

London Borough of Bexley Pension Fund

# Statement of Investment Principles



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### Background

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 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, or non-compliance where this exists, with the Investment Governance Principles and satisfies the requirements of the regulations.

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.

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This is the ninth edition of the London Borough of Bexley's Statement of Investment Principles and is dated September 2010. Whilst the statement is intended to be a timeless 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.

## **Effective Decision Making**

### **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 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 management 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.

### **1.3 Committee Membership**

The committee consists of six Members, with its membership allocated proportionally to party political representation on the full Council. The Committee also has three observers representing

Admitted and scheduled bodies,  
Pensioners, and  
Employees

The Governance Compliance Statement provides further details in this area.

#### **1.4 Pensions Investment Sub-Committee**

This Sub-Committee has been established to assist the Pensions Committee in its work, and has the following Orders of Reference:-

- To advise the Pensions Committee on medium-term asset allocation.
- To consider short-term asset allocation changes proposed by the investment advisors.
- The appointment of Fund Manager(s).
- The appointment of Investment Advisor(s).

and Delegated Powers:-

- To agree short-term asset allocation changes within ranges set by Pensions Committee.
- To appoint Fund Manager(s) for investments.
- To appoint Investment Advisor(s).

#### **1.5 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.

A training plan has been devised to ensure these skills are refreshed and remain up to date. Training sessions are made available to Members to assist them in making informed investment decisions.

#### **1.6 Allowances**

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

#### **1.7 Advice and Support**

The Pensions Committee is advised by the Director of Finance, the Deputy Director (Legal Services), the Scheme's investment advisors, and the Scheme's investment managers.

The internal advice to the Fund is provided by the Director of Finance in his role as the Section 151 officer. He is responsible for ensuring that the in-house team is providing adequate support to the Committee.

All reports to the Pensions Committee are reviewed by the Council's monitoring officer prior to presentation. The Council's constitution applies to the Pensions Committee and includes a process for the declaration of conflicts of interest before each meeting.

External advice is provided by the Fund's actuary and its investment advisors. Contracts for actuarial services and investment advice are open to separate competition, applying the contract procedure rules 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.

## **1.8 Business Plan**

The business of the Pensions Committee is included within the Council's formal timetabling and agenda setting processes. A medium term business plan reported to the Committee looks beyond the current municipal year.

Committee papers are circulated to members in advance of the meeting to allow them to be read and understood.

## **Clear Objectives**

### **2.1 Investment Objective**

*The main objective of the Fund is to maximise the likelihood of reaching 100% funding on an ongoing basis over the next three valuation periods subject to an acceptable level of downside risk. Further details of the investment strategy can be found in the Funding Strategy Statement.*

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 wording of this objective has been designed to provide a target against which progress is measurable and which is tied in to the scheme's funding level whilst acknowledging the level of risk taken.

The performance of each investment manager and the Fund as a whole 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.

### **2.2 Funding Strategy Statement (FSS)**

The FSS sets out all the factors that have been considered in arriving at the investment objective and how the investment strategy has been set in order to meet that objective. The FSS is reviewed every three years to tie in with the triennial actuarial valuation.

### **2.3 Awareness of Objectives**

Investment managers and investment advisors are supplied with copies of the SIP and are required to take account of its contents in their dealings with the Pension Fund.

## **Risk and Liabilities**

### **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 the funding level within an acceptable level of downside risk. The asset liability study will show projected investment returns for various allocations and 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 Finance.

### **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.

In addition, the Director of Finance 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.

### **3.4 Relative Risk and Statutory Requirements**

The Pension Fund has 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 will be met.

### **3.5 Stock Lending**

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

### **3.6 Monitoring**

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

### **3.7 Audit**

Internal and external audit carry out annual and specific reviews of the Pension Fund as part of their regular work. This helps to ensure that effective internal control operates within the Council. Reassurance is sought from external assessments of the control procedures used by the investment managers employed by the Fund.

## **Performance Assessment**

### **4.1 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.

### **4.2 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.

### **4.3 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 monthly monitoring.

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 and each asset class.

