

Avon Pension Fund

Investment Strategy Statement

1. Introduction

The Avon Pension Fund (the Fund) is administered by Bath & North East Somerset Council, which is legally responsible for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (the Committee), which is its formal decision making body. Members of the Committee represent a cross section of the Fund's stakeholders and therefore a range of views are taken into account when agreeing policy and strategy.

The Committee is supported by a sub-committee, the Investment Panel (the Panel), which considers matters relating to the management and investment of the assets of the Fund in greater detail. Although the Panel has delegated powers to take decisions on specific issues (including the selection, monitoring and termination of mandates) and makes recommendations to the Committee, responsibility for setting strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to officers.

In addition, the Local Pension Board has an oversight and scrutiny role to ensure good governance through monitoring of the Fund's performance, activity of the Committee and adherence to statutory duties.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations) require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This statement sets out the principles that will guide the Committee when making decisions about the investment of the Fund's assets. It also sets out the framework for investing the Fund's assets which is consistent with the funding strategy, as set out in the [Funding Strategy Statement](#).

The Investment Strategy Statement is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund's investments are managed. This statement will be reviewed by the Committee at least triennially or more frequently should any significant change occur. There is ongoing quarterly and annual monitoring of the strategy which enables the Committee to take advice as to whether a review is needed at any time.

The Investment Governance Principles ("the Principles") set out a code of best practice in pension fund governance, investment decision making and disclosure. The Fund fully complies with the Principles. Appendix 1 sets out the Fund's compliance with the Principles.

2. Investment Beliefs

The Fund has the following investment beliefs which underpin the investment strategy and guide decision making around investment of the Fund's assets.

- **The Funding Strategy and the Investment Strategy, and thus the employer contribution rates, are inherently linked.** A material change to one cannot be effected without due regard for the others.
- **Strategic asset allocation** is the key factor in determining the risk and return profile of the Fund's investments.

- **Investment governance is key to effective decision making.** The Fund has a governance framework in place that ensures effective decision making regarding the investment of its assets.
- **Long term approach to investing.** The strength of the employer covenant and funding strategy, which allows for any deficit to be recovered over time, enables the Fund to take a long term view of investment strategy.
- **Diversification of assets is an important element of the risk management framework.**
- **Environmental, Social and Governance factors** are important drivers of the sustainability of investment returns over the long term and they can have a material financial impact if not managed appropriately.
- **Active management can add value to returns, albeit with higher short term volatility.**
- **Value for money from investments** is important, in terms of net returns. Asset pooling is expected to help reduce costs over the long term, whilst providing more choice of investments, and therefore have the potential to enhance Fund returns.

3. Investment Objective

The Fund's investment objective is to achieve a return on the assets, consistent with an acceptable level of risk that will enable the Fund to meet its pension liabilities over time, that is, to achieve 100% funding in line with the funding strategy. The investment strategy must therefore generate returns that will help stabilise and minimise employer contribution rates in the long-term, as well as reflect the balance between return generation consistent with an appropriate level of risk, protecting asset values and matching liabilities. The investment strategy will be reviewed at least every three years to reflect the changing liability profile of the Fund. At the date of the 2016 actuarial valuation, based on the investment strategy below, the Actuary's assessment of the return expectations for each asset class leads to an overall best estimate average expected return of CPI +3.5% per annum. In setting the funding strategy a margin for prudence is taken on these expectations. As a result, for the 2016 valuation to achieve 100% funding a minimum return of CPI +2.2% per annum over 16 years has been assumed. The Investment Strategy was reviewed in 2017. Following changes made to the asset allocation and based on the Fund's investment advisors' latest capital market assumptions the best estimate average expected return changed to CPI +2.9% per annum, and the minimum return target to achieve 100% funding (implied by the discount rate) to CPI +2.1% per annum.

The Fund adopts a more prudent investment strategy for those liabilities where the employer has ceased to participate in the Fund or for certain admission bodies where there is no guarantee underpinning the liabilities.

4. Investment strategy and the process for ensuring suitability of investments

The long term nature of the liabilities means the Fund can allocate a larger weighting to higher expected returning seeking assets (growth assets) which may introduce volatility in the short term but are ultimately expected to generate higher returns than the other assets in the long term. The investment strategy considers the expected risk-reward profile of each asset class and is flexible enough to take advantage of short term opportunities in its aim of achieving its strategic returns and fulfilling its fiduciary duty to members.

