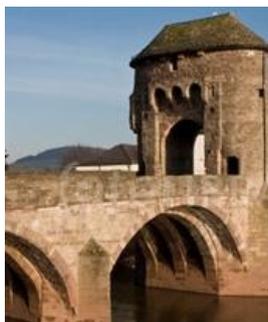




Greater Gwent (Torfaen) Pension Fund

Statement of Investment Principles 2016/2017

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Assistant Chief Executive Resources



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1. Background

- 1.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) (Amendment) Regulations of 1999 were the original legislation requiring administering authorities to prepare, and review from time to time a written statement recording the investment policy of the Pension Fund. These regulations also stipulated certain key issues that must be covered within the Statement. These regulations and subsequent amendments have recently been consolidated within The Local Government Pension Scheme (Management and Investment of Funds) Regulations (2009) and this document has been updated in compliance with these regulations.
- 1.2 Torfaen County Borough Council is the administering authority for the Greater Gwent (Torfaen) Pension Fund under the terms of the Local Government Pension Scheme (Local Government Re-organisation in Wales) Regulations 1995. As the statutory administering authority for the Fund, Torfaen is responsible for making sure appropriate arrangements are in place to administer all aspects of the Fund.
- 1.3 Torfaen has established a Pensions Committee to discharge the duties of the Council as Administering Authority of the Fund. The Pensions Committee has been established and operates within the Council's constitutional arrangements and, as a Committee of the Council, is subject to the rules of political balance. In accordance with the Public Service Pensions Act 2013, Torfaen has also established a Local Pension Board to support the Pensions Committee in the discharge of its functions. It comprises employer and member representatives in equal numbers and replaces the Pension Fund Management Group which previously provided the oversight and scrutiny that the Pension Board now provides within its statutory role.

2.0 Organisational and Management Arrangements of the Fund

2.1 Overview

- 2.1.1 The Council has delegated its functions as administering authority of the Fund to the Pensions Committee which routinely meets on a quarterly basis, supplemented as required. The Committee makes proper arrangements for the governance, management, benefits & financial administration and investment of the Pension Fund, and as such decides on the investment policy most suitable to meet the liabilities within the Fund and has ultimate responsibility for the investment strategy.
- 2.1.2 The members of the Pensions Committee, together with advisors and dedicated internal officers for the Fund are as follows:-
 1. Chair of the Pensions Committee - Councillor Mary Barnett
 2. Members of the Pensions Committee:
 - Cllr Huw Bevan
 - Cllr Stephen Brooks KSS JP
 - Cllr Pamela Cameron
 - Cllr Nigel Davies
 - Cllr Stuart Evans
 3. Administrator - Nigel Aurelius, Assistant Chief Executive Resources
 4. External Independent Investment Advisor - Ms. Aoifinn Devitt
 5. Internal Investment Officer - Graeme Russell, Head of Human Resources and Pensions
 6. Actuary - Hymans Robertson (Douglas Green)

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7. Investment Consultant - Mercer Investment Consulting (Joanne Holden)
8. Solicitor and Legal Advisor to the Fund - Lynda Willis, Chief Legal Officer & Monitoring Officer
9. Investment Managers
 - BlackRock
 - Fidelity Worldwide Investments
 - Invesco Perpetual
 - Lazard Asset Management
 - Nomura Asset Management
 - Standard Life Investments
10. Custodians
 - Bank of New York Mellon

2.1.3 The policy in relation to asset allocation is dealt with later in this Statement. Assets held by the Fund are grouped to individual portfolios comprising of either investments in a particular geographic area or of a particular asset class. These portfolios are generally managed externally by organisations appointed by the Pensions Committee. Performance targets have been set for each portfolio and the Fund receives formal reports from each manager on a quarterly basis with performance reported to and monitored via the Pensions Committee.

2.1.4 The advisors' fees are either based on fixed quotes for particular projects or on a time cost basis. The approach results in fees proportionate to the work carried out and to the value of the advice received.

2.2 Investment Responsibilities

2.2.1 The terms of reference of the Pensions Committee include overseeing the following investment responsibilities:

- i) To determine the strategy for the investment of Fund monies including the variety and suitability of investments and to monitor investment performance.
- ii) To ensure appropriate investment management arrangements are in place for the Fund monies and to review investment manager performance.
- iii) In undertaking the above, to consult as appropriate and consider any views expressed by employing organisations and staff representatives.

2.2.2 The statutory role of the Pension Board, as defined within regulation, is to:

- assist the administering authority as 'Scheme Manager' with securing compliance with regulations, other legislation relating to the governance and administration of the Pension fund and the requirements imposed by the Pensions Regulator in relation to the LGPS, and
- assist the administering authority in ensuring the effective and efficient governance and administration of the Scheme.

2.2.3 The Investment Manager(s) is responsible for:

- the investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by the Fund's policy documents and the detailed Investment Management Agreement.
- where specified, tactical asset allocation around the strategic benchmark and security selection within asset classes.

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- preparation of quarterly reports including a review of investment performance and attending quarterly meetings with officers and also with the Pensions Committee if requested.
- assisting the Pensions Committee in the preparation and review of policy documents.
- voting shares in accordance with the Fund's policy.
- providing details in a timely manner to BNY Mellon the Fund's performance measurer.

2.2.4 The Custodian is responsible for:

- keeping the assets of the Fund safe, settling trades and dealing with corporate actions.
- its own compliance with prevailing legislation.
- providing the Administering Authority with quarterly valuations of the Fund's assets and details of all transactions during the quarter,
- collection of income and tax reclaims.

2.2.5 The Investment Advisor is responsible for:

- assisting the Pensions Committee in the preparation and review of this document.
- assisting the Pensions Committee and Internal Investment Officer in their regular monitoring of each Investment Manager's performance.
- assisting the Pensions Committee in the selection and appointment of Investment Managers and Custodians.

2.2.6 The Actuary/Investment Consultant is responsible for:

- assisting the Pensions Committee in the preparation and review of this document and the Funding Strategy Statement.
- providing advice as to the liability profile of the Pension Fund and its funding level in order to aid the Pensions Committee in balancing the short term and long term objectives of the Pension Fund, i.e. preparing the actuarial valuation setting employer contribution rates and asset-liability modelling etc.
- providing additional advice as requested and as required.

2.2.7 The Assistant Chief Executive Resources is responsible for:

- advising the Pensions Committee in respect of issues within the scope of this document
- ensuring compliance with this document and bringing breaches thereof to the attention of the Pensions Committee.
- ensuring that this document is regularly reviewed and updated in accordance with the Regulations and other relevant legislation
- implementing investment decisions made by the Pensions Committee.

3.0 Pension Fund Liabilities

3.1 The Pension Fund is a defined benefit scheme which has, historically, provided benefits related to final salary for members. From 1st April 2014 the scheme was changed by regulation from a final salary to a career average scheme. 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 Pension Fund assets. Full details of Pension Fund benefits are set out in the LGPS regulations.

3.2 All active members of the Pension Fund are required to make pension contributions which are based upon a percentage of their pensionable pay as defined in the LGPS regulations.

3.3 The Administering Authority is responsible for meeting from the Pension Fund the balance of costs necessary to finance the benefits payable. The Administering Authority's and Employers' contribution rates are determined triennially based on the advice of the Pension Fund Actuary and are subject to inter-valuation monitoring. The Administering Authority therefore has a direct accountability for the investment return achieved on the Pension Fund assets, subject to market conditions which are outside the control of the Administering Authority.

4.0 Pension Policy

4.1 Main Objectives

4.1.1 The Investment Policy of the Pension Fund is:-

- * To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.
- * To manage employers' liabilities effectively.
- * To ensure that sufficient resources are available to meet all liabilities as they fall due.
- * To maximise the returns from investments within reasonable risk parameters.
- * To ensure that all statutory payments made from the Pension Fund are at minimal cost to local tax payers.
- * To achieve a funding level within the range 95% to 105% liabilities.
- * To aim for upper quartile investment returns over rolling 3 year periods.

