

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, 2012/13 and 2014/15. 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 2015/16 a second Diversified Growth Fund (DGF) manager Standard Life Assurance Ltd has been invested approximately £57m of the portfolio previously held under Hedge Fund manager BlueCrest who announced they would be returning all client capital from 4th January 2016. The investment with BlueCrest (approximately £58m at 31st December 2015) will be fully redeemed by the second half of 2016. The return target mirrors that for Barings and the strategic asset allocation for DGF is now at 15%.
- 2.6 On 2nd March 2016 the fund committed to appointing HarbourVest to manage a new \$86.3m Private Equity mandate. Investments in all of the first tranches of investment are not expected to take place until the second half of 2016.
- 2.7 Constitution and appointments to the Pension Board with terms of reference was agreed by full council on 20th 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 three, and there are eight substitute members.

There are three observer (non-voting) posts to the Committee representing trade unions and one representing retired members (which is currently vacant).

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, except co-filing requests put forward by the LAPFF; and support for resolutions in respect of companies that the Fund does not have a direct shareholding in, which remains a matter for the Executive Director Corporate Services in consultation with the Chair of the Pension Committee unless time allows for the matter to be reported to the Committee for decision.
- 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/

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 Executive Director Corporate Services (replacing Director of Finance role)

The Executive Director Corporate Services 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.

| Investment | Inflation linking | Real returns (% pa) | Liquidity |
|-----------------|-------------------|------------------------|------------|
| 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 a gilt yield of 3.0% 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 2014/15 Annual Report in September 2015.

APPENDIX A: GOVERNANCE AND MANAGEMENT

Pension Committee

| | |
|-----------------------------|---|
| Members | Cllr Rishi Madlani (Chair) Cllr James Yarde (Vice 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 | VACANT |
| 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.

Executive Director Corporate Services

Mike O'Donnell

Head of Treasury

Nigel Mascarenhas

Scheme Administrators

Colette Hollands
Pensions Shared Service

Deputy Director of Finance

Jon Rowney

Pension Fund Accountant

Tom Broughton

Legal Advisors

Borough Solicitor

Investment Managers

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

Baring Asset Management Ltd
155 Bishopsgate
London, EC2M 3XY

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

Harris Associates LP
111 South Wacker Drive, Suite 4600
Chicago, Illinois 60606

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

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

CBRE Global Investment Partners
Ltd
Third Floor
One New Change
London, EC4M 9AF

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

Standard Life Assurance Ltd
1 George Street |
Edinburgh EH2 2LL

HarbourVest Partners (Europe) Ltd
33 Jermyn Street
London, SW1Y 6DN

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
26th Floor, 125 Old Broad Street
London, EC2N 1AR

Actuary

Hymans Robertson LLP

Corporate Governance Adviser

Pensions & Investment Research
Consultants (PIRC) Ltd

20 Waterloo Street,
Glasgow, G2 6DB

2 Harbour Exchange Square
London, E1 8AZ

Auditors

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

AVC Providers

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

Prudential Assurance Company Limited
5 Laurence Pountney Hill
London, EC4R 0HH

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 June 2016

| ASSET CLASS | % | % | Basis |
|---------------------------------|----|------------|---------|
| GLOBAL EQUITIES | | | |
| Aberdeen | 15 | | Active |
| Harris | 10 | | Active |
| Legal & General | 15 | | Passive |
| | | 40 | |
| UK EQUITIES | | | |
| Legal & General | 15 | | Passive |
| | | 15 | |
| INDEX-LINKED GILTS | | | |
| Legal & General | 3 | | Passive |
| | | 3 | |
| BONDS | | | |
| Insight | 12 | | Active |
| | | 12 | |
| PROPERTY | | | |
| CBRE | 5 | | Active |
| Partners Group | 5 | | Active |
| | | 10 | |
| HEDGE FUNDS | | | |
| Brevan Howard | 5 | | Active |
| | | 5 | |
| DIVERSIFIED GROWTH FUNDS | | | |
| Barings | 10 | | Active |
| Standard Life | 5 | | Active |
| | | 15 | |
| TOTAL FUND | | 100 | |

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 fund has subsequently appointed HarbourVest as managers of the private equity mandate and are yet to draw down capital, funding will be provided via disinvestment of the Legal & General UK equity passive vehicle.

Following BlueCrest's announcement to redeem and return client invested capital in cash from 4 January 2016, the Chair and Director of Finance agreed that the matter amounted to an emergency and the reallocation of capital required an immediate decision outside of the Committee formal meetings. The Chair then consulted Members of the Committee and it was agreed on 17 February to invest the proceeds in an absolute return DGF fund (Standard Life – Global Absolute Return Strategy). This equates to a strategic allocation transfer of 5% from Hedger funds to Diversified Growth funds.

