Report on the Update to the STATEMENT OF INVESTMENT PRINCIPLES

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Papers with this report	Revised Statement of Investment Principles

SUMMARY

This report details the revisions made to the Statement of Investment Principles (SoIP) following the recommendation to amend the disclosure of fund manager and adviser fee structures. In addition the Alliance Bernstein emerging market benchmark has been amended.

RECOMMENDATIONS

That Committee approve the revised Statement of Investment Principles.

INFORMATION

Fee Structures

1. At the June 2009 Pension Committee it was noted that the Hillingdon Pension Fund was not compliant with an element of Principle 9 of the CIPFA Principles for Investment Decision Making. At the time of the June SoIP revision a decision was made to exclude information relating to fund manager and adviser fee structures as these details were deemed to be commercially sensitive and therefore inappropriate to disclose in a public document.

2. Following this observation a recommendation was made by John Hastings of Hymans Robertson which would allow the fund to become compliant. The recommendation was to provide details of basic fee arrangements but avoid remuneration or percentage values. This approach would satisfy the CIPFA requirement whilst circumventing any commercially sensitive issues.

3. The Fee Structures have been inserted in the Investment Section marked (*) and the Recommendation 10 now shows full compliance.

Alliance Bernstein Benchmark

4. Following the review of Alliance Bernstein's performance for Q2 it was discovered the benchmark being disclosed in terms of emerging market element of the portfolio was incorrect. The SoiP has been amended to show the correct benchmark.

5. Appendix E has been amended to show the correct benchmark of the FTSE All World Emerging index as a benchmark.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

LEGAL IMPLICATIONS

The SoIP report complies with regulations 9 A (3A) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended by S.I. 2002/1852 which came into force on 9 August 2002.

Statement of Investment Principles
(Revised September 2009)

INTRODUCTION

- The London Borough of Hillingdon (the Council) is the administering authority of the London Borough of Hillingdon Pension Fund (the Fund). The Fund operates under the national Local Government Pension Scheme (LGPS), which was established by statute to provide death and retirement benefits for all eligible employees. This Statement of Investment Principles applies to the Fund.

- In preparing the Statement of Investment Principles, the Council has consulted its professional advisers and representatives of the members of the Fund and has received written advice from the Fund Actuary and the Investment Practice of Hymans Robertson LLP.

- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 1998 sets out the powers and duties of the administrating authority (the authority) to invest Fund monies. The authority is required to invest any monies which are not required immediately to pay pensions and any other benefits and, in so doing, to take account of the need for a suitably diversified portfolio of investments and the advice of persons properly qualified on investment matters.

- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 1998 was revised on 9 August 2002, to add a provision that requires Statement of Investment Principles to include the extent to which Local Authority Pension Schemes comply with the ten principles of investment practice contained in the document published in April 2002 by CIPFA. This Statement complies with the revised Regulation.

- The ten investment principles referred to above were issued by the Government in October 2001, in response to proposals in the Myners Review of Institutional Investment in the United Kingdom, issued in March 2001.

- This Statement of Investment Principles outlines the broad rules governing the investment policy of the Pension Fund. Attached, at Appendix A, are the ten principles of investment practice and the extent to which the London Borough of Hillingdon complies.

- However in 2007 the Treasury sponsored the National Association of Pension Funds (NAPF) to conduct a review of progress made throughout the pension industry following the introduction of the ten principles in 2001.

- The resultant report "Institutional Investment in the UK 6 years on" was followed by a wide consultation exercise culminating in the original ten principles being replaced by six new principles.

The new principles were launched in October 2008 and Her Majesties Treasury and the Department for Work and Pensions jointly commissioned The Pensions Regulator to oversee an Investment Governance Group given the task of implementing the new principles across all UK pension funds.

- There is an Investment Governance Sub-group specifically for the LGPS (including CLG and CIPFA) who are amending the principles to fit the LGPS. Until these amendments are agreed and there is an appropriate consultation period, followed by revision of the regulations, it is a statutory requirement to continue reporting against the original ten principles until instructed otherwise by CLG.

- Nevertheless regard to the new principles has been given and is shown in appendix B.

- The Council has delegated its responsibilities in relation to investment policy to the Pensions Committee.

- Management of the investments is carried out by fund managers appointed by the Pensions Committee. Fund Managers work within the policies agreed by the Pensions Committee.

- The Council's investment powers are set out in Regulations made by the Department of Communities and Local Government, applicable to the Local Government Pension Scheme. This Statement is consistent with these powers.

