Statement of Investment Principles

1 Introduction

This Statement of Investment Principles document sets out the principles governing the Haringey Council Pension Fund's decisions about the investment of Pension Fund money. It is prepared in accordance with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2 Governance and decision making

Haringey Council is the Administering Authority for the Local Government Pension Scheme in the London Borough of Haringey area and as such is responsible for the investment of Pension Fund money. The Council has delegated this responsibility to the Pensions Committee and Board.

The Pensions Committee and Board is responsible for setting the investment strategy for the Pension Fund, appointing fund managers to implement it and monitoring the performance of the strategy. The Pensions Committee and Board retains an independent adviser and the services of an investment consultancy company, in addition to the advice it receives from the Chief Financial Officer and their staff.

Further information on the governance of the Pension Fund can be found in the Governance Compliance Statement on the website www.haringey.gov.uk/pensionfund

Stock level decisions are taken by the investment managers appointed by the Pensions Committee and Board to implement the agreed investment strategy. These decisions are taken within the parameters set out for each manager – more detail is provided in section 6 below.

3 Objectives of the Pension Fund

The primary objective of the Pension Fund is:

- To provide for members' pension and lump sums benefits on their retirement or for their dependants benefits on death before or after retirement on a defined benefits basis.

The investment objective of the Pension Fund is:

- To achieve a return on Fund assets that is sufficient, over the long term, to meet the funding objectives.

The Pension Fund recognises that the investment performance of the Fund is critical as it impacts directly on the level of employer's contributions that the employers are required to pay.

The key funding objectives that relate to investment strategy are summarised below and more detail about them and how they will be achieved can be found in the Pension Fund's Funding Strategy Statement on the website www.haringey.gov.uk/pensionfund

- To ensure the long-term solvency of the Fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment; and
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

This Statement of Investment Principles describes how the Haringey Council Pension Fund seeks to meet its objectives.

4 Investment Parameters

The investment strategy of the Pension Fund must operate within the parameters set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the regulations"). The regulations state that the Pension Fund must invest any monies not needed immediately to make payments.

The regulations also state that the Pension Fund must have regard to the suitability and range of investments used and take proper advice in determining its investment strategy. These issues are covered in more detail in sections 5-7 below.

The limits within which the Pension Fund operates are shown overleaf. All the limits are the lowest set by Schedule 1 to the regulations with the exception of the single insurance contract limit. The Committee has exercised its right to increase its limit for a single insurance contract limit within the range set by the regulations. This was done, after taking proper advice, in order to maximise the diversification and performance of the Fund's assets while minimising the costs to the Pension Fund.

Type of Investment	Limit
Any single sub-underwriting contract	1%
All contributions to any single partnership	2%
All contributions to partnerships	5%
The sum of all loans (except a Government loan) and all deposits with local authorities	10%
All investments in unlisted securities of companies	10%
Any single holding (except unit trusts & UK gilts)	10%
All deposits with any single institution	10%
All sub-underwriting contracts	15%
All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body	25%
All investments in open ended investment companies where the collective investment schemes constituted by the companies are managed by one body	25%
All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes are constituted by those companies are managed by any one body.	25%
Any single insurance contract	35%*

* This limit is at the higher limit of the range (25-35%) laid down in the regulations.

5 Types of investments

The Committee has determined an overall asset allocation for the Pension Fund to meet the objectives within the parameters set out in section 4 above and to comply with the regulations. The Committee have considered the suitability of different investments and the need to diversify the investments to reduce risk. The Fund's revised strategic benchmark is shown in the table overleaf.

Asset class	Benchmark (%)		Range (%)
UK Equities		8.8	5.8-11.8%
Overseas Market Capitalisation Equities		28.8	23.9-33.9%
North America	12.7		
Europe ex UK	4.3		
Pacific ex Japan	2.0		
Japan	2.0		
Emerging Markets	7.8		
Global Low Carbon Equities		14.9	
UK Index linked gilts		15.0	12-18%
Conventional Property		7.5	5-10%
Long Lease Property		5.0	2.5-7.5%
Multi Sector Credit		5.0	4-6%
Infrastructure Debt		5.0	-*
Renewable Energy Infrastructure		5.0	-*
Private Equity		5.0	-*
Cash		0.0	0-10%
Total		**100.0**	-

* Given the illiquid nature of these asset classes, there is no formal tolerance range in place. However, the Committee will closely monitor the position of the Fund over time, including these asset classes.