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 | Brevan Howard | This is an absolute return mandate with the |

| | | |
|-------------------------|---------------------------------|--|
| Funds | Asset Management | 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. |
| Diversified Growth Fund | Standard Life Assurance Limited | This is an absolute return mandate with the manager committing to target a return of cash (3 months GBP LIBOR) plus 5% p.a. over the life of the Fund. |
| Private Equity | HarbourVest Partners | This is an absolute return mandate with the manager targeting an absolute return in excess of 8% p.a. over the life of the Fund. |

APPENDIX D: CAMDEN PENSION FUND RISK REGISTER

Date Reviewed: June 2016

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | | |
|--|--|------------|--------|-------------|---|-------------------------------|--------|-------------|-----------------------------|------------------------|------|------|--|--|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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">Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performingAnalyse progress at triennial valuationsInter-valuation roll-forward of liabilities between formal valuations at whole fund level, provided at the mid-point of the valuation cycle (last done in November 2014)Regularly benchmark assets to re-valued liabilities (currently this is done by officers using an proxy made up of 80% real gilts (ILGs) and 20% nominal gilts, which is in line with a typical LGPS fund)Provide a quarterly comparison of actual asset performance to projected performance based on valuation assumptionsSupport Pension Committee to focus more on liabilities and investment strategy | 3 | 5 | 15 | | 3 | 5 | 15 | Annually/ Quarterly | Pension Committee (PC) | | | | |

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APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | Likelihood | Impact | Risk factor | Timescale/ Review Frequency | Responsibility |
|---|---|------------|--------|-------------|--|-------------------------------|--------|-------------|-----------------------------------|----------------|------|------|------------|--------|-------------|-----------------------------------|----------------|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 | | | | | | | |
| 3. Inappropriate long-term investment strategy | <ul style="list-style-type: none">Fund-specific benchmark, informed by Asset-Liability modellingCompliance with LGPS regulationsThe Investment strategy is reviewed at least every three years by Committee (last reviewed on an interim basis in September 2015)Annual liability monitor reporting by the actuary to inform the strategyThe 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 intelligenceReview of Fund Benchmarks and Targets (September 2015) | 3 | 5 | 15 | <ul style="list-style-type: none">Member training on Liability Driven InvestmentInvestment Strategy Review in February 2017 | 3 | 5 | 15 | Quarterly | PC | | | | | | | |
| 2. Unacceptable level of investment risk (in asset allocation, use of financial instruments and leverage) | <ul style="list-style-type: none">Agree and establish appropriate level of risk in a diversified strategy with the Investment ConsultantEnsure full understanding of nature of risk in each asset classThe Investment strategy is reviewed at least every three years by CommitteeThe Independent Advisor completes due diligence on all current investment | 3 | 3 | 9 | <ul style="list-style-type: none">Further Member training on nature of investments | 3 | 3 | 9 | Annually | PC | | | | | | | |

PENSION FUND ANNUAL REPORT 2015/16
APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | Risk factor | Timescale/ Review Frequency | Responsibility |
|---|---|------------|--------|-------------|--|-------------------------------|--------|-------------|-----------------------------------|----------------|------|------|-------------|-----------------------------------|----------------|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 | | | | | |
| | <div>mandates</div> <ul style="list-style-type: none">Officers and the Independent Advisor hold in-depth meetings with all managers to review risks, leverage and instruments used and report any concerns to CommitteePrivate equity mandate appointed to. This will reduce concentration risk | | | | | | | | | | | | | | |
| 4. Liabilities rise due to fall in yields on gilts (flowing from a rise in value placed on liabilities) | <ul style="list-style-type: none">Inter-valuation monitoring, as aboveSome investment in bonds helps to mitigate this riskMonitor movement in funding level since the last valuation in performance reportReview fixed income investments to ensure continued appropriatenessReview of liability-hedging assets such as infrastructure and property | 3 | 3 | 9 | <ul style="list-style-type: none">Hymans Robertson modelling as part of the triennial valuation will give a better sense of whether the combination of asset returns, gilt yields and contributions will deliver good outcomes for the Fund in the long run | 3 | 3 | 9 | Triennially | PC | | | | | |