The Fund will, at all times invest across a diversified portfolio of investments to reduce investment risk. The majority of the investment strategy is invested in a diversified range of return seeking assets which aim to generate capital growth and income, constructed in a way to achieve the required investment return. The Fund also invests proportion of assets

that specifically acts as collateral to support a Liability Risk Management Framework (LRMF), which is designed to increase the certainty of achieving sufficient returns to support the discount rate and approach to funding.

As the Fund nears full funding the asset allocation will reflect a lower risk appetite, particularly a reduction in equity risk; however, it will still need sufficient equity exposure to sustain the funding strategy. Given the improvement in the Funding Level at the 2017 Investment Review, an Equity Protection Strategy (EPS) was implemented to protect the improvement in the funding level from future falls in the equity markets using synthetic equity instruments. The objective is to materially reduce the risk that contributions will need to rise at the next valuation in order to restore a funding deficit. The Fund also holds collateral to support the EPS and currency hedging policy.

The strategic framework includes a target allocation against which strategic performance will be monitored. In addition, there are ranges for each asset category that allow limited deviation within the framework. The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing. Over the long term, the ability to periodically rebalance asset holdings to release cash will enable the Fund to effectively implement de-risking strategies such as the LRMF and EPS.

The Fund's long term asset allocation, along with an overview of the role each asset plays is set out in the following table. The upper bound of the permitted range represents the maximum percentage that can be invested in that asset class. The allocation to Long Lease Property and the increase in Infrastructure will be implemented in the medium term. Until these investments are made, the allocations to Multi Asset Credit and Property will be higher than the long term target allocations. Other asset classes reviewed in the Investment Review but not considered a strategic priority included Private Equities and Debt. It is, however, envisaged that the merits of these asset classes will be reviewed further in the future.

Asset Class	% of Fund	Permitted Range	Role within Strategy
Equities	37.5%	27-47%	Highest risk asset class, builds exposure to domestic and overseas companies, returns expected to outstrip fixed income, limited impact of inflation, comprises both passive and active approaches, with the latter designed to outperform the market.
Developed Market Equities	31.9%	27-37%	Possess characteristics e.g., highly developed capital markets, high liquidity, bond 'proxies'/income seeking, large and small market cap. Includes a UK SRI specific mandate. Within this allocation UK equities is currently c.10%.
Emerging Market Equities	5.6%	0-10%	Possess characteristics such as rapid growth, illiquidity premium, potential for large capital growth.
Diversified Growth Funds (DGF)	15%	10-20%	To provide an equity like return over the long term but with a lower level of volatility. Can include allocations to equities, bonds, cash and other assets (including through derivative exposure), which are dynamically managed. Expected to provide some downside protection in periods of equity market stress.
Illiquid Growth	27.5%	10-37.5%	Benefits from the 'illiquidity premium' where the Fund is compensated for locking assets up for a predetermined period.

Asset Class	% of Fund	Permitted Range	Role within Strategy
Hedge Funds	5%	0 - 7.5%	Operates in a range of niche markets, looking to generate returns from unconstrained active management, and reduces the volatility of the Growth portfolio and increases diversification.
Property	7.5%	5 - 10%	Provides further diversification to Growth portfolio. Includes private markets exposure where returns are less correlated with listed markets, and where the Fund is expected to receive a higher return. Property is expected to provide a hedge against inflation in the medium to longer term.
Long Lease Property	7.5%	0-10%	Backed by long maturity assets, long lease property generates contractually secure income that provides a greater stability of returns, explicit inflation linkage and generates cashflows over time
Infrastructure	7.5%	5-10%	Investments in core infrastructure assets seek to invest in assets with strong market positions, predictable regulatory environments and high barriers to entry. Infrastructure is expected to provide a hedge against inflation in the medium to longer term.
Other Opportunities	0%	0 - 5%	Leaves capacity for investment in other illiquid growth assets which seek to increase diversification across the portfolio.
Credit	8%	3-14%	
Multi Asset Credit	6%	3-9%	In the portfolio to generate returns from a broad range of credit based assets in a diversified way.
Corporate Bonds	2%	0-5%	Corporate bond prices have credit risk of the issuer embedded within the price and are therefore considered higher risk than government issued securities and are expected to generate returns commensurate with this higher credit risk. Held to broadly match a specific proportion of the liabilities
Liability Matching (Collateral Assets)	12%		
Government Bonds	0%	0 - 10%	Low risk of default, and can provide protection against the impact of changes in interest rates on the Fund's liabilities. Not currently held.
Index Linked Bonds	12%	<i>range determined by collateral requirement</i>	Index linked bonds provide a direct hedge against inflation risk.
Cash*	0%	0 - 5%	Cash is also exposed to credit risk and is generally a very low yielding asset. For this reason the Fund aims to be fully invested with cash retained only for operational/cash management purposes.

