

## INTRODUCTION

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This Statement of Investment Principles (SIP) describes the principles governing decisions of the Pensions Committee (Committee) of the City of Edinburgh Council (CEC) as administering authority of Lothian Pension Fund and Scottish Homes Pension Fund relating to the investment of fund money. It has been prepared in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, as amended (the 2010 Regulations).

The SIP should be read in conjunction with the Statement of Responsible Investment Principles (SRIP). The SRIP explains the Committee's approach to the oversight and monitoring of investment activities from a Responsible Investment (RI) and Stewardship perspective. This covers the Committee's policy on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; and the exercise of the rights (including voting rights) attaching to investments.



## HIGH LEVEL INVESTMENT PRINCIPLES

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The following principles guide the investment strategy, including the investment objectives and investment policies, adopted by the Committee.

### Governance

**Principle 1: Committee believes that investment decisions must give precedence to the fiduciary duty owed to members and employers.**

Fiduciary duty is paramount. The Committee recognises the potential conflicts of interests inherent in a local authority administering a multi-employer pension fund. The objectives of the local authority are not necessarily the same when it is acting in its capacity as the administering authority of a pension fund. The primary objective of the pension fund is to ensure sufficient funding in the long term so that retirement benefits owed to members under scheme rules can be paid when they fall due. (The most recent legal advice on fiduciary duty for the Scottish Local Government Pension Scheme is available at [https://lgpsab.scot/fiduciary-duty-guidance/.](https://lgpsab.scot/fiduciary-duty-guidance/))

**Principle 2: Committee believes that risk should be mitigated by ensuring alignment of interests wherever possible.**

Agency costs are high in the financial services industry – agents are often motivated to act in their best interests rather than those of the principal (the pension fund). Alignment of interests and partnering with similarly-aligned organisations will help to reduce risk and address the principal-agency problem to the benefit of the pension fund and partners. External resources should, therefore, be used where

internal resources cannot be justified or obtained, or where an external perspective provides additional skills or insight into investment matters, and where suitable alignment can be established.

**Principle 3: Committee believes that it should work with like-minded partners to benefit from increased scale and greater resilience.**

There are significant economies of scale in the business of managing investments, so working with like-minded partners with similar long-term objectives and liabilities can achieve lower costs and reduce operational risks with increased resilience.

**Principle 4: Committee believes that cost transparency aids decision-making.**

The asymmetric structure of incentives in financial markets (upside participation in success without downside participation in failure) encourages strategies that may benefit agents (external managers and other financial intermediaries) and be detrimental to the investment returns received by the pension fund. Agents often present fees and other charges in a way that obscures rather than illuminates. Full cost transparency should aid decision-making and so benefit investment returns.

**Principle 5: Committee believes it should focus on policy setting, including high-level strategic asset allocation which defines risk and return objectives, with appropriate governance and oversight.**

Implementation of more granular investment decisions (such as the selection/deselection of individual managers and assets) and regular monitoring should be delegated to suitably qualified and experienced individuals with sufficient time and other resources at their disposal. Appropriate delegation, constraints and reporting requirements should be in place. Reporting to Committee should focus on the long-term objectives of the pension fund and how investment decisions have contributed to such objectives.



## Funding

**Principle 6: Given future uncertainties, the funding strategy should be prudent and should reduce risk to employers of another employer defaulting on its pension obligations.**

The Funding Strategy Statement expresses the funding objective, which informs the investment strategy options available to scheme employers. The ultimate objective is to ensure long-term solvency so that retirement benefits owed to members under scheme rules can be paid when they fall due, so full funding should be achieved in a prudent manner to ensure that liquid assets are available at the required time. This is important for members, employers and taxpayers as the scheme is ultimately state-backed.

