

STATEMENT OF INVESTMENT PRINCIPLES

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the revised Statement of Investment Principles be approved and adopted.

1. Introduction

- 1.1. Since July 2000, all pension funds have had to prepare and to publish a Statement of Investment Principles (SIP). This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken into account in so doing. The Statement has to be revised when there is any material change.
- 1.2. There are two recent changes that will have an impact on the SIP, the creation of the Pension Board and the revised strategic asset allocation resulting in the appointment of UBS to manage an alternative indexation mandate. The SIP needs to be amended to reflect these changes and a draft revised document is set out at Appendix 1.

2. Pension Board

- 2.1. At the last meeting of the Committee a revised Governance Policy was agreed to include the establishment of the Pension Board. While the Governance Policy is the key document with regard to the Pension Board terms of reference, there are a couple of places in the SIP where the Pension Board should be referred to.
- 2.2. Section 2 of the revised SIP headed "Decision Makers" now includes a paragraph on the Pension Board. In addition Section 7 on "Compliance with the Myners Principles" includes reference to the Pension Board under "1. Effective Decision Making".

3. Asset Allocation

- 3.1. Section 4 of the SIP, headed "Investment Principles" includes a description of the strategic asset allocation under "3. The balance between different types of investment". While the headline figures have not changed, the Committee agreed to amend the asset allocation within Equities such that 40% of the Fund should now be allocated to passive equity funds, with 20% of that allocation (8% of the total Fund) now allocated to an alternative indexation mandate. This section has therefore been rewritten to reflect that change.
- 3.2. In addition, the decision to appoint UBS to the Alternative Indexation mandate requires a further change in relation to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Those regulations prescribe limits on certain type of investments that should not be exceeded. The regulations specify a lower limit and a

higher limit. The lower limit should not be exceeded unless the Fund decides to adopt the higher limit, and includes a statement to that effect in the SIP.

3.3. Among the prescribed limits is a limit on investments in “any single insurance contract”. The investments managed by UBS, both the longstanding passive UK tracker fund and the new alternative indexation investment, are managed as life funds, and therefore fall under the definition of an insurance contract. The new alternative indexation mandate has been agreed with UBS as an amendment to their existing Investment Management Agreement with the Fund and takes the total proportion of the Fund managed through that agreement to around 27%, above the lower limit of 25%. Therefore the SIP needs to include a statement that the Fund has adopted the upper limit of 35% in relation to a single insurance contract.

3.4. In addition, Appendix B has been amended to include the new UBS mandate and to remove the previous Sarasin mandate.

4. Other Issues

4.1. No changes are proposed to the sections on Corporate Governance, including Section 6 on “Social, Environmental and Ethical issues”.

5. Conclusion

5.1. The Committee is asked to approve the revised Statement of Investment Principles.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

Contact for Enquiries: Mark Gayler

Tel No: (01392) 383621 Room G97