* Cash is separately accounted for and is invested in line with the Fund's Treasury Management Policy.

The Fund employs a number of external investment managers to deliver the investment strategy. This includes selecting active managers across equities, multi asset credit, DGFs, hedge funds, property and infrastructure mandates, where manager skill is expected to enhance the market return and manage risk, to a greater or lesser extent. Passive approaches aim to deliver the market return by replicating the index in a cost and implementation efficient manner.

Consideration of each asset class or investment approach will include potential risk adjusted return expectations and an assessment of the extent to which the investment manager's approach is consistent with the Fund's Responsible Investment (RI) Policy. Product structure and management costs will also be a factor.

Details of the investment management structure can be found in Appendix 2.

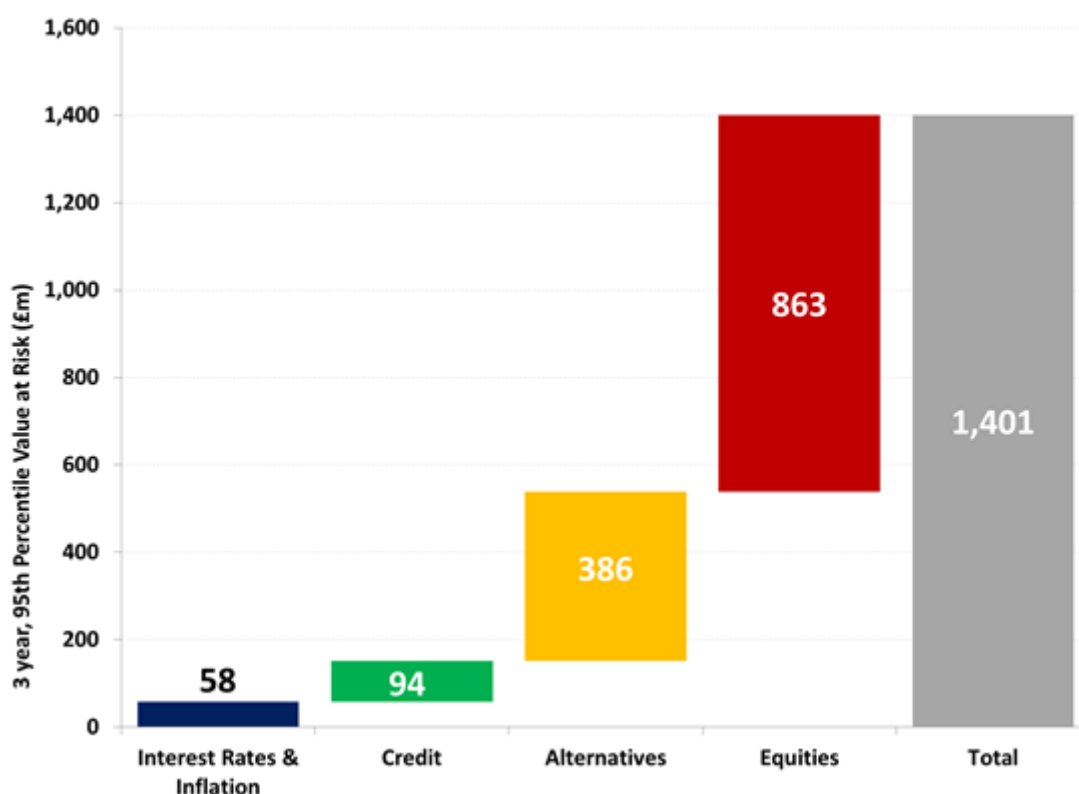
5. Risk Measurement and Management

The risk and return profile of the assets will be measured against the strategic objective and be considered in the Fund's capacity as a long term investor. The main risk to the Fund is the risk that the Fund's assets do not produce the returns needed to meet the liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates, and their affordability.