**Principle 7: Committee believes that requests for different investment strategies from employers with different objectives should be considered.**

Employers have conflicting desires: on the one hand, they'd like to minimise the fluctuations in contributions and on the other hand, they'd like to minimise the overall amount they are asked to contribute to the pension fund. Committee believes in allocating employers to different investment strategies in a way which reflects their timescale for participation in the pension fund and their covenant strength. Employers may have different objectives, so they should be given the opportunity to request an alternative investment strategy. The Fund should consider such requests, taking account of issues such as the strength of the employer's covenant and implementation costs.

## Investments

**Principle 8: Committee believes that the ability of the pension fund to pay pension benefits when they fall due is more important than mark-to-market funding levels.**

Committee recognises that there are various ways to measure the value of promised benefits in a defined benefit scheme. Committee believes that where employer circumstances allow, investment strategy should focus on delivering strong (real) returns that grow to cover cashflows over the longer term rather than focusing on protecting the funding level in the short term.

**Principle 9: Committee believes 'return-seeking' assets are likely to outperform 'risk-free' assets as the investment horizon lengthens, but this is not guaranteed.**



Time horizons matter a great deal. The appropriate horizon for investment risk-taking depends on the duration of the liabilities, the profile of projected cash flows and the deficit recovery and contingency plans for the scheme (the sponsor covenant).

**Principle 10: Committee believes in owning a diversified portfolio of assets so that it is not overly exposed to any particular contingency.**

Asset diversification can reduce risk where assets are not perfectly correlated. Committee recognises that the future is unpredictable and that real returns from investments are uncertain. Fund returns will be determined primarily by the high-level investment strategy allocation to different asset classes and the timing of material changes. Asset allocation balances diversified risks with the expected additional returns for these risks.

**Principle 11: Committee believes that responsible investment should reduce risk and may improve returns.**

The LGPS was designed with an important social purpose in mind – the provision of retirement income for individuals. The Committee's fiduciary duty means that the pursuit of financial return is its paramount concern, although it may also take purely non-financial considerations into account

provided that doing so would not involve significant risk of financial detriment. The Committee believes that the decisions to invest in, or divest from, a particular company should be made by an investment manager based on a holistic analysis of financially material issues, including environmental, climate change, social and governance issues.

**Principle 12: Committee believes it should exercise its ownership rights in a responsible way, constructively engaging with companies to reduce risk.**

The pension funds are better protected from adverse impacts by collaborating with like-minded investors to have greater influence in engaging with companies, government and regulators. Engagement aims to encourage responsible behaviour by companies in relation to environmental, climate change, social and governance issues.

**Principle 13: Committee believes that monitoring and assessment of investment success should be viewed on a long-term basis.**

No asset mix provides a stream of cash flows that perfectly matches the liability payments of the pension funds as they fall due, so monitoring activity is complex. The pension funds are long term in nature and the success of a given investment strategy is likely to ebb and flow with changing investment environments in an unpredictable way. Investment monitoring is challenging and should be viewed through a long-term lens.



**Principle 14: Committee believes that peer group comparative analysis needs to be treated with care.**

No two pension funds are identical, so peer group analysis should be undertaken with care as different funds can hold different investment beliefs, objectives and return and risk appetites.

## PENSION FUND OBJECTIVES

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The **primary objective** of the pension fund is to ensure that there are sufficient funds available to meet all liabilities as they fall due.

The **funding objectives** are documented in the Committee's Funding Strategy Statement, which is reviewed at least triennially. The funding objectives, together with the rates of return being targeted and levels of risk to be tolerated, are central to the investment strategy and govern the allocation across various asset classes.

The **investment objectives** of the pension fund are to achieve a return on assets which is sufficient over the long term to meet the funding objectives outlined in the Funding Strategy Statement, i.e. to

pay liabilities and to make the scheme affordable to employers now and in the future, while minimising any increase in contribution rates.