The Committee's investment strategy takes into consideration the value and timing of projected future benefit payments, the funding position and the range of possible future economic and financial conditions. Please note that the table above represents the long term strategic benchmark, and actual allocations may differ from the benchmark. For example, the capital earmarked for investment in Long Lease Property, Private Equity, Infrastructure Debt and Renewable Energy Infrastructure is in the process of being 'drawn down', and as such these mandates will increase in size towards their benchmark allocations over time.

The strategy aims to achieve the objectives set out in section three and balance the need to achieve full funding and maintain stability of contribution rates. Normally, a full review of the investment strategy is undertaken every three years following an actuarial valuation. The factors influencing the investment strategy are monitored and changes thereto may require more frequent reviews of the investment strategy.

The allocations to each asset classes will be impacted by changes in market value, income reinvested and cash investments and withdrawals. The Committee will monitor actual allocations against the ranges shown above and rebalance when considered appropriate.

In setting investment policy the Committee has discussed their investment beliefs (annex D), which inform the setting of strategy and its implementation, including manager selection.

The Committee has decided to invest the majority of the Pension Fund investments in passively managed equity and bond funds to remove the risk of underperformance and ensure benchmark performance at a low cost.

Due to the size of the portfolios allocated to the investment managers, the investments are generally held in pooled funds, which are more cost effective for the Fund.

The majority of the investment types the Committee have decided to invest in are quickly realisable if required, including pooled equities, as the underlying securities are quoted on major markets. The investments in Property (Conventional and Long Lease), Multi Sector Credit, Infrastructure Debt, Renewable Energy and Private Equity, which represent 32.50% of the strategic allocations, are long term less liquid investments not designed to be realised early. Benefit payments and other outgoings will be met through a combination of regular contributions, income from assets and disinvestments from the Fund's liquid assets, as required.

The asset allocation and associated benchmark is expected (but not guaranteed) to produce a return in excess of the investment return assumed in the actuarial valuation over the long term.

6 Investment Management arrangements

The Committee has appointed a number of external investment managers to implement its investment strategy. The current investment managers and the percentage of the Pension Fund they currently manage are shown in the following table:

Investment Manager	Mandate	%
Legal & General Investment Management	Global Equities & Index Linked Bonds	67.5
CQS Management	Multi Sector Credit	5.0
Allianz Global Investors	Infrastructure Debt	5.0
CBRE Global Investors	Conventional Property	7.5
Aviva Investors	Long Lease Property	5.0
BlackRock	Renewable Energy Infrastructure	2.5*
Copenhagen Infrastructure Partners (CIP)	Renewable Energy Infrastructure	2.5*
Pantheon	Private Equity	5.0

* Based on a target mandate size of £35m for each of BlackRock and CIP.

A range of investment managers have been appointed to diversify the Pension Fund and so reduce the risk of underperformance. The allocations above reflect the asset class benchmarks shown in section 5. Movements away from benchmarks and rebalancing are managed at asset class level for which monitoring ranges have been set where appropriate.

The equity and index linked bond investment manager is expected to perform in line with their benchmarks, as they are investing on behalf of the Fund on a passive basis. The detail of their benchmarks is set out in Annex B. The other investment managers aim to meet the targets set above the benchmarks detailed in Annex A over the long term.

The investment managers' performance is assessed on a quarterly basis, with independent performance data provided by the Pension Fund's global custodian Northern Trust. The Chief Financial Officer and/or their representative together with the Independent Advisor meet with the investment managers on an annual or more frequent basis to discuss performance.

The investment managers are paid fees relating to the value of the funds they are managing on the Pension Fund's behalf, or in the case of private equity on the amount committed. In some case e.g. private equity an additional performance related fee based is also payable.

There will always be a balance of cash used to manage benefit payments invested in-house and there may be occasions when the Committee decide to invest in cash on a short term basis. These investments will be placed in line with the Treasury Management Strategy Statement in place at the time.

7 Advice

The regulations set out the requirement for the Pension Fund to obtain proper advice at reasonable intervals. The Committee has three sources of advice independent of the investment managers used by the Pension Fund:

- Chief Financial Officer and their staff
- Investment Consultant – Mercer
- Independent Adviser – John Raisin Financial Services Limited

The Chief Financial Officer (or their representative) attends all Committee meetings to support the Committee to scrutinise both the performance of the investment managers and the investment consultant. The Investment Consultant and Independent Adviser attend Committee meetings as required.

8 Risk

The Pension Fund's investment strategy has an inherent degree of risk which has to be taken in order to achieve the rate of return required. The Pension Fund has put in place a number of controls in order to minimise the level of risk taken.

The benchmark the Committee has set involves a wide range of asset classes and geographical areas. This diversification reduces the risk of low returns. As the majority of the Fund is invested on a passive basis, risk of underperforming the benchmark has been significantly reduced.

