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Meeting	Pension Fund Committee
Date	22 June 2011
Subject	**Statement of Investment Principles**
Report of	Deputy Chief Executive
Summary	This report asks the committee to approve the updated Statement of Investment Principles.

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Karen Bannister, Head of Treasury and Pensions
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A – Statement of Investment Principles
For decision by	Pension Fund Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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1. RECOMMENDATIONS

1.1 The Committee approve the updated Statement of Investment Principles.

2. RELEVANT PREVIOUS DECISIONS

2.1 Council – 11th September 2007 – Minute 64.

2.2 Pension Fund Committee – 2 February 2010 – Dec. 6

2.3 Pension Fund Committee – 21 March 2011 – Dec. 8

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities in providing better services, with less money.

4. RISK MANAGEMENT ISSUES

4.1 The primary risk is that of poor investment performance. Fund managers performance is monitored by the committee every quarter with reference to reports from the WM Company Ltd, a company that measures the performance of pension funds. If fund manager performance is considered inadequate, the fund manager can be replaced.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Good governance arrangement and monitoring of the pension fund managers will benefit everyone who contributes to the fund.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 The financial issues are set out in the body of the report.

7. LEGAL ISSUES

7.1 This report is based on the provisions of the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008/238), which itself has its basis in the Superannuation Act 1972.

7.2 Other statutory provisions are referred to in the body of this report.

8. CONSTITUTIONAL POWERS

8.1 Constitution – Part 3 Responsibility for Functions – Section 2 – Responsibility for Council Functions delegated to the Pension Fund Governance Compliance Statement.

9 BACKGROUND INFORMATION

9.1 History

9.1.1 The Superannuation Act 1972 makes provision for local authorities to operate pension funds for their employees and employees of other employers who have either a statutory right or an admission agreement to participate in the funds. The London Borough of Barnet (The Fund) is set up under the Local Government Pension Scheme Regulations 1997 (as amended). It provides for retirement pensions, grants on age or ill-health retirement, short service grants, death grants, injury allowances and widows' pensions.

9.2 Statement of Investment Principles

9.2.1 The Statement of Investment Principles are attached at Appendix A.

9.2.2 The fund benchmark and performance target sections of the statement have been updated to reflect the transition to the new investment portfolio.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: TO
CFO: JH/ MC

Appendix A

Statement of Investment Principles

Introduction

This document has been written in accordance with the legislative requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009. Under the legislation, administrating authorities are required to prepare, maintain and publish a written statement of the principles governing their decisions about investments, including a statement of compliance with Myners' revised principles of investment management 2009.

The London Borough of Barnet Pension Scheme is a funded, defined benefit, final salary scheme operated under the national Local Government Pension Scheme (LGPS) arrangements and is subject to regulation by Central Government. Every three years, the Fund's Actuary determines the funding level of the scheme and advises the Council of the rate of employer contributions necessary to meet the cost of pensions in payment and future liabilities. The next triennial valuation will be undertaken as at the 31st of March 2013.

The primary investment objective of the pension fund is to maximise the long term investment return whilst taking account of risks. Investment performance is measured against customised benchmarks and is monitored by the Council's Pension Fund Committee. Investment Policy for the Council's Pension Fund has been decided after consideration of first principles. These principles determine the investment objectives and the level of risk that is deemed appropriate for the Fund.

At the core of the investment policy of the Pension Fund lies the objective of securing and maintaining an investment rate of return which will count towards meeting the Council's current and future obligations and liabilities to make pensions payments and which will contribute towards keeping the burden on the Council Tax-payer as low as possible.

Employer contributions are met, mainly, by the Council's General Fund and therefore it is the Council Tax-payer who meets this cost. Most of the factors that the Actuary uses to determine what the rate should be are external factors, such as the rate of inflation, life expectancy rates and future dividend earnings. These are all factors over which the Council has no control or influence. The only two areas in which the Council has influence or control is with regard to pensions remuneration policies (in particular early retirement policies other than ill-health) and in the investment performance of the Fund.

With regard to early retirement, the Council is making additional contributions towards meeting the immediate financial strains arising from early retirements other than ill-health retirements.

With regard to investment performance, the Pension Fund Committee recognises that a superior and stable investment return will minimise the employer contribution rates. This is because an investment fund, which has a growing capital base, is able to re-invest capital and this in turn will increase the fund's dividend and interest earning capacity.

The Committee also recognises that the tax-exempt status of the fund must be maintained to safeguard the taxation advantages of freedom from capital and income taxes.

Strong investment returns have always been important to Barnet. We recognise that for local authority funds, especially in the context of maturing pension schemes, there is a great responsibility to set standards and investment performance targets that reflect the objective of keeping the burden on Council Tax as low as possible.

As a statutory public service scheme, the Fund is not subject to the Minimum Funding Requirement of the Pensions Act 1995. However, the Pension Fund Committee Panel does have a responsibility to regularly examine the asset allocation of the Fund to ensure that an appropriate investment strategy has been set to help secure the Fund's continued solvency.