Committee has set the investment strategy with reference to the following **policy groups**, which are regarded as the key determinants of risk and return. The policy groups condense the vast array of investment choices into a manageable number of investment groups with broadly similar characteristics:

- **Equities** provide an equitable share in the assets and profits of companies. Income is provided through discretionary share dividends. Equities are listed in the UK or overseas or are unlisted (private equity). Equities have historically produced returns above inflation.
- **Other Real Assets** are typically investments in a share of income and capital appreciation of tangible assets, including **property** (land and/or buildings for commercial or residential use), **infrastructure** (assets deemed essential to the orderly functioning of daily life, such as renewable energy generation and transmission assets, water utilities, airports and toll roads) and **timberland**. Income comes from dividends and rents.
- ~~Non-Gilt Debt~~**Credit** instruments are issued by a range of [non-sovereign](#) borrowers to finance their activities in various sectors of the economy, which means that they carry varying degrees of credit risk. Income is provided through interest, which is typically paid to the lender on a regular basis until the loan capital is repaid, generally at par by the issuer at a pre-determined date. Bonds can pay a fixed, variable or inflation-linked rate of interest. Bonds are either listed in the UK or overseas or are unlisted (private debt).
- ~~LDI~~**Sovereigns** are [gilts/bonds](#), which are debt instruments issued by [sovereign governments \(such as the UK and US\)](#). ~~the UK Government~~. Typically, these provide interest payments on a regular basis over the life of the loan until capital is repaid at maturity. Some gilts provide interest payments and capital repayment value that is directly linked to price inflation ([e.g. the Retail Price Index \(RPI\) in the UK](#)). These are known as Index Linked Gilts and they provide the closest match to the Funds' liabilities, most of which are inflation-linked, albeit to a different measure of price inflation (the Consumer Price Index (CPI)). Some other governments ([such as the US](#)) also issue this type of debt, but in different currencies [and](#) tied to price inflation in their own countries.
- **Cash** is also a form of investment used to provide instant or short-term liquidity and can be held in both sterling and foreign currencies (including Treasury Bills, Money Market Funds and Secured Investments). Cash generates interest income, but typically at a lower rate than bonds and other debt.

As the returns of the above investments aren't completely correlated, the pension fund should achieve diversification and better risk-adjusted returns by investing in assets from each policy group.

## INVESTMENT STRATEGIES

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The Committee's agreed investment strategies (presented in Appendix A) are expressed in terms of allocations to various policy groups (or asset classes). These reference portfolios are expected to generate the required return with a reasonable probability of success. The rate of return being targeted and the level of risk to be tolerated are central to the determination of the investment strategy (or asset mix) of the pension fund. The investment strategies are measured against strategy-specific benchmarks by an independent performance measurement specialist, and these are reported to Committee annually with reference to asset market returns as well as liability valuations.

To provide suitable investment strategies for differing requirements of employers, **Lothian Pension Fund** currently operates four investment strategies, as follows:

- **Main Strategy** is a diversified portfolio, mostly invested in long-term, return-seeking assets, such as equities, due to the long-term nature of the pension liabilities. Approximately 94% of employers' assets are invested in the Main Strategy.
- **MEG ("Mature Employers Group") Strategy** invests in a portfolio entirely invested in UK gilts and cash to reduce investment risk for employers (except for Transferee Admitted Bodies) that are close to leaving the Fund. These employers have a low tolerance for risk and this strategy protects them from short-term changes in funding level and employer contribution rates. Less than 1% of employers' assets are invested in the MEG Strategy.
- **50/50 Strategy** invests in a portfolio comprising 50% of the Main Strategy and 50% of the MEG Strategy for employers with a 'medium' tolerance for investment risk. Less than 1% of employers' assets are invested in the 50/50 Strategy.
- **Buses Strategy** is a diversified portfolio of assets tailored to suit the risk appetite of the Lothian Buses company. The Lothian Buses Pension Fund merged with Lothian Pension Fund in Q1 2019. It represents 5.5% of Fund assets.

**Scottish Homes Pension Scheme** was fully funded at the most recent actuarial valuation in March 2020. Its investment strategy protects this closed and mature scheme from short-term changes in funding level and increases in contribution rates by investing in UK gilts and cash.

