

Nottinghamshire County Council

Pension Fund

Statement Of Investment Principles



April 2010

1. Aims and Purpose

- 1.1 To provide for members' pension and lump sum benefits on their retirement or for their dependant's benefit on death before or after retirement, on a defined benefit, final salary basis.
- 1.2 To achieve relative stability in contributions by employers, balanced against an objective of operating cost-effectively and reducing employers contributions from their present level in the longer-term.
- 1.3 Subject to the first two items, to conduct the business of the Fund and to use the influence of the Fund in a long term responsible way.

2. Background

- 2.1 By statute, the County Council is the "administering authority" for the Pension Fund and those responsible for the Pension Fund act in a quasi-trustee capacity (hereafter referred to as 'trustees'). The governance arrangements for the Fund are detailed in the Governance Compliance Statement.
- 2.2 Membership of the Fund is available to employees of all local authorities in Nottinghamshire and also employees of other local authority organisations in the County. Other appropriate organisations, primarily voluntary bodies may also request admission to the scheme. These were formerly admitted to the separate Admitted Bodies Fund. This fund is to be merged with the main fund from 1 April 2010.
- 2.3 The contributions by employees to the Fund are set by statute and are not affected by how the Fund is run.
- 2.4 The benefits to employees are set by statute and are not affected by how the Fund is run.
- 2.5 The contributions by employers are variable and dependent on their own employment policies, the performance of the Fund and the results of the triennial actuarial valuation.

3. Principles

- 3.1 The Fund will aim to be sufficient to meet all its obligations on a continuing basis.
- 3.2 The Fund will be invested in a diversified range of assets.
- 3.3 Independent advice on the suitability of types of investment will be obtained on a regular basis.
- 3.4 The Trustees recognise their full responsibility for the oversight of the Fund, and operate to a Code of Conduct.

4. Trustee Responsibilities

- 4.1 The Trustees shall determine the overall investment strategy, and what restrictions, if any, are to be placed on particular types of investment and the location, by market, of those investments.
- 4.2 The Trustees shall determine the type of investment management to be used and shall appoint and dismiss fund managers, and other providers of specialist services to the Funds.
- 4.3 The Trustees shall receive quarterly reports on performance from the main fund managers and shall question them regularly on their performance. There will be an independent report on the performance of fund managers that is produced at least annually and provided to the Trustees.
- 4.4 The Trustees shall be encouraged to receive suitable training to help them discharge their responsibilities and shall, within a defined budget, attend such training courses, conferences and meetings that deliver value for money to the Funds and their administration.

5. Asset Allocation

- 5.1 Contribution income currently exceeds benefit payments and a recent investment strategy review, carried out by the Fund's actuaries, found that this is likely still to be the case in 20-30 years time. This makes it unlikely that assets will have to be realised in order to meet pension benefits and allows the Fund to implement a long term investment strategy.
- 5.2 The agreed asset allocation ranges are therefore:-

Equities	55% to 75%
Property	5% to 25%
Bonds	10% to 25%
Cash	0% to 10%

These ranges will be kept under regular review. If it appears likely that these limits might be breached because of market movements, reference will be made to a meeting of the Pensions Working Party for advice.

- 5.3 The proportions are those aimed at achieving best returns whilst minimising overall variability in the future employers' contribution rates. These have been confirmed as appropriate by the investment strategy review.
- 5.4 In carrying out the triennial valuation, the actuaries make allowance for the expected long term additional returns from the Fund's investments relative to a portfolio of Government bonds. The assumed level of out-performance at the most recent valuation was 2.75% per annum for pre-retirement service periods and 1% per annum for post-retirement periods. Actual returns will be incorporated into each actuarial valuation.
- 5.5 The policy of the Fund will be to treat the equity allocation as a block aimed at maximising the financial returns to the funds (and thus minimising the employers contribution) consonant with an acceptable level of risk. The Trustees have agreed an allocation to private equity within the Equities block. In recognition of the higher risks involved with this type of investment, the commitment to private equity has been set at a maximum of 4% of the total fund at the time of investment. This will be effected principally through fund of funds arrangements to increase diversification and reduce risk.
- 5.6 The Fund will treat the block of Bonds, Property and Cash as a separate entity, aimed at lowering overall risk (at the cost of anticipated lower return) and will vary between the assets within the block according to market circumstances, relative performance and cash flow requirements.
- 5.7 Cash will be managed and invested on the Fund's behalf by the County Council in line with its treasury management policy. The policy is to invest surplus funds prudently, giving priority to security and liquidity rather than yield. If losses occur, however, the Fund will bear its share of those losses.
- 5.8 Pension fund cash is separately identified each day and specific investment decisions will be made on any surplus cash identified, based on the estimated cash flow requirements of the Fund. As the majority of cash is allocated to individual investment managers and may be called by them for investment at short notice, it is expected that the majority of cash will be placed on call or on short-term fixed deposits.
- 5.9 Joint investments using a combination of Fund cash and County Council cash may be made where this is in the best interests of the Fund. In considering such investments, guidance issued by the Department for Communities and Local Government will be followed and the Fund will receive its fair share of interest in proportion to the share of cash invested.
- 5.10 Other asset classes, such as hedge funds and currency, will be reviewed as part of the regular asset allocation strategy review and, if a decision to invest in other assets is made, the Statement of Investment Principles will be revised accordingly.