- The investment managers may only delegate their duties to a third party in accordance with the terms of their client agreement and subject to providing appropriate safeguards to the Council.

INVESTMENT RESPONSIBILITIES

The structure of investment responsibilities and decision making is listed below and follows best practice adopted by other Local Authorities in relation to their Pension Schemes.

The **Pensions Committee** has responsibility for:

- Appointing the investment manager(s) and any external consultants felt to be necessary,
- Appointing the custodian,
- Reviewing on a regular basis (quarterly) the investment managers' performance against established benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls,
- Ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Fund invests in suitable types of investments,
- Approving the Statement of Investment Principles, and
- Monitoring compliance with the Statement and reviewing its contents from time to time.

The **Director of Finance and Resources** has responsibility for:

- Preparation of the Statement of Investment Principles to be approved by the Pensions Committee,
- Assessing the needs for proper advice and recommending to the Committee when such advice is necessary from an external adviser,
- Deciding on whether internal or external investment management should be used for day to day decisions on investment transactions,
- Ensuring compliance with the Statement of Investment Principles and bringing breaches thereof to the attention of the Pensions Committee, and

- Ensuring that the Statement of Investment Principles is regularly reviewed and updated in accordance with the Regulations.

The **Investment Consultants** are responsible for:
- Assisting the Pensions Committee and the Director of Finance and Resources in their regular monitoring of the investment managers' performance,
- Assisting the Pensions Committee and the Director of Finance and Resources in the setting of investment strategy
- Assisting the Pensions Committee and the Director of Finance and Resources in the selection and appointment of investment managers and custodians, and
- Assisting the Pensions Committee and the Director of Finance and Resources in the preparation and review of this document

The **Actuary** is responsible for:
- Assisting the Pensions Committee in the preparation and review of this document, and
- Providing advice as to the maturity of the Fund and its funding level in order to aid the Pensions Committee in balancing the short-term and long-term objectives of the pension Fund.

The **Investment Managers** are responsible for:
- The investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed Investment Management Agreement,
- Tactical asset allocation around the strategic benchmark,
- Security selection within asset classes,
- Preparation of quarterly reports including a review of investment performance,
- Attending meetings of the Pensions Committee as requested,
- Assisting the Pensions Committee and the Director of Finance and Resources in the preparation and review of this Statement, and
- Voting shares in accordance with the Council's policy except where the Council has made other arrangements.

The **Custodian** is responsible for:
- Its own compliance with prevailing legislation,
- Providing the authority with quarterly valuations of the Fund's assets and details of all transactions during the quarter
- Collection of income, tax reclaims, exercising corporate administration and cash management.
- Providing a Securities Lending Service and complying with the limitation that no more than 25% of the fund is to be on loan.

FUND LIABILITIES

Scheme Benefits

The LGPS is a defined benefit scheme, which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets. Full details of the benefits are set out in the LGPS regulations.

Financing benefits

All active members are required to make pension contributions based on the percentage of their pensionable pay as defined in the LGPS regulations.

The London Borough of Hillingdon is responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time by the Fund’s actuary.

Actuarial valuation

The Fund is valued by the actuary every three years in accordance with the LGPS regulations and monitored each year in consultation with employers and the actuary. Formal inter-valuation monitoring has also been commissioned.

INVESTMENTS

Approach

- The investment approach is to appoint expert fund managers with clear performance benchmarks and place maximum accountability for performance against those benchmarks with the investment manager.
- Overall, the strategic benchmark is intended to achieve a return such that the Fund can, without excessive risk, meet its obligations without excessive levels of employers’ contributions.
- Performance is monitored quarterly and a formal review to confirm (or otherwise) the continued appointment of existing managers is undertaken annually.
- The investment strategy is reviewed annually, with a major review taking place following the triennial actuarial valuation.

Investment managers and advisers

The investment managers currently employed by the Council to manage the assets of the Fund are UBS Global Asset Management (UK) Ltd, Alliance Bernstein, State Street Global Advisors and Goldman Sachs Asset Management. Each manager is responsible for the day-to-day management of a segregated portfolio of investments for the Fund. Additionally, two Fund of Fund Managers, manage a Private Equity brief, namely LGT Partners and Adam Street Partners.

Custodian services for the Fund’s assets are provided by Northern Trust.

The investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Hymans Robertson LLP act as the Fund’s Actuary and Investment Consultant and give written advice on appropriate investment strategies. Valentine Furniss acts as an independent advisor to the pension fund and provides advice and challenge on appropriate investment strategies.