## STRATEGY IMPLEMENTATION

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With advice [from taken at the Joint Investment Strategy Panel Forum](#), the CIO and senior members of the investment team identify the combination of investment managers and mandates within the policy groups to deliver the objectives of the pension fund. The investment strategies are listed in Appendix A. Both external and internal managers are used, recognising that there are cost and alignment advantages of an in-house investment team.

To reduce the risk that the investment objective is not met, controls are set around policy group allocations and each manager/mandate. For external managers, these are detailed in formal Investment Management Agreements; and similarly, formal investment objectives and constraints are set for internal mandates. The investment managers are responsible for the selection of individual holdings.

The internal investment managers and mandates are measured against mandate-specific benchmarks of risk and return by an independent performance measurement specialist. Performance and mandate implementation is monitored [by the JISP advisers at JIF](#) on a quarterly basis.

## OTHER INVESTMENT CONSIDERATIONS

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### Realisation of investments

Most of the pension fund investments are in liquid markets and can be expected to be sold relatively quickly if required. A proportion of the investments (such as property, private equity, private debt and infrastructure) have less or limited liquidity and would therefore take longer to be sold. The overall liquidity of the assets is considered in the light of potential demands for cash.

### Stock Lending

The pension fund lends a proportion of their investments to generate income from share ownership. Stock lending is conducted within parameters prescribed in the 2010 Regulations. Stock lending doesn't prevent any investments from being sold. Safeguards are in place to reduce risk of financial loss in the event of default. These safeguards include receiving liquid collateral in excess of the value of the loan, an indemnity agreement with the lending agent and strict parameters on the credit-worthiness of potential borrowers.

### Underwriting

Managers are permitted to underwrite and sub-underwrite stock issues subject to the security being deemed attractive on a medium-term view and subject to the application being limited to an amount the manager would wish to hold over the medium term.

### **Derivatives**

A derivative is a security or contract that derives its value from its relationship with another asset. The Committee has approved the use of derivatives, subject to compliance with relevant legislation and control levels outlined in investment management agreements. The pension fund may make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for efficient portfolio management or to hedge specific risks. For example, forward currency contracts allow the pension fund to reduce risk from currency fluctuations and equity futures allow the pension fund to reduce risk during major portfolio rebalances/transitions.

### **Voting and Engagement**

The approach to exercising ownership rights attached to investments (including voting rights) is described in the SRIP.

### **Safekeeping of Assets**

The services of a global custodian are employed to ensure the safekeeping of investments.





## COMPLIANCE WITH 2010 REGULATIONS

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### Increased Investment Limits

The 2010 Regulations contain limits on the percentage of a pension fund that may be invested in certain types of investment including partnerships. Partnerships are commonly used as the fund vehicle through which the pension fund makes an investment into assets such as infrastructure, timber, property, private equity and private debt (also referred to as unlisted investments). In accordance with the 2010 Regulations and based on proper advice from the JISP advisers, the Committee have agreed the following increased limits applicable to the pension fund's investments in partnerships to accommodate the allocation to unlisted investments:

- All contributions to any single partnership: 5% (statutory maximum of 5%)
- All contributions to )partnerships: 20% (statutory maximum of 30%)



The increased limits will apply for so long as the pension fund has an allocation to unlisted investments. This decision is compliant with the 2010 Regulations.

### CIPFA Principles for Investment Decision Making

The 2010 Regulations require the Committee to publish the extent to which it complies with guidance issued by Scottish Ministers. This includes the six *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2009* published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and based on the Myners principle, as updated in 2008. Details of the CIPFA principles, and how the Committee complies with such guidance, is provided in Appendix B.

### Review of SIP

The Committee will review this statement annually and, in the case of any material change in the Committee's policy, before the end of a period of six months beginning with the date of that change. The Committee will consult with such persons as it considers appropriate and take proper advice when revising this statement.

