

## DRAFT

### Statement of Investment Principles

#### 1 Introduction

The elected members of Croydon Council, acting through the Pension Committee, have drawn up this Statement of Investment Principles to comply with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, brought into force on 1<sup>st</sup> January 2010 by the Local Government Pension Scheme (Management and Investment of Funds), as they relate to the Pensions Act 1995 in its requirements of occupational pension schemes and the London Borough of Croydon Pension Fund (“the Fund”).

The Statement also reflects the Local Government Pension Scheme (Amendment) (No 2) Regulations (2005) to provide the statutory framework from which the administering authority is required to prepare a Governance Policy Statement (GPS). Accordingly, the GPS sets out the Fund’s governance arrangements, including representation and delegations. The Council has consulted suitably qualified persons and has obtained written advice from its investment consultant, AON Hewitt. Overall investment policy falls into two parts:

- The strategic management of the assets is the responsibility of the Pension Committee who delegates many of their functions to the officers and acts having considered the advice of the investment consultant.
  
- The remaining elements of policy are part of the day-to-day management of the assets which are delegated to professional investment managers as described in Section 3.

## 2 Investment Objectives, Strategy and Risk

### 2.1 Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed, the Pension Committee has adopted the following objectives: -

- Following the last review of investment strategy during the year 2015, the overall investment policy was set to achieve a return on investments consistent with the Actuary's long-term strategy.
- Investment policy is guided by an overall objective of achieving, over the long term, a return on investments to meet all the Fund liabilities, after taking into account employer and employee contributions, with the aim of minimising the level of risk and the impact on the local taxpayer, which is consistent with the long-term assumptions used by the Actuary in determining the funding of the Fund.
- To ensure the fund remains liquid over the short, medium and long term so that cash is available to meet all liabilities as and when they fall due without need for forced or untimely disinvestments.
- Promote an Environmental Social and Governance Investment Strategy consistent with maximising the return on the Fund.
- Comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 & (Amendment) Regulations 2013.

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### 2.2 Investment Strategy

During the year 2015 the Pension Committee discussed and agreed that the investment allocation strategy should be revised as shown in the table below. This followed a detailed review of investment strategy, by way of an asset liability modelling exercise, which was considered in conjunction with the Fund's funding position. As part of this review, the major economic risks facing the Fund were considered and the possibility of reducing the level of investment risk was explored with the aim of reducing the expected future funding level variability.

<b>Assets</b>	<b>Benchmark/Target Return</b>	<b>Target 2015 (%)</b>
<b>Global Equities*</b>	FTSE 4 Good Global Index	42 +/- 5
<b>Emerging Market Equities*</b>	MSCI Emerging Markets ND Index	
<b>Global Bonds</b>	Bond Composite	23 +/- 5
<b>Alternatives:</b>		34 +/- 5%
<b>Traditional Property</b>	IPD All Properties Index	10 +/- 3
<b>Private Rental Sector Property</b>	IPD Residential Index	6
<b>Private Equity</b>	CPI + 5%	8
<b>Infrastructure</b>	CPI + 5%	10
<b>Cash</b>	GBP 7 Day LIBID	1
<b>Total Fund</b>	CPI +4%	100

\*The Global Equities includes an allocation to Emerging Markets.

The strategy will be implemented through investments in a range of segregated accounts and pooled funds in a phased approach with identification of investment opportunities being completed in 2015/16. Opportunities in property, infrastructure and private equity may determine the pace of the changes.

In order for the Fund's exposure to meet the target asset allocation the Pensions Committee, having taken proper advice, formally agreed to increase the limits to certain investment types as allowed under regulation 14(3) of the Local Government Scheme (Management and Investment of Funds) Regulations 2009 and the Local Government Pension Scheme (Amendment) Regulations 2013.

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The Pensions Committee agreed to the following:

- All contributions to any single partnership to a maximum of 5% (of the total fund value)
- All contributions to partnerships to a maximum of 30% (of the total fund value)
- All investments in units or other shares of the investment, subject to the trusts of unit trust schemes managed by one body, to a maximum of 35% (of the total fund value)
- All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body to a maximum of 35% (of the total fund value)
- All investments in units or other shares of the investments, subject to the trusts of unit trust schemes, and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body, to a maximum of 35% (of the total fund value)
- Any single insurance contract to a maximum of 35% (of the total fund value)

The Pensions Committee agreed to increase the investment limits for an indefinite period, but to review regularly and at least once every three years at the same time as the Investment Strategy.

