

## **Appendix 4 - STATEMENT OF INVESTMENT PRINCIPLES**

### **1.0 INTRODUCTION**

- 1.1 This is the Statement of Investment Principles adopted by the Royal Borough of Windsor and Maidenhead acting as the Administering Authority for the Royal County of Berkshire Pension Fund.
- 1.2 This document contains a compliance statement as regards the Government Code of Investment Principles.
- 1.3 This document also provides information on all the Fund's service providers (investment managers, custodian and advisers) along with the nature of the services they provide.
- 1.4 The practices described within this document form the basis of the decision making for the Fund. The document is kept under continuous review.

### **2.0 MANAGEMENT STRUCTURE**

- 2.1 The Royal Borough of Windsor and Maidenhead is the Administering Authority for the Fund and, therefore, the overall responsibility for any decisions taken lie with that Authority. The Royal Borough recognises, however, that in its role as custodian of the Pension Fund assets it is important that the views of other employers including the other five unitary councils in the Fund, individual members and pensioners are taken into account. For this reason two Panels are operated by the Council namely a Pension Fund Panel (consisting of five elected members of the Royal Borough) and a Pension Fund Advisory Panel (consisting of the five members of the Pension Fund Panel, one representative from each of the other five unitary councils within the Fund, two representatives representing the other employers, two trade union representatives representing active members and two representatives drawn from the membership of the Fund (one representing active members the other deferred and pensioner members).
- 2.2 The Pension Fund Panel and Pension Fund Advisory Panel meet together to discuss items of decision and monitoring. These meetings are held on a quarterly basis together with additional meetings as required. The Pension Fund Panel is the executive body.
- 2.3 The 'Terms of Reference' of the Pension Fund Panel and the Pension Fund Advisory Panel are contained in the Constitution of the Royal Borough Part 5 (U) 'Terms of Reference of Panels'.
- 2.4 The delegation of Pension Fund duties to officers of the Royal Borough are also laid out in the Constitution in the Annex to Part 3 'Functions Delegated to Officers'.

#### **2.5 Investment Managers**

The day to day management of the Fund's investment portfolios has been delegated to the Fund's investment managers. Their duties include:

- Purchase and sale of assets of the Fund;
- Preparation of quarterly reporting including a review of investment performance.
- Reporting personally to the Pension Fund and Pension Fund Advisory Panels as requested.
- Providing administrative and accounting data concerning the investment portfolio and transactions.

#### **2.6 Custodian (JP Morgan Worldwide Securities Services)**

The Fund operates with a global custodian who is responsible for the settlement of all investment transactions, collection of income, tax reclaims and corporate action administration.

#### **2.7 Scheme Actuary (Barnett Waddingham)**

The scheme actuary is responsible for:

- Undertaking a triennial valuation of the Fund's assets and liabilities.
- Setting the scheme employer contribution rates.
- Undertaking FRS17 valuations annually for each employing body
- Providing advice as requested.

## 2.8 Independent Advisors

The Pension Fund Panel's independent advisor has no specific duties but attends meetings of the Panel and gives general advice on the topics under consideration. The Investment Working Group (a working group of The Pension Fund Panel) has two independent strategy advisors who give advice on the asset allocation of the Fund.

## 3.0 OBJECTIVES

- 3.1 The primary objective of the Fund is to provide the members pension and lump sum benefits on their retirement or for their dependants benefits on death before or after retirement, on a defined benefits basis.

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

### 3.2 Funding Objectives

To fund the Fund in such a manner that in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that an appropriate level of contributions is agreed by the administering authority and each employer body to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

The assumptions used correspond with the assumptions used in the latest Actuarial Valuation. The funding position will be reviewed on a regular basis but at least at each triennial Actuarial Valuation. The Panel will be advised on the effect of any material changes to the Fund during the inter-valuation period.

### 3.3 Investment Objective

The Pension Fund Panel has agreed a strategic asset allocation as outlined in section 4.0 to achieve the long term investment returns to achieve the Fund Objective.

## 4.0 ASSET ALLOCATION AND MANAGER STRUCTURE

- 4.1 The main objective of the investment of the Fund's assets is to achieve a return which is sufficient, over the long-term, to meet the funding objectives set out above.

- 4.2 To achieve these objectives the following strategies have been agreed.

### 4.3 Asset/Liability Study

The overall asset allocation strategy adopted for the Fund is regularly reviewed by way of an asset/liability study carried out by a suitably qualified adviser. The latest study completed in 2008 was based on the results of the 2007 Actuarial Valuation and took account of the following: -

- Long term funding considerations
- The Liability profile of the Berkshire Fund.
- The solvency of the Berkshire Fund.
- Expected investment returns.
- The volatility and correlation of returns.