**APPENDIX A – INVESTMENT STRATEGIES (SEPTEMBER 2023 JUNE 2024)**

Strategy name	Investment objective	Investment strategy description																																										
<b>Lothian Pension Fund</b>																																												
Main	To generate returns sufficient to pay pensions as they fall due.	<p>To invest in the following exposures:</p> <table border="1"> <thead> <tr> <th>Policy group</th> <th>Target weight 2021-2024</th> <th>Permitted range</th> </tr> </thead> <tbody> <tr> <td>Equities</td> <td>60%</td> <td>50-70%</td> </tr> <tr> <td>Real Assets</td> <td>20%</td> <td>10-30%</td> </tr> <tr> <td>Non-Gilt Debts</td> <td>10%</td> <td>0-20%</td> </tr> <tr> <td>LDI (Formerly Gilts)</td> <td>10%</td> <td>0-20%</td> </tr> <tr> <td>Cash</td> <td>0%</td> <td>0-15%</td> </tr> <tr> <td><b>Total</b></td> <td><b>100%</b></td> <td></td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>Policy Group</th> <th>Target Weight 2024 - 2027</th> <th>Permitted Range</th> </tr> </thead> <tbody> <tr> <td>Equities</td> <td>55%</td> <td>45 - 65%</td> </tr> <tr> <td>Real Assets</td> <td>20%</td> <td>10 - 30%</td> </tr> <tr> <td>Credit</td> <td>8%</td> <td>0 - 20%</td> </tr> <tr> <td>Sovereigns</td> <td>15%</td> <td>5 - 25%</td> </tr> <tr> <td>Cash</td> <td>2%</td> <td>0 - 15%</td> </tr> <tr> <td><b>Total</b></td> <td><b>100%</b></td> <td></td> </tr> </tbody> </table>	Policy group	Target weight 2021-2024	Permitted range	Equities	60%	50-70%	Real Assets	20%	10-30%	Non-Gilt Debts	10%	0-20%	LDI (Formerly Gilts)	10%	0-20%	Cash	0%	0-15%	<b>Total</b>	<b>100%</b>		Policy Group	Target Weight 2024 - 2027	Permitted Range	Equities	55%	45 - 65%	Real Assets	20%	10 - 30%	Credit	8%	0 - 20%	Sovereigns	15%	5 - 25%	Cash	2%	0 - 15%	<b>Total</b>	<b>100%</b>	
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MEG (Mature Employers Group)	To achieve a return in line with gilts that match the duration of the liabilities.	To invest exclusively in UK Gilts and Cash matching the duration of employer liabilities with the duration of the invested assets.																																										
50/50	To achieve a return in line with a 50:50 investment in the Main Strategy and the MEG Strategy and generate a return that pays pensions as they fall due.	To invest 50:50 investment in the Main Strategy and the MEG Strategy which results in the following exposures:																																										

Policy group	Target weight 2021-2024	Permitted range
Equities	30%	25-35%
Real Assets	10%	5-15%
Non-Gilt Debts	5%	0-10%
LDI (Formerly Gilts)	55%	45-65%
Cash	0%	0-10%
<b>Total</b>	<b>100%</b>	

  

Policy Group	Target Weight 2024 - 2027	Permitted Range
Equities	27.5%	17 - 37%
Real Assets	10%	5 - 15%
Credit	4%	0 - 8%
Sovereigns	57.5%	47 - 67%
Cash	1%	0 - 10%
<b>Total</b>	<b>100%</b>	