PENSION FUND ANNUAL REPORT 2015/16
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| Likelihood | | | | | Impact | | | | | | |
|---|---|------------|--------|-------------|--|------------|--------|-------------|-----------------------------|-----------------------|------|
| Probability of occurrence | | | | | Assets / Liabilities affected | | | | | | |
| | | | | | 1 | 2 | 3 | 4 | 5 | | |
| | | | | | <5% | <10% | >10% | >20% | >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 | |
| 7. Market failure risk (e.g. in the Eurozone) | <ul style="list-style-type: none">Limit concentration of investment in any one specific marketMonitor 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)Diversification of UK passive holding into Global passive holding (£124m)Fund manager controls on risk | 3 | 3 | 9 | <ul style="list-style-type: none">Funding of private equity mandate further reducing concentration on UK passive equityFurther transfers of UK to global equity over medium term | 3 | 3 | 9 | Ongoing | PC / Head of Treasury | |
| 5. Pay and price inflation risk | <ul style="list-style-type: none">The focus of the actuarial valuation process is on real returns on assets, net of price and pay increasesInter-valuation monitoring, as above, gives early warningMaintain investment in index-linked bonds to help mitigate this riskEmployers 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 employeesThe performance report covers movements | 2 | 4 | 8 | <ul style="list-style-type: none">Monitor pay rises for all employersChanges to employer rates between valuation could be implementedConsider hedging strategies and put in place a flight pathImpact of past pay rises will be identified for each employer's deficit as part of the 2016 triennial valuation | 2 | 4 | 8 | Quarterly | PC | |

PENSION FUND ANNUAL REPORT 2015/16
APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | Likelihood | Impact | Risk factor | Timescale/ Review Frequency | Responsibility |
|---|--|-----|------|------|------|-------------------------------|---|--|---|------|---|-----------------------------|-----------------------------|--------|-------------|-----------------------------------|----------------|
| Probability of occurrence | | <5% | <10% | >10% | >20% | Assets / Liabilities affected | | >2% | >10% | >25% | >50% | >75% | | | | | |
| Risk | Current controls | | | | | Likelihood | Impact | Risk factor | Action Plan to Improve and/or additional control measures | | | | | | | | |
| | in inflation. The cash flow report also shows impact of inflation on pension payments (currently 0.5% for CPI). | | | | | | | | | | | | | | | | |
| 6. Investment vehicle is not understood | <ul style="list-style-type: none">Investment Consultant and Independent Advisor feed into decisions on new asset classesMember training (especially for the new asset class of private equity)Appropriate due diligence carried out during searches by Investment Consultant and lawyers | 3 | 3 | 9 | | | | <ul style="list-style-type: none">Further Member training on private equity.Refresher training on more complex asset classes to be providedReview of Hedge Fund mandate | 2 | 3 | 6 | Ongoing | PC / Head of Treasury | | | | |
| 13. Employer contribution rate increases (effect on service delivery including admitted /scheduled bodies) | <ul style="list-style-type: none">Seek feedback from employers on scope to absorb short-term contribution risesMitigate impact through deficit spreading and possible phasing in of contribution risesConsult employers on possibility of paying more (extra administration and higher regular contributions) to enable employer- specific investment strategies to give greater certainty of costEmployer register considered annually by Pension CommitteeContinued dialogue between officers. | 3 | 2 | 6 | | | <ul style="list-style-type: none">2016 triennial valuation approach allows measure of risks/probabilities associated with different contribution levels per employerSee also item 30 | 3 | 2 | 6 | Annually by PSC / Ongoing by officers | PC / Head of Treasury | | | | | |

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APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | | |
|---|---|------------|--------|-------------|---|-------------------------------|--------|-------------|-----------------------------|----------------|------|------|--|--|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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">actuary and employers to determine riskVisits to all employers within a triennial valuation cycle | | | | | | | | | | | | | |
| 12. Investment manager under-performance (relative to target) | <ul style="list-style-type: none">Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.The Committee has demonstrated that it can identify poor performance and tackle this with the phased withdrawal from Fidelity and disinvestment from Aberdeen (PSC Sep 14)Any changes to investment process, philosophy, portfolio team are reported to Pension CommitteeAppointment of Independent Advisor to strengthen scrutiny in this area, and due diligence conducted by her on all managers.Appointment of second active global equity manager (Harris) to reduce overreliance on Aberdeen. Option of rebalancing equity assets between managers (PSC February 2013)Report considered on appropriateness | 4 | 2 | 8 | <ul style="list-style-type: none">Mandate review of Aberdeen (June 2016)Review of Hedge Fund Manager in 2017 | 3 | 2 | 6 | Quarterly | PC | | | | |

