Havering
LONDON BOROUGH

PENSIONS COMMITTEE
24 November 2015

Report

Subject Heading:	**REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.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 direct financial implications

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

Havering will be clean and its environment will be cared for	[]
People will be safe, in their homes and in the community	[]
Residents will be proud to live in Havering	[x]

SUMMARY

In line with the Local Government Pensions Scheme Regulations (LGPS) 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 this report and any consultation responses and, subject to these, decide whether to agree the 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**).

3. Consider whether it wishes to receive a further report on the implications of and compliance with the UK Stewardship Code.

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 statement must cover its policy on:

(a) the types of investment to be held;

(b) the balance between different types of investments;

(c) risk, including the ways in which risks are to be measured and managed;

(d) the expected return on investments;

(e) the realisation of investments;

(f) the extent (if at all) to which social, environmental or ethical

considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and

(h) stock lending.

1.3 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).

1.4 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 2009 called 'Investment decision making and disclosure' and updated in 2012.

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

2. Statement of Investment Principles

2.1 The Statement of Investment Principles was updated in July 2013 to reflect the committee's decision to allocate 3% of the fund's asset to infrastructure.

2.2 The proposed version of the SIP can be seen attached as **Appendix A.**

2.3 The main changes to the SIP are as follows:

a) Reformatted the document and added a contents page.
b) Updated the table showing the allocation of assets to managers by including two new columns to show that the mandates are the segregated or pooled elements and whether the mandate is active or passive,
c) Social Environmental and Ethical Considerations statement have been updated.

2.4 In line with regulations before revising this statement an administering authority must consult. The revised SIP was distributed to the other employers in the Fund on the 4 November 2015 with comments to be received by the date of this meeting. A verbal update will be provided at the meeting as to whether any view or comments were received.

2.5 The final agreed version of the SIP will be distributed to the Fund Managers and other employers following this meeting.

3. Myner's Principles

3.1 Since January 2010 the administrating authority must publish its compliance against a set of six principles.

3.2 Compliance against the six principles will also have to be published within the Pension Fund Annual Report.

3.3 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.

3.4 The principles were reviewed with regard to the updated CIPFA guidance and can demonstrate that the fund is compliant with the majority of the six principles but needs to consider the following area:

a) **Principle No.5. Responsible ownership - Administering authorities should recognise and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code.**

Best practice suggests that the committee should engage with, and consider the implications of, the UK Stewardship Code on a 'comply or explain' basis.

Those in the investment chain are split into three classifications - asset owners (e.g. pension funds), asset managers and service providers. It is a regulatory requirement of the Financial Reporting Council (FRC) that UK authorised asset managers' report whether or not they apply the code. Asset owners are free to choose whether or not they engage but if they do not then they have to provide a meaningful explanation in their annual report.

Action required for full compliance: CIPFA guidance suggests funds seeking to comply with Principle 5 should comply with the UK Stewardship Code.

Another consideration for the committee concerns the Key Performance Indicators (KPI's) that The Scheme Advisory Board is looking at developing to measure the 'health' of funds and to identify those funds where potential management problems lie. One of the measures includes whether a fund has adopted and reports against the FRC UK Stewardship Code. The committee should consider whether it receives a further report on the implications and compliance with the UK Stewardship Code.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no implications arising directly, however undertaking a review of the Investment Strategy on a regular basis will identify whether the investment objectives are being met and that they remain realistic. One of the Investment Strategy aims is to achieve a funding level of 100% on an on-going basis by 2030 whilst ensuring that investment objectives are being met and minimise any costs to the general fund.

Legal implications and risks:

It is a principle of administrative law that when the Authority has a duty to consult it must conscientiously take into consideration the representations of consultees before making its decision. Accordingly any comments provided under para 2.4 above should be considered conscientiously.

Otherwise there are no apparent legal implications and the applicable law is set out in the main body of the 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 and 2012
Statement of Investment Principles July 2013

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STATEMENT OF INVESTMENT PRINCIPLES

NOVEMBER 2015

STATEMENT OF INVESTMENT PRINCIPLES

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Compliance statement SIX Myners principle .xls

STATEMENT OF INVESTMENT PRINCIPLES

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

BACKGROUND

The Scheme

The Local Government Pension Scheme (LGPS) is a nationwide scheme and part of the pay and reward packages for employees working in local government or working for other employers participating in the 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.

The Scheme is a contributory, defined benefit occupational pension scheme and 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.