4.2 Types of Investments

4.2.1 Investments are made in accordance with the LGPS (Management and Investment of Funds) Regulations 2009. These Regulations allow a degree of flexibility within investment limits for local government pension schemes whilst maintaining fundamental principles of prudence and diversification.

4.2.2 These Regulations allow an administering authority to decide to increase investment limits up to specified amounts for different investment types. For example, the Regulations allow the pension scheme to invest up to 10% of the fund in any single holding and 25% in unit trust schemes managed by one body. There is however the potential to increase these amounts to 15% and 35% respectively under the regulations. This "head room" is not mandatory and the extent to which it is used in practice remains a matter for decision by the individual LGPS administering authorities, having taken proper advice in the matter. The Fund therefore has the option of adhering to the original scheduled percentages as set out in the Regulations or to consider the opportunities that the increased head room offers.

4.2.3 The 2009 Investment Regulation schedule includes a 25% normal limit for "any single insurance contract". The Fund has a number of separate investments with BlackRock and, within these, invests in a number of BlackRock "Life Funds" (or unitised insurance policies) which require, for the purpose of the Regulations, to be aggregated within the definition of a BlackRock "single insurance contract". At the 1st April 2014 the total holdings under this BlackRock arrangement were around 22.3%, comprising the Fund's investments in the BlackRock Aquila Life US Equity Index and the Ascent Life European Equity Fund. In September 2014, the Pensions Committee considered and approved a change to the way that the Fund invests a proportion of its UK equity allocation. The decision was to transfer the Fund's allocation to passive "segregated" UK equities managed by BlackRock (approximately 12.3% of the Fund) into the BlackRock "Aquila Life UK Equity Index Fund".

This UK equity change took the Fund's total investment in BlackRock Insurance contracts above the 25% base provision of the Regulations. To effect the change in compliance with the Regulations, the Pensions Committee specifically approved:-

- (a) that the Fund exercises its discretion to increase its investment limit to a "single insurance contract" to up to 35%;

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- (b) the reason for the decision is the attainment of future economies and financial efficiencies for the Fund;
- (c) the decision to apply for the period that the Fund continues to invest in the BlackRock Aquila Life UK Equity Index Fund; the Aquila Life US Equity Index Fund and the Ascent Life European Equity Fund, all as separately determined by strategic investment decisions that the Fund may take from time to time in this regard.

This position and the impact of the investment limits on the Fund's investments as a whole continue to be routinely monitored and the Fund's asset allocation, and the types of investments in which it invests, are updated and included within each annual update of this document.

- 4.2.4 Two particular factors also need to be borne in mind. Firstly, the Pension Fund's liabilities are very long term and secondly, those liabilities will increase with inflation and the rising level of employee's salaries and wages to the time of retirement. The Pensions Committee therefore attempts to meet its objectives by securing in the light of the economic climate, the most advantageous mixture of cash, fixed interest investments, equity, property and alternative investments. Assets may be invested in the UK and/or overseas.

4.3 Realisation of Investments

- 4.3.1 General principles for investment require the issues of liquidity and marketability be considered in making any investment decision. The vast majority of the Pension Fund's assets are readily marketable. The Pension Fund is not currently regarded as mature. Income is therefore presently exceeding expenditure and so the Pension Fund has not been faced with the prospect of enforced realisation of investments. The level of cash that the Fund generates has however been reducing slightly year on year and the position is also the subject of regular and detailed monitoring. Some investments, such as some alternative investments can be less easy to realise in a timely manner (less liquid), but this constitutes a very small portion of the Fund and is not considered material and hence has no adverse consequences.

4.4 Investment Management Arrangements

- 4.4.1 Six investment managers manage the majority of the Fund's assets. The Fund's strategy primarily follows a fundamental investment review undertaken during 2003 which provided the foundation for the current Fund structure in the context of its liabilities and the objectives set out in para 4.1.1. The strategic asset allocation is weighted towards equities given the profile of the Fund, its funding position and the longer term belief that equities will out-perform fixed interest holdings. Further asset allocation refinement took place in 2006, 2009 and 2011 and further refinement may be considered by the Pensions Committee during 2016/17 within the on-going consideration of risk and return levels across the Fund. Details of the types of investment each manager may hold, together with the ranges allowed are set out in the table overleaf:-

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STRATEGIC ASSET ALLOCATION OF GREATER GWENT (TORFAEN) PENSION FUND – 31 March 2016

Asset Class by Fund Manager	Investment Type	% of Total GGTPF	Bandwidths of Total GGTPF	Performance Reference	Performance Target (measured over rolling 3 year periods)
BLACKROCK EQUITIES		43.8%			
- UK Equities	Unitised Insurance Policy	13.8%	(+/-1.0%)	FTSE All-Share Index	Match
- US Equities	Unitised Insurance Policy	7.0%	(+/-1.0%)	FTSE All-World USA Index	Match
- European Equities	Unitised Insurance Policy	14.0%	(+/- 1.0%)	FTSE All-World Developed Europe ex-UK Index	Outperform index by 1.5% p.a.
- Global Equities	Managed Fund	9.0%	(+/- 1.0%)	MSCI AC World	Outperform index by 2%-3% p.a.
BLACKROCK FIXED INTEREST		14.0%			
- UK gilts	Unit Trust	7.0%	(+/- 1.0%)	FTSE A All Stocks UK Gilt Index	Outperform index by 1.5% p.a. on the aggregate holding of both asset classes
- UK Non-Gilt bonds	Unit Trust	7.0%	(+/- 1.0%)	iBoxx Sterling non-gilts Index	
BLACKROCK Total		57.8%			
FIDELITY WORLDWIDE INVESTMENTS		2.0%			
- Emerging Market Equities	Managed Fund	2.0%	(+/- 1.0%)	MSCI Global Emerging Mkts Index	Outperform index by 2% p.a.
FIDELITY Total		2.0%			
INVESCO PERPETUAL		4.0%			
- Asia (ex Japan) Equities	Managed Fund	4.0%	(+/- 1.0%)	MSCI AC Asia Pacific (ex Jap) Index	Outperform index by 2% p.a.
INVESCO Total		4.0%			
LAZARD ASSET MANAGEMENT		19.6%			
- UK Equities	Segregated	19.6%	(+/- 1.0%)	FTSE All-Share Index	Outperform index by 2% p.a.
LAZARD Total		19.6%			
NOMURA ASSET MANAGEMENT		3.0%			
- Japan Equities	Managed Fund	3.0%	(+/- 1.0%)	TOPIX	Outperform Index by 3% p.a.
NOMURA AM Total		3.0%			
STANDARD LIFE INVESTMENTS		7.6%			
- UK Equities	Unitised Insurance Policy	4.6%	(+/- 1.0%)	FTSE All-Share Index	Outperform index by 3% p.a.
- Diversified Alternatives	Unitised Insurance Policy	3.0%	(+/- 1.0%)	6 mth LIBOR	Outperform index by 5% p.a.
STANDARD LIFE Total		7.6%			
OTHER (TCBC)		6.0%			
- Cash	Cash	3.0%	(+/- 1.0%)	LIBID 7 Day	Match
- Property Unit Trusts	Unit Trust	2.0%	(+/- 1.0%)	CAPS Property	Outperform index by 1% p.a.
- Alternative Investments	Limited Partnership	1.0%	(+/- 1.0%)	6 mth LIBOR	Outperform index by 4-6% pa
OTHER Total		6.0%			
GGTPF TOTAL		100.0%			

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4.4.2 The above arrangements reflect one change since the last publication of this Statement. With effect from July 2015 Aberdeen Asset Management no longer manage the Fund's Global Equity assets. These assets are currently warehoused with BlackRock until new long term management arrangements are agreed and put in place.

4.4.3 Management agreements are maintained with each of the investment managers which set out the benchmark asset allocation ranges, performance targets and any restrictions placed on the manager. The investment manager's actions and performance are monitored quarterly and reviewed annually. The manager's fee structure is based on a percentage of the market value of the managed assets. The percentage varies between the asset classes, the sums under management and in some cases performance.