<p>Buses</p>	<p>To generate sufficient returns to pay pensions owed to members formerly employed by Lothian Buses as they fall due.</p>	<p>To invest in a proportion of the MEG Strategy and the Main Strategy that reflects the maturity of liabilities. <del>This is currently 45:55</del> From 1 April 2024, the strategic split is 50:50 (previously 45:55). Based on the Main Strategy, the Buses Strategy will have the following exposures:</p> <table border="1" data-bbox="655 510 1380 853"> <thead> <tr> <th colspan="2"></th> <th colspan="2">Target Weight</th> <th></th> </tr> <tr> <th>Policy group</th> <th>Target weight 2021-2024</th> <th>Permitted range</th> <th>Current Range</th> <th></th> </tr> </thead> <tbody> <tr> <td>Equities</td> <td>33.0%</td> <td>28-38%</td> <td>37%</td> <td></td> </tr> <tr> <td>Real Assets</td> <td>11.0%</td> <td>6-16%</td> <td>5%</td> <td></td> </tr> <tr> <td>Non-Gilt Debt</td> <td>5.5%</td> <td>0-11%</td> <td>3%</td> <td></td> </tr> <tr> <td>LDI (formerly Gilts)</td> <td>50.5%</td> <td>40-60%</td> <td>57%</td> <td></td> </tr> <tr> <td>Cash</td> <td>0.0%</td> <td>0-10%</td> <td>0%</td> <td></td> </tr> <tr> <td><b>Total</b></td> <td><b>100%</b></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>			Target Weight			Policy group	Target weight 2021-2024	Permitted range	Current Range		Equities	33.0%	28-38%	37%		Real Assets	11.0%	6-16%	5%		Non-Gilt Debt	5.5%	0-11%	3%		LDI (formerly Gilts)	50.5%	40-60%	57%		Cash	0.0%	0-10%	0%		<b>Total</b>	<b>100%</b>			
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<p><b>Scottish Homes Pension Fund</b></p>																																										
<p>Scottish Homes</p>	<p>To match cash flows from gilt income and redemption payments as closely as possible with the expected liability payments of the pension fund to minimise the risk of additional employer contributions being required.</p>	<p>To invest all assets in UK gilts and cash. As some liabilities are fixed in nature and some are inflation-linked, in the strategy is to invest in both nominal and index-linked gilts to match cash flows with liability payments one year beyond the next actuarial valuation. Longer dated liability payments are duration matched.</p>																																								

## APPENDIX B – COMPLIANCE WITH CIPFA PRINCIPLES

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### Principle 1 – Effective decision making

*Administering authorities 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. Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*

- The Committee focuses on setting the strategy for the pension fund and monitoring performance. The Pension Board also attends Committee meetings and is responsible for assisting the Committee in securing compliance with relevant regulations and other legislation.
- Fund officers are responsible for the provision of the training plan for Committee members to help them to make effective decisions and to ensure that they are fully aware of their statutory and fiduciary responsibilities.
- The Committee’s Training and Attendance Policy is available on the website. It applies to both members of the Committee and the Pensions Board and is intended to support their knowledge to enable them to evaluate and challenge the advice they receive. Standards relating to the administration of the Committee’s business are strictly upheld.
- The Committee has appointed an Independent Professional Observer to strengthen governance. The role of the Observer is to provide the Committee with an impartial, additional source of experience and technical knowledge.
- [Participants at the JIF](#) ~~The JISP advisers~~ advise the client representative (currently the LPF CIO) on the implementation of the investment strategies, reviewing structure, funding monitoring, performance and risk and asset allocation. The [JIFSP](#) meets at least quarterly and includes independent advisers who are experienced investment professionals.
- The fund’s in-house investment team undertakes day-to-day monitoring of the investment. The team includes personnel with suitable professional qualifications and experience to provide the necessary skills, knowledge, advice and resources to support the JISP meetings and the Committee.
- Conflicts of interest are managed actively. At each Committee meeting, elected members of the Committee and Pensions Board are asked to highlight conflicts of interest. A Code of Conduct applies to members of the Committee and the Pension Board and includes the Compliance Policy, which ensures conflicts of interest are highlighted and managed appropriately.



## Principle 2 – Clear Objectives

*Overall investment objectives should be set out for the fund that take account of the scheme’s liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.*

- The SIP and the Funding Strategy Statement define the primary funding objectives of the pension fund.
- Asset-liability modelling is undertaken with the help of external advisers to aid the understanding of risks and the setting of investment strategy.
- Employers’ attitude to risk is specifically considered in the setting of strategy, and employers can request a bespoke investment strategy.
- The setting of the Funding Strategy includes specific consideration of the desire to maintain stability in employer contribution rates.
- Reviews of investment strategy focus on the split between broad asset classes (equities, real assets, [credit, sovereigns non-gilt debt, LDI](#) and cash).
- External managers are appointed under investment management agreements which set clear benchmarks and risk parameters and include the requirement to comply with the SIP.
- The arrangements for advisers appointed to support the pension funds are reviewed regularly under a robust supplier management framework.



