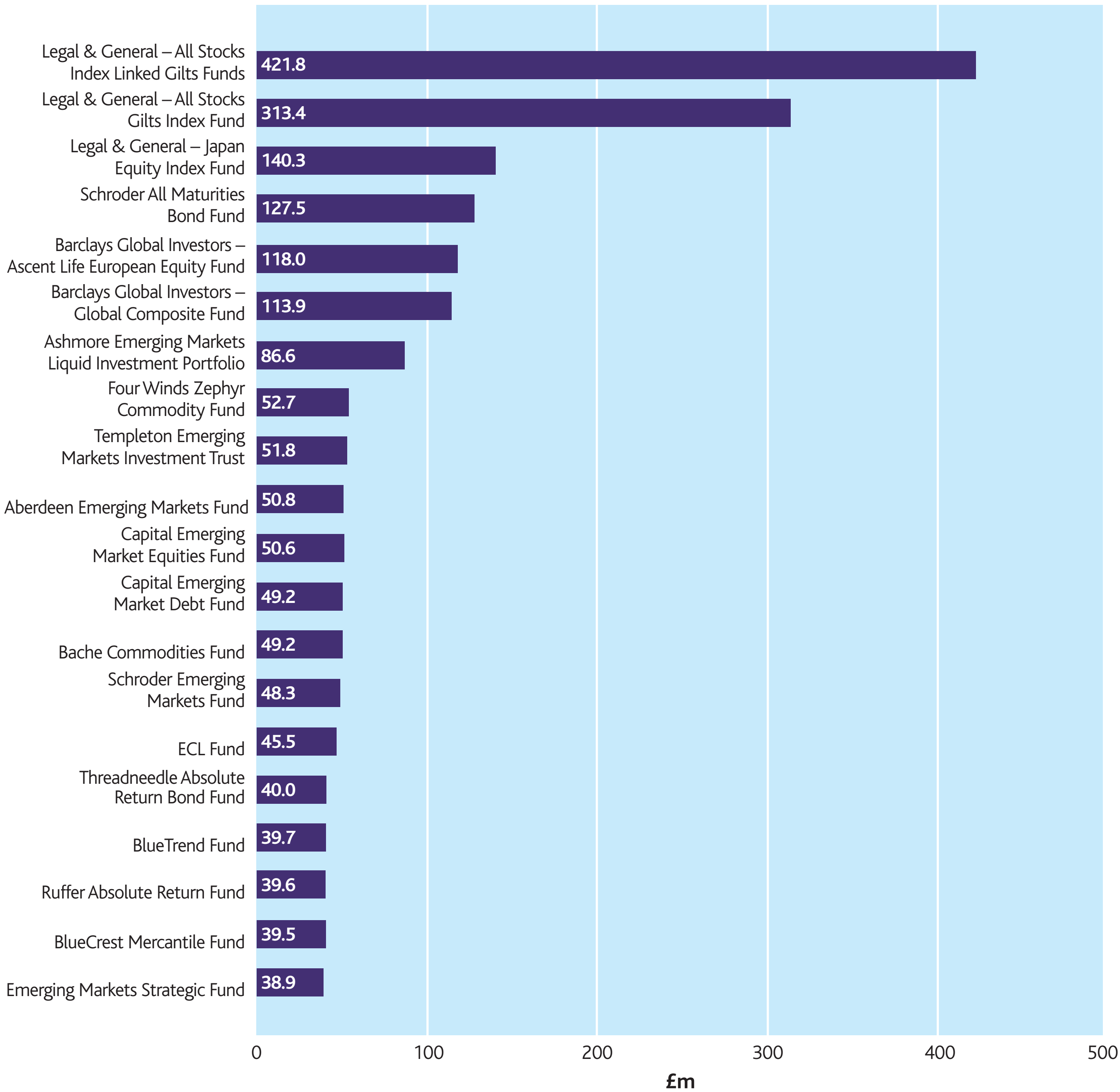
The remaining investments consist of single strategy hedge funds with an emphasis on macro factors and systematic trading, plus some specialist non-hedge funds. The funds vary – some with particularly aggressive target returns with corresponding high volatility, whereas others have more modest return expectations and therefore lower volatility. Combining them has the effect of dampening down the total portfolio volatility, while maintaining an attractive but realistic return target.

As yet there is no one-year performance history.

The Fund's Largest Direct Equity Holdings



The Fund's Largest Indirect Holdings



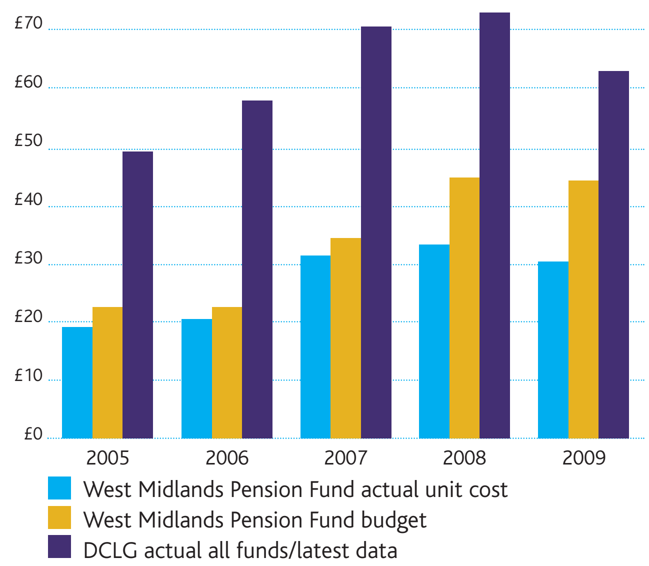
The Fund is a member of the following bodies:

NAPF	National Association of Pension Funds
LAPFF	Local Authority Pension Fund Forum
IIGCC	Institutional Investors Group on Climate Change
CII	Council of Institutional Investors

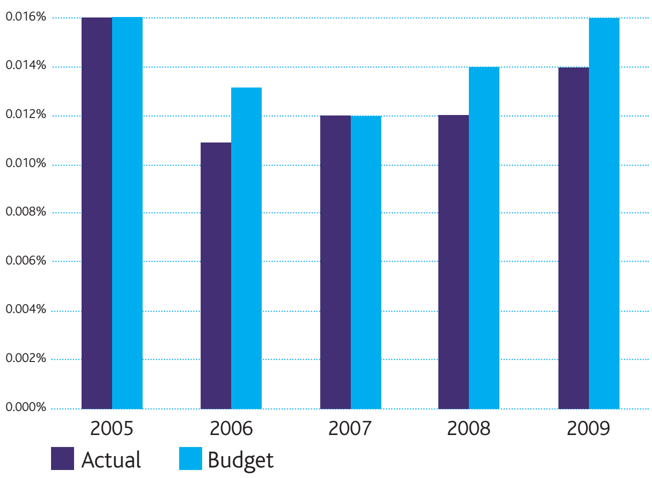
Overall Fund Statistical Information

a) Investment Management Operating Costs

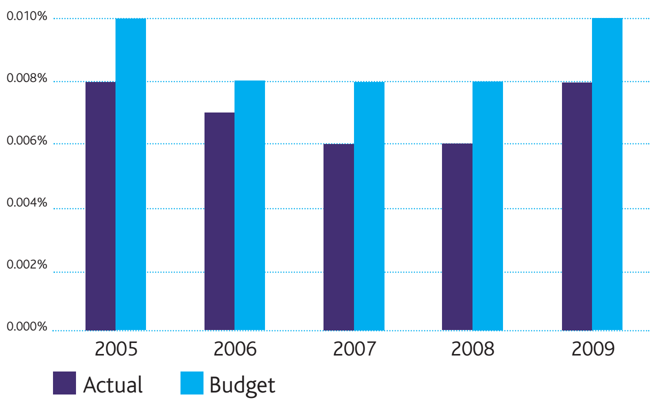
Fund Management Unit Costs



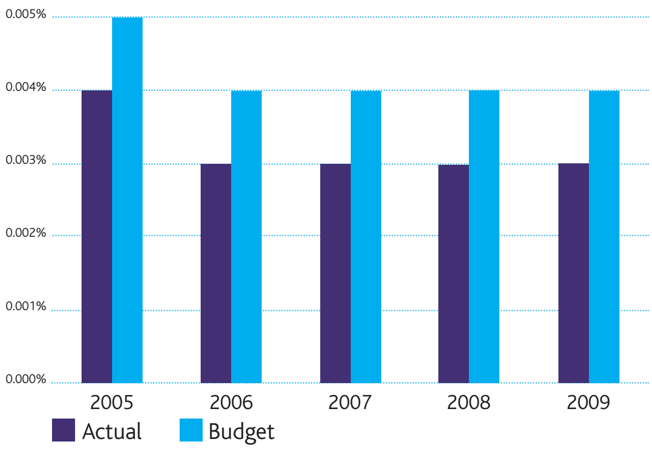
Staff Cost as a % of Assets Under Management



IT Cost as a % Assets Under Management

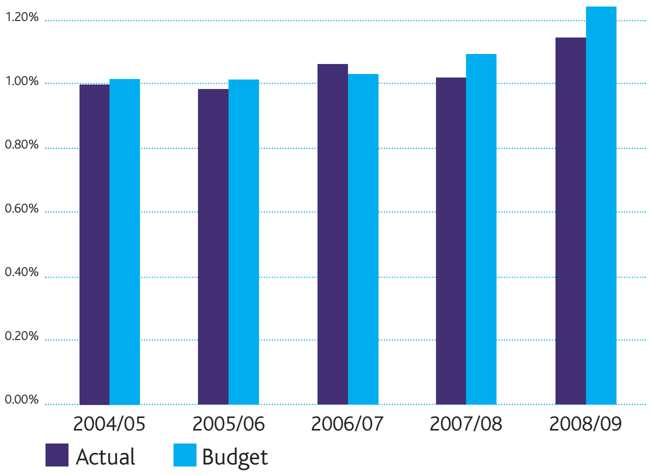


Supplies and Service as a % of Assets Under Management

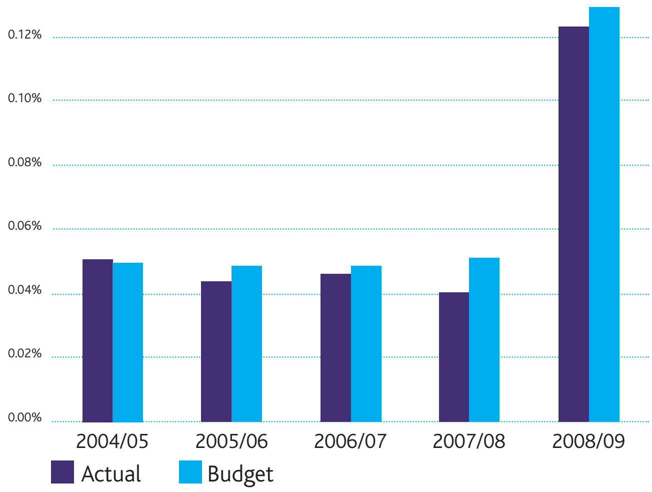


b) Benefit Operations Costs

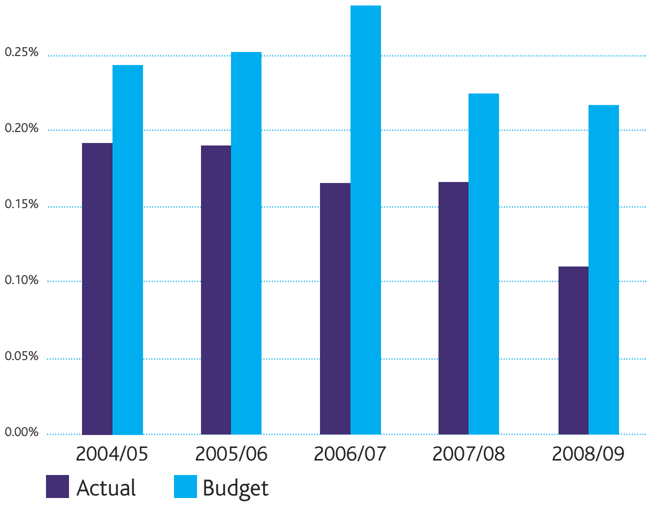
Staff Cost as a % of Total Member Count



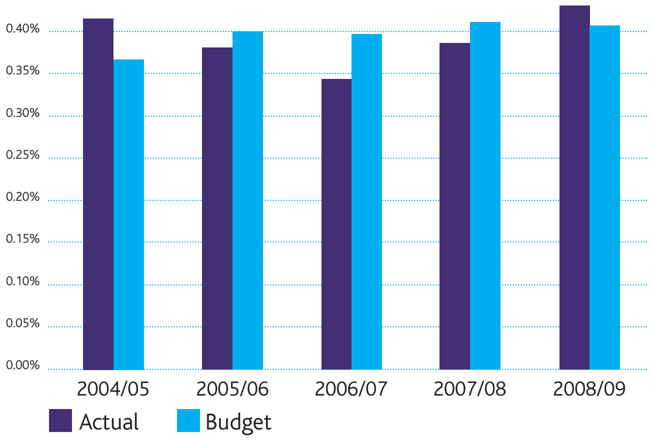
Premises Cost as a % of Total Member Count



IT Cost as a % of Total Member Count



Supplies and Services Cost as a % of Total Member Count



c) Membership of the Fund

Year	Active	Deferred	Preserved Refunds	Pensioner	Beneficiary	Totals
31 March 2005	100,897	45,187	8,501	46,647	9,243	210,475
31 March 2006	104,364	49,073	8,411	47,896	9,432	219,176
31 March 2007	105,512	53,408	8,324	49,537	9,766	226,547
31 March 2008	107,845	58,082	8,239	51,180	10,005	235,351
31 March 2009	108,224	62,472	8,311	53,576	10,264	242,847

Active Members
The Fund has a total active membership of 108,224.
Since 31 March 2008, the number of contributing employees in membership has decreased by 379.

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 over £234 million each year are paid to retired members.

Benefit Operations Staff
Staff/Fund member ratios

Membership at 31 March 2009:	
Active	108,224
Deferred	70,783
Pensioner	63,840
Total	**242,847**
Staff	77
Ratio (Fund members per member of staff)	3,154

Average Cases Per Member of Benefits Operations Staff	Number	Average processes per member of staff
Processes outstanding as at 31 March 2008	18,224	254
Processes completed 2008/09	124,988	1,748
Processes outstanding as at 31 March 2009	20,908	292

d) Benefit Operations Membership Movement

Member Movements During the Year - Admissions to the Fund

Employees with no previous service	10,781
Employees with transfers from other pension schemes	190
Employees with transfers from other local government funds	181
Total	**11,152**

Withdrawals from the Fund

Members entitled to deferred benefits, etc.	6,613
Members awarded immediate retirement benefits	2,250
Benefits awarded following a member's death in service	90
Total	**8,953**

Complaints

Numbers of complaints/numbers as percentage of workload	
Number of complaints processes started in 2008/09	63
Of which, completed in 2008/09	59
Total complaints completed in 2008/09	65
Total 'member-related' processes completed in 2008/09	124,988
Percentage of workload in 2008/09	0.052%

Age Analysis

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
Number of members											
Active				458	3,679	7,499	8,815	12,623	18,028	19,412	15,773
Deferred				63	1,550	4,022	4,957	7,495	10,956	11,989	11,241
Preserved refund				9	168	533	823	1,094	1,554	1,586	1,147
Pensioner						1	4	33	186	455	1,084
Beneficiary	10	40	148	276	92	4	12	28	85	189	318

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+
Number of members										
Active	12,342	6,228	1,113	131	3					
Deferred	10,656	2,826	186	60	93	61	21	2	1	
Preserved refund	790	330	70	50	29	20	25	8		
Pensioner	2,639	12,628	12,965	9,889	7,253	4,406	2,311	637	136	5
Beneficiary	522	787	1,145	1,465	1,715	1,580	1,237	507	127	11

Comparison of Operating Costs With Other Funds

Government collects information from all LGPS funds on their administration and fund management costs on a yearly basis. The latest figures available are for 2008/09 and these show the following comparison.

	Administration Costs (£ psm*)	Fund Management (£ psm*)	Total Costs (£ psm*)
West Midlands Pension Fund	18.17	30.57	48.74
Average for LGPS:			
- Metropolitan funds	20.75	29.99	50.74
- English shires	26.45	64.09	90.54
- Inner London	47.78	142.11	189.90
- Outer London	51.10	102.57	153.67
- All authorities	29.08	63.35	92.43

*psm = per Scheme member

Internal Dispute Resolution Procedure (IDRP)

Since 6 April 1997 amendments to the LGPS regulations require each administering authority to adopt an internal system for resolution of disputes. At its meeting held on 23 April 1997, it was agreed that the Chief Executive of Wolverhampton City Council be nominated as the "appointed person" for the purpose of the internal dispute resolution procedure. During the financial year 2008/2009, seven cases have been received by the Chief Executive. Of these, two were non-medical cases and five cases related to ill-health matters and, in these latter instances, they were referred for independent medical opinion, where appropriate. In total, four cases were not allowed, two are currently ongoing and one case was resolved.

National Fraud Initiative (NFI)

The Fund takes part in the annual fraud initiative led by the Audit Commission. The results for the Fund are as follows:

Year	Number of cases	Value of overpayment	Action taken
2004/05	7	£10,855	Recovering overpayment
2006/07	4	£20,290	Recovering overpayment
2008/09		In progress	

Number and Trend of Top 10 Benefit Processes

The following information highlights the priority given to bringing cases into payment where any delays are negligible once full case information is available. Processes that do not involve immediate payment of benefit have lower completing rates, reflecting the difficulty in collecting information. Resources have been allocated to address this issue.

Starter forms received/joiner processes commenced in 2008/09	13,527
Of which, process completed in 2008/09	11,468
Outstanding processes at 31 March 2009	2,059
85% were commenced and completed in the period, 2008/09	

Deferment processes commenced in 2008/09	9,900
Of which, process completed in 2008/09	6,055
Outstanding processes at 31 March 2009	3,845
61% were commenced and completed in the period, 2008/09	

Refund processes commenced in 2008/09	236
Of which, process completed in 2008/09	231
Outstanding processes at 31 March 2009	5
98% were commenced and completed in the period, 2008/09	

Deferred retirement processes commenced in 2008/09	1,586
Of which, process completed in 2008/09	1,555
Outstanding processes at 31 March 2009	31
98% were commenced and completed in the period, 2008/09	

Retirement processes commenced in 2008/09	2,383
Of which, process completed in 2008/09	2,351
Outstanding processes at 31 March 2009	32
99% were commenced and completed in the period, 2008/09	

Death in service processes commenced in 2008/09	97
Of which, process completed in 2008/09	75
Outstanding processes at 31 March 2009	22
77% were commenced and completed in the period, 2008/09	

Death in deferment processes commenced in 2008/09	105
Of which, process completed in 2008/09	67
Outstanding processes at 31 March 2009	38
64% were commenced and completed in the period, 2008/09	

Death in retirement processes commenced in 2008/09	2,003
Of which, process completed in 2008/09	1,820
Outstanding processes at 31 March 2009	183
91% were commenced and completed in the period, 2008/09	

Maintain member data processes commenced in 2008/09	16,448
Of which, process completed in 2008/09	16,040
Outstanding processes at 31 March 2009	408
98% were commenced & completed in the period, 2008/09	

Change of address and/or bank processes commenced in 2008/09	7,834
Of which, process completed in 2008/09	7,811
Outstanding processes at 31 March 2009	23
99% were commenced and completed in the period, 2008/09	

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:

i) 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.

ii) 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.

iii) Analysis of key processes enabling appropriate internal control procedures to be developed and maintained.

iv) 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 Superannuation Committee and then to senior officers. To complement the delegation to senior managers, there is an extensive and detailed accountability back to committee on how these delegations have been exercised.

Investment risk is 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 Superannuation Committee. This provides continual monitoring and review of investment activity and their associated risks.

The Fund's approach to risk is dynamic, hence the investment strategy was revised in January 2009 by the Investment Sub-Committee in response to the unprecedented market turmoil of 2008. In addition, Deloitte recently reviewed the compliance testing programmes.

The investment strategy is monitored weekly by officers with the aid of specialist software which indicates the impact in terms of return and volatility relative to the Fund's benchmark, 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 Superannuation Committee's investment policy.
Any positions outside the short-term TAA and strategic risk ranges are reported and explained.