### 2.3 Risk

There are various risks to which any pension scheme is exposed. The Pension Committee has considered a number of risks including: -

- The risk arising through a mismatch between the Fund's assets and its liabilities.
- The risk of deterioration in the Fund's ongoing funding level.
- The risk of a shortfall of assets, relative to the liabilities as determined if the Fund were to be wound up.
- The risk that the day-to-day management of the assets will not achieve the rate of investment return required to meet accrued and future liabilities as quantified by the Fund's Actuary.
- The risk of the active investment managers underperforming their benchmarks.
- The risk of insufficient liquidity from the Fund's assets.
- The failure to spread investment risk ("risk of lack of diversification").
- The risk of fraud, poor advice or acts of negligence ("operational risk").

Various arrangements, approved by the Pension Committee, have been put in place to minimise and manage some of the specific risks set out above, following appropriate advice from the Fund's Investment Consultants:-

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- Asset allocation strategy and fund benchmark – The revised asset allocation strategy, detailed in section 2.2, is designed to spread the risk through investment in a diversified range of asset classes, including alternatives and geographic regions. The overall Fund benchmark reflects this asset allocation and provides a basis with which to measure the Fund against its objectives.

Suitable investments – The Pension Committee acknowledges the statutory duty to ensure funds are suitably invested, within the limits under section 2.2 above. Investments have been made in a range of quoted securities, pooled investment vehicles, unit trusts, private equity investments, infrastructure investments, derivative instruments, cash, bank deposits and short term money market funds. The investment strategy makes due allowance of the need for liquidity of the Fund's assets.

### 3 Day to Day Management of the Assets

#### 3.1 Main Assets

The Fund's asset allocation as at 30 September 2015 was as follows: -

Investment Manager	Investment Mandate / Fund	% of
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		Fund
<b><u>Global Equities</u></b>		
<b>Legal &amp; General Investment Management</b>	Passive Global Equity (Segregated)	49.5
	Passive World Equity Index (Pooled)	4.5
<b><u>Global Bonds</u></b>		
<b>Standard Life Investments</b>	Corporate Bond Fund (pooled)	6.7
	Absolute Return Global Bond Fund (pooled)	8.0
<b>Wellington</b>	WMP Sterling Core Bond Plus Fund (pooled)	7.0
<b><u>Hedge Fund of Funds</u></b>		
<b>BlueCrest</b>	AllBlue Fund	4.0
<b>Property</b>	UK Property	10.6
<b>Schroder Investment Management</b>		
<b>Private Equity</b>		
<b>Pantheon Ventures Limited</b>	Pantheon Europe, US and Asia Funds	4.1
<b>Knightsbridge Advisors</b>	US venture capital	1.6
<b>Infrastructure</b>		
<b>Equitix</b>	Infrastructure	3.6
<b>Internal Cash</b>		0.4
<b>Total</b>		100

Source: State Street

The Fund's actual asset allocation as at 30 September 2015 was different to that agreed during the 2015 strategy review explained under section 2.2. The Fund has placed a redemption request for its hedge fund holding in the BlueCrest All Blue Strategy for the 30 September 2015 redemption date. Changes will be made to the Fund's assets over the coming quarters as opportunities are identified.

Assets are distributed with the aim of meeting the target allocation of the Fund as set out in paragraph 2.2 having regard to maximising investment returns and the day-to-day liquidity requirements of the Fund.

### 3.2 Asset Allocation Guidelines and Investment Performance Benchmarks

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The main investment managers have been set the following benchmarks and targets: -

### Global Equities

Manager	Benchmark	Target	Tracking Error
Legal & General Investment Management	FTSE 4 Good Global Index	Perform in line with Index	Not applicable

### Global Bonds

Manager	Benchmark	Target	Tracking Error
Standard Life – Corporate Bond	Merrill Lynch non-gilt sterling all stocks index	0.8% outperformance per annum (gross of fees).	0.5%-2%
Standard Life – Absolute Return	3 Month LIBOR	2.5% outperformance (gross of fees) on rolling 3 years	0.5%-2%
Wellington	Merrill Lynch Sterling Broad Market index	1%-1.5% outperformance per annum.	0%-3%

### Absolute Return – Hedge Fund of Funds

Manager	Benchmark	Target	Tracking Error
BlueCrest	3 month Libor plus 10%	Absolute return of 3 month Libor plus 10%-15% per annum (net of fees).	6%-8%

