Havering
LONDON BOROUGH

PENSIONS COMMITTEE

AGENDA

7.30pm	Wednesday, 30 June 2010	Havering Town Hall, Main Road, Romford.

Members 7: Quorum 3

COUNCILLORS:

Conservatives (4)	**Residents (1)**	**Labour (1)**	**Independent Residents (1)**
Eric Munday (C)	Ron Ower	Denis Breading	Jeffrey Tucker
Damian White (VC)			
Roger Ramsey			
Melvin Wallace			

Trade Union Observers

(No Voting Rights) (2)

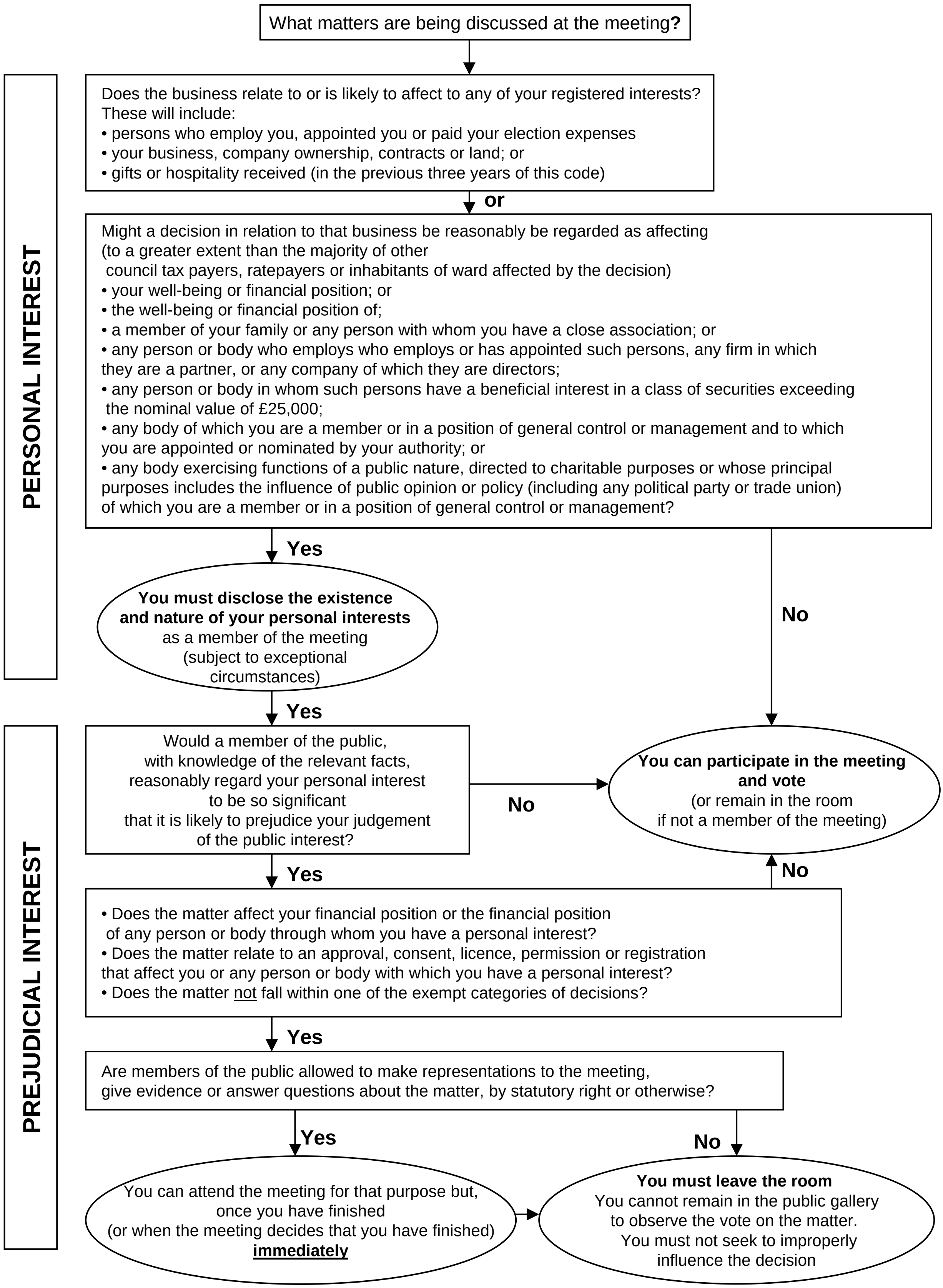
John Giles (Unison)
TBC

Admitted / Scheduled Bodies Representative
(No Voting Rights) (1)

David Holmes

For information about the meeting please contact:
James Goodwin (01708) 432432
E-mail: james.goodwin@havering.gov.uk

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1. CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2. APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – receive.

3. DECLATION OF INTERESTS

Members are invited to declare any interests in any of the items on the agenda at this point of the meeting. Members may still declare an interest in any item at any time prior to the consideration of the matter.

4. MINUTES OF THE MEETING

To approve as correct the minutes of the meeting held on 16 March 2010 and of the Special meeting held on 16 March 2010 and authorise the Chairman to sign them.

5. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2010 - Reports attached

6. REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES - Report attached

7. URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

Philip Heady
Democratic Services Manager

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MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford

16 March 2010 (1.00pm – 1.30pm)

Present:

COUNCILLORS

Conservative Group	Robby Misir (in the Chair), Eric Munday and Melvin Wallace
Residents' Group	Clarence Barrett
Admitted / Scheduled Bodies Representative	David Holmes

Apologies for absence were received from Councillors Robert Benham, Jeffrey Tucker and Linda Van den Hende, and John Giles (UNISON).

The Chairman advised the Committee of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

23. MINUTES

The minutes of the Committee meeting held on 15 December 2009 were agreed as a correct record, and signed by the Chairman.

24. EXCLUSION OF THE PUBLIC

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972 which could reveal the identity of a individual and it was not in the public interest to publish this information

25. FLEXIBLE RETIREMENT – PAYMENT OF PENSION WITHOUT WAIVER

Officers responded to members questions regarding the option of allowing flexible retirement without actuarial reduction for a member of staff who was affected by the closure of the Council's Mobile Patrol Service.

At the conclusion of these discussions the public were welcomed back into the meeting.

26. REVIEW OF THE PENSION FUND ACTUARY

Officers submitted a report reviewing the performance of the Council's Actuary in the year ending September 2009. Officers informed the Committee that Hewitt Associates had been appointed for the period 1st April 2004 to 31st March 2010; therefore the provision of Actuarial Services to the Council was currently subject to a retendering process.

The Committee **noted** that Officers were very satisfied with the service that Hewitt were providing, had confidence in their advice and had developed a good working relationship with Hewitt.

27 DISCRETIONARY POLICY UPDATE

Officers advised members of a number of minor changes to the Regulations which were due to come in to effect From 1st April 2010. The changes raised the minimum retirement age at which retirement benefits could be paid from 50 to 55.

The Committee **noted** the changes and **approved** the revised policies. Additionally the Committee **asked** officers to prepare a further report for later in the year so that the policies can be reviewed in the light of the changes since they were first adopted.

28. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2009.

Hymans Robertson (HR) advised the Committee that Equity markets had made relatively modest gains during the final quarter of 2009. For the year the FTSE All Share index had returned 30.1%. Yields on government fixed interest bonds rose modestly during the quarter.

Fund Managers were required to attend two committee meetings per year to discuss their performance. However, because of the need to interview potential new Fund Managers it meant that Standard Life (UK Equities) and Royal London (UK Investment Grade Bonds) were not invited to present at this meeting. Officers had however met these Managers and Alliance Bernstein and UBS as part of their normal quarterly meetings.

HR informed the Committee that Standard Life had underperformed the FTSE All Share index by 3.3% in the final quarter; however, it had been a strong year for Standard Life with their returns being ahead of benchmark by 11.4%.

The Committee were advised that Alliance Bernstein had seen further personnel changes with the establishment of a research management structure organised by major regions. Performance in the final quarter was modest outperforming the benchmark by .4%. For the year this meant Alliance Bernstein was ahead of the benchmark by 1.7% (net of fees) for the year. However in the longer period of the last three years and since inception the firm had lagged behind the benchmark.

HR reported another good quarter for Royal London with them slightly outperforming target. This meant that for the year Royal London were outperforming target by 3.3%.

The position for UBS was not so good. Their performance in the quarter was poor against the sector benchmark. Sales to meet redemptions had been behind this poor performance and as reported in December 2009 UBS had sold 36 properties, at reduced valuations, to reduce the extremely high void rate (unoccupied properties). UBS believe this will have long term benefits for the fund.