4.5 Derivatives

4.5.1 Within the overall asset allocation set by the Fund, managers are required to determine a suitable asset mix having regard to funding levels, cash needs and risk tolerance. The limits on individual investments are those specified in schedule 1 of the Local Government Pension Scheme (Management and Investment of Fund Regulations) 2009. In addition, it is important to note that the Fund has agreed the use of derivatives and other financial instruments within pre-agreed limits for specific purposes such as asset allocation switches and hedging as detailed in the investment management arrangements. Stock lending and commission recapture are also permitted subject to the terms of the investment management arrangements.

4.6 Performance Criteria

4.6.1 The performance criteria are set out in paragraph 4.4.1 above.

5.0 Risk – Measurement and Management

5.1 Investment Risk

5.1.1 Risk is inherent in any investment activity but the Pensions Committee recognises the need to reduce risk to a minimum where it is possible to do so without compromising returns and to limit risk to acceptable levels. This is achieved through a number of actions:-

1. By the appointment of a number of regulated external investment managers appointed directly by the Council with the scope of investments and the control and risk issues addressed in an investment management.
2. By the appointment of a regulated external third party custodian appointed directly by the Council with control and liability issues addressed in a custody agreement.
3. Documenting control and liability issues relating to relationships with the appointed external fund managers in fund manager agreements.
4. By officers of the Fund's Investment Team and Accountancy Section of Torfaen County Borough Council independently maintaining complete accounting records relating to the investment activity of the appointed external fund managers and to the income and dividend flows arising from the fund security portfolios.
5. By officers of the Council's Internal Audit section reviewing the internal procedures maintained within Torfaen.

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In a wider investment sense, risk is also managed by:-

- * Diversifying the portfolio by the number of investment managers and across different types of investment.
- * Restricting external appointed fund manager investment activity in accordance with LGPS Regulations and as documented in fund management agreements.
- * By selecting appropriate investment benchmarks and variance parameters to control the risk.
- * By taking appropriate internal and external professional advice.
- * Via quarterly meetings of the Pensions Committee to monitor asset allocation against investments benchmarks and fund activity and performance.
- * The Local Pension Board also provide an oversight role.

5.2 Custody of Assets

- 5.2.1 Bank of New York Mellon provides a custody service for the Fund. The agreement clearly defines matters relating to safe keeping and security of the Fund's assets. They are essentially held in specific custody accounts with the custodian and are subject to audit by their internal and external auditors and regulated by various appropriate bodies.
- 5.2.2 The Custodians' fees are predominantly based on a percentage basis of market value in relation to the safekeeping of assets. Transaction charges and ancillary services are based on fixed quotes. The approach results in fees proportionate to the work carried out.

6.0 Monitoring

- 6.1 Fund officers meet investment managers routinely on a quarterly basis and receive full and written reports of investment activities undertaken. Detailed performance reports are prepared following these meetings containing recommendations for any actions deemed necessary. Pensions Committee meetings receive quarterly investment reports and consider and/or determine any recommended/appropriate actions. The Pensions Committee additionally considers operational and administrative issues in support of the investment regime. The Pension Board routinely meets quarterly and, within those meetings, reviews all Pensions Committee agendas and reports, including those relating to Fund investments.
- 6.2 In a broad sense the performance measurement of the Pension Fund is undertaken on a quarterly and annual basis, together with an assessment on a rolling 3, 5 and 10 year basis. The Fund participates in the combined actuarial performance service provided by BNY Mellon Asset Servicing; State Street Investment Analytics (WM) and also obtains some performance measurement details from IPF (CIPFA) and industry wide reports.

7.0 Socially Responsible Investment

- 7.1 The Fund has considered how Social, Environmental and Ethical factors should be taken into account in the selection, retention and realisation of investments. This was initially considered under the Fund's previous governance arrangements by its Investment Panel when members considered that they should, in all circumstances, act in the best financial interests of the Beneficiaries. In view of the Investment Strategy adopted by the Fund, where this primary consideration is not prejudiced, Investment Managers are required to take account of Social, Environmental or Ethical factors to the extent that they consider it appropriate.

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- 7.2 Within the Fund's current governance arrangements, the Pensions Committee has also considered the Fund's approach to Socially Responsible Investment within its work plan. As a result of this the Committee decided that a separate working group, the Environmental Social and Corporate Governance (ESG) Working Group, should be set up to specifically consider the Fund's approach to environmental, social and corporate governance matters within its investment decision making process.
- 7.3 The Group was established to research these issues, consider any options for change and report any proposals back to the Pensions Committee for consideration. The Group met regularly over a period of around 12 months or so and reported back to the Pensions Committee in September 2011 with its initial conclusions and recommendations. The following are extracts from these:-
- the Group were generally impressed by the comprehensive approach taken with regard to ESG issues by the Fund's investment managers and the level of resource and detail devoted to this area.
 - the Group were generally content with the ESG policies and procedures of the Fund's investment managers and the way that these are implemented in practice.
 - the Group recommended that the Fund should continue membership of the Local Authority Pension Fund Forum as the Group considered it to be of particular value and benefit in achieving a collective level of ESG monitoring and engagement that the Fund could not achieve in isolation.
 - that despite not being a direct signatory to UNPRI or the UK Stewardship Code, the Group were however comfortable that the majority of the Fund's managers are themselves either directly code signatories or operating to code standards and thus the Fund's investments are predominantly managed in accordance with Code principles.
- 7.4 The Pensions Committee welcomed the conclusions and approved the Group's initial recommendations in full for adoption by the Fund in the consideration of Environmental, Social and Corporate Governance within its investment process. Within their approval, the Committee recognised that Group members had gained much knowledge and understanding from its initial work and acknowledged the importance of the ESG Working Group, the quality and amount of work undertaken and the contribution of individual members. The Committee further agreed that the ESG Working Group should continue its work in the consideration of ESG matters within the Fund's investment process and within the context of the Funds wider governance processes, continue to meet and provide work plan updates to future meetings of the Pensions Committee as appropriate. This view was also endorsed by the current Pensions Committee that has been in place since May 2012 with the Committee confirming that they were content that the Group be "reconvened" when possible and take forward the future potential work areas it had originally identified.
- 7.5 The ESG Working Group had however been set up as a sub-group of the Pension Fund Management Group (PFMG) as the body that provided wider stakeholder representation, overview and scrutiny of the Pension Fund at that time. However, following the change in LGPS governance required by the 2013 Public Sector Pensions Act, the PFMG has now been superseded by the establishment of a Local Pension Board for the Fund. The possibility of reconvening an ESG Working Group for the Fund will therefore be considered further during 2016/17 as the Pension Board becomes further embedded in the Fund's amended governance arrangements. Any subsequent ESG policy decisions made by the Pensions Committee will be incorporated in future versions of this Statement of Investment Principles.

8.0 Corporate Governance

- 8.1 Good Corporate Governance provides a structure for maximising returns to shareholders and thereby to stakeholders within the Pension Fund. The Fund makes full use of its voting powers at UK and European company meetings based on the current Corporate Governance Policies of the Investment Managers which have been previously considered and approved by the Fund,

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and reviewed by the Fund's ESG Working Group (see above). The Fund also continues to be a member of the Local Authority Pension Fund Forum (LAPFF) as an appropriate pressure group designed to benefit the interests of the members. Additionally, the Pensions Committee Chair, Cllr Mary Barnett, continues to sit on the Executive Committee of the LAPFF, providing the Fund with valuable additional insight and experience in respect of Corporate Governance and also the wider Environmental and Social aspects of the investment process.

- 8.2 The Pension Fund's Policy on the exercise of rights attached to investments, including voting rights, is that these rights should be exercised by the Investment Managers in accordance with the Pensions Committee instructions having regard to the best financial interests of the Beneficiaries. A summary of the current views of the Fund is attached as Appendix 2 and are based on the guidelines established by the combined code of the Cadbury, Greenbury and Hampel Committees and the London Stock Exchange Committee on Corporate Governance. It should be noted that where the primary consideration of the best financial interests is not prejudiced, the Investment Managers should take account, where they believe it appropriate, of Social, Environmental and Ethical factors in the exercise of such rights. Section 7 (above) should however also be noted, as the remit of the ESG Working group has been to consider environmental, social and corporate governance matters in respect of the Fund's investment decision making process. Potentially, the Group's future work may result in recommendations for change in respect of the Fund's approach to corporate governance as set out in this statement and as contained in Appendix 2. Again, any subsequent corporate governance policy decisions made by the Pensions Committee will be incorporated in future versions of this Statement of Investment Principles.

