

***LONDON BOROUGH OF HARROW
PENSION FUND***

INVESTMENT STRATEGY STATEMENT

March 2018



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Executive Summary

The London Borough of Harrow Pension Fund Investment Strategy Statement has been prepared in accordance with the relevant Local Government Pension Scheme Regulations.

The objective of the Fund is to provide pension and lump sum benefits for its members and their dependants.

To assist in the achievement of this objective the Fund makes investments in accordance with:

- ❖ its investment beliefs;
- ❖ its asset allocation strategy reflecting its views on the suitability of particular investments and types of investments;
- ❖ its approach to risk, including its measurement and management;
- ❖ its approach to pooling;
- ❖ its policy on social, environmental and governance considerations;
- ❖ its policy as regards the stewardship of its assets including the exercise of voting rights; and
- ❖ its compliance with the “Myners Principles”

1. Introduction

- 1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Harrow Pension Fund adopted by Harrow Council (the Council) in its capacity under **Regulation 7** of the Local Government **Pension** Scheme as Administering Authority of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.
- 1.2 The Council has delegated to its Pension Fund Committee (“the Committee”) “all the powers and duties of the Council in relation to its functions as Administering Authority save for those matters delegated to other committees of the Council or to an officer.”
- 1.3 The ISS has been prepared by the Committee having taken appropriate advice. It meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).
- 1.4 The ISS, which was last approved by the Committee on 7 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has previously consulted on the contents of the Strategy with each of its employers, the Pension Board and the two trade union observers. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement also on the committee agenda for approval by the Committee on 7 March 2018.
- 1.5 The amendments to the investment policy reflect the results of the Investment Strategy Review and Asset Liability Modelling exercise that was undertaken in 2017.

2. Statutory background

- 2.1 Regulation 7(1) of the Regulations requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

3. Directions by Secretary of State

- 3.1 Regulation 8 of the Regulations enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Department for Communities and Local Government.
- 3.2 The Secretary of State’s power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

4. Advisers

- 4.1 Regulation 7 of the Regulations requires the Council to take proper advice when making decisions in connection with the investment strategy of the Fund. In addition to the expertise of the members of the Pension Fund Committee and Council officers such advice is taken from:
- Aon Hewitt Ltd – investment consultancy
 - Independent advisers
- 4.2 Actuarial advice, which can have implications for investment strategy, is provided by Hymans Robertson LLP

5. Objective of the Fund

- 5.1 The objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (ie the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.
- 5.2 The assets of the Fund are invested with the primary objective being to achieve a return that is sufficient to meet the funding objective as set out above, subject to an appropriate level of risk and liquidity. Over the long-term it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.
- 5.3 Related objectives are to seek to minimise the level and volatility of employer contributions necessary to meet the cost of pension benefits.

6 Investment beliefs

- 6.1 The Fund's fundamental investment beliefs which inform its strategy and guide its decision making are:
- The Fund has a paramount duty to seek to obtain the best possible return on its investments taking into account a properly considered level of risk.
 - A well-governed and well-managed pension fund will be rewarded by good investment performance in the long term
 - Strategic asset allocation is the most significant factor in investment returns and risk; risk is only taken when the Fund believes a commensurate long term reward will be realised

- Asset allocation structure should be strongly influenced by the quantum and nature of the Fund's liabilities and the Funding Strategy Statement
- Since the lifetime of the liabilities is very long, the time horizon of the investment strategy should be similarly long term
- Equities are likely to outperform most other asset classes in the long term and, in view of its current assets / liabilities structure, the Fund's investments should be heavily biased towards this asset class
- Performance advantage is likely to be realised from the successful selection of active asset managers
- Risk of underperformance by active equity managers is mitigated by allocating a significant portion of the Fund's assets to a passive equities manager and other asset classes
- The impact of currency mismatches is mitigated by implementing a currency hedging strategy
- Long-term financial performance of companies in which the Fund invests is likely to be enhanced if they follow good practice in their environmental, social and governance policies
- Costs need to be properly managed and transparent

7 The suitability of particular investments and types of investments

- 7.1 The Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for investment strategy.
- 7.2 The Committee has translated its investment objective into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.
- 7.3 The approach seeks to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members) and the liabilities arising therefrom, together with the level of disclosed surplus or deficit (relative to the funding bases used).
- 7.4 The Committee has set a strategic asset allocation benchmark for the Fund as detailed in the table below. This benchmark was set in 2017 following the completion of an Asset Liability Modelling exercise and Investment Strategy Review. The table shows both a short term allocation and a desired movement in allocation over the medium-term.