The appointment of Robert Churchill as Chairman of Real Estate had helped restore some of the confidence in UBS, but they still remain 'on watch'.

No Corporate Governance issues were reported.

The Committee **noted** the report from Hyman Robertson and the officer's comments thereon.

Officers advised the Committee that the Pension Fund value had continued to rise in the final quarter. The Fund was valued at £340.17m as at 31st December 2009. Officers reported that the fund had £6.8m cash on deposit with Lloyds bank until 12 April 2010. In advance of any decisions which might be made at the Special meeting the Committee **agreed** that this money be placed on deposit for a further three months and that the Group Director, Finance and Commerce be authorised to determine the best bank for the deposit.

29. BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE

The Committee received a report form officers setting out the work undertaken by the Committee in 2008/9 and the work plan for 2010/11, together with an assessment of the training requirements for members of the Committee. The adoption of a Business Plan and a Training Plan will also demonstrate compliance with Myners Principle number 1: Effective Decision Making.

The report picked up on the current workloads of the day to day administration of the pension fund and noted the intention to increase staffing levels. The cost of providing administrative support for pensions was charged directly to the fund and the regulations allow the Council to charge all reasonable expenses for pension's administration.

Officers reported that consideration was being given to the adoption of the CIPFA Knowledge and Skills Framework to meet training needs and this may be incorporated into the new training plan when finalised. Officers agreed, in response to a member's enquiry, to send out details of any e-learning tool available.

The Committee **noted** the report and approved the Annual Report for submission to full Council.

MINUTES OF A SPECIAL MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford

16 March 2010 (1.30pm – 8.05pm)

Present:

COUNCILLORS

Conservative Group	Robby Misir (in the Chair), Eric Munday and Melvin Wallace
Residents' Group	Clarence Barrett
Admitted / Scheduled Bodies Representative	David Holmes (until the interviews commenced)

Apologies for absence were received from Councillors Robert Benham, Jeffrey Tucker and Linda Van den Hende, and John Giles (UNISON).

The Chairman advised the Committee of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

Councillor Wallace declared a personal interest, which was not prejudicial, as he knew, through his business interests, one of the candidates.

30. EXCLUSION OF THE PUBLIC

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 that is information relating to the financial or business affairs of any particular person (including the authority holding that information and it was not in the public interest to publish this information

31. APPOINTMENT OF MULTI ASSET ABSOLUTE RETURN MANAGER

The Committee interviewed four potential Fund Managers for the position of Multi Asset Absolute Return Manager. The Committee received advice from the Pension Funds Investment Advisers Hymans Robertson LLP and officers.

The four companies were bidding to fill the position of a single investment manager to manage a multi-asset, absolute return mandate with an initial value of £14m to £16m, with a performance target expected to be of the order of Sterling LIBOR +3 to 5 over rolling 3 – 5 year periods.

Each company was invited to make a presentation lasting 20 -25 minutes followed by 20 minutes for questions. Members scored each company against a number of set criteria

The Committee **agreed unanimously** that the preferred candidate was Ruffer LLP and **authorised** Hymans Robertson LLP in consultation with officers to open negotiations with Ruffer LLP to commence management of a portfolio of between £14m and £16m representing 5% of the current investment in Bonds

32. APPOINTMENT OF PASSIVE FUND MANAGER.

The Committee interviewed two potential candidates for a single investment manager to manage a portfolio of UK and global equities on a passive basis.

The Committee received advice from the Pension Funds Investment Advisers Hymans Robertson LLP and officers.

The two companies were invited to bid for the position of single investment manager to manage a portfolio of UK and global equities on a passive basis. The benchmark for the UK equity portfolio was expected to be FTSE All Share Index and for global equities the MSCI All Countries index or the FTSE All World Index. The initial value for the aggregate portfolio was anticipated to be £30m to £45m.

Each company was invited to make a presentation lasting 20 -25 minutes followed by 20 minutes for questions. Members scored each company against a number of set criteria

The Committee **agreed unanimously** that the preferred candidate was State Street Global Advisers and **authorised** Hymans Robertson LLP, in consultation with officers, to open negotiations with State Street Global Advisers to commence management of a portfolio of between £30m and £40m representing 15% of the active investment in UK and Global Equities.

Havering
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PENSIONS COMMITTEE **30 June 2010**	**REPORT**

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2010**
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: debbie.ford@havering.gov.uk
Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 31 March 2010.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 March 2010. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 31 March 2010 was **5.9%.** This represents an underperformance of **-0.2%** against the combined tactical benchmark and an outperformance of **5.0%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31 March 2010 was **38.2%**. This represents an out performance of **2.5%** against the annual tactical combined benchmark and an outperformance of **34.2%** against the annual strategic benchmark.

Members should bear in mind that the markets have seen unprecedented volatility since the latter half of 2007 and further market crisis in the financials sector led to more market falls during 2008. The middle part of 2009 saw markets continuing to rally on the back of an improvement in worldwide economic data, erasing some of the losses from the early part of the year. This latest quarter saw markets make further gains. Interest rates remain at 0.5%.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark as they became active on the 14th February 2005. These results are shown later in the report.

RECOMMENDATIONS

That the Committee:

1) Considers Hymans performance monitoring report and presentation (Appendix A).
2) Receive presentations from the funds Global Equities Manager (Alliance Bernstein) and the Property Manager (UBS).
3) Notes the summary of the performance of the Pension Fund within this report.
4) Considers the quarterly reports provided by each investment manager.
5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
6) Considers any points arising from officer monitoring meetings (section 4 refers).
7) Notes the analysis of the cash balances (paragraphs 2.2, 2.3 and 2.4 refer).
8) Considers any necessary action with regard to the funds cash position (paragraph 2.3 refers).

REPORT DETAIL

1. Background

1.1 A major restructure of the fund took place in the first quarter of 2005. A further restructure of the fund took place during the first half of 2008 and these changes were reflected in a revised Statement of Investment Principles (SIP) adopted by members in September 2008.

1.2 As part of the SIP a strategic benchmark was adopted for the overall Fund of Gilts + 3.6% gross (3% net) per annum. In the revised SIP the strategic benchmark adopted for the overall Fund is Gilts plus 2.9% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term. **The main factor in meeting the strategic benchmark is market performance.**

1.3 Individual manager performance and asset allocation will determine the outperformance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance. No revisions were made to individual fund manager benchmarks as part of the investment strategy review. However the asset allocation has been revised and these are shown in the following table against the manager's benchmarks:

Manager and percentage of total Fund awarded	Mandate	Tactical Benchmark	Out performance Target (net of fees)
Standard Life 30%	UK Equities - Active	FTSE All Share Index	2%
Alliance Bernstein 30%	Global Equities - Active	MSCI All World Index	2.5%
Royal London Asset Management (RLAM) 30%	Investment Grade Bonds	• 50% iBoxx Sterling Non Gilt Over 10 Year Index • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	0.75%
UBS 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Alternatives (possibly 5%)	Alternatives	Not yet appointed and kept under review until the market settles	

1.4 The bond mandate with Western Asset was terminated on the 1st August 2008 and cash was transferred in stages to Alliance Bernstein. The allocation to Royal London will reduce to 25% to fund an investment in alternatives. The Committee appointed a Multi-Asset Manager (Ruffer) and a passive Equity Manager State Street) in February 2010. At the time of writing this report the new fund manages have yet to commence trading so no movement to reduce holdings with the other fund manager has been implemented.

1.5 UBS manage the assets on a pooled basis. Standard Life, Royal London and Alliance Bernstein manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.

