

Investment Strategy Statement 2018/19

1. Introduction

- 1.1 This is the third Investment Strategy Statement (ISS) adopted by the London Borough of Newham (LBN) Pension Fund ("the Fund") and reflects the conclusions drawn from the strategy review undertaken in 2015 and 2016.

Under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 LBN is required to publish this ISS. It replaces the ISS adopted last year which in turn replaced the Statement of Investment Principles which was previously required under Schedule 1 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Regulations require administering authorities to outline how it meets each of 6 objectives aimed at improving the investment and governance of the Fund.

Although this ISS is new, the objectives behind it form the basis for robust investment and governance of the Fund's assets and, as such, have not caused LBN to make significant changes to their governance framework.

- 1.2 This Statement addresses each of the objectives included in the 2016 Regulations:
- A requirement to invest fund money in a wide range of instruments
 - The authority's assessment of the suitability of particular investments and types of investment
 - The authority's approach to risk, including the ways in which risks are to be measured and managed
 - The authority's approach to pooling investments, including the use of collective investment vehicles
 - The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

We deal with each of these in turn below.

- 1.3 The Investment & Accounts Committee (IAC) of LBN oversees the management of the Fund's assets. Although not trustees, the Members of the IAC 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 relevant terms of reference for the IAC within the Council's Constitution (8.07 2) are:
- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Financial Sustainability to determine as set out in the officers' scheme of delegation.
 - Consideration and approval of the authority statement of accounts in accordance with the relevant Accounts & Audit Regulations made from time to time.

- 1.5 The IAC shall be a member of the Local Authority Pension Fund Forum.

The IAC has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset class.
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls

- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The Director of Financial Sustainability and the appointed consultants and actuaries support the IAC. The day-to-day management of the Fund's assets is delegated to investment managers. Elements of the fund allocation in the property and diversified alternatives portfolio are managed in-house with adviser support.

- 1.6 This ISS 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.
- 1.7 Under the previous Regulations the Statement of Investment Principles required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the IAC discharge their stewardship responsibilities.

2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

- 2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the IAC is aware of the risks it runs within the Fund and the consequences of these risks.
- 2.2 In order to control risk the IAC recognises that the Fund should have an investment strategy that has:
- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
 - Diversity in the asset classes used
 - Diversity in the approaches to the management of the underlying assets.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

- 2.3 This approach to diversification has seen the Fund dividing its assets across 4 broad categories; equities, bonds, real assets (i.e. assets with some form of link to inflation) and absolute return strategies. The size of assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.
- 2.4 The main risk the IAC are concerned with is to ensure the long-term ability of the Fund to meet pension, and other benefit obligations, as they fall due is met. As a result the IAC place a high degree of importance on ensuring the expected return on the assets is sufficient to do so, and does not have to rely on a level of risk which the IAC considers excessive.

Whilst the Fund currently has a surplus of income over expenditure the IAC is mindful that this position may change in future and keeps the liquidity within the Fund monitored.

At all times the IAC takes the view that their investment decisions, including those involving diversification, in the best long term interest of Fund beneficiaries.

- 2.5 To mitigate these risks the IAC regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the IAC will keep this ISS under review to ensure that it reflects the approaches being taken.
- 2.6 The table in Section 5.3 provides detail on the asset allocation.
- 2.7 Changes to the European Directive governing the treatment of investors by investment managers saw LBN (along with other local authorities in the UK) opt to be treated as a professional client for the purposes of MIFID II. This was done during the year and enabled the Fund's investment strategy to continue without requiring any change.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

- 3.1 When assessing the suitability of investments LBN takes into account a number of factors:
- Prospective return
 - Risk, including macro-economic risk
 - Concentration
 - Risk management qualities the asset has, when the portfolio as a whole is considered
 - Geographic and currency exposures
 - Whether the management of the asset meets the Fund's ESG criteria.
- 3.2 Suitability is a critical test for whether or not a particular investment should be made.
- 3.3 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against. In addition the Funding Strategy Statement implies a performance target for the Fund as a whole (CPI + 3.0% p.a.)
- 3.4 The IAC monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the IAC will also compare the Fund asset performance with those of similar funds.
- 3.5 The IAC relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

- 4.1 The IAC recognises that there are a number of risks involved in the investment of the assets of the Pension Fund amongst which are the following:
- 4.2 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.