ASSET CLASS	MANAGEMENT APPROACH	CURRENT		DESIRED MOVEMENT IN MEDIUM-TERM
		ALLOCATION	RANGE	
		%	%	
Equities				
Global	Passive	24.0		
Global	Active Unconstrained	18.0		
Emerging Markets	Active Unconstrained	8.0		
TOTAL		50.0	45-55	
Bonds				
Corporate	Active	10.4		
Index Linked Gilts	Active	2.6		
TOTAL		13.0	11-15	
Alternative Investments				
Diversified Growth Funds	Active	22.0		Decrease and use proceeds to fund Property and Infrastructure opportunities
TOTAL		22.0	15-24	
Property	Active	10.0	8-12	Increase as opportunities arise
Infrastructure	Active	0.0	n/a	Increase as opportunities arise
Private Equity	Active	5.0	0-6	Reduce as current funds wind down
TOTAL		100.0		

7.5 The most significant rationale of the structure is to invest the majority of the Fund assets in “growth assets” i.e. those expected to generate ‘excess’ returns over the long term. These include equities, and private equity. The structure also includes a small allocation to “cash flow matching” assets, mainly corporate bonds. The investments in property and diversified growth funds provide both diversification and expected returns in excess of liabilities.

- 7.6 The Investment Strategy Review undertaken in 2017 resulted in the Fund reducing its strategic allocation to Equities from 62% to 50%. The proceeds of the reduction in the allocation to Equities are to be held in the Fund's Diversified Growth Funds at the current time, whilst the Committee undertake training and seek opportunities in two particular asset classes; infrastructure and value-add / opportunistic property. As part of the Review, the Committee also agreed to make no further commitments to Private Equity.
- 7.7 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:
- Suitability and diversification given the Fund's level of funding and liability profile
 - The level of expected risk
 - Outlook for asset returns
- 7.8 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate from within the target range. If such a deviation occurs, except for the private equity investment which is now subject to significant distributions, a re-balancing exercise is carried out to ensure that the allocation remains within the range set. If necessary the Section 151 officer has delegated authority to undertake rebalancing but any such rebalancing activity is reported to the next meeting of the Committee.
- 7.9 It is intended that the Fund's investment strategy will be reviewed at least every three years, following actuarial valuations of the Fund. The investment strategy review will typically involve the Committee, in conjunction with its advisers, undertaking an in-depth Asset Liability Modelling exercise to understand the risks within the Fund's current investment strategy and establish other potentially suitable investment strategies for the Fund in the future.
- 7.10 The following table shows the 10 year risk and return statistics for the Fund's revised investment strategy, which was agreed as part of the Investment Strategy Review. In the Asset Liability Modelling with formed part of the Investment Strategy Review, two types of risk were considered:
- Absolute risk – the risk that the value of the Fund's assets decreases. This is measured through the absolute volatility of the assets.
 - Relative risk – the risk associated with the volatility of the value of the Fund's assets relative to the value of its liabilities. This reflects the fact that the assets and liabilities do not necessarily react to market conditions in the same way.

Return expectations are also shown in both absolute and relative terms.

Current Strategy	Key Statistics
10 year return (absolute)	6.5%
10 year return (relative)	4.0%
10 year volatility (absolute)	12.7%
10 year volatility (relative)	16.1%

Data as at 31 March 2017

7.11 The table below shows the 10 year expected returns, volatilities and correlations for the asset classes modelled as part of the investment strategy review (data as at 31 March 2017):

	10y Return (%p.a.)	10y Risk (%p.a.)	Correlation							
	Median (GeoM)	Annual Volatility	Private Equity	Index Linked Gilts	UK Corporate Bonds	DGFs	Property	Infrastructure	Global Equities	EM Equities
Private Equity	8.2	27.5	1.00							
Index Linked Gilts	0.5	10.2	-0.05	1.00						
UK Corporate Bonds	1.5	9.9	0.00	0.48	1.00					
DGFs	5.2	9.0	0.60	0.10	0.40	1.00				
Property	5.5	12.6	0.31	-0.04	0.01	0.28	1.00			
Infrastructure	5.1	14.6	0.31	-0.01	0.02	0.27	0.21	1.00		
Global Equities	7.0	17.7	0.73	-0.08	0.00	0.72	0.41	0.39	1.00	
EM Equities	8.9	31.8	0.61	-0.07	0.02	0.67	0.35	0.30	0.82	1.00

