WANDS WORTH BOROUGH COUNCIL

PENSION FUND – STATEMENT OF INVESTMENT PRINCIPLES

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This Statement of Investment Principles has been prepared in consultation with the Fund's investment managers, actuary and auditors and on the basis of written advice from the Chartered Institute of Public Finance and Accountancy.

Revised November 2015 as Version 13

Background

Law

Wandsworth Council's Pension Fund is established in accordance with statute to provide death and retirement benefits for all eligible employees, mainly Council staff. The Council is required to maintain a Fund, invested to meet its liabilities for future pension benefits. The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 required the Council to prepare, maintain and publish a written statement of the principles governing their decisions about investments. This has been updated to reflect the requirements of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and Secretary of State guidance issued by CIPFA entitled "Investment Decision Making and Disclosure"

The Council's former Policy and Resources Committee approved the original Statement of Investment Principles on 5th July 2000. Following the adoption by the Council of its new executive arrangements under the Local Government Act 2000, these matters were the responsibility of the General Purposes Committee and the Finance Sub Committee. The previous statement was approved by the General Purposes Committee at their meeting on 26th November 2013 The Council's current executive arrangements place responsibility for pensions matters with the Pensions Committee. The Pensions Committee delegated authority to change the SIP s at their meeting on 20th May 2015, once the changes to the bond portfolio were in place.

Pensions Committee

The Pensions Committee has responsibility for the monitoring and review of the Statement. It also decides on the investment policies most suitable to meet the liabilities of the Pension Fund. It reports as necessary to the Council, which has ultimate responsibility for investment strategy.

Advice

The Committee obtains and considers advice from the Council's Director of Finance and Finance staff, from the Fund actuary, the investment advisor and the investment managers. The Fund actuary and investment advisor carry out tasks specified in two separate five year contracts, one for undertaking the triennial valuation of the fund and the other for the provision of investment management advice.

Management

The Committee have delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme (LGPS) regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Custody

The Committee have delegated custodian duties to Northern Trust. The custodial services include trade settlement and processing, portfolio reporting, income collection, tax reclaims and cash management.

Transition Manager

The Council have appointed Nomura plc to transition assets when managers change or when rebalancing is required.

Investment Responsibilities

The Pensions Committee are responsible for:

a) Determining overall investment strategy, ensuring that the Fund is invested in suitable types of investments and sufficiently diversified having regard to its investment objectives;

b) Ensuring regular review of the Statement of Investment Principles, following its adoption by the Council and modification as appropriate;

c) Ensuring adequate monitoring of compliance with the Statement;

d) Appointing investment managers and any external service providers and advisers felt to be necessary;

e) Maintaining effective arrangements for reviewing on a regular basis investment manager performance against established benchmarks, and being satisfied as to manager expertise and the quality of their internal systems and controls;

f) Ensuring that shares are voted in accordance with agreed policy.

The Committee are advised by **the Council's Director of Finance who is responsible for:**

a) Ensuring compliance with this statement, reporting any breaches to the Committee, and initiating reviews and modification of the statement;

b) Setting and modifying as required the detailed terms of agreements with investment managers;

c) Supervising the activities and performance of the investment managers, instructing them as appropriate, and agreeing appropriate strategic asset allocation ranges;

d) Arranging the appropriate level of external professional support and advice.

The investment managers are responsible for:

a) The investment of pension fund assets in compliance with legislation, the constraints imposed by this statement and the detailed Investment Management Agreements;

b) Recommending, as appropriate, changes to the performance benchmarks and strategic asset allocation ranges;

c) Tactical asset allocation around the benchmarks agreed by the Committee or Director of Finance from time to time;

d) Stock selection within agreed asset classes;

e) Preparation of quarterly reports including a review of investment performance;

f) Attending meetings with the Committee and the Director of Finance as required;

g) Voting shares in accordance with this statement;

h) Assisting in the reviews of this statement;

i) Providing the monthly accounting data summarising details of all investment transactions during the quarter;

j) Providing investment transaction details in a timely manner for performance measurement purposes.

The Actuary is responsible for:

a) Undertaking a triennial valuation of the Fund's assets and liabilities;

b) Providing advice on the maturity of the Fund and funding level in order to assist in balancing the short and long-term objectives of the Fund;

c) The Actuary provides actuarial services under a five year contract let by the Council to the Actuary following a competitive tendering process.

The Investment Advisor is responsible for:

a) Assisting the Committee and the Director of Finance in their monitoring of investment managers' performance, in the selection and appointment of new managers, setting appropriate performance benchmarks and strategic asset allocation ranges;

b) Assisting in the reviews of this statement;

c) Investment advice to the Council through a five-year contract let by the Council following a competitive tendering process.