Appointing a range of investment managers ensures that the risk of underperformance is reduced through diversification.

9 Responsible ownership

The Committee has agreed a responsible investment policy, which can be found on the website www.haringey.gov.uk/pensionfund

The Pension Fund believes the adoption by companies of positive Environmental, Social and Governance principles can enhance their long term performance and increase their financial returns. The Pension Fund has demonstrated this by adopting the United Nations Principles for Responsible Investment and by being a member of the Local Authority Pension Fund Forum, which undertakes engagement activity with companies on behalf of its members.

In addition, the Pension Fund has demonstrated this by allocating one-third of its equity portfolio (excluding emerging markets) to a passive fund that tracks the MSCI World Low Carbon Target Index. This index aims to reduce exposure to companies with the highest carbon footprints, relative to a market capitalisation benchmark.

The investment managers are expected to consider responsible investment issues when voting on behalf of the Pension Fund. However in instances where shareholder value and responsible investment conflict, the investment managers are instructed to vote for shareholder value and report these instances to the Committee. All investment managers are expected to vote in respect of all pooled funds.

10 Compliance with Myners Principles

The regulations require Local Government Pension Funds to state in their Statement of Investment Principles the extent to which the Fund's investment policy complies with published guidance on the Myners Principles. The Myners principles are a set of principles on investment decision making for occupational pension schemes. The Pension Fund complies with all of these principles. The detail of the principles is set out in Annex D.

11 Additional Voluntary Contributions (AVCs)

The Pension Fund is required to provide scheme members with the opportunity to invest additional voluntary contributions. These are invested separately from the Pension Fund's other assets and the scheme members take the investment risk.

AVCs are invested with Prudential Assurance, Clerical & Medical and Equitable Life. Scheme members can choose which company to invest with (except Equitable Life, which is not open to new members) and select from a range of policies to suit their appetite for risk.

12 Other issues

Custody – The Pension Fund's assets are held by an independent global custodian, Northern Trust. The performance and fees for their contract are reviewed regularly. As the Pension Fund does not directly own equities, bonds or properties, custody activity is limited to controlling cash, valuation record keeping and performance analysis.

Stock Lending – The Pension Fund does not undertake any stock lending activities. However, the pooled funds operated by Legal & General engage in stock lending and the Pension Fund receives a share of the revenue generated.

Review process – This document is reviewed by the Committee on an annual basis and whenever any major change to the investment strategy is undertaken to ensure it remains up to date.

Publication – This document is published on the Haringey Council Pension Fund website www.haringey.gov.uk/pensionfund and forms part of the Pension Fund Annual Report.

Annexes

A Investment managers and mandates
B Global Equity & Bond benchmarks
C Compliance with Myners principles
D Investment beliefs

Annex A: Investment Managers and mandates

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	67.5%	Global Equities & Bonds	See Annex B	Index (passively managed)
CQS	5.0%	Multi Sector Credit	3 month GBP Libor + 4.5% p.a.	Benchmark
Allianz	5.0%	Infrastructure Debt	5.5% p.a.	Benchmark
CBRE Global Investors	7.5%	Conventional Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Aviva Investors	5.0%	Long Lease Property	50% FTSE A 5-15 Year Gilt Index 50% FTSE 15 Years + Index*	+1.50% over the medium to long term
BlackRock	2.5%	Renewable Energy Infrastructure	8.0% Hurdle Rate/Preferred Return	9-10% net of fees
Copenhagen Infrastructure Partners (CIP)	2.5%	Renewable Energy Infrastructure	6.5% Hurdle Rate/Preferred Return	7-9% net of fees
Pantheon Private Equity	5.0%	Private Equity	MSCI World Index plus 3.5%	Benchmark.
Total	**100.0%**			

* The Fund invests in the Aviva Lime Property Fund, which invests in a diversified portfolio of UK Real Estate assets with long leases and strong covenants. The official performance objective is to outperform the composite benchmark in the table above by 1.5% over the medium to long term. In practice, the shorter term performance of the benchmark has the scope to perform very differently to the underlying property assets. Over shorter periods (less than 5 years), the Officers will assess the performance of this part of the portfolio on a total return basis, whereby around 60% to 80% of this is expected to be derived from rental income (with capital appreciation being the balance).