Client agreements have been made with each of the above investment managers and advisers. The Director of Finance and Resources has been delegated the authority to agree amendments to these agreements.

The Pension Committee regularly monitors the performance of the investment managers and its advisers, on behalf of the Council.

Types of investments to be held and the balance between these investments

Based on expert advice and taking into account the Fund's liabilities, the Pension Committee has determined a benchmark mix of assets considered suitable for the Fund. The asset mix currently includes equities and bonds (government, corporate, inflation linked and index-linked), property and cash. Investments are made in the UK, the major overseas markets and in emerging markets. The fund managers have discretion to vary the allocation of investments between markets on a tactical basis. Appendix E shows the benchmarks for the three fund managers and the permitted ranges in which the assets can fluctuate, as at the date of this document.

A review study is carried out after each actuarial revaluation and used to consider the suitability of the existing investment strategy.

The suitability of investments

The managers may invest in equities and bonds, including collective vehicles, property and cash, consistent with their mandates, without consultation with the Council. Managers invest in accordance with Schedule 1 'Limits on Investments' of the LGPS (Management and Investment of Funds) Regulations 1998 as amended. The current Limits for the London Borough of Hillingdon Pension Fund are set out at Appendix C.

Other types of investment may be approved by the Committee after taking professional advice.

The expected return on investments

Investment managers are given target performance standards and their actual performance is measured against these. These targets (gross of fees) are:

UBS Asset Management	- 2.00% p.a. in excess of benchmark
Alliance Bernstein	- 2.00% p.a. in excess of benchmark
State Street Global Advisors	- Achieve Benchmark
Goldman Sachs	- 0.75% p.a. in excess of benchmark
UBS Property	- 1.00% p.a. in excess of benchmark

Overall, the targets are intended to achieve above average performance, relative to earnings and inflation, without excessive risk, so that the Fund can meet its obligations without excessive levels of employer's contribution.

Performance is monitored quarterly and a formal review to confirm (or otherwise) the continued appointment of existing managers is undertaken annually.

**new section

Fee Structures

Alliance Bernstein	- Tiered fee based on portfolio value.
Goldman Sachs	- Tiered fee based on portfolio value.
State Street Global Advisors	- Fixed fee based on portfolio value.
UBS Asset Management	- Tiered fee based portfolio value.

UBS Property	- Fixed fee based on portfolio value
Hymans Robertson	- Price per piece
Valentine Furniss	- Fixed fee

In each case best value is the basis for fee structure selection.

Risk and diversification of investments

It is the Council's policy to invest the assets of the Fund so as to spread the risk on investments.

The diversification of asset types is intended to ensure a reasonable balance between different categories of investments so as to reduce risk to an acceptable level.

Each manager is expected to maintain a diversified portfolio within each asset class and is permitted to use collective investment vehicles as a means of providing diversification in particular markets.

Where managers wish to use futures, specific arrangements are agreed to limit the Fund's exposure to risk.

The management of Fund assets is spread over more than one manager, with different performance targets, as a further measure to reduce overall risk.

The realisation of investments

The majority of stocks held by the Fund's Investment Managers are quoted on major stock markets and may be realised quickly if required. Property and private equity investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets. In general, the investment managers have discretion as to the timing of realisations. If it becomes necessary for investments to be sold to fund the payment of benefits, the Pension Committee and the manager(s) will discuss the timing of realisations.

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT

The Council supports the principle of socially responsible investment, within the requirements of the law and the need to give the highest priority to financial return. The investment managers are expected to have regard to the impact of corporate decisions on the value of company shares in making their investment decisions. The Council will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers' discretion as to which investments to make will not normally be overridden by the Council, except on the basis of written information from other advisers.

The Pensions Committee has discussed socially responsible investment in the context of investment strategy. It has decided that the principle of the Fund's investment policy is to obtain the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

The council is a member of Local Authority Pension Fund Forum and uses it as a platform for engagement on environmental, socially responsible issues and corporate governance rather than disinvesting.

The Council supports the UK Environmental Investor Code and the CERES Principles.

EXERCISE OF RIGHTS ATTACHING TO INVESTMENT

It is the Council's policy to be an active shareholder. Where the pension Fund has securities held in a portfolio which have associated with them a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Council's policy is that that all proxies are to be voted where practically possible.