PENSION FUND ANNUAL REPORT 2015/16
APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | Likelihood | Impact | Risk factor | Timescale/ Review Frequency | Responsibility |
|--|---|------------|--------|-------------|---|-------------------------------|--------|-------------|-----------------------------------|----------------|------|------|------------|--------|-------------|-----------------------------------|----------------|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 | | | | | | | |
| | of targets taken in September 2015 <ul style="list-style-type: none">Investment Manager meetings are held regularly, open to Members as well as officers and significant actions are considered at Pension Committee | | | | | | | | | | | | | | | | |
| 9. Actuarial Risk (miscalculation of liabilities or inappropriate assumptions) | <ul style="list-style-type: none">The Fund maintains close contact with its actuaryAdvice is delivered via formal meetings involving elected members, and recorded properlyAdvice is subject to professional requirements such as peer reviewNew Technical Actuarial Standards in place since last valuation, which in effect impose further best practice requirements on actuarial adviceThe Fund now has two experienced actuaries with Camden-specific knowledge (Bryan Chalmers and Douglas Green) advising its Officers and Committee | 1 | 5 | 5 | | 1 | 5 | 5 | Ongoing | PC / Officers | | | | | | | |

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APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | Likelihood | Impact | Risk factor | Timescale/ Review Frequency | Responsibility |
|---|--|------------|--------|-------------|---|-------------------------------|--------|-------------|-----------------------------------|-----------------------|------|------|------------|--------|-------------|-----------------------------------|----------------|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 | | | | | | | |
| 10. Geographical/ Currency risk in investments | <ul style="list-style-type: none">Limit concentration of investment in any one specific market through manager agreementsRegular review of compliance with manager agreementsMonitor markets constantly, and seek advice of managers, consultants and independent advisorThe Fund considered the use of a strategic currency hedge to limit risk, agreeing to delegate to individual managers (PC - March 15)Diversification of UK passive holding into Global passive holding (£124m) (PC - Sept and Nov 15) | 2 | 2 | 4 | <ul style="list-style-type: none">Will need to review portfolio immediately with officers and advisors following EU Referendum if the result is 'Leave'. Possible need to take emergency action. | 2 | 2 | 4 | Ongoing | PC / Head of Treasury | | | | | | | |
| 15. Excessive fees paid to investment managers | <ul style="list-style-type: none">Manager fees keenly negotiated at time of appointment to achieve best result for the FundAll Fund fees and expenses are reviewed regularly by officersParticipation in London CIV to achieve economies of scale and ensure optimal fee structuresRegularly benchmark fees (CEM) | 2 | 2 | 4 | | 2 | 2 | 4 | Ongoing | PC / Officers | | | | | | | |

PENSION FUND ANNUAL REPORT 2015/16
APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | Timescale/ Review Frequency | Responsibility |
|---|--|------------|--------|-------------|---|-------------------------------|--------|-------------|------|------|------|------|-----------------------------------|----------------|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 |
| 16. Asset manager or bank failure | <ul style="list-style-type: none"> Detailed due diligence is carried out when new manager or custodian is appointed (financially and legally) In future this due diligence will be the responsibility of the London CIV Financial stability of managers and custodian monitored by officers and Independent Advisor Investment Consultant has coverage of all investment managers Assets under management with all managers are monitored as dramatic falls are likely to place pressure on manager business models (PC Mar 16) | 1 | 4 | 4 | | 1 | 4 | 4 | | | | | Ongoing | Officers |
| 8. Forced selling of assets in falling market due to cash flow requirements | <ul style="list-style-type: none"> Monitoring of cash flows and Fund maturity, and taking appropriate strategic action (as above) Dividends can be used to fund benefit payments. Additionally redeemable structures with most managers mean assets can be sold or units redeemed to fund benefits. | 1 | 3 | 3 | | 1 | 3 | 3 | | | | | Ongoing | PC / Officers |

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APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | | | |
|------------------------------------|--|------------|--------|-------------|---|-------------------------------|--------|-------------|-----------------------------|-----------------------|------|------|--|--|--|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 | | | | | |
| 17. Investment manager style drift | <ul style="list-style-type: none">Managers are monitored closely by officers and advisors, with quarterly investment reports and regular review meetings held and minutedReasoning behind any proposed changes to investment approach are explained by the investment managerCommittee has Investment Manager summaries which set out mandate key principles and provide triggers for review | 3 | 1 | 3 | <ul style="list-style-type: none">Minutes from recent Investment Manager meetings considered at next Pension Committee meeting | 3 | 1 | 3 | Ongoing | Officers / Advisers | | | | | |
| 18. Fraud risk | <ul style="list-style-type: none">All investment managers required to submit audits on internal controls and summarised as part of the annual report to members (PC June 15 p9)Detailed due diligence is carried out when new managers are appointed (financially and legally)Audit of the fund is carried out by competent auditorsInternal audit is carried out by competent auditorsCustodian has strong internal controls including reconciliation of asset values and performance | 1 | 3 | 3 | <ul style="list-style-type: none">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. | 1 | 3 | 3 | Ongoing | PC / Head of Treasury | | | | | |

