



Haringey Council

Agenda item:

Pensions Committee

On 21 June 2010

Report Title. **Statement of Investment Principles**

Report of **Director of Corporate Resources**

Signed : *J. Power 11/6/10*

Contact Officer : **Nicola Webb – Corporate Finance**
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Wards(s) affected: **All**

Report for: Non key decision

1. Purpose of the report

- 1.1 To consider a revised draft of the Pension Fund Statement of Investment Principles prepared to comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2. Introduction by Cabinet Member

- 2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

- 3.1 Not applicable.

4. Recommendations

- 4.1 That the revised Statement of Investment Principles be approved.

5. Reason for recommendations

- 5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require pension funds to update and publish their Statement of Investment Principles by 1st July 2010.

6. Other options considered

- 6.1 Not applicable.

7. Summary

- 7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations were updated to come into force on 1st January 2010.
- 7.2 The revised regulations require pension funds to state their level of compliance with the new Myners Principles on investment. The Haringey Pension Fund complies with all except one subsection of the principle on performance assessment. This is that a Pensions Committee should undertake a formal assessment of its effectiveness and report on it. It is proposed to address this during 2010/11.
- 7.3 If approved, the revised Statement of Investment Principles will be published on the Pension Fund website in time for the statutory deadline of 1st July 2010.

8. Head of Legal Services Comments

- 8.1 The Head of Legal Services has been consulted on the content of this report and confirms that the draft revised Statement of Investment Principles complies with the requirements of Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

9. Equalities & Community Cohesion Comments

- 9.1. There are no equalities issues arising from this report.

10. Consultation

- 10.1. Not applicable.

11. Service Financial Comments

- 11.1 The Statement of Investment Principles sets out the current investment

strategy which seeks to maximise investment returns, within an acceptable level of risk, to reduce the burden of funding on employers, including the Council.

11.2 The success of this strategy is monitored through the quarterly fund performance update reports to this Committee.

12. Use of appendices /Tables and photographs

12.1 Appendix 1: Draft Statement of Investment Principles

13. Local Government (Access to Information) Act 1985

- Fund Manager agreements with Haringey Council
- Haringey Council Pension Fund Responsible Investment Policy

14. Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

- 14.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 set out the parameters within which Local Government Pension Funds should invest their funds. Until 31 December 2009, the set of regulations in place dated back to 1998 and had become out of date. In response to this the Communities and Local Government Department brought a new set of regulations into force from 1st January 2010.
- 14.2 The LGPS Management and Investment of Funds regulations set out the framework within which the investment of LGPS monies can take place. The regulations define investments, investment managers, and specify the need for diversification, risk management and professional advice.
- 14.3 The revised regulations make a number of minor technical changes to bring them up to date, which the fund managers have been made aware of. In addition there is a requirement for Pensions Committees to update their Statements of Investment Principles to include a statement of the extent to which the Fund complies with the statutory guidance on the six new "Myners principles" and a statement about the Pension Fund's policy on stock lending.

15. Myners Principles

- 15.1 In 2001 following a review of institutional investment in the UK initiated by HM Treasury, a set of ten principles were developed for all institutional investors to work to. Lord Myners conducted the review and so the principles became known as the "Myners Principles". The LGPS investment regulations were amended in 2002 to require Pension Funds to

publish their level of compliance with the Principles. This has been part of the Pension Fund's Statement of Investment Principles since that time.

- 15.2 In October 2008 HM Treasury published a new set of six principles for investment. These principles were reviewed by a working group in 2009 and adjusted to reflect the specific nature of the LGPS. In December 2009 CIPFA produced statutory guidance for Local Government Pension Schemes to determine their level of compliance with the new principles. The new LGPS investment regulations require Funds to publish their level of compliance with the principles by 1st July 2010.

16. Statement of Investment Principles

- 16.1 A revised draft Statement of Investment Principles is shown in Appendix 1 reflecting all the requirements of the revised LGPS (Management and Investment of Funds) regulations.
- 16.2 The information in the statement has been brought up to date and as required by the regulations a note has been added reflecting the fact the Pension Fund does not engage in stock lending activities.
- 16.3 Appendix D to the Statement sets out the Myners Principles and how the Pension Fund complies with them. There is only one area which the Pension Fund does not currently comply with and that is the second part of Principle 4 on Performance Assessment. There are procedures in place to monitor the performance of the fund managers and the fund's advisers, however, there is currently no framework in place for the Committee to undertake a formal assessment of its effectiveness and report on it. Officers will research possible frameworks for the Committee to consider, so that the Committee is able to report on their effectiveness in the 2010/11 annual report.
- 16.4 The Statement of Investment Principles will need to be updated if the Committee make any changes to strategy as a result of the forthcoming Investment Strategy Review. The Statement will be published on the Pension Fund website and is included in the 2009/10 Draft Annual Report and Accounts.

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.