- 4.3 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.
- 4.4 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.
- 4.5 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
- 4.6 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.
- 4.7 Environmental, Social and Governance ('ESG') risk:
- It is recognised that ESG and ethical issues have the potential to impact on the long term financial viability of an organisation. The IAC monitors both developments within the investment environment and the voting of its appointed managers, supported through regular reporting from the Fund's custodian on the voting and engagement activity of its investment managers.
- 4.8 Funding of the 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 Funding Strategy Statement. 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
- 4.9 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.
- LBN and the IAC are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of LBN to meet the future contributions, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial deficit and the impact this has on contributions.
- 4.10 LBN and the IAC are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the IAC carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between

them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

The IAC is also mindful that correlations change over time and at times of stress can be significantly different from they are in more benign market conditions.

To help manage risk the IAC uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the IAC also had different investment advisers assess the level of risk involved.

- 4.11 The Fund targets a long-term return in excess of CPI +3.0% p.a. and the Fund's Independent Adviser has confirmed that the current long-term investment strategy is expected to produce an investment return in excess of this amount. The investment strategy is considered to have a low degree of volatility and currently targets volatility of 10% over the medium-term.
- 4.12 When reviewing the investment strategy on a quarterly basis the IAC considers advice from their Investment and Economic Advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable.
- 4.13 At each review of the ISS the assumptions on risk and return and their impact on asset allocation will be reviewed.
- 4.14 The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives either directly or through pooled investments. The Fund may also make use of directly held derivatives for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

5. Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles.

- 5.1 LBN recognises the government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.
- 5.2 In this regard the Fund has indicated to the Government in its submission in 2016 that when opportunities to have assets within the investment strategy managed by an appropriate pooling partner it will give these consideration.

LBN and the IAC are aware that certain of the assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the pooling partner for the management of the majority of the Fund assets in the longer term, the IAC recognises that transitioning from the current structure to the pooling partner will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

- 5.3 The table below shows the assets the Fund anticipates will be invested with the pooling partner, when the appropriate management becomes available, and those which it expects to sit outside of those managed by their pooling partner.

Asset Class	Fund Current Allocation	IAC Approved SAA
	%	%
Fixed Income	12	14
- Investment Grade	8	4
- Inflation linked debt	4	5
- Global High Yield	0	5
Equities	55	39
Property	9	16
- Property Funds	9	13
- Infrastructure	0	3
Alternatives (ultimately pooled)	5	15
- Private Equity	3	5
- Private Debt	2	10
Alternatives (pooling not anticipated)	7	12
- Diversified / Liquid Alternative funds	7	12
Tactical Asset Allocation (pooling not anticipated)	9	4
Cash	3	0

- 5.4 The IAC is in the process of transitioning the assets from the current holdings above to the long term strategic asset allocation approved by the IAC shown in the table above. This transition process takes into account market conditions and investment opportunities. Until the transition is complete asset allocations will lie in the range between the two columns in the table above with a margin of +/- 1% on each to allow for the impact of market movements.
- 5.5 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the IAC, and in particular whether a collective investment option is appropriate.
- 5.6 More information on the preferred pooling partner and its operation is included in Appendix C of this statement.

6. Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

- 6.1 A full of review of the Fund's approach to Socially Responsible Investment was completed in 2012/13. The Fund adopted an SRI Policy which outlines its approach to the management of Environmental, Social and Governance (ESG) issues within its investment portfolio. The SRI Policy is publically available and will be reviewed as deemed appropriate.
- 6.2 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. 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. 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.

- 6.3 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. To this end the Fund is a member of, and engages with, the Local Authority Pension Fund Forum, Institutional Investors Group on Climate Change and Pensions and Life Savings Association.
- 6.4 On occasions the Chair and Members of the IAC 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.
- 6.5 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 and in keeping with LBN's public health agenda. Fund managers are required to have policies regarding ESG issues and to monitor their compliance with those policies.

7. Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

- 7.1 The Fund is committed to making full use of its shareholder rights, and this is also covered in its SRI Policy. 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.
- 7.2 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), Pensions and Lifetime Savings Association of Pension Funds (PLSA) and the Association of British Insurers (ABI).

8. Feedback on this statement

- 8.1 Any feedback on this investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues then please contact:
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Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in 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 CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012",

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 Fund'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 IAC, which meets at least quarterly. The responsibilities of the IAC are described in paragraph 1.4 of the Investment Strategy Statement.

The IAC 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 IAC obtains and considers advice from and is supported by the Director of Financial Sustainability, One Source Finance and as necessary from the Fund's appointed actuary, investment managers and advisors. A review of the investment advice received by the Fund was completed in 2014/15, to ensure it continues to be fit for purpose in the changing investment and legislative environment.

The IAC 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 IAC annually and progress is monitored on a quarterly basis.

Several of the IAC members have extensive experience of dealing with Investment matters and training is made available to new IAC members. IAC Members are required to undertake a minimum of three days of investment training a year – there is an on-going programme of training available to members. The IAC has adopted the CIPFA Knowledge and Skills Framework.

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 the Investment Strategy Statement. 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 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 strategy is regularly reviewed.

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 IAC has, in conjunction with its advisers, agreed an Investment Strategy that is related to the Fund's liabilities. An actuarial valuation of the fund takes place every three years, with the next triennial valuation taking place in 2016. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

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 5.3 of the Investment Strategy Statement.

During 2014/15, the Fund established an Admitted/Scheduled Body policy, which will outline its approach to assessing the strength of the covenant for participating employers and the risk assessment undertaken when new employers wish to join the Fund.

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 IAC 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. Moreover portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

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 IAC monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the IAC 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 included in the Fund's annual report.

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 7.1 of the Investment Strategy Statement and in the Fund's SRI Policy. 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 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 – the Fund's approach to this is outlined in paragraph 7.2 of the Investment Strategy Statement and in the Fund's SRI Policy.

A full of review of the SRI polices of current Fund Managers and their compliance with the Financial Reporting Council's Stewardship Code was completed in 2012/13, and the results were reported to the IAC in March 2013.

This Investment Strategy Statement and the SRI Policy are both publically 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 Investment Strategy Statement, the FSS, the SRI Policy 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, internal intranet and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet. The Fund's Annual Report includes an assessment of the Fund's performance and an extract from the accounts is sent to stakeholders annually.

Investment Strategy Statement: Appendix B

Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2012 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 that 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 Investment Strategy Statement, which outlines the terms of reference of the IAC.

Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. The IAC actively monitor the Fund Managers through quarterly performance analysis, annual and periodic meetings with the Fund Managers and through direct monitoring by the Fund's investment advisor, which includes monitoring and reporting on:

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

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA), which is reported on a quarterly basis to IAC members via the Council's intranet site.

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

- Aberdeen Asset Management (Fixed Income) Legal and General (Equities and Fixed Income) Longview Partners (Equities)
- Morgan Stanley (Diversified Alternatives) CBRE (Property)
- Permira (Private Debt)
- Brightwood (Private Debt)
- BlueBay (Private Debt)

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

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

IAC members are also required to make declarations of interest prior to all IAC 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.

The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

Reports from fund managers on voting and engagement activity are received and will be reported to the IAC members on a quarterly basis. Concerns are raised directly with the fund managers and issues raised are reported back to the IAC at the subsequent IAC meeting.

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

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. The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

The Fund Managers are expected to have their own SRI/ESG policy and to disclose their guidelines for such activities in their own statement of adherence to the Stewardship Code.

5. 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.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF provides ad hoc briefings on companies where contentious votes are due or there are serious corporate governance failings or concerns. Where these relate to companies within the Fund's portfolio, these concerns are raised with the relevant fund manager and appropriate action is taken. Where LAPFF issue a voting direction on a particular issue, fund managers will be expected to comply with this or explain any non-compliance.