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 benefits of the Scheme are defined by statute. 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.

A new Career Average Revalued Earnings (CARE) Scheme was introduced from 1 April 2014. Pension builds up on a yearly basis equal to 1/49th of their actual pensionable pay in that year.and is revalued in line with CPI (Consumer Price Index). For membership prior to 1st April 2014 pension is based on the best of the last three year's pensionable pay (whole time equivalent pay) and actual scheme membership (reckonable service).

Legislation

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and as amended in 2013 require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to keep the statement under review and if necessary revised after any significant change in investment policy.

STATEMENT OF INVESTMENT PRINCIPLES

The Regulations set out that the SIP must cover:

- The types of investments to be held;
- The balance between different types of investments;
- Risk, including the ways in which risks are to be measured and managed;
- The expected return on investments;
- The realisation of investments;
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- The exercise of the rights (including voting rights) attaching to investments, if they have any such policy; and
- Stock lending.

They are also required to set out a Statement of Compliance with the six Principles of Investment Management contained in the CIPFA document ''Principles for Investment Decision Making and disclosure" published in December 2009 and updated in 2012.

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 Fund's compliance with this voluntary code is summarised in the Appendix to this statement.

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 and reflects the political balance of the Authority. The Council and Employer representatives each have voting rights and Trade Unions have observer status. Scheduled and admitted bodies may appoint one representative who is entitled to attend the meetings of the Pensions Committee on their behalf.

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 objectives and 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.

Advice

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.

Investment Managers

The Fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash.

The Pensions Committee has 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.

INVESTMENT RESPONSIBILITES

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 overweighed 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 managers' strategic benchmark as 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 standards i.e. FRS17/IAS19;
- 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.

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

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

The Auditor

- The Fund is audited annually at the end of each financial year ending 31 March by external auditors.

PENSION FUND LIABILITIES

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 income from investments within reasonable risk parameters.

The liabilities of the Pension Fund are the pensions due to be paid to current pensioners and their dependents, deferred members and the future benefits that will be paid to active members.

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 on-going basis set out in the formal report of the Fund's Actuary on the actuarial valuation carried out as at 31 March 2013.

At the last triennial valuation (at 31st March 2013) the funding ratio was 61%.

The Fund's asset performance is monitored quarterly by the Pensions Committee and the funding position is formally reviewed at each triennial actuarial valuation and in accordance with the Fund's Funding Strategy Statement the Actuary also carries out an inter-valuation update. This funding update is provided to illustrate the estimated development of the funding position 18 months from the date of the valuation.

The Administering Authority is obliged to prepare a Funding Strategy Statement (FSS), which is published on the Council's web site Pension Fund page 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 2012.

INVESTMENT STRATEGY

Investment Objectives

In framing investment strategy, it is recognised that the Committee has the long-term objective of being 100% funded on the current funding basis (i.e. with liabilities discounted at a rate of 1.8% p.a. in excess of gilt yields). The Committee is currently targeting to achieve this objective over the period to 2030.

The Committee wishes to pursue an investment strategy that retains at least a 60% chance of achieving this long-term objective. They have recognised that, over the ten year period from 31 March 2012, the required return from the Fund's assets to get "back on track" is around 6.5% p.a. more than the growth in the Fund's liabilities.

The Committee acknowledges this objective to be challenging and will therefore use this as a point of reference, rather than an explicit target. The Committee will monitor the development of the Fund's funding level to ensure the Fund remains on track and to identify any potential actions needed.

Based on advice from their Investment Adviser and a detailed review of strategy undertaken during 2012, the Committee has adopted a flexible investment strategy that reflects the following principles:

- *Growth*: The Committee recognises that a high allocation to "growth" assets/strategies is needed to achieve the long-term objective.

- *Control*: The Committee recognises that diversification can provide some protection against changing market conditions but that systemic risk cannot be diversified. The Committee therefore believes that greater dynamism within the investment strategy is desirable in order that the underlying strategy can be changed in response to changing market conditions.

- *Income*: The Committee recognises the emerging gap between income and benefit expenditure and hence the need to draw on investment income.

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.

Asset Allocation

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

Asset class	Target allocation %
UK/Global Equity	25
Multi Asset strategies	35
Absolute Return strategies	15
Property	5
Gilts/Investment grade bonds	17
Infrastructure	3
Total	**100**

Equity allocations will be managed using a combination of active and passive strategies. All other allocations will be managed on an active basis. The multi asset strategies will be permitted to invest in a range of asset classes. However, it is not expected that the underlying asset allocation in these strategies will remain static over time.