The Committee recognises that, whilst investing in higher risk assets increases potential returns over the long-term, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, as well as producing more short-term volatility in the funding position. The Fund's diverse range of asset classes and approaches is designed to help achieve returns in a variety of market environments. By holding a range of assets across the portfolio that are not perfectly correlated, the Fund expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns. Specific risks are managed via the LRMF and the EPS.

The graph below provides an indication of the main sources of investment risk (estimated by the Fund's investment consultants) that contribute to the volatility of the Fund's funding position, as measured by a three year "value at risk" measure at the 5% level. In other words, if we consider a downside scenario which has a 1 in 20 chance of occurring, this would be the impact on the deficit relative to our "best estimate" of what the deficit would be in three years' time. Equities remain the largest source of risk even after implementing the equity protection strategy.

The Investment Strategy is designed to be a long term strategy and withstand volatility and various risk scenarios. In the light of such events occurring, the long term strategy would be reviewed as appropriate.



Note: approximate analysis as at 30 September 2017, based on the Fund's strategic asset allocation at that time. It does not allow for the impact of the EPS, which was pending implementation at that point; this is expected to reduce the equity-specific Value at Risk (VaR) by c.40% and total Fund VaR by c.25%.

Each investment style/manager is assessed quantitatively and qualitatively within a monitoring framework designed to address any underperformance, highlight any inappropriate risk taking behaviour from individual managers and address factors that may impact the manager's ability to achieve long term outperformance goals. The respective managers' investment performance is monitored against three year performance targets, consistent with a longer term investment approach.

The following risks are also considered by the Committee:

(i) Governance Risk

This is the risk that Committee members do not have sufficient expertise to evaluate and challenge the advice they receive. The Fund recognises the importance of maintaining an appropriate level of knowledge across the Committee and periodically the committee self-assesses its level of knowledge. It has taken steps to ensure that Committee members possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duties by having a training framework in place which is based on CPIFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. Officers ensure the Committee receives expert advice to support strategic and implementation decisions. In addition, the Fund maintains a Risk Register that is regularly updated and monitored by the Committee.

(ii) Exchange Rate Risk

Foreign currency exposure is expected to be an unrewarded risk over the longer term. The Fund has a hedging programme designed to protect the sterling value of its hedged overseas investments and to reduce the volatility that arises from movements in exchange rates. The programme consists of a 50% passive hedge of the US Dollar, Yen and Euro currency exposure for the Fund's developed market equity holdings, and a 100% hedge of

currency risk for the infrastructure, property and hedge fund investments. This passive approach seeks to achieve this reduction in volatility in an efficient and cost effective way.

(iii) Liquidity Risk

The Committee recognises the inherent risk of holding illiquid assets that cannot be easily converted into cash. However, given the long-term investment horizon of the Fund it is appropriate to accept liquidity risk where the Fund expects to benefit from an 'illiquidity premium'. The majority of the Fund's assets are held in liquid instruments and realisable at short-notice.

(iv) Cashflow Risk

The Fund is becoming more mature and is slightly cashflow negative as payments to members exceed contributions. The investment strategy is structured to generate investment income to help manage these negative cash flows. Monitoring cash flow is critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy.

(v) Valuation Risk

The actuarial valuation assumes that the Fund generates an expected return equal to, or in excess of, the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, either due to higher than expected increases in CPI, or if the assets do not deliver as expected. This risk is reduced by the diversified investment strategy the Fund employs, through the alignment of the investment strategy with funding requirements through regular reviews, and through regular monitoring.

(vi) Longevity Risk

This is the risk that the members of the Fund live longer than assumed in the actuarial valuation model. This risk is captured within the funding strategy which is monitored by the Committee. Any increase in longevity will only be realised over the long term.

