

LONDON BOROUGH OF NEWHAM PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES 2011/12

1. Introduction

- 1.1 This is the Statement of Investment Principles (SIP) adopted by the London Borough of Newham (LBN) in relation to the Council's Pension Fund and reflects the conclusions drawn from the 2007 valuation and the strategy review following the 2010 valuation. It looks to update the 2010/11 SIP in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- 1.2 The LBN Pension Fund is a Local Government Pension Scheme (LGPS). It is not a trust based scheme. Rather, the investment of the Fund's assets is governed by the "Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998", as amended.

Amongst other things these regulations require LBN to consult with stakeholders and to obtain and consider proper, written, advice from suitably qualified persons on investments and the formulation of an investment policy, taking into account the suitability and diversity of the different asset classes available and selected.

In this capacity the Council employs the Investment Practice of Barnett Waddingham and receives external advice from number of other investment professional to provide additional independent advice on investment strategy, the economic outlook and manager performance. This SIP is consistent with the restrictions and requirements of the regulations.

- 1.3 The Investment & Accounts Committee (IAC) of LBN oversees the management of the Fund's assets. Although not trustees, the Members of the Investment & Accounts Committee owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the Assets of the Fund, as well as to the contributors and beneficiaries of the Fund.
- 1.4 The terms of reference for the Investment & Accounts Committee within the Council's Constitution (8.06 2) are:
- To make all decisions under Regulations made pursuant to Section 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers scheme of delegation
 - Approval of the authority statement of accounts in accordance with the relevant Accounts and Audit Regulations made from time to time
 - The Committee shall be a member of the Local Authority Pension Fund Forum.

The Investment & Accounts Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the

investment advisor and any other external consultants considered necessary

- Reviewing on a regular basis the investment managers' performance against benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the SIP & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The Executive Director of Resources and the appointed Consultants and Actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

- 1.5 This SIP will be reviewed at least once a year, or more frequently as required, in particular following valuations, future Asset/Liability studies and performance reviews, which may indicate a need to change investment policy or significant changes to the FSS.
- 1.6 Since July 2010, the SIP was required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. This information is contained within Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Committee discharge their stewardship responsibilities.

2. Fund Objectives

2.1 The aims of the Fund are to:

- ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage the funding of the employers' liabilities effectively
- maximise the returns from investments within reasonable risk parameters.

3. Types and Balance of Investments

3.1 The Fund may utilise the following asset classes which are deemed suitable for the Fund:

Equities (UK and Overseas)	Derivatives
Fixed Interest Bonds (UK and Overseas)	Managed Funds
Index Linked	Underwriting
Cash	Property
Private Equity	
Commodities/senior loan, currency etc – check MS contract	

3.2 The Fund has chosen a specific benchmark in order to determine the appropriate balance between different types of asset. The Fund invests through a range of pooled Funds as well as directly in shares and has a mix of passive and active management.

Stock selection is delegated to Investment Managers who may vary their allocation within set bands and must re-balance to the benchmark quarterly. Following the ongoing review of the investment strategy the benchmark is as follows:

	%	Expected Return
Equities	55.0	8-11 %
Bonds	13.0	5-6 %
Property	12.0	9 %
Private Equity	5.0	10 %
Infrastructure	5.0	8 %
Diversified Alternatives Fund	10.0	7 %
Total	<u>100.0</u>	

The Fund has made 5% allocations to private equity and infrastructure. These allocations are not invested immediately but are invested over a 3-4 year period as the fund manager invests in suitable companies. In the interim these assets are invested in UK equities.

- 3.3 The benchmark adopted reflects the circumstances of the Newham Fund in terms of its liability profile and solvency level. Although the Fund is relatively mature (i.e. there are relatively high numbers of pensioners compared to contributing numbers) it remains cash positive. This position is likely to be maintained over the medium term of at least 10 years, subject to any legislative changes that may shorten this time period. This means the Fund is able to take a fairly long-term perspective investing in real assets such as equities and property to increase the value of the Fund rather than Bonds which produce a steady income stream.
- 3.4 The Fund's investments are structured so as to stay within the restrictions imposed by regulation. These are reflected in the management agreements and instructions to Investment Managers.
- 3.5 The Committee has delegated responsibility to the Director of Finance to undertake any necessary action required to re-balance the Fund's strategic asset allocation in-line with the investment strategy.
- 3.6 The Committee has delegated responsibility to the Director of Finance for all decisions relating to the administration of the Fund, including but not exclusive to crediting contributions, dividends and interest, and realising and making investments to manage the Fund's cash flow based on the Cash Policy Statement.