The Council's policy on corporate governance is that it normally expects the Fund Managers and companies to comply with the Combined Code published by the London Stock Exchange in June 1998 following the recommendations of the Hampel Committee. The Code integrated the earlier Cadbury and Greenbury Codes together with some additional recommendations.

Fund Managers' right to vote on behalf of the Fund are subject to conforming with the overall principles set out in this Statement and with the prevailing regulations.

From time to time, the Pension Committee may feel strongly concerning certain policies and at this time would advise the managers how to execute their votes. Attached at Appendix D are the Pension Committee's broad guidelines on exercising the Council's voting rights.

COMPLIANCE

The investment managers and all other investment advisers are requested to exercise their investment powers in support of the principles set out in this Statement and in accordance with the Regulations.

The Pension Committee reviews the performance of the investment managers on a quarterly basis. Northern Trust provides an independent monitoring service. Officers meet with Fund Managers on a quarterly basis and make a report on those meetings to Committee. Professional advice is taken as appropriate and an annual review is carried out.
This Statement of Investment Principles is reviewed by the Pensions Committee at least annually and revised when necessary.

APPENDIX A

CIPFA Principles for Investment Decision Making

The table below identifies the basis and status of Compliance of the Pension Fund with the CIPFA principles of investment practice.

Principle 1. Effective decision-making

Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment subcommittee to provide the appropriate focus.

Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward- looking business plan.

Compliance			**How the principle is met**
Full	**Part.**	**No**	
	✓		All investment decisions are taken within a clear and documented structure by the Pension Committee, which is responsible for the Management of the Council's Pension Fund. Committee are provided with bespoke training when specific decisions are required however there is no formal training programme in place.
✓			The officer support team has sufficient experience to support Committee in making decision making responsibilities.
✓			There is no need for an investment sub committee as investment issues form a major part of Pension Committee agendas.
	✓		There is a forward looking plan in terms of monitoring of performance and management of the pension fund, however a three year plan is currently being formulated.

<table>
<tr><td colspan="4">Principle 2. Clear objectives

Trustees should set out an overall investment objective for the fund that:

• represents their best judgement of what is necessary to meet the fund’s liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and

• takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.

Objectives for the overall fund should not be expressed in terms which have no relationship to the fund’s liabilities, such as performance relative to other pension funds, or to a market index.</td></tr>
<tr><td colspan="3">Compliance</td><td>How the principle is met</td></tr>
<tr><td>Full</td><td>Part.</td><td>No</td><td rowspan="2">The investment objectives and attitudes to risk are set out in the Statement of Investment Principles. Overall fund objects are reviewed properly as part on the ongoing monitoring of the fund.</td></tr>
<tr><td>✓</td><td></td><td></td></tr>
</table>

<table>
<tr><td colspan="4">Principle 3. Focus on asset allocation

Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund’s investment objective.

Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity.

Asset allocation should reflect the fund’s own characteristics, not the average allocation of other funds.</td></tr>
<tr><td colspan="3">Compliance</td><td>How the principle is met</td></tr>
<tr><td>Full</td><td>Part.</td><td>No</td><td></td></tr>
<tr><td>✓</td><td></td><td></td><td>The strategic asset allocation is reviewed on a top down basis.</td></tr>
<tr><td>✓</td><td></td><td></td><td>All asset classes and opportunities are considered and no major asset classes are excluded. The fund has a commitment to private equity, dealt with by two private equity managers.</td></tr>
<tr><td>✓</td><td></td><td></td><td>Asset allocation reflects the funds own characteristics and a bespoke benchmark is set rather than comparisons to peer groups.</td></tr>
</table>

Principle 4 – Expert Advice			
Contracts for actuarial services and investment advice should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.			
Compliance			**How the principle is met**
Full	**Part.**	**No**	
✓			A tendering exercise was completed in June 2006 and separate contracts are in place for actuarial services and investment advice.

Principle 5. Explicit mandates			
Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on: • an objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances; • the manager's approach in attempting to achieve the objective; and • clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone. The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the Fund. Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy - whether through direct financial incentives or otherwise - for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.			
Compliance			**How the principle is met**
Full	**Part.**	**No**	
✓			Investment Management Agreements include guidelines covering investment objectives, restrictions and performance measurement criteria.
✓			Investment management agreements are consistent with the funds overall objectives and risk parameters.

✓			The fund manager approach and the timescales of measurement and evaluation in attempting to achieve the funds objectives are included within the Investment Management Agreement.
✓			There are no significant omissions of any asset type or exclusions of asset classes.
✓			There are no soft commission arrangements in place with fund managers and systems are in place for officers to monitor transaction costs.