Where possible, the Fund seeks to exercise its voting rights attached 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. The Fund's approach to voting is clearly outlined in the Investment Strategy Statement and SRI Policy,

7. Report periodically on their stewardship and voting activities.

A section on voting is included in each quarterly Business Plan Update, with a yearly review of the policy.

The Fund's annual report includes information about the Fund's voting and engagement work

Investment Strategy Statement: Appendix C – Risk Register

Risk assessment completed by		Stephen Wild	Head of Pensions and Treasury		Conrad Hall	Corporate Director of Resources		March 2019
Risk No.	Details of Risk, Including Consequences		Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
1	Business Objective	To ensure that the Fund plans its finances effectively to deliver its strategic priorities.						
	Poor governance and lack of professional advice or poor advice giving rise to detrimental decision making, leading to loss of investment opportunities and adverse performance.	Conrad Hall	Knowledge and skills training for members of the IAC	100%	31/03/2020	Stephen Wild	1	
			Review of the Investment Strategy Statement, Funding Strategy Statement, State of the Nations document	100%	31/03/2020	Stephen Wild		
			Scrutiny and support from the Local Pensions Board	100%	31/03/2020	Stephen Wild		
			Monitoring of advice received from Investment Advisor and Macro-Economic Advisor	100%	31/03/2020	Stephen Wild		
Business Objective	To ensure that the Fund is in sound financial health							
2	Fund's actuary's assumptions at the Triennial valuation not realised - giving rise to a larger deficit and therefore requirement for higher employer contributions.	Conrad Hall	Strategic asset allocation designed to achieve appropriate balance between capital protection and diversification.	100%	31/03/2020	Stephen Wild	2	
			Quarterly valuation update to monitor returns against triennial valuation assumptions.	100%	31/03/2020	Stephen Wild		
			Developments monitored via Fund's Actuary – next triennial valuation being completed in 2019	50%	31/03/2020	Stephen Wild		
			Deficit monitoring of contributions	80%	31/03/2020	Stephen Wild		
Business Objective	To ensure that the Fund is in sound financial health.							
3	Declining active membership leading to negative cash flow from dealings with members, requiring assets to be realised to meet liabilities.	Conrad Hall	Strategic asset allocation re-aligned towards higher yielding assets to increase investment income.	80%	31/03/2020	Stephen Wild	2	
			Cash flow forecasting and modelling.	100%	31/03/2020	Stephen Wild		
			Promotional campaign for LBN staff; auto enrolment from October 2017	100%	31/03/2020	Sarah Bryant		

Risk No.	Details of Risk, Including Consequences		Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
4	Business Objective	To ensure that the Fund is in sound financial health						
	Risk employer goes into default, deficit on termination, change of status, financial risk.	Conrad Hall	Actuarial assessment completed for all new admission requests to assess level of risk	100%	31/03/2020	Sarah Bryant	1	
			Bonds or suitable guarantees put in place to protect the Fund in case of default	100%	31/03/2020	Sarah Bryant		
			Funding level of each employer assessed as part of triennial valuation, and contribution rates set accordingly.	100%	31/03/2020	Sarah Bryant		
5	Business Objective	To ensure that the Fund is in sound financial health						
	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	Conrad Hall	Strategic asset allocation designed to achieve appropriate balance between capital protection and diversification. Reviewed at quarterly strategy meetings.	100%	31/03/2020	Stephen Wild	1	
			Monitoring of Investment Managers' performance, with meetings held on an exceptions basis where performance is below benchmark	100%	31/03/2020	Stephen Wild		
			Quarterly valuation update to monitor returns against triennial valuation assumptions.	100%	31/03/2020	Stephen Wild		
6	Business Objective	To ensure the Fund 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 to set contribution rates with high margin of error.	Conrad Hall	Annual monitoring of membership records, valuation checks	100%	31/03/2020	Sarah Bryant	1	
			Annual reconciliation between payroll and scheme membership data,	100%	31/03/2020	Sarah Bryant		
			Triennial Data Cleansing exercise and actuary data report	100%	31/03/2020	Sarah Bryant		