Investment structure and the council's attitude to risk

We pay close attention to the risks, which may arise through a mismatch between the Fund's assets and its liabilities and the risks, which may arise from a lack of diversification of investments. As at the 31st of March 2010, the date of the last Actuarial Valuation, the Scheme was 76% funded.

The Council seeks to achieve its investment objectives through investing in an appropriate mixture of real (e.g. equities) and monetary assets (e.g. bonds and cash). It recognises that the returns on real assets, whilst expected to be greater over the long term than those on monetary assets, are likely to be volatile. Nevertheless, the Council has decided that, in view of the financial health of the Fund, no major change to the Fund's long-term asset allocation was required and an equity-biased approach would be maintained for the foreseeable future.

We believe that the asset allocation policy in place provides an adequately diversified distribution of assets. The Scheme's asset holdings are diversified further by employing two fund managers each of whom have their own investment style. The Fund invests in unit trusts, which may take longer than equity or fixed interest stocks to realise, e.g. property unit trusts.

Investments in property unit trusts are managed in-house. No investment in direct property is held. Other unit trusts held by the investment managers are within the ranges specified in the investment regulations. As the Fund has a positive cash flow, the Pension Fund Committee considers that the benefits of diversification and risk spreading obtained by investing in these vehicles more than offsets any potential longer realisation periods.

The investment management arrangements of the Fund are reviewed by the Pension Fund Committee to ensure that the professionals engaged to manage the assets of the Fund have the capacity, skills and resources to achieve its objectives. The Council employs two investment managers.

Both managers are regulated by the Financial Services Authority (FSA). As at the 31st of March 2010 Schroder Investment Management (44.72%) and Newton Investment Management Ltd (43.23%), managed the majority of the fund between them; the remaining 12.05% was split between Legal and General pooled funds (8.03%) and property unit trusts (4.02%).

The Pension Fund Committee has delegated the day to day investment management activity to the investment managers. The managers will, however, have regard to the asset allocation against which they are benchmarked, as determined by the Pension Fund Committee. Investment managers are appointed in accordance with the LGPS regulations and their activities are specified in detailed investment management agreements.

These Agreements provide important protections for the Fund. They set out the detailed terms on which the assets are managed, the investment briefs, guidelines and restrictions under which the manager works.

Policy on socially responsible investment

The Pension Fund Committee has considered socially responsible investment in the context of its legal and fiduciary duties. In accordance with the aforementioned objectives, the Committee believes non-financial factors should not drive the investment process at the cost of financial return on the Council's Pension Fund. We also believe that encouragement and persuasive pressure from the fund management community is a more robust way to influence companies. It is likely to have more effect than isolated pockets of direct action by shareholders and this has a better prospect of achieving Government's original objectives.

The Committee encourages Fund Managers to consider the financial impact of good and poor socially responsible activities of companies. If the assessment of companies for investment indicates that a corporate governance, social, environmental or ethical factor could have an impact on a company's financial performance (positively or negatively), the investment managers must assess and take account of the associated risk and, if appropriate, seek to encourage companies to pursue better business practices. Investment managers should provide assurances that these issues are being taken into account on an agreed basis.

Policy in relation to the exercise of rights (including voting rights) attaching to investments

The Pension Fund's direct holding in UK and overseas equities have associated with them the right to vote on resolutions at company general meetings. The Pension Fund Committee believes in encouraging good corporate governance in the companies in which it invests. Voting is undertaken by the Investment Managers in accordance with their voting policies.

CIPFA Investment Decision Making and Disclosure in the Local Government Pension Scheme

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 came into force on 1 Janaury 2010.

This regulation requires the Fund to state the extent to which it complies with the principles of investment practice issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment undertaken by Lord Myners. Thus the Fund's compliance with the revised Myners' principles as set out below:

Principle 1: Effective decision-making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they received, and manage conflicts of interest.

Compliant. The Council, as the administering authority, appoints the Pension Fund Committee, specifically for the purpose of managing the Fund's Investments. The Committee is supported by the actuary, independent advisors and officers.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant, and clearly communicate these to advisers and investment managers.

Compliant. The Fund's investment objective and attitude to risk are reviewed and adjusted where necessary, on the basis of the outcomes of asset liability studies.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Compliant. The investment strategy is reviewed annually and updated to take account of the latest actuarial information. Risk of sponsor or fund default is irrelevant as the London Borough of Barnet Pension Fund benefits are guaranteed by law.

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Part Compliant. The performance of the Fund's investments is monitored on a quarterly basis by officers and an external performance management firm, WM Company. The Committee is looking into how to assess the performance of decisions taken.

Principle 5: Responsible Ownership

Trustees should adopt, or ensure their investment mangers adopt the Institutional Shareholder's Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Compliant. Investment managers employed by the fund have clear corporate governance policies. The Pension Fund Committee has an approved voting policy.