Fund Liabilities

Scheme Benefits

Wandsworth Council's Pension Scheme is a defined benefit scheme which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets. Full details of the benefits are set out in the LGPS regulations.

Financing Benefits

All active members are required to make pension contributions based upon a fixed percentage of their pensionable pay as defined in the LGPS regulations and currently set between 5.5% and12.5% dependent upon pay levels.

The Council (or other employer where applicable) is responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time by the Fund's actuary. The Council has a direct financial interest in the investment return achieved on the Fund's assets.

Actuarial Valuation

The Fund is valued every three years in accordance with the LGPS regulations and monitored each year in consultation with the actuary.

Investment Objectives

The investment objectives of the Fund are to maintain the solvency of the Fund at all times, and to deliver low and stable contribution rates over the long term.

Investment Management Strategy

The investment management strategy is to appoint expert fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with the investment manager. The Council has adopted an approach that employs specialist active managers plus a passive manager in order to give diversification and spread of risk.

Strategic Asset Allocation Ranges

The investment advisor recommends changes in the strategic asset allocation ranges from time to time. They are subject to approval by the Committee or the Director having regard to the estimated liability profile of the Fund's membership and the need for diversification of the Fund's assets to reduce risk. The investment advisor's recommendations are expressed in terms of percentage allocations to various asset classes and geographical markets.

The table below shows the asset allocation proportions and tolerances around which no rebalancing would occur:

Asset Class	Benchmark Allocation %	Tolerance Range %
UK Equities	**37.5**	**32.5 – 42.5**
Overseas Equities	**37.5**	**32.5 – 42.5**
Corporate Bonds	**12.0**	**7.0 – 17.0**
Index Linked Gilts	**5.0**	**0 – 10.0**
Multi Asset Credit	**8.0**	**3.0 – 13.0**
Total	**100.0**	

In order to minimise trading costs any rebalancing is limited to the mid-point of the difference between the benchmark allocation and the relevant boundary of the tolerance range.

The Director of Finance will monitor these tolerances monthly and is delegated authority to rebalance within these guidelines.

Exceptionally, there may be market conditions that dictate against this rebalancing strategy being implemented or the pace at which rebalancing occurs and the Director of Finance is authorised to depart from this strategy if he deems that circumstances indicate a departure.

Rebalancing decisions would also take account of any liquidity effects.

Any rebalancing activity or departures from the strategy would be reported to the next meeting of the Pensions Committee.

Reporting

The investment managers' current investment decisions and actions are reported quarterly to the Director of Finance. Summaries of these and of managers' performance are reported at least annually to the Pensions Committee, and more frequently when required.

Performance Benchmarks

Performance targets are set on a three-year rolling basis in relation to the benchmark. Managers have been set a target to achieve a return as follows:

Mandate -Manager — Benchmark % of Fund	Benchmark & Target
Global Equities Baillie Gifford 13%	**MSCI All Countries World Index - + 2% p.a net of fees**
Global Equities Longview Partners — 18%	**MSCI World Index - + 2% p.a net of fees**
Global Equities -Allianz– 14%	**MSCI World Index - + 2% p.a net of fees**
UK Equities -River & Mercantile — 13%	**FTSE All - Share - + 2% p.a net of fees**
Bonds – Rogge -15 %	➢ **80% IBOXX All Stocks Corporate Bonds** ➢ **20% FTSE Actuaries Govt Securities Index – Linked > 5 years** **To achieve a total net return of 1.5 % per annum (after fees) greater than total return of the above benchmarks.**
Passive multi-asset - UBSGAM 19%	➢ **94% FTSE All Share** ➢ **6% FTSE Actuaries Govt Securities Index – Linked > 5 years** **To achieve a total return of at least equal to the total return of the above benchmark**
CQS - Multi Asset Credit 4%	➢ **Libor + 4%**

Oakhill - Multi Asset Credit 4%	➢ **Libor + 4%**

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Investments

The powers and duties of the Council to invest Fund monies were set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. These regulations have been replaced by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Council is required to invest any monies which are not required to pay pensions and any other benefits and, in so doing, take account of the need for a suitable diversified portfolio of investment and the advice of persons properly qualified on investment matters.

Types of Investments

In broad terms, investment may be made in accordance with the regulations in equities, fixed interest and other bonds, and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

The Regulations also specify certain limitations on investments.

