

**WALTHAM FOREST PENSION FUND****STATEMENT OF INVESTMENT PRINCIPLES 2008****1. Introduction**

- 1.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (As amended) require administering authorities to prepare and review from time to time a written statement recording the investment policy of the Pension Fund. The Regulations required the publication of the original revised Statement of Investment Principles by 30<sup>th</sup> September 2002. The statement must state the extent to which the administering authority is complying with the ten principles of investment practice outlined in the Myners Review and give reasons for not complying where they do not do so. The purpose of this document is to satisfy the requirements of these regulations, and increase awareness of the basis of the policy and its application. The compliance document is attached as an annex.
- 1.2. The Local Government Pension Scheme (“the Scheme”) was established in accordance with statute to provide death and retirement benefits for all eligible employees. The Scheme is a fully funded final salary scheme, with employee contribution rates set at a variable rate against pensionable pay and employer rates variable depending on the funding level assessed every three years by the Fund actuary. Benefits are defined in law and inflation proofed in line with increases in the Retail Price Index for September.
- 1.3. The Council has referred the investment management aspects of the scheme to a Pension Fund Members’ Panel, which makes recommendations to Council on the investment policy most suitable to meet the liabilities of the Scheme. The ultimate responsibility for the investment strategy lies with the Council.
- 1.4. The Pension Fund Members’ Panel has obtained and considered written advice from the Director of Finance, the Chartered Institute of Public Finance and Accountancy, investment consultants and World Markets Company and has consulted the Investment Managers, members of the Panel, representatives of members of the Fund, admitted bodies, and the Scheme’s actuary.
- 1.5. This document outlines the broad investment principles governing the investment policy of the Pension Fund. Currently the Members’ Panel has delegated the management of the pension fund’s investments to professional investment managers, whose activities are regulated by detailed Investment Management Agreements.
- 1.6. The Pension Fund Members’ Panel originally approved the principles outlined in this document on 9<sup>th</sup> June 2005. The current 2008 revised document is to be submitted to the PFMP on 18<sup>th</sup> June 2008, followed by submission to full Council for approval.

## 2. **Decision Making and Investment Responsibilities**

### 2.1. **Waltham Forest Council** is responsible for the following:

- 2.1.1 The Council will determine the allocation of new money to the investment managers. In the event that assets need to be realised in order to meet the Fund's liabilities, the Council will determine the source of funding.
- 2.1.2 The Council will be responsible for any changes to the terms of the mandates of existing managers.
- 2.1.3 The Council will be responsible for the appointment and termination of investment managers.
- 2.1.4 The Council is responsible for socially responsible investment, corporate governance and shareholder activism. It has delegated these tasks to the Fund's investment managers, who conduct the delegated tasks in line with the Council's policies.
- 2.1.5 The Council will be responsible for the appointment and termination of Additional Voluntary Contribution (AVC) providers.
- 2.1.6 The Council is responsible for maintenance of the Statement of Investment Principles (SIP), the Funding Strategy Statement (FSS) and the document setting out the Fund's Myners disclosure.
- 2.1.7 The Council has delegated the Fund's monitoring responsibilities to the PFMP.

### 2.2. **Pension Fund Members Panel**

- 2.2.1. This is not a statutory forum of the Council, but the Council has set up a forum on Best Practice Grounds and to comply with the Ten Principles on Investment Practice.
- 2.2.2. In order to fulfil their roles members of the PFMP will be provided with appropriate training, initially and on an ongoing basis. The PFMP will keep Minutes and circulate these to the Council. The PFMP may also carry out any additional tasks delegated to it by the Council.
- 2.2.3 The PFMP currently consists of Members M. Ahmad, R.F. Sullivan, R. Wheatley, T.V. Wheeler, E.G. Williams and Observers R. Bellas (Unison), vacant (TGWU), A. Jacob (staff), P Lewis (EduAction), D Greenidge (Waltham Forest College), Director of Resources and Legal (Ascham Homes), A Leak (Leyton 6<sup>th</sup> Form College), D. Ball (Sir George Monoux College). Any changes to the membership of the Panel require the approval of the Council and any changes to the Observers require the approval of the PFMP.
- 2.2.4 Membership of the PFMP consists of a minimum of 5 Members and a quorum of 3 Members. All Panel members are expected to have or, for new members,

to develop sufficient expertise in investment matters to be able to conduct their PFMP responsibilities and interpret the advice, which they receive.

### 2.2.5. Terms of Reference

- 1 To receive regular professional advice from the Managers and Officers.
- 2 To recommend broad policy guidelines for the investment managers.
- 3 To monitor the fund and the performance of the investment management arrangements and recommend any changes as are considered appropriate.
- 4 To receive details of the annual accounts and agree an Annual Report for submission to the trustees and other interested parties.
- 5 To consider issues associated with the membership and marketing of the Fund.

Delegated Powers – None

### 2.3. Other Delegated Investment Decisions

#### 2.3.1. Delegation to Investment Managers

Day to day management of the Fund's investment portfolios and related activities (see Section 6) has been delegated to the Fund's six investment managers. These managers have been given the following mandates:

<b>Name of Investment Manager</b>	<b>Mandate Type</b>
AXA Framlington	UK Equity Mandate
BankInvest	Global Equity Mandate
European Credit Management	Fixed Income Mandate
Nordea	Global Tactical Asset Allocation
DTZ	European (inc UK) Property
UBS	UK Property

The managers' roles include:

- a. the investment of the pension fund assets in compliance with prevailing legislation, the constraints imposed by the SIP and the detailed Investment Management Agreement
- b. security selection within each asset class
- c. preparation of quarterly report including a review of investment performance, quarterly valuations of the Scheme's assets and details of all transactions during the quarter
- d. attending meetings of the PFMP as requested
- e. preparation of quarterly certificate of compliance with the SIP in accordance with the agreements between Waltham Forest and the investment managers

- f. voting shares in accordance with the policy set out in sections 6 and 7 of the SIP
- g. providing details in a timely manner to The World Markets Company/State Street for monitoring purposes
- h. providing Fund accounting data concerning the investment portfolio and transactions in a timely manner

### 2.3.2. Delegation to Custodian

The custodian, State Street Bank and Trust Company appointed by Council is responsible for the settlement of all investment transactions, collection of income, tax reclaims, exercising corporate administration and cash management.

### 2.3.3. Delegation to Performance Management Agency

The World Markets Company (WM) is responsible for assisting the DF and PFMP in their regular monitoring of the investment managers' performance

### 2.3.4. Delegation to Investment Consultants

The Investment Consultant, when appointed, is responsible for assisting the DF and PFMP in monitoring selection and appointment of investment managers and custodians and for providing advice on investment strategy and structure as requested.

### 2.3.5. Delegation to Scheme Actuary

The Actuary is responsible for:

- a. undertaking a triennial valuation of the Fund's assets and liabilities
- b. setting the contribution rates for the Council and the admitted and scheduled bodies in the Fund
- c. providing the advice required by the Regulations as to the maturity of the Scheme and its funding level in order to aid the PFMP in balancing the short term and long term objectives of the pension fund
- d. assisting the PFMP in the review of the SIP and FSS

### 2.3.6. Delegation to Officers

The Director of Finance is responsible for:

- a. preparation of annual budgets, annual report and accounts and the business plan for the Fund
- b. ensuring compliance with the SIP and bringing breaches thereof to the attention of the PFMP and ensuring the SIP and Myners compliance documents are regularly reviewed and updated in accordance with the Regulations
- c. the negotiation of formal agreements with managers, custodians and other investment service providers.

## 2.4 In house staffing support

2.4.1 In house staffing support is proposed to consist of one Pensions Accountant and part of the duties of the Treasury Manager. There is a suitably qualified officer to oversee the day to day running of the Pension Fund, but the post is not full time on this task.

## 2.5 Council Constitution and Financial Procedure Rules

2.5.1 Appropriate revisions will be made to the Council's Constitution and Financial Procedure Rules.

## 3. Liabilities of the Fund

3.1. The Pension Fund is a defined benefit scheme, which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Scheme's assets. Full details of Scheme benefits are set out in the LGPS Regulations. All active members of the Scheme are required to make pension contributions, which are based upon a fixed percentage of their pensionable pay as defined in the LGPS Regulations. From 1<sup>st</sup> April 2008, this percentage is related to their pensionable pay in the previous financial year according to a table of contributions specified in the Regulations.

3.2. The Administering Authority is responsible for meeting the balance of costs necessary to finance the benefits payable under the Scheme. Employers' contributions are determined triennially based on the advice and certificate of the Scheme's actuary. The Administering Authority therefore has a direct responsibility for the investment return achieved on the Scheme's assets.

3.3. The last actuarial valuation was conducted as at 31<sup>st</sup> March 2007. Arrangements have been put in place for the position of the Fund to be monitored each year in consultation with the employers and the Scheme Actuary in connection with the preparation of the FRS 17 statement.

3.4. The key statistics relating to reviews of the solvency of the Waltham Forest Fund are as follows

	Actuarial Valuation Mar 2001 £m	Valuation based on FRS17 Mar 2002 £m	Investment Strategy Review Sept 2002 £m	Valuation based on FRS17 Mar 2003 £m	Actuarial Valuation Mar 2004 £m	Actuarial Valuation Mar 2007 £m
Active members	148.6		155.7		183.9	287.9
Deferred pensioners	55.8		59.3		72.6	88.7
Current pensioners	<u>149.1</u>		<u>162.1</u>		<u>200.5</u>	<u>295.9</u>
Total liabilities	353.5	361.5	377.1	414.2	457.0	672.5
Market value of assets	<u>331.8</u>	<u>314.5</u>	<u>259.0</u>	<u>247.8</u>	<u>318.3</u>	<u>472.3</u>
Deficit	<u>21.7</u>	<u>47.0</u>	<u>118.1</u>	<u>166.4</u>	<u>138.7</u>	<u>200.2</u>
Solvency of Fund	94%	87%	69%	60%	70%	70%

#### 4. **Investment Objectives**

##### 4.1. **Investment Objectives:**

4.1.1. The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/ or benefits on death, before or after retirement for their dependants, on a defined benefits basis. Benefits for active members increase in line with salaries. Benefits for preserved members are subject to statutory increases.

4.1.2. The Council aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers (Waltham Forest Council and the admitted and scheduled bodies), to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

4.1.3. The following main aims and objectives have been defined in relation to an ongoing value for money study and for the purpose of meeting the primary objectives above:

- a. Ensure that the arrangements for pension fund investments and accounts comply with the relevant legislation and CIPFA recommended practice and both the practice and system documents adopted by the Council from time to time
- b. Improve the Solvency Level of the Pension Fund and reduce the Employer's Contribution rate
- c. Achieve upper quartile investment performance
- d. Reduce investment costs as a percentage of the Fund Value and as an amount per fund member
- e. Improve communication with members and beneficiaries of the Fund on investments and accounts
- f. Continue to develop corporate governance, socially responsible investment and venture capital investment policies.

4.1.4. The investment approach is to appoint professional fund managers with clear performance benchmarks and to place accountability on the fund managers for performance against their specific benchmarks. The investment managers discuss the performance of the portfolios under their management with the Council on a regular basis. The authority has adopted a 100% active (specialist) manager approach for the Fund with six fund managers.

##### 4.2. **Review of Investment Strategy**

4.2.1. The investment strategy will be reviewed annually, with a major review following the triennial actuarial review.

4.2.2. PSolve was appointed as an investment consultant at the beginning of October 2002 to review the following:

- a. Following the previous actuarial valuation it seemed appropriate to review the relationship between liabilities and assets and the increasing maturity of the Fund to determine whether the Fund's bias towards equity investments to secure long term capital growth is still appropriate.
  - b. Whether the Fund should have an asset allocation benchmark related to its liabilities rather than the existing peer group benchmarks for target setting.
  - c. The investment strategy of the fund in the context of the above reviews.
  - e. Whether it was still appropriate to have three balanced and active managers for a fund of approximately £300 million.
- 4.2.3. The Investment Strategy Review from PSolve had quite radical suggestions for the long-term investment strategy of the Pension Fund. They proposed that 35% of the investments are put into a "matching" fund to match the liabilities of the Fund and 65% are invested to achieve higher returns. The officers were inclined to accept the proposals as a long-term target and fund specific fund benchmark, but not move towards them immediately to avoid losing out on any recovery in the equity markets in the short term. Officers proposed that fund managers gradually increase weightings in corporate bonds and property investments and reduce UK equities in favour of overseas equities and defer any switch into index-linked bonds for the time being.
- 4.2.4. The Pension Fund Members Panel decided on 17<sup>th</sup> February 2003 that it was not a good time to make any changes to the investment strategy of the fund, particularly in view of the recent down turn in equity markets. At the time they felt that the existing active and balanced fund management should be continued and that the discretion of the existing fund managers should not be reduced in any way. There was no change to any of the existing benchmarks by which the performance of the fund and the managers are measured for the time being. A further report on the matter will be brought forward when market conditions are more conducive to making the changes proposed.
- 4.2.5. The result of the above is that the investment objectives will not be directly linked to the liabilities of the fund for the time being. Although there is no benchmark specific to the fund's liabilities, an asset liability study was considered before determining the current investment strategy. The main objective at present is to maintain exposure to equities to benefit from any recovery in equity markets.
- 4.2.6. Further reviews of investment strategy have been carried out in the intervening period and at its meeting on 15<sup>th</sup> June 2004 the PFMP agreed to:
- 1 Retain the existing aims and objectives of the Pension Fund set out above
  - 2 Continue to borrow the Pension Fund cash overdraft from the General Fund so that the Pension Fund could remain fully invested and secure higher returns from the recovery of equities

- 3 No change to the overall Investment Strategy and Pension Fund benchmark in the 2004 SIP in order to retain a bias to equity investments to benefit from higher long term returns
- 4 Continue with the existing fund management arrangements including the agreement with DEAM for active and balanced management and the agreement with UBS for passive management of part of the Fund
- 5 Transfer overseas equity investments into a DEAM Global investment fund
- 6 Accept the transfer of DEAM UK and overseas bond investments into Aggregate Bond funds to secure higher returns from non government bonds.

4.2.7. On 2<sup>nd</sup> December the PFMP agreed to change the scheme benchmark and the fund managers' benchmarks with effect from 1<sup>st</sup> January 2005 to achieve higher short and long term returns by:

- 1 taking out index linked investments, which were not favoured by either of the fund managers because they were expensive and gave a relatively low return
- 2 holding UK bonds, overseas bonds and asset allocation fund at their existing levels
- 3 reducing cash from 3% to 2.5%
- 4 increasing the weightings to UK and overseas equities and property.

4.2.8. On 9<sup>th</sup> November 2006 the PFMP agreed to change the investment strategy of the Fund, by changing the strategic benchmark and restructuring the management of the Fund's assets to six active specialist investment managers, in UK Equities, Global Equities, Fixed Income, Global Tactical Asset Allocation, European and UK Property. The new strategic benchmark took effect on 1<sup>st</sup> July 2007.

### 4.3. Expert Advice

4.3.1. Mercer is the Fund's actuarial adviser having been appointed in December 1998 following a competitive tendering process.

4.3.2. The Fund has appointed investment advisers on an ad hoc basis for advice on investment strategy, and appointed Mercer in 2008 for this purpose, pending a full tender for investment advisers to be carried out during 2008.

4.3.3. The PFMP also receives advice from the Director of Finance (DF) and the Performance Management consultant (WM). The role of the DF as the s151 officer has been specified in section 2 of this document.

4.3.4. There are no independent advisers appointed to the PFMP.

#### 4.4. Asset Allocation and Fund Benchmark

- 4.4.1. The WM Local Authority Universe average (including property) was used as the Fund Benchmark for a number of years. This benchmark was discontinued as peer group benchmarks were becoming less reliable for measuring performance as funds opted out of them.
- 4.4.2. The Fund does not have a benchmark specifically linked to the liabilities of the Fund at present. A new investment strategy benchmark has been established from 1<sup>st</sup> January 2005 based on the individual benchmarks agreed with the fund managers, and was amended with effect from 1<sup>st</sup> July 2007 to the following:

Asset Class	Weighting %	Index
UK Equities	43.0	FTSE A All Share
Global Equities	31.0	MSCI All Countries World
UK Fixed Interest	15.0	iBoxx Sterling Overall Bond
Property	8.0	IPD Monthly Property
Global Tactical Asset Allocation ("GTAA")	3.0	1 month £ LIBOR
Total	100	

#### 4.5. Performance Monitoring

- 4.5.1. The six investment managers provide summary and detailed portfolio valuations, consolidated transaction reports and balance sheet and income statements on a quarterly basis. The PFMP receives independent measurement of returns from the WM Company on a quarterly and annual basis.
- 4.5.2. The PFMP monitors the relative and absolute performance of its investment managers on a quarterly basis. The monitoring will consider not only the investment returns, but also an assessment of the investment managers' adherence to their mandate requirements. The PFMP will also consider the investment managers' investment processes, stability of key personnel and market positions.
- 4.5.3. The investment manager's report on performance, their active asset allocation positions relative to the benchmark and their ex ante tracking error on a quarterly basis.
- 4.5.4. The individual managers' current activity is monitored by the DF quarterly and transactions are presented quarterly to members of the Members' Panel and reviewed by a meeting of the Panel half yearly.

## 5. **Investment Policies**

### 5.1. **Policy on Risk**

- 5.1.1. There are a number of risks to which the Pension Fund is exposed and the policy of the PFMP on these risks is briefly described here. A fuller statement of risk considerations is included in the FSS.
- 5.1.2. The return assumptions required to achieve and maintain the Fund Objective are set out in the Actuarial Valuation. The assumption is 1.4% above bond returns, which reflects the Fund's current weighting to equity investments. Any future benchmark adopted by the PFMP will be designed to achieve that return over the long term. The PFMP recognises that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.
- 5.1.3. The PFMP recognise that the use of active managers introduces a risk of underperformance. However, they believe that this risk is outweighed by the potential gains from successful active management. In addition to provide an additional measure of control of this risk the PFMP also imposes various limitations and restrictions on the investment managers as detailed in section 5.2. below.
- 5.1.4. Investment Managers will seek to achieve a balance of income and capital growth and manage the Portfolio in such a way as to achieve maximum total return consistent with the avoidance of undue risk. The Council will agree particular performance targets with each of the Investment Managers from time to time.

### 5.2. **Guidelines and Constraints**

#### 5.2.1. **Investment Ranges and Target Weightings**

Except as stated below, investments may be made in any market, without restriction as to weighting. Investment ranges or target weightings will be agreed between the Council and the Investment Managers individually on a periodic basis, subject to any limitations specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (As Amended).

#### 5.2.2. **Other Permitted Investments**

The Investments below are permitted, within any limitations specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (As Amended) .

- a. Forward Foreign Exchange Contracts
- b. Investments which may be subject to Stabilisation
- c. Warrants

- d. New issues
- e. Underwriting (including sub-underwriting) of any issue or offer for sale
- f. Regulated Collective Investment Schemes
- g. Unregulated Collective Investment Schemes
- h. Convertibles
- i. Direct investment in development capital subject to prior approval by the Council.
- j. Life Funds

#### 5.2.3. **Investments Permitted in Specific Circumstances**

The Council wishes to minimise its exposure to the following investment vehicles but Nordea Investment Management is permitted to use these investment vehicles for its Global Tactical Asset Allocation mandate:

- a. Exchange-Traded Contingent Liability Transactions
- b. Other Exchange-Traded Derivative Transactions
- c. Off-Exchange Traded Contingent Liability Transactions
- d. Other Off-Exchange Traded Derivative Transactions
- e. Short Sales

In addition, European Credit Management may effect transactions in Derivatives, including Contingent Liability Transactions.

#### 5.2.4. **Prohibited Investments**

There is to be no lending of Portfolio Securities to a third party and the Fund Managers are to observe any restrictions specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (As Amended) .

#### 5.2.5 **Borrowing**

The Investment Manager may not commit the Council to supplement the Portfolio either by borrowing on the Council's behalf or by committing the Council to a contract, the performance of which may require the Council to supplement the Portfolio. The Investment Manager may, however, incur a temporary overdraft for settlement purposes of up to 2% of the market value of the Portfolio that they hold.

#### 5.2.6 **Market and Sector Restrictions**

There are no prohibited countries

Investments in tobacco stocks are to be avoided unless investment criteria suggest that an equivalent return could not be achieved without them.

**5.2.7. Diversification**

The maximum holding in any single equity investment shall be limited to the greater of:

- a. 5% of the market value of the fund; or
- b. the stock's weighting in the relevant index plus 3%
- c. subject to a maximum of 10% of the market value of the Fund at the time of purchase.

**5.2.8. Investments which are not readily realisable**

The Investment Manager may invest the Portfolio in investments, which are not readily realisable, subject to any limitations specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (As Amended).

**5.3. Management Arrangements**

The investment management arrangements are summarised in the table below:

<b>Investment Manager</b>	<b>Appointed</b>	<b>Brief</b>	<b>%</b>
AXA Framlington	July 2007	Active UK equity	43.0
Bank Invest	August 2007	Active Global Equity	31.0
European Credit Management ("ECM")	June 2007	Active Global Bonds	15.0
DTZ Investment Management	September 2007	European (inc UK) Property	5.6
UBS Global Asset Management	December 2002	Property	2.4
Nordea Investment Management	August 2007	GTAA	3.0

**Benchmarks for Fund Managers**

5.4.1. The following benchmarks will apply from 1<sup>st</sup> July 2007.

<b>Asset Class</b>	<b>Weighting %</b>	<b>Range %</b>	<b>Index</b>
UK Equities	43.0	+/-5	FTSE A All Share
Global Equities	31.0	+/-5	MSCI All Countries World
UK Fixed Interest	15.0	+/-5	iBoxx Sterling Overall Bond
Property	8.0	+/-3	IPD Property
GTAA	3.0	+/-3	1 month £ LIBOR
Total	100		

5.4.2. The following outperformance targets will apply from 1<sup>st</sup> July 2007.

Manager	Mandate	Index	Target *
AXA Framlington	UK Equities	FTSE A All Share	+4.0% p.a.
BankInvest	Global Equities	MSCI All Countries World	+3.0% p.a.
ECM	UK Fixed Interest	iBoxx Sterling Overall Bond	+0.75% p.a.
DTZ	European (inc UK) Property	IPD Property	n/a**
UBS Global AM	UK Property	IPD Property	+1.0% p.a.
Nordea	GTAA	1 month £ LIBOR	+15.0% p.a.

\* Over rolling three year periods

\*\* The Aurora Property Fund has no formal benchmark. It targets an absolute return of 8-10% per annum.

## 6. **Corporate Governance**

### 6.1. **Overview:**

6.1.1. Fund managers have delegated authority to exercise shareholder's voting rights in accordance with the authority's corporate governance policy as set out below. Where necessary the fund managers can use their discretion in the interpretation of the policy, without reference back to the Council and the action taken will be reviewed at the quarterly meetings between the Council officers and the fund managers and by the Pension Fund Members Panel twice a year.

6.1.2. The objective of these policies is to preserve and enhance long-term shareholder value.

### 6.2 **Concentration of Executive Authority**

The roles of Company Chairman and Chief Executive should be kept separate to avoid a concentration of executive power, unless:

- a. There is a strong independent element on the board of directors in the form of a sufficient quorum of fully independent directors, one of whom is designated deputy chairman or senior non executive director or
- b. A temporary arrangement is required whilst one of the positions is vacant or
- c. The company has openly and publicly justified the arrangement and the reasons are sound.

### 6.3. **Nomination Committees and Election of Company Directors**

- a. Appointments to the board of directors should be made open through a Nominations Committee comprising a majority of the independent non-executive directors.
- b. A third of the board should stand down each year and no director should serve more than three years at a time and there should be published criteria for selection of directors.
- c. Fund Managers can also vote against any director whom they feel has not performed his role effectively and in particular against the chair of the audit or remuneration committee if they feel the committees are not effective and the chair is not effective.
- d. Fund Managers can vote against executive directors being elected to these committees.

#### 6.4. **Independence of Non-Executive Directors**

- a. One third of the board or at least three directors should be non-executive and the majority of these should be independent in being free of business relationships and blood relationships and not receiving a significant remuneration.

#### 6.5. **Service Contracts**

- a. There should be short-term contracts for directors. Rolling contracts of one year, two-year rolling contracts where these are justified by the remuneration committee and fixed contracts up to two years with subsequent terms on a one year rolling period are acceptable.

#### 6.6. **Remuneration**

- a. There needs to be adequate disclosure of the details, challenging targets to be met and remuneration in line with comparable benchmarks.
- b. Director's pay should be linked to the results of the company
- c. There should be a properly constituted remuneration committee made up of independent non-executive directors.

#### 6.7. **Incentive Schemes**

- a. Long term incentive plans should directly align the interests of directors with shareholders, establish challenging performance criteria, which measure performance by total shareholder return in relation to the market or comparable companies, are at least of three years duration and encourage long term ownership of shares. If fund managers are not satisfied they should try to secure changes by dialogue with the company rather than simply voting against the proposals.

#### 6.8. **Auditors**

- a. Companies must appoint auditors annually and fix their remuneration in accordance with legal requirements.

- b. The company needs to comment in its annual report on its compliance with the Combined Code on Corporate Governance and on its system of internal control and risk management.
- c. There should be an independent audit committee, with a majority of independent non-executive directors, within the company's structure.

#### 6.9. **Political Donations**

- a. The Council does not support political donations on the grounds that they are an inappropriate use of shareholders' funds. Where companies do not put forward specific resolutions, the Council's views should be conveyed to the Board of Directors.

#### 6.10 **Changes to Memorandum or Articles of Association**

- a. Fund managers should consider each proposal on its merits and oppose attempts to withdraw pre-emption rights for any share issue exceeding 5% of the existing shares issued.

#### 6.11. **Dividend Policy**

- a. Offers of enhanced scrip dividends, scrip dividend proposals or dividend reinvestment schemes should be considered on their merits and fund managers should vote according to what they think is in the long term interests of Waltham Forest as shareholder.

#### 6.12. **Take Over Bids**

- a. Fund managers should make a decision based on whether the proposal and price offered for shares is in the client's best long-term interest.

#### 6.13. **Annual Report and Accounts**

- a. Companies must comply with best practice and the Corporate Governance codes in making full disclosure of their policies. If this is not the case fund managers should vote against the adoption of the annual report and accounts.

### 7. **Socially Responsible Investment**

- 7.1. With regard to socially responsible investment the Authority is mindful of the following legal principles, which are based on recent decisions in the courts and which apply to all pension schemes
  - a. Administering authorities are free to adopt a policy of socially responsible investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

- b. Administering authorities are free to avoid certain kinds of prudent investment, which they consider scheme members would regard as objectionable as long as they make equally financial advantageous and prudent investments elsewhere. They may also make “ethical” investments provided these are otherwise justifiable on investment grounds.
  - c. Administering authorities are not entitled to subordinate the interests of members to ethical or social concerns. The financial performance of the fund consistent with proper diversification and prudence is paramount.
- 7.2. The Waltham Forest Pension Fund does not propose to invest any part of the Fund exclusively in Socially Responsible Investments at the current time. Nor is it proposed that positive or negative screening should be adopted by the Fund on socially responsible issues, with the exception of tobacco stocks as stated in 5.2.6 above.
- 7.3 The Trustees of the Waltham Forest Pension Fund wish to promote a policy of dialogue on socially responsible investment issues, through the Fund Managers, with company management. In the first instance the trustees would like environmental issues, human rights and employment standards to be raised with company management. Environmental issues could include issues such as conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources. Human rights could involve child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes. Employment standards could relate to equal opportunities, health and safety, trade union recognition and employee participation.
- 7.4. The trustees are prepared to give fund managers full discretion on the interpretation of this policy. Fund managers may proceed in this area by encouraging companies to formulate codes of conduct and monitoring compliance and employee participation or by raising specific issues with company management as appropriate. Fund Managers may raise other issues not included in the definition above if they feel that this appropriate and in keeping with Waltham Forest Pension Fund policy.
- 7.5. In circumstances when the Fund is invested in the fund managers’ pooled funds it is recognised that the above policies may not be implemented and in these cases it will be the manager’s SRI policy which will be followed. Each manager’s SRI policy will be attached as an appendix to this document when available.
- 7.6. It is proposed to monitor action by fund managers on a quarterly basis and further develop this policy on an annual basis on the basis of experience.
- 7.7 The London Borough of Waltham Forest has joined the Local Authority Pension Fund Forum to promote best practice on corporate governance and

SRI issues amongst the companies in which it invests, through cooperative action with other local authority funds.

## 8. **Compliance**

- 8.1. Investment managers/ custodians should provide a certificate in their quarterly report for the PFMP confirming their compliance with this document
- 8.2. The officers will advise the PFMP on the risks assumed by the Scheme at a consolidated level on the assumption that the portfolios of the fund managers are amalgamated.
- 8.3. The PFMP is responsible for monitoring the Scheme's performance both as a whole and by individual managers
- 8.4. The PFMP is responsible for monitoring other qualitative performance measures of the managers and custodians employed to ensure that they remain appropriate for the scheme. These qualitative aspects include, among other things, changes in ownership, changes in personnel, poor administration and fee levels.
- 8.5. At each half yearly meeting the Members of the PFMP will consider any exceptions to the Scheme's compliance with this Statement of Investment Principles. Every 12 months from the effective date of this document the Statement will be reviewed in full, in conjunction with other parties to the Statement, and a revised Statement prepared and circulated.