The recommendation of the 2009 study was that the asset allocation of the Fund be broadened to include allocations to absolute return funds (including hedge funds), active currency funds, commodities, emerging market and yield debt, global property and infrastructure funds. A formal tender process to appoint managers to manage the allocations to these asset classes commenced in June 2008 and was finished by April 2009. Following the appointment of managers for these allocations the asset liability study is regularly repeated and allocations made taking into account of market conditions at the time. New allocations may be made from time to time and Investment Managers are added to, removed or changed as necessary.

The return assumptions required to achieve and maintain the Fund objective are set out in the Actuarial Valuation. The strategic benchmark adopted by the Fund is designed to achieve that return in the long term. It is recognised, however, that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.

#### 4.4 Tactical Asset Allocation

In setting the long-term strategic benchmark for the Fund the Pension Fund Panel has set permitted investment levels for each asset class. The Investment Working Group review the Fund's asset allocation at each meeting and will recommend changes to the asset allocation in light of prevailing market conditions.

#### 4.5 Investment Managers and Stock Selection

The current structure of investment management comprises of a number of specialist mandates. Each manager has a specific benchmark and target to reflect their specific mandate. Managers may either be granted a segregated account mandate or the Fund may invest in a pooled fund managed by that manager.

The external managers appointed by the Fund are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) to manage the assets of the Fund.

A management agreement is in place for each Investment Manager that sets out the relevant target benchmark, performance target, and any restrictions as determined. Where investment is made via a pooled fund the Fund will ensure that any subscription agreement entered into sets out the relevant target benchmark, performance target and any investment restrictions.

Each manager is given full discretion over the choice of individual securities and funds and is expected to maintain a diversified portfolio.

The Pension Fund Panel requires each external manager to report, in person, on their performance and transactions at a frequency that ensures that those managers whose performance is causing concern are seen on a regular basis.

Each manager is expected to achieve an excess return on the assets under their management greater than the relevant benchmark. In assessing performance of each manager the Pension Fund Panel takes in to account the long-term nature of the investment process and returns are judged primarily on an annualised basis over a rolling three-year period. The Pension Fund Panel formally reviews the appointment of each manager at least every three years or such shorter period as may be necessary.

The fee scale charged by each manager is considered by the Pension Fund Panel on their appointment and is compared to that of other submissions in the tender process.

Although fees are not the primary determinant in making an appointment they are related to the expectation of performance levels. The most suitable fee base is chosen and this may be on an ad-valorem or performance-related basis.

#### 4.6 Realisation of investments

The majority of investments held directly or indirectly through pooled vehicles, by the Fund and its Investment Managers are quoted on the major stock markets of the world and may be realised quickly if required. The Fund does, however, invest in limited partnerships and some less liquid pooled funds but these are a small portion of the Fund's assets. Notwithstanding this, the Fund maintains sufficient investment in liquid assets to meet its liabilities in the short and medium term as they fall due.

#### 4.7 Risk

The adoption of a long-term strategic benchmark and tactical asset allocation policy as outlined in section 4.4 may limit the Fund from achieving the required long-term investment returns whilst at the same time achieving suitable investment diversification.

Particular reference to investment risk is outlined in the management agreement of the appointment of each investment manager. To the extent any unexpected deviation from the expected excess returns or the controls in place on the actions of individual investment managers occurs, the manager will be reviewed and may be removed or changed as necessary.

## 5.0 OTHER ISSUES

### 5.1 Socially Responsible Investment

In considering the extent to which social, ethical and environmental issues are taken into account in the investment process the members of the Pension Fund Panel consider that they should, at all times, act in the best financial interests of the Fund, within the risk parameters of a diversified portfolio.

By such action they seek to maximise the returns in order to minimise the effect of meeting liabilities on the individual employer contribution rates of each of the member bodies.

Subject to the above consideration, however, the Pension Fund Panel are of the opinion that non-adherence to sound practice in this area, by the companies in which the Fund is invested, could lead to a considerable financial impact on their future earnings in the event of breaches in acceptable standards. The Pension Fund Panel, as responsible shareholders, seeks to encourage best practice in the following manner:

- a) By asking their investment managers to consider social, ethical and environmental issues within their investment process where the manager considers it appropriate. Consideration of such issues should not, however, deflect from the primary aim of the manager of meeting the performance target as specified in their management agreement.
- b) By engaging in dialogue with companies and voting on specific items in relation to social, ethical and environmental issues affecting the companies whose shares are held by the Fund. Specific attention is drawn to such issues in the voting policy of the Fund.
- c) By offering members who wish to subscribe to an AVC arrangement offered by the approved providers to the Fund an alternative of linking the investment of their AVC contributions to an investment policy that screens investment on an ethical or environmental basis. Such investment policies are a matter of choice for the individual contributor and the investment policy of the approved AVC provider.