The Pensions Committee 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 Committee 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 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, which 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;
- 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 two related to Open Ended Investment Companies (OEICs). OEICs are like unit trusts where investors own units of a range of underlying investments. The Pensions Committee has exercised its right to increase its limit for OEICs 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	35%*
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.	35%*
Any single insurance contract	25%

* These limits are at the higher limit of the range (25-35%) laid down in the regulations.

5 Types of investments

The Pensions 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 target asset allocation is shown in the table overleaf, alongside the current asset mix.

Asset class	Benchmark %	Actual % at 31 Mar 10
UK Equities	30.5	27.3
Overseas Equities	34.5	35.8
UK Gilts	7.0	4.4
UK Index linked gilts	6.0	6.0
Corporate Bonds	7.0	11.9
Property	10.0	6.9
Private Equity	5.0	2.0
Cash	0.0	5.7

The Committee have decided to invest the majority of the Pension Fund investments in actively managed portfolios in order to generate out performance to meet the objectives of the Pension Fund. The only exception is when a manager underperforms, the Committee may decide to place monies in a passively managed portfolio pending further review.

Due to the size of the portfolios allocated to the investment managers, many holdings are in Open Ended Investment Companies, rather than separate individual holdings. Investment managers use OEICs rather than unit trusts because they can act as an umbrella fund and allow them to add sub-funds without going through another registration process with the FSA. The reason for using any pooled fund is to achieve diversification of holdings at minimum cost.

The majority of the investment types the Committee have decided to invest in are quickly realisable if required, as they are quoted on major markets. The only exceptions to this are property and private equity, which are long term less liquid investments not designed to be realised early. At the present time the Pension Fund generates regular cash surpluses to invest and does not need to realise investments quickly.

The asset allocation and associated benchmark is expected to produce a return in excess of the investment return assumed in the actuarial valuation over the long term.

6 Investment Management arrangements

The Pensions Committee has appointed a number of external investment managers to implement its investment strategy. As discussed in section 5 above, the majority of the investment managers are active managers. The current exception is Legal & General, who are managing on a passive basis. The current investment managers and the percentage of

the Pension Fund they managed at 31st March 2010 is shown in the table below:

Investment Manager	Mandate	% at 31 Mar 10
Capital International	Global Equities & Bonds	31.7
Fidelity Pensions Management	Global Equities & Bonds	33.5
Legal & General (Passive)	Global Equities & Bonds	20.6
ING Real Estate	Property	6.9
Pantheon	Private Equity	2.0
In House	Cash(pending investment)	5.3

A range of investment managers have been appointed to diversify the Pension Fund and so reduce the risk of poor performance.

The investment managers are expected to outperform their benchmarks in line with the targets set and detailed in Appendix A. Through this outperformance it is expected that the investment return in the long term will be in excess of the actuary's assumption.

Appendix B sets out the parameters within which the investment managers are required to operate to ensure that the risk of the Pension Fund's investments moving away from the benchmark is limited.

The investment managers' performance is assessed on a quarterly basis, when independent performance data is provided by the Pension Fund's global custodian Northern Trust. The Chief Financial Officer and/or their representative meet with the bond and equity investment managers on a quarterly basis to discuss performance. Meetings are held with the property and private equity investment managers on a semi-annual basis reflecting the longer term nature of these investments.

The equity and bond investment managers attend formal meetings with the Pensions Committee twice a year and the property and private equity investment managers once a year to explain their performance and answer questions from the Committee.

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.

7 Advice

The regulations set out the requirement for the Pension Fund to obtain proper advice at reasonable intervals. The Pensions Committee have

three sources of advice independent of the investment managers used by the Pension Fund:

- Chief Financial Officer and their staff
- Investment Consultant – currently the Pension Fund use Hewitts
- Independent adviser to the Committee

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

The parameters set for the investment managers to work within ensure that the risk of volatility and deviation from the benchmark the Committee has set is within controlled levels.

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

9 Responsible ownership

The Pensions 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.

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 Pensions Committee. All investment managers are expected to vote in respect of all equities and 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 the majority of these principles. The detail of the principles is set out in Appendix 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 on an annual basis.

Stock Lending – The Pension Fund does not undertake any stock lending activities.

Review process – This document is reviewed by the Pensions Committee on 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.

Appendices

- A Investment managers and value of assets held
- B Investment managers' customised benchmarks

- C Asset Allocations and tolerances
- D Compliance with Myners principles

APPENDIX A: Investment Managers and Value of Assets Held as at 31st March 2010

Manager	Value £m	% of Total Portfolio	Mandate	Benchmark	Performance Target
Capital International: Global Equities	139.7	21.0	Global Equity	Customised (Appendix B1)	+2.0% gross of fees p.a over a rolling 3 yr period
Capital International: Bonds	70.9	10.7	Bonds	Customised (Appendix B2)	+1.0% gross of fees p.a over a rolling 3 yr period
Fidelity Pensions Management: Global Equities	144.9	21.8	Global Equity	Customised (Appendix B3)	+1.7% gross of fees p.a over a rolling 3 yr period
Fidelity Pensions Management: Bonds	77.5	11.7	Bonds	Customised (Appendix B4)	+0.6% gross of fees p.a over a rolling 3 yr period
Legal & General: UK Equities	108.7	16.4	UK Equities	FTSE All Share	Index (passively managed)
Legal & General: Global Equities	27.9	4.2	Global Equity	FTSE AW World Index	Index (passively managed)
ING Real Estate	45.8	6.9	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	13.1	2.0	Private Equity	MSCI World Index +5%	+ 0.75% gross of fees p.a.
Cash (held pending investment)	35.4	5.3	N/A	N/A	N/A
Total	663.9	100			

