

Lancashire County Pension Fund

Statement of Investment Principles

Approved by Pension Fund Committee
on 27 March 2015

Lancashire County Council
as administering authority of
**Lancashire County Pension
Fund**



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Lancashire County Pension Fund

Statement of Investment Principles

1. Introduction

Lancashire County Council (“LCC”) is the administering authority of the Lancashire County Pension Fund (the “Fund”). This Statement of Investment Principles (“SIP”) sets out the principles governing its decisions about investments made by the Fund. It has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Fund has produced the SIP following consultation with the Fund’s Investment Panel, and a representative of the Fund’s Actuary.

2. Responsibility for Investment Management

Lancashire County Council is responsible for administering the Fund under the Pension Scheme regulations 1997 (as amended). It delegates its responsibilities to:

- ◆ The Pension Fund Committee;
- ◆ The Administration Sub Committee;
- ◆ The Fund's Investment Panel;
- ◆ The Fund's Investment Managers.
- ◆ The Fund's Custodian
- ◆ The Treasurer to the Fund

The division of responsibility is set out in detail in the Governance Policy Statement, which is available at www.yourpensionservice.org.uk or on request from the Fund, but in summary, responsibilities are allocated as follows:

3. Pension Fund Committee

The Pension Fund Committee has overall responsibility for investment policy and monitoring overall performance. The Committee meets four times a year, and currently comprises 14 elected County Councillors, 4 representatives of the District Councils and Unitary Authorities within the Fund, 2 representatives of scheme members and a representative of the Higher and Further Education Sectors in Lancashire.

4. Investment Panel

The Investment Panel consists of two independent advisors, the Treasurer to the Fund (as Chair), the officer of the County Council fulfilling the role of Chief Investment Officer for the Fund and an officer of the County Council identified by the Treasurer to the Fund to oversee investment compliance activities.

The Panel meets at least quarterly, or otherwise as necessary. The Panel may operate through sub groups to undertake particular tasks. It formulates recommendations to the Treasurer to the Fund and/or the Pensions Fund Committee through meetings of the full Panel.

The Panel is required to provide advice to the Treasurer of the Fund regarding:

- a. Recommendations to the Pension Fund Committee in relation to the Investment Strategy for the Fund;
- b. The broad composition of the Fund's investment portfolio, management style and types of investment;
- c. The proposed procurement process, tender award criteria and evaluation methodology for external advisers and other external assistance including investment managers, property agents and advisors, corporate governance adviser, Fund Custodian, performance measurement advisers, the Fund Actuary and the Fund's AVC Provider ("external support") to enable the Treasurer to the Fund to seek the approval of the Pension Fund Committee to commence the procurement of any required external support.
- d. The selection and appointment of any required external support (subject to the role of the Pension Fund Committee), their remit and terms of office;
- e. The allocation of ranges and thresholds within which the Investment Managers should operate;
- f. Review of the Statement of Investment Principles and compliance with investment arrangements;
- g. Recommendations on the detailed management of the investment portfolios including the selection of pooled funds; and
- h. To oversee the performance of the investment managers appointed by the Fund and to report on the Fund's performance.

5. Investment Managers

The management of the Fund's investments is structured so as to provide diversification of management style and produce an acceptable spread of risk across the portfolio whilst maximising returns.

All Fund managers are subject to investment due diligence and all the segregated fund managers are registered with the UK FCA or equivalent organisation. New allocations may be made from time to time and Investment Managers are added to, removed or changed as necessary.

The Fund's Investment Managers are listed in its Annual Report.

Role of Lancashire County Council in-house staff in respect of the accounts and investments of the Pension Fund

Under the Lancashire County Council Scheme of delegation to Chief Officers, the Treasurer to the Fund is responsible for carrying out, in consultation with the Investment Panel, the County Council's duties under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, with regard to the requirement to review the investments made by the Fund Managers. The Treasurer reports to each meeting of the Pension Fund Committee.

