

Contents

Background	3
Effective Decision Making	4
Objectives	6
Asset Allocation	7
Expert Advice	8
Explicit Mandates	9
Activism	10
Appropriate Benchmarks	12
Performance measurement	13
Transparency	14
Regular Reporting	15
Appendix 1	16



Welcome

This is the third edition of Bexley Council Pension Fund's Statement of Investment Principles. Whilst the statement is intended to be a time-less document it does require minor adjustments from time to time. The statement has been updated and approved by the Pensions Committee to reflect their recent decisions.



Background

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare and review from time to time a written statement recording the investment policy of the Pension Fund. This statement has been produced to indicate compliance with the 10 principles set out by the Government following the Myners review and satisfies the requirements of the regulations.



The Bexley Fund is part of the Local Government Pension Scheme.

Bexley's Pension Fund is a defined benefit scheme operating as part of the Local Government Pension Scheme (LGPS) which was established by statute to provide retirement and death benefits for all eligible employees and their dependants. It is financed by contributions from employees, employers and income from investments. Employees' rates are set by statute and the employers' contribution rates are determined by the actuarial valuation of the Fund.

The main objective of the Fund is to maximise returns within an acceptable level of risk, in order to control volatility in the employers' contribution rate.



Maximise returns within an acceptable level of risk.

Decision Making

- 1.1 Delegation of Investment Management
- 1.2 Skills
- 1.3 Orders of Reference and Delegated Powers
- 1.4 Advice and Support
- 1.5 Monitoring
- 1.6 Allowances
- 1.7 Business Plan

1.1 Delegation of Investment Management

The Council has delegated the investment management of the Scheme to the Pensions Committee. It decides on the investment policy most suitable to meet the liabilities of the Scheme, and the ultimate responsibility for the investment strategy lies with it. The implementation of this strategy is delegated to investment managers operating within agreed constraints.

1.2 Skills

The Pensions Committee's structure and the skills of its Members should be regularly reviewed to ensure that their roles, set out in this document, are carried out effectively. Training sessions will be made available to Members to assist them in making informed investment decisions.

1.3 Orders of Reference and Delegated Powers

The Orders of Reference for the Pensions Committee are as follows:

- To oversee the management and investment of the Pension Fund.
- The appointment of Fund Managers and independent Fund Advisers and the review of their performance.
- Pension and retirement matters.

The Delegated Powers of the Pensions Committee are as follows:

- To agree the investment strategy having regard to the advice of the Fund's managers and the independent adviser.
- To determine the Fund managements arrangements and appointments of Fund Managers and Fund Advisers.
- To agree to the admission of bodies into the Council's Pension Scheme.
- To agree discretionary payments in respect of pension and retirement matters.
- To agree actuarial valuations.



Committee meetings are held at the Civic Offices at six month intervals. In addition the investment managers report to officers between Committee meetings.

1.4 Advice and Support

The Pensions Committee is advised by the Director of Resources, the Head of Legal Services, the Scheme's investment consultant and the Scheme's investment managers. The Director of Resources is responsible for ensuring that the in-house team is providing adequate support to the Committee.

1.5 Monitoring

The investment managers shall report to the Committee at six monthly intervals on the implementation of the investment policy. In between Committee meetings the investment managers shall report to the Director of Resources on investment policy. The Pension Fund's performance shall be regularly assessed by an independent performance review organisation.



Global Asset Management

In 1998 the Pension Committee decided to split the fund in order to reduce risk. Half of the fund remained with Phillips & Drew (now known as UBS) and half was given to Newton.

1.6 Allowances

Bexley's Members' allowances scheme provides for a basic allowance for each Member, with an additional responsibility allowance for the Chair of the Pensions Committee. Costs of travel, subsistence and attendance at any appropriate training courses will also be met.

1.7 Business Plan

The business of the Pensions Committee is included within the Council's formal timetabling and agenda setting processes.

Objectives

- 2.1 Investment Objective
- 2.2 Relative Risk and Statutory Requirements

2.1 Investment Objective

In setting the overall investment objective the Council has considered the Fund's assets and liabilities and has received proper advice in the setting of a fund specific benchmark. The aim of this benchmark is to maximise returns within an acceptable level of risk, in order to control volatility in the employers' contribution rate.