APPENDIX B: Customised Benchmarks

Asset Class	Asset Description	Benchmark
1. Capital International - Global Equities	UK	FTSE All Share
	North America	FTSE AW Developed North America
	Europe –Ex UK	FTSE AW Developed Europe (ex UK)
	Japan	FTSE AW Developed Japan
	Pacific(Ex Japan)	MSCI Pacific (ex Japan)
	Emerging Markets	MSCI Emerging Markets
2. Capital International - Bonds	UK Gilts	FTSE All Stock over 15 year gilts
	Corporate Bonds	Merrill Lynch Sterling non gilt all maturities
	Index Linked	FTSE Index linked (over 5 years)
3. Fidelity Pensions Management – Global Equities	UK	FTSE All Share Index
	US	S&P 500
	Europe –Ex UK	MSCI Europe ex UK Index
	Japan	Topix Index
	Pacific(Ex Japan)	MSCI Pacific ex Japan index
	Emerging Markets	MSCI Emerging Markets Index
4. Fidelity Pensions Management - Bonds	UK Gilts	FTSE All Stock over 5 year gilts
	Corporate Bonds	Merrill Lynch Euro Sterling over 10 years
	Index Linked	FT British Government Index Linked > 5 years

APPENDIX C: Asset Allocation & tolerances

Manager Asset Allocation(tolerance)	Capital (Global Equities) %	Capital (Bonds) %	Fidelity (Global Equities) %	Fidelity (Bonds) %	Legal & General (UK Equities) %	Legal & General (Global Equities)* %	Pantheon %	ING %
Equities								
UK	25 (+/-10)	0	25.3 (+/-10)	0	100	9	0	0
North America	25 (+/-10)	0	25.4 (+/-4)	0	0	48	0	0
Europe(ex UK)	24 (+/-10)	0	23.9 (+/-4)	0	0	19	0	0
Japan	13 (+/-5)	0	12.7 (+/-3.5)	0	0	9	0	0
Pacific Basin	6 (+/-2.5)	0	6 (+/-2.5)	0	0	10	0	0
Emerging Markets	7 (+/-7)	0	6.7 (+/-2)	0	0	5	0	0
Private Equity	0	0	0	0	0	0	100	0
Bonds								
UK Gilts	0	30 (+/-20)	0	20 (+/-15)	0	0	0	0
Corporate Bonds	0	20 (+/-20)	0	50 (+/-15)	0	0	0	0
Index Linked	0	50 (+/-20)	0	30 (+/-10)	0	0	0	0
Property	0	0	0	0	0	0	0	100

* Legal and General do not manage against a fixed weight benchmark unlike the other managers. They manage against an index and the percentages in each asset class vary over time. The percentages shown are those at 31st March 2010

APPENDIX D: 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.

Haringey position

Haringey offers regular training to all members of the Pensions Committee to ensure they have the necessary knowledge to make decisions. The independent adviser assists the Committee members with challenging the advice and information 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 advisors and investment managers.

Haringey position

The Pension Fund sets out an investment objective in section 2 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.

<p>3. Risk and Liabilities</p> <p><i>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.</i></p> <p><u>Haringey position</u></p> <p>The Pensions Committee investment strategy was set following the results of the last formal valuation of the Pension Fund, which incorporated these issues.</p>
<p>4. Performance Assessment</p> <p><i>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</i></p> <p><i>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.</i></p> <p><u>Haringey position</u></p> <p>The Pensions 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 at least annually.</p> <p><u>Development area</u></p> <p>Develop a mechanism for the Pensions Committee to formally assess its own effectiveness and report on this in the Annual Report.</p>

<p>5. Responsible ownership</p> <p><i>Administering authorities should:</i></p> <ul style="list-style-type: none"> • <i>adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents</i> • <i>include a statement of their policy on responsible ownership in the statement of investment principles</i> • <i>report periodically to scheme members on the discharge of such responsibilities.</i> <p><u>Haringey position</u></p> <p>The Pension Fund's fund managers have adopted or are committed to the Institutional Shareholders' Committee Statement of Principles.</p> <p>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 Pensions Committee and reported to scheme members through the annual report to scheme members and the Annual General Meeting.</p>
<p>6. Transparency and reporting</p> <p><i>Administering authorities should:</i></p> <ul style="list-style-type: none"> • <i>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</i> • <i>provide regular communication to scheme members in the form they consider most appropriate.</i> <p><u>Haringey position</u></p> <p>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.</p>