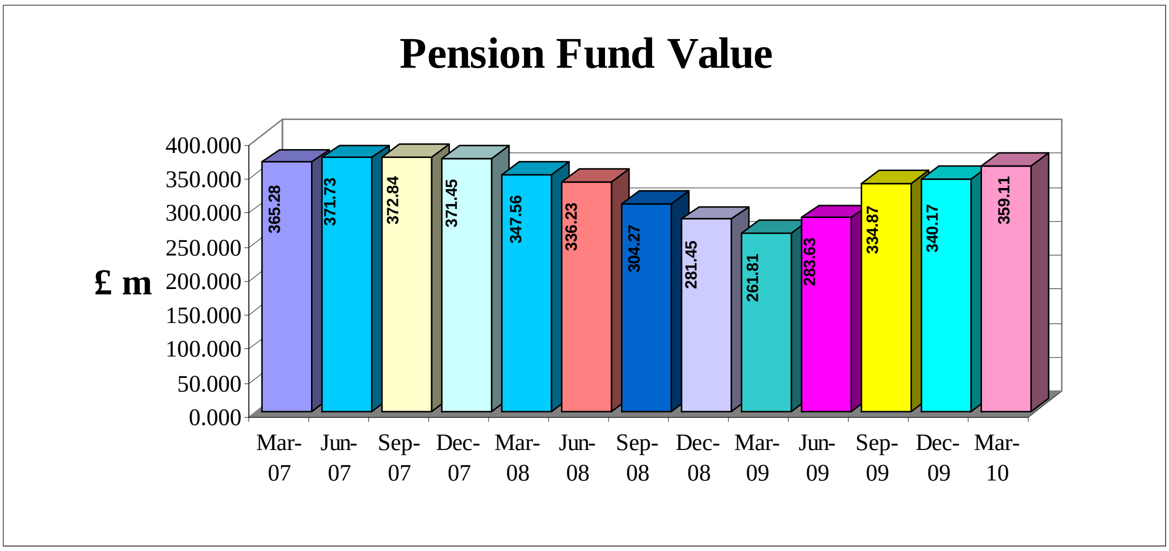
1.6 Since the Quarter 3 (September 06) Report, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

1.7 Managers are invited to present at the Pensions Committee Meeting every 6 months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Property Manager, UBS, who will attend two meetings per year, one with Officers and one with Pensions Committee. However due to members concerns over UBS performance, from September 09 UBS monitoring arrangements will be brought in line with the other fund managers.

1.8 Hyman's performance monitoring report is attached at **Appendix A.**

2. Fund Size

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 31 March 2010 was **£359.11m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes income. This compares with a fund value of £340.17m at the 31 December 2009; an increase of **£18.94m.** The increase in the fund value is attributable to fund performance, resulting in an increase of £20.01m and a decrease in internal cash of £1.07m. The internally managed cash level totals **£4.4m**, of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£4.4m** follows:

CASH ANALYSIS	**2007/08**	**2008/09**	**2009/10**
	£000's	£000's	£000's
Balance B/F	**-3706**	**-6673**	**-7999**
Benefits Paid	22852	23878	26926
Management costs	1869	1742	1939
Net Transfer Values	-2520	156	2639
Employee/Employer Contributions	-24922	-26546	-27790
Cash from/to Managers	0	-315	-48
Internal Interest	-246	-241	-35
Movement in Year	**-2967**	**-1326**	**3631**
Balance C/F	**-6673**	**-7999**	**-4368**

2.3 In addition to the internally managed cash above, the fund has **£6.3m** cash on deposit with Lloyds Bank until 12 July 2010. This brings the overall cash position to **£10.7m. Members will need to give consideration as to whether to continue to place the £6.3m cash on deposit pending any further strategy decisions.**

2.4 Internally managed cash has been decreasing during 2009/10; the significant factor being the reduction in net transfer values (more members transferring out than in). Officers will keep this trend under review and will make a more detailed report should the trend continue. Officers are of the view that the current level of cash remains sufficient for the cash flow requirements of the fund over the medium term.

3. Performance Figures against Benchmarks

3.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

	Quarter to 31.03.10	12 Months to 31.03.10	3 Years to 31.03.10	5 years to 31.03.10
Fund	5.9%	38.2%	-1.0%	4.9%
Benchmark return	6.2%	34.8%	2.2%	6.3%
*Difference in return	-0.2%	2.5%	-3.1%	-1.2%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts over 15 years + 3% per and then revised to 2.9%) is shown below:

	Quarter to 31.03.10	12 Months to 31.03.10	3 Years to 31.03.10	5 years to 31.03.10
Fund	5.9%	38.2%	-1.0%	4.9%
Benchmark return	0.9%	2.9%	7.4%	7.5%
*Difference in return	5.0%	34.2%	-7.9%	-2.4%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

The fund has been under its new arrangements since February 2005; therefore historical performance greater than three years is no reflection of the new strategy. The Fund’s revised strategy adopted in September 2008 has not been fully implemented and historical performance greater than one year is no reflection of the revised strategy.

3.3 The following tables compare each manager’s performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

QUARTERLY PERFORMANCE (AS AT 31 MARCH 2010)

	Standard Life	Alliance Bernstein	Royal London	UBS
Return (performance)	7.7	8.2	3.2	4.0
Benchmark	6.4	9.8	2.7	4.8
***Over/(Under) Performance vs. Benchmark**	**1.2**	**-1.4**	**0.5**	**-0.8**
TARGET	6.9	10.4	2.8	n/a
*** Over/(Under) Performance vs. Target**	**0.8**	**-2.0**	**0.3**	**n/a**

Source: WM Company, Fund Managers and Hymans

* Totals may not sum due to geometric basis of calculation and rounding.

ANNUAL PERFORMANCE (LAST 12 MONTHS)

ANNUAL	Standard Life	Alliance Bernstein	Royal London	UBS
Return (performance)	68.5	46.2	21.5	3.2
Benchmark	52.3	46.9	14.9	13.2
***Over/(Under) Performance vs. Benchmark**	**10.6**	**-0.5**	**5.7**	**-8.8**
TARGET	54.3	49.4	15.6	n/a
*** Over/(Under) Performance vs. Target**	**8.4**	**-2.2**	**5.0**	**n/a**

Source: WM Company, Fund Managers and Hymans

* Totals may not sum due to geometric basis of calculation and rounding.

4. Fund Manager Reports

4.1. UK Equities (Standard Life)

a) In accordance with agreed procedures officers met with representatives from Standard Life on the 20 May 2010 at which a review of the quarter 1 performance was discussed.

b) The value of the fund as at 31 March 10 is £122,690,379.6, an increase of 7.8% since December 09. Up to the date of the meeting there had been a drop in value to the level of the previous quarter.

c) Standard Life outperformed the benchmark in the quarter by 1.2% and outperformed the target in the quarter by 0.7%. Since inception they are flat against the benchmark and underperformed the target by -2.0%.

d) Standard Life reported that the UK equity market made a strong start to the year making further gains over the quarter with the global economy in a recovery phase. The UK economy emerged from recession although data remained mixed. There was encouraging improved corporate newsflow and an upturn in merger activity were supportive. The market panic had subsided and the focus moves from balance sheets to growth prospects.

e) The more cyclical sectors continued to perform (stocks in a company that tend to be in demand during strong economic growth). Their current positioning states that defensive stocks (which do not lose value when stockmarket is in decline) remain uncompelling.

f) Travel & Leisure, Industrial Engineering and the Banking sectors were the top contributors to performance.

g) Top stock contributors were in Mondi; due to improving prices and significant cost savings resulting in substantial earnings upgrade, Royal Bank of Scotland and Lloyds; management confirmed that impairments of their loan book had peaked and strong investment banking trading and British Airways.

h) Concerns were raised with Standard Life with regard to British Airways and whether there would be any impact with regard to the possible strike action. Standard Life stated that there would be no long term impact with regard to strike action and stated that they felt that premium traffic was showing signs of good recovery and the merger with Iberia and proposed tie up with American Airlines will be hugely beneficial.

i) Concerns were also raised with Standard Life on their overweight positioning in BP given their high profile problems over the oil spillage in the Gulf of Mexico. Standard Life at the time stated that they still believe in the company and that markets had probably overreacted, consequently the BP share price was undervalued.

j) Negative contributors came from the General Retailers, Pharmaceuticals & Biotechnology and Real Estate Investment Trusts sectors.

k) The bottom stock contributors came from BHP Billition; held an underweight position which was detrimental as the sector performed strongly, Brit American Tobacco; viewed as a beneficiary of dollar strength and the stock had previously been weak so underweight position was held, Standard Chartered; being underweight proved detrimental to performance as the company delivered stronger than expected results and impairments of their loan book had peaked.

l) The portfolio activity during Quarter 1 were as follows :
   - o Purchased Ladbrokes (operational changes likely to be positive)
   - o Purchased Kingfisher (positive meeting with management gave greater confidence that heir earnings were underpinned by operational actions)

- o Purchased Xchanging (Valuation very attractive and balance sheet remains strong)
- o Purchased WPP (beneficiary of improved economic backdrop, which should lead to upgrades)
- o Sold stocks in Aquarius Platinum and Kazakhmys (taking profits after good performance).
- o Sold stocks in Mondi (taking profits after good performance)
- o Sold Reed (lack of clarity on the new CEO's strategic plan)
- o Sold Wolseley (shares had performed well following appointment of new management team).
- o Sold stocks in Stagecoach (shares had performed strongly and valuation was looking less attractive)

m) Standard Life were asked again if in future presentations can they provide a more detailed breakdown of the attributes to performance including, if possible, stocks and sector performance.

n) Standard Life was updated with the current position regarding investment strategy implementation.

o) There were no governance or whistle blowing issues to report.