4. Investment Management Arrangements

- 4.1 Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. Some cash (making up less than 1% of the Fund) is held in house.
- 4.2 The strategy review has prompted a further move from balanced to specialist managers alongside the trend toward alternative investment classes in pursuit of the Fund's objective to be fully funded in 20 years (2031).

Manager	Mandate	% Fund
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Neptune	Unconstrained Global Equity Active	13.0
Longview	Unconstrained Global Equity Active	13.0
Newton	Unconstrained Global Equity Active	13.0
Legal & General	Passive Equities* Passive Bonds**	16.0 4.0
Morgan Stanley	Diversified Alternatives	10.0
ING	Property	12.0
Aberdeen Asset Management	Fixed Income Active	9.0
HarbourVest	Private Equity	5.0
Arcus	Infrastructure	5.0

Scale up to 100% in each category

***Equity**

- 40% UK Equity Index
- 12% North America Equity Index
- 12% Europe (ex UK) Equity Index
- 5% Japan Equity Index
- 6% Asia Pacific ex Japan Developed Equity Index
- 5% World Emerging Markets Equity Index Fund

****Bonds**

- 5% AAA Fixed Interest Over 15 Years
- 13% Over 15 Year Index-Linked Gilts
- 2% Overseas Bond Index

- 4.3 Investments in Property, Private Equity and Infrastructure are illiquid relative to other asset classes.
- 4.4 Management agreements are maintained with each of the Investment Managers which set out the benchmark asset allocation ranges, performance target and any restrictions placed on the manager.
- 4.5 The Investment Manager's actions and performance are monitored quarterly and reviewed annually or at any other time as deemed appropriate.
- 4.6 The manager's fee structure is based on a percentage of the market value of the

managed assets. The fee charged is set as part of the appointment process.

5. Risk and Return

5.1 The Investment & Accounts Committee recognises that there are a number of risks involved in the investment of the assets of the Pension Fund amongst which, are the following:

5.2 Geopolitical and currency risks:

are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and

are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

5.3 Manager risk:

is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager (s) investment process.

5.4 Solvency and mismatching risk:

are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and

are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

5.5 Liquidity risk:

is measured by the level of cash flow required over a specified period; and managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

5.6 Custodial risk:

is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody; and

5.7 Funding of the LBN Pension Fund is based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within section 7 of the FSS. The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the Investment Managers from deviating significantly from the intended approach while permitting the flexibility for

Managers to enhance returns

- The appointment of more than one Manager with different mandates and approaches provides for the diversification of Manager risk
- The investment management agreements constrain the Manager's actions in areas of particular risk and set out the respective responsibilities of both the Manager and LBN

- 5.8 The Fund is managed 80% on an active and 20% on a passive basis. The assets managed on an active basis are expected to out perform their respective benchmarks over the long term. In achieving the level of return managers are also required to limit underperformance. The passive manager has a target of achieving a return as close as possible to the respective benchmark index return for each market. Overall the Fund is expected to produce a return at least in line with the return assumed by the actuary in the last valuation.
- 5.9 The Fund's custodian, Northern Trust, monitor the performance of each of the Managers and the Fund overall. Reports are considered quarterly and there is an annual review. The annual review also examines the impact of the Fund's benchmark. Performance of the Fund is monitored internally on a monthly basis. There is a statutory obligation for triennial valuation of the Fund with the option for interim valuations as required.
- 5.10 In addition, risks are measure and managed via a risk register which is constantly revised and updated. The risk register is included as Appendix C.

6. Realisation of Investments

- 6.1 The majority of the Fund's assets are quoted in the major markets and are readily realisable. Property is relatively illiquid and makes up 12% of the Fund benchmark assets. Private Equity and Infrastructure are also illiquid and make up 4% and 2% respectfully. Diversified alternatives are a mixture of liquid and illiquid assets, with 10% of these assets currently classed as illiquid. The allocation to Diversified Alternative will be less liquid than the Equity and Bond portfolios. Whilst the Fund enjoys a positive cash flow there will not be a need to realise investments quickly and this is likely to remain so at least in the medium term.
- 6.2 The investment managers are required to realise investments as soon as it becomes appropriate to do so under their mandates. In general the Fund's investment managers have discretion with regard to the realisation of investments.