(vii) Regulatory and Political Risk

Across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to political uncertainty. These risks are managed by diversifying across markets and are monitored by reviewing the investment strategy and specific investment mandates.

(viii) Employer Covenant Risk

There is a risk that employers within the Fund withdraw or lack the financial capacity to make good their outstanding liabilities. This risk is addressed through a covenant assessment monitoring process, which annually assesses the financial standing of all Employers in the Fund and is considered when setting the Funding Strategy. In addition a more prudent investment strategy is adopted for certain admission bodies where there is no guarantee underpinning the liabilities.

(ix) Environmental, Social and Governance (ESG)

As ESG issues may be financially material to the Fund, the RI Policy sets out how the Fund will integrate ESG issues into its investment processes and ownership practices in the belief this can effectively mitigate the risks and positively impact investment performance. The materiality of ESG on each asset group is considered as part of the Strategic Reviews. In addition, relevant ESG criteria are considered for each mandate and are evaluated when selecting and monitoring managers.

The Fund's Responsible Investing Policy which provides greater detail on how ESG issues are managed within the investment strategy can be found at [LINK](#)

(x) Collateral management risks

The Fund recognises the importance of collateral to support specific components of the overall investment strategy. The Fund has implemented a robust and pro-active collateral monitoring process to ensure that the LRMF, EPS and currency hedging strategies are appropriately supported.

6. Approach to Asset Pooling

The Fund is working with nine other administering authorities to pool its investment assets through the Brunel Pension Partnership. The first assets are anticipated to transition to the pool from April 2018.

The Fund, through the Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating assets to the portfolios provided by BPP Ltd.

BPP Ltd is a new company established in July 2017, wholly owned by the Administering Authorities. The company is seeking authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular, it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. . BPP will procure and operate the Manager Operated Funds for the local funds. The Fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement will set out the duties and responsibilities of BPP Ltd, and the rights of the Fund as a client. It includes a duty of care of BPP Ltd to act in its clients' interests.

An Oversight Board for BPP Ltd has been established. This comprises 12 members, one representative from each of the Administering Authorities and two member observers and has been set up according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It therefore has a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually; as shareholders of BPP, the Administering Authorities have shareholder rights as set out in the Shareholders Agreement and other constitutional documents.

The Oversight Board is supported by the Client Group, comprised primarily of investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for BPP Ltd have been formulated to meet the requirements of the Regulations and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Bath & North East Somerset Council has approved the full business case for the BPP Ltd. It is anticipated that the Fund's assets will be transitioned to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan, it is envisaged that all of the Avon Pension Fund's assets will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investments which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned. It is also recognised that the implementation of the Fund's LRMF and EPS, via BPP Ltd, will need to be carefully considered, when appropriate.

7. Environmental, Social and Corporate Governance (ESG) Policy

The Committee has a fiduciary duty to act in the best interest of the Fund's members. This includes managing Environmental, Social and Corporate Governance issues that may be financially material to the Fund. These ESG issues are central to the Fund's responsible investment beliefs, which are set out in the Fund's published [Responsible Investment \(RI\) policy](#), which supports the wider investment strategy. In developing its approach to RI, the Fund seeks to understand and manage ESG and reputational risks to which the Fund is exposed.

The Fund seeks to integrate RI across its investment decision-making process for the entire portfolio. ESG issues considered when setting its investment principles and objectives include the impact of ESG issues on each asset class, the materiality of ESG risks within those asset classes and whether there are any strategic ESG-related opportunities that would generate value. The Fund does not have an exclusion policy but instead seeks to manage such risks by incorporating the analysis of these risks in the investment decision making processes as set out fully in our Responsible Investing Policy. The Fund is introducing an allocation to a Low Carbon Index within its equity allocation to specifically address risks identified in the Fund's recent RI policy review.

As well as setting out the longer term framework, the RI policy identifies shorter term strategic priorities which are reviewed annually.

The Fund expects its investment advisors to proactively consider and integrate ESG issues when providing investment advice to the Fund. In addition, the Fund will assess the extent to which investment managers integrate ESG risks into their investment approaches.

The Fund recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that focuses on corporate governance issues, and the promotion of high standards of corporate governance and responsibility.