The performance of the Fund will be measured against the fund specific benchmark with the aim to achieve outperformance of +1% pa over a rolling 3 year period, whilst maintaining an acceptable pattern of risk as defined below.

In addition, the Director of Resources is allowed to authorise a change to the agreed control ranges between Committee meetings should the investment managers need to respond quickly to exceptional market conditions.

2.2 Relative Risk and Statutory Requirements

The Pension Fund shall have an objective of maintaining a risk within 3.5% p.a. relative to the fund specific benchmark. In pursuing the investment strategy the requirements of the Scheme shall be met.



Finding a balance between risk and return.

Asset Allocation

- 3.1 Strategy
 - 3.2 Asset classes
 - 3.3 Control Ranges
 - 3.4 Stock Lending
-

3.1 Strategy

When determining the asset allocation of the Fund the Committee will consider the extent to which the asset profile matches the Fund's liabilities within an acceptable level of risk. The asset allocation decision will also have regard to the overall investment objective to maximise returns within an acceptable level of risk. The asset liability study will show projected investment returns for various allocations in differing economic climates. These returns will be considered against their associated risks.

The Committee will have regard to the diversification and suitability of investments in reaching its asset allocation decisions. The asset allocation is shown in Appendix 1.

3.2 Asset classes

The Fund managers are permitted to invest in all assets specified in the Regulations; investments in specialised areas such as derivatives will be reviewed and authorised by the Director of Resources.

3.3 Control Ranges

The Committee will set control ranges which will allow the managers to smooth allocation in potentially volatile markets, whilst allowing active management in a manner consistent with the main objective of the Fund. Control ranges are also included in Appendix 1.

3.4 Stock Lending

The investment managers are permitted to undertake stock lending of up to 25% of the Fund's assets.



Expert Advice

- 4.1 External Advice
- 4.2 Internal Advice

4.1 External Advice

The Fund receives expert advice internally and externally. External advice is provided by the Fund's actuary and its investment consultant. Contracts for actuarial services and investment advice are open to separate competition, applying the contract standing orders of the Council. It is permissible for one company to provide both services where separate terms of reference exist. These contracts are reviewed at appropriate intervals. At that time fees are assessed on their value for money.



4.2 Internal Advice

The internal advice to the Fund is provided by the Director of Resources in his role as the Section 151 officer.

External advice is sought on many pension issues including asset liability studies and fund performance.

Explicit Mandates

5.1 Clear Coherent Mandates

5.2 Termination of Contract

5.3 Hidden Costs

5.1 Clear Coherent Mandates

The Pension Fund Managers have explicit mandates that cover their objective, asset allocation, benchmarks, risk parameters and measurement timescales included in their contract. The managers are also governed by the LGPS Regulations, in particular in the type of financial instruments they may use.

5.2 Termination of Contract

A fundamental review of performance is carried out at least every three years when the Pensions Committee will consider all options, including the re-appointment or termination of the existing managers.

5.3 Hidden Costs

The Fund managers are encouraged to make clear and justify any hidden costs namely transaction costs and soft commissions. Managers should only enter into soft commission agreements with brokers when provided with research material. These agreements should be limited in number and a clear list of the brokers involved should be reported.

Activism

6.1 Corporate Governance Policy

- 6.1.1 General Principles
- 6.1.2 Voting and Active Engagement
- 6.1.3 Negative Screening
- 6.1.4 Board Structures
- 6.1.5 Remuneration
- 6.1.6 Audit
- 6.1.7 Political Donation
- 6.1.8 Pre-emption Rights
- 6.1.9 Dividend Policy
- 6.1.10 Policy on Socially Responsible Investment

6.1 Corporate Governance Policy

This policy sets out the Pension Fund's principles on activism and the guidelines that the Pension Fund's investment managers should operate within when making investment decisions.

6.1.1 General Principles

Bexley Council agrees with the principles set out by the Cadbury and Greenbury Committees following their examination of corporate governance issues, the Combined Code recommended by the Hampel Committee and the recommendations made by the US Department of Labor Interpretative Bulletin on Activism.