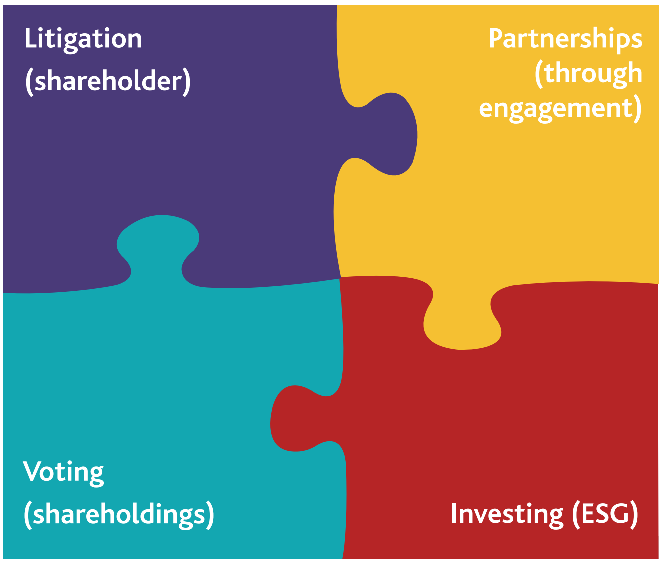
The risks associated with the operational payment of benefits and recording of pensioner records produces a complex set of risks, which are mitigated with the use of an IT system that is thoroughly and regularly tested, combined with the technical hierarchy checking of output by pension staff. This whole area was subject to an extensive review by an external specialist in 2009 who found no significant problems.

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 and 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:



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.

The Fund has been actively exercising its right to vote as a UK company shareholder since 1999, expanding to include voting European and US holdings in 2002 and 2004 respectively. During the 12 months ending March 2009, it voted globally at over 2,300 company meetings.

The Fund was able to vote in favour of all resolutions at only 9% of AGMs and opposed nearly 20% of all resolutions.

The overall analysis of the Fund's voting at UK meetings for the 12 months ending March 2009 is as follows:

	No. of UK AGMs	% of Oppose Votes
AGMs in total	525	
Voted in favour of all resolutions	47	
Voted against in respect of:		
Articles of association		3
Appointment of auditors		18
Appointment of directors		24
Corporate actions		1
Corporate donations		1
Dividends		1
Executive pay		7
Issue/re-purchase of shares		2
Miscellaneous		2
Remuneration reports		33
Report & accounts		8

The Fund often finds itself in the minority, frequently opposing the remuneration report, being reluctant to reward management for poor or irresponsible behaviour. The remuneration report received greater institutional opposition during 2008 and the early part of 2009 on the back of unprecedented public outrage in response to perceived rewards for failure and irresponsible decision-making in the banking system. One of the more positive outcomes of corporate behaviour following the credit crunch is an improved alignment between performance and stakeholders in that increasingly, corporate bonuses are being paid in deferred shares.

The Fund supports the United Nations Principles of Responsible Investment and adheres to them. However, it has made a conscious decision not to become a signatory believing that the reporting requirements, in order to demonstrate compliance, are particularly onerous. A recent article in the FT suggested that many investment managers who have signed up to the 'principles' have not yet undertaken self assessment, paying only 'lip service' and face being removed as signatories. This is a factor consultants will have to consider when they assess managers as they are actively encouraged to prioritise environmental, social and governance (ESG) issues.

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 in excess of $700,000.

Other partnerships include the US-based Council for Institutional Investors and LAPFF, which is a body comprising of 49 UK public funds which engage as a united front with investee companies on issues such as climate change, child labour and breaches of the Combined Code. LAPFF recently achieved a high profile in its opposition to Stuart Rose's combined role at Marks & Spencer, a situation that it has been publicly opposing and one which the Fund has voted against, for the last few years.

Finally, the Fund has actively committed to date approximately 3% of its assets to socially responsible investing (SRI), as it perceives it as a sustainable, long-term growth story. These investments include funds in alternative and clean energy, climate change, regeneration of brown field sites and water, the essential common criteria being that they are attractive on fundamental investment grounds. There is no set target for SRI as the Fund perceives it as mainstream with investment across most asset classes, as illustrated in the chart.

Private Equity
Virgin Green Fund
Climate Change Capital Fund
Bridges Community
Ventures I & II

Global Equities
Sarasin OekoSar Fund
Impax Environmental Markets
Governance for Owners

Infrastructure
HG Renewable Power
Impax New Energy
Pictet Clean Energy
Sarasin New Power
Four Winds Waste Resources
Four Winds Aqua Resources

Property
Igloo Urban Regeneration

In summary, the Fund believes that best practice in corporate governance and SRI 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.

Compliance With the Myners' Report

The Myners' Report into Institutional Investment was first established in March 2001. The report established ten best practice principles for the management of D.B. pension funds which the Fund believes it meets and is reflected in its Statement of Investment Principles (SIP). The Myners' Principles were updated and consolidated into six during Autumn 2008 and are in the process of being integrated into the pension fund industry.

The original principles comprise the following:

Effective Decision-Making Process in Operation

- Define who takes investment decisions.
- Ensure members have sufficient skills and support.
- Determine appropriate training.
- Establish an investment committee with suitable terms of reference.

The Superannuation Committee determines the strategic management of the Fund's assets while the Investment Sub-Committee has in-depth oversight of the management functions and implementation of the investment strategy. Members of these committees are supported by a significant in-house team of professional and support staff, and regularly receive educational presentations from a wide range of external investment advisers and technical experts.

Clear Objectives Are Set

- Set overall investment objective specific only to the Fund's liabilities and identify performance expectations.
- Peer group benchmark in use for comparison purposes only.
- Specify attitude to risk.

The Fund is required to undertake an actuarial valuation of its assets and liabilities every three years. In addition, it is now a requirement to produce a funding strategy statement to demonstrate how those liabilities will be funded and how the associated risks will be managed. An appropriate investment strategy review report is also presented to committee by the Fund's investment advisers outlining the investment risk associated with the strategy. The SIP clearly states the funding objectives.

Investment Management Focus on Asset Allocation

- Priority is given to strategic asset allocation decision-making.
- All asset classes permitted within the regulations are considered.
- Asset allocation is compatible with liabilities and diversification requirements.

A major review of the asset allocation benchmark based on the Fund's specific liability profile is undertaken every three years following the actuarial valuation. Tactical asset allocation reviews are then taken on a quarterly basis by the Superannuation Committee based on advice from the Fund's advisers. The Fund regularly gives consideration to a full range of investment opportunities and diversification including private equity and alternative investments.

Expert Advice to Committee Members

- Separate contracts in place for actuarial services and investment advice.
- Full range of expert advice available.

The Superannuation Committee and the Investment Sub-Committee regularly receive both actuarial and investment advice from a range of experts.

Explicit Investment Management

Mandates

- Written mandate included in management contract containing core best practice.

Mandates are driven by the strategic objectives of the Fund. Officers regularly meet with external managers to discuss their management of the portfolio together with the background behind the investment performance.

External managers are paid fees (some with a performance-related element) that are regularly benchmarked.

Activism in Corporate Governance of Assets Held

- Adopt US principles on activism into mandates.
- Establish means to measure effectiveness.

The Fund's current corporate governance policy and approach is comparable with the US bulletin. The Fund uses its proxy voting rights at all UK company AGMs and EGMs and some overseas company meetings to encourage and support good corporate governance and best practice. This is published on the website along with the Fund's bespoke voting policy. The Fund works with other like-minded funds to actively promote good governance in the companies in which it invests.

Appropriate Investment Benchmarks Are Used

- Ensure index benchmarks selected are appropriate.
- Targets and risk controls reflect performance expectations.

These matters are carefully considered when managers are appointed or briefs changed and are linked to the Fund's strategic objectives and benchmark. They are reviewed on a regular basis.

Performance Measurement

- Formal structure for regular monitoring in operation.

Council officers regularly monitor the performance of both in-house and externally managed portfolios.

The Investment Sub-Committee monitors the implementation of the investment strategy and meets regularly with managers to review their contribution to the strategy. An annual review report based upon the performance measurement data supplied by the WM Company that compares investment returns with the Fund's benchmark is considered annually by the Superannuation Committee.

Transparency

- SIP updated as specified.
- Decision-making is as open as practical.

The Fund's current SIP contains details relating to the Fund's investment decision-making structure and objectives; the asset allocation benchmark and expected investment returns as well as details of all the Fund's external investment managers. The SIP can be found on the website and a summarized version can be found in the annual report, along with with other useful information such as its funding strategy statement, investment strategy review and minutes of the committee meetings.

Regular Reporting

- Publish changes to SIP and its availability.
- Inform scheme members of key monitoring data and compliance with principles.

The SIP is updated regularly and is published on the website. A summarized version is available in the annual report. Targeted summary information is sent to Fund members annually and further detailed information is available on request. Managers report regularly to the Fund and the Fund reports regularly to the members of the committee.

The Fund continues to develop its response to the Myners' Principles and is looking to work further with other funds on a proactive approach to engaging companies on improved governance, expand its risk management evaluation process, and expand the training opportunities for trustees.

Statement of the Consulting Actuary

CR Hull
Fellow of the Institute of Actuaries
Mercer Limited
September 2008

An actuarial valuation of the West Midlands Metropolitan Authorities Pension Fund was carried out as at 31 March 2007 to determine the contribution rates with effect from 1 April 2008 to 31 March 2011. The results of the valuation are contained in our report dated 31 March 2008. The valuation allowed for the new look LGPS benefit structure which was introduced from 1 April 2008.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 82% of the funding target at the valuation date. The valuation also showed that a common rate of contribution of 12.2% 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 4.3% of pensionable pay for 25 years. This would imply an average employer contribution rate of 16.5% 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 2008.

In addition to the contribution rates shown, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by those employers for whom an allowance was not built into their contribution rate. 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.

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	6.4% per annum	6.5% per annum
• post-retirement	5.4% per annum	6.5% per annum
Rate of pay increases:	4.85% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of guaranteed minimum pension):	3.1% per annum	2.75% per annum

The assets were assessed at market value and the value at 31 March 2007 (excluding AVCs) was £7,513 million. Full details of the assumptions adopted for the valuation are set out in the actuarial valuation report. The valuation results as summarised above are based on the financial position and market levels at the valuation date, 31 March 2007. As such the results do not make allowance for the significant market falls which have occurred during the financial year to 31 March 2008 and following.

The next triennial actuarial valuation of the Fund is due as at 31 March 2010. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2011.

Independent Auditors' Report to the Members of Wolverhampton City Council

Opinion on the Fund Accounts as Included in the Annual Report

We have audited the Fund accounts of Wolverhampton City Council for the year ended 31 March 2009. The Fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

Respective Responsibilities of the Chief Financial Officer and Auditor

The Chief Financial Officer is responsible for preparing the Fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing the Fund accounts, the Chief Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimations that are reasonable and prudent;
- keeping proper accounting records which are up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the Fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the Scheme year.

We review whether the governance compliance statement published in the Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008. We report if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read the other information published with the Fund accounts and consider whether it is consistent with the audited Fund accounts. This other information comprises the Chair's Statement, the Director of Pensions' Statement, Superannuation Committee, Participating Employers of the Fund, Member Training Report, Introduction to the Fund, Operations Report, Financial Services Report, Communications and Marketing Report, Investment Policy and Performance Report, Overall Fund Statistical Information, Risk Management, Corporate Social Responsibility and Corporate Governance, Compliance with Myners' Report, Responsibility for the Accounts, Statement of the consulting Actuary and the Annual Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Fund accounts. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Fund accounts, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Fund accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Fund accounts.

Opinion

In our opinion the pension fund accounts present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Fund during the year ended 31 March 2009, and the amount and disposition of the Fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the Scheme year.

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Date: 23 September 2009

Responsibility for the Accounts

Extract from Wolverhampton City Council's Statement of Accounts for the Year Ending 31 March 2009

Officer Approval of the Accounts

The Council is required to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. That officer is the Chief Financial Officer. In addition, the Council is required to make arrangements to secure economic, efficient and effective use of resources and safeguard its assets and to make arrangements to approve the Statement of Accounts.

The Chief Financial Officer 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 Great Britain ("the Code of Practice"). The Chief Financial Officer is required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2009.

In preparing this Statement of Accounts, the Chief Financial Officer has selected suitable accounting policies and then applied them consistently; made judgements and estimates that were reasonable and prudent and complied with the Code of Practice in all material respects.

The Chief Financial Officer has also kept proper accounting records which were up to date and taken reasonable steps for the prevention and detection of fraud and other irregularities.

The above responsibilities have been complied with and the Statement of Accounts herewith presents fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year ended the same date.

Pat Main MBA CPFA
Chief Financial Officer

Date: 21 September 2009

Member Approval of the Accounts

Responsibility for member approval of Wolverhampton City Council's Statement of Accounts lies with the Audit Committee.

The Council's Statement of Accounts for 2008/2009 has been presented by the Council's Responsible Finance Officer, the Chief Financial Officer, on 29 June 2009 and was formally approved at this meeting.

Councillor Hazel Keirle
Chair, Audit Committee

Date: 21 September 2009

Fund Account

Contributions and Benefits	Notes	2007/08 £000	2008/09 £000
Contributions receivable	7	364,884	396,220
Transfers-in	8	20,740	18,477
Total contributions and benefits income		385,624	414,697
Benefits payable	9	281,452	312,881
Payments to leavers	10	16,327	22,623
Other payments		630	1,695
Administration expenses	11	3,903	4,412
Total contributions and benefits expenditure		302,312	341,611
Net additions from dealings with members		83,312	73,086
Returns on Investments			
Investment income	12	173,185	139,515
Change in market value of investments		(356,022)	(1,593,430)
Investment management			
Expenses	11	(7,876)	(7,425)
Net return on investments		(190,713)	(1,461,340)
Net decrease in the Fund during the year		(107,401)	(1,388,254)
Net assets of the Fund at the beginning of the year		7,513,367	7,405,966
Net assets of the Fund at the end of the year		7,405,966	6,017,712

The notes on pages 60 to 73 will form part of these financial statements.

Net Assets Statement

	Notes	Balance at 31 March 2007/08 £000	2008/09 £000
Investment Assets (at Market Value)	**13/14/16**		
Fixed-interest securities		280,017	**146,717**
UK equities		1,984,938	**1,066,928**
Overseas equities		1,909,235	**1,112,212**
Derivatives - forward foreign currency contracts (FFCC)		745	**-**
Pooled investment vehicles		2,514,633	**3,127,811**
Property		455,237	**349,278**
Foreign currency holdings		36,476	**42,132**
Cash deposits		187,170	**142,327**
Other investments		1,284	**1,132**
Outstanding dividend entitlement and recoverable withholding tax		21,905	**8,558**
Investment assets		7,391,640	**5,997,095**
Investment liabilities	**15**		
Derivatives - forward foreign currency contracts (FFCC)		(6,186)	**-**
Total investments		7,385,454	**5,997,095**
Current assets	**17**	34,548	32,902
Current liabilities	**18**	(14,037)	**(12,285)**
Net assets of the Fund at the end of the year		7,405,965	**6,017,712**

The notes on pages 60 to 73 will form part of these financial statements.

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.

Notes to the Accounts

1) General

The West Midlands Metropolitan Authorities 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 Superannuation Committee administers the 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 these 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 1997 (as amended). 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. Employees' contributions are payable at a percentage of pensionable pay (between 5.5% and 7.5%, based on gross pay), while employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary.

The Fund's Statement of Investment Principles (SIP) can be found in the annual report and on the Fund's website: www.westmids-pensions.org.uk

2) Basis of Preparation

The financial statements have been prepared in line with the requirements of the Local Government Pension Scheme Regulations 1997 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended. They follow the recommendations of the Statement of Recommended Practice (SORP) 'The Financial Reports of Pension Schemes' (as revised in May 2007) and follow the 2005 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

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.

3) Statement of Accounting Policies

a) Inclusion of Income and Expenditure

i) 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 was not known at the year-end.

ii) 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.

iii) 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 2009, calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10). They are not accounted for on an accruals basis.

iv) Benefits payable
Pensions and lump-sum benefits payable include all amounts known to be due as at 31 March 2009 relating to the financial year 2008/2009.

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 2009.

vi) Investment income
Dividends, interest and property management income and expenditure have been accrued for in the accounts where amounts were known to be due at the end of the accounting period. This includes income from pooled investment vehicles. All unquoted portfolio distributions tend to arise from sales of investments and are therefore treated as capital transactions.

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 2009 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) Foreign currency hedging
Forward foreign currency contracts outstanding at the year-end are stated at fair value, which is determined as the loss or gain that would arise if the outstanding contract was matched at the year-end with an equal and opposite contract.

iv) 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.

v) 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 DTZ Debenham Tie Leung, Chartered Surveyors as at 31 March 2009. Agricultural properties were valued by F P D Savills Limited, Agricultural Valuers at the same date. A full valuation takes place prior to the full actuarial valuation of the Fund which takes place every three years with desktop valuations carried out in the intervening years. The valuation undertaken at 31 March 2009 was therefore a desktop valuation.

vi) Foreign currencies
Investments held in foreign currencies have been valued as set out in paragraphs (b) (i) to (b) (iii) above and translated at exchange rates ruling at 31 March 2009.

Any gains or losses arising on translation of investments into sterling are accounted for as a change in market value of investment.

c) Monitoring and Benchmarking of Investment Management Expenses
Investment management expenses are monitored whether in-house or externally managed. In addition, the return on investments is assessed independently by external specialists against the Fund's benchmarks and the industry generally. All income and expenditure is accounted for on an accruals basis.

4) Membership

Overall membership of the Fund at the end of the year was as follows:

	31 March 2008	**2009**
Active members	107,845	**108,224**
Pensioner members	61,185	**63,840**
Deferred members	66,321	**70,783**

A detailed list of member bodies is available at note 21.

5) Actuarial Valuation of the Fund

A full actuarial valuation of the Fund was made as at 31 March 2007 by the Fund's actuary, C R Hull of Mercer Human Resource Consulting Limited. In accordance with the Local Government Pensions Scheme Regulations, the actuary has determined employers' contribution rates to meet 100% of the Fund's existing and prospective liabilities over a period of 25 years in line with the funding strategy statement of the Scheme. Employers' contribution rates include provision for the funding of pensions increase costs. Contribution rates consist of a common rate, expressed as a percentage of employees' pensionable pay, payable by all employers together with a secondary rate which is individually assessed for each employer to reflect circumstances peculiar to anyone employer. These rates are to be phased in over a period of three years.

The results of the valuation as at 31 March 2007, and the main actuarial assumptions used are set out below:

	31 March 2007 Valuation
Funding target as % of existing and prospective liabilities	100%
Common rate of employers' contributions (calculated using the projected unit method)	12.20%
Employers' contributions rates as funding target:	
- District councils	14.7% to 16.4%
- Other bodies	7.5% to 25%
Market value of the Fund	£7,513m
Actuarial value of liabilities	£9,194m
Deficit in relation to past service	£1,681m
Funding level In relation to past service liabilities	82%

The key financial assumptions used for the valuation are as follows:

	2007 Funding target	2007 Normal cost
Investment return pre-retirement	6.4% pa	6.5% pa
Investment return post-retirement	5.4% pa	6.5% pa
Salary increases	4.85% pa	4.5% pa
Pension increases in payment	3.1% pa	2.75% pa
Non-retired members' mortality	PA92 MC YoB tables + 1 year	
Retired members' mortality	PA92 MC YoB tables + 1 year	

Because of the small number of employees remaining with Centro (The West Midlands Integrated Transport Authority), the actuary has determined that Centro shall pay, in addition to a percentage of employees' pensionable pay, an annual fixed contribution to meet the accrued unfunded liabilities which arise as a result of premature retirements prior to the formation of West Midlands Travel Limited in 1986. Employer's contributions for Centro are as follows:

	Employers' rate %	Fixed amount £m
2008/09	11.1 plus	£6.80
2009/10	11.5 plus	£6.80
2010/11	11.9 plus	£6.80

Pensions increases in respect of a number of bodies which had no active members in the Fund at the valuation date will continue to be recharged direct. These include the Trustee Savings Bank plc and Severn Trent Water plc.

