APPENDIX 1

LONDON BOROUGH OF BROMLEY PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES 2014

Introduction

This statement has been produced in accordance with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the Regulations"). The Regulations provide that an administering authority must prepare, maintain and publish a written statement of the principles governing its decisions about investments. The Regulations specify eight issues that must be addressed in the statement. The following sections of this statement address these issues in turn.

(a) The types of investment to be held

The fund's investment managers are authorised to invest in all assets permitted under the Regulations, subject to the provisions of their benchmarks and certain minor restrictions. Details of the Investment Guidelines and Restrictions are included below.

(b) The balance between different types of investments

The broad balance between different types of investments is defined in the investment managers' benchmarks, which were comprehensively reviewed and revised in 2012, following a review of the Fund's Investment Strategy. Details of the five managers' benchmarks are shown below. The Pensions Investment Sub-Committee will review its asset allocation strategy every three years.

(c) Risk

At the last full valuation of the Fund (as at 31st March 2013), the actuary valued the fund's assets at 82% of the fund's liabilities (84% in the previous valuation as at 31st March 2010). He determined employers' contribution rates with a view to achieving 100% solvency over a 15-year period, assuming a broad 80:20 asset allocation between "growth" assets (equities and Diversified Growth Funds) and "protection" assets (fixed income) as at the valuation date. The Pensions Investment Sub-Committee has set targets to out-perform various benchmarks and it believes that the risks associated with a high allocation to equities are justified by the need to improve its funding level.

Other key risks that could have an adverse impact on the achievement of the fund's funding strategy and target funding levels are analysed in the fund's Funding Strategy Statement, where they are analysed over financial, demographic, regulatory and governance risks.

(d) The expected return on investments

The fund's investment strategy is based on the long-term returns assumed by the actuary in the 2013 actuarial review. The assumed returns per annum were:

Expected returns	Returns
	% pa
Equities	7.0
Gilts/Bonds (average)	3.9
Other	7.0
Cash	0.5
Overall Returns (discount rate)	5.6

(e) The realisation of investments

The investment managers have full discretion to make decisions on the realisation of investments having regard to their benchmarks and their investment targets.

(f) The extent to which social, environmental or ethical considerations are taken into account in investments

The authority has been advised that its primary responsibility is to secure the best returns for the fund in the interests of its council taxpayers and its members. The Council has decided to take no action at this time in developing an ethical investment policy, having also considered:

- the difficulties involved in identifying companies meeting any ethical investment criteria;
- the possibility of judicial review in the case of any company included in error;
- the difficulty and cost of monitoring any policy;
- the unpredictable impact on investment performance;
- the complications that would arise in relation to performance measurement; and
- the lack of support for such a policy from other employers in the fund.

The authority therefore does not impose any obligation on the investment managers to take account of such considerations in making investments. However, the managers seek to encourage best corporate practice in companies' management of the social, environmental and ethical impact of their activities. They seek to achieve this by engaging in dialogue with companies in which they invest in order to encourage them to improve policies and practices. In their investments they seek to favour those companies that pursue best practices provided it does not act to the detriment of the return or risk of the portfolio. They also take account of any social, environmental or ethical factors that they consider to be relevant to investment risk.

(g) The exercise of the rights (including voting rights), if any, attaching to the investments

The investment managers have been authorised to exercise voting rights on behalf of the Council unless specifically instructed to vote in a particular way on any individual resolution. In exercising those rights, they will have regard to the Combined Code issued by the Hampel Committee on Corporate Governance. They have been instructed to report back to the Council's Pensions Investment Sub-Committee every quarter on any material divergence from the recommendations of the Combined Code by companies in which the Council is invested and on action taken by them in response to the divergence. They have also been instructed to report to the Sub-Committee at least every six months on their corporate governance activities generally, including their dialogue with companies' management to encourage sound social, environmental and ethical practices in their activities. The Sub-Committee will issue instructions on individual matters only in exceptional circumstances, when asked for instructions by a manager or when a specific resolution is brought to their attention. With regard to other rights such as the taking up of rights issues, this is left for the investment managers to decide in the light of their assessment of market conditions at the time.

(h) Stock Lending

The Pension Fund does not currently operate a stock lending programme through its custodian bank.

COMPLIANCE WITH MYNERS' PRINCIPLES

Under regulation 9A (3A) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended by S.I. 2002/1852, which came into force in 2002, the Council is required to state the extent to which it complies with a set of principles of investment practice. Ten principles were originally set out in the document "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom". This document was published in April 2002 in response to the recommendations of the Review of Institutional Investment in the United Kingdom undertaken by Paul Myners.