Both the Committee and the Pensions Board have members and other stakeholder representatives who actively engage with stakeholders to ensure the Fund is aware and can respond effectively to stakeholder concerns.

Social Investments

Investments that deliver social impact as well as a financial return are often described as "social investments". Social investment includes a wide spectrum of investment opportunities. The Fund is consistent in the application of risk and return requirements when evaluating all investment opportunities including those that address societal challenges but

generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy.

Forward guidance on ESG under pooling

BPP Ltd's Investment Principles clearly articulate its commitment and that of each underlying Fund, to be responsible investors and as such recognises that social, environment and corporate governance considerations are part of the processes in the selection, non-selection, retention and realisation of assets. One of the principal benefits, outlined in the BPP Ltd business case, expected to be achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Each portfolio, in every asset class, under BPP Ltd, explicitly includes responsible investment which includes an assessment of how social, environmental and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives. For more information visit the [BPP Ltd website](#).

8. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund recognises that it has responsibilities as a shareholder, as well as rights, and is an active owner. The Fund believes that voting is an integral part of the RI and stewardship process. Voting is delegated to its investment managers; however, the Fund regularly monitors how its investment managers undertake voting and engagement activities in comparison to relevant codes of practice. Where practicable, the Fund will exercise its voting rights in all markets and its investment managers are required to vote at all company meetings. The Fund retains the right to recall stock that has been lent out under its securities lending programme to enable voting.

The Fund is a signatory to the FRC UK Stewardship Code and has outlined its approach to stewardship, including voting and engagement, in its Statement of Commitment to the Code which can be found [here](#). The Fund has been evaluated by the FRC as Tier 1 compliant. A Tier 1 rating is defined as those signatories providing a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

The Fund publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity of its investment managers. The Fund commissions independent reporting to monitor and benchmark the voting activity and the results are reported annually to Committee (as part of the Annual Responsible Investing Report).

Forward guidance on stewardship under pooling

As part of BPP Ltd the Fund is actively exploring opportunities to enhance its stewardship activities. More information is on the [BPP Ltd website](#). Once established and fully operational the BPP Ltd will deliver best practice standards in responsible investment and stewardship as outlined in the BPP Ltd Investment Principles.

9. Advice Taken

In preparing this statement, the Committee has taken advice from Fund Officers, the Fund's appointed investment consultant and the Client Officer Group at the Brunel Pension

Partnership Project. The Fund's Pension Board reviews all strategic documents including this Investment Strategy Statement.

10. Publication

This is a public document and is published on the Fund's website at [LINK](#)

To be approved by Avon Pension Fund Committee on 8 December 2017

Appendix 1 - Investment Governance Principles: Statement of Compliance

	Principle	Compliance	Explanation
1	Effective Decision Making Administering Authorities should ensure that: <ul style="list-style-type: none"> Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	FULL	<ul style="list-style-type: none"> A clear governance structure for decision-making across a wide scope of issues is in place The Committee is supported by expert advisors and officers with clear responsibilities. An Investment Panel has responsibility for specific investment decisions and implementation of strategic decisions The role and responsibilities of all Committee members is set out in job descriptions. Committee members are required to undertake training and a training log is maintained. The Fund uses the CIPFA Knowledge and Skills Framework as the basis for its training programme. The Fund has a forward looking three-year business plan which is monitored annually
2	Clear Objectives An overall investments objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	FULL	<ul style="list-style-type: none"> A clear investment objective and strategy is set out in the Statement of Investment Principles. The actuarial position and financial impact on scheme employers and tax payers is taken into account when formulating the investment strategy. The funding strategy reflects the differing covenants of scheme employers The Fund has a customised benchmark reflecting the Fund's own liability profile. The impact on return and risk of different asset classes is considered when devising the investment strategy. The investment managers have individual performance targets and their performance against target is monitored by the Committee. The Fund always obtains expert advice when considering its investment objective and strategy.