6) Taxation

i) Value added tax
The Fund pays VAT collected on income in excess of VAT payable on expenditure to HM Revenue and Customs. The accounts are shown exclusive of VAT.

ii) 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 and Hong Kong), or partial relief by claim (Austria, Denmark, France, Luxemburg, Netherlands, Switzerland and Spain).

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

7) Contributions Receivable

Contributions receivable are analysed below:

	2007/08 £000	**2008/09 £000**
From Employers		
Basic contributions	254,103	**269,524**
Augmented membership	446	**578**
Additional cost of early retirement	6,418	**9,159**
	260,967	**279,261**

From Employees		
Basic contributions	102,478	**115,382**
Additional contributions	1,439	**1,577**
	103,917	**116,959**
Total contributions	364,884	**396,220**

The additional contributions above represent the purchase of added membership or additional benefits under the Scheme and are included in the revenue accounts.

Several organisations made small augmented membership payments as one-offs to extinguish liability relating to individual employees who had left their employment.

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

	2007/08 £000	**2008/09 £000**
Administering authority	30,633	**30,062**
Scheme employers	310,200	**345,746**
Admitted employers	24,051	**20,412**
	364,884	**396,220**

8) Transfers In

	2007/08 £000	**2008/09 £000**
Individual transfers in from other schemes	20,740	**18,477**

9) Benefits Payable

An analysis of expenditure on benefits by type is given below:

	2007/08 £000	**2008/09** **£000**
Pensions		
Retirement pensions	219,002	**234,063**
Widows' pensions	21,111	**22,138**
Children's' pensions	796	**881**
Widowers' pensions	1,619	**1,855**
Ex-spouse	10	**17**
Equivalent pension benefits	54	**58**
	242,592	**259,012**
Lump-sum benefits		
Retiring allowances	49,718	**63,288**
Death grants	5,426	**7,687**
	55,144	**70,975**
Benefits recharged to employers		
Compensatory added years	(10,706)	**(10,530)**
Pensions increases	(5,577)	**(6,576)**
Supplementary pensions	(1)	**-**
	(16,284)	**(17,106)**
Total benefits payable	281,452	**312,881**

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

	2007/08 £000	**2008/09** **£000**
Administering authority	24,462	**26,891**
Scheme employers	241,704	**269,226**
Admitted employers	15,286	**16,764**
	281,452	**312,881**

10) Payments To and On Account of Leavers

Contributions receivable are analysed below:

	2007/08 £000	**2008/09 £000**
Individual transfers out to other schemes	16,196	**22,610**
Refunds of contributions	82	**28**
State scheme premiums	49	**(15)**
	16,327	**22,623**

11) 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:

	2007/08 £000	**2008/09 £000**
Administration		
Pensions administration	3,586	**4,111**
Actuarial fees	256	**240**
Audit fees	50	**25**
Legal and other professional fees	11	**36**
	3,903	**4,412**
Investments		
External management of investments	5,480	**4,666**
In-house management of investments	1,809	**1,765**
Performance measurement service	19	**28**
Property and legal fees	(25)	**66**
Safe custody expenses	593	**900**
	7,876	**7,425**

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 a debtor or creditor in the accounts. This is a related party transaction, as Wolverhampton City Council is also a member body of the fund.

12) Investment Income

Investment income is analysed below:

	2007/08 £000	**2008/09 £000**
Dividends and interest		
Fixed interest securities		
UK private sector - quoted	17,169	**14,375**
Equities		
UK	77,406	**57,214**
Overseas	35,680	**38,102**
Index-linked securities		
UK public sector	3,760	**50**
Pooled investment vehicles		
UK	1,170	**1,284**
Overseas equities	1,618	**704**
Interest on cash deposits	12,837	**9,839**
Stocklending	702	**658**
UK tax, irrecoverable	(186)	**(273)**
Overseas taxation	(2,677)	**(2,452)**
Total dividends and interest	147,479	**119,501**
Property management income	27,513	**26,414**
Property management expenses	(1,807)	**(6,400)**
	25,706	**20,014**
Total investment income	173,185	**139,515**

Stocklending
The Funds' securities lending programme was suspended in 2008. The value of securities on loan at 31 March 2009 was nil.

13) 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:

	31 March 2008 £000	31 March 2009 £000
Fixed interest securities		
UK companies - quoted	96,986	**1,025**
UK companies - segregated (external)	183,031	**145,692**
	280,017	**146,717**
UK equities		
Quoted	1,865,601	**1,024,420**
Quoted - segregated (external)	119,337	**42,508**
	1,984,938	**1,066,928**
Overseas equities		
Quoted	1,402,664	**710,368**
Quoted - segregated (external)	506,571	**401,844**
	1,909,235	**1,112,212**
Derivatives		
Forward foreign currency contracts	745	**-**
Pooled investment vehicles		
UK quoted fixed interest	361,255	**359,047**
UK quoted index-linked	388,604	**549,361**
UK quoted equities	189,953	**-**
Overseas equities	554,326	**612,575**
UK unquoted equities	100,010	**267,317**
Overseas unquoted equities	381,174	**723,297**
UK absolute returns	-	**245,628**
Foreign absolute returns	-	**28,680**
UK property	45,506	**38,667**
Foreign property	27,949	**64,493**

	31 March 2008 £000	31 March 2009 £000
Unit trusts		
UK quoted equities	294,833	**103,326**
Overseas equities	164,177	**128,668**
Overseas property	6,846	**6,752**
	2,514,633	**3,127,811**
Property		
UK freehold	401,442	**320,068**
UK leasehold*	53,795	**29,210**
	455,237	**349,278**
Foreign currency holdings		
United States dollars	8,315	**4,581**
Euro	4,981	**3,299**
Canadian dollars	1,759	**2,394**
Danish kroner	458	**1,388**
Hong Kong dollars	2,179	**4,457**
Swedish kroner	233	**2,663**
Swiss francs	4,103	**3,138**
Japanese yen	940	**4,401**
Norwegian kroner	555	**2,887**
Malaysian dollars	4,801	**2,572**
Singapore dollars	4,562	**5,000**
Australian dollars	3,576	**5,338**
New Zealand dollars	14	**14**
	36,476	**42,132**
Cash deposits		
UK	187,170	**142,327**
Other investments		
Broker balances	1,284	**1,132**
Outstanding dividend entitlement and recoverable withholding tax	21,905	**8,558**
Total investment assets	7,391,640	**5,997,095**

*All leasehold properties are held on long leases

13) Investment Assets (continued)

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 2008 £000	2008 %	**2009 £000**	**2009 %**
In-house	4,259,302	57.8	**2,277,434**	**38.0**
Managers: UK quoted	413,727	5.6	**145,834**	**2.4**
Managers: US quoted	120,072	1.6	**104,492**	**1.7**
Managers: European quoted	261.856	3.6	**178,704**	**3.0**
Managers: Japanese quoted	100,141	1.4	**166,632**	**2.8**
Managers: Pacific Basin	30,138	0.4	**39,144**	**0.7**
Managers: Emerging markets	249,017	3.4	**308,351**	**5.1**
Managers: Global equities	440,871	6.0	**345,763**	**5.8**
Managers: Fixed interest	932,890	12.7	**1,054,100**	**17.6**
Managers: Indirect property	73,454	1.0	**103,161**	**1.7**
Managers: Emerging market debt	133,018	1.8	**166,196**	**2.8**
Managers: Unquoted	-	-	**519,113**	**8.7**
Managers: Commodities	165,697	2.2	**180,801**	**3.0**
Managers: Active currency	89,894	1.2	**-**	**-**
Managers: Infrastructure funds	99,658	1.3	**124,505**	**2.1**
Managers: Absolute return	-	-	**274,307**	**4.6**
	7,369,735	100.0	**5,988,537**	**100.0**
Outstanding dividend entitlement and recoverable withholding tax	21,905		**8,558**	
Total investment assets	7,391,640		**5,997,095**	

14) Investments - Market Value Movements Analysis

The change in the value of investments during 2008/09 is set out below:

	Value at 31 March 2008 £000	**Purchase & Derivative Payments £000**	**Sales Proceeds & Derivative Receipts £000**	**Change in Market Value £000**	**Value at 31 March 2009 £000**
Fixed interest securities	280,017	-	(100,601)	(32,699)	**146,717**
UK equities	1,984,938	250,077	(542,735)	(625,352)	**1,066,928**
Overseas equities	1,909,235	35,017	(257,974)	(574,066)	**1,112,212**
Derivative contracts	(5,441)	7,889,234	(7,817,638)	(66,155)	**-**
Pooled investment vehicles	2,514,633	1,248,796	(459,207)	(176,411)	**3,127,811**
Property	455,237	37,864	(2,410)	(141,413)	**349,278**
	7,138,619	9,460,988	9,180,565	(1,616,096)	**5,802,946**
Broker balances	1,284				**1,132**
Outstanding dividend entitlement and recoverable withholding tax	21,905				**8,558**
Foreign currency	36,476				**42,132**
Cash deposits	187,170				**142,327**
Total investments	7,385,454				**5,997,095**

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, take-over proceeds etc, and reductions in cash deposits including profits or losses realised on the sale, There were a small number of late payments of contributions during the year which constituted employer-related investments until the amounts were received. Other than this there were no employer-related investments. The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

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 £1,049,762 (2007-2008: £1,071,368). 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.

	31 March	
	2007/08 £000	**2008/09 £000**
Equities - UK quoted	346,977	**408,161**
Overseas quoted	724,391	**641,601**
	1,071,368	**1,049,762**

The volatility of investment markets is an ever-present and longstanding feature of pension fund management and valuations may vary, either up or down, throughout each day when exchanges are open.

15) Foreign Currency Hedging

Some investments denominated in overseas currencies are hedged into sterling in accordance with the passive currency overlay program. The purpose of this action is to reduce the Fund's exposure to foreign currencies and fluctuations in exchange rates depending on conditions and expectations in these markets.

Forward Foreign Currency Contracts

	Currency Bought 000		Currency Sold 000	**2009 Assets £000**	2008 Asset £000	**2009 Liability £000**	2008 Liability £000
EUR	3,300,083	GBP	2,452,097	0	0	0	0
JPY	132,365,620	GBP	619,769	0	0	0	0
USD	3,855,298	GBP	1,929,563	0	0	0	0
GBP	2,393,945	EUR	3,300,083	0	0	0	5,612
GBP	602,422	JPY	132,365,620	0	745	0	0
GBP	1,926,182	USD	3,855,298	0	0	0	574
				0	745	0	6,186

16) Investment Commitments

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

	31 March 2008 £000	**31 March 2009 £000**
Non-equities	510,613	**989,893**
Property	0	**200,544**
	510,613	**1,190,437**

17) Current Assets

	31 March 2008 £000	**31 March 2009 £000**
Debtors and Pre-Payments		
Contributions receivable		
- Employers	21,547	**21,934**
- Employees	8,760	**9,715**
Wolverhampton City Council	865	**88**
Other debtors	3,637	**1,443**
Cash	(261)	**(278)**
	34,548	**32,902**

18) Current Liabilities

	31 March 2008 £000	31 March 2009 £000
Creditors and receipts in advance		
Pensions and lump-sum benefits	(4,644)	**(4,554)**
Other creditors	(9,393)	**(7,731)**
	(14,037)	**(12,285)**

19) Additional Voluntary Contributions (AVCs)

The Fund Scheme provides for additional voluntary contributions (AVC) for scheme members. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	31 March 2008 £000	31 March 2009 £000
Equitable Life Assurance Society	4,679	**3,993**
Prudential	16,758	**18,888**
	21,437	**22,881**

20) Post Year-End Transactions

There were no major events following the end of the financial year, which would affect the validity of the figures shown in the accounts statement.

City Council Annual Governance Statement

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 also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and 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. The Local Code of Corporate Governance is incorporated within Part 5 of the Council's constitution, which is available for review on the Council's website.

Copies of the Local Code of Corporate Governance can be obtained from the Monitoring Officer or Chief Financial Officer. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts an Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The authority is also responsible for the strategic management and administration of the West Midlands Authorities Pension Fund.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority 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 achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It 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 system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's and Fund'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 Wolverhampton City Council for the year ended 31 March 2009 and up to the date of approval of the annual report and statement of accounts.

The Governance Framework

The key elements of the systems and processes which comprise the Council's governance arrangements include the following:

The Council's priorities are set and monitored through the following framework below:

The Council's core policy priorities are expressed in the *Corporate Plan 2005-2008 'Corporate Plan - Delivering For Our City and Communities'*. This document, which is currently under review and due to be reissued later in the year, sets out the Council's vision and strategic priorities and affirms the commitment to achieving continuous service improvement. The overarching ambitions for the City are contained in the sustainable community strategy which is the master plan for development over the next 25 years. The Council adopted this document in March 2009. The strategy has also been adopted by the Wolverhampton Partnership (which is the City's Local Strategic Partnership).

The policy thread is maintained through service specific plans which connect with corporate priorities, and the detail is then translated into focused activity through individual service plans.

The authority has pursued arrangements for determining and delivering the key strategic priorities, measured by a number of related standards and targets. These targets are cascaded throughout the authority and are included in service plans which define service and individual objectives and which are subject to ongoing review and monitoring. The service plans and detailed work programmes contain objectives, targets and relevant performance measures which are linked to the strategic objectives for the city and the wider corporate priorities and are reviewed and monitored on a regular basis.

The Council's Cabinet (Performance Management) Panel, the Performance Board and the Council's Corporate Management Team (CMT) receive regular reports on a high level scorecard designed to capture progress against core corporate priorities. CMT also receives monthly programme monitoring reports in relation to progress with the delivery of the highest risk corporate projects. These include: Building Schools for the Future (BSF) and the Local Improvement Finance Trust (LIFT). A programme structure has also been set up to manage the delivery of the 'savings and transformation activity' and a member reference group has been established to oversee this activity.

The Council, as a member of the Local Strategic Partnership, has entered into a local area agreement (LAA) with the Government which establishes five priorities where the Council is committed to improve public services faster than normal.

The new LAA started in April 2008 and now has thirty two targets linked to the priorities of the Council and its partners. These targets are focused on achieving five resident outcomes. The partnership has developed four cross-cutting delivery plans, which will add value to the work of the Council and its partners in addressing the city's priorities. A performance management and commissioning framework has been developed in conjunction with partners to support transparency and focus.

The Council also recognises the challenges and risks in working with over 100 people/organisations with separate, but linked, joint working arrangements. It does, however, have extensive experience of partnership working in complex service and project delivery environments.

The Council has an organisational framework for decision making based on a 'cabinet' structure with scrutiny groups and panels with an overarching scrutiny board. In addition, there are a number of regulatory committees which include planning committee and licensing committee. There is also an audit committee which has specific responsibility for overseeing the Council's corporate governance and risk management arrangements. The audit committee works closely with the Council's standards committee and there is an annual joint meeting of the two committees in order to ensure that their roles and responsibilities are co-ordinated.

The standards committee has appointed three sub-committees: the assessment sub-committee, the review sub-committee and the hearings sub-committee in order to comply with the new legislative requirements which have ensued from the development of the strategic role which has been adopted by the Standards Board for England.
The introduction of the new sub-committees has necessitated the recruitment of further independent members in line with legislative requirements. A training programme was adopted in order to ensure that the independent membership have been made aware of

their roles and responsibilities. Training has also taken place for all standards committee members to ensure that they have been made aware of legislative changes and the developing role of the standards committee and its sub-committees.

The Council has adopted a 'constitution' which sets out how the Council operates, the roles and responsibilities of the various executive, scrutiny and officer functions, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. A 'constitution review group' has been set up to review the constitution on an ongoing basis. Further changes to the constitution were approved by Council this year and a new amended constitution has been issued. Significantly, the changes have incorporated amendments to the Council's financial regime. Additionally, changes have been made to confirm changes in the senior management structure of the organisation.

The constitution establishes a framework incorporating protocols, schemes of delegation and financial frameworks upon which the Council is to operate. The Council requires compliance with these elements of the constitution in order that established policies, procedures, laws and regulations, including the Council's risk management practice, is adhered to. Amendments have been made to the members' code of conduct where this has been necessitated by law. There has been training in connection with the provisions of the code of conduct and further training is anticipated. There is an induction programme in place for both officers and members and further work will continue in developing training as appropriate to officers and members according to their specific roles and responsibilities. The Council has a strong internal audit function with a close working relationship and established protocols for working with external audit. The Audit Commission, through its inspectorate functions, also reviews compliance with policies, procedures, laws and regulations within their remit.

The Council has implemented a risk management strategy through a process involving executive members, the chief executive, directors, senior managers and representatives from external and internal audit and risk management and insurance. The strategy is subject to regular review and risk management arrangements are in place which enables the corporate directors, managers and other senior officers to identify, assess, manage and monitor risks within their own work areas which impact on the ability of the Council and its services to meet objectives. Headline assessments of risk are also included in respective service plans by service managers. Risk management is an integral part of the member induction process and a guide has been produced for issue to all members. Specific training in risk management and corporate governance is also provided to members of the audit committee.

Arrangements are in place for all new members to receive an induction which consists of several elements including (but not limited to) an introduction to political and decision-making processes, key developments, standards of ethics and behaviour expected of members and local government finance. For some panels, members also receive training in order to meet legislative requirements. Additional support is provided through tailored member guides, books, CDs or one-to-one officer support.

The Council ensures value for money through the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised. The Council plans its spending through an established planning cycle for policy development, budget setting and performance management designed to ensure that, as far as possible, resources are aligned to priorities.

The Council acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned. The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. The system includes:

- a robust medium-term financial planning process linking budgets to Council priorities;
- comprehensive revenue and capital budgeting systems;
- setting targets to measure financial and other performance;
- the preparation of regular financial monitoring reports which measure actual expenditure and income against forecasts;
- clearly-defined expenditure guidelines and formal project management disciplines.

All of the above are subject to continuous monitoring and review and regular financial reports are submitted to Council, cabinet, audit committee and scrutiny panels for member information, review and approval as necessary.

With regard to the West Midlands Pension Fund, day to day management of the fund is carried out by two separate teams of staff who are dedicated solely to the functions of pensions administration and investments with appropriate support and advice from external investment managers. Both teams report to a dedicated Director of Pensions.

The key elements of the Fund's internal control environment include:

- Procedures for establishing and monitoring the achievement of the Fund objectives.
- The facilitation of policy-making and decision-making.
- Ensuring compliance with established policies, procedures, laws and regulations.
- Ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Fund are exercised.
- The financial management of the Fund and the reporting of financial management.
- The performance management of the Fund and the reporting of performance management.

Review of Effectiveness

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 senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council's constitution clearly sets out the responsibilities of members and senior managers, particularly those of the three statutory posts of the Head of Paid Service, Monitoring Officer and Section 151 Officer. Following a review of the senior management structure, permanent appointments have been completed to all senior positions.

The constitution also sets out the responsibilities of members and senior managers in relation to operation of the Fund and the Chief Financial Officer has responsibility to review independently and report regularly to the Superannuation Committee to provide assurance on the adequacy and effectiveness of the code of corporate governance and the extent of compliance with it both in respect of the Council and the Fund. The Chief Legal Officer occupies the role of legal advisor to the Fund together with external legal support as and when required.

The Council continually assesses the manner in which its corporate governance responsibilities are discharged as identified by the CIPFA/SOLACE guidance and is able to satisfy itself that its approach to corporate governance is both adequate and effective in practice. The Council has an audit committee which has clearly defined terms of reference in relation to the authority's accounting and stewardship functions. The audit committee has specific responsibility to oversee the Council's corporate governance arrangements, the work of the Council's internal auditors and the Council's response to external audit and other external inspections that relate to the Committee's work. Two sub-committees were recently established, one to focus on receiving Audit Services' reports on selected financial transaction reviews and current audit investigations; and the other to review the preparation annual financial statements. The delegation of these functions to sub-committees should allow the main audit committee to focus on priority strategic and corporate issues.

The Council operates under a cabinet structure with special advisory groups and three cabinet panels reporting up to the main cabinet. There are also six scrutiny panels who work with a scrutiny board.

Arrangements for the provision of internal audit are contained within the Council's constitution. The Chief Financial Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting records and of its systems of internal control as required by the Accounts and Audit Regulations 2003 and Amendment Regulations 2006. Internal Audit operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom under the day-to-day control of the head of Audit Services who acts independently. The internal audit division plans and prioritises its work through a combination of assessment and review of the Council's corporate governance arrangements, risk management processes and key internal control systems, supplemented by a programme of managed audit and scheduled visits to Council establishments. The resulting work plan is discussed and agreed with directors and chief officers, shared with the Council's external auditor and approved by the audit committee.