The principles were updated in a Treasury report in October 2008, "Updating the Myners' Principles: A Response to Consultation". This report set out six investment governance principles that the Council must comply with. These are set out below, together with details of the level of compliance.

INVESTMENT GUIDELINES AND RESTRICTIONS

General

Investment is permitted in all classes of assets, subject to the limits imposed by the Regulations on the proportion of the fund which may be invested in certain investments and certain other restrictions imposed by the authority. In addition, the investment managers do not use certain investments as a matter of policy.

All references to percentages in this appendix are to percentages of the total value of all existing investments in the fund before making the investment which is subject to the limit. The limits only apply at the time the investment is made.

Limits imposed by the Regulations

- All contributions to any single partnership: 2%
- All contributions to partnerships: 5%
- All deposits with any local authority or precepting body which is an exempt person (within the meaning of the Financial Services and Markets Act 2000) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans: 10%
- All deposits with any single bank, institution or person (other than the National Savings Bank): 10%
- All investments in unlisted securities of companies: 10%
- Any single holding in unlisted securities: 2% (limit imposed by the authority)
- Any other single holding, apart from investments in OEICs and unit trusts: 10% (there is no limit on investment in single OEICs or unit trusts apart from the total limit below)
- All investments in unit trusts and open-ended investment companies (OEICs) managed by any one body: 35%
- Any single insurance contract: 25%
- All securities transferred under stocklending arrangements: 25%

Other restrictions imposed by the authority

- Cash held at custodian's bank is not to exceed £2,500,000, with any excess placed on the money market with the main clearing banks or placed in institutional cash funds approved by the authority
- No sub-underwriting
- Certain limits on use of futures and options are recorded in the relevant investment management agreements and fund prospectuses

Asset Allocation
The current investment strategy comprises the following asset allocations:

Global Equities (70% allocation in agreed Investment Strategy)

	Value @ 31 March 2014	**% of total**
	£m	**%**
Baillie Gifford	217.6	
MFS International	120.0	
Blackrock	122.1	
	459.7	73.1%

Fixed Income (20% allocation in agreed Investment Strategy)

	Value @ 31 March 2014	**% of total**
	£m	**%**
Baillie Gifford	45.2	
Fidelity	58.2	
	103.4	16.4%

Diversified Growth (10% allocation in agreed Investment Strategy)

	Value @ 31 March 2014	**% of total**
	£m	**%**
Baillie Gifford	26.8	
Standard Life	27.0	
	53.8	8.6%

Other (cash, current assets/liabilities)

	Value @ 31 March 2014	**% of total**
	£m	**%**
Cash held by Fund managers	8.6	
Current net assets	3.5	
	12.1	1.9%

Grand Total

	Value @ 31 March 2014	**% of total**
	£m	**%**
Total assets held by Fund managers	625.5	
Current net assets	3.5	
	629.0	100.0%

The Fund managers have been set the following targets/benchmarks:

Global equities – Baillie Gifford, Blackrock and MFS are all required to outperform the MSCI All Countries World Index.

Fixed income – Baillie Gifford are required to outperform 50% FTSE UK Gilts All Stocks/50% BAML Sterling Non-Gilts Index; Fidelity are required to outperform 50% iBoxx Gilts/50% iBoxx non-Gilts.

DGF – Baillie Gifford are required to achieve Base Rate + 3.5%; Standard Life are required to achieve 6 month Libor + 5%.

The funding strategy adopted for the 2013 valuation is based on an assumed overall asset out-performance of 1.75% per annum.

Compliance with Myners Principles

The Principles, together with the Council's position on compliance *(in italics)*, 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 effective 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.

<u>Key points</u>:
1. Elected members have a fiduciary duty to the Fund, Scheme members and local taxpayers.
2. Functions can be delegated and investment managers used, but overall responsibility rests with members.
3. Proper advice should be taken and the regulations define this as: "the advice of a person who is reasonably believed…to be qualified by his ability in and practical experience of financial matters."
4. The Wednesbury Principle (1945) applies to all parties involved in the arrangements and ensures they direct themselves properly in law and demonstrate reasonable behaviour.
5. All councils must appoint one of its officers to have responsibility for ensuring arrangements are in place for the proper administration of its financial affairs.
6. The role of the Pensions Committee and key officers should be clear in the Council's Constitution.
7. Best governance practices should be followed.
8. The Pensions Committee should ensure it has appropriate skills and is run in a way to facilitate effective decision-making.