The Treasury and Investment, Financial Accounting and Taxation and Investment Compliance Teams within the County Treasurer's Directorate support the Treasurer in respect of their Pension Fund investment and accounting responsibilities and provide the following services:

- Investment management services;
- Production of the Pension Fund Annual Report;
- Preparation and maintenance of the accounts and balance sheet of the Pension Fund;
- Verification and monitoring of the investment data produced by the Fund managers to independent custodian records;
- Completion of various statistical questionnaires;
- Preparation of agenda, working papers and reports for the Investment Panel meetings, Pension Fund Committee meetings and other miscellaneous investment meetings;
- Maintenance of Pension Fund internal cash account and investment of Pension Fund Cash not held by the investment managers;
- Provision of accounting data for IAS19 calculations;
- Monitoring compliance with policy laid down by the Investment Panel and Pension Fund Committee;
- Maintenance of regular dialogue with investment managers and custodians;
- The provision of data for performance monitoring and interpretation of performance results;
- The conducting of procurement exercises to secure the services of Investment Managers and other service providers on behalf of the Fund.
- The identifying of and conducting of due diligence on individual investment opportunities for consideration by the Investment Panel.
- Monitoring voting action by the managers;
- Advice to the Treasurer on Pension Fund Investment issues;
- Verification, monitoring and payment of Pension Fund fee invoices;
- Monitoring the receipt of income due to the Fund;
- Representing the Treasurer at the Local Authority Pension Fund Forum meetings and other relevant Pension Fund Investment meetings;
- Interpretation and implementation of the requirements of new legislation relating to Pension Fund accounting and investments;
- Attendance at various seminars covering new developments in respect of Pension Fund Investment issues; and
- Research initiatives.

6. Investment Objectives

The Fund has two objectives in terms of its investment activities:

1. To ensure that resources are available to meet the Fund's liabilities through achieving investment performance at least in line with actuarial assumptions.
2. To achieve full funding (i.e. no funding deficit) over a period no longer than the current recovery period.

The current funding target assumptions include an assumed investment return (discount rate) of a yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 1.6% p.a.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

7. Types of Investment

The Investment Panel ("the Panel") will provide expert professional advice to the Pension Fund Committee in relation to investment activities that fall within its approved strategy, including the following categories of investment:

- Equities;
- Fixed interest and index linked securities;
- Property;
- Cash; and
- Commodities.

Advice will include the management of foreign exchange risk and the use of financial derivatives where appropriate.

Advice on equities will involve the use of active and passive management styles, the use of public and private markets, and the choice of Investment Managers and pooled funds.

Advice on fixed interest and index linked securities will involve the use of investment grade and non-investment grade credit, and the choice of Investment Managers, pooled funds and direct investment opportunities.

Property advice will include the direct acquisition of land and premises, the development of such land, and improvements and refurbishment of such premises. It will also include the use of indirect pooled property investments.

Investments in infrastructure may be separately grouped, but they fall within the above categories.

8. Balance between Different Types of Investment

The investment strategy sets out a balance between different asset classes as follows:

Asset Class	Range %
Global Equities – Active and Passive, Physical and Index. Private and Publicly Quoted	40-60
Diversified Property –UK and Overseas. Direct and indirect.	10-20
Lower Volatility Strategies - (including but not exclusively, Fixed Income, PFI, Credit strategies, Infrastructure, Currency, Commodities, Absolute Return, Cash, funds and index, Local development/PPP type allocations)	20-40

The Active Public Equity and Fixed Interest Managers have full discretion to invest within each investment category subject to statutory limits and any asset allocation ranges around the benchmark, agreed between the Investment Panel and the Managers. The Property Manager's mandate is advisory with final decisions being taken by the Treasurer to the Fund based upon that advice.

With pooled funds, the manager of the investment fund operates within the constraints imposed by the constitution of the pooled fund, as reviewed and approved by the Investment Panel.

The broad target ranges of the overall investment strategy set out above are supplemented by specific strategies relating to individual asset classes. Pension Fund Committee has approved the following sub-strategies:

- Credit and Fixed Income – approved on 22 March 2013;
- Private Equity – approved on 6 September 2013;
- Property – approved on 6 September 2013.

CREDIT AND FIXED INCOME STRATEGY – BROAD ALLOCATIONS

The table below sets out proposed strategic allocation ranges to the various categories of investment which make up the credit and fixed income universe.

The ranges set out are in line with the Investment Strategy range of 20% to 40% for Lower Volatility Strategies (defined as including but not exclusively, Fixed Income, PFI, Credit strategies, Infrastructure, Currency, Commodities, Absolute Return, Cash, funds and index, Local development/PPP type allocations).

The broad allocations below imply that at a minimum, 20% of the fund allocation will be to credit and fixed income (compared to a current exposure to such strategies of 26.1% of the Fund), leaving up to 20% available for investment in other lower volatility strategies. Flexibility remains within the allocations below for the entire lower volatility allocation to be invested in credit should it be considered appropriate.

