WEST MIDLANDS
PENSION FUND

Socially Responsible Investment Statement 2009

April 2009

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.

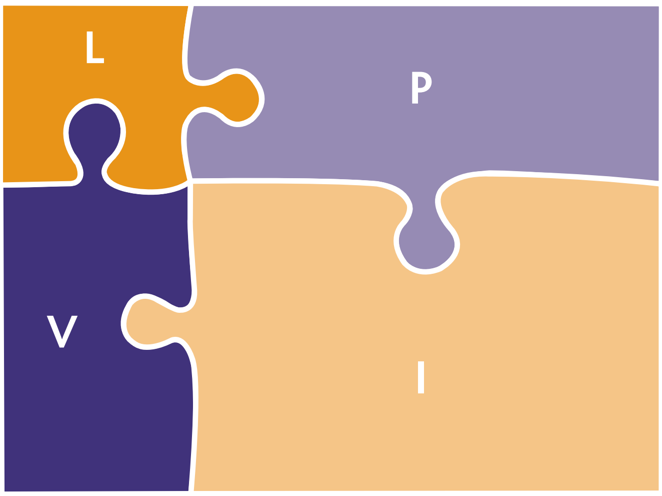
(b) PRI vs SRI
While PRI shares some of the same concepts as SRI, such as active ownership and the use of ESG criteria, the two differ in important ways. PRI operates across the totality of investment options and discourages negative screening, whereas SRI is often focussed on a certain strategy and 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 whilst lowering risk. This will be accomplished through the signatories' pooling of resources and research to better understand ESG issues whilst 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.

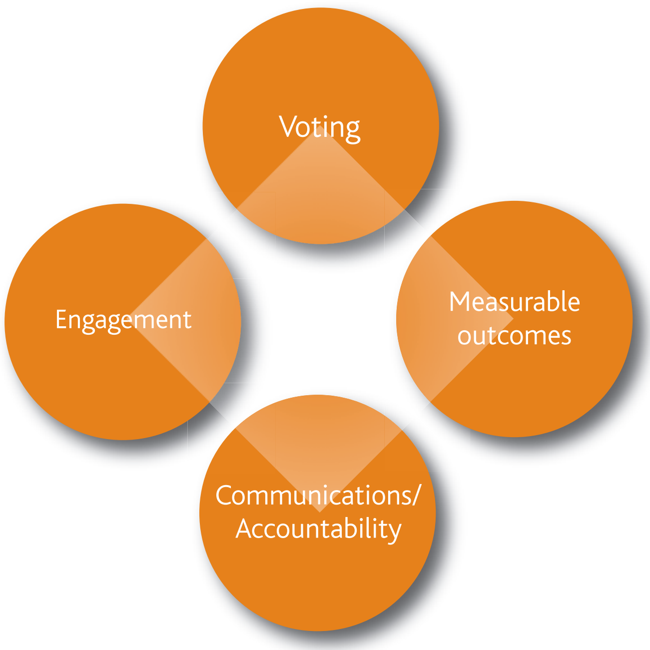
c) Environmental Considerations

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 linked to Fund's voting	(3)
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)**

Whilst 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.

Investments Division
Civic Centre
St. Peter's Square
Wolverhampton
WV1 1RL