### 5.2 Corporate Governance

The Pension Fund Panel is committed to act as a responsible shareholder with reference to the exercising of any voting rights attaching to the assets of the Fund. To this effect all such rights are exercised in accordance with the voting policy agreed by the Pension Fund Panel at its meeting on the 16 March 2000 and any amendments approved by subsequent meetings. Relevant independent advice from appropriate bodies will be considered in the exercising of any such voting rights.

### 5.3 Stock Lending

The Fund does not lend any stock, however, pooled fund managers may lend stock from funds in which the Fund is invested.

### 5.4 AVC Arrangements

Members have the opportunity to, where applicable, invest in AVC Funds.

## GOVERNMENT CODE OF INVESTMENT PRINCIPLES COMPLIANCE STATEMENT

### 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 organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

### ***Response – Fully Compliant***

The Berkshire Fund operates within the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009.

The decision making process, bodies and delegation of responsibilities are outlined in the 'Statement of Investment Principles' for the Fund and the Constitution of the Royal Borough of Windsor and Maidenhead which acts as Administering Authority for the Fund.

Members of the Pension Panel and Advisory Panel of the Fund receive training as appropriate. All new members receive an introduction manual and offered individual training to meet their requirements.

### **Principle 2 - Clear Objectives**

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

### ***Response - Fully Compliant***

The objectives and risk parameters of the Fund are contained within the Statement of Investment Principles. The Fund has specific performance targets for each area of management.

### **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.

### ***Response – Fully Compliant***

In adopting an investment strategy for the Fund a detailed asset liability study was completed in 2008 and repeated in 2009. The Fund monitors the expected return from the assets held and the required rate of investment return needed to achieve full funding. Asset allocation is reviewed quarterly with these parameters in mind.

In December 2009 the Fund entered into a longevity insurance contract to insure the Fund against further improvements in the longevity of its pensioners (as at 31st July 2009) and continues to monitor the development of the longevity risk market to take advantage of any attractive opportunities to hedge more of its longevity risk.

### **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.

### **Response – Partially Compliant**

The Fund formally measures the performance of investments, investment managers and advisors.

The Pension Fund Panel is reviewing how best to measure its effectiveness as a decision-making body.

### **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.

### **Response – Fully compliant**

All equity managers are aware of their responsibilities.

## **Principle 6 – Transparency and Reporting**

Administering authorities should:

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

## **Response – Fully Compliant**

The Fund uses a variety of communications with stakeholder and scheme members including newsletters, the annual report and accounts, a dedicated web-site and meetings for both stakeholders and scheme members.

## **Appendix 5**

### SERVICE LEVEL AGREEMENT BETWEEN RBWM AND THE PENSION ADMINISTRATION TEAM

The Royal Borough of Windsor & Maidenhead (RBWM) is the administering authority for the Royal County of Berkshire Pension Fund. As such, RBWM has certain statutory responsibilities for the administration of the Local Government Pension Scheme (LGPS) in Berkshire. This includes the six Unitary Authorities (of which RBWM is one) and all the other associated employers who make up the membership of the Pension Fund.

The administering authority has ultimate responsibility for interpreting and implementing statutory LGPS regulations, which includes taking decisions about fund investments, for receiving monies due to and paying monies owing from the Fund and for making sure that it has robust systems and processes in place to ensure that the scheme is administered in line with scheme regulations and within prescribed levels of performance.

This document has been prepared as a service level agreement between the administering authority and the pension administration team and sets out service standards or 'promises' of the level of service that the team will provide to ensure that the administering authority achieves its statutory responsibilities.

### **1.0 Administration of the LGPS**

The pension administration team will:

- 1.1 Maintain a member database of all current, deferred and retired members (including their dependants) of the scheme along with historical data relating to former scheme members who have a right to claim a refund of contributions but have not elected to do so (frozen refunds) and former members who no longer have a liability within the Fund (benefits transferred out of the scheme).
- 1.2 Provide an efficient, effective and courteous administration service.
- 1.3 Calculate member benefits in accordance with scheme regulations.
- 1.4 Provide a pension payroll service to all retired scheme members and their dependants.
- 1.5 Ensure that pension payments are made on the correct date and that all lump sum payments are made as soon as possible following the retirement of the scheme member.
- 1.6 Provide current and deferred members with an annual benefit statement.
- 1.7 Ensure that all new scheme members receive a welcome pack and a formal notification of membership.
- 1.8 Notify all retired scheme members of any annual increase to their pension.