9.0 Compliance

- 9.1 Organisations and individuals involved with the management of the Fund have a duty to ensure compliance with this Statement of Investment Principles. The Pensions Committee will review this Statement each year with the advice of the investment advisor, actuary and the Assistant Chief Executive Resources as required. Investment managers submit quarterly reports to the Fund that include:-
- * Valuation of all investments held for the Fund.
 - * Records of all transactions together with a cash reconciliation.
 - * A review of the economic outlook.
 - * A review of corporate governance activity.
- 9.2 The Investment managers also provide regular statements to the Fund confirming their compliance with this Statement.
- 9.3 The Custodian will also certify on an annual basis that they have complied with this document.
- 9.4 The Pensions Committee is also responsible for monitoring the qualitative performance of the investment managers, custodians and external consultants and advisors employed to ensure that they remain suitable investment managers, custodians and advisors for the Fund. These qualitative aspects include changes in ownership, changes in personnel, or administration etc.
- 9.5 The Fund's actuary undertakes the statutory triennial valuation as well as any interim valuation work considered necessary by the Pensions Committee.
- 9.6 The independent investment advisor provides ongoing independent investment advice to the Fund as well as monitoring wider activities and performance within the industry that may affect the Fund.

10. Myners Compliance

- 10.1 In accordance with LGPS Regulations, the Greater Gwent (Torfaen) Pension Fund is required to state the extent to which it complies with the principles of investment practice issued in response to the recommendations of a review of institutional investment in the UK originally undertaken by Sir Paul Myners.
- 10.2 The original review by Myners prompted the Government in 2001 to issue 10 principles of investment practice and previous versions of this Statement of Investment Principles have shown the extent of the Fund's compliance against these. However, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires the Fund, within its Statement of Investment Principles, to state the extent of compliance with a revised set of 6 principles covering pension fund investment; scheme governance; consultation and disclosure.
- 10.3 **Appendix 1** provides details of the Fund's extent of compliance against these revised 6 Principles which are now the accepted code of practice applying to Local Government Pension Funds throughout the United Kingdom. The degree of compliance has been assessed by way of reference to examples of good practice published by the CIPFA Pensions Panel within its 2009 guidance "Investment Decision Making and Disclosure". This guidance is the Secretary of State's relevant guidance issued under Regulation 12(3) of the 2009 Investment Regulations. The guidance is specifically designed to enable administering authorities to use the examples of good practice to help demonstrate the extent to which the principles have been applied and whether compliance has been achieved. The guidance makes clear that Funds are not expected to implement every example of good practice, but the majority have been incorporated within Appendix 1 for completeness to clearly identify any specific examples that the Fund may not currently follow. This is to enable the Pensions Committee to consider, over time, any areas of good practice highlighted that the Fund does not currently adopt and to subsequently update future versions of this document with their decisions.
- 10.4 Within the Appendix a "traffic light" system has been used to clearly demonstrate the level of compliance with the full list of good practice principles:-
- =  Full compliance.
 - =  Partial compliance for action/consideration as noted.
 - =  Non-compliance for action/consideration as noted.
- 10.5 The Greater Gwent (Torfaen) Pension Fund fully supports and endorses the original Myners principles and these revised principles that have influenced various sections of this Statement.

11.0 Additional Voluntary Contributions

- 11.1 The Council provides a facility for members to pay additional voluntary contributions (AVC's) to enhance their benefits. Members have a choice of buying added years of service or accumulating their AVC's to purchase benefits on a money purchase basis. Investment of money purchase AVC's is undertaken through Standard Life, Clerical Medical and The Equitable Life Assurance Society. (The Equitable Life option is closed to new members).

12.0 Feedback and Review

- 12.1 This statement will be subject to regular review for any material change that could affect the policy, with appropriate consultation.
- 12.2 Feedback is welcome on this Statement of Investment Principles and this should be sent to the Council for the attention of the Head of Human Resources and Pensions, Civic Centre, Pontypool, Torfaen, NP4 6YB or by email to graeme.russell@torfaen.gov.uk.

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.

Examples of Good Practice	Extent of Compliance	Actions Required
<p>Establish a committee of elected members assigned with responsibility for the management and administration of the Pension Fund.</p>	<p> Fully compliant. The council has established a Pensions Committee to discharge the duties of the Council as Administering Authority of the Fund. The Pensions Committee has been established and operates within the Council's constitutional arrangements as a Committee of the Council.</p>	<p>None.</p>
<p>Set out clear roles for officers with responsibility for ensuring the proper running of the committee including a process for declaration of conflicts of interest.</p>	<p> Fully compliant. The Pensions Committee is subject to the council's usual constitutional arrangements and each meeting provides an opportunity to declare any such conflicts.</p>	<p>None.</p>
<p>Publish a Governance Compliance Statement in accordance with CLG statutory guidance to include review of the Committee's structure and composition.</p>	<p> Fully compliant. Governance Policy & Compliance Statement published and updated annually.</p>	<p>None. The Fund will continue to update the document annually or more frequently if material changes.</p>
<p>Appointments to the committee should, where possible, be based on consideration of relevant skills, experience and continuity.</p>	<p> Partially compliant. Previous Committee reviews have resulted in only minimal change to Pensions Committee membership. The 2012 elections however resulted in many previous members became unavailable and this,</p>	<p>To ensure appropriate training is available to new Committee members and that ongoing knowledge and skills development is tailored to individual needs.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
	together with the requirement to maintain political balance, led to a complete change of Committee membership. Though the current Pensions Committee has seen much greater stability of membership this still demonstrates that the nature of Local Government means that continuity of membership and thus retention of acquired knowledge and skills cannot be guaranteed. A focus on knowledge and skills development is therefore of particular importance for the Fund within its governance arrangements.	Training needs of the Pension Board will also need continued consideration during 2016/17, and the Fund should, wherever possible, continue to consider parallel training opportunities between the Pensions Committee and Pension Board.
Ensure specific terms of reference for the Committee with clear definition of those responsible for taking investment decisions. To include clarity of the process for delegating authority to officers and/or investment managers and the role of external advisors.	 Fully compliant. Clear terms of reference for the Committee are included within the Fund's Governance Policy & Compliance Statement. Additionally a specific, detailed scheme of delegation operates with regard to the Pensions Committee.	None
The committee should ensure, and regularly assess, that it has the appropriate skills to facilitate effective decision making. Specific CIPFA guidance provides a framework to assess training and development needs and the Fund's Annual Report should include a statement of progress made against this.	 Partially compliant. The Committee receives a training update at each meeting and regularly considers further training requirements. As noted above, natural turnover in Committee membership means an ongoing required focus on knowledge and skills development and the Committee's training plan takes account within its development of the CIPFA Knowledge & Skills guidance to provide a framework for member training.	Members of the Pensions Committee consider and undertake appropriate training to develop their knowledge and skills using the CIPFA Knowledge & Skills guidance to provide a training framework. The Pensions Committee continue to receive regular updates in terms of training available and undertaken. Fund Annual Reports will include an update in terms of the Fund's progress in developing member knowledge and skills in accordance with the CIPFA framework.
The committee may consider establishing sub-committees where necessary to take responsibility for progressing significant areas of	 Partially compliant. The Pensions Committee has established an Environmental, Social & Corporate Governance (ESG) Working Group to	The ESG Working Group was a sub-group of the Pension Fund Management Group which has been dissolved and replaced by the Pension