Principle 6 – Activism

The mandate and trust deed should incorporate the principle of the US Department of Labour Interpretative Bulletin on activism.

Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

Compliance			**How the principle is met**
Full	**Part.**	**No**	
✓			The fund has issued broad voting guidelines which are identified in appendix D of the Statement of Investment Principles. Activity reports are provided by managers and the custodian.

Principle 7. Appropriate benchmarks

Trustees should:

• explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;

• if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;

• consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and

• where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies

Compliance			How the principle is met
Full	Part.	No	
✓			Full consideration has been given to the appropriateness of index benchmarks and limits have been set on divergence from the index.
✓			Both passive and active management are in place to balance the overall risk and costs of the fund.
✓			Objectives and risk tolerances are compatible to allow genuine active strategies.

Principle 8. Performance measurement

Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees.

They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.

Compliance			How the principle is met
Full	Part.	No	
✓			Both the performance of the fund and the performance of the fund managers are monitored on a regular basis. Trustee procedures, decision making and deferral of decisions are recorded in the committee papers.
	✓		A formal assessment of adviser performance is yet to be fully established.

Principle 9. Transparency

A strengthened Statement of Investment Principles should set out:

• who is taking which decisions and why this structure has been selected;

• the fund's investment objective;

• the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;

• the mandates given to all advisers and managers; and

• the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.

Compliance			How the principle is met
Full	Part.	No	
✓			The Statement of Investment Principles includes details of the structure of investment responsibilities and decision making parties.
✓			Included within the statement are the fund investment objectives, the overall investment approach, strategic benchmark, asset allocation and investment manager mandates.
✓			Details of the fee structures and the basis of their selection are included in the Statement of Investment Principles.

Principle 10. Regular reporting

Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers.

They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.

Compliance			How the principle is met
Full	Part.	No	
✓			The Statement of Investment Principles is published on the website and is updated regularly.
✓			Systems are in place to report non compliance with the principles.
✓			The Pension Annual Report provides details of manager and fund monitoring and is available on the website. Members are directed to the website but hard copy reports are available on request.

APPENDIX B

Revised Myners Principles

Principle 1: Effective decision-making
Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Principle 2: Clear objectives
Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Principle 3: Risk and liabilities
In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Principle 4: Performance assessment
Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Principle 5: Responsible ownership
Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

Principle 6: Transparency and reporting
Trustees 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. Trustees should provide regular communication to members in the form they consider most appropriate.

Compliance
The London Borough of Hillingdon Pension Fund broadly complies with the revised Myners principles however a full review will be completed following the revision of the regulations.

APPENDIX C

Limits on Investments

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended, Schedule 1, set out the legal requirements which apply to the investments of the Fund.
The statutory regulations specify the following restrictions on investments:

(a) no more than 10% of the fund shall be invested in any single holding;
(b) no more than 10% of the fund shall be placed on deposit with any one bank or other deposit-taker, other than the National Savings Bank;
(c) no more than 25% of the fund shall be invested in units of authorised unit trusts managed by any one body or in open ended investment companies managed by any one body or in insurance contracts in managed funds.
(d) No more than 25% of the fund shall be transferred by the fund under stock lending arrangements
(e) No more than 10% of the fund shall be invested in securities which are not listed on a recognised stock exchange.
(f) No more than 2% of the fund may be invested in any one limited partnership and all such investments shall not exceed 5% of the fund;
(g) No more than 1% of the fund shall be invested in any single sub-underwriting contract and no more than 15% of the fund shall be invested in all sub-underwriting contracts

An Investment Management Agreement is in place with each Fund Manager which clearly defines the investment guidelines for the portfolio they manage.

If individual managers invest outside the laid down investment guidelines then they will consult with the Director of Finance and Resources for direction and report to the Pension Committee at the next available opportunity.

APPENDIX D

Voting Guidelines

The main focus is to promote maximum long-term shareholder value and protect the interest of shareholders.

