

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

***STATEMENT OF
INVESTMENT PRINCIPLES***

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STATEMENT OF INVESTMENT PRINCIPLES

CONTENTS

PAGE

2	Introduction to the operation of the investment arrangements
2	Investment Objectives
2-3	Investment Style and Structure
4	Performance
4	Types of investments
4	Investment Risk
5	The realisation of investments
5	Investment advice
5	Social, Environmental and Ethical considerations
5	Exercise of Rights including voting right
5	Myners investment principles
6	Additional Voluntary Contributions
6	Compliance including monitoring and review arrangements

This Statement of Investment Principles has been prepared in consultation with the Fund's investment managers and actuary. Fund members and other employing authorities will be given the opportunity to comment on the Statement and the Council will consider their views.

Appendix 1
Appendix 2

Benchmarks
Myners Principles

Approved by Harrow Council:

Date

Introduction

- 1.1 This is the Statement of Investment Principles (SIP) adopted by Harrow Council (the Council) in relation to the investment of assets of the Council's Pension Fund (the Fund). The Council is the Administering Authority of the Fund and, in that role, it has responsibility to ensure the proper management of the Fund.
- 1.2 This SIP results from the implementation of The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 (Statutory Instrument 1999 No. 3259
- 1.3 The Council, as administering authority, decides on the investment policies most suitable to meet the liabilities of the Pension Fund and has ultimate responsibility for investment strategy. These powers are exercised on its behalf by the Council's Pension Fund Investment Panel. The Panel monitors investments on a quarterly basis. Advice is received as required from the officers and the professional advisers. In addition, the Panel requires managers to attend the meeting annually as a minimum but increases this as appropriate where it is warranted. A formal review of the manager's performance is conducted annually.
- 1.4 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.
- 1.5 The LGPS is established by statute. The Pension Fund is a legally distinct account with contributions made by employees (fixed percentage of earnings) and employers. The primary objective of the Fund is to maximise performance and so minimise the level of employer contributions in order to meet the cost of pension benefits as required by statute. A related objective is to minimise the volatility of employer contribution rates as investment returns vary from year to year.

Investment Objectives

- 2.1 The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective as set out above, subject to an appropriate level of risk (implicit in the target) and liquidity.

Investment style

- 3.1 It is the Council's current policy that external fund managers are employed to administer the Fund's assets. Following the Actuarial Valuation results as at 31 March 2007 an initial full review of asset allocation was carried out in July 2008 by Hyman Robertson, pension fund advisors. It was concluded from the review that the current mix between growth and matching assets should be broadly maintained. However, it was also agreed that further consideration should be given to changes in the structure which would seek to improve the return on investments whilst retaining a similar level of risk and also maintain nearly

constant employer contribution rates as possible. Based on the extensive modelling exercise that was undertaken the following structure was proposed and agreed:-

UK Equities- To reduce the schemes UK equity weighting and appoint a passive manager for this portfolio.

Global Equities- To appoint two new active Global equity providers to ensure manager diversification to this asset class.

Bonds Portfolio- The Bonds portfolio to be consolidated and restructured with a single manager, with a move to investing a higher proportion in corporate bonds.

Property Portfolio- The property assets to be considered under a single fund of funds approach, initially incorporating the existing holdings in Blackrock and UBS. Any change to be deferred until property markets become more stable and liquid, thus enabling a restructuring to take place.

Currency Portfolio -The Currency managers and private equity manager to be retained and reviewed as part of the wider review.

The table below shows the previous structure and new agreed structure.

Asset Class	Previous allocation	New Allocation	Fund Manager	Approach
UK Equities	35.5%	26%	State Street (New Fund Manager)	Passive
Overseas Equities	35.5%	45%	Wellington, Fidelity and Longview (New Fund Managers)	Active Global Strategy
Bonds	13%	13%	Blackrock	Active Sterling aggregate benchmark plus gilts
Alternative Investments:-				
Property	10%	10%	UBS & Aviva	Fund of Funds
Private Equity	3%	3%	Pantheon	Active Manangement
Currency	1.5%	1.5%	Record	Active Manangement
	1.5%	1.5%	Mellon	Active Manangement

- 3.2 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with the investment manager. The Council has appointed nine managers to give diversification of investment style and spread of risk. The new managers appointed will be remunerated through fixed fee scales.
- 3.3 The investment strategy is reviewed annually, with a major review taking place following the triennial actuarial review which is taking place in 2010.