4.2. Global Equities (Alliance Bernstein)

a) Representatives from Alliance Bernstein are to make a presentation at this committee, therefore a brief overview of Quarter 1 performance follows:

b) Market Value of the fund increased 8.4% since the last quarter (end of December 09).

c) Alliance Bernstein under performed the benchmark by (1.4%) and underperformed the target by (1.2%) (Net of fees). Since inception they are below benchmark by (2.7%) and below the target by (4.9%) (Net of fees).

d) Stock selection and currency were the main driver of underperformance was offset marginally by a positive performance from sector selection.

4.3. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)

a) In accordance with agreed procedures officers met with representatives from Royal London on the 20 May 2010 at which a review of the quarter 1 performance was discussed.

b) The value of the fund as at 31 March was £108,752,852 an increase of 3% since December 09. As at the date of the meeting there was a slight increase in the value of the fund.

c) Royal London outperformed the benchmark for the quarter by 0.5% and 0.3% against the target.

d) Asset allocation of the fund during the quarter was 53.9% Sterling Credit Bonds, 25.3% Index Linked, 19.1% Fixed Interest Government Bonds, 1.2% Overseas Fixed Interest Government Bonds and .4% cash.

e) Royal London held overweight positions on all asset classes except for a 8% underweight position in Index Linked Bonds

f) Performance drivers come from the asset allocation, duration and yield curve positioning and stock selection.

g) In respect of asset allocation Royal London's activity during the quarter was as follows:
   - Increased an already overweight credit bond position
   - Added to short dated index inked bonds but sold long dated index linked bonds.
   - Activity in the UK government segment remained high
   - Reduced exposure to index linked bonds relative to gilts
   - Actively pursued strategies in both French and US bonds.

h) Overall asset allocation was beneficial. Portfolio benefited from the overweight position in credit and benefited from holding an overweight position in short dated index linked bonds. Overall an underweight position in index linked bonds was detrimental. Holding of overseas bonds was marginally positive.

i) The duration position (the sensitivity of a bond's price to shifts in interest rates) of the fund did not significantly differ from benchmark and this was not a significant factor in overall performance.

j) In regard to the Yield curve positions i.e. the relation between the interest rate and the time of maturity of a bond, Royal London increased exposure to long dated conventional government bonds which was detrimental the fund.

k) In respect of stock selection the activity during the quarter was as follows:
   - Maintained minimal exposure to supranational bonds - small positive contribution to performance.
   - Marginally increased exposure to bank debt - this was beneficial to the fund.
   - Maintained overweight position in Asset backed securities and investment trusts –small positive contribution to performance
   - Added to positions in the utility sector through new issuances – gained from this position.
   - Sales were limited, reduced positions in London Stock Exchange and Lloyd's insurance.

l) Some presentational issues were discussed with Royal London and they were asked if in future they could show the relative performance against benchmark and the target. They added the benchmark but will add target in future.

m) Royal London were asked to explain why they were underweight in Index Linked bonds and their views were that index linked were low yielding and they did not feel that inflation would be a problem.

n) In advance of the meeting Royal London was asked for their views on the impact on the fund in the wake of the general election results and how this impacts their bond positions. Royal London produced a paper on this which gave an outline of their views which was as follows:
   - Not much change in their gilts view. They expect supply will not be as detrimental as many expect and expects yields to range between 3.75% – 4.25%
   - Better value in medium and long dated areas.
   - Expect sterling to be stronger
   - Cost of inflation to fall
   - See value in overseas bonds – especially in the US
   - Expect higher interest rates this year.
   - Expect bond markets to remain volatile and see the scope for added value through active management to be significant
   - Believe that credit is cheap to bonds
   - Expect bank regulation to be greater following the appointment of Vince Cable and in the longer term beneficial for bond investors

o) Members have agreed a change to our portfolio that allows bonds to be held if they are downgraded after purchase to below investment grade BBB- . This means that Royal London would avoid having to be forced to sell those downgraded bonds. Royal London has been granted some flexibility over the disposal of these bonds during a period where it is expected a higher than usual numbers of bonds are being downgraded. It will not be permitted to allow purchase of bonds below BBB- only to have some flexibility when to sell if downgraded.

p) Royal London explained that for those assets that were downgraded earlier in the year and were not forced to sell benefited the portfolio. Royal London was requested to demonstrate this and they have produced a paper showing how this has benefited the portfolio between the period March 09 and March 10. It demonstrates that of the bonds still being held the value of these bonds, as at December 09, had increased by 88%, of the bonds exchanged the return was 124% and of the bonds sold the return was 59%.

q) Royal London was also asked about the departure of Stephen Booth (Head of Fixed Income Derivatives) and how this might impact on how our portfolio is managed. Royal London explained that Stephen will not be replaced and there will be no impact on our portfolio as no derivatives are held in the portfolio.

r) There were no governance or whistle blowing issues to report

4.4. Property (UBS)

a) Representatives from UBS are to make a presentation at this committee, therefore a brief overview of Quarter 1 performance follows

b) The value of the fund saw an increase in value by 4.1% since the last quarter ending December 09.

c) UBS underperformed the benchmark in the quarter by -0.8% and underperformed the benchmark in the year by -8.8%.

d) Underperformance was largely due to the continuing sale of assets to meet the last of its redemption queue.

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which is available for scrutiny in the Members Lounge.

2. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.

3. Receive quarterly information from the Investment Managers, detailing new Investments made.

   - Points 1 and 3 are contained in the Managers' reports.

   - With regard to point 2, Members should select a sample of the votes cast from the voting list supplied by the managers placed in the Member's room which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.

- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The managers attending the meeting will be from:

  Alliance Bernstein and UBS

- Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

IMPLICATIONS AND RISKS

Financial Implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Standard Life Quarterly report to 31 March 2010
Alliance Bernstein Quarterly report to 31 March 2010
Royal London Quarterly report to 31 March 2010
Western Asset Quarterly report to 31 March 2010
UBS Quarterly report to 31 March 2010
The WM Company Performance Review Report to 31 March 2010
Hyman's Monitoring Report to 31 March 2010

Havering
LONDON BOROUGH

	6
PENSIONS COMMITTEE **30 JUNE 2010**	**REPORT**

Subject Heading:	**REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES**
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
Policy context:	Regulation 12 (1) of the LGPS (Management and Investment of Funds) Regulations 2009 requires an administrative authority to keep this document under review
Financial summary:	No financial implications

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

In line with the Local Government Pensions Scheme Regulations and good practice the London Borough of Havering as an administrating authority undertakes a review of the Statement of Investment Principles (SIP). This report sets out how the review was undertaken and highlights where or if changes were necessary.

RECOMMENDATIONS

That the committee:

1. Consider and agree to proposed amendments to the SIP (Appendix A).

2. Consider and agree to the administrative authority's position in respect of reporting compliance against the Myner's investment principles (Appendix B).

REPORT DETAIL

1. BACKGROUND

1.1 LPGS (Management and Investment of Funds) Regulations 2009 12(1) states that an administrating authority must prepare, maintain and publish a written statement of the principles governing its decision about the investment of fund money (this is known as Statement of Investment Principles).

1.2 The regulations, paragraph 12(3) also state that administrating authorities must prepare and publish a statement which states the extent to which an administrating authority complies or does not comply with guidance issued by the secretary of State. Where it does not comply it must state reasons for non compliance. (This is known as the Myner's principles).

1.3 Guidance as issued from the Secretary of State will be the guidance as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) on 11 December 09 called 'Investment decision making and disclosure'.

1.4 The regulations as revised came into force with effect from the 1 January 2010.

1.5 The SIP must be published no later than **1 July 2010**.

2. Statement of Investment Principles

2.1 In May 09 at a Special Pensions Committee members agreed, in consultation with the funds investment advisor, to amend the SIP to provide members with the flexibility of temporarily deviating from the long term strategy.

2.2 A report was presented to the committee in November 09 where the proposal was agreed that no changes were made to the then current version of the SIP pending progression of the investment strategy and issuance of expected revised regulations.

2.3 The investment strategy has now been progressed to the extent that two new fund mangers were appointed in February/March 2010.

2.4 In light of these appointments the SIP requires some changes to reflect a reduction in active equity management to passive and to clarify the committee's policy on stock lending. The risk element of the statement has been strengthened after seeking advice from the funds investment adviser. These proposed changes can be seen on the track changes version attached as Appendix A.