7. Socially Responsible Investment

- 7.1 As a responsible investor the LBN Pension Fund wishes to promote corporate social responsibility, good practice and improved performance amongst all Companies in which it invests.
- 7.2 Whilst there has been a great deal of emphasis on the relationship of business, financial and economic factors to investment performance, the impact on returns of less tangible non-financial and reputational factors is more difficult to identify. Nevertheless it is clear that adverse publicity relating to low corporate, environmental

or social standards can have an adverse impact on shareholder value, the Fund, its beneficiaries and local taxpayers. By having a good public image, the morale of the workforce will be higher, thus making it easier to attract and retain quality employees. Furthermore the Fund considers that the pursuit of high corporate social responsibility standards by Companies will lead to higher returns in the long term. A good public image may help to increase sales volumes. An improved financial standing will improve credit ratings, thus allowing a company to attract lower cost funding. By addressing outside factors, the company is able to demonstrate an above average standard of management competence which will improve the long term potential and sustainability of the organisation. At the very least the Fund expects the Companies in which it invests to comply with all applicable laws and regulations in home markets and to conform to local best practice when operating overseas.

- 7.3 In furtherance of this stance the Fund will support standards of best practice by Companies in both the disclosure and management of corporate social responsibility issues consistent with the Fund's fiduciary responsibilities. To this end the Fund will pursue a policy of active shareholder engagement with companies using its own efforts, those of its Fund managers and alliances with other investors. The Fund is a member of the Local Authority Pension Fund Forum and National Association of Pension Funds.
- 7.4 On occasions the Chair and Members of the Council's Investment & Accounts Committee has attended company AGMs to raise questions on matters concerning socially responsible issues, such as labour standards. There is potential for a company to improve its reputation and financial standing from positive engagement by addressing issues that if ignored, may be detrimental to the organisations long term standing.
- 7.5 The Fund will consider excluding certain types of investment from its actively managed portfolios, following appropriate advice on the implications for performance and diversification. Fund managers are instructed not to invest segregated elements of their portfolio in companies that generate over half of their income from tobacco products on investment prospects grounds.

8. Shareholder Rights

- 8.1 The Fund is committed to making full use of its shareholder rights.

The Fund's policy on voting rights is based on the Cadbury, Greenbury and Hampel codes, as well as the stock exchange combined code, and the principles of protecting shareholder rights, minimising risk and enhancing value. The Fund expects its Fund Managers to vote in an appropriate and informed manner and report their voting actions in their quarterly investment reports.

The exercise of shareholder's rights is delegated to the Fund Managers as part of their mandate. Fund Managers will vote in accordance with their Corporate Governance Policy Statements. These policy statements have been developed with the recommendations of Institutional Shareholder Service (ISS), National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI).

9. Additional Voluntary Contributions

- 9.1 The Council provides a facility for members to pay additional voluntary contributions (AVCs) to enhance their benefits. Members have a choice of buying additional pension benefits (APBs) or accumulating their AVCs to purchase benefits on a money purchase basis. Investment of money purchase AVCs is undertaken through Clerical Medical Investment Group Ltd and the Equitable Life Assurance Society. The Equitable Life option is closed to new members. A review of our current AVC provider will be carried out in 2011.

10. Stock Lending

- 10.1 The Fund currently does not use stock lending as an investment mechanism. A review of this policy will be carried out in 2012.

11. Approval

- 11.1 The Investment and Accounts Committee approved the revision to the SIP at the Investment and Accounts Committee Meeting on 29 June 2011.

12. Compliance With Principles of Investment Practice

- 12.1 The London Borough of Newham Pension Fund complies with the CIPFA Pensions Panel Principles for Investment Decision-Making in the Local Government Pension Scheme in the United Kingdom. These Principles are outlined in Appendix A.

13. Feedback

- 13.1 Feedback is welcomed on this Statement of Investment Principles.