Credit investment allocation	% of Fund
Long Dated Secured Lending – Real Estate, Infrastructure and Asset Finance	5%-10%
Senior Secured Loans and Direct Lending to SMEs	5%-10%
Emerging Market Local Currency Debt	5%-10%
Impaired Credit and Regulatory Driven	5%-10%
Balanced / Club Credit Opportunities Funds (may incorporate the above allocations)	0%-20%
Investment Grade Bonds, Gilts and Cash (safe haven / interim holdings only)	0%-20%

PRIVATE EQUITY STRATEGY

Private equity is an illiquid investment, for which this increased illiquidity is compensated by the potential for superior returns (i.e. an illiquidity premium).

The new strategy proposes allocating more capital to fewer funds, thereby reducing diversification. However, these investments may be shared across a wider range of managers, but it is not considered that the portfolio risk will be materially higher.

Co-investing in individual deals alongside a fund manager risks negative selection bias, whereby the fund managers offer co-investments in the less attractive opportunities. This risk appears modest and is offset by the fee reduction.

Changes in the strategy are expected to be gradual over a number of years, such that there will be no sudden changes in the portfolio.

PE Strategy Limits (by Fund Type and Geography)

Strategy limits reflect the market and also give the LCPF fund manager the opportunity to be over/ under weight the market:

Assume Pension Fund Value (£m)		% of PE Allocation		% of Pension Fund		Example for £5bn Pension Fund (£m)	
5,000		Min	Max	Min	Max	Min	Max
1	Fund Type		100%		7.5%		375
	Buyouts (LBOs)	70%	100%	5.25%	7.50%	263	375
	Venture Capital (VC)	0%	10%	0%	0.8%	0	38
	Other PE Sub-Classes	0%	20%	0%	1.5%	0	75
	3.1 Max in Any Single Sub-Class	0%	10%	0%	0.8%	0	38
	Geography						
	Europe (incl. U.K.)	50%	75%	3.8%	5.6%	188	281
	Non-Europe	25%	50%	1.9%	3.8%	94	188
	Developed Markets	90%	100%	6.8%	7.5%	84	188
	Emerging Markets	0%	10%	0%	0.8%	0	38

"Emerging Markets" are as defined by MSCI or FTSE listed indices

Concentration Limits (by Fund Structure)

Limits are set on the concentration by fund structure with the aim of ensuring a minimum level of diversification, but discouraging over diversification:

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Commitment Limits per <u>individual</u> PE Fund (as a % of annual PE commitment target)	Target	Min.	Max	Total PE Portfolio Limit (% of NAV)
Primary Fund	15%	7%	25%	100%
Co-Investment Fund	15%	7%	25%	40% incl Direct
Primary Fund of Fund	20%	10%	30%	50%
Secondary Fund	20%	10%	40%	50%

<u>Direct</u> Co-Investments by LCPF in individual companies (as % of the original fund's investment)		20%	100%	40% incl Co- Investment Funds
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The central expectation is to commit to 4-6 funds per year, mostly primary, allowing for larger commitments to more diversified funds of funds. In addition to initial commitments to funds, direct co-investments are allowed in individual companies that are held by LCPF's funds.

PROPERTY INVESTMENT STRATEGY

The aim of the Property Investment Strategy is to deliver solid, reliable property returns to the Fund through a diversified portfolio of investments. It aims not only to reduce volatility by seeking exposures across property sectors and geographies but also offer the prospect of higher returns through appropriate diversification and specialist/opportunity investment.

It is proposed that the aim of the property portfolio should be to deliver an absolute return to the Fund rather than track a particular property benchmark. Such an approach promotes long term value decision-making over shorter term drivers to meet a particular index benchmark performance. However, the volatility of returns means that evaluation of performance against an absolute return benchmark is most meaningful when undertaken over longer periods of time.

For performance reporting purposes, it is proposed that an absolute benchmark of 8% per year is used, the same as for the infra-structure investment allocation. In judging the results of individual constituents of the property portfolio, especially in the shorter term, then specialist property benchmarks may be used.

As the absolute benchmark reporting will only become meaningful after a number of years, it is proposed the performance of the property portfolio is also measured against the existing broad IPD UK property index. This performance measure will also measure the value of adding diversity into the property portfolio beyond the existing direct UK portfolio.