3. Myner's Principles

3.1 The Pension Fund publishes the degree of compliance with the Myner's investment principles as an attachment to the SIP and this was last reviewed in November 08 and set against the then set of ten principles.

3.2 A report was presented to the committee in November 09 where the proposal was agreed that the Myner's compliance statement is reviewed against the new six principles once the CIPFA guidance had been released. CIPFA guidance was issued on the 11 December 2009.

3.3 With effect from 1 January 2010 the administrating authority must publish its compliance against the revised set of six principles.

3.4 Compliance against the new six principles will also have to be published within the Pension Fund Annual Report for 2009/10.

3.5 Attached as Appendix B is the Statement of compliance which shows the fund's position in respect of compliance against the six Myner's principles.

3.6 This illustrates that the fund is compliant with the majority of the six principles but needs to consider the following areas:

a) Principle No.3. Risk and Liabilities

Point (12) The annual report of the pension fund should include an overall risk assessment in relation to the funds activities……This could be done by summarising the contents of a regularly updated risk register, of which an analysis of the risks should be reported periodically to the committee….

The Pension fund does not currently have an overall risk assessment in the form of a risk register, although risks are considered as part of the monitoring process.

Action required for full compliance: Officers are planning on adopting a risk register for inclusion in the 2009/10 Annual Report, of which the publication date is currently no later than 1 December.

b) Principle No. 4. Performance assessment

Point 12 (Advisors). The committee should devise a performance framework against which to measure advice received from actuaries and advisors…..it is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data…..

Annual service assessment are undertaken for the services provided by the fund's actuary and advisors and are measured against a set of criteria adopted by the Pension Committee, However these assessments are qualitative (which are subjective).

Action required for full compliance: Officers are investigating the most appropriate method of undertaking quantitative reviews applicable for the fund; further advice is being sought from CIPFA on this issue.

Point 16 (Decision making bodies). The committee should set out its expectations of its own performance in its business plan….. It should include standards relating to administration of the committee's business such as: attainment of standards set down in CIPFA's knowledge and skills framework; achievement of required training outcomes….

The Business Plan, adopted by the committee in March 09, sets out the expectations of the committee.

Action required for full compliance: The current Business Plan did not include a training assessment process as officers will be reviewing the self assessment process as part of the plan to adopt the knowledge and skills framework following the election.

The revised SIP and Myners compliance statement has been revised having consulted the Fund's Advisors.

The revisions to the SIP and the Myners compliance statement will be sent to the other employers in the fund for any views and comments. If any views or comments are received these can be passed to the chair for consideration and inclusion.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no implications arising directly, however the review will ensure that the Pension Fund is both compliant and reduces the financial commitment on the General Fund as far as possible.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

None arise from this report.

BACKGROUND PAPERS

Background Papers List
LGPS (Management and Investment of Funds) Regulations 2009
CIPFA publication investment decision making and disclosure Dec 09
Statement of Investment Principles (May 09)

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STATEMENT OF INVESTMENT PRINCIPLES

JUNE 2010

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STATEMENT OF INVESTMENT PRINCIPLES

London Borough of Havering Pension Fund ('the Fund')

Background

Legislation

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1999 as amended require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to review it at least every three years and without delay after any significant change in investment policy. They are also required to set out a Statement of Compliance with the ten Principles of Investment Management contained in the CIPFA document "Principles for Investment Decision Making in the Local Government Pension Scheme in the UK" published in April 2002.

In preparing this Statement, the Pensions Committee has considered advice from the Investment Practice of Hymans Robertson LLP.

In relation to the Myners Code of Conduct for Investment Decision Making, the extent of the Trustees compliance with this voluntary code is summarised in the Appendix to this statement.

Purpose and Scope of Scheme

The London Borough of Havering is the Administering Authority for the London Borough of Havering Pension Fund. The Fund is part of the Local Government Pension Scheme (LGPS) and provides death and retirement benefits for all eligible employees and their dependants. It is a final salary defined benefit Pension Scheme, which means that benefits are payable based on the employees' final salary. All active members are required to make pension contributions which are based on a fixed percentage of their pensionable pay as defined in the LGPS regulations. Following the changes to the benefit structure of LGPS Schemes from 1 April 2008, active members previously paying contributions of 6% will pay banded rates between 5.5% and 7.5% depending on their level of full-time equivalent pay. Manual workers in employment before 1st April 1998 who previously had a protected 5% rate will be subject to transitional rates.

The London Borough of Havering is responsible for the balance of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time (but at least triennially) by the Fund's actuary.

The London Borough of Havering has a direct interest in the investment returns achieved on the Fund's assets, but the benefits paid to pensioners are not directly affected by investment performance.

Pensions Committee

A dedicated group of Councillors (the “Pensions Committee”) has been set up to deal with the majority of the Fund’s investment issues. Major investment decisions will be referred for consideration to the Pensions Committee. The Pensions Committee is made up of elected representatives of The Council who each have voting rights and Trade Union and Employer representatives who have observer status. The Pensions Committee reports to Full Council and has full delegated authority to make investment decisions. The Pensions Committee decides on the investment policies most suitable to meet the liabilities of the Havering Pension Fund and has ultimate responsibility for the governance of the Fund including Investment Strategy.

In particular, the Pensions Committee has duties that include:

- Monitoring the investment performance of the Fund on a quarterly basis;
- Determining overall strategy;
- Ensuring compliance with legislative requirements;
- Receiving the triennial valuation prepared by the Funds actuary with recommended contribution levels;
- Determining asset allocation and benchmarking;
- Appointment of Investment Managers.

The Pensions Committee is set up under the Local Government Act so that, where necessary it can exercise decision-making powers. The Pensions Committee meets at least four times per year to hear reports from its officers, investment managers, actuary, investment adviser and performance measurement provider. Additional meetings are held as required in particular to ensure the appropriate Councillor training.

The Pensions Committee also receives and considers advice from executive officers of the Council and, as necessary, from its appointed external investment adviser (including specific investment advice), the actuary to the Fund and its investment managers.

The Regulations state that the Administering Authority must, when formulating its investment policy, have regard to the advisability of investing fund money in a wide range of investments and to the suitability of particular investments and types of investments.

Fund Objective

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses;
2. To receive monies in respect of contributions, transfer values and investment income.

The overriding aims of the Fund as set out in the Funding Strategy Statement are as follows:

- To ensure that sufficient resources are available to meet all liabilities as they fall due.

- To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.

- To manage employers' liabilities effectively.

- To maximise the return from investments within reasonable risk parameters.

For active members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated consistently on the ongoing basis set out in the formal report of the Fund's Actuary on the actuarial valuation carried out as at 31 March 2007. The funding position is monitored quarterly by the Pensions Committee and formally reviewed at each triennial actuarial valuation.

Investment Objective

Following a review of the Investment Strategy in 2008, the Pensions Committee have translated their objectives into a suitable strategic asset allocation benchmark for the Fund. All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Fund invests. The Fund's benchmark is consistent with the Pensions Committee's collective view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The Committee have conducted a detailed study of the Funds' investment strategy within the last 3 years involving an asset/liability modelling exercise ('Phase 1') and a structure modelling exercise ('Phase 2') for fine tuning of the risk return profile of the selected strategy. In selecting the investment strategy the Pensions Committee have been advised by their Investment Adviser, Hymans Robertson, and have paid due consideration to:

- Prudence – the impact on the margins included in the actuarial funding basis and the need for the actuary to adopt a prudent approach.

- Affordability – the impact on the level of Employer contributions in the longer term.

- Stability – the extent to which Employer contributions vary between actuarial valuations and the need to minimise such variations.

- Stewardship – the impact of the investment strategy on reaching target funding levels and the associated risks involved.

Asset Allocation

To achieve their objectives the Pensions Committee have agreed upon the following benchmark allocation:

	Column 1	**Column 2**
	latest %	**target %**
Property	5	10
UK Equities	37	30
Global Equities	24	30
Fixed Interest Gilts	}	5
Index Linked Gilts	} 30	5
Corporate Bonds	}	15
Absolute Return	0	5

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The asset allocation in column one represents the asset allocation as at March 2009. The asset allocation in column two represents the Pensions Committee target allocation and takes account of the prospective allocation to the absolute return manager appointed in March 2010.

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The underlying target return of this strategy is the return on long dated Gilts plus 2.9% p.a. This level of performance over Gilts allows for the expected returns from the combination of asset classes net of fees, and makes a conservative allowance for active manager skill. It is consistent with the average long term return expectations underlying the modelling work supporting the strategy review.

The expected returns as used in the modelling work during the strategy review for individual asset classes are.