Risk No.	Details of Risk, Including Consequences	Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
7	Business Objective	Ensure that the Fund has a robust approach to managing its risk and has good internal control					
	The Pension Fund relies on third party providers for its investment management, administration and custodial services and any poor performance will adversely impact on the Fund.	Conrad Hall	Adequate contract monitoring to ensure performance standards and financial security of external providers.	80%	31/03/2020	Stephen Wild	2
			Fund managers reviewed by investment advisor.	100%	31/03/2020	Stephen Wild	
			Monitoring of audited accounts to ensure consistent asset valuation.	100%	31/03/2020	Stephen Wild	
			Monitoring of LGPS pool: LCIV	100%	31/03/2020	Stephen Wild	
8	Business Objective	Ensure that the Fund has a robust approach to managing its risk and has good internal control					
	Pension Overpayments arising as a result of non-notification of death, re-employment, or ceasing education	Conrad Hall	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%	31/03/2020	Sarah Bryant	1
			Participate in the National Fraud Initiative	100%	31/03/2020	Sarah Bryant	
			Reclaim amounts over £100.00 that have been overpaid	100%	31/03/2020	Sarah Bryant	
9	Business Objective	Ensure that the Fund has a robust approach to managing its risk and has good internal control					
	Failure to comply with existing or new legislation due to lack of specialist knowledge, inability to apply new legislation correctly, etc.	Conrad Hall	Monitoring of regulations to ensure correct application, use of specialist advisors, compliance with regulatory codes, etc.	100%	31/03/2020	Sarah Bryant Stephen Wild	1
10	Business Objective	Ensure that the Fund has a robust approach to managing its risk and has good internal control					
	Changes to regulations which could be detrimental to the Pension Fund	Conrad Hall	Active participation in consultations.	100%	31/03/2020	Stephen Wild	1
			Use of specialist advisors to prepare for/respond to regulation changes. Proactive approach.	100%	31/03/2020	Stephen Wild	

Risk No.	Details of Risk, Including Consequences		Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
11	Business Objective	To ensure the Fund has effective methods for paying people and organisations						
		Financial and reputational risk of being invested in companies with poor ESG/SRI records	Conrad Hall	Preparation of Socially Responsible Investment Policy.	100%	31/03/2020	Stephen Wild	1
12	Business Objective	To ensure the Fund has effective methods for paying people and organisations						
		Poor investment performance arising from asset allocation or individual fund managers requiring higher employer contributions to compensate.	Conrad Hall	Monitoring of Investment Managers' performance, with meetings held on an exceptions basis where performance is below benchmark	80%	31/03/2020	Stephen Wild	2
				Strategic asset allocation designed to achieve appropriate balance between capital protection and diversification. Reviewed at quarterly strategy meetings.	100%	31/03/2020	Stephen Wild	
				Quarterly valuation update to monitor returns against triennial valuation assumptions.	100%	31/03/2020	Stephen Wild	
13	Business Objective	To ensure that the Fund's financial & external reporting complies with requirements and meets the need of users and local people						
		Failure to comply with financial regulations and accounting standards may lead to adverse external audit report.	Conrad Hall	Recruitment and training of professionally qualified and experienced accounting staff.	100%	31/03/2020	Stephen Wild	1
				Staff to engage in continuing professional development, attending courses as appropriate.	100%	31/03/2020	Stephen Wild	
14	Business Objective	To ensure that the Fund's financial & external reporting complies with requirements and meets the need of users and local people						
		Poor communication with stakeholders giving rise to disaffection and actions against Council	Conrad Hall	Preparation of Fund's Communications Policy.	50%	31/03/2020	Stephen Wild	2
				Annual Report on Pension Fund - summary version sent to all active members	100%	31/03/2020	Stephen Wild	
				Annual General Meeting - all employers and other key stakeholders invited to attend	100%	31/03/2020	Stephen Wild	
				Union representation on the Committee	80%	31/03/2020	Stephen Wild	