The portfolio construction will be influenced not only by the net returns available, but also by the correlation and volatility of returns across sectors and geographies. The value leakage between gross and net returns needs to be taken into account because it varies significantly depending on the investment route chosen.

It is proposed that the mainstay of the property allocation should be to a core property portfolio with additional investments seeking some diversification and higher returns. Where core strategies might have an Internal Rate of Return (IRR) of 6-8% per annum, the specialist income/opportunity strategies would be expected to return IRRs of 8-12% per annum:

		Banded ranges	Example £m
Value of Fund			5000
Percentage allocation to property			15%
Total Property Allocation			<u>750</u>
Diversified Portfolio	Core	Range	
		70% to 80%	525 to 600
Specialist Portfolio	/ Opportunity	Range	
		20% to 30%	150 to 225

This combination of core and specialist holdings offers the prospect of at least achieving the 8% per annum absolute return benchmark proposed if not exceeding it.

Investment Limits imposed under the Local Government Pension Scheme (Management and Investment of Fund's) Regulations 2009

The 2009 regulations laid down the limits shown in Column 1 and Column 2 below, having consolidated the previous 1998, 2003, and 2005 Regulations. The limits in Column 2 may be used by Local Authority Pension Funds if, following proper advice, they have sought approval by their Pension Fund Committees for the increases and the reasons for adopting the increases are detailed in the Statement of Investment Principles.

The Fund's Investment Panel and Pension Fund Committee have previously reviewed the 2009 Regulations limits and have adopted the increased limits for **any single insurance contract** and also for **all contributions to partnerships**.

The 2013 amendment to the 2009 Regulations increased the maximum proportion of a local government pension fund which can be invested in contributions to partnerships from 15% to 30%.

	Column (1) Limits under regulation 14 (2)	Column (2) Limits under regulation 14 (3)
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	30%
4. with the sum of - (a) all loans; and (b) and deposits with - (i) any local authority, or (ii) any body with power to issue a precept of requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000(a)) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans.	10%	-
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding.	10%	-
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	-
8. All sub-underwriting contracts.	15%	-
9. All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body.	25%	35%

	Column (1) Limits under regulation 14 (2)	Column (2) Limits under regulation 14 (3)
9a. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body.	25%	35%
9b. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body	25%	35%
10. Any single insurance contract.	25%	35%
11. All securities transferred under stock lending arrangements.	25%	35%

Stock Lending

Stock lending is undertaken up to the 35% limit above. The programme is run by the Fund's Custodian, which monitors performance, limit and counterparty credit adherence, and voting requirements.

9. Policy on Risk

The consideration of investment risk forms part of the Pension Fund's overall risk register, which is presented to Pension Fund Committee on a bi-annual basis. The key risks and associated mitigations are replicated in the Funding Strategy Statement.

The overriding objective of the Fund in respect of its investments is to minimise risk and maximise return while reducing volatility. The structure of the investment management arrangements has been implemented in order to produce a balanced spread of risk for the portfolio.

Operational risk is minimised by having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian.

The Fund's Global Custodian is Northern Trust. All public market investments are held in nominee accounts of Northern Trust.

All private market investments, including interests in private equity, property and other pooled funds are held directly in the name of Lancashire County Council as administering authority of the Lancashire County Pension Fund. Northern Trust provides detailed investment accounting and reconciliation services for all private market investments.

The title deeds in respect of the Fund's property holdings are held by Lancashire County Council and its property solicitors.

10. The expected return on investments

Each manager is expected to achieve an excess return on the assets under their management greater than the relevant benchmark. In assessing performance of

each manager the Investment Panel takes in to account the long-term nature of the investment process and returns are judged primarily on an annualised basis over a rolling three-year period. The Investment Panel reviews the appointment of each manager at least every three years or such shorter period as may be necessary. The targets and benchmarks in place are as follows:

- ◆ The Global Equity specialist managers have a target to outperform the MSCI All World index by 2.5% (net of fees) on a rolling three year basis. They are benchmarked against the MSCI All World index.
- ◆ The Government Bonds manager is expected to outperform the FTSE All Stocks benchmark performance return by 0.75% (net of fees) on a rolling three year basis.
- ◆ The Corporate Bonds manager is expected to outperform the IBOXX sterling Non Gilts benchmark on a rolling three year basis.
- ◆ Bonds and cash held for treasury management purposes are expected to outperform the FT 7 day LIBID.
- ◆ The Private Equity Manager has a target to outperform the median return in the British Venture Capital Association (BVCA) survey of Private Equity returns by 3%. Historically, the Private Equity benchmark has been the FTSE All Share. Going forward, an absolute return target may be more appropriate, and the Fund's independent advisers have suggested a target in the range 8-12% per annum, with a natural mid-point of 10%.
- ◆ The Infrastructure managers are expected to outperform an 8% absolute benchmark on a rolling three year basis.
- ◆ The credit and fixed income funds have individual targets and benchmarks relating to their specific sub-class within the overall asset allocation.
- ◆ The UK direct property manager is expected to outperform the IPD All Property Index Benchmark return on a rolling three year basis. Overall, and as set out in the property strategy above, the core property strategy targets an Internal Rate of Return (IRR) of 6-8% per annum, whilst the specialist income/ opportunity strategies would be expected to return IRRs of 8-12% per annum.

11. Monitoring and Review

The investment activities of the Fund's Investment Managers are reviewed at each Panel meeting and reported on to the Pension Fund Committee. At these meetings, asset allocation and investment performance of the Investment Managers is reviewed.

The WM survey of Local Authority Pension Fund returns is also used by the Fund for comparative information purposes.

The Fund's Actuary carries out a triennial review of the Fund and sets the employers' contribution rates for each three year period. Details of investment strategy and activity are an important element of the actuarial review.

The Annual Report is produced by the Treasurer for all employing bodies within the Fund, and this report, together with various information bulletins produced in respect

of the Pension Scheme, provides details of Investment Policy and performance relating to the Investment Managers. Extracts from the Report are circulated to all members with the Fund's newsletter and are posted on the Fund's web site (www.yourpensionservice.org.uk).

12. Policy on Realisation of Investments

As the Fund is cash flow positive after including investment income, there is no need to realise investments in order to pay for benefits.

The Fund Managers realise investments as and when they consider appropriate in accordance with their management discretion. The Treasurer having received advice from the Investment Panel approves the realisation of pooled funds and properties.

Where investments are held in portfolios with a discretionary investment mandate, the funds realised are held to the account of the Investment Manager for reinvestment. In all other cases, the funds realised are as cash and managed through the Fund's usual treasury management processes.

13. Corporate Governance and Responsible Investment

Corporate Governance

The Fund recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Fund considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society.

The Fund's approach to Corporate Governance

The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards or reasonable expectations set by their peers.

In order to fulfil this responsibility, the Fund communicates with companies and exercises the rights (including the voting rights) attaching to investments in support of its corporate governance policies. The Fund's voting rights are an asset and will be used to further the long-term interests of the Fund's beneficiaries. As a general principle, votes will be used to protect shareholder rights, to minimise risk to companies from corporate governance failure, to enhance long-term value and to encourage corporate social responsibility.

The Fund may utilise some or all of the following tools: writing to company management; special meetings with companies; questions and discussions with companies at routine meetings and AGMs; joining in or supporting campaigning or pressure groups; issuing public statements/ briefings; and proxy voting.

Responsible Investment

Responsible Investment is an investment approach in which investors recognise the importance of the long-term health and stability of the market as a whole; seeking to incorporate material extra-financial factors alongside other financial performance and strategic assessments within investment decisions; and utilise ownership rights and responsibilities attached to assets to protect and enhance shareholder value over the long term – primarily through voting and engagement. The objective of responsible investment is decreasing investor risk and improving risk-adjusted returns.

Examples of potentially material risks to be considered as part of the Fund's voting and engagement activity are set out below:

Governance risks:

- Board independence – Non-Executive Directors play a vital role in overseeing the executive management and safeguarding the interests of shareholders;
- Succession planning – An ineffective policy can have implications for a company's performance, including uncertainty over its sustainability;
- Board diversity – Research suggests that shareholders, companies and boards are not best served by an overly homogenous board prone to group think;
- Auditors – The independence of auditors plays a crucial role in protecting shareholders.

Environmental risks:

- High intensity industries will incur additional financial costs from carbon regulations in different jurisdictions. Changes in climate will affect company supply chains and fixed assets;
- Energy use – Through effective management of energy use, companies are able to reduce energy costs as well as build security of supply;
- Natural resources – Demand for raw materials is ever increasing, this has implications including increasing regulation around sourcing and use of resources;
- Water – A growing global population is leading to rising consumption – this in turn increases costs and creates tensions or conflicts.