Reports include:

- the work of managers within the Council;
- the work of the internal auditors as described above;
- the external auditors in their annual audit letter; and
- reports by other independent inspection bodies (Audit Commission, CSCI, Ofsted, etc).

The audit committee has reviewed and updated the Council's fraud-related policies, including the anti-fraud and corruption policy and the whistleblowing policy, and these have been published on the Council's intranet and internet sites.

In terms of external assessment, the Council was assessed as 'improving well' and received a two-star overall performance rating by the Audit Commission under the comprehensive performance assessment. In respect of the Council's arrangements for use of resources, which incorporate financial reporting, financial management, financial standing, internal control and value for money, the Council received an overall assessment of ‘three’ out of ‘four’.

Significant Governance Issues

The Council recognises that the identification and analysis of risks faced by the organisation is one of the key aspects in providing this statement and, consequently, the framework for the management of risk has been the subject of a review. A revised methodology has been introduced to further embed practice at both a strategic and operational level and to ensure a consistent approach to risk assessment, review and reporting.

Partnership governance arrangements include responsibility for monitoring performance and managing risk. While appropriate risk management arrangements exist within the major partnerships, improvements are required in others to ensure that the risks associated with joint working are adequately identified and managed by the appropriate partner.

Work has continued during the year on building the Council's relationship with its arm's length housing management partner, Wolverhampton Homes. This is of major significance with regard to achievement of the Council's strategic housing objectives and the delivery of 'decent homes' objectives.

The Council is currently seeking to conclude negotiations about the proposed strategic partnership with Axon Solutions Limited and also to identify alternative ways forward to address the Council's transformation and efficiency objectives over the medium-term.

The Council, in order to support good governance arrangements in relation to its partnerships, is embarking on 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 arrangements are in place.

It is acknowledged that the Council's contingency plans associated with continuity of service in the event of a major service disruption or disaster require improvement, and resources have been committed to this process. There still remain ongoing issues.

The Council has identified that it needs to make significant revenue budget savings over the medium-term in order to address the financial challenges that are predicted. These challenges include the requirement:

- to fund the outcome of single status job evaluation and equal pay claims;
- to cope with the impacts of the economic recession on income receipts and demand for services;
- to ensure that treasury management risks are identified and managed effectively;
- to deliver on major capital programmes at a time of diminishing capital receipts;
- to balance the growing demand for Council services against the impact of council tax increases on local taxpayers.

It is further acknowledged that consideration of new methods of service delivery through, for example, partnerships and other initiatives such as the Private Finance Initiative (PFI) brings new financial challenges and risks.

Work continues on enhancing project management skills, performance management and in taking forward the Council's improvement agenda. It is, however, recognised that the organisation continues to face significant risks in the event of failure to deliver the transformation and budget savings that are required in order to move the organisation forward.

In conclusion, we have taken steps to address the above matters and to further enhance our project management and governance arrangements. We are satisfied that these steps are addressing the need for improvements and Corporate Management Team and the audit committee will monitor their implementation and operation over the coming year.

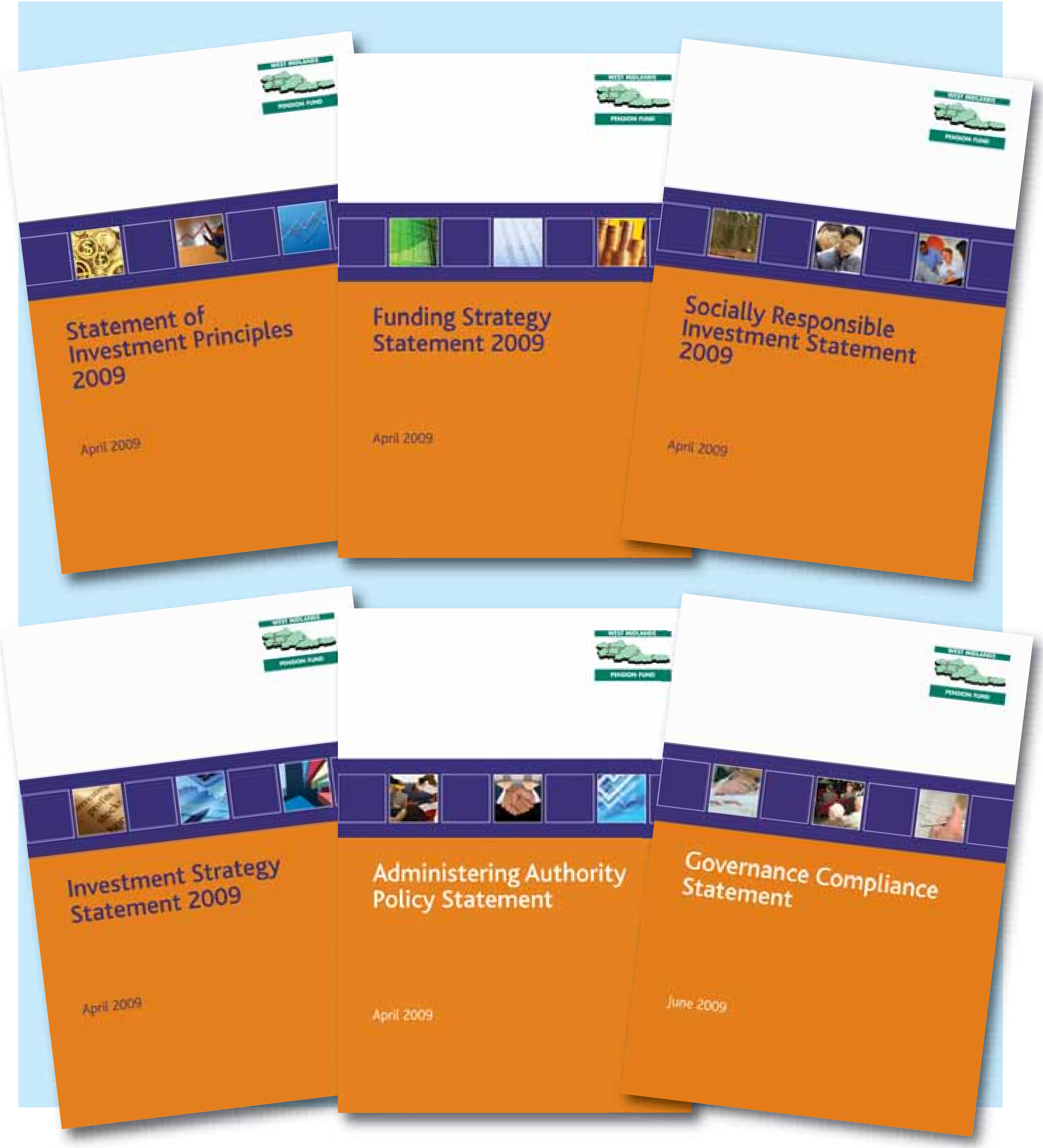
In approving this statement, the views of all directors and a number of senior managers have been obtained and suitable assurances obtained confirming their support to the statement.

Richard Carr
Chief Executive

Neville Patten
Leader of the Council

Date: 13/6/09

Appendices


Statement of Investment Principles 2009
April 2009
Funding Strategy Statement 2009
April 2009
Socially Responsible Investment Statement 2009
April 2009
Investment Strategy Statement 2009
April 2009
Administering Authority Policy Statement
April 2009
Governance Compliance Statement
June 2009

Statement of Investment Principles Update 2009

1) Introduction

1.1 The Fund has, following the events of 2008 in the financial and economic markets, reviewed its investment strategy to ensure the Fund positions its investment strategy to take advantage of any new investment opportunities, and its investment risks are understood and balanced following the turmoil in the markets. An updated Investment Strategy Statement 2009 details the changes to the investment strategy that have resulted.

2) Updates to the SIP 2007

2.1 i) The updated strategy seeks to carry on the trend of further diversifying the Fund's overall risk away from an overdependence on the equity risk premium. In addition to the alternative assets already sitting in 'complementary investments', the Fund will going forward, be investing in an asset class referred to as 'absolute return strategies'.

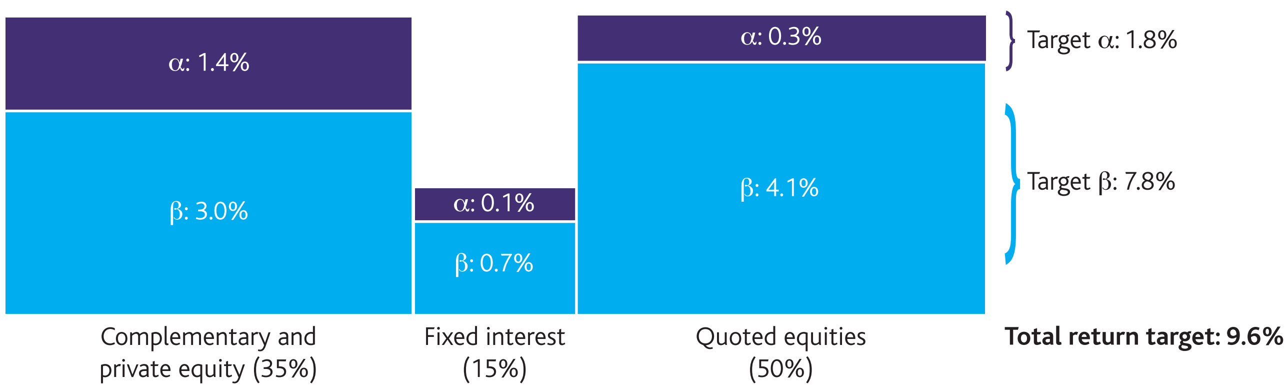
ii) It also seeks to rebalance the Fund's global equity exposure to take account of wealth indices and GDP, in addition to market capitalisation. Hence, the allocation to emerging market equities will increase.

iii) It is recognised that the turmoil of the markets experienced during 2008 has created some short- to medium-term investment opportunities that the Fund is well-positioned to embrace.

iv) An updated summary diagram showing the split between alpha and beta return targets is shown below:

2.2 An updated manager structure summary overrides the previous table in 3.1 and is as follows:

Asset Class	Manager
Equities	
UK	PFID Goldman Sachs Asset Management
North America	PFID Intech Blackrock Financial Management
Europe	PFID Barclays Global Investors DIAM International
Far East	PFID
Global	MFS Investment Management Barclays Global Investors Alliance Bernstein Axa Rosenberg Investment Managers
Emerging markets	PFID through specialist funds
Complementary investments	
PFID through 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	ING Real Estate
Overseas property	PFID through specialist funds



2.3 The revised benchmark as agreed at the January 2009 committee overrides the previous table in 3.1 and is set out below:

		Medium-Term Asset Allocation January 2009
	%	**%**
Quoted equities		**50**
UK	14.0	
Europe	11.0	
North America	8.0	
Japan & Far East	5.5	
Frontier & emerging markets	5.5	
Global equities	6.0	
***Private equity**	**10.0**	
Total equities		**60**
Fixed interest		**15**
UK index-linked	4.7	
UK gilts	4.7	
UK corporate bonds	4.6	
Cash	1.0	
Complementary		**25**
Property	9.0	
Emerging market debt	2.0	
Commodities	3.0	
Infrastructure	3.0	
Absolute return strategies	8.0	
Total non-equities		**40**
Total Fund		**100**

*Previously in 'Complementary'

2.4 The 2007 SIP follows:

Statement of Investment Principles 2007

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 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 Superannuation 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 80.
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:
Role Of Superannuation 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 administration of contributions and payments of benefits as required by the Regulations and the proper management and investment of monies held for the purpose of paying benefits.

3) To determine and review the provision of resources made available for the discharge of the function of administering authority.

Key Duties

a) Superannuation Committee Members

1) Monitor compliance with legislation and best practice.
2) Determine admission policy and agreements.
3) Monitor pension administration arrangements.
4) Determine investment policy:
   a) benchmark (medium-term)
   b) tactical
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) Appoint and dismiss segregated managers.
4) Monitor implementation of investment policy.

The Council delegation to Superannuation 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 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 Pension 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.

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

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

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

g) To oversee the investment management functions of the Fund.

The Director for Finance and Physical Resources implements the committee policy and manages the day to-day functions as described in Section 3.

1.4 This SIP has been prepared taking into account the 2007 Actuarial Valuation and the Funding Strategy Statement. The statement is updated as part of any significant changes on an ongoing basis, for example, appointment of new managers.

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.

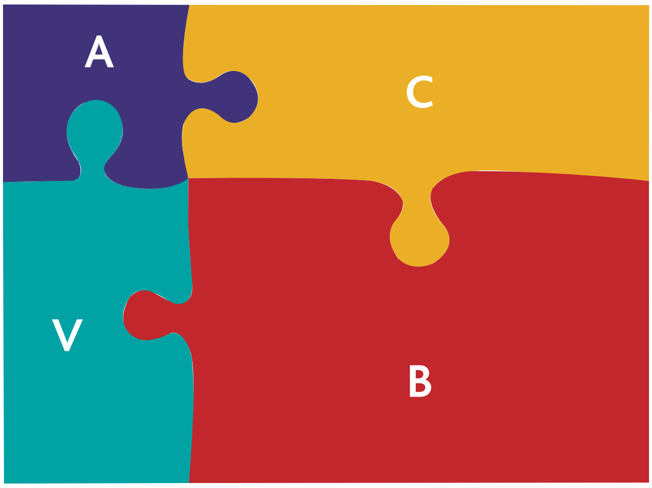
iii) Acknowledge the risk of investing and have regard to best practice in managing that risk.

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 and these are described in the FSS. It is believed that the investment risks are managed at an acceptable level and are tightly controlled within the risk budget. This budget has four elements:

Risk Budget



- A Alpha or manager skill
- C Correlation of asset classes
- B Beta or market returns
- V Volatility of Fund

There are a number of risks that have to be monitored:

i) The risk of a deterioration in the funding level of the Fund due to investment markets not delivering the expected returns or unexpected events, such as a credit crunch. Managed by an optimum benchmark reflecting low correlation between asset classes and diversification.

ii) The risk that the active managers will not achieve their set targets. Managed by the optimum split between active management (alpha) and market returns (beta). Within the allocation to alpha there is a range of specialists returning alpha at varying levels of risk and return, while also ensuring manager diversification.

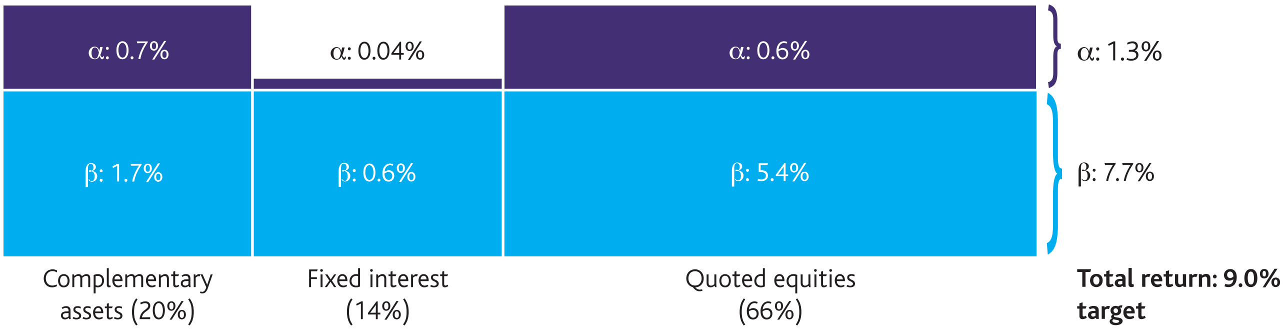
iii) The risk of not achieving the long-term return as identified by the actuarial review.

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 and in its FSS. This is reviewed at least every three years, after each actuarial valuation and monitored on an ongoing basis to facilitate any necessary changes. The present split between the three main asset classes and the expected returns is illustrated in the following diagram:

Tactical asset allocation decisions are taken on a quarterly basis by the Superannuation Committee, based on advice from Gartmore Investment Management and its other professional advisers.

In order to better manage and to improve the risk return on investments, a medium-term target of 25% complementary, 15% fixed-interest and 60% equities is planned. Further details can be found in the Fund's Investment Strategy Report.



The table shows that:

i) the bulk of the Fund's overall return (5.4%) comes from its core/passive equity investments.

ii) although the Fund only has a 20% allocation to 'complementary' asset classes, almost 50% of the alpha is derived from these.

The introduction of these complementary asset classes increases the overall returns while slightly 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 extra alpha more than offsets any increase in volatility.

3) Day-to-Day Management of the Assets

3.1 Main Assets

The Authority invests the assets of the Fund in portfolios, 'vehicles' and structured products operated by both internal and external investment managers. The Authority is satisfied that the level of diversification (and correlation) and degree of active management combined with beta provides the appropriate risk/return structure for the Fund.

A significant amount of investment is carried out by the Fund's own Pension Fund Investment Division (PFID) and is designed to manage approximately 65% of the Fund's investments. The majority of quoted equities are still managed in-house, either on a passive or active core basis, the latter having relatively low alpha and volatility targets. PFID sometimes uses pooled specialist funds to achieve the core objectives.

The remainder of the assets are with external managers who have the specific skills set necessary to provide the target returns required. These vary from enhanced indexing to high alpha mandates. The managers used are listed as follows:

Asset Class	Manager
Equities	
UK	PFID State Street Global Advisers Henderson Global Investors Goldman Sachs Asset Management
North America	PFID Intech Blackrock Financial Management
Europe	PFID Barclays Global Investors DIAM International
Japan	PFID Nomura Asset Management Legal & General Asset Management
Pacific (excluding Japan)	PFID Schroder Investment Management
Global	MFS Investment Management Barclays Global Investors Alliance Bernstein Axa Rosenberg Investment Managers
Emerging markets	PFID through specialist funds
Complementary investments	
Private equity	PFID through specialist funds
Infrastructure	PFID through specialist funds
Emerging market debt	Ashmore Investment Management
Currency alpha	Record Currency Management Overlay Asset Management Mellon Capital Management
Commodities	Goldman Sachs Asset Management Bache Wellington

Asset Class	Manager
Fixed interest	
UK gilts	Legal & General European Credit Management
UK index-linked	Legal & General
UK non-government bonds	PFID Royal London Asset Management
Cash	PFID
Property	ING Real Estate
Overseas property	PFID through specialist funds

Special arrangements exist for the management of private equity and some of the other complementary assets, which involves selecting specific funds. UK direct property is also managed through specialist managers, subject to close in-house involvement and final decision taking on all, except minor, property matters. Index-linked bonds are managed externally on a passive basis while part of the UK corporate bonds is also managed externally. UK gilts are managed externally split between a high alpha and a passive mandate. The Fund currently uses passive currency hedging overlay to a much wider part of the overseas asset allocation when timing is considered appropriate.

The Fund has also used futures for protecting its quoted equity allocation while in the process of implementing its benchmark. Going forward, 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.

Investment Performance Benchmark

The asset allocation benchmark is as set out below:

	2004 Benchmark %	June 2007 Benchmark %
UK equities	37.0	34.0
Global equities	6.0	6.0
Overseas equities	27.0	26.0
North America	8.0	6.0
Europe	10.0	11.0
Japan	3.5	3.0
Pacific Basin	3.0	3.0
Emerging markets	2.5	3.0
Total	**70%**	**66%**
Bonds	15.0	14.0
UK fixed interest gilts	5.0	4.4
UK index-linked gilts	5.0	4.3
Corporate bonds	5.0	4.3
Cash	0.0	1.0
Complementary investments	15.0	20.0
Private equity	5.0	5.5
Property	8.0	9.0
Currency alpha		1.5
Emerging market debt	2.0	1.5
Commodities		1.5
Infrastructure		1.0
Total non-equities	**30%**	**34%**
Total	**100%**	**100%**

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 targets set for each portfolio over time. The Investment Strategy Review 2004 indicated that with a target long-term return of 7.7% the risks associated with that target are manageable. The total return target for the Fund is 9.0%, but this is split between the returns expected from beta (the core return of 7.7%) and those from alpha (1.3%).

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. The Fund operates at the limits set by the lower level of control under Regulation 11(2), except for contributions to partnerships where it has resolved to work to the upper limit of 15% under Regulation 11(2A). This reflects the level of investments planned for private equity and nature of some property holdings.