Data as at 31 March 2017. Additional assumptions used when modelling specific asset classes are:

- Corporate bonds modelled as passive over 15 year AA non-gilts
- Index-linked gilts modelled as passive over 5 year ILGs
- Overseas equities modelled as 50% overseas GBP currency hedge. This is excluding the emerging market equity allocation, which is GBP currency unhedged.
- Infrastructure modelled as USD Infrastructure Total Return Hedged. This is Infrastructure equity.
- DGFs modelled as 50% GARS style, 50% Capital Preservation style DGFs

7.12 When considering relative risk, the Asset Liability Modelling exercise also looked at a short-term measure known as the Value at Risk ("VaR"). This indicates the amount that the Fund's surplus/deficit stands to deteriorate by in a 1 in 20 event. The overall VaR for the Fund's investment strategy was £271m as at 31 March 2017.

7.13 Further details on the Fund's risks, including the approach to mitigating them, is provided in section 11.

8 Asset classes

- 8.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.
- 8.2 In line with the Regulations, the Council's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.
- 8.3 Apart from the maximum level of investments detailed in the table above the Fund has no further restrictions.
- 8.4 With investment returns included, the Fund has a positive cash flow that enables investment in illiquid asset classes e.g. private equity and property. Over 70% of the Fund's assets are highly liquid i.e. can be readily converted into cash, and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. However, as a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.
- 8.5 For most of its investments the Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

9 Fund managers

- 9.1 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles.
- 9.2 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers

appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and also performance related fees.

- 9.3 Except for the passive global equities manager, the managers are expected to hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.
- 9.4 The management agreement in place for each fund manager, sets out, where relevant, the benchmark and performance targets. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with The Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.
- 9.5 As at the date of this ISS the details of the managers appointed by the Committee are as follows:

9.5.1 State Street Global advisors Ltd

Asset class – Global equities

Benchmark – FTSE All-World Index

Performance objective – Match the performance of the benchmark

9.5.2 Longview Partners (through the London CIV)

Asset class – Developed World equities

Benchmark – MSCI World (Local) (TR Net)

Performance objective – +3% to +3.5% p.a. (gross) over three year rolling periods

9.5.3 Oldfield Partners

Asset class – Developed World equities

Benchmark – MSCI World NDR

Performance objective – Outperform the benchmark by 2-3% net of fees over the long term

9.5.4 GMO LLC

Asset class – Emerging Markets equities

Benchmark – MSCI Emerging Markets

Performance objective – Outperform the index over a market cycle

9.5.5 BlackRock Investment Management (UK) Ltd

Asset class – Corporate bonds

Benchmark – iBoxx Sterling Non-Gilts 10+ Years Index

Performance objective – Match the performance of the benchmark

9.5.6 BlackRock Investment Management (UK) Ltd

Asset class – Index linked gilts

Benchmark – FTSE Actuaries UK Index Linked Gilts Over 5 Years Index

Performance objective – Match the performance of the benchmark

9.5.7 Insight Investment

Asset class – Diversified Growth Fund

Benchmark – 3 Month GBP LIBID

Performance objective – Sterling 3-month LIBID + 3-5%p.a. net of fees

9.5.8 Standard Life Investments

Asset class – Diversified Growth Fund

Benchmark – 3 Month GBP LIBOR

Performance objective – LIBOR (6 month) +5% p.a. over rolling 3 year periods (gross of fees)

9.5.9 Pantheon Ventures

Asset class – Private equity

Benchmark: Europe Fund V 'A' LP - MSCI Europe Net TR; FTSE Europe Net TR; Russell Europe Index

Benchmark: USA Fund VII LP – S&P 500 Total Return Net Index; Russell 2000 Net TR; MSCI US Total Return Net Index

Benchmark: Global Secondary Fund III 'A' LP - FTSE All-World Net TR; MSCI AC World Net TR; Russell Global Net TR

Performance objective – Outperform the quoted benchmarks by 3-5% over the long term.

9.5.10 Aviva Investors Global Services Ltd

Asset class – Property

Benchmark – IPD UK PPF All Balanced Fund

Performance objective – To outperform the benchmark by maximising total returns through a combination of capital growth and income return.