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APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | Risk factor | Timescale/ Review Frequency | Responsibility |
|---|--|------------|--------|-------------|---|-------------------------------|--------|-------------|-----------------------------------|-----------------------|------|------|-------------|-----------------------------------|----------------|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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">Managers able to give complete look through into underlying assetsAssets held in segregated accounts where possibleInvestment Consultant has coverage of all investment managers | | | | | | | | | | | | | | |
| 19. Custodian Risk - creditworthiness, ability to settle trades, provide secure safekeeping and accurate and timely reporting | <ul style="list-style-type: none">Service Level Agreement in contractReview of custodian Key Performance IndicatorsRegular officer meetings with custodian | 1 | 3 | 3 | Future report to Pension Committee on custodian | 1 | 3 | 3 | Ongoing | Officers | | | | | |
| 14. Investment counterparty risk (related to stock lending and use of derivatives) | <ul style="list-style-type: none">Practice of stock lending and use of derivatives monitored by officers and Independent AdvisorInvestment Consultant has coverage of all investment managersRegular review of managers' due diligence processes at officer meetings | 1 | 2 | 2 | | 1 | 2 | 2 | Ongoing | PC / Officers | | | | | |
| 11. Illiquidity of assets - benefits cannot be paid and strategy changes become difficult | <ul style="list-style-type: none">Periodic review of Fund assets with Investment Consultant, and officer due diligence on marketsMaturity of Fund kept under review by Committee. (PC - June 2015) | 1 | 2 | 2 | | 1 | 2 | 2 | Ongoing | PC / Head of Treasury | | | | | |

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APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | Likelihood | Impact | Risk factor | Timescale/ Review Frequency | Responsibility |
|--|--|------------|--------|-------------|---|-------------------------------|--------|-------------|-----------------------------------|------------------|------|------|------------|--------|-------------|-----------------------------------|----------------|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| 20. Environmental, Social & Governance issues not addressed (and leading to loss on investments) | <ul style="list-style-type: none">Equity managers review ESG issues as part of investment decision, and report issues and company engagement as part of quarterly reportsMembership of LAPFF and appointment of corporate governance advisor providing research on companies investedRecent SRI conference arranged for Members of the Committee (Dec 15) | 1 | 2 | 2 | | 1 | 2 | 2 | Ongoing | PC / Officers | | | | | | | |
| DEMOGRAPHIC RISKS | | | | | | | | | | | | | | | | | |
| 21. Deteriorating active membership (due to employer savings programmes) | <ul style="list-style-type: none">Monitoring scheme membership, and the effect on cash flows and Fund maturity, and taking appropriate strategic action. Administration reports received annually by CommitteePast service adjustments paid as cash amounts instead of a percentage on employer rate (which would decline with declining membership) | 3 | 4 | 12 | <ul style="list-style-type: none">Further scenario testing through modelling of staff dataImpact identified by Hymans Robertson modelling as part of triennial 2016 valuation | 3 | 4 | 12 | Quarterly | PC / Officers | | | | | | | |

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APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | Timescale/ Review Frequency | Responsibility |
|---|--|------------|--------|-------------|--|-------------------------------|--------|-------------|------|------|------|------|-----------------------------------|----------------|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 | | | | | | |
| 23. Longevity risk (pensioners living longer) | <ul style="list-style-type: none">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 FundFund actuary sets mortality assumptions with some allowance for future increases in life expectancyFund actuary monitors combined experience of around 50 LGPS funds to look for early warnings of lower pension amounts ceasing than assumed in fundingAdministering 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 | 2 | 5 | 10 | <ul style="list-style-type: none">Continue dialogue with employersPension Committee to receive a report on mortality triennially2016 valuation to include commentary on impact of recent high mortality experienced among national pensioner population | 2 | 5 | 10 | | | | | Triennial | PC |
| 24. Substantial early retirements | <ul style="list-style-type: none">Employers are charged the extra capital cost (strain cost) of non-ill-health retirements following each individual decision | 3 | 1 | 3 | <ul style="list-style-type: none">Strain cost factors to be revisited following 2016 valuation | 3 | 1 | 3 | | | | | Annually | PC |
| 22.Substantial ill-health retirements | <ul style="list-style-type: none">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 | 1 | 2 | 2 | <ul style="list-style-type: none">The employer register will monitor this data and variances can be discussed with employers | 1 | 2 | 2 | | | | | Annually | PC |