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	Expected Rates of Return % p.a.
UK Equity (UK)	7.8%
Equity (Overseas)	7.5%
Fixed Interest Gilts	4.6%
Index-Linked Gilts	4.4%
Corporates	5.4%
Cash	4.8%
Commercial Property	5.7%
Alternative Assets	7.0%

Choosing Investments

The Pensions Committee have appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Pensions Committee have given the investment managers specific directions as to the asset allocation but investment choice has been delegated to these managers subject to their respective benchmarks and asset guidelines.

The fund has undergone changes to its structure to align to the new benchmark allocation. Two new fund managers were selected in March 2010 following a OJEU tender process. The allocation of assets to each manager that the Committee aims to have in place at the end of the restructuring process is as follows:

Mandate (% of fund awarded)	Manager	Tactical Benchmark	Target
Property (10%)	UBS	IPD All balanced (property) Fund's median	To outperform the benchmark
UK Equities (Active 20%)	Standard Life	FTSE All Share	+2% net of fees
Global Equities (Active 25%)	Alliance Bernstein	MSCI All Countries Index	+2.5% net of fees
UK /Global Equities (Passive 15%)	State Street	Composite	To track the benchmark (gross of fees)
Investment grade bonds (25%)	Royal London Asset Management	Composite	+0.75% net of fees
Absolute Return (5%)	Ruffer	UK bank deposit rate	To outperform the benchmark (net of fees)

The Pensions Committee were aiming to have invested in an Absolute Return mandate by the first quarter of 2009 subject to identifying the most effective way to gain such exposure and a return to less volatile market conditions; the funds earmarked for this investment are currently with Royal London Asset Management invested in Index Linked Gilts. Although the Absolute Return fund manager was selected in March 2010 at the time of writing they have not commenced trading.

From time-to-time, particularly when implementing the changes to the strategic asset allocation, when markets are volatile or when dealing costs are high, the Committee may deviate from the long-term strategy on a temporary basis. The Committee recognises that, while it is impossible to predict short-term market movements, it should use its reasonable judgement in such circumstances. For example, this could be applied with the aim of avoiding excessive dealing costs or reducing the impact of adverse market movements by spreading changes over a number of dealing dates. In doing so, the Committee also recognises that the Fund is intended to meet the liabilities as

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they emerge over the longer term and hence the normal default position is to be fully invested broadly in line with the strategic benchmark.

Fees

UBS is remunerated by a fixed management fee and the expenses inherent in the management of the pooled property fund. Royal London Asset Management and Standard Life are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management. Alliance Bernstein is also remunerated by an ad valorem scaled fee based on quarter end closing market values of the assets under management. When the new managers (Ruffer and State Street) are appointed they will be remunerated by an ad valorem scaled fee.

Investment Responsibilities

Responsibilities of the Pensions Committee

- Overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;
- Monitoring compliance with this Statement of Investment Principles and reviewing its contents;
- Appointing investment managers, an independent custodian, the Fund actuary, external independent advisers and investment adviser;
- Reviewing investment manager performance against established benchmarks on a regular basis;
- Reviewing the investment managers' expertise and the quality and sustainability of their investment process, procedures, risk management, internal controls and key personnel;
- Reviewing policy on social environmental and ethical matters and on the exercise of rights, including voting rights;
- Reviewing the investments over which they retain control and to obtaining written advice about them regularly from the investment adviser. The Pensions Committee will also obtain written advice from the investment adviser when deciding whether or not to make any new investments or to transfer or redistribute assets within the mandates, whether due to market movements or other factors;
- Rebalancing the assets with reference to trigger points. When the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily. The

priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweighted assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

The Pensions Committee is advised by The Council's Executive Officers, who are responsible for:

- Ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Pensions Committee;
- Management of surplus cash, which is lent through the money markets in accordance with the Council's Treasury Management Code of Practice. Performance is measured against the 7-day London Interbank Bid (LIBID) rate;
- Investment accounting and preparing the annual report and accounts of the fund;
- Ensuring proper resources are available for the Council's responsibilities to be met.

The Investment Managers are responsible for:

- The investment of pension fund assets in compliance with the legislation and the detailed investment management agreements;
- Tactical asset allocation around the strategic benchmark set by the Pensions Committee;
- Stock selection within asset classes;
- Voting shares in accordance with agreed policy;
- Preparation of quarterly reporting including a review of past investment performance, transaction costs and future investment strategy in the short and long term;
- Attending meetings of the Pensions Committee and officers of the council as required.

The Independent Custodian is responsible for:

- Provision of monthly accounting data summarising details of all investment transactions during the period;
- Providing investment transaction details in a timely manner to the independent performance measurers;

- Safe custody and settlement of all investment transactions, collection of income, withholding tax reclaims and the administration of corporate actions;

- The separation of investment management from custody is paramount for the security of the assets of the Fund.

The Actuary is responsible for:

- Undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required, including those to enable compliance with the reporting standard FRS17;

- Advising on the rate of employer contributions required to maintain appropriate funding levels;

- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services;

- Preparing the Funding Strategy Statement.

The Independent Measurers are responsible for:

- Providing the Pensions Committee and the Council's executive officers with comparative information on the Fund's performance relative to other funds and the relative performance of different types of investments.

The Investment Adviser is responsible for:

- Advising on the investment strategy of the fund and its implementation;

- Advising on the selection of investment managers, and the custodian;

- Providing investment information, investment advice[1] and continuing education to the Pensions Committee and the executive officers;

- Independent monitoring of the investment managers and their activities.

The Investment Adviser is remunerated by way of time cost fees and fixed fees within an agreed annual budget.

[1] The Investment Adviser is authorised by and registered with the Financial Services Authority for the provision of investment advice.

The Auditor

- The Fund is audited annually by the auditors appointed by the Audit Commission. The financial year end is 31^{st} March.

The Historic Position of Fund

The Fund is unlikely to be fully funded for several years. This has arisen for a number of reasons including.

- The reduction in the funding level to 75% of liabilities as a result of government regulations prior to the introduction of the community charge:
- The cost of the redundancy programme in the mid 1990's.

(Note that since 1998 redundancies and early retirements are a charge on departmental cost centres and external employers rather than the Pension Fund).

- Overall investment returns since 1998 falling short of those anticipated in the funding strategy adopted from time to time.

- Longevity improving at a faster rate than anticipated.

At the last triennial valuation (at 31^{st} March 2007) the funding ratio was 68%.

The Administering Authority is obliged to prepare a Funding Strategy Statement (FSS), which is published on the Council's web site at www.havering.go.uk (Within 'Council and Democracy', 'About council tax and our finances', 'Havering Pension Fund'). This outlines the method by which the Fund aims to return to an acceptable level of funding. This is expected to be achieved by a combination of increased contributions to the Fund, and achieving good long-term investment returns following the implementation of the new investment strategy in 2008.

Review

- The investment strategy is reviewed by the Pensions Committee, every three years following the actuarial valuation results and informally on an annual basis.
- The current review is based on the Actuarial Valuation 2007 and an Asset/Liability study and advice on asset allocation from the Fund's Investment Adviser in 2008.

Reporting

The investment performance of the individual managers is reported to the Pensions Committee and Officers quarterly. Reports are received from the fund's performance measurers and investment advisers, along with executive summaries from each investment manager including details of any voting undertaken in that quarter.

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

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Funding risks:

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- Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.

- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting Fund liabilities. .

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. In 2008, following recommendations from the 2007 Actuarial Valuation and a full review of investment strategy commissioned from the Fund’s investment adviser, the Pension Committee agreed to revise the investment strategy. The allocation to growth assets following the review is: 75% in a mixture of equities, property and alternative assets with the remaining 25% in lower volatility bonds. Although this is not in line with a liability-matched position, it is intended to grow the value of the assets at a managed level of risk with reduced long-term costs for the Council

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The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

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- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committees' expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.

- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

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The structure modelling which formed part of the 2008 Strategy Review indicated that the revised strategy had a total risk of approximately 14% compared to the Fund's liabilities. This means that the assets are expected to move within the range -14% to +14% relative to the liabilities in two out of every three years.¶
The allocation to growth assets following the review is: 75% in a mixture of equities, property and alternative assets with the remaining 25% in low volatility investment grade bonds. Although this is not in line with a liability-matched position, it is intended to grow the value of the assets at a managed level of risk with reduced long-term costs for the Council¶

Investments

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 1998. The Fund is required to invest any monies which are not required to pay pensions and other benefits and in so doing take account of the need for suitable diversified portfolio investments and the advice of persons properly qualified (including officers) on investment matters.