If you have any comments to make for suggested amendments or wish to discuss any issues then please contact

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APPENDIX A

COMPLIANCE WITH CIPFA PENSIONS PANEL PRINCIPLES FOR INVESTMENT DECISION MAKING IN THE LOCAL GOVERNMENT PENSION SCHEME IN THE UNITED KINGDOM

DECISION MAKING

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the publication by CIPFA called "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A guide to the application of the Myners Principles".

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in *Roberts v. Hapwood* whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the council's position on compliance, are set out below:

Principle 1 - Effective decision-making

Administering authorities should ensure that:

- *Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and*
- *Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*

Full Compliance

The council has delegated the management and administration of the pension fund to the Investment and Accounts Committee (the Committee), which meets quarterly. The responsibilities of The Committee are described in paragraph 1.4 of the SIP.

The Committee is made up of elected members of the council who each have voting rights and has representatives from the admitted and scheduled bodies within the Fund and from trade unions, as observers.

The Committee obtains and considers advice from and is supported by the Director of Finance, Corporate Finance and as necessary from the Fund's appointed actuary, investment managers and advisors. Training is provided to members as required. The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Committee annually and progress is monitored on a quarterly basis.

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members. There is an ongoing programme of training available to trustees, including seminars, circulars, Committee discussions with advisers and networking. Committee Members are required to undertake a minimum of three days of investment training a year.

Principle 2 - Clear objectives

An overall investment objective(s) should be set 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 administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full Compliance

The aims and objectives of the Fund are set out within the FSS and within SIP. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

The Fund's advisors continue with the on-going review of the strategy following the 2010 Valuation.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take 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.

Full Compliance

The Committee has agreed in conjunction with its advisor an investment Strategy that is directly related to the Fund's liabilities. An actuarial valuation of the fund takes place every three years. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

Following a review in 2010 changes were made to the Fund's passive investment in equities and fixed income, with further changes to the nature of the actively managed bonds.

The Investment Allocation of the fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in paragraph 3 of the SIP.

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. 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

Full Compliance

The Committee has appointed investment managers with clear index strategic benchmarks (see paragraph 4.2 above) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Barnett Waddingham, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures.

The Committee monitors the investment decision it has taken, including the effectiveness of these decisions. In addition the Committee receive quarterly reports as to how the Fund has performed against their investment objective. The performance figures are included in the extract from the accounts which is sent to stakeholders annually.

Principle 5 – Responsible Ownership

Administering authorities should:

- *Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.*
- *Include a statement of their policy on responsible ownership in the statement of investment principles.*
- *Report periodically to scheme members on the discharge of such responsibilities.*

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the SIP.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests (see paragraph 6 above). Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund is currently discussing with all the Investment Managers to work towards compliance with the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.

This Statement of Investment principle is included in the Pension Fund Annual Report which is available to all scheme members.

Principle 6 – Transparency and reporting

Administering authorities should:

- *Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.*
- *Provide regular communications to scheme members in the form they consider most appropriate.*

Full Compliance

Links to the Governance Compliance Statement, the Statement of Investment Principles, the Funding Strategy Statement and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site and internal intranet.

Monitoring results of the fund's performance are also included. An extract from the accounts is sent to stakeholders annually.

APPENDIX B

COMPLIANCE WITH THE STEWARDSHIP CODE

The **Stewardship Code** is a set of principles or guidelines released in 2010 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means, it does not require compliance with principles. But if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so.

The seven principles, together with the council's position on compliance, are set out below:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Stewardship responsibilities are outlined in section 1.4 of the SIP, which outlines the terms of reference of the Committee.

The Committee actively monitor the Fund Manager through quarterly performance analysis, annual and periodic meetings with the Fund Manager and through direct monitoring by the Fund's investment advisor, which includes monitoring and reporting on:

- *Fund manager performance*
- *Investment Process compliance and changes*
- *Changes in personnel (joiners and leavers)*
- *Significant portfolio developments*
- *Breaches of the IMA*
- *Business wins and losses; and*
- *Corporate and other issues.*

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA), which is reported on a quarterly basis to the Committee.

All the Fund's equity, fixed income and diversified managers have signed up to the code including:

Aberdeen Asset Management (Fixed Income)
Newton Investment Management (Equities)
Neptune Investment Management (Equities)
Longview Partners (Equities)
Morgan Stanley (Diversified Alternatives)

2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Committee encourages its fund managers to have effective policies addressing potential conflicts of interest.