Social risks:

- Human rights – Companies operating in companies with poor human rights records may face significant challenges, such as legal challenges or reputational damage;
- Employment – Research indicates that well managed employee relations improve worker productivity and effectiveness in turn benefitting shareholders;
- Health and safety – Companies with poor health and safety records may face prosecutions, fines and in extreme cases, the withdrawal of licences to operate;
- Supply chain – Companies are increasingly reliant on a large, global workforce, exposing them to increased risks of disruptions.

Implementing a responsible investment policy helps a pension fund to adhere to the UK Stewardship Code. The Fund's current position relating to the UK Stewardship Code can be found in a separate statement on its website.

Lack of good governance interferes with a company's ability to function effectively and is a threat to the Fund's financial interest in that company.

The Fund's approach to responsible investment

The Fund's approach to responsible investment divides into four areas of activity.

a) Voting Globally

The first approach, voting, is certainly not a 'boxticking' exercise, as the Fund regularly votes against resolutions. The Fund, through a proactive voting policy, in partnership with PIRC, votes its share rights constructively based upon a comprehensive analysis of company voting issues.

PIRC is instructed to vote the Fund's shares in accordance with its guidelines unless an Investment Manager requests a different vote for investment management reasons. In the latter case, the Treasurer to the Fund will decide how best to cast the vote in the long-term financial interest of the Fund.

b) Engagement through Partnerships

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns. It does this through:

- Local Authority Pension Fund Forum (LAPFF);
- Voting on shareholder resolutions;
- Joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest. See the LAPFF website for further details: www.lapffforum.org

c) Shareholder Litigation

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund, in partnership with two US law firms and other shareholders, submits class actions globally where possible and where appropriate.

d) Active Investing

The fourth and most challenging activity for the Fund in this particular field is actively seeking investments with ESG characteristics, provided these meet the Fund's requirements of strong returns combined with best practice in ESG and/or corporate governance. Such investments include alternative energy, clean energy, shared ownership housing.

The Fund will continue to develop its approach in promoting effective corporate governance and socially responsible investment wherever possible, including

working towards certain recognised standards in order to increase transparency and accountability.

14. Principles of Investment Practice

The Fund's compliance with the six principles of investment practice laid out in Local Government **Pension** Scheme (Management and Investment of funds) regulations 2009 is described below:

Principle 1: Effective Decision Making

Fully compliant: The decision making process is fully outlined in the Governance Policy Statement, Governance Compliance Statement and Statement of Investment Principles.

Principle 2: Clear Objectives

Fully compliant: The overall objective for the Fund is outlined in the Statement of Investment Principles. The Investment Panel sets benchmarks for measuring the performance of each investment and an overall benchmark for the Fund as a whole in order to monitor the attainment of the objectives.

Principle 3: Risk and liabilities

Fully compliant: The Investment Panel and Pension Fund Committee have considered the appropriate assets for the Fund following Asset/ Liability studies and decided upon an investment strategy involving a diversification of investments amongst equities, property and investments offering the prospect of acceptable returns with lower volatility.

Principle 4: Performance assessment

Fully compliant: Investment performance reports are produced by the Custodian monthly for consideration by the Investment Panel and the Pension Fund Committee. In addition, StateStreet WM produces quarterly benchmarking information for the Pension Fund to compare performance with other LGPS schemes.

Principle 5: Responsible ownership

Fully compliant: PIRC has been appointed the Fund's proxy to vote the Fund's shares at shareholder meetings. PIRC votes in accordance with its voting guidelines unless an Investment Manager requests differently, in which case the Treasurer to the Fund would decide how the vote should be cast in the best interests of the Fund. The Fund is a member of the Local Authority Pension Fund Forum, which is primarily concerned with Corporate Governance issues and shareholder activism. Voting action is monitored on a quarterly basis.

Principle 6: Transparency and reporting

Fully compliant: The Statement of Investment Principles outlines who is responsible for strategic and asset allocation decisions for the Fund and the reasons behind this Structure. It contains the current investment objective and details of the operational aspects of the Fund's investments.

The Fund provides all of its Members with regular information bulletins. The Annual Report and the Fund's statutory statements are made available to all the Fund's employers and members through the web site www.yourpensionservice.org.uk.