Types of Investment

In broad terms investments may be made in accordance with the regulations in equities, fixed interest and other bonds and property and in the UK and overseas markets. The regulations specify other investment instruments may be used e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts, although historically it has not been the practice of the Fund to participate in these. Any limitations on the use of these instruments will be included within the Investment management Agreements (IMA's).

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 deposit with a single bank or institution or investments in unlisted securities.

The Pensions Committee has set out control ranges and restrictions for the Fund's investments. These control ranges and restrictions have been considered when setting the benchmarks for each Manager.

Investment Management

The Investment Manager's are each bound by an investment management agreement (IMA) that takes account of:

- The benchmark set, and the allocation of assets within this benchmark;
- Cash needs;
- Risk tolerances;
- The policies on Corporate Governance and Socially Responsible Investment, given later in this document.

The Investment Manager must also select the appropriate types of investment as defined in the Regulations.

Investment Manager Controls

The Investment Managers are authorised and regulated by the Financial Services Authority (FSA), and must comply with the regulations contained within the Financial Services and Markets Act 2000 (FSMA 2000). Under these regulations, the manager must ensure that suitable internal operating procedures and risk frameworks are in place. FSMA is designed to provide a Fund such as this with an adequate level of protection, and the Investment Managers are obliged to meet their obligation imposed by this act.

The mandates set for the Investment Managers contain controls to ensure compliance with best practice and regulations. Controls on cash levels and transfers of cash and assets are also set within the IMA's.

Social Environmental and Ethical Considerations

> 'The Pensions Committee has considered socially responsible investment in the context of its legal and fiduciary duties, and the view has been taken that, while the non-financial factors should not drive the investment process to the detriment of the financial return of the Fund, it is appropriate for the Investment Manager to take such factors into account when considering particular investments.
>
> Over the longer term, the Pensions Committee requires the Investment Manager(s) to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. Beyond this, the Investment Manager(s) has full discretion with the day to day decision making.'

Corporate Governance and Voting Policy

Corporate Governance Policy

> **'**The policy of the Havering Pension Fund is to accept the principles laid down in the Combined Code as interpreted by the Institutional Shareholders Committee 'Statement of Principles'.

In making investment decisions the Council will, through its Pension Fund Investment Manager(s), have regard to the economic interests of the Pension Fund as paramount and as such

1. Will vote at all general meetings of UK companies in which the Fund is directly invested.
2. Will vote in favour of proposals that enhance shareholder value.
3. Will enter into timely discussions with management on issues which may damage shareholders' rights or economic interests and if necessary to vote against the proposal.
4. Will take a view on the appropriateness of the structure of the boards of companies in which the Fund invests.
5. Will take a view on the appropriateness of the remuneration scheme in place for the directors of the company in which the Fund invests

Beyond this, the Council will allow its Investment Manager(s) full freedom with the day to day decision making.

The Pensions Committee will, where appropriate,

6. Receive quarterly information from the Investment Manager, detailing the voting history of the Investment Manager on contentious issues.
7. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
8. Receive quarterly information from the Investment Manager, detailing new investments made.'

Stock Lending

The Committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Committee has decided only to permit stock lending by the Fund's passive equity manager, State Street.

State Street has agreed to indemnify the Fund against any loss arising from insufficient collateral being posted as part of its stock lending programme.

The Committee will review its policy on stocklending from time to time.

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Consultation and Publication

The Council has reviewed the Statement of Investment Principles in association with the Funds Investment Adviser and has also consulted with the employers of the fund, employee representatives and all fund managers through written correspondence.

Scheme members are informed of the publication and review process in the annual pension fund leaflet which is distributed with their Annual Benefit Statement.

A copy of this document together with the Myner's Statement of Compliance has been published on the Council's website www.havering.go.uk (within 'Council and Democracy', 'About council tax and our finances', 'Havering Pension Fund').

The Statement of Investment Principles will be reviewed at least annually and a revised version issued as soon as any significant change occurs. Any comments and suggestions will be considered. Please contact the Pension Fund Accountant with your views at info@havering.gov.uk .

MYNERS Principles for Investment Decision Making

The Pensions Committee will regularly review the Scheme's compliance with this Statement of Investment Principles.

The Action the Council has taken to meet the recommendations made in the Myner's report has been updated to June 2010 and is available as an appendix to this statement.

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UK /Global Equities (Passive 15%)	State Street	Composite?	To track the benchmark (gross of fees)?

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UK /Global Equities (Passive 15%)	State Street	Composite?	To track the benchmark (gross of fees)?

Myners Principles - Application

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
1. Effective decision-making **Administrating authorities should ensure that :**		**SUMMARY: FULLY COMPLIANT**
(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and **(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest**	1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned.	A designated group of elected members have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 1 - article 8).
	2) Roles of the officers with responsibility for ensuring the proper running of the administration authority's and the committee's business should be set out clearly. The rules drawn up should provide a framework for the committee's code of business and include a process for the declaration of conflicts of interest.	Roles of the officers with responsibility for the running of the administrating authority's and the committee's business is specified in the Council's constitution (Part 3 - section 3). Declarations of interests are considered at the start of each meeting.
	3) The committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers and/or external investment managers.	The Pensions Committee is governed by specific terms of reference and is specified in the Council's constitution (Part 1), officer functions are also specified (Part 3).
	4) The process of delegation should be described in the constitution and record delegated powers relating to the committee. This should be shown in a public document, such as the statement of investment principles.	The delegation process for the running of the pension scheme is specified in the Council's constitution (Part 3). The Council's constitution is available via the Council's website at www.havering.gov.uk, follow links council and democracy, Council's constitution. The Statement of Investment Principles (SIP) includes the delegated functions to the Pensions Committee.
	5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified.	Roles of members, officers, external advisors and managers are specified in the SIP.
	6) Where possible, appointments to the committee should be based on consideration of relevant skills, experience and continuity.	Where possible, appointments made to the committee are based on consideration of relevant skills, experience and continuity.

Myners Principles - Application

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoptation of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made.	Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund. Forward looking business plan is presented at the first Pensions Committee meeting of the financial year and reported in the Pension Fund Annual Report. Majority of members have completed a self assessment of training needs but a strengthened version of this will be issued after the May 2010 elections when any new members are known.
	8) The committee review its structure and composition regularly and provide each member with a handbook containing committee's terms of reference, standing orders and operational procedures. It is good practice to establish an investment or other subcommittee to provide focus on a range of issues.	Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate continuity and helps to maintains expertise within the committee. Elected members are provided with a copy of their roles and responsibilities. The committee has not established any subcommittees as the Pensions Committee focuses only on the activities of the pension fund.
	9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings.	The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations.
	10) The committee should obtain proper advice from suitably qualified persons, including officers. The CFO should assess the need for proper advice and recommend to the committee when such advice is necessary from an external advisor. The committee should ensure that it has sufficient internal and external resources to carry out its responsibilities effectively.	The Pensions Committee has appointed two advisors – Investment Advisor and Actuarial Advisor. The Pension Fund Accountant provides in house support to members. The Pension committee is also supported by the Council's pension administration and payroll sections. Internal and external resources are considered as part of the business plan.
	11) Allowances paid to elected members should be set out in a published allowances scheme and reviewed regularly.	Members of the Pensions Committee expenses are reimbursed in line with the Council's constitution (Part 6 -'Members Allowance Scheme')
	12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings.	Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of publicly elected body.

Myners Principles - Application

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting.	Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receives agendas five working days prior to meeting date.
	14) The **CFO** should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the business plan.
	15) The CFO should ensure that a medium term business plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan should be submitted to the committee for consideration.	The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan also incorporates the training plan.
	16) Business plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The business plan includes the outcome of an internal review of resources.
	17) Administrating authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship (Reg 31 2008 regulations).	The Pension Fund prepares, publishes and maintains a statement of compliance against a set of nine good practice principles. This statement shows the extent to which the administrating authority complies with the principles and is reviewed annually.
	18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is available on the Council's website: www.havering.gov.uk (under Council and democracy - finance - Havering pension fund) and is included in the Pension Fund Annual Report. Its availability is published in the Annual report to Pensioners, Deferred Pensioners and contributors (aka pension fund leaflet).
	19) The fund's administration strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities.	In line with regulations, the fund currently does not have an administration strategy, consideration of adopting this strategy is reviewed regularly.

Myners Principles - Application

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
2. Clear objectives		**SUMMARY: FULLY COMPLIANT**
	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
(a) 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 these should be clearly communicated to advisors and investment managers.	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
	4) with the CFO need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS).
	5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members.	The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and takes the view that active management of particular assets does have potential to achieve higher returns and the mandates awarded to managers allow those managers to use appropriate levels of risk in order to achieve the required returns.