### Private Equity

Manager	Benchmark	Target	Tracking Error
Pantheon	FTSE All-Share index	Absolute return of 3% - 5% outperformance per annum over the long term.	Not applicable
Knightsbridge	MSCI AC World index	Absolute return objective to outperform MSCI AC World index.	Not applicable



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### Infrastructure

Manager	Benchmark	Target	Tracking Error
Equitix	Absolute return of 12% over the life of the fund.	Absolute return of 12% per annum over the life of the fund.	Not applicable

### Property

Manager	Benchmark	Target	Tracking Error
Schroder	Investment Property Databank (IPD) All Properties Index	Absolute return objective to outperform the IPD All Properties index	Not applicable

### 3.3 Fees

Fees for the investment managers are related to the assets under management. In the case of Pantheon Ventures, Equitix and Knightsbridge there is also a performance-related element to the fee.

### 3.4 Monitoring the Investment Managers

Performance of the investment managers is measured by the State Street Global Services. The Council's officers meet the investment managers regularly to review their actions together with the reasons for investment performance. A set of 'trigger events' have been agreed by the Pension Committee and should these occur, they will be investigated by officers and reported to the Committee. The Pension Committee meets on a quarterly basis to review and monitor performance with the active investment managers attending when required. AON Hewitt Investment Consulting is retained to assist the Fund in fulfilling its responsibility for monitoring the investment managers.

The Pension Committee, through the Council's officers, also receives regular updates from the State Street Global Services Local Authority Universe, which represents the aggregate of all participating Local Authorities pension schemes on investments and performance. The Pension Committee uses this as a broad

comparison but acknowledge that the universe of local authorities comprises pension funds with a range of different characteristics in terms of their liability profiles, risk budgets, investment objectives and investment strategies. The Fund's performance is therefore expected to be different from the average local authority pension fund.

### 3.5 Realisation of Investments

In general, the Fund's investment managers have discretion as to the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's investment managers have responsibility for generating cash for investment in new assets and shortfalls in revenue expenditure of the Fund as may be required from time to time. The Pension Committee decides, with the advice from its investment advisers, on how investments should be realised for cash.

### 3.6 Pension Committee Arrangements

As an administering pension authority, the Council discharges its duties in respect of maintaining the Pension Fund in the form of the Pension Committee. Its terms of reference are to deal with the management of the Fund, including matters relating to employee liability.

The Pension Committee is made up of eight voting Members of the Council, two non-voting pensioner representatives and a non-voting employee representative. The Committee is also able to co-opt non-voting specialist representatives as is required. In addition, officers and the Fund's external advisers support the meetings. The Pension Committee is scheduled to meet on at least four occasions during a Municipal Year and formal minutes are taken and acted on accordingly.

Further ad-hoc meetings also take place to discuss various matters as they arise, in particular regarding asset allocation.

### 3.7 Additional Voluntary Contributions

Any members' additional voluntary contributions (AVC's) are held in various separate investments administered by Prudential Assurance Company Limited. The benefits arising from these contributions are additional to, and do not form part of, the benefits due under the Local Government Pension Scheme. They are therefore not required to be included in the Pension Fund Accounts in accordance with the Statement of Recommended Practice - Financial Reports of Pension Schemes (issued in 2002). The Pension Fund Accounts and any details within the Annual Report therefore exclude amounts for AVC's.

## 4. Custody

For the additional security of the invested assets, the Fund employs The Bank of New York Mellon as an independent custodian for its segregated global equity holdings. The Bank of New York Mellon also act as fund accountants for all the Pension Fund investments, except for internally managed cash.

## 5 Environmental Social and Governance and Corporate Governance

The Council's Pension Fund recognises the need for a policy of socially responsible investment which is taken into account, where appropriate, when the Fund revises its investment holdings to take account of the new asset allocation as detailed in paragraph 2.2 above.

The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), whose major aim is to inform LAPFF members of corporate governance issues within the companies that each LAPFF member might invest and so develop recommended common voting strategies on such matters as:-

- Board structures
- Remuneration
- Shareholder rights
- Separation of audit and non-audit work

- Environmental issues (particularly regarding sustainability and greenhouse gas emissions).