Performance

- 4.1 Performance targets are set on a three-year rolling basis in relation to the benchmark. The investment managers' performance is reviewed at quarterly and annual intervals by the WM Company who provides independent performance statistics. The following performance targets have been set as per Appendix 1

Types of investments

- 5.1 A management agreement is in place for each fund manager, setting out the relevant benchmark, performance target, asset allocation ranges. The agreements also set out any statutory restrictions 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, e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.
- 5.2 The Regulations also specify certain limitations on investments. Principally, these place a limit of 10% of the total value of the fund on any single holding, or deposits with a single bank or institution, or investments in unlisted securities. The Council does however have discretion to adopt a higher statutory limit in respect of specific investments subject to formal agreement by the Council.

Investment Risk

- 6.1 The constant monitoring of performance relative to a performance target constrains fund managers from deviating significantly from the intended approach, whilst permitting flexibility to manage the Fund in such a way as to enhance returns. The strategic asset allocation reflected in the benchmark and the control ranges have been determined by the Council recognising the pension fund's overall risk in relation to funding objectives.
- 6.2 The appointment of more than one fund manager introduces a level of diversification of manager risk. Fund managers are instructed to diversify between investment types and within each investment type so that the prospects of potential losses are reduced. Fund

managers are also instructed to observe the Council's constraints in such areas as, derivatives, stock lending.

- 6.3 Fund managers will bias their portfolios towards stocks which are expected to out-perform in rising or falling markets but not take such contrarian positions that major under-performance occurs if they are incorrect in their strategies. They are required to operate in such a way that the possibility of under-performance against the target is kept within an acceptable limit. Managers will use and report on the risk measures employed on a regular basis.

The realisation of investments

- 7.1 Fund managers are required to maintain portfolios that consist of assets that are readily realisable. The majority of the Fund's investments is quoted on major stock markets and thus may be realised relatively quickly if required. Property investments, which are relatively illiquid, make up about ten per cent of the Fund's assets.
- 7.2 The Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

Investment advice

- 8.1 Professional advice on investment matters is taken from the investment practice of Hymans Robertson who are also appointed as Actuary of the Fund.

Social, environmental or ethical

- 9.1 The extent to which social, environmental and ethical considerations are taken into account in these decisions is left to the discretion of the fund managers. However, the Council expects that the extent to which social, environmental and ethical issues may have a financial impact on the portfolio will be taken into account by the fund managers in the exercise of their delegated duties. The Council expects the fund managers to positively engage and seek to influence companies in which the Fund invests to take account of key social, environmental and ethical considerations.

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

- 10.1 The Council is an active shareholder and exercises its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance. The voting policy is based upon the Stock Exchange Combined Code.
- 10.2 In practice, the Council's policy is to vote with the Board of UK companies in which a direct investment is held unless the motion is inconsistent with the Combined Code, and not to vote for overseas companies unless specifically asked to do so by an investment manager. The managers report all voting action each quarter.

- 10.3 Council Member's approval is requested where Harrow votes against the recommendations of the Combined Code.

Myners

- 11.1 The Myners principals codify best practice in investment Decision-making. While they are voluntary, pension fund trustees are expected to consider their applicability to their own fund and report on a 'comply or explain' basis how they used them. The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 require administering authorities to publish in their Statement of Investment Principles the extent to which they comply with the six new investment principles set out in the Myners report on Institutional Investment. The principles and best practice guidance are attached in Appendix 2.
- 11.2 The Investment Panel do broadly comply with the new principles but will be examining the Myners principles in more detail in the forthcoming year with a view to ensuring greater compliance. Any changes will be reflected in updated versions of the Statement of Investment Principles

Additional Voluntary Contributions (AVC)

- 12.1 In line with statute, the Council has to appoint AVC providers and the current providers are Clerical Medical and Prudential.