Examples of Good Practice	Extent of Compliance	Actions Required
activity and/or to provide appropriate focus to certain activities (e.g. investment)	consider the Fund's approach to these factors. The Group has researched related issues, considered options for change, and reported initial conclusions and recommendations back to Pensions Committee. The Pensions Committee has welcomed and approved their conclusions to date, and agreed that the Group should continue to develop and progress their work in this area.	Board. The reconvening of the ESG Working Group needs consideration as the Pension Board becomes further embedded in the Fund's governance arrangements and its work plan develops. Also the experience and effectiveness of the ESG Working Group can be assessed to establish the merits of using a similar approach in other areas of the Committee's future operations where deemed appropriate.
The committee should obtain appropriate advice at reasonable intervals and where appropriate from suitably qualified persons, both externally and from officers of the authority. The committee should ensure it has sufficient internal resources and access to external resources to effectively carry out its responsibilities.	 Fully compliant. The Fund has regular access to adequate and varied sources of internal and external advice all as noted within this Statement of Investment Principles (SIP). This was enhanced during 2015 with the appointment of Ms Aoifinn Devitt as the Fund's Independent Investment Advisor, succeeding the late Mr Mike Lewis.	None.
Allowances paid to elected members of the committee should be set out in a published allowances scheme; be commensurate with the roles performed and regularly reviewed.	 Fully compliant. The Pensions Committee operates as a full committee within the council's constitutional arrangements which includes provision for review and publication of elected member allowances.	None.
Committee papers and related documentation should be clear, comprehensive and circulated sufficiently in advance of meetings to allow them to be read and understood.	 Fully compliant. Again the council's constitutional arrangements, procedures and standards ensure that this applies to the Pensions Committee.	None.
The Chief Finance Officer should have specific responsibility for: <ul style="list-style-type: none"> assessing the need for proper advice and recommending to the committee 	 Fully compliant. External advice recommended when appropriate.	None.

Examples of Good Practice	Extent of Compliance	Actions Required
<p>when such external advice is necessary.</p> <ul style="list-style-type: none"> providing a training plan for committee members to help them make effective decisions and to ensure they are aware of their statutory and fiduciary responsibilities and their stewardship role. ensuring that a medium term business plan is created for the Pension Fund and submitted to the committee for consideration The Plan to include major milestones; issues to be considered by the committee; financial estimates for both investment and administration; a review of available resources and key targets for the Fund and method of measurement. 	<p> Fully compliant. A training plan and access to training is provided and monitored via inclusion in each Pensions Committee meeting agenda and ongoing assessment of training requirements.</p> <p> Partially compliant. Though no formal business plan is in place for the Fund, the Pensions Committee agrees and adopts an annual work-plan including planned work areas and outputs for the year ahead. The Committee also routinely receives from the Chief Financial Officer reports on administration and investment estimates together with actual costs over time.</p>	<p>None.</p> <p>The Pensions Committee may wish to consider further developing and extending current planning and reporting arrangements into a full medium term business plan for the Fund.</p>

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.

Examples of Good Practice	Extent of Compliance	Actions Required
<p>The committee should demonstrate that an overall investment objective has been set mindful of :</p> <ul style="list-style-type: none"> the Fund's liabilities in the context of its contribution inflows; maturity profile and cash flow. the adequacy of the Fund's assets to meet its liabilities as advised by its actuary. 	<p> Fully compliant. Fully documented with the Funds SIP and Funding Strategy Statement (FSS).</p> <p> Fully compliant. Fully documented with the Funds SIP and Funding Strategy Statement (FSS).</p>	<p>None.</p> <p>None.</p>
<p>The committee should demonstrate that it has sought proper advice, including specialist external where appropriate, as to how the investment objective might be expressed in terms of the required annual return and measurement against appropriate benchmarks.</p>	<p> Fully compliant. Fully documented within SIP.</p>	<p>None.</p>
<p>In making asset allocation decisions the committee should consider all asset classes currently available to investors. When deciding on asset mix and active/passive management they should however remain mindful of the risk appetite of both the committee and the Fund employers.</p>	<p> Fully compliant. The committee will consider all asset classes but remains mindful that it should ensure members have the necessary knowledge of the more specialist asset classes prior to any investment decisions e.g. investment in alternative investments has been gradual but has evolved as knowledge of the asset class has further developed.</p>	<p>None. The embedding of the Pension Board into the Fund's governance arrangements (to replace the Pension Fund Management Group) will ensure that the scrutiny and review of the Fund's investment operations from employer and employee representative groups will continue.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p>The use of peer group benchmarks for comparison purposes but not to define investment objectives.</p>	<p> Fully compliant. The committee does not use information available on other funds to set investment objectives and arrangements but does compare itself with other funds for information purposes, including increased recent participation in benchmarking studies. It however remains mindful that each fund is different with differing liability profiles and thus differing investment objectives.</p>	<p>None.</p>
<p>The Fund should include within its objectives of achieving value for money and operational efficiency.</p>	<p> Partially Compliant. Though the Committee remains mindful of the likely cost/benefit in respect of decisions this is not specifically defined at present within its objectives.</p>	<p>To achieve full compliance the Committee would need to define its understanding of value for money and produce measures that could be used to monitor its operational efficiency.</p>
<p>The committee and Chief Financial Officer should consider:</p> <ul style="list-style-type: none"> • the impact of funding levels and employer contribution rates on council tax levels over time, <p>and</p> <ul style="list-style-type: none"> • the nature of the membership profiles and financial position of the employers in the Fund. 	<p> Fully compliant. A main Fund objective as documented within SIP. In line with this objective, the Fund's actuary is required to advise in such a way that employer contribution rates remain as constant as possible over time.</p> <p> Fully compliant. The Fund consults with employers in determining its funding strategy & employer contribution levels and regularly reviews the strength of the employer covenant, including any bond or guarantee requirements.</p>	<p>None.</p> <p>None.</p>
<p>The committee should consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.</p>	<p> Fully compliant. The committee considers the value of such a study in conjunction with its actuary following each triennial valuation.</p>	<p>None.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p>In making strategic asset allocation decisions, the committee should:</p> <ul style="list-style-type: none"> • give such decisions a level of attention and resource that fully reflects the contribution they can make to achieving the Fund's investment objectives. • evaluate the equities/bonds split in the light of forecast liabilities before considering any other asset class. • state the range of investments it is prepared to include in its asset allocation decision with reasons why some asset classes have been excluded. • have regard to the diversification and suitability of investments. 	<p> Fully compliant. The range of diversified investments across which the Fund invests is fully documented within the SIP (Section 4) and the included asset allocation table. The level of attention and resource given to any changes to the Fund's asset allocation can be evidenced most recently by the level of committee attention given to the Fund's refinement of investment strategy and management arrangements during 2009; 2011 and 2013, and the subsequent manager appointments</p>	<p>None.</p>
<p>In considering receipt of proper advice, the committee should:</p> <ul style="list-style-type: none"> • include advice from specialist independent advisors where appropriate. • appoint advisors in open competition in accordance with both the administering authority's and EU procurement rules. • Set advisors clear strategic investment performance objectives and state how advisor's overall performance will be measured in the short, medium and longer term. 	<p> Fully compliant. The Fund has access to appropriate independent advice when required.</p> <p> Fully compliant. The appointment of a new independent investment advisor in 2015 was via open competition and in compliance with procurement rules.</p> <p> Partially compliant. The Fund has made progress with this during 2015 by including a specific (scored) question within its Independent Investment advisor tender evaluation for monitoring and measuring advisor performance.</p>	<p>None.</p> <p>None.</p> <p>The Fund should use the monitoring and measuring framework agreed with its independent investment advisor within its overall approach to advisor performance assessment (refer Principle 4 below)</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p>The committee should have a full understanding of transaction related costs (including commissions) including ensuring these costs are properly controlled. Understanding these costs should be a clear consideration in letting and monitoring investment management contracts and independent expert advice should be taken where appropriate.</p>	<p> Partially compliant. The Fund ensures that all investment management fees are clearly defined, evaluated and agreed before letting any new investment management contracts. These costs are monitored to ensure compliance with the agreements on an ongoing basis. Though the Fund's investment managers provide regular details of transaction costs and commissions, these are not currently fully reported to the Pensions Committee</p>	<p>The Fund should continue to monitor investment manager's fees and transaction costs on an ongoing basis. It should also consider further development of its reporting transaction costs and commissions separately to Pensions Committee. There has however been progress on this as, in line with evolving CIPFA guidance, transaction costs are being incorporated across the LGPS within Fund accounts and our Fund is continuing to evolve its own accounting and reporting in accordance with this developing best practice.</p>

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.

Examples of Good Practice	Extent of Compliance	Actions Required
<p>The committee should set an overall investment objective for the Fund that:</p> <ul style="list-style-type: none"> • represents its best judgement of what is necessary to meet the Fund's liabilities mindful of likely employer/employee contribution levels. • takes account of its overall attitude to risk and specifically the level of acceptability of under-performance due to market conditions. 	<p> Fully compliant. The committee considers actuarial advice both ad-hoc and more formally as part of the valuation process in terms of setting and refining investment objectives and strategy.</p> <p> Fully compliant. Risk considerations and acceptable tolerance levels to market indices are explicit within investment documented within SIP.</p>	<p>None.</p> <p>None.</p>
<p>The committee should:</p> <ul style="list-style-type: none"> • with regard to assets benchmarked to market indices, be aware of its willingness to accept underperformance due to market conditions and set appropriate benchmarks and acceptable performance tolerance levels against these benchmarks. • with regard to assets where performance benchmarks are expressed in terms of absolute return, be aware of rates of return that are feasible and acceptable for these asset classes irrespective of 	<p> Fully compliant. Acceptable tolerance levels to market indices are explicit within this SIP and relevant investment manager agreements.</p> <p> Fully compliant. Documented within SIP asset allocation table. (Section 4.4.1).</p>	<p>None.</p> <p>None.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p>market returns.</p> <ul style="list-style-type: none"> State whether a scheme specific benchmark has been considered / established and what level of risk, both active and market risk, is acceptable to it. 	<p> Fully compliant. Documented within SIP asset allocation table (Section 4.4.1).</p>	<p>None.</p>
<p>The committee should ensure that its investment strategy:</p> <ul style="list-style-type: none"> is suitable for its objectives. takes account of the ability to pay of employers in the Fund. takes account of the level of need and timing to match cash flows from Fund assets with liabilities. takes account of the volatility of returns that the committee is prepared to accept. 	<p> Fully compliant. These requirements are documented within the Fund's statutory documents as noted:</p> <ul style="list-style-type: none"> Refer SIP (Section 4) Refer Funding Strategy Statement (Section 5) Refer SIP (Section 4.3.1) Documented within SIP (Section 5.1.1) and SIP asset allocation table. (Section 4.4.1) 	<p>None</p>
<p>The Fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.</p>	<p> Fully compliant. Documented within SIP (Section 5.1.1).</p>	<p>None.</p>
<p>Objectives for the overall Fund should be expressed with regard to its liabilities, not relative to other funds or a market index.</p>	<p> Fully compliant. Documented within SIP (Section 4.1).</p>	<p>None.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p>The committee should receive a risk assessment in respect of the valuation of its liabilities as part of its triennial valuation, and at any other time that the chief financial officer considers it appropriate, so that risk mitigation actions can be considered.</p>	<p> Fully compliant. Documented within FSS including risk types and factors to help minimise these risks</p>	<p>None.</p>
<p>The committee should, at the time of its triennial valuation, analyse factors affecting long term performance and how these may impact the scheme and its liabilities.</p>	<p> Fully compliant. Documented within FSS including assumptions made and probability analysis.</p>	<p>None.</p>
<p>The committee should use reports from both internal and external auditors to ensure satisfaction with :</p> <ul style="list-style-type: none"> • levels of internal control applied to the Fund's administration and investment operations. • the overall governance structure of the Fund. 	<p> Fully compliant. The Chief Financial Officer ensures that the Pension Fund is audited, both internally as part of the audit plan and externally, separately from the Council, via the Welsh Audit Office's annual audit of its accounts. Both audits cover internal controls and governance structure.</p>	<p>None.</p>
<p>The Pension Fund annual report should include an overall risk assessment in relation to the Fund's activities and factors likely to impact the Fund's financial and reputational health. Risk analysis should be regularly reported to committee.</p>	<p> Fully compliant. The Annual Report includes, within the annual accounts, a detailed section on the nature and extent of risks that potentially impact the Fund's financial health and a hyper link to the SIP which also documents the Fund's Risk policy and considerations. The Council's overall risk register also takes account of the need to ensure sound management of the Pension Fund to protect financial and reputational risk. The Pension Fund is also developing its own bespoke risk register that has been reported to Pensions Committee</p>	<p>None.</p>

Principle 4 : Performance Assessment

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.
- 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.

Examples of Good Practice	Extent of Compliance	Actions Required
<p><u>Investment Performance</u></p> <p>The committee should:</p> <ul style="list-style-type: none"> • consider, in conjunction with investment managers, the construction, appropriateness and divergence limits of selected index benchmarks. • consider, for each asset class invested, the appropriateness of passive or active management mindful of the efficiency, liquidity and transaction cost levels in the market concerned. • where it believes active management to have greater potential, set appropriate targets and risk controls to allow managers to pursue genuinely active returns. Divergence from benchmark should not be so constrained to imply index tracking or so wide as to imply unconstrained risk. 	<p> Fully compliant. The committee considers these issues on the appointment of a new investment manager and subsequently documents agreed management style, benchmarks and targets within individual Investment Management Agreements and also cumulatively within the SIP.</p>	<p>None.</p>
<p>The committee should remain mindful that the mandate is the instruction to the manager as to how the portfolio is to be managed and the prescribed objective, asset allocation, benchmark flexibility, risk parameters, performance targets and measurement timescales will all combine to drive the management of the portfolio.</p>	<p> Fully compliant. Quarterly individual manager reviews and cumulative performance reporting continues to take account of these factors.</p>	<p>None.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p>Performance targets in relation to a benchmark should be related to clear time periods and risk limits and monitoring reports should include tracking error calculations.</p>	<p> Fully compliant. Performance reporting conforms with these requirements.</p>	<p>None.</p>
<p>Investment activity in relation to benchmark allocation should be monitored regularly to check any divergence and any impact on overall asset allocation strategy.</p>	<p> Fully compliant. The Fund's asset allocation is monitored monthly and appropriate re-balancing considered and carried out when necessary relative to the Fund's agreed strategic and tactical asset allocations.</p>	<p>None.</p>
<p>Investment returns should be measured:</p> <ul style="list-style-type: none"> • by a specialist performance measurement agency to ensure independence from investment managers. • on both overall fund return and individual asset class, to enable regular monitoring against bespoke and peer group benchmarks. • on both a quarterly basis and a longer time frame to assess the effectiveness of investment management arrangements and the continuing compatibility of the Fund's asset/liability profile. • against agreed benchmarks attributing variations to asset allocation, stock selection, sector selection and currency risk. 	<p> Fully compliant. The Fund subscribes to the Bank of New York Mellon performance measurement company and reporting fully complies with these requirements.</p>	<p>None.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p><u>Advisor Performance</u></p> <p>The committee should devise a performance framework against which to measure cost, quality and consistency of advice from its actuary and to market test its actuarial service periodically.</p>	<p> Partially compliant</p>	<p>The Fund completed a full market test of its actuarial service in 2015, resulting in the appointment of a new Fund Actuary. This appointment included a full evaluation of potential costs across a number of actuarial advice scenarios. However, to achieve full compliance, this would need to be developed into a full performance framework against which to measure cost, quality and consistency of advice.</p>
<p>When assessing any advisors it is first necessary to consider the extent to which advice has been heeded by officers and committee members. Advisors / Consultants should then be assessed on:</p> <ul style="list-style-type: none"> • the appropriateness of asset allocation recommendations (relative to liabilities). • the quality of advice in choosing benchmarks, performance targets and risk profiles. • the quality and the appropriateness of investment managers recommended. • the extent to which advisors are proactive and consistent in recommending subsequent changes. • The nature of the assessments provided e.g. qualitative (subjective) assessments or quantitative (factual) reviews. 	<p> Partially compliant. The Fund has made progress with this during 2015 by including a specific (scored) question within its Independent Investment advisor tender evaluation for monitoring and measuring advisor performance.</p>	<p>The Fund should further develop and use the monitoring and measuring framework agreed with its independent investment advisor to achieve further compliance against this best practice guidance.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p><u>Decision-making bodies</u></p> <p>The self assessment process should involve both officers and members of the committee reviewing:</p> <ul style="list-style-type: none"> • asset allocation and benchmarking decisions • manager selection • external appointments, and • best value outcomes <p>to consider whether outcomes were as anticipated, appropriate or could have been improved.</p>	<p> Non compliant.</p>	<p>A potentially significant work area for the Fund. The Pensions Committee would need to formulate a self assessment framework and a measurement and monitoring process to achieve compliance.</p>
<p>The committee should set out expectations of its own performance in its business plan and report on outcomes and targets in its annual report. This could include:</p> <ul style="list-style-type: none"> • expected progress on various work items • reviews of governance • reviews of performance • attendance targets, training standards and outcomes • administration (e.g. agenda and minute distribution) 	<p> Partially compliant. The Committee does have an annual work-plan that measures work progress. This is not however necessarily a measurement of the success of the outcomes of the decisions it makes with regard to these work items</p>	<p>To achieve compliance the Committee would need to evolve its current work plan into a business plan with expected outcomes and targets with measurement of and reporting of performance against these stated targets.</p>

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.

Examples of Good Practice	Extent of Compliance	Actions Required
Policies regarding responsible ownership should be disclosed in the Statement of Investment Principles and within the Fund's annual report.	 Fully compliant. Documented within SIP (Section 7) and by hyperlink within the Annual Report.	None required – however consideration of the Fund's approach to responsible ownership will potentially continue via the ESG Working Group and Pensions Committee. Any policy changes will be reflected within future SIP's.
Policies should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance (ESG) issues.	 Fully compliant. Documented within SIP (Section 7) and by hyperlink within the Annual Report.	None required – however consideration of the Fund's approach to responsible investing and ESG is within the remit of the ESG Working Group and Pensions Committee. Any policy changes will be reflected within future SIP's.
The committee should discuss the potential for consideration of ESG issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performance.	 Partially compliant. Consideration of an investment manager's ESG policy is an element of the evaluation of any new manager appointments. The basis of this evaluation has been further developed by the Fund's ESG Working Group. Additionally as a result of the Group's work, dialogue with managers and reporting in terms of their ESG engagement has been improved and is now at a much more detailed. It is most likely that the level and detail of manager engagement will evolve further as a result of the future work of the Group.	The potential future work of the Fund's ESG Working Group will direct any required increased level of engagement on these issues and also the approach and resources required to enable any further development and changes.
The committee should ensure that investment managers have an explicit strategy, setting out	 Fully compliant. This is set out within the respective investment manager agreement and	None.

Examples of Good Practice	Extent of Compliance	Actions Required
the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	their own corporate governance policies. Investment managers are also required to comply with the Fund's SIP (Refer Appendix 2).	
The committee should ensure that investment consultants adopt the Institutional Shareholders' Committee (ISC) Statement of Practice relating to consultants.	 Non compliant.	The future work of the ESG Group could potentially include a review of consultant's compliance against this Statement of Practice.
The ISC's 2007 Statement of Principles on the responsibilities of shareholders and agents and its 2009 Code on the Responsibilities of Institutional Investors, both provide best practice for institutional shareholders and/or agents in relation to their responsibilities in respect of investee companies. The best practice covers discharging shareholder responsibilities; monitoring investee company performance; ongoing dialogue & intervention and evaluating engagement with investee companies.	 Fully compliant. The ISC Statement of Principles cover UK companies and Investment Managers managing UK equities for the Fund are broadly supportive of the code.	None.
<p>The United Nations Environment Programme Finance Initiative (UNEP FI) has already published the following principles and practical guidance which it has encouraged investors to sign up to and adopt:</p> <ul style="list-style-type: none"> Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the principles and regularly assess themselves against a "comply or explain" framework. legal and practical aspects of integrating environmental, social and 	<p> Partially compliant. The Fund itself is not a signatory to the UNPRI principles but all of the Fund's investment managers are themselves signatories and therefore exercise these principles in their engagement with investee companies.</p> <p> Non compliant. The Fund has not yet reviewed these principles to assess their</p>	<p>The work of the Fund's ESG Working Group could potentially include review and recommendations to Pensions Committee any further actions thought necessary for the Fund in respect of these published principles.</p> <p>This available guidance is also noted in terms of any future recommendations that the ESG</p>

Examples of Good Practice	Extent of Compliance	Actions Required
governance issues into institutional investment.	relevance to its policy.	Working Group may make with regard to ESG issues across the Fund.
It is important to ensure through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager or house policy.	 Fully compliant. All of the Fund's Investment Managers are required to note the requirements of this SIP with regard to voting strategy.	None – though a re-convened ESG Working Group's would continue to consider each manager's voting process and how it links with the Fund's SIP.
Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement.	 Fully compliant. Voting in terms of the Fund's equity investments is carried out by the respective Investment Managers. The Fund does not currently use the services of an external voting agency.	None – though a re-convened ESG Working Group's work-plan could allow it to review any potential benefits for the Fund in using the services of an external voting agency.
Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken.	 Fully compliant. Corporate Governance is monitored as an element of each manager's Quarterly Investment Report.	None – though a re-convened ESG Working Group's work-plan could allow continued review of monitoring arrangements and reporting.
Authorities may wish to consider seeking alliances with other pension funds to benefit from collective size where there is a common interest to influence companies to take action on ESG issues. For example the Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.	 Fully compliant. The council actively networks with partner Funds on a number of issues but specifically is also a member of the LAPFF, with the Chair of the Pensions Committee a member of the LAPFF Executive Committee.	None, though the Fund will continue, potentially via a re-convened ESG Working Group, to look to ensure it obtains maximum benefit from membership of the LAPFF and is sufficiently active to ensure that it is maximising its shareholder influence in terms of corporate governance and broader issues of responsible ownership. The role of the Pensions Committee Chair on the LAPFF Executive will however continue to provide a strong interface with the LAPFF.

Principle 6: Transparency and Reporting

Administering authorities 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.
- Provide regular communication to scheme members in the form they consider most appropriate.

Examples of Good Practice	Extent of Compliance	Actions Required
<p>Transparency is strengthened by a clear and well communicated governance framework. The committee should :</p> <ul style="list-style-type: none"> • ensure that its Governance Policy and Compliance Statement is maintained regularly. • actively challenge any non-compliance. • be comfortable with the explanations given. 	<p> Fully compliant. The Fund's Governance Policy and Compliance Statement is updated at least annually and has formed the basis for committee consideration of any areas where the Fund could improve its compliance.</p>	<p>None, other than ongoing monitoring of the statement and updating as necessary. Such monitoring is also routinely carried out by the Council's internal audit team with the last such review being completed in March 2016.</p>
<p>The fund's Communication Strategy Statement must set out the administering authority's policy on:</p> <ul style="list-style-type: none"> • the provision of information and publicity about the scheme to members, representatives of members and employing authorities. • the format, frequency and method of distributing such information or publicity. • the promotion of the scheme to prospective members and their employing authorities. 	<p> Fully compliant. The Fund's Communication Policy Statement (CPS) was reviewed and extensively updated during 2015. Members received and agreed publication of the updated document at their meeting in July 2015. The revised CPS reflected the significant recent focus on communications across all Fund stakeholder groups. The strategic focus underlying the updated CPS was to proactively target clear and timely communications to the Fund's various stakeholder audiences, tailored to meet their different needs and ensure equality of access, and also deliver feedback to the Fund.</p>	<p>None, other than continuing with developing the current extensive publicity and communication mechanism for the Pension Fund via the Fund's website and regular newsletter communications to the various stakeholder groups. Development of the Fund's website is continuing and new initiatives within this will provide opportunities for even greater interactivity between the Fund and its stakeholders via a wider suite of engagement mechanisms developed within the context of the revised Communications Policy Statement.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p>In considering its communication with stakeholders the committee should</p> <ul style="list-style-type: none"> • have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted or informed. • build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders. This should be packaged in ways that make the information relevant and accessible to each particular group of stakeholders. • seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. 	<p> Fully compliant. The Fund has always recognised that stakeholder groups should have a role in the governance of the Fund. The statutorily formed Pension Board, in succeeding the previous voluntarily formed Pension Fund Management Group, has now been established to continue to provide this stakeholder representation. The Board has been formally established within the Council's constitution, meets quarterly to formally assist the Council in its role as Scheme Manager of the Pension Fund.</p> <p> Fully compliant. Meetings of the Pensions Committee and Pension Board are public meetings with agendas, reports and minutes publically available. In addition, the significant recent focus on communications across all Fund stakeholder groups has been reflected in a revised Communications Policy Statement. The underlying strategy of the Statement is to proactively target clear and timely communications to the Fund's various stakeholder audiences, tailored to meet their different needs and to ensure equality of access, and also to deliver feedback to the Fund.</p> <p> Fully compliant. This is achieved by viewing other fund's documents on line and by way of active networking via practitioner groups and also bodies where the Fund holds membership such as the CIPFA Pensions Network.</p>	<p>None. The Pension Board is continuing to becoming embedded within the Fund's governance arrangements.</p> <p>None, other than continuing with developing the current extensive publicity and communication mechanism for the Pension Fund via the Fund's website and regular newsletter communications to the various stakeholder groups. Development of the Fund's website is continuing and new initiatives within this will provide opportunities for even greater interactivity between the Fund and its stakeholders via a wider suite of engagement mechanisms developed within the context of the revised Communications Policy Statement.</p> <p>None, though the Fund should continue to ensure that the Fund is maximising the benefit it can achieve from this networking and information sharing.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<ul style="list-style-type: none"> the full range of available media should be considered and used as appropriate. 	 Fully compliant. The Fund continues to use a number of mediums as fully documented within the revised Communications Policy Statement and the continuing development of new initiatives to provide even greater interactivity with stakeholders.	None, other than continuing with developing the current extensive publicity and communication mechanisms for the Pension Fund via the Fund's website and other mediums.
<p>The committee should compare regularly its annual report to the regulations setting out the required content and, if the report does not comply fully with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible. However, the committee will wish to ensure that the content is, if necessary, extended and presented in the way that is most useful and relevant to its many stakeholders. This may require a thorough review of its data capture and management processes to ensure as efficient an approach to production and use of data as possible.</p>	 Fully compliant. The Fund's Annual Report is comprehensive in this regard.	None – though the Fund will consider ongoing advice and guidance from CIPFA in terms of Annual Report content. The Fund will continue to review this guidance annually and consider its current annual reporting in the context of best practice principles.
<p>The Fund's other statutory policy documents are core source documents produced to explain the Fund's approach to investment and risks. With regard to the Funding Strategy Statement and the Statement of Investment Principles :</p> <ul style="list-style-type: none"> it is unlikely that decisions on overall strategy and asset allocation can be delegated effectively whereas day-to-day investment decisions are most likely to be taken by the investment manager, whether internal or external. The process by which such decisions are delegated and authorised should be described with 	 Fully compliant. This is clearly documented within the SIP (Section 2.2) detailing the investment roles and responsibilities of the relevant parties regarding the setting of strategy and operational arrangements. Investment Management Agreements provide a further level of detail regarding operational arrangements.	None.

Examples of Good Practice	Extent of Compliance	Actions Required
<p>the roles of members, officers, external advisors and managers differentiated and specified.</p> <ul style="list-style-type: none"> the process for monitoring the actions, decisions and performance of external advisors and managers should be clearly stated. the process by which the overall fund asset allocation has been determined should include reference to future investment return assumptions as to and to any asset/liability study undertaken. the mandates given to each manager should be described. fee structures should include the scale of charges in operation, whether ad valorem or fixed, and any performance element built in, stating the implications for risk control. although there is no requirement to provide copies of the SIP to members, a copy should be made available on request and its availability should be made clear in the publication process. 	<p> Partially compliant. As detailed within Principle 4 (above) there has been progress on compliance here during 2015 with the appointment of new Independent Investment Advisor and Fund Actuary with clearer performance evaluation considerations within the respective tenders.</p> <p> Fully compliant. This is clearly documented within the Funding Strategy Statement.</p> <p> Fully compliant. Documented within SIP asset allocation table. (Section 4.4.1).</p> <p> Non compliant. Though manager fees are fully documented within respective Investment Management Agreements they are considered as commercially sensitive information and thus not published in any of the Fund's statutory documentation.</p> <p> Fully compliant. Availability via the council's website is clearly stated in the document.</p>	<p>As detailed within Principle 4 (above), there is now the opportunity to further improve compliance levels here using the clearer performance evaluation considerations that were included within the Advisor and Actuarial procurement processes.</p> <p>None, though the Fund could look to develop a clear monitoring link between the investment return assumptions used within actuarial valuations and actual investment returns from the relevant asset classes.</p> <p>None.</p> <p>None. In line with Investment Management arrangements the Fund will continue to protect this commercially sensitive data and it will not be published unless requested under Freedom of Information legislation and then only with the manager's express permission.</p> <p>None</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p>The Governance Policy and Compliance Statements must include information on whether the administering authority delegates the whole or part of its function to a committee, a subcommittee or an officer of the administering authority. If it does delegate functions, the statement must include:</p> <ul style="list-style-type: none"> the frequency of any meetings, the terms of reference, structure and operational procedures of the delegation. whether the committee or subcommittee includes representatives of employing authorities (including non-LGPS employers) or members, and if so, whether those representatives have voting rights. details of the extent to which a delegation (or absence of delegation) complies with CLG guidance. Where the statement does not comply with the guidance, the reasons for non-compliance must be given. <p>A copy of the statement (or revised statement) must be sent to CLG.</p>	<p> Fully compliant. The Fund's Governance Policy and Compliance Statements meet all these requirements. It is updated at least annually and a copy sent to DCLG.</p>	<p>None – other than ongoing monitoring of the statement and updating as necessary.</p>

Corporate Governance Framework**Issues****Emerging Industry Best Practice****Directors' Contracts**

- | | | |
|----|--|---------------------|
| 1. | Combination of Chairman and Chief Executive Posts. | Vote Against |
| 2. | No requirement for subsequent re-election | Vote Against |
| 3. | Rolling Contracts up to two years | Vote for |
| 4. | Rolling contracts longer than two years | Vote Against |
| 5. | Fixed contracts up to 2 years | Vote For |
| 6. | Fixed Contracts over 2 years | Vote Against |

Share Options or Incentive Schemes

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|-----|---|---|
| 7. | Where full disclosure of all emoluments received by Directors is not made | Vote against reappointment of all Directors. |
| 8. | Where full and clear disclosure of the basis of performance related is not made | Vote against reappointment of Chairman of Remuneration Committee as a Director |
| 9. | Share Options or Incentive Schemes with no performance targets | Vote Against |
| 10. | Share Options with unclear or unambitious targets | Vote Against |

Internal Committees

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| 11. | Where the remuneration Committee is not composed solely of independent Non Executive Directors | Vote Against all executive Directors on Remuneration Committee |
| 12. | Where there is no Audit Committee | Vote Against acceptance of Accounts |
| 13. | Where the Audit Committee does not have a majority of Non Executive Directors | Vote Against acceptance of Accounts |

Other Issues

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| 14. | Issue of shares not consistent with pre-emption guidelines | Vote Against |
| 15. | Material inadequacies in the Annual Report and accounts | Vote Against acceptance of Accounts |
| 16. | Resolution to make party political donations | Vote Against |
| 17. | Resolutions that provide short term benefit to a company to the direct and long term detriment of its Pension Fund | Vote Against |