### **4.4 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. Performance will be measured annually over a rolling 3 year period against the benchmark.

The Fund may be compared to the WM Local Authority Average but not measured against it.

### **4.5 Performance Reporting**

The Fund's investment performance is assessed four times a year by the Pensions Committee. At that time the Fund's performance and any necessary reviews will be reported, external advice is provided 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.

#### **4.6 Risk Control**

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

#### **4.7 Advisors**

The performance of the investment advisors is kept under review by officers and members, and taken into account when tendering their services. There is, however, no formal performance assessment framework.

#### **4.8 Decision Review**

No formal reviews of decisions made by Members of the Pensions Committee or officer advice are undertaken. However, the ultimate test of decision making on investments is the fund's investment performance. This is monitored quarterly against benchmark, and a more detailed look back on the effectiveness of managerial and asset allocation changes is provided by the annual review and presentation by the WM Company.

## **Responsible Ownership**

### **5.1 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.

#### **5.1.1 General Principles**

The London Borough of Bexley 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. Investment managers are expected to adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

#### **5.1.2 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.

#### **5.1.3 Company Policies**

The Council expects the companies in which it invests to comply with the following policies:

##### **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.

## **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.

## **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.

## **Pre-emption Rights**

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

## **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.

### **5.1.4 Policy on Socially Responsible Investment**

The Council's overriding duty to the members of its pension fund and Council Tax payers 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

- meet all legal requirements,
- reflect good practice and provide sustainable competitive advantage; and
- protect the company and its shareholders from harmful publicity.

## Transparency and Reporting

### 6.1 Pension Fund Publications

Bexley Council is keen to ensure that its Pension Fund operates in as an open manner as possible. To that end it publishes a full Annual Report which includes its major policy statements:-

- the Statement of Investment Principles,
- the Funding Strategy Statement,
- the Governance Compliance Statement, and
- the Communications Policy Statement.

### 6.2 Website

All the above publications are made available on the Fund's website [www.yourpension.org.uk/Bexley](http://www.yourpension.org.uk/Bexley) together with further information for active members and pensioners. Agendas and reports to the Pensions Committee are also published on the Council's website [www.bexley.gov.uk](http://www.bexley.gov.uk).

### 6.3 Amendments

Amendments to this document and the other policy statements will be proposed to the Pensions Committee for approval.

### 6.4 Liaison with Stakeholders

All publications invite feedback from members of the fund and other stakeholders. Where appropriate face to face discussions are held with admitted and scheduled bodies on significant matters affecting the Fund - such as the development of the Funding Strategy Statement.

### 6.5 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.

### 6.6 Fee Structures

The main investment manager, Newton has a separate performance fee arrangement. They are paid a basic pro-rata fee, to which a proportion may be added or deducted depending upon performance.

UBS Global Asset Management are paid a fixed fee for their UK equity portfolio. The specialist investment managers, RMF and Partners Group, operate a pro-rata fee arrangement with a performance related element. Their fees are included in the net asset values of the fund of funds investments which they manage.

Property managers are paid a pro-rata fee.

The investment advisors have a fixed fee structure. The fee covers advice to, and attendance at, the Committee as well as various reviews and elected Member training.

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.

## **6.7 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.

## Appendix 1 - Asset Allocation and Control Ranges

	Benchmark %	Control Range %
UK Equities	35	+/- 10
Overseas Equities	35	+/- 10
<b>Total Equities</b>	<b>70</b>	<b>+/- 10</b>
Fixed Interest Gilts	8.75	+/- 7.5
Index-Linked Gilts	0	Up to 5
Corporate Bonds	8.75	+/- 7.5
Property	5	+/- 5
Hedge Funds	5	+/- 5
Private Equity	2.5	Up to 5
Cash	0	Up to 10
<b>Total Non-Equities</b>	<b>30</b>	<b>+/- 10</b>
<b>Total</b>	<b>100</b>	

Note: This long term asset allocation was set in June 2008

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