## Principle 3 – Risk and liabilities

*In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for council tax payers; the strength of the covenant of participating authorities; the risk of their default, and longevity risk.*

- The Committee take advice from the scheme actuary regarding the nature of the pension fund’s liabilities. Asset-liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength and longevity risk.
- The Committee recognises that employers’ circumstances vary and an alternative investment strategy may be deemed suitable for them. Requests for an alternative strategy will be considered, subject to practical constraints on implementation and, if appropriate, a review of the employer’s contribution rates. It’s not practical to offer individual employers full flexibility on asset allocation.



- The funding objectives for the pension fund are expressed in relation to the solvency and employer contribution rates. The covenants of participating employers are regularly assessed.
- The LPF CEO is responsible for ensuring the appropriate controls are applied to the pension fund. Controls are subject to internal audit, and results of audits are submitted to the Pensions Audit Sub Committee and/or the Committee.
- A risk register is maintained, and is reviewed on a quarterly basis.

#### Principle 4 – Performance assessment

*Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.*

- Analysis of the performance and risk of the pension fund's investments is produced by an independent external provider.
- The internal investment team monitors the external investment managers' performance and risk on a regular basis and reports this at the [JIF JISP](#). ~~The JISP advisers assess the performance and risk assessment~~ of both internal and external investment managers ~~is also undertaken at JIF~~ on a regular basis (typically quarterly).
- Contracts with advisers are regularly market tested.
- ~~Members of the JIF~~ ~~The JISP advisers~~ assess ~~their own~~ performance ~~and activities undertaken~~ on a regular basis and report to Committee on their activities, typically annually.
- Training and attendance of members of the Committee and the Pensions Board is monitored and reported on a regular basis. The composition of the Committee and Pension Board is reviewed on a regular basis.



#### Principle 5 – Responsible ownership

*Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.*

*Administering authorities should report periodically to members on the discharge of such responsibilities.*

- The Committee's approach to responsible investment is described in the SIP and the SRIP, both of which can be found on the website.
- A description of how the pension fund adheres to the principles of the FRC's Stewardship Code 2020 is set out in the Stewardship Report submitted annually to the FRC and available on the website.
- Details of the voting and engagement activities are available on the website. The pension fund's Annual Report and Accounts includes a summary of the approach to responsible investment. A summary of the report and accounts is sent to members. The full report is available on the website and is sent to members on request.

## Principle 6 – Transparency and reporting

*Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and provide regular communication to members in the form they consider most appropriate.*

- Meetings of the Committee are open to the public. Members of the public are entitled to make a deputation at Committee meetings. Committee papers are available on CEC's website. The Pension Board joins the Committee at all meetings.
- The Committee's remit covers wider pension scheme issues, other than the management and investment of funds.
- Policy statements are maintained regularly. Stakeholders are consulted on changes. Documents are available on the website.

The full report of the pension fund's Annual Report and Accounts is available on the website and is sent to members on request. Regular newsletters for members are produced, as well as an annual benefit statement. Regular briefings are provided to employers. The website is updated regularly.



## Document Control

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<u>Approved by</u>	<a href="#">Emmanuel Bocquet, Chief Investment Officer</a>
<u>Approval date</u>	<a href="#">26 June 2024</a>
<u>Senior Responsibility</u>	<a href="#">Emmanuel Bocquet, Chief Investment Officer</a>
<u>Owner</u>	
<u>Review schedule</u>	<a href="#">Reviewed annually, with approval by Chief Investment Officer</a>
<u>Next review</u>	<a href="#">June 2025</a>

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