3	<p>Risk and Liabilities</p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local tax payers, the strength of the covenant for participating local employers, the risk of their default and longevity risk.</p>	FULL	<ul style="list-style-type: none"> • The investment objective and strategy reflects the specific liability profile of the scheme membership • The covenant of the employer and their ability to pay contributions is taken into account when setting contribution rates • The Fund has in place a risk management process to identify and monitor scheme employer related risks and report to Committee as required • The Risk Register identifies all significant risks to the Fund, action to mitigate the risk and action plan for Committee to consider • The external auditor reports its assessment of the risk management process to the Committee.
4	<p>Performance Assessment</p> <p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</p>	FULL	<ul style="list-style-type: none"> • The Fund measures the performance of the Fund against its investment objective and that of its investment managers against their specific performance benchmarks, over appropriate timeframes. • Performance is monitored quarterly by the Committee and Investment Panel • The performance of advisors the Fund is assessed on an on-going basis. • The performance of the decision-making bodies is assessed by external auditors and through the Committee's Annual Report to Council on its activities and decisions taken during the year.
5	<p>Responsible Ownership</p> <p>Administering Authorities should:</p> <ul style="list-style-type: none"> • 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. 	FULL	<ul style="list-style-type: none"> • The Fund requires its managers adopt the FRC UK Stewardship Code (replaced the Institutional Shareholders' Committee Statement of Principles) • The Fund published its compliance with the FRC UK Stewardship Code in September 2016. • The Fund's policy on responsible ownership is included in its Statement of Investment Principles • The Fund has appointed a proxy voting agent to monitor the voting activities of the investment managers and report its findings to the Committee

			<ul style="list-style-type: none"> The Fund has a Responsible Investing Policy to address long term investment concerns and opportunities arising from social, environmental and governance issues. This includes the appointing and monitoring process of managers.
6	Transparency and Reporting Administering Authorities should: <ul style="list-style-type: none"> 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 	FULL	<ul style="list-style-type: none"> Has a clear policy for communication and consultation with its scheme members, representatives and employers as appropriate. All documents and statements are publicly available and the Annual Report & Accounts contains information and data relevant to its many, diverse stakeholders. Regular meetings are held with investment managers, advisors, 3rd party investment administration suppliers to discuss service delivery and performance against objectives. Service level meetings are held with scheme employers to discuss service delivery. Administration and investment forums are held for scheme employers to inform employers of any issues that may impact their budgets, resourcing levels or employment obligations to staff.

Appendix 2 – Investment Mandates

Manager	Mandate	Performance Objective	% of Fund	Inception date
BlackRock	Passive multi-asset & Liability Risk Management Framework	In line with customised benchmark	24%	01/04/2003
Jupiter Asset Management	UK Equities (Socially Responsible Investing active)	FTSE All Share plus 2% p.a.	5%	01/04/2001
TT International	UK Equities (unconstrained active)	FTSE All Share plus 3-4% p.a.	4%	11/07/2007
Invesco Perpetual	Global ex-UK Equities (Enhanced Indexation)	MSCI Global ex-UK Index plus 0.5% p.a.	9%	19/12/2006
Schroders Investment Management	Global Equities (unconstrained active)	MSCI All World Index plus 2-4%	8%	01/04/2011
Genesis Investment Management	Emerging Market Equities	MSCI Emerging Markets Index	2%	13/12/2006
Unigestion	Emerging Market Equities	MSCI Emerging Markets Index plus 2% p.a.	2%	21/01/2014
Standard Life	Diversified Growth Funds (active)	LIBOR plus 4% p.a.	5%	04/02/2015
Pyrford International	Diversified Growth Funds (active)	RPI plus 5% p.a.	3%	14/11/2013
JP Morgan Asset Management	Fund of Hedge Funds	Higher of LIBOR plus 3%, or 6% p.a.	5%	13/07/2015
Schroders Investment Management	UK Property (active)	IPD UK Pooled Property Fund Index plus 1% p.a.	5%	01/02/2009
Partners Group	Overseas Property (active)	IPD Global Property Index plus 2% p.a.	4%	18/09/2009
IFM	Infrastructure (active)	Gilts plus 2.5% p.a.	6%	30/09/2014
Record Currency Management	Currency hedge (US\$, Yen and Euro equity exposure)	N / A	1%	26/07/2011
Loomis	Multi Asset Credit (active)	In line with customised benchmark	11%	29/09/2017
Ruffer	Diversified Growth Funds (active)	3M LIBOR plus 5%	5%	27/09/2017
Current Structure			100%	