6.1.2 Voting and Active Engagement

The Council expects the Fund Managers to exercise their voting rights and actively engage with the companies in which they invest in accordance with the principles set out in this statement. The managers will be expected to report on the outcome of any such actions.

The Local Authority Pension Fund Forum (LAPFF) will actively engage on behalf of the Council and provide voting advice. The Council expects the Fund Managers to vote in accordance with any specific officer instructions arising from LAPFF advice.



LAPFF—voting and actively engaging with companies on behalf of Bexley and other funds.

6.1.3 Negative Screening

The Council reserves the right to exclude from its portfolio any company which has made profits from illegal activities or which has knowingly pursued extreme and clearly unacceptable standards of business behaviour. Any such exclusion would only follow consideration of a full report to the Pensions Committee. Which would include advice from the Director of Resources and the Fund's external advisor.

6.1.4 Board Structures

The board should be appropriately structured for the business, with a balance of executive and non-executive directors.

At least one third of the board should be non-executive directors, number three as a minimum, and the

majority should be independent and identified as such in the annual report.

The roles of the chairman and chief executive should normally be separate.

Directors over normal retirement age should face re-election each year. Other directors should face re-election at least every three years. In order to achieve this one year contract periods should be the norm, with two years the maximum.

6.1.5 Remuneration

A remuneration committee, consisting entirely of independent non-executive directors, should control policy on the remuneration of management.

Incentive schemes should be simple and preferably be based around direct share ownership rather than options. Any options should be at market value. Meaningful performance targets should be chosen and should be relative to a peer group, sector or market index. No reward should be given for performance below median.

6.1.6 Audit

An audit committee should exist, with the majority of its members being independent non-executive directors. The board should maintain effective internal controls which are regularly reviewed.

6.1.7 Political Donation

It is inappropriate for a company to make such donations.

6.1.8 Pre-emption Rights

These are basic rights of shareholders. Any proposal to withdraw more than 5% of such rights should be resisted.

6.1.9 Dividend Policy

A balance between dividend distribution and capital investment needs to be struck so as to maintain the value of the business. Dividends should generally be related to the level of cash flows/earnings.

6.1.10 Policy on Socially Responsible Investment

In November 1999 the Investment Panel adopted the following policy on Socially Responsible Investment:

The Council's overriding duty to the members of its pension fund is to maximise financial returns within a prudent pattern of risk. Subject to complying with that duty, the Council expects its investment managers to engage actively with the companies in which they invest with a view to encouraging those companies to adopt practices and procedures in respect of social, economic and environmental matters which

C meet all legal requirements

C reflect good practice and provide sustainable competitive advantage; and

C protect the company and its shareholders from harmful publicity.



The managers will be expected to actively engage with companies with respect to social, economic and environmental matters.

Benchmarks

- 7.1 Appropriate Benchmarks
 - 7.2 Appropriate Limits
 - 7.3 Performance against the Benchmark
 - 7.4 Risk Control
-

7.1 Appropriate Benchmarks

The Fund adopts a fund specific benchmark that is set by reference to the liability profile and funding position of the Fund. This benchmark will be regularly reviewed to respond to actuarial movements. The Committee will also consider whether an active or passive approach to investment management is appropriate.

7.2 Appropriate Limits

The asset allocation of the Fund is set by the Committee, having regard to the findings of the asset liability study undertaken at regular intervals. The Committee also sets control ranges that allow the managers to actively manage the Fund within parameters consistent with the asset liability study.

7.3 Performance against the Benchmark

The return of the Fund will be measured against the weighted index return of the benchmark. Suitable benchmark indices shall be agreed with the Fund's performance-monitoring advisors. The Fund may be compared to the WM Local Authority Average but not measured against it. Performance will be measured annually over a rolling 3 year period against the benchmark.



Having taken appropriate advice most of our benchmark is based on FTSE Group indices.

7.4 Risk Control

The risk parameters of the Fund will be monitored regularly by the managers and reported at least quarterly.

Performance Measurement

- 8.1 Performance Measurement Method
- 8.2 Detail of Measurement
- 8.3 Performance Reporting

8.1 Performance Measurement Method

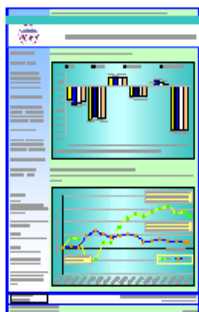
The Fund uses the services of WM Company to measure performance on a quarterly and annual basis. The Council's in-house team performs daily and monthly monitoring.



The WM Company - reports on the Fund's quarterly and annual performance.

8.2 Detail of Measurement

The WM Company provides a detailed breakdown of return to distinguish between performance due to asset allocation and that due to stock selection. This covers all relevant time periods.



8.3 Performance Reporting

The Fund will be assessed twice a year by the Pensions Committee. At that time the Fund's performance and any necessary reviews will be reported, external advice will be sought and recommendations made. Formal assessment of performance will also include the best value review process and the assessments carried out by internal and external audit.

An example of the front page of the monthly reports produced internally for monitoring purposes.



Transparency

- 9.1 Statement of Investment Principles
 - 9.2 Amendments
 - 9.3 Fee Structure
-

9.1 Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare and review from time to time a written statement recording the investment policy of the Pension Fund. The purpose of this document is to satisfy the requirements of the regulations.

9.2 Amendments

Amendments to this document will be proposed to the Pensions Committee for approval.

9.3 Fee Structure

The investment managers currently have two separate fee arrangements. One is paid a basic fee, to which a proportion may be added or deducted depending upon performance. This is done in order to incentivise them. The other is paid a basic fee with no additional performance related scheme. The latter scheme was the most prudent arrangement offered by the investment manager when they reviewed their fee structure.

The investment consultant is paid an annual fee, based on advice to, and attendance at, the Committee.

The actuary is paid a fixed fee for the triennial valuation, plus additional fees based on an hourly rate, as the volume of advice required is not known in advance.



Newton's fee arrangement is based on performance which acts as an incentive.

Regular Reporting

- 10.1 Availability
- 10.2 Publications

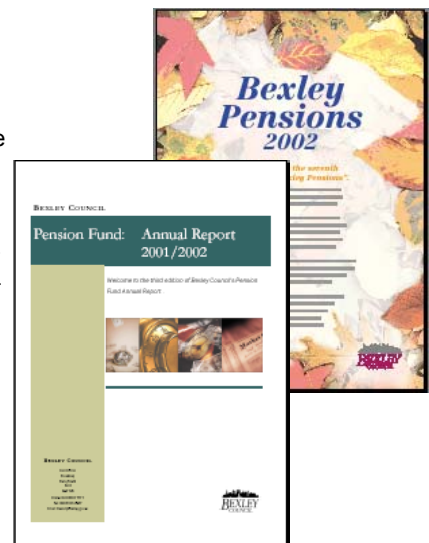
10.1 Availability

The Fund makes available its Statement of Investment Principles to any members who request it and will publish the statement on the Council's website.

10.2 Publications

All members of the fund receive annual newsletters detailing the performance of the fund, membership numbers, new legislation summaries, topical issues and contribution levels set by the actuary. A more detailed Annual Report is also produced and distributed to Committee Members and employing bodies. The Annual Report and the SIP are advertised in the newsletter with information on how to obtain a copy.

A pensioners' newsletter is published annually in the Spring that provides information on benefit days, payment methods and payment increases.



An example of a previous pension newsletter distributed to every member of the Fund and the Annual Report which is available to every member on request.

Appendix 1 - Asset Allocation and Control Ranges from 1 April 2003

	Benchmark %	Control Range %
UK Equities	36	+/- 7½
Overseas Equities	24	+/- 7½
<i>North American</i>	7	+/- 5
<i>Europe (ex UK)</i>	10	+/- 5
<i>Japan</i>	4	0 to +5
<i>Pacific Basin</i>	2	0 to +5
<i>Emerging Markets</i>	1	0 to +5
Total Equities	60	+/- 5
UK Fixed Interest Gilts	16	+/- 7½
Overseas Bonds	0	Up to 10
Index-Linked Gilts	8	+/- 7½
Corporate Bonds	16	+/- 7½
Property	0	Up to 5
Cash	0	Up to 5
Total Non-Equities	40	+/- 5
Total	100	

The Benchmark Allocation