Compliance

- 13.1 The Council is responsible for monitoring the Fund's overall investment performance and the performance of each manager.
- 13.2 The Council is responsible for monitoring the qualitative performance of the managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration.
- 13.3 The Council will regularly review the Scheme's compliance with this Statement of Investment Principles. The Statement is reviewed at least annually and a revised version issued as soon as any significant change occurs.

**STATE STREET
UK EQUITIES**

Asset Class	Benchmark Weighting %	Index
UK Equities	100	FTSE ALL Shares

Objective
To match the benchmark

UBS

PROPERTY MANDATE

Asset Class	Benchmark Weighting %	Index
Property	100	IPD All Pooled Funds Index Median

Objective
TBA.

BLACKROCK

FIXED INTEREST MANDATE

Asset Class	Benchmark Weighting %	Index
Index Linked Gilts	20	FTA 5+ Years Index Linked Index
Corporate Bonds	80	M1 Euro sterling Over 10 Year Index
Total	100.0	-

Objective

To seek to outperform the Benchmark by 0,5% % net of fees per annum over rolling three year periods.

PROPERTY MANDATE

Asset Class	Benchmark Weighting %	Index
Property	100	IPD All Pooled Funds Index Median
Total	100.0	-

Objective

To seek to outperform the Benchmark by 1 % per annum over rolling three year periods.

WELLINGTON

GLOBAL EQUITIES

Asset Class	Benchmark Weighting %	Index
Global Equities	100	MSCI All countries World Index

Objective

To aim to outperform the Performance Benchmark by 2% per annum over rolling three year periods.

FIDELITY

GLOBAL EQUITIES

Asset Class	Benchmark Weighting %	Index
Global Equities	100	MSCI All countries World (NDR) Index

Objective

To aim to outperform the Performance Benchmark by 2% per annum over rolling three year periods.

LONGVIEW

GLOBAL EQUITIES

Asset Class	Benchmark Weighting %	Index
Global Equities	100	MSCI All countries World Index

Objective

To aim to outperform the Performance Benchmark by 2% per annum over rolling three year periods.

RECORD

CURRENCY

Asset Class	Benchmark Weighting %	Index
Active Currency	100	One month Sterling Inter-Bank Offered Rate("LIBOR")

Objective

To outperform the e Benchmark by 18% per annum gross of fees and after transaction costs over rolling three year periods.

BNY MELLON

CURRENCY

Asset Class	Benchmark Weighting %	Index
Active Currency	100	FTSE 100 INDEX

Objective

To outperform the e Benchmark by 22% per annum net of fees over rolling three year periods.

PANTHEON VENTURES

CURRENCY

Asset Class	Benchmark Weighting %	Index
Active Currency	100	TBA

Objective

TBA

Myners Principles: Defined Benefit Pension Schemes

1. Effective decision-making

Trustees 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.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Best Principle Guidance

- The board has appropriate skills for, and is run in a way that facilitates, effective decision making.
- There are sufficient internal resources and access to external resources for trustees and boards to make effective decisions.
- It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.
- There is an investment business plan and progress is regularly evaluated.
- Consider remuneration of trustees.
- Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

2 Clear objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Best Practice Guidance

- Benchmarks and objectives are in place for the funding and investment of the scheme.
- Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.

- Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.
- Consider the strength of the sponsor covenant.

3 Risks and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Best Practice Guidance

- Trustees have a clear policy on willingness to accept underperformance due to market conditions.
- Trustees take into account the risks associated with their liabilities' valuation and management.
- Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.
- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

4 Performance Assessment

Trustees should arrange for the formal measurement of the performance of investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Best Practice Guidance

- There is a formal policy and process for assessing individual performance of trustees and managers.
- Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).
- The chairman addresses the results of the performance evaluation.
- State how performance evaluations have been conducted.

- When selecting external advisers take into account relevant factors, including past performance and price.

5 Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Best Practice Guidance

- Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.
- Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.
- Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.
- Trustees ensure that Investment consultants adopt the ISC's Statement of Practice relating to consultants.

6 Transparency and Reporting

Trustees 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.

Trustees should provide regular communication to members in the form they consider most appropriate.

Best Practice Guidance:

- Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards