

# **LONDON BOROUGH OF CAMDEN PENSION FUND**

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# **LONDON BOROUGH OF CAMDEN PENSION FUND**

## **STATEMENT OF INVESTMENT PRINCIPLES**

### **1. LEGAL REQUIREMENTS**

- 1.1 Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require all local authority pension funds to prepare and maintain a Statement of Investment Principles (SIP) and to review it from time to time and revise as necessary. Administering authorities must also state the extent to which they comply with the six principles of investment practice, set out in the document 'Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom' published by the Chartered Institute of Public Finance and Accountancy Pensions Panel.
- 1.2 Professional advice was sought from the Investment Consultant in the preparation of this document.

### **2. BACKGROUND**

- 2.1 The London Borough of Camden Pension Fund, (the Fund) is a Career Average Revalued Earnings (CARE) defined benefit pension scheme established by statute, operating under the Local Government Pension Scheme Regulations 2009. It provides retirement and death benefits for eligible members and their dependants. The benefits are defined in law and increased each year in line with movements in inflation.
- 2.2 The Council has delegated responsibility for the management of the Fund to the Pension Committee (PC). The PC has responsibility for establishing investment policy and ongoing implementation.
- 2.3 The PC receives advice from the Director of Finance, the Actuary, the Investment Consultant and Independent Investment Advisor. Day to day management of the Fund is delegated to appointed professional investment managers each of which is regulated by the Financial Conduct Authority and Prudential Regulation Authority, or an equivalent overseas regulator. Each investment manager operates under a specific Investment Management Agreement with investment guidelines, which governs the scope of its investment activities for the Fund.
- 2.4 The investment principles outlined in the Camden SIP were first established for the Fund in 2000 and are reviewed annually and revised from time to time to incorporate material changes. In 2008/09 a major review of investment policy was completed, which was then developed further with an additional review in 2011/12. Following these reviews new investment manager appointments were made which were incorporated in the SIP.

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- 2.5 Following the end of financial year 2014/15 a second Active Global Equity manager Harris Associates has been invested approximately £140m of the portfolio previously held under the other Active Global Equity manager, Aberdeen. The return target mirrors that for Aberdeen and the strategic asset allocation for global equities remains at 30%.
- 2.6 Constitution and appointments to the Pension Board with terms of reference was agreed by full council on 20<sup>th</sup> May 2015, along with new terms of reference for the Pension Committee as a full committee in its own right.

### **3. RESPONSIBILITIES**

**Appendix A- Governance and Management** shows the individuals and organisations currently having a responsibility for the Fund.

#### **3.1 Pension Committee (PC)**

The PC has delegated authority from the Council to make decisions for the Fund, acting with advice from the Actuary, Investment Consultant, Independent Advisor and the Director of Finance.

The investment powers of the PC are set out in the Regulations. The Committee has approved and adopted this SIP in relation to the investment of the Fund's assets, and the SIP is consistent with the investment policies established and implemented by the Committee for the Fund.

The Committee meets at least quarterly and comprises eight voting members, six from the ruling Labour Group and two from the Conservative Group. There is a quorum of two, and there are eight substitute members.

There are three observer (non-voting) members of the Committee representing trade unions and one representing retired members.

The responsibilities of the Committee are to:

#### General

- To act as Trustees of the Council's Pension Fund within the terms of the Superannuation Act 1972 and to administer all matters concerning the Council's pension investments in accordance with any applicable law and policy.
- To make arrangement for the appointment of and appoint suitably qualified investment managers and custodians and to periodically review those arrangements.
- To ensure that appropriate and sufficient training has been undertaken by all members of the Committee in order to discharge their functions.
- To take proper advice from officers, investment consultants, independent investment adviser, pension board and actuary

## Investment

- Set and review Investment strategy for the Fund
- To formulate and publish a Statement of Investment Principles
- At least once every three months, to review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the investment managers.
- To determine the strategic asset allocation policy, the mandates to be given to the investment managers, the performance measures to be set for them and review investment management performance against targets.
- To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
- Ensure the Fund's voting rights are exercised in line with the Fund's voting policy to ensure the best outcome for the Fund's investment purposes and ensure engagement supports the investment strategy and Fund's performance.
- To receive and approve an Annual Report on the activities of the Fund prior to publication.
- To keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.

## Liabilities

- To review the risks inherent in the management of the Pension Fund
- To review the strength of admitted bodies and ability to honour their liabilities.
- To agree and keep under review a Contribution Strategy and agree the Triennial Valuation.
- Admit new and exit ceasing employers as and when these arise.
- To monitor liabilities and ensure progress towards full funded status of all employers.
- To understand the maturity of the Fund and keep cash flow considerations under review

The Committee operates under procedural rules as set out in the London Borough of Camden Constitution, which can be accessed via the Council's website [www.camden.gov.uk/ccm/content/council-and-democracy/decision-making/the-constitution/](http://www.camden.gov.uk/ccm/content/council-and-democracy/decision-making/the-constitution/)

### 3.2 Investment Managers

Eight appointed investment managers have responsibility for managing passive index tracking and active portfolios of equity, fixed interest, hedge fund, diversified growth fund and property investments. Details of the investment managers and their mandates are shown in **Appendix B** and their investment performance benchmarks and targets are shown in **Appendix C**.

The responsibilities of the investment managers are to:

- Invest the assets of the Fund in compliance with prevailing legislation, the policies set out in this SIP and their Investment Management Agreements.

- Submit quarterly reports on valuation, activity and investment performance.
- Attend meetings with the Director of Finance and/or Committee.
- Assist the Director of Finance in the preparation of the SIP.

### 3.3 Custodian

The investments of the Fund are held and recorded independently by a custodian bank responsible for safe custody of share certificates and other evidence of title.

The responsibilities of the custodian are to:

- Hold assets in compliance with prevailing market legislation.
- Provide periodic valuations and reports on activity and investments held in custody.
- Settle investment transactions in the market.
- Account for and collect dividends and income and make tax reclaims.
- Hold uninvested cash in a liquidity account.
- Process corporate actions and vote shares held to the Fund's order where appropriate.

### 3.4 Actuary

The responsibilities of the Actuary are to:

- Prepare the triennial valuation of the Fund.
- Provide advice to the Committee on the funding level to assist in formulating investment objectives and policies for the Fund.
- Provide intra valuation advice on the estimated funding level and pension costs.

### 3.5 Investment Consultant and Independent Investment Advisor

The responsibilities of the Investment Consultant and Independent Investment Advisor are to advise the Director of Finance and the Committee on:

- Investment strategy and the risks and anticipated returns associated with different investment strategies and asset classes.
- Assist with the selection, ongoing monitoring and review of investment managers and custodian.
- Advise the Director of Finance on the preparation of the SIP.

### 3.6 Director of Finance

The Director of Finance and Pensions Team are responsible for:

- The execution of policy decisions and operational running of the Fund
- Administrative arrangements with investment managers, custodian and advisers.
- Preparation of reports for the Committee.
- Preparing the Fund annual report and accounts.
- Regular interim briefing meetings with investment managers.

- Ensuring that the SIP and other relevant Fund documentation is reviewed and updated periodically, and ensuring compliance by investment managers with the SIP and Investment Management Agreements.

3.7 The Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, will be responsible for:

Assisting the LB Camden Administering Authority as Scheme Manager to:

- Secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- Secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
- Carry out such other matters as the LGPS regulations may specify

Securing the effective and efficient governance and administration of the LGPS for the LB Camden Pension Fund

The role is one of providing oversight of assurance in and governance of the scheme administration and not decision making

The Pension Board will ensure that the LB Camden Pension Fund is managed and administered effectively and efficiently and complies with any code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

The core role of the Pension Board is set out as above.

The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within the extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.
- Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.
- Review the implementation of revised policies and procedures following changes to the Scheme.
- Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.
- Review the outcome of external audit reports.
- Review draft accounts and Fund annual report.

The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.
- Monitor investment costs including custodian and transaction costs.
- Review the risk register as it relates to the scheme manager function of the authority.
- Review the outcome of actuarial reporting and valuations.
- Monitor in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.

#### **4. INVESTMENT OBJECTIVE**

4.1 The primary investment objective is to ensure that Fund assets are invested to secure the benefits for members. The Fund has adopted an investment strategy to:

- Optimise the anticipated return consistent with a prudent level of risk.
- Ensure that there are sufficient resources to meet the liabilities as they fall due.
- Ensure the suitability of assets in relation to the needs of the Fund.

#### **5. INVESTMENT STRATEGY AND ASSET ALLOCATION**

5.1 The investment objectives are reflected in a strategic benchmark which sets out, in its asset allocation, the longer term strategy adopted by the Fund in terms of the balance between equities, fixed interest, property and other investments. Investment policy has been formulated on the premise that equity investment over the longer term is likely to provide superior returns to other asset classes.

5.2 Investment managers have been set individual strategies to meet performance objectives set for them by the Fund. Eight external professional investment organisations have been appointed. Each manager has an Investment Management Agreement (IMA), or other equivalent agreement, and investment guidelines which set out the relevant performance benchmark and target for outperformance, the asset allocation ranges and other restrictions on investment. All of the appointed investment managers are authorised under the Regulations to manage the assets of the Fund.

5.3 The assets are invested both in passive index tracking and actively managed portfolios. Index tracking portfolios are constructed so as to closely replicate the return achieved by the relevant market index. Actively managed portfolios are expected to outperform their respective benchmark index by a given performance target over given periods (usually 3 year rolling period).

5.4 In setting the performance benchmark, key considerations are the funding level and maturity profile of the Fund, and the risk tolerance levels associated with the various different asset classes.

## 6. TYPES OF INVESTMENT HELD

- 6.1 Investments of suitable liquidity will be acquired and held to generate income and capital growth. Diversification of the portfolio of assets is achieved through different types of investment which are spread geographically. The major kinds of investment held and their characteristics are:

**UK Equities** which provide an equitable share in the assets and profits of UK companies. Income is provided through share dividends which have historically, over the longer term, risen above inflation. Equities produce capital gains/losses as share prices reflect investors' expectations of the prospects of a specific company, sector or market.

**Global Equities** are similar to UK equities but with exposure to the currency of the market where the share is listed. The investment return will be enhanced or reduced by the local market currency movement against sterling (unless the currency risk is hedged).

**Bonds (Fixed Interest)** are debt instruments issued by Governments and other borrowers. Bonds provide a fixed rate of interest and are generally redeemed at par by the issuer at a known future date. The price reflects the fixed level of interest, the term to redemption and the overall return (the yield) demanded by investors. Bond prices tend to fluctuate less than the price of equities.

**Index-linked bonds** are debt instruments mainly issued by Governments. The interest and redemption value are directly linked to a reference price inflation measure.

**Property** is investment in land or buildings such as offices, retail or industrial units. The income return comes from the rent payable. Property values primarily reflect rent levels and investor sentiment.

**Hedge Funds** are pooled funds which use a variety of strategies and instruments including derivatives to target absolute returns in all market conditions.

**Diversified Growth Funds (DGFs)** are pooled funds that invest in a variety of investment classes, and use active asset allocation between investment classes as a driver for performance.

**Cash** is mainly deposited with institutions for short periods and attracts interest at market rates.

The Fund has determined that no stock lending of investments is permitted where assets are directly held in the name of the Fund. It is recognised that this policy cannot be applied where investment is made through pooled funds, where the Fund is one of a number of investors.



The table below gives a summary of the main features of the various available asset classes, including an estimate of the long term real (in excess of price inflation) returns considered to be reasonably available.

<b>Investment</b>	<b>Inflation linking</b>	<b>Real returns (% pa)</b>	<b>Liquidity</b>
UK Equities	Reasonable/good	6-8	Good
Global Equities	Reasonable	5-7	Good
Property	Reasonable/good	5-7	Poor
Bonds	Poor	1-3	Good
Hedge Funds	Reasonable	3-5	Reasonable
DGFs	Reasonable	3-5	Good
Cash	Variable	0-1	Good

The estimated real returns shown in the table (based on information provided by the Investment Consultant) are indicative, and the volatility of the asset class returns could result in investment returns being above or below those shown in the table.

## **7. BALANCE BETWEEN DIFFERENT KINDS OF INVESTMENT**

- 7.1 The allocation of assets between the various different available types for the medium to long term is determined by the Strategic Asset Allocation (**Appendix B**), which has been set with advice from the Actuary and the Investment Consultant. The Strategic Asset Allocation reflects both the investment risk tolerances and funding level.
- 7.2 It is recognised that the Strategic Asset Allocation is possibly the most important factor affecting the long term investment objective. It will be reviewed periodically to maintain a reasonable expectation of achieving the investment objective, consistent with an appropriate level of diversification.

## **8. POLICY ON RISK**

The main risks taken into consideration to establish the Strategic Asset Allocation and set the investment objectives for the Fund are:

### **8.1 Solvency and mismatching risks**

The expected change in the liabilities and funding level relative to the current investment policy, managed by assessing the progress of the actual change in liabilities relative to the current investment strategy.

### **8.2 Manager risk**

The extent to which risk and returns deviate from those anticipated, managed by monitoring the outturn relative to the objective set. Manager risk has been reduced through the appointment of a number of different managers following different investment strategies.

### **8.3 Political and Currency Risks**

The concentration of assets in a market leading to the risk of an adverse impact on investment values due to political intervention, managed by regular reviews of the levels of diversification of the actual investments relative to the policy position.

#### 8.4 Liquidity risk

The level of cash flow needed to meet the regular commitments of the Fund, managed by assessing the level of cash held and monitoring the anticipated liquidity levels of the assets held in order to limit the impact of cash flow requirements on the investment policy.

#### 8.5 Custodial risk

The continuing ability of the custodian to settle trades in a timely manner and provide secure custody of the assets, managed by regular review and reporting from the custodian compared with agreed service standards, and the continued monitoring of the custodians credit rating.

#### 8.6 Risk Register

The other risks that are taken into account when assessing the total risk of the Fund are shown in a Risk Register, which is reviewed annually by Pension Committee and is attached as **Appendix D**.

### 9. EXPECTED RETURN ON INVESTMENTS

- 9.1 The long term return on the investments held is expected to exceed inflation and general earnings growth, and to be in line with or exceed the return assumed by the Actuary on valuing the assets and liabilities on an ongoing basis. The triennial valuations in both 2010 and 2013 assumed an equity risk premium of 2.0% and an asset outperformance adjustment of 1.6%. However, the return in any shorter period may vary significantly from those long term averages. To enable the management of performance outturn, an independent performance measurer (WM Company) is engaged to provide statistical information on both long and shorter term performance of the Fund and of the individual investment managers.

### 10. THE REALISATION OF INVESTMENTS

- 10.1 Fund policy is that there should be, at all times, sufficient investments in cash or readily realisable form, to meet anticipated cash flow requirements including benefit payments as they fall due, such that the realisation of investments will not disrupt the overall investment policy.

### 11. SOCIALLY RESPONSIBLE INVESTMENT (SRI) AND CORPORATE GOVERNANCE

- 11.1 The Fund has considered how social, environmental and ethical factors should be taken into account in the investment process. The Fund considers

that it should in all circumstances act in the best financial interests of the members of the Fund.

- 11.2 Where this primary consideration is not prejudiced, Investment Managers are expected to have active regard to the impact that SRI issues might have on the returns of companies in which they invest on the Fund's behalf. It believes that 'robust' engagement with companies is a better approach than placing restrictions on particular types of investment.
- 11.3 It also believed that companies conforming to high ethical and social standards might be expected to produce shareholder returns that are at least comparable to those produced by other companies. To this end, the Fund seeks information on a quarterly basis from each of its investment managers in order to ensure that an active and robust engagement policy is being pursued.
- 11.4 The Fund will fully utilise opportunities available through membership of the Local Authority Pension Fund Forum (LAPFF) to take a more pro-active stance towards engagement with companies on SRI issues.
- 11.5 The Fund regards the exercise of voting rights attaching to investments as of great importance. The Fund has appointed Corporate Governance Advisors PIRC to ensure that voting rights are used in the most advantageous way. PIRC are employed to ensure that the Fund's voting policy is enacted for company shares held by the Fund in the UK and overseas. The voting policy has been drawn up in collaboration with advisors PIRC, and is reviewed and agreed annually by the Pension Committee.

## **12. COMPLIANCE STATEMENT- CIPFA PENSIONS PANEL**

- 12.1 The Regulations require the administering authority to state the extent to which it complies with the Principles for Investment Decision Making established by the CIPFA Pensions Panel. There are six revised Principles of Good Investment Practice which the Government have promoted, based on the Myners Review of Institutional Investment (2000).
- 12.2 **Appendix E** sets out the extent to which Camden complies with the Principles, and was last reviewed by the Pension Committee as part of the 2013/14 Annual Report in September 2014.

## **APPENDIX A: GOVERNANCE AND MANAGEMENT**

### **Pension Committee**

Members	Cllr Peter Brayshaw (Chair)* Cllr Rishi Madlani (Vice Chair/Chair)* Cllr Tom Currie Cllr Roger Freeman Cllr Heather Johnson Cllr Abdul Quadir Cllr Lorna Russell Cllr James Yarde Cllr Adam Harrison**
Substitute Members	Cllr Douglas Beattie Cllr Maryam Eslamdoust Cllr Roger Robinson Cllr Oliver Lewis Cllr Andrew Mennear Cllr Don Williams Cllr Abi Wood
Retired Members' Observer	VACANT
Retired Members' Substitute	Jenny Nyman
Union Observers	Kathy Anifowose (Camden UNISON) John Rutter (Camden UNISON)

The following officers are based across Council offices at 5 Pancras Square, 218 Eversholt Street and the Camden Town Hall, London, WC1H 8NG.

#### **Director of Finance**

Mike O'Donnell

#### **Deputy Director of Finance**

Peter Stachniewski/Jon Rowney\*\*\*

#### **Head of Treasury**

Nigel Mascarenhas

#### **Pension Fund Accountant**

Peter Taylor/Tom Broughton\*\*\*\*

#### **Scheme Administrators**

Colette Hollands  
Pensions Shared Service

#### **Legal Advisors**

Borough Solicitor

\*Cllr Madlani was formally appointed as Chair at Statutory Council in May 2015

\*\*Cllr Harrison was appointed to Committee full time in May 2015

\*\*\*Jon Rowney replaced Peter Stachniewski in June 2015

\*\*\*\*Tom Broughton replaced Peter Taylor in December 2014

## **Investment Managers**

Aberdeen Asset Managers Ltd  
Bow Bells House  
One Bread Lane  
London, EC4M 9HH

Baring Asset Management Ltd  
155 Bishopsgate  
London, EC2M 3XY

BlueCrest Capital Management LLP  
40 Grosvenor Place  
London, SW1X 7AW

Brevan Howard Asset Management  
LLP  
55 Baker Street  
London, W1U 8EW

Insight Investment Management  
(Global) Ltd  
160 Queen Victoria Street,  
London, EC4V 4LA

Legal & General Investment  
Management  
One Coleman Street,  
London, EC2R 5AA

CBRE Collective Investors Ltd  
Third Floor  
One New Change  
London, EC4M 9AF

Partners Group (UK) Ltd  
14th Floor, Heron Tower  
110 Bishopsgate  
London, EC2N 4AY

## **Custodian**

J.P. Morgan Limited  
25 Bank Street  
Canary Wharf  
London, E14 5JP

## **Performance Measurement**

WM Performance Services  
525 Ferry Road,  
Edinburgh, EH5 2AW

## **Investment Consultant**

Aon Hewitt  
The Leadenhall Building,  
  
122 Leadenhall Street  
London EC3V 4AN

## **Independent Investment Advisor**

Karen Shackleton  
AllenbridgeEpic Investment Advisors  
Ltd  
26<sup>th</sup> Floor, 125 Old Broad Street  
London, EC2N 1AR

## **Actuary**

Hymans Robertson LLP  
  
20 Waterloo Street,  
Glasgow, G2 6DB

## **Corporate Governance Adviser**

Pensions & Investment Research  
Consultants (PIRC) Ltd  
9 Prescott Street  
London, E1 8AZ

## **Auditors**

## **AVC Providers**

KPMG LLP  
15 Canada Square  
Canary Wharf  
London, E14 5GL

Phoenix Life Limited  
PO Box 2570  
St James House  
27-43 Eastern Road  
Romford, RM1 3YW

Prudential Assurance Company Limited  
Laurence Pountney Hill  
London, EC4R OHH

**Bodies of which the Pension Fund is a Member or Subscriber**

Club Vita  
Local Authority Pension Fund Forum (LAPFF)  
London Pension Fund Forum (LPFF)  
Pension Fund Investment Forum (PFIF)

## APPENDIX B: STRATEGIC ASSET ALLOCATION AND CURRENT ALLOCATION BETWEEN INVESTMENT MANAGERS

From 1 September 2015

ASSET CLASS	%	%	Basis
<b>GLOBAL EQUITIES</b>			
Aberdeen Asset Managers	15		Active
Harris	10		Active
Legal & General	<u>5</u>		Passive
		<b>30</b>	
<b>UK EQUITIES</b>			
Legal & General	<u>25</u>		Passive
		<b>25</b>	
<b>INDEX-LINKED GILTS</b>			
Legal & General	<u>3</u>		Passive
		<b>3</b>	
<b>BONDS</b>			
Insight Investment Management	<u>12</u>		Active
		<b>12</b>	
<b>PROPERTY</b>			
CBRE	5		Active
Partners Group	<u>5</u>		Active
		<b>10</b>	
<b>HEDGE FUNDS</b>			
BlueCrest Capital Management LLP	5		Active
Brevan Howard LLP	<u>5</u>		Active
		<b>10</b>	
<b>DIVERSIFIED GROWTH FUNDS</b>			
Baring Asset Management	<u>10</u>		Active
		<b>10</b>	
<b>TOTAL FUND</b>		<u><b>100</b></u>	

### Developments to the Strategic Asset Allocation

It was agreed by Committee on 26 June 2014 that the Fund would commit a 5% allocation to Private Equity, and at a later date also intends to allocate 5% to Infrastructure, with routes to market to be investigated further before commencing procurement. The allocations would be made from Equities.

The Fund appointed a second active global equity manager in December 2014, with funds transferred from within the Aberdeen allocation in May 2015.

## APPENDIX C: INVESTMENT MANAGERS, PERFORMANCE BENCHMARKS AND TARGETS

ASSET CLASS	INVESTMENT MANAGER	PERFORMANCE BENCHMARK AND TARGET OUTPERFORMANCE
Active Global Equities	Aberdeen Asset Managers/	To outperform the MSCI All Countries World Index by 2-3% p.a. over rolling 3 and 5 year periods, on a Gross Return basis, gross of fees
Active Global Equities	Harris Associates	To outperform the MSCI All Countries World Index by 2-3% p.a. over rolling 3 and 5 year periods, on a Gross Return basis, gross of fees
Passive Global Equities	Legal & General	To track the total return of the FTSE-All World Index within + / - 0.25% p.a. two years out of any three, before the deduction of fees
Passive UK Equities	Legal & General	To track the total return of the FTSE-All Share Index within + / - 0.25% p.a. two years out of any three, before the deduction of fees
Index-Linked Gilts (Passive)	Legal & General	To track the total return of the FTSE-A Government Index-Linked (Over 5 Year) index within + / - 0.25% p.a. two years out of any three, before the deduction of fees.
Active Bonds	Insight Investment Management	This is an absolute return mandate with the manager committing to target a return of cash (3 months GBP LIBOR) plus 4% p.a. over the life of the Fund
UK Property	CBRE Collective Investors	To outperform the IPD UK All Balanced Property Funds Index by 1.0% p.a. over rolling 3 year periods.
Global Property	Partners Group (UK) Limited	This is an absolute return mandate with the manager targeting an absolute return in excess of 15% p.a. over the life of the Fund.
Fund of Hedge Funds	BlueCrest Capital Management	This is an absolute return mandate with the manager committing to target a return of cash (3 months GBP LIBOR) plus 5 – 10% p.a. over the life of the Fund.
Fund of Hedge Funds	Brevan Howard Asset Management	This is an absolute return mandate with the manager committing to target a return of cash (3 months GBP LIBOR) plus 5 – 10% p.a. over the life of the Fund.
Diversified Growth Fund	Baring Asset Management	This is an absolute return mandate with the manager committing to target a return of cash (3 months GBP LIBOR) plus 4% p.a. over the life of the Fund.



## APPENDIX D: CAMDEN PENSION FUND RISK REGISTER

Date Reviewed: June 2015

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures		Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility		
FINANCIAL RISKS													
1. Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<ul style="list-style-type: none"><li>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing</li><li>Analyse progress at three yearly valuations for all employers</li><li>Inter-valuation roll-forward of liabilities between formal valuations at whole fund level, provided on an annual basis</li><li>Regularly benchmark assets to revalued liabilities (Hymans Robertson to review Camden liabilities on an interim basis between valuations)</li><li>Provide a quarterly comparison of actual asset performance to projected performance based on valuation assumptions</li><li>Support Pension Committee to focus more on liabilities and investment strategy</li></ul>	3	5	15			3	5	15	Annually/ Quarterly	Pension Committee (PC)		
2. Level of investment risk inherent in the asset allocation and use of	<ul style="list-style-type: none"><li>Agree and establish appropriate level of risk in a diversified strategy</li></ul>	4	3	12	<ul style="list-style-type: none"><li>Further Member training on nature of investments</li></ul>		4	3	12	Annually	PC		

Likelihood		Impact					Likelihood					Impact		Likelihood					Impact		Likelihood							
Probability of occurrence		1	2	3	4	5	Assets / Liabilities affected					1	2	3	4	5	Assets / Liabilities affected					1	2	3	4	5		
		<5%	<10%	>10%	>40%	>75%						>2%	>10%	>25%	>50%	>75%						>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility																		
appropriate financial instruments and level of leverage in investment strategies	with the Investment Consultant <ul style="list-style-type: none"><li>o Ensure full understanding of nature of risk in each asset class</li><li>o The Investment strategy is reviewed at least every three years by Committee</li><li>o The Independent Advisor completes due diligence on all current investment mandates</li><li>o Officers and the Independent Advisor hold in-depth meetings with all managers to review risks, leverage and instruments used and report any concerns to Committee</li></ul>				o Implement Private Equity to increase diversification																							
3. Inappropriate long-term investment strategy	o Fund-specific benchmark, informed by Asset-Liability modelling <ul style="list-style-type: none"><li>o Compliance with LGPS regulations</li><li>o The Investment strategy is reviewed at least every three years by Committee (last reviewed June 2012)</li><li>o Annual liability monitor reporting by the actuary to inform the strategy</li><li>o The addition of the independent investment advisor gives the fund better market insight and will shape the strategy with greater frequency via performance reports and market</li></ul>	2	5	10	o Member training on Liability Driven Investment <ul style="list-style-type: none"><li>o Review of Fund Benchmarks and Targets (September 2015)</li><li>o Interim Investment Strategy Review (November 2015)</li><li>o Investment Strategy Review in February 2017</li></ul>	2	5	10	Quarterly	PC																		

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility					
	intelligence														
4. Fall in returns on Government bonds, leading to rise in value placed on liabilities	<ul style="list-style-type: none"><li>o Inter-valuation monitoring, as above</li><li>o Some investment in bonds helps to mitigate this risk</li><li>o Monitor movement in funding level since the last valuation in performance report</li><li>o Reviewed fixed income investments to ensure continued appropriateness</li><li>o Review of liability-hedging assets such as infrastructure and real estate</li></ul>	2	4	8		2	4	8	Quarterly	PC					
5. Pay and price inflation significantly more than anticipated	<ul style="list-style-type: none"><li>o The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases</li><li>o Inter-valuation monitoring, as above, gives early warning</li><li>o Maintain investment in index-linked bonds to help mitigate this risk</li><li>o Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees</li><li>o The performance report covers movements in inflation. The cash flow report also shows impact of inflation on</li></ul>	3	4	12	<ul style="list-style-type: none"><li>o Monitor pay rises for all employers</li><li>o Changes to employer rates between valuation could be implemented</li><li>o Consider hedging strategies and put in place a flight path</li></ul>	2	4	8	Quarterly	PC					

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility					
	pension payments (currently -0.1% for CPI).														
6. Investment vehicle is not understood	<ul style="list-style-type: none"><li>Investment Consultant and Independent Advisor feed into decisions on new asset classes</li><li>Member training (especially for the new asset class of private equity)</li><li>Appropriate due diligence carried out during searches by Investment Consultant and lawyers</li></ul>	3	3	9	<ul style="list-style-type: none"><li>Further Member training on new asset classes held, and when other classes are to be considered</li></ul>	2	3	6	Ongoing	PC / Head of Treasury					
7. Specific risk of market failure in the Eurozone	<ul style="list-style-type: none"><li>Limit concentration of investment in any one specific market through manager agreements</li></ul>	3	3	9		3	3	9	Ongoing	PC / Head of Treasury					

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility			
	<ul style="list-style-type: none"><li>o Monitor markets constantly, and seek advice of managers, consultants and independent advisor (markets are also perceived as over-valued in the US and there is a threat of Emerging markets being dislocated by tapering in the US and growth concerns)</li></ul>												
8. Forced selling of assets in falling market due to cashflow requirements	<ul style="list-style-type: none"><li>o Monitoring of cash flows and Fund maturity, and taking appropriate strategic action (as above)</li><li>o Dividends can be used to fund benefit payments. Additionally structures with most managers mean assets can be sold or units redeemed to fund benefits.</li></ul>	2	3	6		2	3	6	Ongoing	PC / Officers			
9. Actuarial Risk, i.e. miscalculation of liabilities or in appropriate assumptions	<ul style="list-style-type: none"><li>o The Administering Authority maintains close contact with its advisers</li><li>o Advice is delivered via formal meetings involving elected members, and recorded properly</li><li>o Advice is subject to professional requirements such as peer review</li><li>o New Technical Actuarial Standards in place since last valuation, which in effect impose further best practice requirements on actuarial advice</li></ul>	1	5	5		2	5	10	Ongoing	PC / Officers			

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures		Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility				
	<ul style="list-style-type: none"><li>The Fund now has two experienced actuaries with Camden-specific knowledge (Bryan Chalmers and Douglas Green) advising its Officers and Committee</li></ul>														
10. Geographical / Currency risk in investments	<ul style="list-style-type: none"><li>Limit concentration of investment in any one specific market through manager agreements</li><li>Regular review of compliance with manager agreements</li><li>Monitor markets constantly, and seek advice of managers, consultants and independent advisor</li><li>The Fund considered the use of a strategic currency hedge to limit risk, agreeing to delegate to individual managers</li></ul>	2	2	4			2	2	4	Ongoing	PC / Head of Treasury				
11. Illiquidity of assets means benefits cannot be paid	<ul style="list-style-type: none"><li>Periodic review of Fund assets with Investment Consultant, and officer due diligence on markets</li><li>Maturity of Fund kept under review by Committee. Reports considered at June 2014 meeting</li></ul>	2	2	4			2	2	4	Ongoing	PC / Head of Treasury				
12. Investment manager under-performance relative to target	<ul style="list-style-type: none"><li>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark. This gives an early warning of contribution</li></ul>	3	2	6	<ul style="list-style-type: none"><li>Consider further disinvestment to second active global equity manager to reduce overreliance on Aberdeen.</li></ul>		2	2	4	Quarterly	PC				

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures		Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility				
	<p>rises ahead. In the short term, volatility dampened down by stability measures on contributions. However, if underperformance is sustained over a period, contributions would rise more or the fund could change managers.</p> <ul style="list-style-type: none"><li>o The Committee has demonstrated that it can identify poor performance and tackle this with the phased withdrawal from Fidelity and disinvestment from Aberdeen</li><li>o Any changes to investment process, philosophy, portfolio team are reported to PC</li><li>o Appointment of Independent Advisor to strengthen scrutiny in this area, and due diligence conducted by her on all managers (Pensions Sub-Committee February 2013)</li></ul>														

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility					
13. Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	<ul style="list-style-type: none"><li>o Seek feedback from employers on scope to absorb short-term contribution rises</li><li>o Mitigate impact through deficit spreading and possible phasing in of contribution rises</li><li>o Consult employers on possibility of paying more (extra administration and higher regular contributions) to enable employer-specific investment strategies to give greater certainty of cost</li><li>o Employer register considered annually by Committee</li><li>o Continued dialogue between officers, actuary and admitted bodies to control risk</li></ul>	3	2	6		2	2	4	Annually by PC / Ongoing by officers	PC / Head of Treasury					
14. Investment counterparty risk with regards to stock lending and use of derivatives	<ul style="list-style-type: none"><li>o Practice of stock lending and use of derivatives monitored by officers and Independent Advisor</li><li>o Investment Consultant has coverage of all investment managers</li></ul>	2	3	6	<ul style="list-style-type: none"><li>o Regular review of managers' due diligence processes at officer meetings</li></ul>	2	2	4	Ongoing	PC / Officers					
15. Risk of paying excessive fees to investment managers	<ul style="list-style-type: none"><li>o Manager fees negotiated at time of appointment to achieve best result for the Fund</li><li>o All Fund fees and expenses are reviewed regularly by officers</li></ul>	2	2	4		2	2	4	Ongoing	PC / Officers					



Likelihood		1	2	3	4	5	Impact		1	2	3	4	5
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility			
	<ul style="list-style-type: none"><li>o Join London CIV to achieve economies of scale</li></ul>												
16. Asset manager or bank failure	<ul style="list-style-type: none"><li>o Detailed due diligence is carried out when new manager or custodian is appointed (financially and legally)</li><li>o Financial stability of managers and custodian monitored by officers and Independent Advisor</li><li>o Investment Consultant has coverage of all investment managers</li></ul>	1	4	4		1	4	4	Ongoing	Officers			
17. Risk of investment managers changing investment approach	<ul style="list-style-type: none"><li>o Managers are monitored closely by officers and advisors, with quarterly investment reports and regular meetings held</li><li>o Reasoning behind any proposed changes to investment approach are explained by the investment manager</li></ul>	3	1	3		3	1	3	Ongoing	Officers / Advisers			

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility			
18. Fraud experienced	<ul style="list-style-type: none"><li>o All investment managers required to submit audits on internal controls and summarised as part of the annual report to members</li><li>o Detailed due diligence is carried out when new managers are appointed (financially and legally)</li><li>o Audit of the fund is carried out by competent auditors</li><li>o Internal audit is carried out by competent auditors</li><li>o Custodian has strong internal controls including reconciliation of asset values and performance</li><li>o Managers able to give complete look through into underlying assets</li><li>o Assets held in segregated accounts where possible</li><li>o Investment Consultant has coverage of all investment managers</li></ul>	1	3	3	<ul style="list-style-type: none"><li>o Explore cyber-security risks with fund managers to ensure good safekeeping employer and systems are robust and protected from hacking especially those with a more quantitative nature.</li></ul>	2	3	6	Ongoing	PC / Head of Treasury			
19. Custodian Risk - creditworthiness, ability to settle trades, provide secure safekeeping and accurate and timely reporting	<ul style="list-style-type: none"><li>o Service Level Agreement in contract</li><li>o Review of custodian Key Performance Indicators</li><li>o Regular officer meetings with custodian</li></ul>	1	3	3		1	3	3	Ongoing	Officers			
20. Environmental, Social &	<ul style="list-style-type: none"><li>o Equity managers review ESG</li></ul>	1	2	2		1	2	2	Ongoing	PC /			

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures		Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility				
Governance issues impacting on investments	issues as part of investment decision, and report issues and company engagement as part of quarterly reports  o Membership of LAPFF and appointment of corporate governance advisor providing research on companies invested										Officers				
DEMOGRAPHIC RISKS															
21. Deteriorating active membership due to employer savings programmes	o Monitoring scheme membership, and the effect on cash flows and Fund maturity, and taking appropriate strategic action (see Administration report on this agenda which has some encouraging news on actives) o Past service adjustments paid as cash amount instead of percentage (which could otherwise decline with membership)	3	4	12	o Further scenario testing through modelling of staff data		3	3	9	Quarterly	PC / Officers				
22. Ill-health retirements significantly more than anticipated.	o Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built in. o Employers informed of ill health insurance option at recent Employer Forum	3	2	6	o The employer register will monitor this data and variances can be discussed with employers o Individual employers can take out ill-health insurance to cover for strain costs.		3	1	3	Annually	PC				

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility					
23. Pensioners living longer not identified.	<ul style="list-style-type: none"><li>o The Fund actuary sets base mortality based on research carried out by Club Vita. The longevity assumptions are a bespoke set of VitaCurves specifically tailored to fit the membership profile of the Fund</li><li>o Fund actuary sets mortality assumptions with some allowance for future increases in life expectancy</li><li>o Fund actuary monitors combined experience of around 50 LGPS funds to look for early warnings of lower pension amounts ceasing than assumed in funding</li><li>o Administering Authority encourages any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs</li></ul>	2	5	10	<ul style="list-style-type: none"><li>o Continue dialogue with employers</li><li>o PSC to receive a report on mortality triennially</li></ul>	2	5	10	Triennial	PC					
24. Deteriorating patterns of early retirements	<ul style="list-style-type: none"><li>o Employers are charged the extra capital cost (strain cost) of non-ill-health retirements following each individual decision</li></ul>	3	1	3		3	1	3	Annually	PC					
REGULATORY RISKS															

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility					
25. Changes to national pension scheme benefits regulation with oversight from The Pensions Regulator, and/or HM Revenue & Customs rules	<ul style="list-style-type: none"><li>o The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself</li><li>o Any changes to the regulations, scheme design and benefits package should be reported to PSC</li><li>o Scheme changes and benefits are communicated to members to prevent opt outs</li><li>o Opt outs are monitored as part of the Cash Flow &amp; Administration report</li><li>o The result of the most recent reforms (2014 scheme) are being built into the 2013 valuation</li></ul>	5	2	10		5	2	10	Ongoing	PC / Pensions Manager					
26. Changes to regulations and Act, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	<ul style="list-style-type: none"><li>o see above</li></ul>	1	5	5		1	5	5	Ongoing	PC					
GOVERNANCE RISKS															

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility			
27. Forced merger of LGPS funds	<ul style="list-style-type: none"><li>o Participated in DCLG call for evidence on whether such a proposal would improve the LGPS</li><li>o Ongoing debate with advice from Pensions experts on a national basis.</li></ul>	2	5	10	<ul style="list-style-type: none"><li>o Ensure that Camden participate in any future consultation and raise concerns to the appropriate authority</li></ul>	2	5	10	TBC	PC / Officers			
28. Members on the Pension Committee and officers do not have the necessary knowledge and skills to take decisions	<ul style="list-style-type: none"><li>o Ensure training opportunities are shared, attended and reported on (part of the quarterly Business Plan)</li><li>o Develop introductory training for all new members to PSC to attend</li><li>o After elections and change of elected members on the PSC group training is run for the whole committee</li><li>o Set up biannual member training for all PSC</li><li>o Ensure officers go on relevant training</li><li>o Make sure independent is involved in training requirements</li></ul>	2	5	10	<ul style="list-style-type: none"><li>o Complete CIPFA Knowledge &amp; Skills framework for Members and officers, to assess any knowledge gaps</li></ul>	2	5	10	Ongoing	PC / Head of Treasury			
29. Forced disinvestment from active managers and Fund of Fund vehicles	<ul style="list-style-type: none"><li>o DCLG consulting on possibility and impact of legislating for such investment</li><li>o Ongoing debate with advice from Pensions experts on a national basis.</li></ul>	4	2	8	<ul style="list-style-type: none"><li>o Participate in consultation and raise concerns to the appropriate authority</li><li>o Maintain current allocation to passive until outcome of consultation is known</li></ul>	4	2	8	TBC	PC / Officers			

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility					
30. An employer ceasing to exist with insufficient funding or adequacy of a bond.	<ul style="list-style-type: none"><li>o Seeking a funding guarantee from another scheme employer, or external body, where ever possible</li><li>o Work done as part of the 2013 valuation results in alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice</li><li>o Vetting prospective employers before admission</li><li>o requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed</li><li>o Reviewing bonds regularly</li><li>o Reviewing the employer register regularly</li><li>o Dialogue with employers to ensure risks are understood and managed, such as at Employers Forum and meetings with employers to ensure they understand their liabilities and funding position</li></ul>	4	2	8		4	2	8	Annually	PC					

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures		Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility				
31. Environmental, Social & Governance issues impacting on reputation	<ul style="list-style-type: none"><li>o Membership of LAPFF providing active corporate engagement and championing of ESG issues</li><li>o Corporate Governance advisor provides company research and ensures Camden voting policy executed on shareholdings</li><li>o Members and officers aware of fiduciary responsibilities, acting in the interest of the Fund and taxpayers</li></ul>	3	2	6			3	2	6	Ongoing	PC / Officers				
32. Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<ul style="list-style-type: none"><li>o The Administering Authority maintains close contact with its advisers</li><li>o Advice is delivered via formal meetings involving elected members, and recorded properly</li><li>o Advice is subject to professional requirements such as peer review</li></ul>	1	5	5			1	5	5	Ongoing	PC / Officers				
33. Administering Authority not advised of an employer closing to new entrants.	<ul style="list-style-type: none"><li>o Employer Register is maintained and reviewed regularly by Committee (last reviewed November 2012)</li></ul>	2	2	4	<ul style="list-style-type: none"><li>o Continued dialogue with employers to ensure risks are understood and managed</li></ul>		2	2	4	Ongoing	PC / Pensions Manager				
34. Maintaining adequate level of experience at officer level.	<ul style="list-style-type: none"><li>o Continued staff appraisal and development plan</li><li>o Effective personnel management and succession planning</li></ul>	1	4	4	<ul style="list-style-type: none"><li>o Ensure officers continue to undergo relevant training</li></ul>		1	4	4	Ongoing	Officers				



Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures		Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility				
35. Failure to comply with legislation, statutory regulation and formal guidance	<ul style="list-style-type: none"><li>o Officers seek guidance and advice from independent sources as appropriate</li><li>o Advisers will proactively raise issues and keep Officers aware of relevant issues</li><li>o Officers receive regular training and attend LGPS events</li></ul>	1	4	4			1	4	4	Ongoing	Officers				
36. Conflict of interest, both from elected members and officers of Administering Authority	<ul style="list-style-type: none"><li>o Officers/Committee seeks guidance and advice from independent sources as appropriate</li><li>o Officers and members receive regular training and attend LGPS events, at which conflict issues will be raised as appropriate</li></ul>	1	3	3	<ul style="list-style-type: none"><li>o New actuarial professional standards coming into effect in 2013 explicitly address conflict of interest issues in the LGPS, and will require a conflict management plan to be drawn up (which Hymans are drafting)</li><li>o The Pensions Regulator's forthcoming role in the LGPS will include governance and conflict issues, and guidance and training will be forthcoming on these topics</li></ul>		1	3	3	Ongoing	PC / Officers				

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility					
37. Number of investment mandates inhibits Committee in its governance of investments	<ul style="list-style-type: none"><li>o Performance and relevant information of investment mandates reported to Committee as part of quarterly Performance Report</li><li>o Committee provides clear delegation to Finance Director as and when required</li><li>o Officers meet regularly with investment managers outside of Committee time and feedback minutes of meetings</li><li>o Independent investment advisor conducts separate monitoring meetings with managers as appropriate</li></ul>	2	2	4	<ul style="list-style-type: none"><li>o Committee Members to be invited to attend officer meetings as appropriate</li><li>o Investment managers to be brought to Committee for targeted discussion where appropriate</li></ul>	2	1	2	Ongoing	PC / Officers					
38. Administering Authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements).	<ul style="list-style-type: none"><li>o The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer’s contributions (under Regulation 78) between triennial valuations</li><li>o Deficit contributions are expressed as monetary amounts</li></ul>	1	2	2		1	2	2	Ongoing	Officers					

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility			
39. Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	o Admission Bodies are required to notify the Administering authority of termination and it requires employers with Best Value contractors to inform it of forthcoming changes.	2	1	2		2	1	2	Ongoing	Officers			
40. Inappropriate or inadequate delegation arrangements	o Detailed scheme of delegation adopted for Council officers, and reviewed annually o Decisions to delegate specific activities from Committee to Director of Finance agreed and documented at Committee meetings	1	2	2		1	2	2	Ongoing / As Necessary	Officers / PC			
ADMINISTRATION RISKS													
41. Added complexity of scheme benefits following introduction of LGPS 2014 impacting officer time and risk of miscalculation	o Scheme regulations are followed o Pensions team are well trained	2	3	6		2	3	6	Ongoing	Pensions Manager			
42. Changes to scheme members (starters, leavers, retirements etc.) are not processed properly.	o Scheme regulations are followed o Pensions team are well trained o Induction of new pensions administrators	2	2	4	o Actuary reviews application of scheme rules	2	2	4	Ongoing	Pensions Manager			

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility			
43. Employers do not submit accurate or complete data on their members	<ul style="list-style-type: none"><li>o Liaison with schools, Children, Schools and Families and out-sourced payroll providers to ensure accurate and timely data is received</li></ul>	4	1	4	<ul style="list-style-type: none"><li>o Audit exercise planned to review outsourced school payroll data</li></ul>	4	1	4	Ongoing	Pensions Manager			
44. Maintaining adequate level of officer knowledge and skills following switch to shared administration service	<ul style="list-style-type: none"><li>o Effective personnel management and succession planning</li><li>o Induction and knowledge sharing on local issues and requirements for new officers</li></ul>	2	3	6	<ul style="list-style-type: none"><li>o ensure audit takes place post current restructure</li></ul>	2	3	6	Ongoing	Pensions Manager			
45. Systems are not secure and well maintained	<ul style="list-style-type: none"><li>o Internal audit of system setup and security</li><li>o Systems administrator well trained</li><li>o Data is backed up daily</li><li>o System is protected from viruses and hacking</li><li>o System is up to date and latest features of the software are used</li><li>o Council clients the software provider and ensures issues are raised and addressed in latest releases</li></ul>	1	3	3		1	3	3	Ongoing	Pensions Manager			

Likelihood		1	2	3	4	5	Impact		1	2	3	4	5		
Probability of occurrence		<5%	<10%	>10%	>40%	>75%	Assets / Liabilities affected		>2%	>10%	>25%	>50%	>75%		
Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility					
46. Data and records are not accurate	<ul style="list-style-type: none"><li>Records have correct supporting documentation</li><li>Input and output checks are performed</li><li>Data matching exercises identify discrepancies (National Fraud Initiative)</li></ul>	2	2	4	<ul style="list-style-type: none"><li>Reconciliations are performed between payroll and pensions systems</li></ul>	1	2	2	Ongoing	Pensions Manager					
47. Contributions to the Fund are not received or recorded properly	<ul style="list-style-type: none"><li>Pensions team dedicates appropriate time and resource to managing contributions</li><li>Reconciliations are carried out monthly</li></ul>	1	2	2		1	2	2	Monthly	Pensions Manager					
48. Incorrect benefits paid	<ul style="list-style-type: none"><li>Pensions team are well trained</li><li>Payments have correct supporting documentation</li><li>Management check performed on benefit payments before processing</li></ul>	1	2	2		1	2	2	Ongoing	Pensions Manager					
49. Audit fail to undertake proper checks	<ul style="list-style-type: none"><li>Audit plan work to get reasonable expectation of detecting control weaknesses</li></ul>	2	1	2		2	1	2	Annually	Pensions Manager					

## RISK CRITERIA FOR IMPACT

THREATS	Factor	Score	Effect on Service	Effect on Reputation	Personal Safety	Personal privacy infringement	Failure to provide statutory duties/meet legal obligations	Financial	Effect on Project Objectives/ Schedule Deadlines
	Major	5	<ul style="list-style-type: none"> <li>o Major loss of services, including several important areas of service and /or protracted period.</li> <li>o Service Disruption 5+ Days</li> </ul>	<ul style="list-style-type: none"> <li>o Adverse and persistent national media coverage</li> <li>o Adverse central government response, involving (threat of) removal of delegated powers</li> <li>o Officer(s) and/or Members forced to resign</li> </ul>	Death of an individual or several people	All personal details compromised/ revealed	Litigation/claims/ fines from: <ul style="list-style-type: none"> <li>o Departmental £250k +</li> <li>o Corporate £500k +</li> </ul>	<ul style="list-style-type: none"> <li>o Costing over £500,000</li> <li>o Up to 75% of budget</li> </ul>	Complete failure of project / extreme delay  3 months or more
	Serious	4	<ul style="list-style-type: none"> <li>o Complete loss of an important service area for a short period</li> <li>o Major effect to services in one or more areas for a period of weeks</li> <li>o Service Disruption 3-5 Days</li> </ul>	<ul style="list-style-type: none"> <li>o Adverse publicity in professional/municipal press, affecting perception/standing in professional/local government community</li> <li>o Adverse local publicity of a major and persistent nature</li> </ul>	Major injury to an individual or several people	Many individual personal details compromised/ revealed	Litigation/claims/ fines from: <ul style="list-style-type: none"> <li>o Departmental £50k to £125k</li> <li>o Corporate £100k to £250k</li> </ul>	<ul style="list-style-type: none"> <li>o Costing between £50,000 and £500,000</li> <li>o Up to 50% of budget</li> </ul>	Significant impact on project or most of expected benefits fail / major delay  2-3 months
	Significant	3	<ul style="list-style-type: none"> <li>o Major effect to an important service area for a short period</li> <li>o Adverse effect to services in one or more areas for a period of weeks</li> <li>o Service Disruption 2-3 Days</li> </ul>	<ul style="list-style-type: none"> <li>o Adverse local publicity /local public opinion aware</li> <li>o Statutory prosecution of a non-serious nature</li> </ul>	Severe injury to an individual or several people	Some individual personal details compromised/ revealed	Litigation/claims/ fines from: <ul style="list-style-type: none"> <li>o Departmental £25k to £50k</li> <li>o Corporate £50k to £100k</li> </ul>	<ul style="list-style-type: none"> <li>o Costing between £5,000 and £50,000</li> <li>o Up to 25% of budget</li> </ul>	Adverse effect on project / significant slippage  3 weeks to 2 months
	Minor	2	<ul style="list-style-type: none"> <li>o Significant effect to non-crucial service area</li> </ul>	<ul style="list-style-type: none"> <li>o Contained within section/Unit or Directorate</li> <li>o Complaint from individual/small group, of arguable merit</li> </ul>	Minor injury or discomfort to an individual or several people	Minor infringement	Litigation/claims/ fines from: <ul style="list-style-type: none"> <li>o Departmental £12k to £25k</li> <li>o Corporate £25k to £50k</li> </ul>	<ul style="list-style-type: none"> <li>o Costing less than £5,000</li> <li>o Up to 10% of budget</li> </ul>	Minimal impact to project / slight delay  Less than 2 weeks
	Insignificant	1	<ul style="list-style-type: none"> <li>o Brief disruption of important service area</li> <li>o Service Disruption 1 Day</li> </ul>	<ul style="list-style-type: none"> <li>o Some failure of service and clients affected</li> </ul>	No injury	No infringement	Minimal claims	<ul style="list-style-type: none"> <li>o Costing less than £1000 per claim</li> </ul>	Minimum effect

## RISK CRITERIA FOR LIKELIHOOD

LIKELIHOOD	FACTOR	SCORE	THREATS - DESCRIPTION	INDICATORS	OPPORTUNITIES – DESCRIPTION	INDICATORS
	Almost Certain	5	More than 75% chance of occurrence	Regular occurrence Circumstances frequently encountered – daily/weekly/monthly	Favourable outcome is likely to be achieved in one year or better than 75% chance of occurrence.	Clear opportunity which can be relied on with reasonable certainty, to be achieved in the short term based on current management processes.
	Very Likely	4	40% - 75% chance of occurrence	Likely to happen at some point within the next 1-2 years Circumstances occasionally encountered (few times a year)	Reasonable prospects of favourable results in one year 40% to 75% chance of occurrence.	Opportunities that may be achievable but which require careful management. Opportunities that arise over and above the plan.
	Likely	3	10% - 40% chance of occurrence	Only likely to happen 3 or more years	Some chance of favourable outcome in the medium term or less than 40% chance of occurrence.	Possible opportunity which has yet to be fully investigated by management. Opportunity for which the likelihood is low on the basis of management resources currently being applied.
	Unlikely	2	Less than 10% chance of occurrence	Has happened rarely	Less than 10% chance of occurrence	Has happened rarely
	Very Unlikely	1	0-5% of occurrences	Very low probability / never before	Less than 5% chance	No evidence or experience of this happening in organisation

## APPENDIX E: COMPLIANCE STATEMENT

Camden's compliance with the six Principles of Investment Decision Making, as established by the CIPFA Pensions Panel, and required by the LGPS Regulations 2009.

Date Reviewed: August 2015

### **Principle 1: Effective decision making**

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources to make them effectively and monitor their implementation;
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

#### **Fully Compliant**

**Camden Council operates a Pension Committee within a formal framework of financial controls and decision making; Consideration is given to strategic asset allocation and particularly during reviews of fund management arrangements.**

**Dedicated training sessions are scheduled twice annually for all members of the Committee.**

**Expert advice is received from external consultants including the investment consultant, independent investment advisor, fund actuary, and corporate governance advisor, as well as the individual investment managers.**

**A business plan is presented to every meeting of the Pension Committee, which includes training carried out by officers and Committee Members in the last 12 months, and future opportunities for training, which are offered to all the members of the Committee.**



## **Principle 2: Clear objectives**

An overall investment objective 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.

### **Fully Compliant**

**The Fund's investment objectives are set out in the Statement of Investment Principles. The benchmark and risk parameters are clearly stated in the Investment Management Agreements with each investment manager.**

**The same investment strategy is currently followed for all employers. The actuary has not advised the authority to operate different investment strategies for different employers.**

**The strength of the covenant for non-local authority employers is assessed by the Fund's Actuary (Hymans Robertson), and the results will be available in time for the next triennial valuation.**

**The Pension Committee considers a register of all non-local authority employers on an annual basis, to monitor their funding positions and scheme status.**

### **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.

#### **Fully Compliant**

**The asset allocation strategy is reviewed at least every 3 years. The Investment Consultant is periodically commissioned to carry out an asset liability study which models the risk/reward characteristics of different investment strategies.**

**The study follows the triennial actuarial valuation and the form and structure of the liabilities are fully taken into account.**

**The liabilities are reviewed by Hymans Robertson on an annual basis between full valuations.**

**Additional investigation is made into the Fund's longevity risk by being a member of Club Vita. This has been set up by Hymans Robertson to specifically measure the effect of longevity using the data which is scheme specific.**

**The cash flow and scheme membership of the Fund is reported to the Pension Committee on an annual basis.**

#### **Principle 4: Performance assessment**

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

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

#### **Fully Compliant**

**Performance measurement of the investments and investment managers are provided by the Performance Measurer, Custodian, Independent Investment Advisor and Investment Consultant.**

**The decisions reached by the Pension Committee are reviewed on both a quarterly and yearly basis.**

**The Investment Consultant and Independent Investment Advisor advise the Fund on any major developments or changes that may affect the performance of the investment managers.**

**The effectiveness of the investment decisions is measured by means of the adherence to the asset allocation and the expected improvement in performance of the investments.**

**The investment managers are asked to attend officer-led quarterly meetings outside the formal Committee meeting schedule and on an ad hoc basis when it is deemed necessary; Committee members are invited to attend. Managers are also seen regularly by the Independent Investment Advisor separately from these meetings.**

## **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.

### **Fully Compliant**

**All of the equity managers have adopted the Institutional Shareholders' Committee Statement of Principles.**

**The Fund has agreed a bespoke voting policy which is reviewed and updated annually by the Pension Committee. The votes are cast on behalf of the Fund by PIRC in accordance with this policy.**

**PIRC records the votes cast by the Fund, and issues a quarterly statistical report, which is incorporated into the quarterly Engagement Report received by the Committee. PIRC also present a report of activity annually to the Committee.**

**The Fund's policy on responsible ownership is set out in its Statement of Investment Principles.**

**The Fund is a participating member of the Local Authority Pension Fund Forum (LAPFF) and receives information on environmental, social and governance issues.**

## **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.

### **Fully Compliant**

**The Fund has produced a Statement of Investment Principles, a Governance Compliance Statement, a Communications Policy Statement and a Funding Strategy Statement which all form part of the Pension Fund Annual Report.**

**The Pension Fund Annual Report is posted on Camden's Pension Fund section of the Camden website.**

**Members can also request information directly from the Council. General queries are answered by telephone, with detailed questions regarding individual cases being received by letter, fax or email.**

**Consultation is carried out with non-local authority employers on all Fund business including the triennial valuation and Funding Strategy Statement. Furthermore, all agendas of the Committee meetings are circulated to admitted bodies, and employer representatives are encouraged to attend.**

**The Council has brought its website into line with best practice in other authorities in order to assist members of the Fund to get information they require with ease.**