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| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | | | | | |
|--|--|------------|--------|-------------|--|-------------------------------|--------|-------------|-----------------------------|-----------------------|------|------|--|--|--|--|--|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 | | | | | | | |
| | assumptions built-in. <ul style="list-style-type: none">Employers informed of ill health insurance option at Employer Forums | | | | <ul style="list-style-type: none">Individual employers can take out ill-health insurance to cover for strain costs | | | | | | | | | | | | |
| REGULATORY RISKS | | | | | | | | | | | | | | | | | |
| 26. Changes to regulations and Act, (e.g. more favourable benefits package, potential new entrants to scheme, part-time employees) | <ul style="list-style-type: none">See above | 2 | 5 | 10 | | 2 | 5 | 10 | Ongoing | PC | | | | | | | |
| 25. National pension scheme changes (e.g. benefits, regulation from The Pensions Regulator, and/or HM Revenue & Customs rules) | <ul style="list-style-type: none">The Fund is alert to the potential creation of additional liabilities and administrative difficulties for employers and itselfAny changes to the regulations, scheme design and benefits package should be reported to Pension CommitteeScheme changes and benefits are communicated to membersOpt outs are monitored as part of the Cash Flow & Administration reportThe result of the most recent reforms (2014 scheme) are being built into the valuation | 3 | 2 | 6 | | 3 | 2 | 6 | Ongoing | PC / Pensions Manager | | | | | | | |

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| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | Likelihood | Impact | Risk factor | Timescale/ Review Frequency | Responsibility |
|---|---|-----|------|------|------|-------------------------------|--------|---|------|------|------|------|------------|-----------------|-------------|-----------------------------------|----------------|
| Probability of occurrence | | <5% | <10% | >10% | >20% | Assets / Liabilities affected | | >2% | >10% | >25% | >50% | >75% | | | | | |
| Risk | Current controls | | | | | Likelihood | Impact | Risk factor | | | | | | | | | |
| GOVERNANCE RISKS | | | | | | | | | | | | | | | | | |
| 27. Forced merger of LGPS funds | <ul style="list-style-type: none">Participation in DCLG consultationsOn-going debate with advice from Pensions experts on a national basis | 3 | 5 | 15 | | | | <ul style="list-style-type: none">Ensure that Camden participate in any future consultation and raise concerns to the appropriate authority | 3 | 5 | 15 | | TBC | PC / Officers | | | |
| 50. Pool implementation – strategy deferral (New) | <ul style="list-style-type: none">Delay in implementing strategy due to inception of pools, on-boarding asset classes and availability of sub-funds | 3 | 4 | 12 | | | | <ul style="list-style-type: none">Continued advice from Investment Consultant and Independent investment advisorcontinued Member (through the Sectoral Joint Committee) and officer engagement with London CIV to ensure they adhere to implementation scheduleInvestment strategy review in 2017 | 3 | 4 | 12 | | Quarterly | Chair/ Officers | | | |
| 34. Maintaining adequate level of experience at officer level | <ul style="list-style-type: none">Continued staff appraisal and development planEffective personnel management and succession planningIndependent investment advisor has run training sessions for staff new to the | 2 | 4 | 8 | | | | <ul style="list-style-type: none">Ensure officers continue to undergo relevant training | 2 | 4 | 8 | | Ongoing | Officers | | | |

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|---|---|------------|--------|-------------|---|-------------------------------|--------|-------------|-----------------------------|-----------------------|------|------|--|--|--|--|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 Fund area | | | | | | | | | | | | | | | |
| 38. Undetected structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements). | <ul style="list-style-type: none">The Actuary may be instructed to consider revising the Rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuationsDeficit contributions are expressed as monetary amounts | 3 | 2 | 6 | <ul style="list-style-type: none">Considered by Actuary at triennial valuation and also (to lesser extent) when completing annual accounting exercise | 3 | 2 | 6 | Ongoing | Officers | | | | | | |
| 28. Knowledge and Understanding deficiency (Members and officers) | <ul style="list-style-type: none">Ensure training opportunities are shared, attended and reported on (part of the quarterly Business Plan)Develop introductory training for all new members to PC to attendAfter municipal elections and change of elected members on the Pension Committee group training is run for the whole committeeSet up semi-annual member training for all Pension CommitteeEnsure officers go on relevant trainingMake sure independent is involved in training requirements | 2 | 3 | 6 | <ul style="list-style-type: none">Complete CIPFA Knowledge & Skills framework for Members and officers, to assess any knowledge gaps | 2 | 3 | 6 | Ongoing | PC / Head of Treasury | | | | | | |