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. There is no current policy on realising investments to meet benefit outgoings, etc, as the Fund's cashflow is positive.

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.

Advisers

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

- **Gartmore Investment Management**
Investment policy, quarterly asset allocation, general investment matters.

- **Mercer Human Resource Consulting**
Actuarial matters.

- **Mercer Investment Consulting**
Selection of investment managers, policy and investment matters relative to liabilities.

- **ING Real Estate**
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 & Touche**
Investment management practices and regulations.

- **PIRC**
Company governance issues.

Fees paid to advisors are agreed on an individual basis and, except for ING, are 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 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.

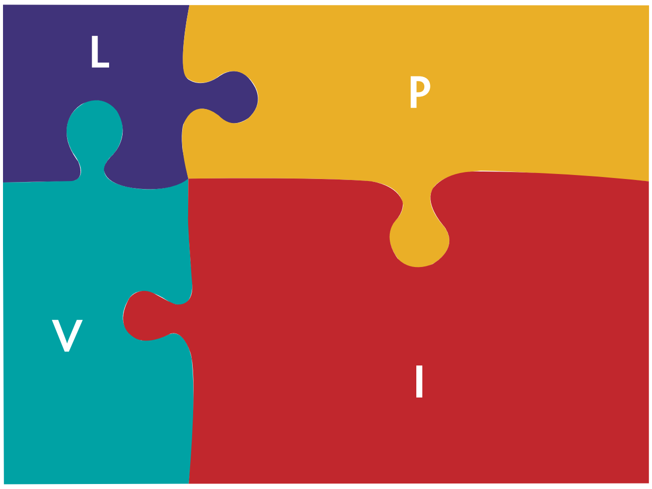
In order to fulfil this responsibility, the Authority communicates with companies and exercises the rights (including the voting rights) attaching to investments in support of its corporate governance policies. The Authority's voting rights are an asset and will be used to further the long-term interests 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 Authority'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 Authority's corporate governance policy and a summary of its voting actions can be found on our website at: www.westmids-pensions.org.uk

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.

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

ESG Best Practice



- L Litigation (shareholder)
- P Partnerships (through engagement)
- I Investing (active)
- V Voting (shareholdings)

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, votes its shares constructively based upon a comprehensive analysis of company voting issues.

During the twelve months ending May 2007, the Fund voted at 684 UK meetings and opposed in excess of 27% of all resolutions – with the remuneration report receiving the most opposition, as the Fund feels that mediocre management performance should not be rewarded.
Where possible, the Fund votes on its overseas holdings, and during the twelve months ending May 2007, it voted at 228 European and 500 US meetings. The Fund's trustees have continued to ensure that Scheme members are kept informed about the Fund's voting policy and activity, which 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 investrors with similar concerns. It does this through:

1) LAPFF.
2) Voting on shareholder resolutions.
3) Joining appropriate lobbying activities.
4) Funding research into governance issues.

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 amongst the companies in which they invest. See the LAPFF website for further details: www.lapfforum.org

The Authority is actively developing 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 and the Council of Institutional Investors.

c) 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, provided these meet the Fund's requirements on fundamental investment grounds.

To date, the Fund has committed around 1.5% of its total assets in investments where strong returns are combined with best poractice in SRI and/or corporate governance.

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

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 Authority will encourage and support companies that demonstrate a positive response to SRI and environmental concerns.
The Authority 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.

5) Compliance with this Statement

The Authority will 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.

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 and complies with the principles. Full details of compliance are on the Fund's website.

7) Review of this Statement

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

Funding Strategy Statement Update 2009

1) Introduction

1.1 The Fund has reviewed its investment strategy in January 2009 and updates to its Statement of Investment Principles and Investment Strategy have been published. These updates are related to the funding strategy and although the 2007 strategy is still valid further comments on risks are required.

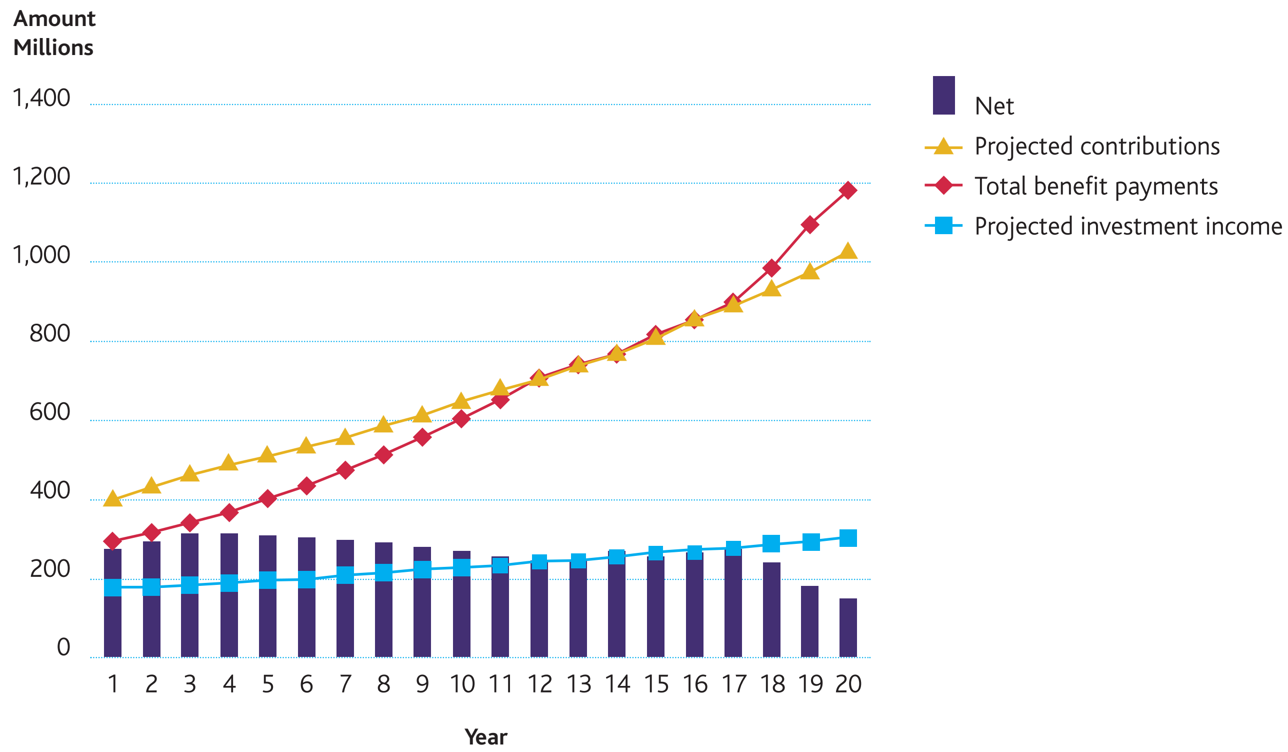
2) Updated Comments

2.1 The 2008 market turmoil has significantly reduced asset values and led to increased funding deficits. This volatility, although extreme, is manageable in the context of the Fund's long-term approach to funding the liabilities.

The Fund's short- to medium-term cash flow is strongly positioned as shown below:

2.2. Therefore, provided asset returns revert back to something approaching the long-term historical position, the Fund can meet the very long-term funding requirements without having, over the short- to medium-term, to vary the employing body contribution rates or raise with CLG the affordability of the Scheme benefits. CLG are currently well-advanced on cost-sharing of any future benefit cost increases with employee representatives which will assist in mitigating risks.

West Midlands Pension Fund - RPI 3%pa, 2007 Valuation Planned Employer Contributions



Funding Strategy Statement 2007

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 review 2004 and 2007, 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. This has been done in respect of the 2004 and 2007 valuations.

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. Work currently being carried out by the Department for Communities and Local Government (DCLG) on updating the Scheme is intended to ensure its sustainability into the longer term.

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 rise in contribution rates for many 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 last 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;

c) recognising such financial 'improvements' as a reduction in ill-health retirements and changes to the LGPS (such as retirement at aged 65, and no early retirements before 55 and taking of additional lump-sums);

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 the overall investment target.

2) 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 £200m 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.

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 1998 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 web-site where operational and management arrangements are set out.

4.2 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 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.
- 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.

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 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

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

5.4 Underlying these assumptions are the following 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.

5.5 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.

5.6 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).
- Where increases in employer contribution rates are required from 1 April 2008, following completion of the 2007 actuarial valuation, the increase from the rates of contribution payable in the year 2007/08 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 admission bodies policy document.

5.7 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.

Deficit Recovery Plan

5.8 If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

5.9 Additional contributions will be expressed as a level percentage of pensionable payroll, but with contribution amounts due in excess of 25% of payroll expressed in cash terms.

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.

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

5.11 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.

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

6.1 The Fund has, for many years after each actuarial valuation, 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 outcome from the last exercise are reflected in the SIP. The exercise has been repeated as part of the 2007 valuation exercise and has been part of the consultation on it and the FSS. A revised SIP has been produced to reflect the FSS and Investment Strategy Review.

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 undertakes a three yearly 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. Short-term investment management decisions to reflect anticipated market changes are strictly controlled against the investment strategy or benchmark.

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 income.

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.

In respect of bodies that have fixed-term funding, the valuation reflects any recovery period to full funding must 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 2007

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% p.a. for the period pre-retirement and 1% p.a. 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 1.4% p.a. 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 (Retail Prices Index)**

The inflation assumption will be taken to be the investment market's expectation for inflation 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.

- **Salary Increases**

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% p.a. 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 (RPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (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% p.a. with a long-term average assumption for price inflation of 2.75% p.a. These two assumptions give rise to an overall discount rate of 6.5% p.a.

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 2007 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 2007 Actuarial Valuation

Long-term gilt yields

Fixed interest	4.4% pa
Index-linked	1.3% pa
Implied RPI price inflation	3.1% pa

Past service funding target financial assumptions

Investment return pre-retirement	6.4% pa
Investment return post-retirement	5.4% pa
Salary increases	4.85% pa
Pension increases	3.1% pa

Future service accrual financial assumptions

Investment return	6.5% pa
RPI price inflation	2.75% pa
Salary increases	4.5% pa
Pension increases	2.75% pa

Principal demographic assumptions

Non-retired members' mortality	PA92 MC YoB tables + 1 year +6 years for retirements in ill-health)
Retired members' mortality	PA92 MC YoB tables + 1 year +6 years for retirements in ill-health)
Commutation	One half of members take maximum lump-sum, others take 3/80ths

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 2.5% pa above the liabilities consistent gilt yield (4.4% 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 6.9% pa effective as at the 2007 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 2007 valuation will be subject to a minimum of both:

- the contribution rate(s) originally planned for 2008/09 onwards based on the 2004 actuarial valuation, and
- the normal future service contribution rate for the employer concerned.

Socially Responsible Investment Statement 2007

This statement is the 2007 statement with an updated diagram on page 3.

The Fund has a long standing 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 Requirements
The corporate governance requirements on companies can be summarised as complying with the following:

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

Social responsibility means 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, reputation and practical operational stand point.

ii) Engagement on Governance Issues
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) Recognised as good practice.

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

iii) 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.

iv) Address the risks to the funds assets that arise from poor governance.

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 which the Fund supports. The principles of responsible investment are as follows:

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.

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.

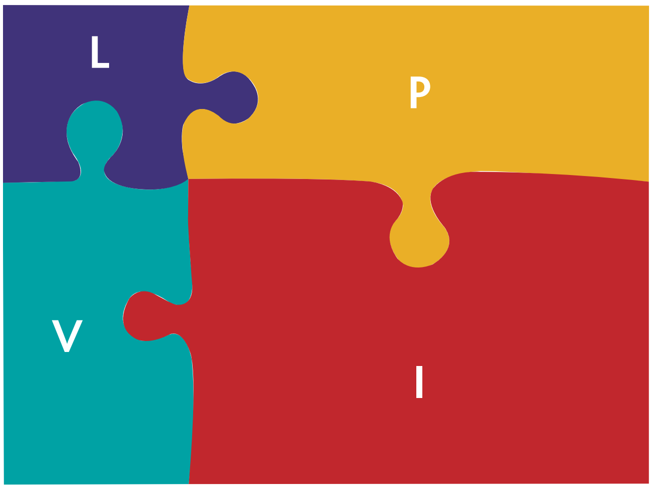
b) PRI vs SRI
While PRI shares some of the same concepts as SRI, such as active ownership and the use of ESG criteria, the two differ in important ways. PRI operates across the totality of investment options and discourages negative screening, whereas SRI is often focussed on a certain strategy and screens to eliminate potential investments are sometimes used. 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. This 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 on behalf of its Scheme members 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



- L Litigation (shareholder)
- P Partnerships (through engagement)
- I Investing (active)
- V Voting (shareholdings)

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.

During the twelve months ending May 2007, the Fund voted at 684 UK meetings and opposed in excess of 27% of all resolutions, the remuneration report receiving most opposition as the Fund feels that mediocre performance by management should not be rewarded. Where possible, the Fund votes on its overseas holdings and during the twelve months ending May 2007, it voted at 228 European and 500 US meetings, recently extending its voting activity to Japan, voting at three AGMs to date. The Fund's trustees have continued to ensure that scheme members are kept informed about the Fund's voting policy and activity, which is detailed in its annual report and accounts and on the Fund's website, where it is reported on a quarterly basis.

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 forty public section pension funds based in the UK with combined assets of more than £70bn. 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 amongst the companies in which they invest.

The governance issues addressed can be summarised as follows:

i) Specific company issues as they arise.

ii) Climate change and greenhouse gas emissions.

iii) Workforce management.

iv) Responding to consultation on change in legislation and professional body practice requirements.

LAPFF will actively engage with companies on SRI issues, for example, it recently wrote to fourteen companies in the foods and drinks sector requesting information on their approach to climate change. It has also recently engaged with a leading FTSE 100 company to ascertain the company's full level of operations in China as well as relevant measures it is taking to address its labour issues, following the company's disclosures in the Forum's Guide to Trustees on Labour Standards in China.

The Fund has also developed a number of global SRI and corporate governance partnerships such as the Institutional Investor Group on Climate change and the US based Council of Institutional Investors.

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 globally 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 1.5% 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 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 are shareholder activist funds both in the UK and European quoted equity portfolios, these latter funds 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.

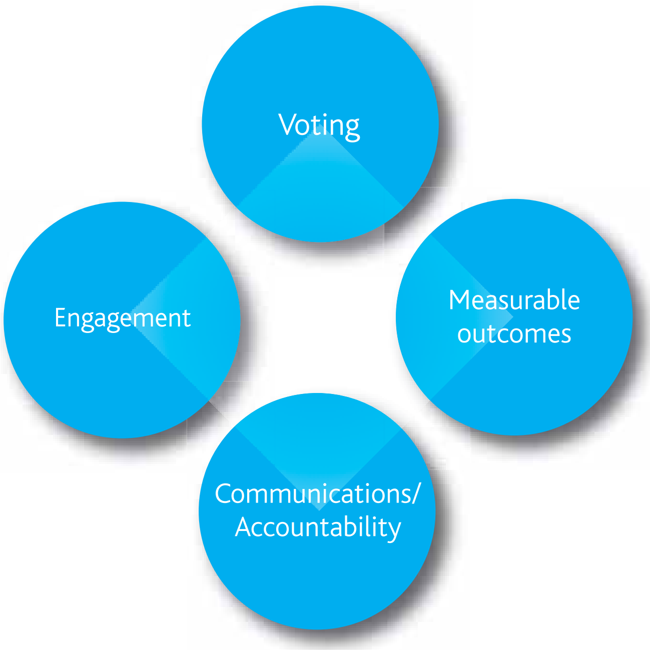
c) Environmental Considerations

Environmental issues continue to grow in importance for all interest and 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 Authority will encourage and support companies that demonstrate a positive response to SRI and environmental concerns. The Authority 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.

Voting	Score
Voting policy	(1)
Detailed specific voting template	(1)
Votes cast in UK	(1)
Votes cast in US	(1)
Votes cast in Europe	(1)
Votes cast in other	(1)
Reports to members	(1)
Reports to interested parties	(1)
Clear accountability between shares held and votes cast	(1)
Costs of voting known	(1)
Maximum score	**(10)**

Measurable Outcomes	
Percentage of votes cast:	
UK more than 50% of holding	(2)
US more than 50% of holding	(2)
Europe more than 50% of holdings	(2)
Other more than 10% of holding	(1)
Example of changed company behaviour	(3)
linked to Fund's voting	
Maximum score	**(10)**

Engagement	
Direct meetings with companies	(2)
Direct sponsorship of governance research	(2)
Joint engagement with others	(2)
Meets Myners' requirements	(4)
Maximum score	**(10)**

Communication/Accountability	
SIP	(2)
FSS	(2)
Annual report	(2)
Information on website on governance	(2)
Information on website on votes cast	(2)
Maximum score	**(10)**

While recognising the subjective nature of the areas, evaluating the position of the Fund gives a score of the order of 7 with plans to move towards 10.

Details of the outcomes can be found on the following websites:
West Midland Pension Fund proxy voting:

- LAPFF
- IIGCC

It is difficult to measure outcomes and set priorities for active governance, though as previously mentioned, it has directly invested to date between 1-2% of its assets in funds demonstrating good practice in SRI and/or corporate governance. Ideally these investments, in the long-term, should be viewed as mainstream. 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:

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 new OFR and other reporting standards.

v) Comparatively weak broad 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.

Investment Strategy Statement 2009

1) Introduction

1.1 The Fund has reviewed its investment strategy following the worldwide market turmoil during 2008 and formulated a revised investment strategy. The revised strategy is set out in this document although the 2007 ISS provides the history and origins of this strategy.

1.2 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.

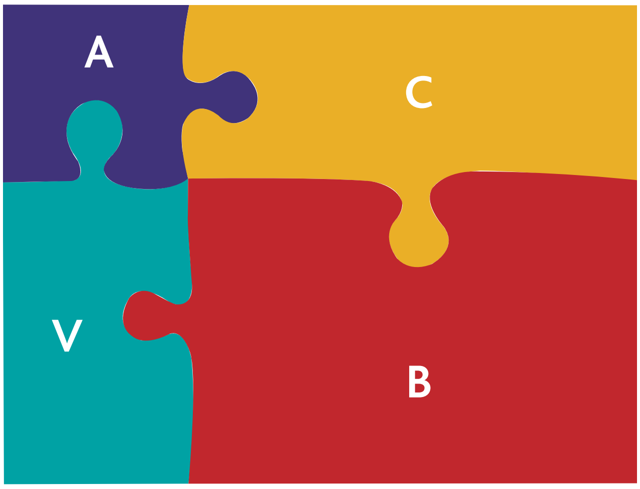
1.3 The ISS is also a key supporting statement to the Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP). The relationship can be illustrated by the diagram below:

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:

Risk Budget



- **A** Alpha or manager skill
- **C** Correlation of asset classes
- **B** Beta or market returns
- **V** Volatility of Fund

2.3 i) The market returns from the asset classes are structured to deliver the long term return, currently 7.7% pa, as identified by the 2007 investment strategy.

ii) Ideally the excess market returns (alpha) should deliver anything over and above the 7.7% pa and will contribute positively to the funding level. The revised investment strategy is designed to deliver alpha of around 1.8%.

iii) Volatility tends to dictate whether the 7.7% 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.