Investment Management Limitations

The investment managers are required to recommend a suitable asset mix to take account of performance targets, cash needs and risk tolerances, and the appropriate types of investment as defined in the Regulations and each manager's investment management agreement. Any restrictions imposed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) are incorporated into investment management agreements. Their investment decisions are then constrained by the agreed strategic asset allocation ranges.

No more than 35% of the total value of the Pension Fund can be invested in an invidual manager's pooled vehicles. This limit applies to enable the fund to invest in a wide variety of investments; and for the manager to decide on the suitability of particular investments and types of investments. The extension of this limit complies with the 2009 Regulations.

Stock lending is not permitted in segregated portfolios.

Investment Risk

Market risk – The strategic asset allocation ranges are determined recognising the Fund's overall risk tolerance in relation to investment objectives. Each manager is expected to maintain a diversified portfolio of investments within their agreed asset ranges.

Performance risk – Performance benchmarks are used and performance is monitored relative to the targets set over a rolling three-year period. This is to ensure that the investment manager does not deviate significantly from the intended approach, while permitting flexibility to manage the portfolio and enhance returns over the longer term. The appointment of more than one manager diversifies manager related performance risk.

Controlling risk – Risk diversification supports the decision to appoint a number of managers with specifically tailored mandates. The degree of risk to which the individual portfolios are exposed is also monitored.

Funding risk - Assets may increase at a lower rate than the liabilities, resulting in a deteriorating funding position. The Council's Funding Strategy Statement (FSS) is reviewed every three years as part of the triennial valuation. More frequent reviews have previously been undertaken but only when market conditions dictate that long-term liability assumptions require immediate revision.

Financial mismatch risk - Assets and liabilities have different sensitivities to changes in financial factors, in particular inflation and interest rates. In the shorter-term it is accepted that a mismatch between liabilities that increase with service and pay growth will not necessarily correlate to stock market performance. However, the Council has set an investment strategy that provides exposure to a mixture of assets, mainly equities and Bonds, which are expected to meet the liabilities over the long-term.

Liquidity/Cashflow Risk - A shortfall in liquid assets or eligible collateral relative to short term liabilities (e.g. pension payments) could create the risk of selling assets at an unreasonably low price to fund these payments. The Pension Fund is cash positive with income from contributions, dividends and interest being significantly in excess of expenditure, so that cash reserves are normally sufficient to meet any payments. Additionally the Council will ensure that all future payments can be met and that sufficient assets are held in liquid investments (realisable in three months or less) or in eligible collateral, such as government bonds.

Manager Risk - Fund managers could fail to achieve the investment returns specified in their mandates. This is considered by the Council when fund managers are selected and their performance is reviewed regularly by the officers and the relevant Council Committee as part of the manager monitoring process.

Concentration Risk - This refers to the risk that the performance of a single asset class or investment has a disproportionate influence on the Council's ability to meet its investment objectives. The Council mitigates this risk by establishing a well diversified asset allocation, between managers, asset classes and territories. Reviews of the investment strategy are made as and when appropriate.

Counterparty Risk - This describes the risk of the other party in a financial transaction (the counterparty) failing to meet its obligations to the Fund (e.g. because of a default event). The Council has set guidelines with its fund managers and its custodian to limit its exposure to default risk. It also forbids stock lending to mitigate counterparty risk in these transactions.

Currency Risk - A global asset allocation with sterling liabilities exposes the Fund to fluctuations in exchange rates that may affect the value of its investments. The Council has not established a currency hedge for the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling. Many of the top UK companies derive significant proportions of their earnings from overseas and currency hedging involves taking a view about the future direction of currency movements. Additionally, currency rates are affected by many short to medium term factors, but in the long-term are expected to reflect value. Accordingly currency hedging is not undertaken.

Social Environmental and Ethical Considerations

The Council has a paramount fiduciary duty to obtain the best possible financial return on the Fund investments against a suitable degree of risk. It also considers a company's good practice in terms of social, environmental and ethical issues is generally likely to have a favourable effect on the long-term financial performance of the company and improve investment returns to its shareholders.

The investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when considering the acquisition, retention or realisation of investments for the Fund. In the execution of this, the Pensions Committee have considered and found it appropriate to adopt the investment managers' socially responsible investment policies. These policies will be reviewed with the investment managers regularly both by officers and the Pensions Committee.

Exercise of Voting Rights

Managers have been instructed to follow the National Association of Pension Funds (NAPF) voting guidelines.

Compliance

The Pensions Committee and the Director of Finance are responsible for monitoring the qualitative performance of the investment managers to ensure that they remain suitable for the Fund. These qualitative aspects include ownership, personnel, investment administration, and compliance with this statement.