Committee Members are also required to make declarations of interest prior to panel meetings.

3 Monitor their investee companies.

Day-to-day responsibility for managing the Fund's investments are delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

Reports from fund managers on voting and engagement activity are received and will be reported to the Committee on a quarterly basis.

Concerns are raised directly with the fund managers and issues raised are reported back to the Committee at the subsequent Committee meeting.

Fund manager Internal Control reports are monitored, with breaches reported back to the Committee.

Where the Fund is directly invested, such as private equity and infrastructure, members of the Committee and officers attend the AGM.

4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary.

Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

5. Be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.

Where possible, the Fund seeks to exercise its voting rights attaching to its non- UK equity holdings by delegation through Power of Attorneys.

On environmental issues in particular, the Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC). One of the core objectives of the IIGCC is to engage in dialogues

6. Have a clear policy on voting and disclosure of voting activity.

The Fund currently votes on all decisions and this is reported via Northern Trust.

Newham also vote, through the Fund manager including and where possible, in emerging markets.

7. Report periodically on their stewardship and voting activities.

From June 2011 a section on voting will be included in each Business, with a yearly review of the policy.

In future the annual report will include information about the Fund's voting and engagement work.

APPENDIX C

RISK REGISTER

BUSINESS RISK ASSESSMENT

RISK ASSESSMENT COMPLETED BY		David Dickinson		Corporate Finance Pension Fund			Director of Finance		Deborah Hindson			DATE		29 March 2011
CORE OBJECTIVE		Newham : a place where people will choose to live, work and stay												
Risk No.	Details of Risk, Including Consequences	Uncontrolled Assessment of Risk			Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Controlled Assessment of Risk				
		Impact	Likelihood	Risk Rating						Impact	Likelihood	Risk Rating		
		Assume NO controls in place								When ALL controls are implemented				
1	Business Objective; Lack of professional advice or poor advice giving rise to poor decision making leading to loss of investment opportunities and ultimately higher costs for the Fund	To ensure that the Council Plans its finances effectively to deliver its strategic priorities.												
		3	4	12	Deborah Hindson	Monitoring of advice received from Advisors	100%	31/3/2012	Stephen Wild	2	2	4		
						Appointment of an Independent Investment Advisor	0%	31/3/2012	Stephen Wild					
						Risk assessment for procurements, Committee review of recommendations	100%	31/3/2012	Stephen Wild					
						Obtain advice from a number of independent advisors	100%	31/3/2012	Stephen Wild					
2	Business Objective; Risk failure to collect contributions from employers,	To ensure that the Council is in sound financial health												
		2	4	8	Deborah Hindson	Monitoring of contributions, ensuring they are received on time	100%	31/3/2012	Stephen Wild	1	2	2		

	loss of interest, investment opportunities and higher costs, giving rise to financial and reputational issues					Monthly checks to ensure cash received and banked	100%	31/3/2012	Stephen Wild				
						Monthly checks on the employer and employee rates	100%	31/3/2012	Stephen Wild				
3	Business Objective;	To ensure that the Council is in sound financial health.											
	Pensioners living longer increasing liabilities of the pension fund giving rise to higher contributions required.	3	2	6	Deborah Hindson	Controls in place to monitor developments with Fund Actuary and Triennial valuations	100%	31/3/2012	Stephen Wild	2	2	4	
						Actuary to assess the likelihood and report in yearly valuation	100%	31/3/2012	Stephen Wild				
4	Business Objective;	To ensure that the Council is in sound financial health											
	Risk employer goes into default, deficit on termination, change of status, financial risk.	3	2	6	Deborah Hindson	Controls in place to monitor developments with Fund Actuary and Triennial valuations	100%	31/3/2012	Stephen Wild	2	2	4	
						Ensure funding levels remain high for individual employers.	100%	31/3/2012	Stephen Wild				
						Monitor yearly accounts to ensure the employers remain a going concern	100%	31/3/2012	Stephen Wild				
5	Business Objective;	Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective mgtmt of financial performance											
	Assets and liabilities impacted by investment performance assets could fail to increase at the same rate as liabilities giving rise to a larger deficit and therefore requirement for higher contributions	4	4	16	Deborah Hindson	Controls in place to monitor assets and liabilities of the pension fund and to review asset	100%	31/3/2012	Stephen Wild	2	2	4	
						Monitoring of Investment Managers, with meeting held on an exceptions basis	100%	31/3/2012	Stephen Wild				
						Quarterly valuation update to monitor returns against triennial valuation assumptions	100%	31/3/2012	Stephen Wild				
6	Business Objective;	Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective mgtmt of financial performance											
	Poor investment performance either as a	4	4	16	Deborah Hindson	The Pension Fund investment strategy is reviewed regularly.	100%	31/3/2012	Stephen Wild	2	2	4	