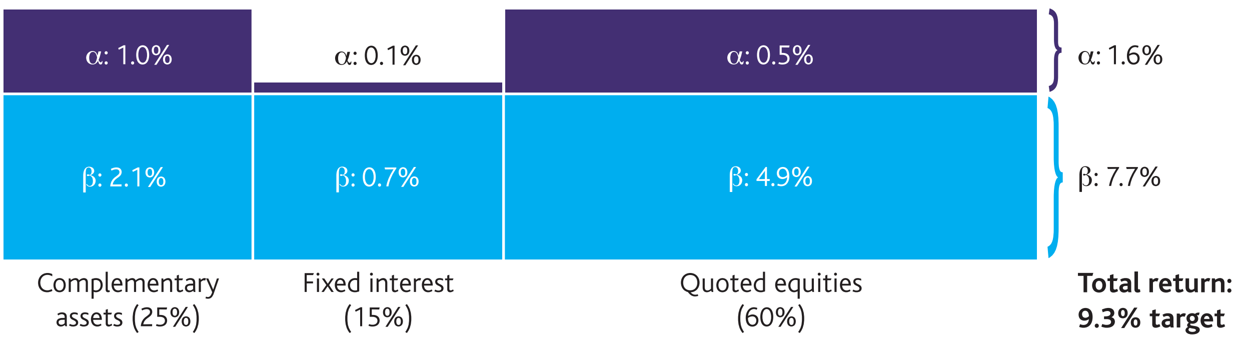
iv) Correlation reflects the relationship between the different asset classes, for example, commodities and property have a low correlation to quoted equities and are more likely to generate modest positive returns when quoted equities are performing poorly. Using different asset classes with negative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

2.4 i) One of the main challenges facing the Fund going forward is which asset classes offer a greater likelihood of generating superior alpha. 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 active managers for this asset class. The opposite is found in quoted US equities where there are few market inefficiencies. The Fund has most of its investment in a passive fund structured to deliver beta and a small investment in enhanced indexed funds, designed to offer modest returns over beta with low risk.

iii) Although it is impossible to separate beta and alpha within all asset classes, the Fund is attempting to identify those assets where alpha 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. The following diagram shows the 2007 benchmark and illustrates this over the three broad asset classes – quoted equities, fixed interest and complementary assets (property, private equity, active currency, commodities, emerging market debt and infrastructure).

iv)



2.5 The table shows that:

i) The bulk of the Fund's overall return (4.9%) comes from its allocation to core/passive equity investments,

ii) Although the Fund only has a 25% allocation to 'complementary' asset classes, well over 50% of the alpha is derived from these.

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 extra alpha more than offsets any increase in volatility.

2.6 The 2009 investment strategy takes the Fund's diversification a step further by increasing 'complementary' by another 10% and is detailed in Section 4.

3) 2007 Investment Strategy

3.1 Although the Fund remains committed to the equity risk premium over the long-term, there has been a modest move over recent years from equities into complementary investments as part of the ongoing management of investment risk and overall process of diversification.
A further shift from equities to complementary investments is likely as going forward this is a natural development of the risk budget.

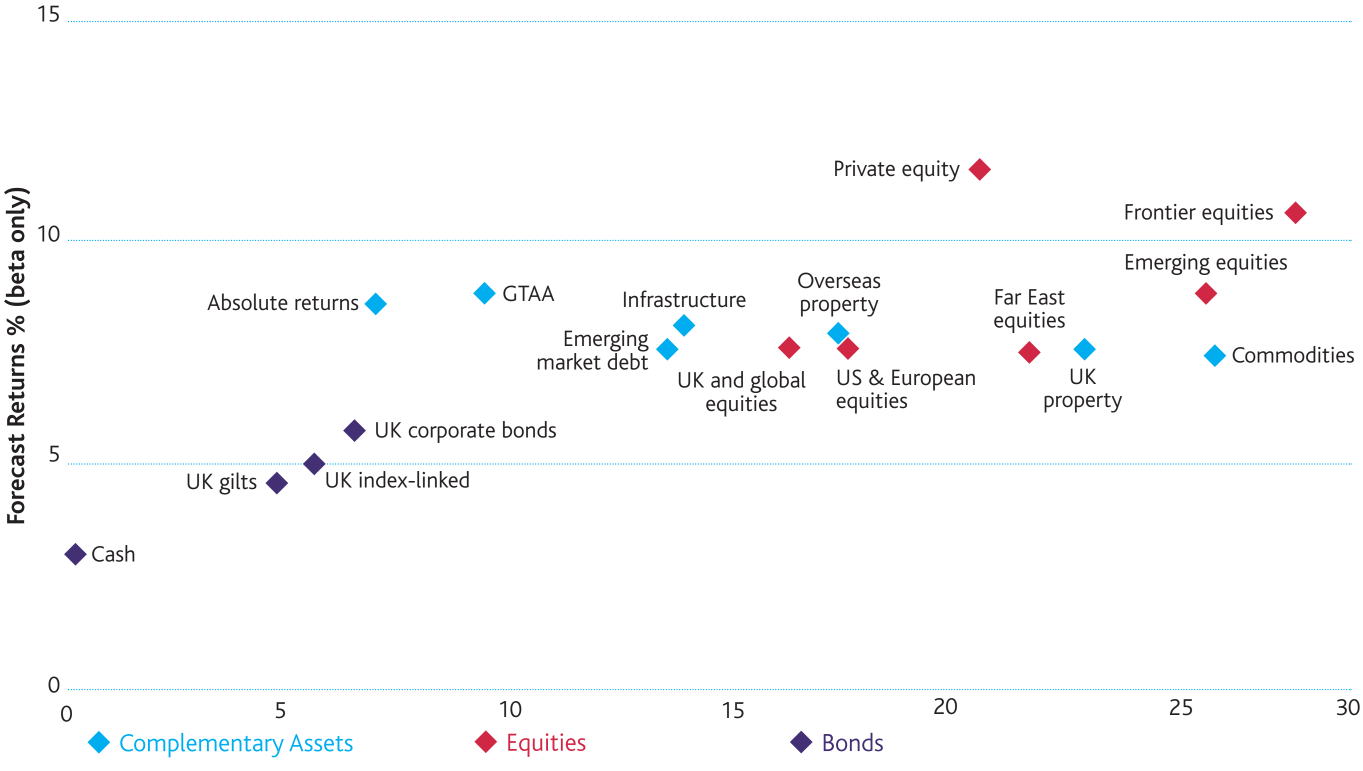
3.2 Pursuing a high allocation to equities has served the Fund well over the long-term, however, it is a fairly high-risk strategy relying heavily on the performance of one volatile asset class.
The introduction of complementary asset classes reduces the overall risk whilst achieving the same expected 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 7-8% pa, as identified by the 2007 actuarial review and resulting strategy, as illustrated by the table in 2.4 (iv).

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.

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

Risk/Return Grid of Asset Classes



* Volatility is defined as the fluctuations in an assets return

Expected Volatility %

3.6 At present, by far the greatest risk in the budget is still the high allocation to equities. This can be 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, the following criteria are used:

First Level

- Must contribute to risk/return (performance/diversification) objectives.
- Must be legal (legal and 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 Superannuation Committee agreed in June 2007 as part of the overall risk budget to make a phased further 10% reduction in equities, changing the benchmark as follows:

	2007 Benchmark %	2004 Benchmark %
UK equities	30.0	37.0
Global	6.0	6.0
Europe	9.5	10.0
US	5.5	8.0
Japan	3.0	3.5
Pacific Basin	3.0	3.0
Emerging markets	3.0	2.5
Total equities	**60.0**	**70.0**

4) Revised Investment Strategy 2009

4.1 Due to the unprecedented turmoil and volatility experienced in the financial markets during 2008, it was seen as necessary and prudent to again review the investment strategy set in 2007.

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 any of the three objectives listed above.

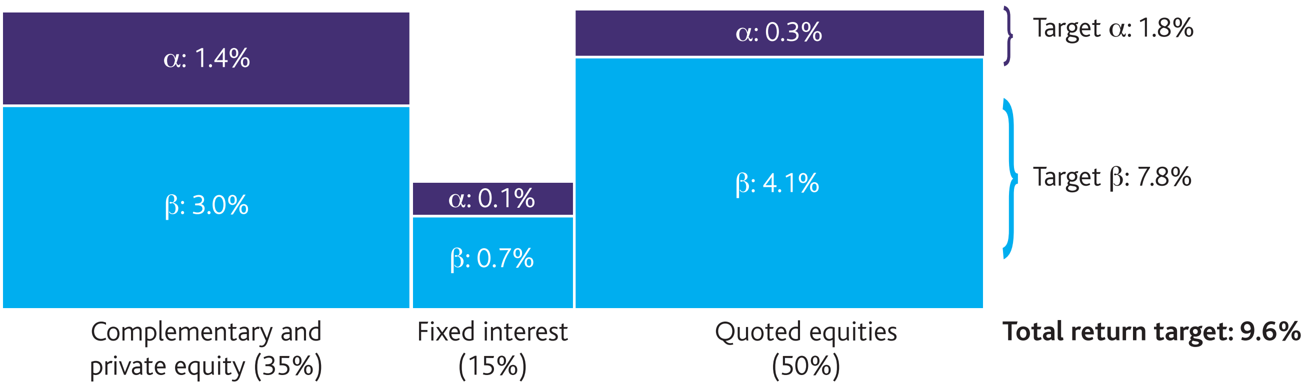
4.4 As a result of analysing a number of factors including expected market returns and volatility, expected correlations, expected shortfall risks and various economic scenarios, a revised investment strategy evolved.

4.5 The revised benchmark as agreed at the January 2009 committee is shown below set out below:

	Medium-Term Asset Allocation January 2009 %	%
Quoted equities		**50**
UK	14.0	
Europe	11.0	
North America	8.0	
Japan & Far East	5.5	
Frontier & emerging markets	5.5	
Global equities	6.0	
***Private equity**	**10.0**	
Total equities		**60**
Fixed interest		**15**
UK index-linked	4.7	
UK gilts	4.7	
UK corporate bonds	4.6	
Cash	1.0	
Complementary		**25**
Property	9.0	
Emerging market debt	2.0	
Commodities	3.0	
Infrastructure	3.0	
Absolute return strategies	8.0	
Total non-equities		**40**
Total Fund		**100**

* Previously in 'Complementary'

4.6 The benchmark has the following return targets in respect of alpha and beta.



i) The table illustrates that well over half of the market return is still expected to be generated by quoted equities, while nearly all the alpha or manager skill is expected to come from complementary and private equity investments.

ii) The target beta is maintained at just below 8% and it is this return that is vital for the Fund to meet its long-term liabilities. Any additional returns in the form of alpha will be 'banked' for when markets do not deliver.

iii) The revised investment strategy meets the Fund's objectives as it should modestly increase the expected level of alpha. As the level of volatility is also expected to fractionally fall from 11.4% to 11.3%, this achieves the best possible objective as specified in 4.2 iii).

4.7 More detailed analysis carried out by Morgan Stanley 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 another 10% reduction in equities. It is intended to review this by no later than the next valuation.

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)

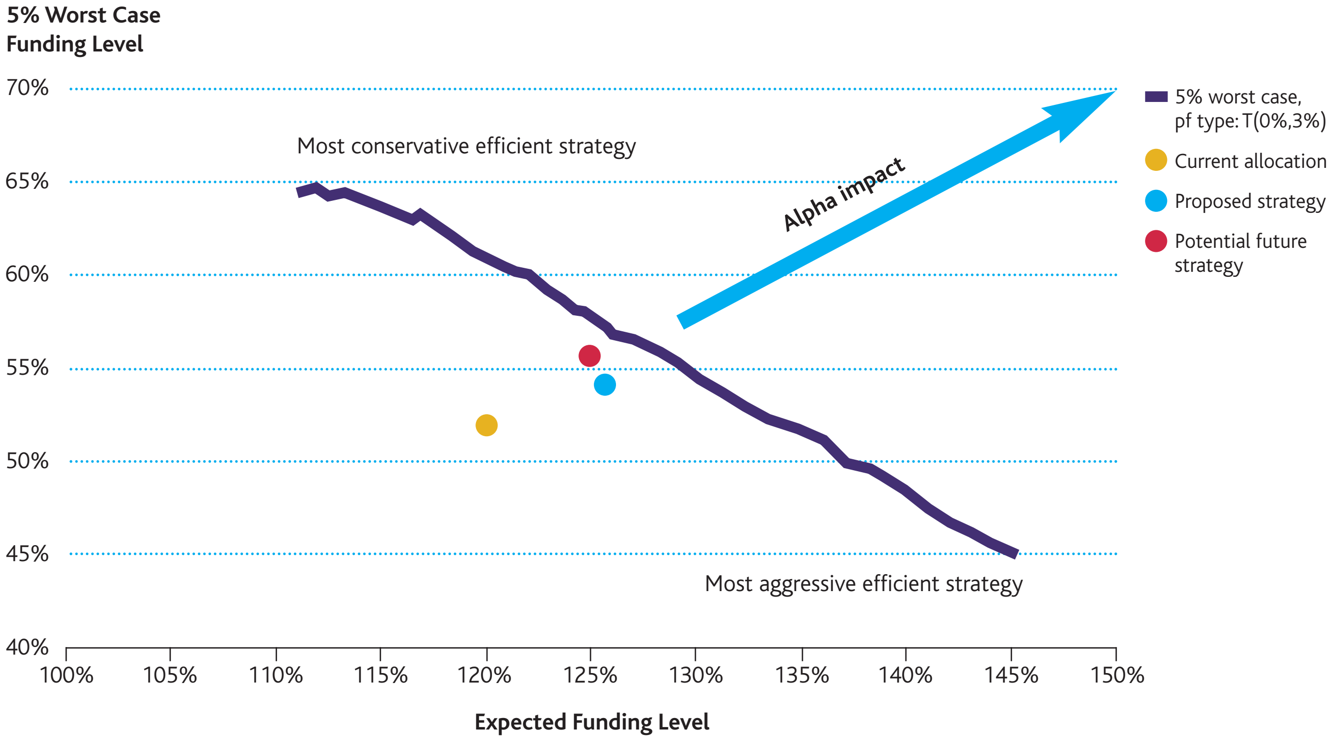
The graph contains the position of the current allocation, the proposed strategy and the potential future strategy.

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



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.

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
    - confidence level
  - 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%

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

Risk Diversification				
Asset Mix	Diversified	Actual	Undiversified	Implied Correlation
Current allocation	4.0%	11.4%	15.8%	0.45
Proposed strategy	2.7%	11.3%	16.0%	0.46
Potential future strategy	2.4%	10.5%	15.7%	0.40

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%

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.

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 2007

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 on the right:

2) Changes in Investment Strategy

2.1 At the 2004 valuation, a revised investment strategy was agreed following consultation and based upon the work performed by Mercer Investment Consulting and contained in their report – Summary of Review of Investment Strategy (WMPF) September 2004. This resulted in the following investment benchmark:

	%	Allowable Ranges
Quoted equities	**70**	**65 – 72.5**
Global	6	5 – 7
UK	37	33 - 41
Europe (excluding UK)	10	8 – 12
North America	8	6 – 10
Japan	3.5	2.5 – 4.5
Pacific Basin (excluding Japan)	3.0	2 – 4
Emerging markets	2.5	1.5 – 3.5
Bonds	**15**	**12.5 – 17.5**
Index-linked gilts	5	3 – 7
Fixed interest gilts	5	3 – 7
Corporate bonds	5	3 – 7
Private equity	**5***	**3 – 7***
Property	**8***	**6 – 10***
Alternative investments	**2**	**0 – 3**
Cash	**0**	**0 - 2**

* Please note that these allocations and ranges are indicative, as it is recommended that fixed cash ranges are implemented for the Fund's property and private equity investments. Possible ranges would be as follows:

	Private Equity	Property
Value at 31 March 2004 (M)	170 (3.6% of the Fund)	349 (7.4% of the Fund)
Range 2004/05 (£M)	160 – 200	320 – 400
Range 2005/06 (£M)	200 – 260	360 – 440
Range 2006/07 (£M)	240 – 300	400 - 480

2.2 The Investment Sub-Committee spent some time following agreement to the revised benchmark gaining an understanding of the options available and formulating an approach to investing in the options considered acceptable.

As a result the 2% allocation to alternatives was temporarily housed in the allocation to UK equities until the autumn of 2006. By the end of 2006 the position was as follows:

	Benchmark Pre-2004 Valuation %	Benchmark Post-2004 Valuation %	Actual Benchmark 15 December 2006 %
Quoted equities			
UK	41.0	37.0	38.7
Global	4.0	6.0	5.8
Europe (excluding UK)	10.0	10.0	11.4
North America	8.0	8.0	5.8*
Japan	3.5	3.5	3.2
Pacific Basin (excluding Japan)	3.0	3.0	3.4
Emerging markets	2.5	2.5	3.3
Sub total	72.0	70.0	71.6
Complementary investments			
Private equity	3.0	5.0	3.9
Property	6.0	8.0	7.8
Active currency / Emerging market debt / Commodities	0.0	2.0	0.9
Sub total	9.0	15.0	12.6*
Fixed interest			
Index-linked gilts	8.0	5.0	4.0
Fixed interest gilts	5.0	5.0	4.6
Corporate bonds	5.0	5.0	4.0
Sub total	18.0	15.0	12.6
Cash	1.0		3.2
Total	**100**	**100**	**100**

Notes:
1) The strategic benchmark is influenced short term by Gartmore's tactical asset allocation recommendations which currently underweight positions in US equities and fixed interest.
2) The target was for active currency, emerging market debt and commodities to reach 3% by February 2007 following implementation of the new management arrangements.
3) A number of new managers had been appointed and resources moved to meet the benchmark allocation.

3. Risk Budget

3.1 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'.

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

3.3 i) The market returns from the asset classes are structured to deliver the long term return, currently 7.8% pa, as identified by the 2004 investment strategy.

ii) Ideally the excess market returns (alpha) should deliver anything over and above the 7.8% pa and will contribute positively to the funding level. At present the target alpha return is around 1% pa.

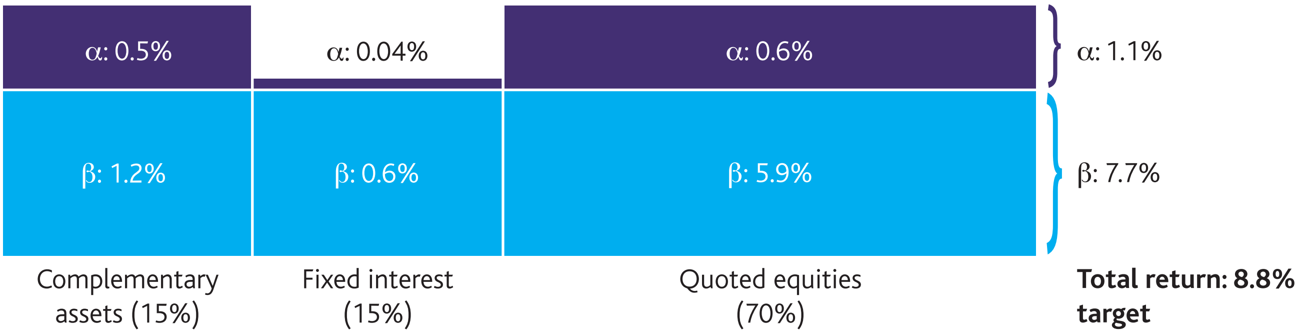
iii) Volatility tends to dictate whether the 7.8% pa is likely to be delivered smoothly over the years or more in peaks and troughs. Combining different asset classes reduces overall volatility. There are two types of volatility, one associated with market returns and one with active management.

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 under performing the investment objectives.

3.4 i) One of the main challenges facing the Fund going forward is which asset classes offer a greater likelihood of generating superior alpha. 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 active managers for this asset class. The opposite is found in quoted US equities where there are few market inefficiencies. The Fund has most of its investment in a passive fund structured to deliver beta and a small investment in enhanced indexed funds, designed to offer modest returns over beta with low risk.

iii) Although it is impossible to separate beta and alpha within all asset classes, the Fund is attempting to identify those assets where alpha 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. The following diagram shows the post-2004 benchmark and illustrates this over the three broad asset classes – quoted equities, fixed interest and complementary assets (property, private equity, active currency, commodities, emerging market debt and infrastructure).



Further details of the split between the asset classes and their respective alpha and beta is found in Appendix 1.

3.5 The table shows that:

i) The bulk of the Fund's overall return (5.9%) comes from its allocation to core/passive equity investments,

ii) Although the Fund only has a 15% allocation to 'complementary' asset classes, almost 50% of the alpha is derived from these.

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 extra alpha more than offsets any increase in volatility.