Myners Principles - Application

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administrating authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administrating authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually. The contract for the external advisor is tendered on a three to five cycle enabling performance to be measured in a competitive environment.
	7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	After full consultation with the Council's Actuary and Investment Advisers a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	Following the 2007 Valuation the Pensions Committee commissioned the fund's investment advisor to undertake an asset liability study, the results of which were used in formulating the current and ongoing investment strategy
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's SIP.
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled.	Fund managers report periodically on transaction costs. Transaction costs are collated and disclosed in the statement of accounts.
	11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Understanding transaction costs are considered and where appropriate expert advice would be sought.

Myners Principles - Application

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The committee uses the services of WM Performance Measurers for independent monitoring of performance against benchmarks. Peer group benchmark performance is used for comparison purposes only.

Myners Principles - Application

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
3. Risk and liabilities		**SUMMARY: MAJORITY COMPLIANT**
a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.	The committee should:	
b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	A full investment strategy review was carried out following the actuarial valuation results in 2007. The fund has formulated its own asset allocation based on identified liabilities particular to the fund; this was determined as a result of asset liability modelling exercise undertaken by the funds' investment advisors. The fund investment strategy was adopted having considered the members attitude to risks and are covered in the SIP and FSS.
	2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	
	3) consider the extent to which the cash flow from the fund's assets should attempt to match the liabilities and the relevant timing. It should also consider the volatility of returns it is prepared to accept.	
	4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years.	The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's SIP.
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	Expected returns for individual asset classes were considered when choosing investments and are shown in the SIP.
	6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it.	Also included in the SIP is the acceptable measure of risk on the returns.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the CFO should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	The fund receives a risk assessment as part of the Valuation process with full consultation of the fund's actuary. Performance is monitored and reported to the committee on a quarterly basis and includes recommendations for action where appropriate. Liabilities are only considered as part of the triennial valuations, however cash flow is monitored monthly and reported to committee quarterly.
	8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance.	
	9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the **CFO.**	The external audit reports are included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken annually by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee.
	10) The fund's statement of investment principles should include a description of the risk assessment framework used for potential and existing investments.	The Pension Fund's Statement of Investment Principles includes a description of the risk assessment framework.
	11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling.
	12) The annual report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.	The Pension Fund currently does not have an overall risk assessment in the form of a risk register, although ongoing risks are considered as part of the monitoring process. **ACTION**: Officers are planning on adopting a risk register for inclusion in the 2009/10 Annual Report, publication date currently stands at before 1 December.

Myners Principles - Application

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
4. Performance assessment	**Investments**	**SUMMARY: MAJORITY COMPLIANT**
a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors	The committee should:	
b) 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	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	During the investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the fund's investment advisors, it considered and initially adopted full active management with appropriate targets and risk controls set. In light of the market events that followed, the Pensions Committee, after assessing the risks, agreed to reduce some of the active management and start the search for a passive manager in relation to UK and oversees equities. The appointment of a passive manager was made in March 2010.
	2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies	Benchmarks are set in agreement with the fund's investment manager (s)
	3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.	
	4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors.	Performance monitoring reports are presented to the committee quarterly and covers the latest quarter, rolling one year and three year performance. Where appropriate fund managers will report tracking errors. Each Fund Manager presents their performance reports to the committee on alternate quarters. On each alternate quarters they meet with officers.
	5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile.	The asset /liability profile is reviewed at each triennial valuation.

Myners Principles - Application

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	In addition to officer reports, the investment adviser monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective.
	7) Returns should be obtained from specialist performance agencies independent of the fund managers.	The Pension Fund uses the services of WM performance measurers who independently report against the overall fund and individual manager returns on a quarterly basis. WM returns are monitored against fund manager returns and discrepancies are investigated. WM also produce an annual performance report and this is summarised to the Pensions Committee.
	8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency	Each quarter, WM measure fund manager returns against their agreed benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the WM report.
	9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc).	The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.
	10) The use of peer group benchmarks (such has CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.	WM performance returns against peer group benchmarks are used for comparison purposes only.
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.

Myners Principles - Application

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	Advisors	
	12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee. However these assessments are qualitative (which are subjective). **ACTION:** Officers are investigating the most appropriate method of undertaking quantitative reviews applicable for the fund.
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	
	14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes.	
	15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members	
	Decision-making bodies 16) The process of self assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;	Pensions Committee performance is reviewed as part of the Annual Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the committee, and full compliance with governance requirements including attendance at all training sessions.
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	

Myners Principles - Application

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:	The Business Plan sets out the expectations of the committee.
	19) attainment of standards set down in CIPFA's soon to be published knowledge and skills framework; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.	Achievement of training outcomes are self assessed by the Pensions Committee on a regular basis. Targets such as dates for issuing agendas and minutes are strictly adhered to or reports are not presented (unless exceptional circumstances). **ACTION**: Officers will be reviewing the self assessment process as part of the plan to adopt the knowledge and skills framework post local elections.
	20) This assessment should be included in the fund's annual report.	The assessment of the committee expectations and training are included in the Annual Report

Myners Principles - Application

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
5. Responsible ownership **Administrating authorities should:** **a) adopt, or ensure their investment managers adopt, the Institutional Shareholders' committee Statement of Principles on the responsibilities of shareholders and agents** **b) include a statement of their policy on responsible ownership in the statement of investment principles** **c) report periodically to scheme members on the discharge of such responsibilities.**		**SUMMARY: FULLY COMPLIANT**
	1) Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained the annual report.	Policies on Social Environmental and ethical considerations are disclosed in the SIP, a copy of which is also included in the Pension Fund Annual Report.
	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that non-financial factors should not drive the investment process to the detriment of the financial return of the fund.
	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	Over the long term, the Pensions Committee requires the investment mangers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance.
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.	
	5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager.	The SIP is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.
	6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken	Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Voting activity is reported quarterly and made available for the Pensions Committee to consider.
	7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	8) The committee should ensure that investment consultants adopt the institutional shareholder committee (ISC) statement of practice relating to consultants.	The ISC is a voluntary code of practice and applies to institutional investors on a comply-or-explain basis. Consideration of compliance will need to be given for future appointments of investment consultants. For existing investment consultants, where applicable they are fully complaint or work is well underway to becoming compliant.
	9) The ISC's Statement of Principles on the responsibilities of shareholders and agents sets out best practice in relation to their responsibilities in respect of investee companies, in that they will: set out their policy on how they will discharge their responsibilities; monitor the performance of, and establish, where necessary, a regular dialogue with investee companies; intervene where necessary; evaluate the impact of their engagement and report back to clients and beneficial owners.	
	10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the principles	

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
6. Transparency and reporting **Administrating authorities should:** **a) 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** **b) provide regular communication to scheme members in the form they consider most appropriate.**	The committee should:	**SUMMARY: FULLY COMPLIANT**
	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non-compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on an annual basis. Any non-compliance is reported and necessary actions included.
	2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted.	The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters.
	3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	The work of the Pensions Committee is publicly available on the Councils website at www.havering.gov.uk, follow links for Council & democracy, committee agendas and minutes, pension fund. There is a dedicated page on the Council's website for the pension fund under the link for Finance and how the work is communicated to its stakeholders is included in the fund's communication strategy. Key information is also communicated to scheme members annually in the Report to Pensioners, Deferred Pensioners & Contributors (Pension Fund Leaflet) which is distributed with the Annual Benefit Statements.
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who are in the process of developing a website to enable pension sharing best practices across the London boroughs. Havering is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	Areas of current non-compliance in the annual report against regulations is in the process of being compiled by officers and an action plan, if required, will be created.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	6) The Funding strategy (FSS) , the statement of investment principles (SIP) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks.	The FSS, the SIP and the Governance Compliance Statement are available on the Council's website at www.havering.gov.uk and are included on a dedicated page for the Pension Fund under the link for Finance. This page also includes the pension fund's communication policy. Where applicable reference to all these documents is made in other publications.
	With regard to the FSS and SIP they should: 7) contain delegation process and roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorum or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications.	The policies includes: the delegation process and roles of officers, members, external advisors and managers are differentiated; the process by which the fund allocation process has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control.
	8) With regard to the Governance Compliance Statement it must include information on whether administrating authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights.	The Governance Compliance Statement includes information on the administering authorities delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) Governance Compliance Statement must include details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with CLG guidance and a copy has been sent to the CLG.
	10) The fund's Communication Statement must set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities.	The Communication Statement includes: the administrating authorities policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.