	result of the types of assets invested in or performance of individual fund managers					Regular monitor of asset allocation, monitoring of investment performance of fund managers to ensure both are on target to achieve the targeted returns.	100%	31/3/2012	Stephen Wild				
						Monitoring of Investment Managers, with meeting held on an exceptions basis where performance is below benchmark	100%	31/3/2012	Stephen Wild				
7	Business Objective;	To ensure the Council has effective methods for paying people and organisations											
	Poor administration by the Pension Fund, employers and payroll providers in the Fund giving rise to inaccurate data with financial and reputational consequences, actuary unable to set contribution rates	3	3	9	Deborah Hindson	Annual monitoring of membership records, valuation checks	100%	31/3/2012	Stephen Wild				
						Triennial Data Cleansing exercise and actuary data report	100%	31/3/2012	Stephen Wild	2	2	4	
8	Business Objective;	Ensure that the organisation has a robust approach to managing its risks & has good internal control.											
	The Pension Fund is heavily reliant on third party providers for its investment management, administration and custodial services	3	3	9	Deborah Hindson	Adequate contract monitoring to ensure performance standards and financial security of external providers	100%	31/3/2012	Stephen Wild				
						Monitoring of audited accounts to ensure consistent asset valuation.	100%	31/3/2012	Stephen Wild	2	2	4	
9	Business Objective;	Ensure that the organisation has a robust approach to managing its risks & has good internal control											
	Pension Overpayments arising as a result of non-notification of death, re-employment, or ceasing education	3	3	9	Deborah Hindson	Life Certificate check on all pensioners in receipt of Cheques/Giro's all pensioners living abroad and all those over the age of 80	100%	31/3/2012	Vera White				
						Participate in the National Fraud Initiative	100%	31/3/2012	Vera White	2	2	4	
						Reclaim amounts over £100.00 that have been overpaid	100%	31/3/2012	Vera White				

10	Business Objective;	To ensure that the council's financial & external reporting complies with requirements & meets the need of users & local people										
	Poor communication with stakeholders giving rise to disaffection and actions against Council	2	3	6	Deborah Hindson	Annual Newsletter on Pension Fund	80%	31/3/2012	Stephen Wild	1	1	1
					2 page summary of the Annual Report sent to all employees	80%	31/3/2012	Stephen Wild				
11	Business Objective;	Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective mgtmt of financial performance										
	Failure to comply with existing or new legislation due to lack of specialist knowledge, inability to apply new legislation correctly, etc.	3	3	9	Deborah Hindson	Monitoring of regulations to ensure correct application, use of specialist advisors, compliance with regulatory codes, etc	100%	31/3/2012	Stephen Wild	1	1	1
12	Business Objective;	Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective mgtmt of financial performance										
	Changes to regulations which could be detrimental to the Pension Fund	3	3	9	Deborah Hindson	Responses to consultations, use of specialist advisors to prepare for anticipated changes	100%	31/3/2012	Stephen Wild	1	1	1
13	Business Objective;	Management of pension fund investments										
	Information Decisions based on incomplete/faulty information	3	3	9	Deborah Hindson	Statement of Investment Principle	100%	31/3/2012	Stephen Wild	2	1	2
						Funding strategy & statement	100%	31/3/2012	Stephen Wild			
						Quarterly meeting of investment committee	100%	31/3/2012	Stephen Wild			
Monthly team meetings						50%	31/3/2012	Stephen Wild				
14	Business Objective;	Threat to achievement of business objective										
	Corporate Governance: Misuse of Council Resources - SRI and Governance Issues	3	3	9	Deborah Hindson	Statement of Investment Principle	100%	31/3/2012	Stephen Wild	2	1	2
					Managers benchmarks and mandates	100%	31/3/2012	Stephen Wild				