9.5.11 Record Currency Management Limited

Asset class – Passive Currency Hedging

Objective – To provide a passive currency hedge of 50% of the Fund's global equity exposure

9.6 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through pooled funds, the funds appoint their own custodians.

9.7 Performance targets are generally set on a three-year rolling basis and the Committee monitors manager performance quarterly. Advice is received as required from officers, the professional investment adviser and the independent advisers. In addition, the Committee requires managers periodically to attend its meetings.

9.8 The Council also monitors the qualitative performance of the Fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration

10 Stock lending

10.1 Stock lending is permitted in pooled funds where applicable. Details of investment managers' procedures and controls are available on request.

11 Approach to risk

11.1 The Committee has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

11.2 At least once a year (most recently on 28 June 2017) the Committee reviews its risk register which details the principal risks identified and the Committee's approach to managing them. The Funding Strategy Statement also includes a section on risk and the ways it can be measured and managed.

11.3 Funding risks

11.3.1 The major funding risks identified are:

- Fund assets are not sufficient to meet long term liabilities
- Relative movement in value of Fund assets does not match the relative movement in Fund liabilities
- Demographic movements, particularly longevity, structural changes in membership and increases in early retirements. and
- Insufficient assets to meet short and medium term liabilities

11.3.2 The Committee measures and manages these potential financial mismatches in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set in 2017 following the completion of an Asset Liability Modelling exercise and Investment Strategy Review. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

11.3.3 On a quarterly basis the Committee receives a report from the Investment Adviser on de-risking "triggers" that could be catalysts for a move towards a more liability driven investment strategy. The "triggers" are related to:

- The Fund's funding level
- The 20 year spot yield
- Aon Hewitt's view of bond yields

11.3.4 The Committee also seeks to understand the assumptions used in any analysis and modelling so that they can be compared to their own views and to enable the level of risks associated with these assumptions to be assessed.

11.3.5 Demographic factors including the uncertainty around longevity / mortality projections (e.g. longer life expectancies) contribute to funding risk. There are limited options currently available to fully mitigate or hedge this risk. The Council monitors liabilities using a specialist service provided by Club Vita, a "sister" company of the Fund's Actuary, Hymans Robertson. Club Vita carries out a comprehensive analysis of the Fund's longevity data to facilitate an understanding which helps to manage this issue in the most effective way.

11.4 Asset risks

11.4.1 The major asset risks identified are:

- Significant allocation to any single asset category and its underperformance relative to expectation.
- General fall in investment markets
- Failure by fund managers to achieve benchmark returns

11.4.2 The Committee measure and manage asset risks as follows:

- The Fund's strategic asset allocation policy requires investments in a diversified range of asset classes, markets and investment managers. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds the Committee has recognised the need for access to liquidity in the short term.
- The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing several managers and having a significant portion of the Fund's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.
- Whilst part of the objective of the Committee is to maximise the return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Committee acknowledges that the predominantly equity based investment strategy may entail risk to contribution stability, particularly due to the short term volatility that equity investments can involve. The long term nature of the Fund and the expectation that longer term returns from equity investments will exceed those from bonds mean, however, that a high equity allocation remains an appropriate strategy for the Fund.
- The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling. Approximately 10 major currencies are hedged most notably the US Dollar, Japanese Yen and Euro.

11.5 Security risks

11.5.1 The major security risks identified are:

- Investment manager may not have an appropriate control framework in place to protect and value Fund assets
- Custody arrangements may not be sufficient to safeguard fund assets
- Counterparty default in stock lending programme and foreign exchange forward contracts

11.5.2 The Committee monitors and manages risks in these areas through the regular scrutiny of the audit of the operations independently conducted for each of its investment managers. Where appropriate (e.g. custody risk in relation to pooled funds), the Fund has delegated such monitoring and management of risk to the appointed investment managers. The Committee has the power to replace a provider should serious concerns arise.

12 Approach to pooling

12.1 In line with the Government's pooling agenda the Fund, along with all London boroughs, is a shareholder and participating scheme in London LGPS CIV Limited ("London CIV"). The London CIV is authorised by the Financial Conduct Authority as an Alternative Investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme fund. The structure and basis on which the London CIV is operating were set out in the July 2016 submission to Government.

12.2 The London CIV is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid classes to follow.

12.3 The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. At each of its meetings the Committee considers an update report on progress. The Fund currently holds its global equity assets with Longview through the London CIV.