Principle 6: Transparency and Reporting

Trustees 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.

Trustees should provide regular communication to members in the form they consider most appropriate.

Compliant. The Committee publishes documents including the Statement of Investment Principles, Funding Strategy Statement, Corporate Governance policy and committee meeting minutes on the London Borough of Barnet website. Annual reports and accounts are also published on the website.

London Borough of Barnet pension fund objectives

Investment objectives

The investment objective is to minimise the long term cost of funding commensurate with an appropriate level of risk and volatility.

The investment object will be achieved through the formulation of an appropriate investment strategy that takes into account the liabilities of the fund and the assumptions made within the actuarial valuation.

Fund benchmark

The prime performance objective of the Fund is to achieve the return required to fund the Scheme's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation. The performance targets for each investment manager are detailed below. Overall, the returns achieved by the assets are expected to exceed the return required to fund the Fund's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation. Performance against this benchmark is measured, from an investment perspective, on a quarterly basis by the Investment Adviser to the Fund.

Performance target

Manager	**Fund**	**Monitoring Benchmark**	**Target**
Newton Investment Management Limited (Newton)	Real Return	1 month LIBOR plus 4% p.a.	To achieve significant real rate of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over rolling 5 years
Newton	Corporate Bond	Merrill Lynch Non Gilt Over 10 years Investment Grade Index	To outperform the benchmark by 1% p.a. over rolling 5 years

Schroder Investment Management Limited (Schroder)	Diversified Growth	Retail Price Index plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Schroder	All Maturities Corporate Bond	Merrill Lynch Sterling Non-gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over rolling 3 years
Legal and General Investment Management (L&G)	World (ex UK) Equity Index Fund	FTSE AW World (ex UK) Index	Track within +/- 0.5% p.a. the index for 2 years in every 3
Legal and General	Active Corporate Bond – All Stocks	iBoxx Sterlind Non-Gilts All Stocks Index	Outperform by 0.75% p.a. (before fees) over rolling 3 years
Internal	Property	UK IPD Property Index	Outperform the Index

Specific investment restrictions, parameters and guidelines

In addition to the Council's attitude to risk in respect of the Fund's long term asset allocation, the Council complies with a number of specific statutory restrictions. The Pension Fund Committee has set additional investment guidelines and restrictions that reflect their attitude to the risks inherent in investing and maintaining safe custody of the Fund's assets.

Statutory Restrictions and the Council's Parameters on Investments

The statutory restrictions are detailed in part 11 (Schedule 1) of the LGPS (Management and Investment of Funds) Regulations 2009. Regulation 14(2) imposes limits on the proportion of fund money which may be invested in a particular type of investment. Regulation 14(3) states that limits maybe increased, to the up to the percentages specified in Column 2 of the table in Schedule 1 provided the requirements under regulation 15 have been satisfied.

The Authority, having satisfied the requirement of regulation 15, has increased the limits to the maximum allowed under Regulations 14(3) for investments listed at 9, 10, 11, and 12. The investment limits adopted by the London Borough of Barnet Pension Fund are detailed at Appendix A.

Policy on giving instructions

Our instructions to the managers will be in writing. Instructions given orally, or by email will be confirmed in writing including facsimile. Where the Agreement would be varied or where instructions involve the transfer of assets to or from the portfolio, instructions will be confirmed in writing and shall bear the signatures of two authorised signatories to the Fund.

Fund managers

The Pension Fund Committee meets quarterly with its fund managers to review performance and consider their activities and the future investment strategy.

The Fund managers are:

Schroder Investment Managers (UK) Ltd
31 Gresham Street
London
EC2V 7QA
Tel: 0171 658 6000

Newton Investment Management Ltd
Mellon Financial Centre
160 Queen Victoria Street
London
EC4V 4LA
Tel: 020 7163 9000

Custody of the Fund's assets is subject to combined Fund management and Custodian Agreement agreements with JP Morgan Europe Ltd (the Custodian for Schroder Investment management (UK) Ltd) and the Bank of New York (the Custodian for Newton Investment Management Ltd).

Appendix A: Investment Limits Adopted

Investment	Limits Adopted
1. Any single sub-underwriting contract	1%
2. All contributions to any single partnership	2%
3. All contributions to partnerships	5%
4. The sum of all loans and any deposits with – A) Any local authority, or B) Any body with power to issue a precept or requisition to a local authority can be required to contribute, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act	10%
5. All investments in unlisted securities of companies	10%
6. Any single holding (but not if the investment is made by an investment manager, or the single holding is in unit or other shares of the investments subject to the trusts of any one unit trust scheme)	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank)	10%
8. All sub-underwriting contracts	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below)	35%
10. All investment in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	35%
11. All investments in unit or other shares of investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes constituted by those companies are managed by any one body (but see paragraph 3 below)	35%
12. Any single insurance contract	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%