Annex B: Global Equity & Bond Benchmarks

Asset Class	**Benchmark**	**Legal & General Investment Management**
UK Equities	FTSE All Share	8.8%
Overseas Market Capitalisation Equities		28.8%
North America	FT World Developed North America Index (Unhedged)	*12.7%*
Europe ex UK	FT World Developed Europe ex-UK Index (Unhedged)	*4.3%*
Pacific ex Japan	FTSE Developed Asia Pacific (ex-Japan) Index	*2.0%*
Japan	FTSE Japan Index (Unhedged)	*2.0%*
Emerging Markets	FTSE Emerging Markets Index (Unhedged)	*7.8%*
Global Low Carbon Equities	MSCI World Low Carbon Target Index	14.9%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.0%
Total		**67.50%**

Annex C: 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 make them effectively and monitor their implementation;* *and* • *those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*
<u>Haringey position</u> Haringey offers regular training to all members of the Committee to ensure they have the necessary knowledge to make decisions and challenge the advice they receive.
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, and these should be clearly communicated to advisers and investment managers.
<u>Haringey position</u> The Pension Fund sets out an investment objective in section 3 of this Statement of Investment Principles, which reflects the current deficit position of the Pension Fund and the desire to return to full funding with a minimum impact on the local tax payer. The Statement of Investment Principles is provided to all the Pension Fund's advisers and investment managers whenever it is updated.

3. Risk 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.
<u>Haringey position</u> The Fund's investment strategy was set following the results of the last formal Actuarial Valuation, which incorporated these issues. The investment strategy has since been revised to seek to further improve it on a risk adjusted basis.
4. Performance Assessment
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. *Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.*
<u>Haringey position</u> The Committee reviews the performance of Pension Fund investments on a quarterly basis and meets with investment managers at least once a year. Contracts with advisers are reviewed regularly. The Committee undertakes an assessment of their own effectiveness on a regular basis.

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 statement of investment principles*
- *report periodically to scheme members on the discharge of such responsibilities.*

Haringey position

The Pension Fund's fund managers have adopted or are committed to the Institutional Shareholders' Committee Statement of Principles.

The Pension Fund includes a statement of their policy on responsible ownership in section 9 of this Statement of Investment Principles. This is monitored on a quarterly basis through the Committee and reported to scheme members through the annual report to scheme members.

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 scheme members in the form they consider most appropriate.*

Haringey position

The Pension Fund communicates with its stakeholders through the publication of policy statements and an Annual Report on its website. The Pension Fund communicates regularly with its scheme members and the communication policy statement provides information about how this is done.

Statement of Investment Beliefs

The objective of this Statement is to set out the key investment beliefs held by the Pensions Committee and Board of Haringey Council. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Haringey Pension Fund, strategic asset allocation and the selection of investment managers.

The Investment beliefs have been prepared by the administering authority in consultation with the Independent Advisor and Investment Consultant. In forming these beliefs the Pensions Committee and Board take into consideration the ongoing advice received from Officers and Advisors.

1) Investment Governance

a) The Fund has the necessary skills, expertise and resources to take decisions on asset allocations, rebalancing and fund manager appointments.

b) Day to day investment decisions are delegated to regulated external fund managers that have appropriate skills & experience.

c) Investment consultants, independent advisors and officers are a source of expertise and research to inform Committee decisions.

d) The Pensions Committee and Board's primary goal is the security of assets and will only take decisions when it is convinced that it is right to do so. In that regard, training in advance of decision making is a priority.

2) Long Term Approach

a) The strength of the employers' covenant allows a longer term deficit recovery period and for the Fund to take a long term view of investment strategy.

b) The most important aspect of risk is not the volatility of returns but the risk of absolute loss and of not meeting the objective of facilitating low, stable contribution rates for employers.

c) Illiquidity and volatility are risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term markets.

d) Participation in economic growth is a major source of long term equity return.

e) Over the long term, equities are expected to outperform other liquid assets, particularly government bonds.

f) Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

3) Appropriate Investments

a) Allocations to asset classes other than equities and government bonds (e.g. corporate bonds, private equity, infrastructure and property) offer the Fund other forms of risk premia (e.g. additional solvency risk/illiquidity risk).

b) Diversification across asset classes and asset types will tend to reduce the volatility of the overall Fund return.

4) Management Strategies

a) Passive management provides low cost exposure to asset class returns and is especially attractive in efficient markets where there is limited evidence that active management can consistently generate returns (after additional costs) that exceed index benchmarks. Most equity markets are sufficiently efficient to prefer passive equity investments.

b) Active management will only be considered in markets in which passive approaches are either impossible or there is strong evidence that active management can add value over the long-term. Fixed income, property and alternatives are suited to active management.

c) Active managers are expensive and fees should be aligned to the value created in excess of the performance of the market.

d) Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

e) Implementation of strategies must be consistent with the governance capabilities of the Pensions Committee and Board.