The Committee has agreed to introduce an allocation to local infrastructure. The prospective investment is an amount of up to £15 million and based on 31 March 2013 levels would be rounded to 3%. Allocations to infrastructure will be introduced as opportunities are identified. Each opportunity will be funded through the payment of additional contributions to the Fund rather than by reallocating existing assets.

The underlying target return of this strategy over the next 10 years is at least the return on long dated index linked gilts plus 3.5% p.a, and allows for the expected returns from the asset classes plus a conservative allowance for performance for active manager skill.

The allocation of assets to each manager, their respective benchmarks and performance targets are as follows:

STATEMENT OF INVESTMENT PRINCIPLES

Asset Class	Target allocation	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	12.5%	Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	6.25%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	6.25%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	15%	Baillie Gifford (Diversified Growth Fund)	Pooled	Active	UK Base Rate plus 3.5%
	20%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3.5%
Absolute Return	15%	Ruffer	Segregated	Active	LIBOR+
Property	5%	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Gilt/Investment Bonds	17%	Royal London	Segregated	Active	• 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years Plus 1.25%*
Infrastructure	3%	State Street Global Assets –Sterling liquidity Fund Cash is invested pending identification of a local infrastructure project.			

*0.75% prior to 1 November 2015

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 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. All other fund managers are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management.

INVESTMENTS

Investments

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 2009. 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 investment 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) or equivalent pooled fund rules.

The investment regulations also specify certain limitations on investments.

STATEMENT OF INVESTMENT PRINCIPLES

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.

Realisation of investment

The majority of the Funds' investments are quoted and traded on major stock markets and may be realised relatively quickly if required. A proportion of the Funds' investments would take longer to realise, such as property but these represent no more than 5%.

Investment Management

The Investment Managers are each bound by either an Investment Management Agreement (IMA) or, in the case of investment in pooled funds, the relevant Fund Documentation 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, where appropriate, or equivalent pooled fund rules.

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:

Funding risks**:**

- 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 at a rate faster than that assumed 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 2012, following the 2010 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 underlying allocation to growth assets following the review is: 80% in a mixture of equities, property and alternative assets/strategies with the remaining 20% 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 manageable long-term costs for the Council.

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

- 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, constrains risk within the Committees' expected parameters.

The use of multi-asset and absolute return mandates recognises the expectation that risk will vary over time. By permitting the investment manager to not only invest in a diverse range of asset classes, but to vary the underlying asset distribution as market conditions change, the Committee expects that the pattern of returns will be smoothed.

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 and making appropriate use of passive management, 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.

STATEMENT OF INVESTMENT PRINCIPLES

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).
- Longevity improving at a faster rate than anticipated.
- Legislation changes since 1986 impacting on the level of liabilities (widowers, same gender partnerships & cohabitees.

Review

- The investment strategy is reviewed by the Pensions Committee, at least every three years following the actuarial valuation results or when changes are required.

- The current review is based on a full investment strategy review in 2012, the Actuarial Valuation 2013, a subsequent interim assessment of the valuation in 2014 and a review and on-going advice on asset allocation from the Fund's Investment Adviser.

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.'

STATEMENT OF INVESTMENT PRINCIPLES

CORPORTE GOVERNANCE AND VOTING 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 stock lending from time to time.

STATEMENT OF INVESTMENT PRINCIPLES

Consultation and Publication

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

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 (select Services, select Council and Democracy, select Pension Fund).

The Statement of Investment Principles will be reviewed 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 November 2015 and is available as an appendix to this statement.

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	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, reflecting the political balance of the Council, have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2).
(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest	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 day to day running of the administering authority's and the committee's business is specified in the Council's constitution (Part 3). Declarations of interests are considered at the start of each committee 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 3), 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 day to day 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:www.havering.gov.uk, follow links council, democracy and council, constitution of the council or select the link below. Havering - Library folder - Constitution
	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.