The Pensions Committee and the Director of Finance will regularly check compliance with this Statement of Investment Principles.

The Pensions Committee and the Director of Finance have considered the extent to which investment policy and practice complies with the six investment principles issued by the Government following the publication of the "Review of Investment in the United Kingdom" undertaken by Paul Myners. The Council's compliance with these principles together with descriptive text, where required is set out below:

<u>Principle 1</u> – Compliant - The Council should ensure that:

a) decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Principle 1 requires that decisions are taken by persons with the skills knowledge, advice resources to make them effectively. CIPFA have produced a knowledge and skills framework to complement the statutory guidance, one for officers and the other for elected members sitting on Pensions Committees. They are entitled "Pensions Finance – Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executives in the Public Sector" and "Pensions Finance – Knowledge and Skills Framework - Technical Guidance for Pensions Practitioners in the Public Sector". The Council has adopted these frameworks.

<u>Principle 2</u> – Compliant - An overall investment objective(s) should be set for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, 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.

The Council will have regard to asset/liability models, effects on taxpayers, cash flow requirements and the maturity profile of the Fund when setting the investment strategy. This will require advice from officers, the actuary and investment advisor.

<u>Principle 3</u> – Compliant - In setting 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, and the risk of their default and longevity risk.

Following each triennial valuation the actuary reports on the structure of liabilities and if necessary, amendments to the investment strategy will be considered. A report will be prepared by the Director of Finance if this is required. Whilst the fund's aspiration is that active managers will outperform their benchmarks, allowances must be made for periods of under performance in the short term, while delivering good performance over the long term. The overall objective for the fund is that growth in the global economy, available mainly from investing in equities, should meet the asset out-performance assumption that discounts the value of liabilities and while manager performance is measured in relation to relevant indices this is to measure relative success of each manager, rather than being an objective for the fund as a whole.

<u>Principle 4</u> – Partially Compliant - Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisors. The Council should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Performance of the fund and fund managers is monitored regularly by officers and all fund managers are held to account via quarterly meetings with officers. Elected members meet all managers annually to review performance.

The independent investment advisor is subject to a contract for services which contains relevant quality controls. Outcomes on asset allocation advice, being long-term in nature, are unlikely to be capable of quantitative analysis until many years after the contract for service has ended. Nonetheless, poor performance of the fund, even over the short term, will require analysis and explanation of the reasons, including accountability, and recommended actions, if any, to improve long-term outcomes.

Officers and elected members receive regular information that indicates whether previously agreed policies and decisions require change. This approach focuses on outcomes rather than relying on subjective self assessment. The Council prefers the outcome based approach and accordingly is not fully compliant on making a formal policy assessment of their own effectiveness as a decision-making body.

Principle 5 – Partially Compliant - The Council should:

a) adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Stewardship Code s on the responsibilities of shareholders and agents;

b) include a statement of the scheme's policy on responsible ownership in the statement of investment principles; and

c) report periodically to scheme members on the discharge of such responsibilities.

The Council has instructed managers to follow the National Association of Pension Funds voting instructions. As the NAPF is a founding member of the ISC, voting decisions should correlate to the principles. With the exception of the two Multi Asset Credit Pooled Funds, all of the Council's Fund Managers are members of the (ISC) and have therefore adopted the code.

The Council is not compliant with items b) and c) above.. Principle 6 – Compliant - The Council should 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. The Council should provide regular communication to scheme members in the form they consider most appropriate.

Fully Compliant - Details of the Fund's Communication Policy Statement and all other reports which form the suite of annual report documentation are published on the website at http://www.wandsworth.gov.uk/pensions

Revisions to SIP

Version	Nature of Change	Implemented
V1	Initial Creation	July 2000
V2	Prohibits use of Futures and Options	November 2000
V3	Adoption of NAPF Voting Policy	March 2001
V4	New Council Committee Structure	March 2002
V5	Details of Compliance with Myners Principles	September 2002
V6	End of soft commission relaxation of Pooled Fund limits	March 2003
V7	Change in UBSGAM target on transfer of Funds to them from DeAM	October 2003
V8	Local Authority average Pension Fund as Performance Benchmark	January 2006
V9	New Investment Regulations and Guidance from CIPFA	April 2010
V10	New Manager Structure – Asset Allocation Rebalancing	January 2011
V11	Change to UK/Overseas Equity split and to Rogge benchmark	January 2013
V12	Change of Manager - Asset Allocation Rebalancing	November 2013
V 13	Redistribution of Bonds; Investment in MAC Pooled Funds	November 2015