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| Probability of occurrence | | <5% | <10% | >10% | >20% | 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. Employer risk (bankruptcy) | <ul style="list-style-type: none">Seeking a funding guarantee from another scheme employer, or external body, where ever possibleWork done as part of the 2013 valuation results in alerting the prospective employer to its obligations and encouraging it to take independent actuarial adviceVetting prospective employers before admissionrequiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failsregular bonds reviewsAnnual review of the employer register (Nov 15)Dialogue with (potential) employers during the tender process and subsequently to ensure risks are understood and managed, such as at Employers Forum and meetings with employers to ensure they understand their obligations , liabilities and funding position | 3 | 2 | 6 | <ul style="list-style-type: none">Additional forward looking measures put in place in employer register (November 2015)Seek potential security from employers where restrictions on contribution affordability and/or higher perceived business risk(see also item 13) | 3 | 2 | 6 | Annually | PC | | | | |

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APPENDIX 4: STATEMENT OF INVESTMENT PRINCIPLES

| Likelihood | | 1 | 2 | 3 | 4 | Impact | | 1 | 2 | 3 | 4 | 5 | | |
|---|--|------------|--------|-------------|---|-------------------------------|--------|-------------|-----------------------------------|----------------|------|------|--|--|
| Probability of occurrence | | <5% | <10% | >10% | >20% | 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 | | | | |
| 32. Actuarial or investment advice is not sought, or is not heeded, or proves to be deficient in some way | <ul style="list-style-type: none">The Administering Authority maintains close contact with its advisersAdvice is delivered via formal meetings involving elected members, and recorded properlyAdvice is subject to professional requirements such as peer reviewMembers and officers with suitable skills, knowledge and understanding to discharge their roles | 1 | 5 | 5 | | 1 | 5 | 5 | Ongoing | PC / Officers | | | | |
| 29. Forced disinvestment (from active managers and Fund of Fund vehicles) | <ul style="list-style-type: none">DCLG consulting on possibility and impact of legislating for such investmentOn-going debate with advice from Pensions experts on a national basis. | 2 | 2 | 4 | <ul style="list-style-type: none">Participate in consultation and raise concerns to the appropriate authority | 2 | 2 | 4 | TBC | PC / Officers | | | | |
| 31. Reputational risk from unaddressed ESG (Environmental, Social & Governance) issues | <ul style="list-style-type: none">Membership of LAPFF providing active corporate engagement and championing of ESG issuesCorporate Governance advisor provides company research and ensures Camden voting policy executed on shareholdingsMembers and officers aware of fiduciary responsibilities, acting in the long-term interest of the Fund and taxpayers | 2 | 2 | 4 | | 2 | 2 | 4 | Ongoing | PC / Officers | | | | |

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| Risk | Current controls | Likelihood | Impact | Risk factor | Action Plan to Improve and/or additional control measures | Likelihood | Impact | Risk factor | Timescale/ Review Frequency | Responsibility | | | | | |
| 33. Employer cessation not identified (due to closing to new entrants) | <ul style="list-style-type: none">Employer Register is maintained and reviewed annually by Committee (PC Nov 2015) | 2 | 2 | 4 | <ul style="list-style-type: none">Continued dialogue with employers to ensure risks are understood and managed | 2 | 2 | 4 | Ongoing | PC / Pensions Manager | | | | | |
| 35. Legislative risk - failure to comply with legislation, statutory regulation and formal guidance | <ul style="list-style-type: none">Officers seek guidance and advice from independent sources as appropriateAdvisers proactively raise issues and keep Officers aware of relevant issuesOfficers receive regular training and attend appropriate LGPS events | 1 | 4 | 4 | | 1 | 4 | 4 | Ongoing | Officers | | | | | |
| 36. Conflict of interests (elected members, officers and advisers) | <ul style="list-style-type: none">Officers/ Committee seeks guidance and advice from independent sources as appropriateOfficers and members receive regular training and attend LGPS events, at which conflict issues will be raised as appropriateMembers are required to declare conflicts of interest at the start of meetings and at the point in a meeting when a conflict arisesPension Board have their own conflicts of interest policy | 1 | 3 | 3 | <ul style="list-style-type: none">New actuarial professional standards came 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)The Pensions Regulator's role in the LGPS will include governance and conflict issues, and guidance and training will be forthcoming on these topics | 1 | 3 | 3 | Ongoing | PC / Officers | | | | | |

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| Probability of occurrence | | <5% | <10% | >10% | >20% | 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. Mandate burden - number of investment mandates inhibits Committee in its governance of investments | <ul style="list-style-type: none">Performance and relevant information of investment mandates reported to Committee as part of quarterly Performance ReportCommittee provides clear delegation to Executive Director Corporate Services as and when requiredOfficers and Members meet regularly with investment managers outside of Committee time and feed back minutes of meetingsIndependent investment advisor conducts separate monitoring meetings with managers as appropriateInvestment managers to be brought to Committee or London CIV (where their sub-fund is used) for targeted discussion where appropriate | 2 | 1 | 2 | | 2 | 1 | 2 | Ongoing | PC / Officers | | | | | |
| 39. Termination valuation not undertaken – missed opportunity to call in a debt. | <ul style="list-style-type: none">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 | <ul style="list-style-type: none">New Regulations permit retrospective cessation valuation | 2 | 1 | 2 | Ongoing | Officers | | | | | |