12.4 The Committee's view is that, in principle, due to the potential costs of disinvestment the only assets held by the Fund which would not be suitable for pooling are its private equity investments.

12.5 However, it has since become clear that, in accordance with Government guidance, assets held in life funds should be retained outside pools. The Fund's allocation of 31% of its total assets in a global equities passive mandate is held in a life fund which thereby reduces the "poolable" universe to 65%. Nevertheless, the Fund agrees that the London CIV should monitor its passive fund as part of the broader pool.

12.6 Any assets deemed not appropriate for investment through the London CIV will be reviewed at least every three years to determine whether the rationale remains appropriate and whether the non-pooled investments continue to demonstrate value for money. The next such review will take place no later than 2019.

12.7 The governance structure of the London CIV has been designed to ensure that there are both formal and informal routes to engage with all the London boroughs as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee, comprising nominated Member representatives from the London boroughs (in Harrow's case the Pension Fund Committee Chair), and the Investment Advisory Committee which includes both

London borough treasurers and pension officers from a number of boroughs. At the company level it is the Board of Directors that is responsible for decision making within the company, which includes decisions to appoint and remove investment managers.

13 Social, environmental and governance considerations

- 13.1 As considered earlier, the Council recognises that it has a paramount duty to seek to obtain the best possible return on the Fund's investments taking into account a properly considered level of risk. It also recognises that environmental, social and governance factors can influence long term investment performance and the ability to achieve long term sustainable returns. As a general principle it considers that the long-term financial performance of a company is likely to be enhanced if it follows good practice in its environmental, social and governance activities.
- 13.2 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.
- 13.3 All the Fund's investments are managed by external fund managers in pooled funds, one of which is passively managed, and the Council recognises the constraints inherent in this policy. Nevertheless it expects its managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of companies in which they invest. Further, it expects its managers to follow good practice and use their influence as major institutional investors and long term stewards of capital to promote good practice in companies in which they invest and markets to which the Fund is exposed.
- 13.4 The Fund expects its investment managers (and especially the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long term performance of the Fund. Effective monitoring can inform engagement with boards and management of investee companies to seek the resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed the Fund expects its managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.
- 13.5 The Council expects its managers to have signed up to "The UK Stewardship Code" and to report regularly on their compliance with the Code and other relevant environmental, social and governance principles.

13.6 Over the last year each of the Fund's investment managers has been asked:

- Whether they had signed up to UN Principles for Responsible Investment (PRI)
- Whether they had signed up to "The UK Stewardship Code"
- To provide reports on their engagement and voting actions

The responses to these queries are available on the Fund's website

13.7 In addition the Committee meets most of its managers at least once a year and they are always asked to discuss the activities they undertake in respect of socially responsible investment and how they consider long term environmental, social and governance risks in making specific investment decisions.

13.8 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which engages with many companies on a wide range of environmental, social and governance issues.

13.9 The Fund does not hold any assets which it deems to be social investments.

14 Exercise of the rights (including voting rights) attaching to investments

14.1 The Fund recognises the importance of its role as a steward of capital and of the need to seek to ensure the highest standards of governance and corporate responsibility in the underlying companies in which its investments reside.

14.2 The Council sees itself as an active shareholder and seeks to exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance.

14.3 In practice, the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers. The Council encourages its fund managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality with the objective of preserving and enhancing long term shareholder value.

14.4 Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

14.5 The fund managers provide reports on their voting and engagement activities.

15 Stewardship

- 15.1 Whilst the Committee expects its investment managers to have signed up to The Institutional Shareholders Committee Code on the Responsibilities of Institutional Investors (“The UK Stewardship Code”) it has not yet done so itself. It will be considering whether to do so during the next year
- 15.2 The Committee also expects the London CIV and all managers which it appoints to sign up to the Code.
- 15.3 The Fund also believes in collective engagement and is a member of the LAPFF which exercises a voice on behalf of over 70 local authority pension funds across a range of corporate governance issues.
- 15.4 Additionally the Fund is a member of the Pensions and Lifetime Savings Association through which it joins with other investors to maximize the influence of investors as asset owners.