Recommendations	For / Against	Voting Guidance
General		Vote with Fund managers Take into account the principles derived from the Combined Code and related UK initiatives
Environmental Concerns The UK Environmental Investor Code		Encourage and support companies that demonstrate a positive environmental response. Commitment to environmental excellence, monitor their impacts, improvements in their performance, comply with all legislation, regular reports of progress on environmental standards
The CERES Principles		Adopt the CERES principles, corporations have a responsibility for the environment, they are stewards, mustn't compromise the ability of future generations to sustain themselves.
Human Rights		Ensure high standards of employment and industrial relations in all companies
SRI		Consider socially responsible and governance issues but abide by legal rules which may limit investment choice on purely socially responsible and governance grounds, consideration to financial interest of fund members comes first.
The Report and Accounts	For	Legal regulatory requirements are met
	Against	Material inadequacies in the report and accounts
Directors Election	For	Regular re-election, full autobiographical information
	Against	Insufficient information, no regular re-election, appointment combining chairman and chief executive
Non-Executive directors	For	Independent of management, exercise free independent judgement
	Against	Lack of independence, automatic reappointment
Employment Contracts	For	Contract period no more than 2 years
	Against	Contract over 2 years
Directors Remuneration and employee share schemes	For	Remuneration must be visible, share schemes open to all staff, schemes costs and value are quantified by the company,
	Against	Remuneration above the market rate, poor performance rewards, Shares schemes only open to directors and option schemes that are not quantified.
Appointment of Auditors	For	Protect independence of auditors and ensure non-audit work is less than 25%of total fees. Appointment of auditors be for at least 5 years.

APPENDIX E

INVESTMENT STRUCTURE – PERFORMANCE BENCHMARK, PERMITTED RANGES AND COMPARATIVE INDICES

ALLIANCE BERNSTEIN			
Asset Class	Benchmark %	Ranges %	Index
UK Equities	50	35 – 65	FTSE All Share
Overseas Equities:			
North America	17.5	2.5 – 32.5	FTSE: AWI North America
Europe (Ex UK)	15	0 – 30	FTSE: Developed Europe ex-UK
Japan	7.5	0 – 22.5	FTSE: AW Japan
Pacific (Ex Japan)	5	0 – 20	FTSE: Developed Asia Pacific ex-Japan
Emerging Markets	5	0 – 20	FTSE All World Emerging Markets
Cash	0	0 - 10	
Total	**100**		

GOLDMAN SACHS			
Asset Class	Benchmark %	Ranges %	Index
UK Fixed Interest	70	60-80	iBoxx Sterling Non Gilts
UK Index-Linked (over 5 years)	30	20-40	UK Index Linked Gilts over 5 year
Total	**100**		

STATE STREET GLOBAL ASSET MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
UK Equity Index sub-Fund	44	**Rebalanced Quarterly +/- 10% of Benchmark**	FTSE All Share
North America Equity Index sub-fund	11		FTSE World North America
Europe ex UK Equity Index sub-fund	11		FTSE World Europe ex UK
Asia Pacific Equity Index sub-fund	11		FTSE Developed Asia Pacific
Emerging Markets Equity Index fund	3		FTSE All-World All Emerging
UK Conventional Gilts All Stocks fund	1.5		FTA British Govt Conventional Gilts All Stocks
Index-Linked Gilts All-Stocks Index fund	10		FTA British Govt Index Linked Gilts All Stocks
Sterling Corporate Bond All Stocks fund	8.5		Merrill Lynch Sterling Non Gilt
Total	**100**		

STATE STREET GLOBAL ASSET MANAGEMENT Account 2			
Asset Class	Benchmark %	Ranges %	Index
North America Equity Index sub-Fund	36	Rebalanced Quarterly +/- 10% of Benchmark	FTSE North America
Europe ex UK Equity Index sub-Fund	26		FTSE Europe Developed ex UK
Japan Equity Index sub-Fund	10		FTSE Japan
Asia Pacific ex Japan Equity Index sub-Fund	14		FTSE Developed Asia Pac ex Japan
Emerging Markets Equity Index sub-Fund	14		FTSE All Emerging
Total	**100**		

STATE STREET GLOBAL ASSET MANAGEMENT Account 3			
Asset Class	Benchmark %	Ranges %	Index
Sterling Corporate Bond All Stocks Index sub-Fund	50	+/- 10% of Benchmark	Merrill Lynch Sterling Non Gilt
Sterling Liquidity sub-Fund	50		
Total	**100**		

UBS GLOBAL ASSET MANAGEMENT – EQUITIES			
Asset Class	Benchmark %	Ranges %	Index
UK Equities	100	40 - 100	FTSE All Share
Cash	0	0 – 10	
Total	**100**		

UBS PROPERTY			
Asset Class	Benchmark %	Ranges %	Index
Property	100	+/- 25%	IPD Qt Index
Cash	0	0 - 10	
Total	**100**		