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|--|---|------------|--------|-------------|--|-------------------------------|--------|-------------|------|------|------|------|-----------------------------------|------------------|
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| Risk | Current controls | Likelihood | Impact | Risk factor | Action Plan to Improve and/or additional control measures | Likelihood | Impact | Risk factor | | | | | | |
| 40. Lack of delegation arrangements | <ul style="list-style-type: none">Detailed scheme of delegation adopted for Council officers, and reviewed annuallyDecisions to delegate specific activities from Committee to Executive Director Corporate Services agreed and documented at Committee meetings | 1 | 2 | 2 | | 1 | 2 | 2 | | | | | Ongoing / As Necessary | Officers / PC |
| ADMINISTRATION RISKS | | | | | | | | | | | | | | |
| 44. Adequate level of administration officer knowledge and skills (Pension shared service) | <ul style="list-style-type: none">Effective personnel management and succession planningInduction and knowledge sharing on local issues and requirements for new officers | 2 | 3 | 6 | <ul style="list-style-type: none">Ensure audit takes place post current restructure | 2 | 3 | 6 | | | | | Ongoing | Pensions Manager |
| 42. Changes to scheme members (starters, leavers, retirements etc.) are not processed properly | <ul style="list-style-type: none">Scheme regulations are followedPensions team are well trainedInduction of new pensions administrators | 2 | 2 | 4 | <ul style="list-style-type: none">Actuary reviews application of scheme rules | 2 | 2 | 4 | | | | | Ongoing | Pensions Manager |
| 46. Data and records are not accurate | <ul style="list-style-type: none">Records have correct supporting documentationInput and output checks are performedData matching exercises identify discrepancies (National Fraud Initiative) | 2 | 2 | 4 | <ul style="list-style-type: none">Reconciliations are performed between payroll and pensions systems | 2 | 2 | 4 | | | | | Ongoing | Pensions Manager |

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| Risk | Current controls | Likelihood | Impact | Risk factor | Action Plan to Improve and/or additional control measures | Likelihood | Impact | Risk factor | | | | | | |
| 47. Employer Contributions not received or recorded properly | <ul style="list-style-type: none">Pensions team dedicates appropriate time and resource to managing contributionsReconciliations are carried out monthly | 2 | 2 | 4 | | 2 | 2 | 4 | | | | | Monthly | Pensions Manager |
| 41. Added complexity of scheme benefits (following introduction of LGPS 2014 impacting officer time and risk of miscalculation) | <ul style="list-style-type: none">Scheme regulations are followedPensions team are well trained | 1 | 3 | 3 | <ul style="list-style-type: none">Audit to be carried out to review compliance with new regulations | 1 | 3 | 3 | | | | | Ongoing | Pensions Manager |
| 45. Systems are not secure and well maintained | <ul style="list-style-type: none">Internal audit of system setup and securitySystems administrator well trainedData is backed up dailySystem is protected from viruses and hackingSystem is up to date and latest features of the software are usedCouncil clients the software provider and ensures issues are raised and addressed in latest releases | 1 | 3 | 3 | | 1 | 3 | 3 | | | | | Ongoing | Pensions Manager |
| 43. Employers data inaccurate | <ul style="list-style-type: none">Liaison with schools, Supporting People directorate and out-sourced payroll providers to ensure accurate and timely data is received | 3 | 1 | 3 | <ul style="list-style-type: none">Audit exercise planned to review outsourced school payroll data | 3 | 1 | 3 | | | | | Ongoing | Pensions Manager |

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| Risk | Current controls | Likelihood | Impact | Risk factor | Action Plan to Improve and/or additional control measures | Likelihood | Impact | Risk factor | | | | | | |
| 48. Incorrect benefits paid | <ul style="list-style-type: none">Pensions team are well trainedPayments have correct supporting documentationManagement check performed on benefit payments before processing | 1 | 2 | 2 | | 1 | 2 | 2 | | | | Ongoing | Pensions Manager | |
| 49. Audit fail to undertake proper checks | <ul style="list-style-type: none">Audit plan work to get reasonable expectation of detecting control weaknesses | 2 | 1 | 2 | | 2 | 1 | 2 | | | | Annually | Pensions Manager | |

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. A summary of the fund's voting policy can be found via the following webpage: <http://www.camden.gov.uk/ccm/content/council-and-democracy/publications-and-finances/pensions/pension-fund-investment.en>

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.