LAPFF also uses its influence to engage with and, where necessary, challenge companies on corporate governance matters. It is the view of officers and the advisers that this is an extremely cost effective way of fulfilling part of our commitment to “activism” which is one of the principles outlined in the “Statement of Compliance – Myners’ Investment Principles” which are fully described in a separate section in the Annual Report. Allied to shareholder activism is the need to ensure that the Fund has a comprehensive voting policy which reflects the socially responsible investment issues supported by the Pension Committee. To this end the Pension Committee uses Pension Investment Research Consultants Limited (PIRC) to vote on the Fund’s behalf in respect of the FTSE 350 holdings according to PIRC voting guidelines. It is the view of officers that membership of PIRC has resulted in the Croydon Council Pension Fund’s voting policy being probably one of the most comprehensive of all the Local Authority Pension Funds in the country. The Council’s Pension Fund has determined that dialogue (through LAPFF) and a proactive engagement (through PIRC) is the most effective way of influencing companies in relation to social, environmental and business policies whilst at the same time achieving financial returns compatible with the Fund’s longer term financial objectives.

From April 2010 PIRC assumed the responsibility for voting on the Fund’s global equity holdings.

### **6 Expected Return on Investments**

When the Fund’s investment strategy was last reviewed, the Pension Committee discussed and agreed that in order to have a more consistent level of return that is aligned with the Actuary’s recovery plan, the investment allocation strategy should be revised as shown in the table in paragraph 2.2 of this statement. This current strategy was agreed in 2015. The asset allocation of the Fund will,

however, be kept under constant review and may be changed from time to time. Any major changes will be reflected in an updated version of this statement.

### **7 Principles for Investment Decision-Making**

*The extent to which the Pension Fund complies with the Communities and Local Government guidance “Investment Decision making and disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles” has been included in the Annual Report under a section titled “Statement of Compliance – Myners’ Investment Principles”. Within these principles the term “Trustee” is used from time to time. When considering advice and determining investment policy, the Pension Committee are effectively acting as Trustees. As such, they have responsibilities additional to those carried out as elected members of the Council. Their duties as “Trustees” are to manage the Fund in accordance with the Local Government Pension regulations and to do so prudently and impartially.*

Typically, Members discharge their duty by ensuring that they have a systematic and clear way of agreeing their investment policy with the managers and advisers they employ.

### **8 Stock Lending**

The Pension Fund does not engage in stock lending activities.

### **9 Compliance with this Statement**

The Council’s Pension Fund will monitor compliance with this statement annually.

### **10 Review of this Statement**

The Council’s Pension Fund will review this statement in response to any material changes to any aspects of the Fund, its liabilities, finances and the

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attitude to risk which the Pension Committee judges to have a bearing on the stated investment policy.

This review will occur no less frequently than every three years to coincide with the Fund's full triennial actuarial valuation. Any such review will be based on written expert advice.

## Statement of Compliance – Myners’ Investment Principles

Principle 1: Effective Decision-Making					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓			<p><i>Administrating authorities should ensure that:</i></p> <p>Decisions are taken by persons or organisations with the skills, <i>knowledge, advice</i> and resources necessary to make them <i>effectively and monitor their implementation</i>. <i>Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</i></p>	<p>All investment decisions are taken either by the Pension Committee, which is responsible for the ‘Management of the Council’s Pension Fund’, or by the Executive Director Resources and Customer Services under his delegated powers. In addition to the Executive Director of Resources and Customer Services, the Pension Committee is advised by experienced Council officers and external advisers (one being appointed by AON Hewitt Consulting Global Investment Practice). All voting members of the Pension Committee are experienced Councillors with a wide range of expertise including investment and accountancy. In addition to the Councillors, the Pension Committee includes representatives of the staff and pensioners. Collectively, the Pension Committee has all the skills necessary to properly carry out their investment responsibilities. Councillors, officers and advisers are given training opportunities, to ensure that their expertise remains up to date. Several members of the Pension Committee have attended specific training seminars.</p>	<p><i>The CIPFA Knowledge and Skills Framework will be used to develop a training plan. Training will continue to be offered to all members of the Pension Committee.</i></p>