16 Compliance with “Myners” Principles

- 16.1 In Appendix 1 are set out the details of the extent to which the Fund complies with the six updated “Myners” principles set out in the Chartered Institute of Public Finance and Accountancy’s publication “Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012.” These principles codify best practice in investment decision making

Appendix 1

Compliance with “Myners” Principles”

1. Effective decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Fund compliance – Full

- The Council has delegated decision making in respect of the Pension Fund to the Pension Fund Committee, comprising four Councillors with full voting rights with representatives from the trade unions invited.
- The Committee, with advice from its Investment Adviser and independent advisers has appropriate skills for, and is run in a way that facilitates, effective decision making.
- Members of the Committee are provided with training opportunities in line with the skills and knowledge framework produced by CIPFA.
- There are sufficient internal resources and access to external resources for the Pension Fund Committee to make effective decisions.

2 Clear objectives

An overall investment objective(s) should be set out for the Fund that takes account of the scheme’s liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the Administering Authority and scheme employers. These should be clearly communicated to advisers and investment managers.

Fund compliance - Full

- The Fund’s Investment Strategy Statement and Funding Strategy Statement set out its investment objectives which are agreed after consultation with the Fund actuary and take into account the Fund’s liabilities, the impact on employer contribution rates, future cashflows and the Fund’s attitude to risk.
- Asset allocation, benchmarks and risk parameters are set with the aim of achieving these objectives.
- Fund managers have clear written mandates with individual performance targets and benchmarks and their performance is measured and reviewed by the Committee on a quarterly basis.
- Full account is taken of the strength of the sponsor covenant for all non-local authority employers admitted to the fund and contribution rates set accordingly.

3 Risks and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Fund compliance – Full

- A risk register is maintained with specific investment risks identified
- The Committee, in setting its investment strategy, has taken account of the form and structure of its liabilities following advice from the Fund's actuary. The strategy aims to achieve the return required to meet its liabilities whilst taking into account stability of contributions and affordability for employers.
- Consideration is given to the payment of a bond by prospective admitted bodies to the Fund to minimise the financial consequences of default.
- A risk assessment and suggestions as to how the risks can be managed is included in the triennial valuation.
- Longevity risk is built into the triennial actuarial and is therefore included when determining the investment strategy
- Investment risk, including that of underperformance is taken into account in the Investment Strategy Statement and the Fund's Annual Report.

4 Performance Assessment

Arrangements should be in place for the formal measurement of the performance of investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Fund compliance – Partial

- In addition to overall Fund performance, the Committee considers the performance of individual investment managers against their benchmarks on a quarterly basis; matters of poor performance are addressed through meetings with fund managers and, if necessary, the termination of contracts.
- Up to 31 March 2016 regular performance measurement reports were received from State Street Global Services, the most active provider of these services to Local Government Pension Scheme administering authorities. State Street no longer provide these services.
- The Council has now agreed a contract with Pensions and Investment Research Consultants Ltd for them to provide quarterly and annual reports detailing the performance of the Fund and its managers and identifying the achievements resulting from asset allocation and manager performance.
- The performance of actuaries and advisers is informally assessed on an ongoing basis.

- The performance of the Fund is reported annually to all scheme members and is included in the Annual report.
- The relationships between the Committee and the Pension Board are being developed in order that the Board can assist the Committee in its work.

5 Responsible Ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the Investment Strategy Statement.
- Report periodically to members on the discharge of such responsibilities.

Fund compliance – Partial

- The Fund's policy on the extent to which its investment managers take account of social, environmental and ethical considerations is stated in the Investment Strategy Statement.
- The Fund expects its managers to engage positively and seek to influence companies in which the Fund invests to take account of key social, environmental and ethical considerations.
- Where applicable, the Fund expects its managers to have adopted the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- Whilst the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers the Council encourages its managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality. The fund managers provide reports on their voting and engagement activities.

6 Transparency and Reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Provide regular communication to members in the form they consider most appropriate.

Fund compliance – Full

- The Fund publishes a Communications Policy Statement detailing its policy and strategy for communicating information to members, prospective members and their employers, union representatives, elected Members, tax payers and other interested parties. The Fund makes available a range of documents including:

- Annual Report including Statement of Accounts.
 - Governance Compliance Statement which includes level of compliance.
 - Communications Policy Statement.
 - Investment Strategy Statement.
 - Funding Strategy Statement.
 - Triennial Actuarial Valuation.
 - Agenda and Minutes of Pension Fund Committee and Pension Board.
 - Annual Statement of Benefits to all active and deferred members.
 - Newsletter to pensioners once a year.
 - Newsletters to active members at least once a year.
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- The Communications Policy Statement details the methods of communication available for each “target” group which include:
 - The Council’s website
 - Hard copy
 - Annual employers meeting