Bromley complies with this principle in all major respects. The Fund produces a Statement of Investment Principles, a Funding Strategy Statement (which serves as the Fund's business plan) and a Governance Statement. The functions delegated and the administration of the Fund's activities are undertaken with appropriately trained staff and in accordance with the Council's constitution and Fund's compliance procedures. The Council employs an independent professional adviser and the training requirements of Pensions Investment Sub-Committee members and officers are reviewed on an ongoing basis. Most recently, a training evening was held in July 2014, primarily for new Members of the Sub-Committee following the recent elections, but open to all Council Members.

Principle 2. Clear objectives
Overall investment objectives should be set for the Fund that take 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 other scheme employers. These should be clearly communicated to advisors and investment managers.
<u>Key points</u>:
1. A three-yearly actuarial valuation as required by the regulations.
2. A full range of investment opportunities should be considered.
3. A strategic asset allocation should be used and reviewed regularly.
4. Robust investment management agreements should be in place.
5. The target investment return and associated risks should reflect the liabilities, assets held and link to the actuarial process.
6. The provision for taking proper advice should be demonstrated.

The Fund takes a range of specialist advice in formulating its SIP and FSS, ensuring that they link with the common objectives that arise from the actuarial process, with emphasis on managing investment risk relative to cash flows and the need for stable contribution rates. These policies are *reviewed regularly and informal discussions with the actuary take place to track progress between valuations. The Pensions Investment Sub-Committee places significant emphasis on reviewing and monitoring the investment strategy with regular reviews and input from experienced professional advisors. Robust agreements are in place with the Fund's investment managers and their performance is monitored quarterly by the Sub-Committee, with the managers being required to attend those meetings on a regular basis. The Fund's overall investment objective, as recorded in its Funding Strategy Statement, is to improve its funding level from 82% as at the last full valuation (31 March 2013) to 100% by 31 March 2028.*

Principle 3. Risk and Liabilities

In setting and reviewing the investment strategy, administering authorities should take account of the form and structure of the Fund's liabilities, including the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

<u>Key points</u>:

1. The Pensions Committee should set a clear investment objective.
2. Investment risk should be fully evaluated, monitored and the link to employing bodies' ability to meet liabilities recognised.
3. Appropriate guarantees should be used to protect against employer default.
4. The need for affordable, stable contributions should be reflected in the work of the Pensions Committee.
5. The Pensions Committee should satisfy itself that the standards of internal controls applied are sound and robust.
6. An understanding of risk should be demonstrated and reported upon.

Members approved the Funding Strategy Statement and the asset allocation strategy having regard to the Fund's liabilities and the need to achieve stable and affordable contributions, consulting with interested parties regularly. The investment setting process takes account of short-term market volatility, but, with strong positive cash flows, places great emphasis on the medium to long-term view. The Fund's Annual Report includes a statement of overall risk management of all activities.

Principle 4. Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. The administering authority should also periodically make a formal assessment of its own effectiveness as a decision-making body and report on this to Scheme members.

<u>Key points:</u>

1. Extensive formal performance measurement of investments, mangers and advisors should be in place and relate to the investment objectives.
2. Effectiveness of the Pensions Committee should be reported on at regular intervals.
3. Returns should be measured quarterly in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile.

The overall investment objectives of the Fund link to portfolios and individual investment objectives. Performance is measured quarterly against targets driven by the investment strategy and its component parts. The investment performance of the fund and its managers is measured by the independent WM Company in full compliance with this principle and a fund performance report is submitted to the Pensions Investment Sub-Committee each quarter. No arrangements are in place for formal assessment of the Sub-Committee's own procedures and decisions, although the Annual Report does detail the Sub-Committee's work and achievements.

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.

Key points:

1. Disclose approach to company governance matters and socially responsible issues in the SIP.
2. Define expectations of managers on company governance matters.
3. The Institutional Shareholders' Committee Statement of Principles for institutional shareholders and/or agents should be followed.

Bromley's approach to corporate governance is set out in the main body of the SIP, including its approach to voting rights and engagement with companies' management. This approach is broadly consistent with the Institutional Shareholders' Committee Statement of Principles.

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 communication to Scheme members in the form they consider most appropriate.

Key points:

1. Maintain a sound governance policy and demonstrate its implementation.
2. Maintain a communication policy and strategy.
3. Ensure all required strategies and policies are published in a clear transparent manner.
4. Annual reports are a demonstration of accountability to stakeholders and should be comprehensive and readily available.

The Fund produces and reviews regularly its key policy and strategy documents, publishing them on its website. All members, actives, deferreds and pensioners receive communications on the Fund's activities and performance. A comprehensive Annual Report is produced, which includes the Council's formal Communications Policy Statement. The results of the monitoring of the managers are published in the public agendas of the Pensions Investment Sub-Committee, which are also published on the website.