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Principle 2: Clear Objectives																									
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future																				
Fully	Part	Not																							
✓			<p><i>An overall investment objective should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administrating authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</i></p>	<p>See section 2 of the Statement of Investment Principles (SIP).</p> <p>The Fund's objectives are reviewed annually, during the review of the Statement of Investment Principles.</p>																					
Principle 3: Risk and Liabilities																									
✓			<p><i>In setting and reviewing their investment strategy, administrating authorities should take into account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</i></p>	<p>At both the Pension Committee and the Advisers/ Officers level, strategic asset allocation is discussed, either in the context of performance monitoring or arising from a specific Officer report. The full range of investment opportunities is considered.</p> <p>At the time of the last investment strategy review, the Pension Committee discussed and agreed that in order to have a more consistent level of return that is aligned with the Actuary's recovery plan, the investment allocation strategy should be revised as below: -</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Asset Category</td> <td style="text-align: right;">%</td> </tr> <tr> <td>Global &amp; Emerging Market</td> <td style="text-align: right;">42</td> </tr> <tr> <td>+/- 5</td> <td></td> </tr> <tr> <td>Listed Equities</td> <td></td> </tr> <tr> <td>Bonds</td> <td style="text-align: right;">23</td> </tr> <tr> <td>+/- 5</td> <td></td> </tr> <tr> <td>Alternatives</td> <td style="text-align: right;">34</td> </tr> <tr> <td>+/- 5</td> <td></td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">100</td> </tr> </table> <p>Based on advice from the Pension Fund's Investment Consultants, a panel of investment managers have been funded to implement this strategy.</p>	Asset Category	%	Global & Emerging Market	42	+/- 5		Listed Equities		Bonds	23	+/- 5		Alternatives	34	+/- 5		Cash	1	Total	100	<p>Continue to consider and review asset allocation policy.</p>
Asset Category	%																								
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+/- 5																									
Alternatives	34																								
+/- 5																									
Cash	1																								
Total	100																								



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Principle 4: Performance Assessment					
Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Part	Not			
✓			<p><i>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</i></p> <p><i>Administrating authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</i></p>	<p>The Fund's managers provide full reports on performance on a quarterly basis. The investment managers' performance and the Fund's overall performance are independently measured quarterly and annually by State Street Global Services and reported on a quarterly basis to the Pension Committee.</p> <p>The Fund's Investment Consultants, AON Hewitt, also monitor the investment managers and report their research and ratings to the Committee on a quarterly basis. Officers meet with managers on a regular basis and each manager has been scheduled to attend Committee meetings on at least an annual basis.</p> <p>The Fund has procured the services of AMACES to undertake a full review of the custodian contact and to monitor the custodian's performance.</p> <p>A revised framework for reporting to the Committee has been put in place by Officers, reporting on the Fund's panel of investment managers' performance and any significant events during the quarter.</p>	<p>Reporting on the Council's own effectiveness as a decision making body will be a focus.</p>
	✓				
Principle 5: Responsible Ownership					
✓			<p><i>Administrating authorities should:</i></p> <p><i>Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.</i></p>	<p>The Pension Fund's investment managers have adopted the Institutional Shareholders' Committee Statement of Principles.</p>	<p>Establish a global contract with PIRC to consistently vote across the Pension Fund's holdings with each investment manager.</p>
✓			<p><i>Include a statement of their policy on responsible ownership on the statement of investment principles.</i></p>	<p>Sections 5 and 7 and the introduction of the Statement of Investment Principles detail the Fund's policy on responsible ownership, including shareholder activism and the decision making duties of the Pension Committee and the investment managers.</p>	
✓			<p><i>Report periodically to scheme members on the discharge of such responsibilities.</i></p> <p>-</p>	<p>Officers report quarterly to the Pensions Committee on the voting by PIRC and the investment managers carried out on the Fund's equity holdings. This report is available on the Council's website for</p>	

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					<p>members to view.</p> <p>The Governance Policy Statement is also available to the public, establishing the roles of the Pension Committee and decision makers over the Pension Fund.</p>	
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Compliant			Principle	How the Principle is Met	Plans to meet the Principle in the future
Fully	Partly	Not			
<b>Principle 6: Transparency and Reporting</b>					
✓			<p><i>Administrating authorities should:</i></p> <p><i>Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.</i></p> <p><i>Provide regular communication to scheme members in the form they consider most appropriate.</i></p>	<p>The Council communicates with stakeholders through the publication of key documents on the Council's website, including the Governance Policy Statement, the Communication Statement and the Annual Report.</p> <p>Additionally, there is an annual open day; quarterly employee forum; surgeries; drop in sessions and other ad hoc events.</p> <p>A regular newsletter is also sent scheme members.</p>	<p>The Council will continue to communicate with stakeholders and members.</p>

**Date: December 2015**