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. Members agreed to completing the CIPFA's Knowledge and Skills self assessment of training needs. The training plan incorporates the outcomes of the self assessments. Following the establishment of a Local Pension Board (LPB) a joint training strategy will be developed that will incorporate training of Pension Committee members with LPB members, where appropriate.
	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 knowledge 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 Deputy Chief Executive Communities and Resources and 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 a publicly elected body.
	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.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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, when appropriate.
	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 .	The Pension Fund prepares, publishes and maintains a statement of compliance against a set of good practice principles. The 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 included within the Annual Report and is available on the Council's website: www.havering.gov.uk (under Council, democracy and elections, council budgets and spending, then Pension Fund) or select the link to the pensions page below. Pension Fund page
	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.
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;

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	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) and can be found on the Councils website, www.havering.gov.uk, council, democracy and elections, council budgets and spending, then pension fund or by selecting the link below. Pension Fund page
	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 considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment Strategy currently includes a mix of different asset classes which are managed actively and passively.
	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.
	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 advisors 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.	The Pensions Committee commission the fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.	Transaction costs are 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. Costs are considered in the decision making process when any changes to the investment strategy are under discussion.
	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.
3. Risk and liabilities		**SUMMARY: FULLY 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 and reassessed following the 2010 Valuation results. The Fund has formulated its own asset allocation based on identified liabilities particular to the fund. The Fund's 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.	

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.	
	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.	Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis.
	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 considered as part of the triennial valuations and mid 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 auditors opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken frequently by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Audited Internal Control reports are submitted by the Investment Managers and checked by officers for matters of concerns.
	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.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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 Annual Report includes an overall risk assessment in relation to each of the fund's activities and includes a copy of the Risk Register. This will be reported periodically to the Pensions Committee.
4. Performance assessment **a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors** **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**	**Investments**	**SUMMARY: FULLY COMPLIANT**
	The committee should:	
	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.	As part of any investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the Fund's investment advisor, it considered and has adopted active and passive management and appropriate targets and risk controls set.
	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 other alternate quarters they meet with officers. Exceptions to this are the pooled managers and the absolute return manager who reports to officers and the committee once a year.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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 considered at each triennial valuation.
	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 advisor 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.
	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.
	Advisors	

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.	
	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.	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.
	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.	
	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 knowledge and skills framework and code of practice; 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. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievement of administrative targets are reported in the Pension Fund Annual report.
	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

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
5. Responsible ownership **Administrating authorities should:**		**SUMMARY: PARTIALLY COMPLIANT**
a) recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code	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.
b) include a statement of their policy on responsible ownership in the statement of investment principles	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.
c) report periodically to scheme members on the discharge of such responsibilities.	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. Fund Managers report voting activity quarterly and made available for the Pensions Committee to review.
	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 engage with, and consider the implications of, the UK Stewardship Code on a comply or explain basis	The Committee has in the past accepted the principles laid down in the ' Institutional Shareholders Statement of Responsibilities and the policy is set out in the current version of the SIP. The UK Stewardship Code which has superseded this will need to be considered by the committee.
	9) The committee should also ensure that external partners in the investment chain (advisors, consultants, investment mangers, etc.) adopt the UK Stewardship Code insofar as it relates to their activities on behalf of the fund.	The UK Stewardship Code is directed to institutional investors (asset owners and asset managers with equity holdings in UK listed companies) and should apply on a comply-or-explain basis. Currently all of the funds asset managers and service providers have adopted the code.
	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 six principles and regularly assess themselves against a comply or explain framework.	The UNPRI is voluntary and applies on a comply or explain basis. All but two of the fund's asset managers have adopted the code. One of these managers is in the advanced stage of completing the documentation and the other manager is actively considering joining in 2016.
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, committees, then pension committee. There is also a dedicated page on the Council's website for the Pension Fund under the page for council and democracy. How the work is communicated to its stakeholders is included in the fund's Communication Strategy, select link below to see the pensions page on the councils website. Pension Fund page

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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 have developed a website to enable pension sharing best practices across the London Boroughs at www.yourpension.org.uk. Havering Pension Fund 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.	The Pension Fund Annual Report is prepared in accordance with Regulation 57 of the LGPS Regulations 2013 which applied from 1 April 2014. It is also prepared in accordance with guidance published by CIPFA/PRAG in August 2014.
	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 council and democracy, or select the link below. This page also includes the Pension Fund's Communication Strategy .Where applicable reference to all these documents is made in other publications. Pension Fund page
	With regard to the FSS and SIP, they should: 7) contain delegation process and the 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 shows the delegation process and the roles of officers, members, external advisors and how managers are differentiated; the process by which the fund allocation 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.
	With regard to the Governance Compliance Statement it must include:	
	8) 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.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	9) 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.
	With regard to the fund's Communication Strategy it must:	
	10) 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.