4) 2007 Changes to Investment Strategy

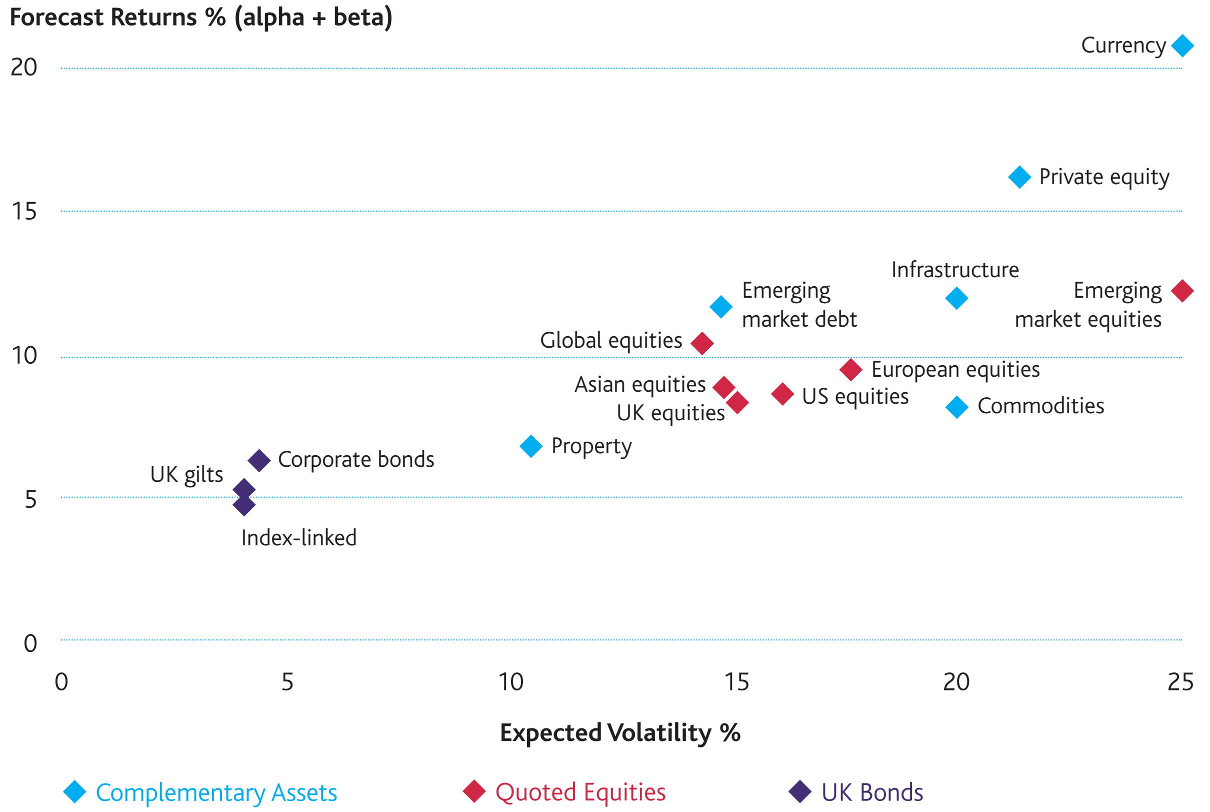
4.1 Although the Fund remains committed to the equity risk premium over the long-term, there has been a very small move over three years from equities into complementary investments as part of the ongoing management of investment risk and overall process of diversification. A further modest shift from equities to complementary investments is likely as going forward this is a natural development of the risk budget.

4.2 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.

4.3 The market returns from the asset classes are structured to deliver the long term return target, currently 7-8% pa, as identified by the 2004 actuarial review and resulting strategy, and illustrated in paragraph 3.4.

4.4 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.

Risk/Return Grid of Fund's Asset Classes



* Volatility is defined as the fluctuations in an assets return

4.5 At present, by far the greatest risk in the budget is still the high allocation to equities. This can be 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.

4.6 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).

4.5 In considering the suitability of an asset class, the following criteria are used:

First Level

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

Second Level

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

4.8 Against this background, the Superannuation Committee agreed in June 2007 as part of the overall risk budget to make a further 4% reduction in equities, changing the benchmark as follows:

	% of Fund	Former Benchmark
UK equities	34.0	37.0
Global	6.0	6.0
Europe	11.0	10.0
US	6.0	8.0
Japan	3.0	3.5
Pacific Basin	3.0	3.0
Emerging markets	3.0	2.5
Total equities	**66.0**	**70.0**

The target objective of the above is to:

i) Retain the same level of overall returns at a lower level of risk, or

ii) Increase the overall returns and maintain the same level of risk.

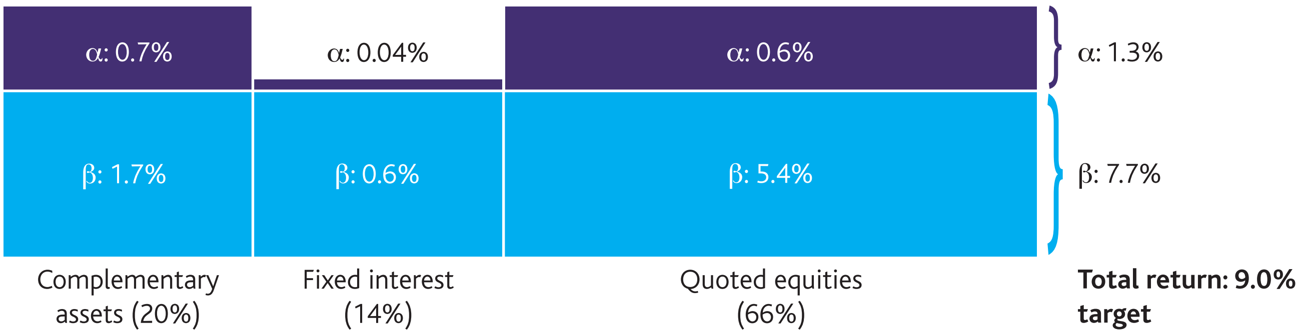
4.9 The following table illustrates that a 5% increase in complementary investments meets the above objectives:

The table shows the following changes to the current position:

i) The beta generated by complementary assets has increased by 50bp with a corresponding reduction in the equity beta. ii) Over half the alpha (or manager skill) is now generated by complementary assets with the Fund's total return increasing by 20bp to 9%.

Note: It is crucial when structuring the Fund to ensure that the beta generated remains at 7.7% as this is the level of return identified by the actuarial review as necessary to meet the Fund's liabilities.

4.9 The above step was seen as an initial move with a view to a further transfer of 5% from equities into complementary assets later in 2007 and early 2008. A cautious approach has been adopted to investing in asset classes new to the Fund with the aim of building the exposure over time. The nature of complementary assets also dictates a gradual move, as often investments are made as and when required on a similar basis to private equity.



5) Revised Future Investment Strategy

5.1 Against the above background, it is considered appropriate to move over the coming medium-term period to the following benchmark.

West Midlands Pension Fund Response

Asset Allocation Conclusion

	June 2007 Benchmark %	Medium-term Benchmark %
Equity		
- UK	34	30
- Overseas	26	24
- Global	6	6
	66	**60**
Fixed interest	14	15
Complementary	20	25
	100%	**100%**

5.2 The following table illustrates the medium-term benchmark in respect to alpha and beta.

The table shows the following changes to the current position:

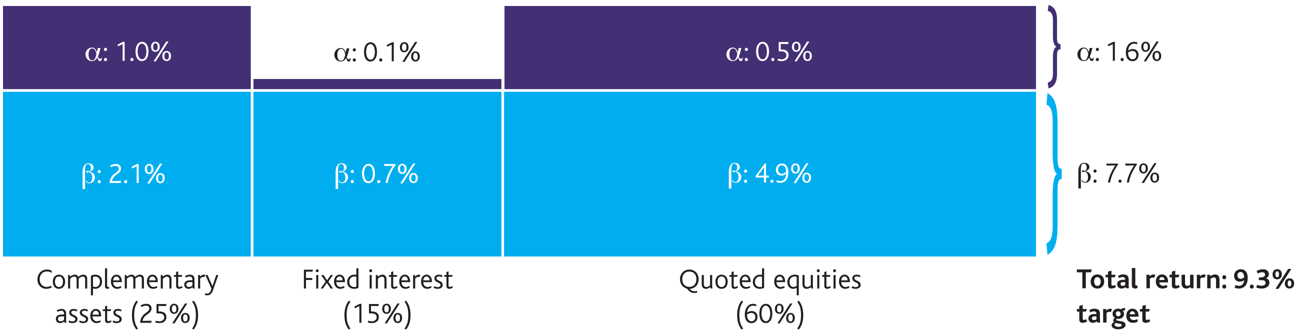
i) The beta generated by complementary asset has increased by 50bp with a corresponding reduction in the equity beta, with the overall target for beta remaining at 7.7%.

ii) Over 60% of the alpha should be generated by the complementary assets with the total return target increasing by 30bp to 9.3%.

iii) The long-term return target for the Fund is still maintained at around 7.7% beta.

5.3 The following information is attached showing how the Fund's investment strategy has changed over time (1994 to 2007).

- Appendix 1 – Trend in Fund benchmarks
- Appendix 2 – Trend in return targets
- Appendix 3 – Trend in risk/return feature
- Appendix 4 – Alpha and beta target returns for different asset classes and Fund medium to long-term returns where a long-term position has been held.
- Appendix 5 – Investment management style



6) Mercer Investment Consulting – Comments on Strategy

6.1 Mercer Investment Consulting (MIC) have been engaged at all recent valuations to review the risks associated with the Fund's investment strategy and make recommendations for managing that risk. MIC have again been requested to quantify the risk being taken by the Fund on how the investment strategy could affect the funding strategy in respect of the Fund's current benchmark (66% equities; 14% bonds; 20% complementary) and proposed benchmark (60% equities; 15% bonds; 25% complementary).

6.2 The MIC review is an extension of the traditional asset liability modelling, and looks at the risk inherent in the Fund's strategies in terms of the likelihood of achieving or indeed failing to achieve, specified funding levels or contribution rates by the time of the next valuation in March 2010.

6.3 The key assumptions for the evaluation of the strategy are:

- cashflows and liability values are based upon the actuarial valuation work,
- asset returns and risk projections are based upon MIC standard assumptions at June 2007,
- changes in benefits proposed from April 2008 have not been fully factored in.

6.4 The current asset portfolio (66% equities; 14% bonds and 20% complementary) gives a central expectation (50% probability) of a 7.8% p.a. return, which excludes the contribution from active management return. This return is 2.9% p.a. above the return on a least risk portfolio (LRP) of gilts of 4.9% which is a good proxy of the expected rate of growth of the Fund's liabilities. Strategic risk is the risk inherent in the assets in which the fund invests and is considered relative to the LRP.

6.5 The strategic risk for the current benchmark is 13.9% which means:

- in a year's time, there is a 2 in 3 chance that the funding level will be within ± 11% of the current funding level,
- there is a 50% probability that funding will be 100% by 2015.

The downside risks from returns overall falling short of expectations are:

- A 23% probability (almost 1 in 4) of the funding level falling below the current level (81%) at the end of the ten-year period in 2017.
- A 37% probability (greater than 1 in 3) of the funding level falling below the current level (81%) at the 2010 valuation.
- A 25% probability (1 in 4) that the funding level will have fallen below 75% at the 2010 valuation.
- A 5% probability (1 in 20) that the funding level will have fallen below 57% by the end of the ten-year period.

The potential impact on contribution rates (allowing only for the impact of investment returns) would be:

		2010		
	2007	50% Probability	25% Probability	5% Probability
Total cost of accrual	18.7	19.4	23.3	29.8
Employee share	(6.5)	(6.5)	(6.5)	(6.5)
Employer share	12.2	12.9	16.8	23.3
Deficit recovery	4.5	3.1*	6.9*	12.8*
Total employer cost	16.7%	16.0%	23.7%	36.2%

* assumes deficit respread over 25 years

Approximately 1 in 3 chance of total employer's contribution rate rising by more than 20% above the current rate at the next valuation, due to investment-related effects.

6.6 The proposed move to an equity allocation of 60% with 25% in complementary and 15% in fixed interest leads to the following outcome:

- a medium-term benchmark with similar return return/risk characteristics to the current benchmark giving a central expectation of a 7.8% p.a. return and a strategic risk of 14.0% pa,
- downside risks similar to above.

6.7 Both benchmarks have manager risk which has not been evaluated, but is expected to increase overall risk to around 14.2%, however, the medium term benchmark is expected to produce an additional 160bp of return from manager skill (alpha) compared to the present expectation of 130bp, which more than offsets the additional risks.

6.8 Associated strategic issues to note are:

- hedging 70% of overseas currency with 50% split between UK and overseas equities could lead to shift towards overseas equities bias,
- no significant risk mitigation applied to interest rate or inflation risk,
- essential to monitor and assess risk with the objective of actively managing the overall risk through appropriate diversification, with less over-reliance on equity returns going forward.

Trend in Pension Fund Benchmarks

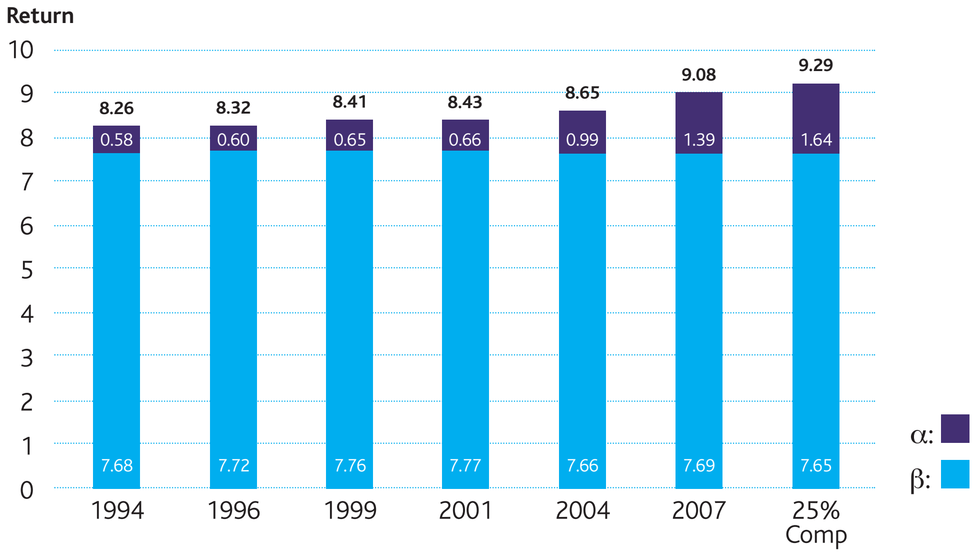
Appendix 1

	%	1994 %	%	1996 %	%	1999 %	%	2001 %	%	March 2004 %	%	June 2007 %	%	25% Comp %
Equities														
UK Equities		58.5		59.5		57.5		56.0		37.0		34.0		30.0
Overseas		22.5		24.5		25.5		27.0		27.0		26.0		24.0
North America	6.2		6.5		7.0		8.0		8.0		6.0		5.5	
Japan & Far East	7.2		7.5		7.5		7.5		6.5		6.0		6.0	
Continental Europe	6.7		8.0		8.5		9.0		10.0		11.0		9.5	
Emerging markets	2.4		2.5		2.5		2.5		2.5		3.0		3.0	
Global equities		0.0		0.0		0.0		0.0		6.0		6.0		6.0
		81.0		84.0		83.0		83.0		70.0		66.0		60.0
Fixed Interest														
UK fixed interest		0.0		0.0		0.0		0.0		5.0		4.3		4.7
UK index-linked		8.0		8.0		8.0		8.0		5.0		4.4		4.7
Corporate bonds		0.0		0.0		0.0		0.0		5.0		4.3		4.6
Cash		1.0		1.0		1.0		1.0		0.0		1.0		1.0
		9.0		9.0		9.0		9.0		15.0		14.0		15.0
Complementary														
Private equity		2.0		2.0		3.0		3.0		5.0		6.0		7.0
Property		8.0		5.0		5.0		5.0		8.0		8.0		8.0
Overseas property		-		-		-		-		-		-		2.0
Currency		-		-		-		-				1.5		2.0
Emerging market debt				-		-		-				1.5		2.0
Infrastructure		-		-		-		-		2.0		1.5		2.0
Commodities		-		-		-		-				1.5		2.0
		10.0		7.0		8.0		8.0		15.0		20.0		25.0
		100%		100%		100%		100%		100%		100%		100%

Trend Total Return Targets 1994 – 2007

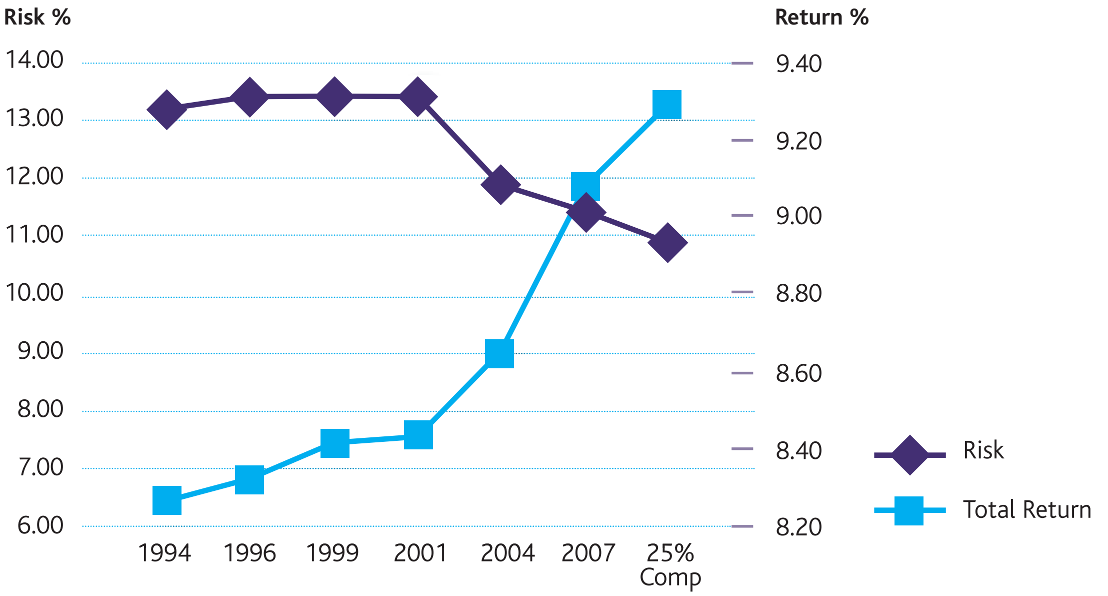
Appendix 2

Total Return (alpha + beta)



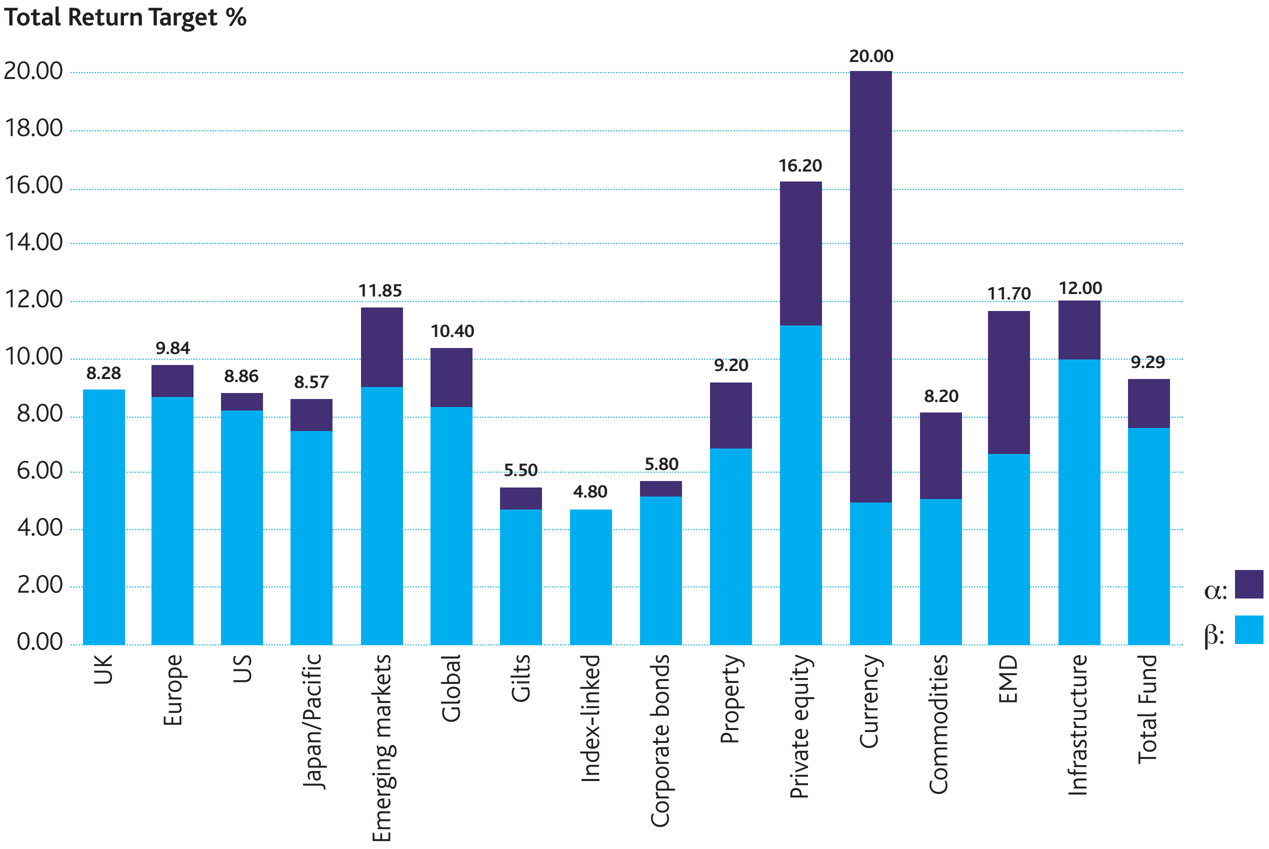
Trend in Risk/Return Feature 1994 – 2007

Appendix 3



Alpha and Beta Targets Per Asset Class

Appendix 4



Investment Management Structure

Appendix 5

Asset Class	Index	Enhanced Index/ In-House 'Core'	Active	Diversified Manager Groups	Opportunities
Equities					
UK	✓	✓	✓	-	✓
Global	-	-	-	✓	✓
North America	✓	✓	-	-	-
Europe	-	✓	-	-	✓
Japan	✓	✓	✓	-	-
Pacific Basin	-	✓	✓	-	-
Emerging markets	-	-	-	✓	-
Bonds					
Index-linked gilts	✓	-	-	-	-
UK fixed interest	✓	-	-	-	✓
Corporate bonds UK	-	✓	✓	-	-
Cash					
Complementary					
Property	-	✓	-	✓	-
Private equity	-	-	✓	✓	✓
EM debt	-	-	✓	-	-
Active currency	-	-	-	✓	-
Commodities	-	✓	-	✓	-
Infrastructure	-	-	-	✓	✓

Index: passive management capturing index returns
Definitions: Enhanced Index/In-house core: target α 0.5 to 1.0% (modest volatility)
Active (traditional): target α 2% + (higher volatility)
Diversified manager groups: combining different active manager styles to reduce overall volatility
Opportunities (non-traditional): target α 2%+ in 'new' products, approaches and asset classes

Communications Policy Statement 2008

An effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to its customers.

There are six distinct groups with whom the Fund needs to communicate:

- Trustees
- Scheme members
- Prospective Scheme members
- Scheme employers
- Fund staff
- Other bodies

Set out in this document are the mechanisms which are used to meet those communication needs.

The Fund aims to use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication.

Trustees

The Fund hosts a microsite wmpfonline.com/trustee which contains relevant information for trustees with regards to training and the role of the trustees.

Knowledge building and training is provided via the Fund's officers, advisors and external experts with regards to investment and administration matters.

The role of the trustees through the Superannuation Committee is also supplemented by Sub-Committees, such as the Investment Advisory Sub, at which specific advice can be provided by officers and external advisors.

The seven district councils in membership of the Fund are represented at trustees' 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 also Scheme 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 wmpfonline.com containing Scheme details, Scheme leaflets, etc. There are also links to other organisations relevant to Scheme members, e.g. employers, AVC providers, employers' organisations, etc.

Abridged Report and Accounts

An abridged copy of the Fund's Report and Accounts is circulated to all Scheme members on an annual basis.

Annual Newsletter

We will issue an annual newsletter to members of the Fund, the contents of which will cover current pension topics within the LGPS and the pensions industry in general.

Benefit Statements

An annual benefit statement is sent direct to the home address of all members who are contributing to the Fund at the previous financial year end.

Benefit statements are sent direct to the home address of deferred members where a current address is known.

Scheme Literature

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

Pay Advices

The Fund continues to issue monthly pay advices to Scheme pensioners. This is used as a communication mechanism, since messages are included on the back of each one. These may reinforce the need for pensioners to ensure that in the event of their demise or change of address, the Fund is notified promptly. On other occasions, it is used to convey specific messages – for example, the need to protect from hypothermia.

Pensions increase and P60 information is communicated using this medium on an annual basis.

Correspondence

The Fund uses both surface mail and e-mail to receive and send correspondence.

Correspondence
The Fund uses both surface mail and email to receive and send correspondence.

Telephone Helpline
A dedicated low call rate telephone helpline 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 Roadshow
The Fund stages a biennial pensions roadshow where it visits the civic buildings of the seven district councils in membership of the Fund. Additionally, satellite roadshows and surgeries are held at outlying sites, particularly when there may be organisational changes occurring which have pensions implications.

Superlink
The Fund issues a quarterly newsletter, 'Superlink' to its pensioners, which is edited by a group of Fund pensioners. Its contents are, in the main, authored by Fund pensioners, but it is used as a vehicle to inform pensioners not only on pensions matters, but of other items in which they may be interested.

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.

Miscellaneous
The Fund sends Christmas cards to pensioners aged 90 years and over and pensioners achieving their 100th birthday are, wherever possible, visited by the Chief Pensions Officer.

Prospective Scheme Members

Scheme Booklet
All new prospective Scheme members will be provided with a Scheme booklet upon appointment.

Website
The Fund's website 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 Fund will request formal notification of non-joiners from Scheme employers. The information will be used to market the Scheme to specific groups, with dedicated literature and campaigns being formulated, from time to time, in conjunction with Scheme employers.

Corporate Induction Courses
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.

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.

Pay Advice
Prospective Scheme members will be identified via payroll, and pay advices containing marketing information will be used in specific campaigns carried out in conjunction with Scheme employers. Pay advices will also be used to inform members and prospective Scheme members of changes to the Scheme.

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

Dialogue Meetings

A monthly dialogue meeting is held between the Fund and district councils and is attended by a Principal Pensions Liaison Officer.

These meetings act as a vehicle for passing information between the Scheme employer and the administering authority, and for identifying and resolving difficult or outstanding cases.

Notes of meetings and their agendas and minutes are widely circulated within the service.

Technical Newsletter

A technical newsletter, entitled 'The Brief', is issued periodically 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.

This is supplemented by the allocation of a Principal Pensions Liaison Officer to each employer who is available by telephone or personal visit to assist whenever necessary.

Ill-Health Retirements

'A Guidance Manual for Approved Doctors' has been circulated to appropriate employers within the Fund. This has been supplemented by organising, in conjunction with the Department for Communities and Local Government, seminars for occupational health advisors.

Internet

A microsite for employers has been established. All manuals and Scheme literature are available on this site.

All Employer Meetings

Periodically meetings are arranged for employers. Specifically, this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.

Access to Computerised Pensions Administration System

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.

Fund Staff

Service Management Team

The Fund is managed by the Pensions Administration and Investment Services whose chief officers report to the Director for Resources and Support.

The Pensions Administration Service Management Team comprises the Chief Pensions Officer, divisional managers and other senior service staff.

It meets on a monthly basis and discusses items of a strategic nature.

The notes of that meeting are circulated in the form of a core briefing by the Chief Pensions Officer and this is placed on the service's intranet.

The Investment Management Team is the Chief Investment Officer and senior investment staff.

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 chief officers.

Senior Officers' Management Team Meetings - Resources and Support
The Chief Pensions Officer is a member of the Service Group Management Team and attends the regular meetings convened by the Director. The Chief Pensions Officer is able to bring any matters of concern or importance to the attention of the Director through this mechanism.

Any necessary information arising from the Service Group's Management Team meeting is disseminated within the service, via the Pensions Administration Service Management Team. Due to the nature of the investment work and delegation, the Chief Investment Officer meets with the Director a number of times during any week.

Issues Meetings
Monthly issues meetings take place between the Director for Resources and Support and the Chief Pensions Officer. These meetings review progress being made against annual service plans.

Monthly issues meetings take place between the Chief Pensions Officer and divisional managers on a one-to-one basis.

The issues meeting gives an opportunity to review the work of each division and any other matters requiring discussion. The notes of the meeting are distributed to the participants.

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 member of staff undergo an induction procedure 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
Appropriate staff have been enabled to use the corporate network in order to access the internet.

Emails
All staff have been given access to the email facility.

Best Value Review Groups
All major developments within the Pensions Administration Service are achieved through the formation of best value 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 authorities.

Chief Pensions Officer
The Chief Pensions Officer maintains an open-door policy and attempts to make himself available to all staff by regular visits to each division within the service.

Chief Investment Officer
On a similar basis responds to staff and other enquiries.

Website
The Fund has maintained a number of websites for several years. These include:

- The Fund website: wmpfonline.com
- The Local Government Pensions Committee National website: lgps.org.uk

While these are intended primarily as a means of external communication, access to them is helpful to staff. Where necessary information is also made available on the intranet.

Other Bodies

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.

National Information Forum

The Fund hosts the National Information Forum to which all administering authorities are invited. These meetings provide an opportunity to discuss issues of common interest and share best practice. The Department for Communities and Local Government and the Local Government Pensions Committee are represented at each meeting.

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 national profile through its success in pension industry award ceremonies and articles authored by senior Fund officers.

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.

Media Matrix

Communication Material	Paper-based	Electronic Form (PDF)	Intranet for Staff
Short Guide to the LGPS	✓	✓	✓
All About Your Scheme	✓	✓	✓
All About Your Retirement Benefits	✓	✓	✓
All About Your Deferred Benefits	✓	✓	✓
Benefits Statements	✓	Non-personalised form	✓
Information Sheets (various)	✓	✓	✓
Report and Accounts	✓	✓	✓
Chief Pensions Officer's Core Briefing	✓	✓	✓
Glossary of Pension Terms	✓	✓	✓
The Role of Actuary & Advisor	✓	✓	✓
Pension Fund Background Note	✓	✓	✓
Customer Charter (Our Service Standards)	✓	✓	✓
Superlink (Pensioners' Newsletter)	✓	✓	✓
Dialogue Meeting Notes	✓	✓	✗
Employers' Manual	✓	✓	✓
Pay Advice	✓	✗	n/a
Pension Officer Group Minutes	✓	✗	✗
Press Articles	✓	✓	✓

Website	Large Sight Copy	Braille	When Published	When Reviewed
✓	Upon request	Upon request	Constantly available	Quarterly
✓	Upon request	Upon request	Constantly available	Quarterly
✓	Upon request	Upon request	Constantly available	Biannually
✓	Upon request	Upon request	Constantly available	Biannually
Non-personalised form	Upon request	Upon request	Annually	Annually
✓	Upon request	Upon request	Constantly available	Constant review
✓	Upon request	Upon request	Annually	Annually
✗	n/a	n/a	Monthly	Monthly
✓	Upon request	Upon request	Annually	Annually
✓	Upon request	Upon request	Annually	Annually
✓	Upon request	Upon request	Annually	Annually
✓	Upon request	Upon request	Constantly available	Quarterly
✓	Upon request	Upon request	Published Dec, March, June & September	After each publication
✗	n/a	n/a	Major employers Others	Monthly Annually
✓	Upon request	Upon request	Constantly available	Annually
✗	Upon request	Upon request	Produced monthly	After each publication
✗	✗	✗	Quarterly	Quarterly
✓	Upon request	Upon request	As required	After each

Administering Authority Policy Statement 2008

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.

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').

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 (apart from AVCs) should be credited to the Fund 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 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.

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 17, 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.

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.

Investment of AVCs [Regulation A25]

The Funds 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: http://www.wmpfonline.com/investments.htm

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: http://www.wmpfonline.com/investments.htm

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.

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: [http://www.westmids-pensions. org.uk/pdfs/approveddoctors.pdf](http://www.westmids-pensions.org.uk/pdfs/approveddoctors.pdf)

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 Richard Carr
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 Administrating 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.

Communications Policy [Regulation A67]

The Fund has published a communications policy which is available on the Fund's website at the following address: http://www.wmpfonline.com/fund_publications.htm

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 administration. These costs include those relating to investments. Some costs are recharged to employers – for example, fees for special actuarial work.

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.

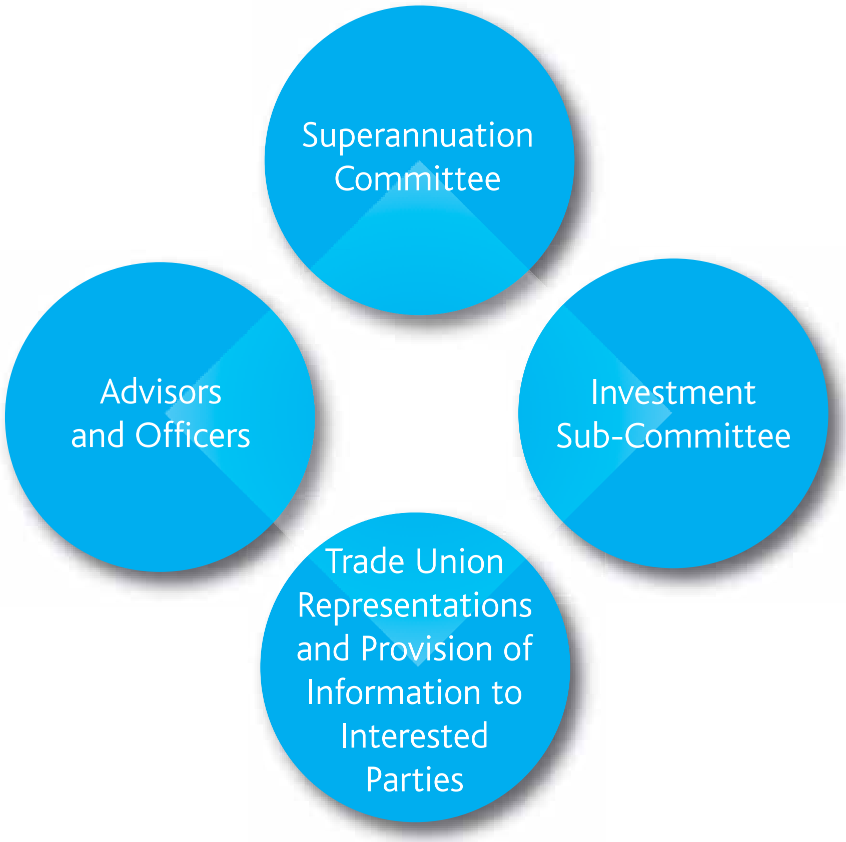
Pension Credit Liability [TSch1 & L147]

Where awarded, pension credit members will be dealt with as bona fide members of the LGPS.

Governance Compliance Statement 2009

Governance of the Fund

The Fund's governance arrangement has four elements:



This statement is required under Regulation 73a of the Local Government Pension Scheme Regulations 1997.

Superannuation Committee

The management of the administration of benefits and strategic management of the assets is fundamentally the responsibility of the Superannuation 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 position relative to the benchmark.
   a) Benchmark (medium-term)
   b) Tactical (quarterly)
5) To monitor policy.
6) To appoint committee advisors.
7) To determine detailed management budgets.

The Council delegation to Superannuation 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 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.

e) To determine, in consultation with the Cabinet arrangements for the revision and delivery of services within the terms of the best value framework.

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 meet at least four times a year and its key duties are:

i) To monitor and review investment management functions.

ii) To review strategic investment opportunities.

iii) To monitor and review portfolio structures.

iv) To monitor implementation of investment policy.

v) 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.

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

The Director of Pensions implements the Committee policy and manages the day-to-day operational functions through the Chief Investment Officer and pensions administration staff. The Committee and members are advised and supported by the Chief Executive, Director of Pensions and Chief Legal Officer from Wolverhampton City Council.

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 Superannuation 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 Superannuation 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 Chief Legal Officer of Wolverhampton City Council who is also the monitoring officer for Wolverhampton City 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.

iv) Chief Investment Officer is the senior full-time officer who provides technical advice to members and officers, as well as implementing the investment strategy through a team of professionally qualified staff and external managers.

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

vi) Chief Finance Officer of Wolverhampton City Council is the Section 151 officer of Wolverhampton City Council and that responsibility applies to the Fund. The Chief 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 as follows:

Gartmore	Investment policy, quarterly asset allocation, general investment matters.
Mercer Human Resource Consulting	Actuarial matters.
Mercer Investment Consulting	Selection of investment managers, policy and investment matters relative to liabilities.
ING UK Real Estate Management	Commercial and industrial property matters, day-to-day management of properties and transactions involving the sale and purchase of UK property (excluding agricultural).
John Fender Consultancy	Independent property advice.
PIRC	Company governance issues.

Other specialist advisors are used as and when needed.

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 listed earlier.

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 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."*

Member Training

Member training is recognised as important, and a range of measures are in place to equip members to undertake their role. The outlined training scheme is pictured below.

The objective of the training scheme is to ensure, on a rolling basis, established and new members of the Committee receive access to information, training and advice in order to fully discharge the role they have as trustees. The arrangements have regard to the requirements set out by the Pensions Regulator's code of practice on trustee knowledge and understanding. The objective is to ensure individual trustees of an occupational pension scheme have appropriate knowledge and understanding of the law relating to pensions and trusts, the principles relating to the funding of the scheme and the investment of the assets of such schemes. The degrees of knowledge and understanding required is that appropriate for

Area	Superannuation Committee Reports	Presentation	Sub-Committee			
			Reports	Presentation	Conferences/ Seminars	Visits
Investment governance	✓			Occasionally	LAPFF December Conference	Partial
Investments:						
i) Strategies	✓	Occasionally	✓	Occasionally		✓
ii) Asset use	✓			✓		✓
iii) Corporate governance	✓				✓	
iv) Economies	✓	Quarterly		✓		✓
Pensions administration	✓	Occasionally			JCP meetings	
Role of members	✓ (Annual/Website)					

Notes

1) Sub-Committee members attend LAPFF (Local Authority Pension Fund Forum) Conference, other training seminars and every two years a week's training through a study tour approach.

2) Chair attends LAPFF meetings.

3) Each Sub-Committee aims to have two presentations around reviewing managers and knowledge building about an investment area. Over a two year period all major markets and investment vehicles covered.

4) JCP (Joint Consultative Panel) meets three times a year and will receive presentations on administration matters, particularly new areas of activity or legislation.

5) There is a website for members to access as a data source for them.

6) The roles and responsibilities of members are presented annually to all members.

the purpose of the individual discharging their responsibilities and can be different for some members (for example, members of the Investment Advisory Sub-Committee will have a greater level of knowledge of investment matters).

The scope of the knowledge required is as follows:

1) The Law Relating to Trusts
This includes an understanding of the special nature of a pension trust and the duties, obligations and powers of trustees to operate pension schemes in accordance with the law.

2) The Law Relating to Pensions
This is set out in the LGPS Regulations although there are elements of occupational pensions legislation that are relevant. The key provisions of related legislation that affects pension schemes and impacts on the role and activities of trustees.

3) Investment
This includes the different types of assets available for investment and their characteristics.

4) Funding
This includes the principles relating to the funding of occupational schemes and the way in which funding is dependent upon the legislation and circumstances of the employing bodies and the value of the liabilities of the Scheme.

5) Contributions
This includes the principles relating to the funding of occupational defined benefit schemes and the way in which contribution levels are dependent upon the funding of the Scheme.

6) Strategic Asset Allocation
This includes the principles relating to the suitability of different asset classes to meet the liabilities of the Scheme.

7) Funding: Defined Contribution Arrangements (for example, AVCs)
This includes the principles relating to the funding of arrangements and the risks borne by Scheme members.

8) Investment Choices
This includes the principles relating to the choice of investments.

9) Fund Management
This includes the principles of Fund management and how performance can be measured.

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. A regular pensioners' newsletter with an independent editorial board is produced to facilitate engagement with pensioners and a 'roadshow' visits a number of workplaces during the year to encourage engagement with members.

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 body. The 1986 reorganisation led to Wolverhampton Council becoming the administering body for the Fund and local government employee pensions other than teachers, police and fire officers in the West Midlands. Responsibility for administering the Fund is delegated to the Superannuation 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

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 guide produced by CIPFA.

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