6. Risk Management

- 6.1 The Fund has adopted a Risk Management Strategy to:
- a. identify key risks to the achievement of the Fund's objectives
 - b. assess the risks for likelihood and impact
 - c. identify mitigating controls
 - d. allocate responsibility for the mitigating controls
 - e. maintain a risk register detailing the risk features in a)-d) above
 - f. review and update the risk register on a regular basis
 - g. report the outcome of the review to the Pensions Committee.
- 6.2 The Risk Register is a key part of the strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved.
- 6.3 Investment risk will be managed by ensuring an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets, which will be reviewed regularly by the Investment Sub-committee. The level of risk in the equities block will be managed by a balance between passive and active management that will be varied from time to time, according to performance and emerging knowledge and experience of the market.
- 6.4 The investment strategy review indicates that the correlation between UK and overseas markets has increased significantly over recent time, reflecting the increasing globalisation of the market. The Funds will therefore make no distinction between the relative holdings of UK and overseas equities, but will take into account exchange rate risks when deciding the balance.
- 6.5 In addition, the following constraints will apply. These constraints will be reviewed from time to time, and if changes are made, these will be incorporated into a revised Statement of Investment Principles, and amendments will be published.
- (a) Not more than 10% of the Fund to be invested in unlisted securities.
 - (b) Not more than 10% of the Fund to be invested in a single holding.
 - (c) Not more than 25% of the Fund to be invested in securities which are managed by any one body, i.e. in a unit trust type arrangement.
 - (d) Not more than 15% of the Fund to be invested in partnerships, with not more than 2% in any one partnership.
 - (e) Not to enter into any stock lending arrangements.
 - (f) No underwriting without prior approval.
 - (g) No involvement in derivatives (including currency options) without prior approval.

7. Other Issues

- 7.1 The Fund's assets are held in custody by a combination of an independent custodian, investment managers and in-house. The performance of fund managers will be measured against individual benchmarks, and the overall fund, including cash returns, against a combined benchmark. Performance will be measured by an independent agency, currently BNY Mellon Asset Servicing. The statement of accounts will be audited by the County Council's external auditors.
- 7.2 The Investment Sub-Committee will meet at least eight times a year. At least five of these meetings will be at County Hall and the remainder may be held at the offices of the principal fund managers. The travel and subsistence arrangements for Trustees shall be those which prevail for Nottinghamshire County Council.
- 7.3 The Fund has appointed an independent adviser who will be present at meetings of the Investment Sub-Committee along with appropriate officers of the administering authority. This is considered best practice in accordance with the requirements for "proper advice" in the governing regulations.
- 7.4 The following appendices are attached:
- Appendix A – the investment management arrangements
 - Appendix B – the Fund's Statement on Responsible Investment

Appendix A

The combined investment management arrangements as at 31 December 2009 were as below.

Investment	Management	Style	Fee Structure	£ million	
Equities					
Global equities	In-house	Consensus indexation		926	
Global equities	Schroders	Active management	Fixed fee basis	622	
Global equities	Martin Currie	Active management	Fixed fee basis	13	
Global equities	Hermes Governance for Owners	Active with focus on company engagement	Fixed fee plus performance fee	97	
Private equity	Various	Active management	Fixed fee plus performance fee	48	
				1,706	66.7%
Fixed Interest					
Global fixed interest	Aegon	Active management	Fixed fee plus performance fee	357	
Index linked bonds	Aegon	Active management	Fixed fee plus performance fee	56	
				413	16.2%
Property					
Direct UK property	Aberdeen	Active management	Fixed fee basis	240	
Property unit trusts	Various	Active management		43	
Overseas property	Various	Active management	Fixed fee plus performance fee	90	
				373	14.6%
Cash	Nottinghamshire County Council			65	2.5%
				2,557	

Nottinghamshire County Council Pension Funds

Statement on Responsible Investment

1. Statement of Principles

- 1.1 The Nottinghamshire Fund adopts a long term approach to responsible investment. The Trustees recognise their full responsibility for the oversight of the Funds and are charged with determining the overall investment strategy and the type of investment management used. The investment strategy is aimed at achieving best returns whilst minimising risk and overall variability in future employers contribution rates. Environmental, social and governance (ESG) issues will be taken into account where these are considered likely to impact on returns.
- 1.2 The Fund supports the principles of best corporate governance as exemplified in contemporary codes of practice, as being in the best long term interests of beneficiaries and other stakeholders. The Fund has adopted a number of specific policies to implement its approach to long term responsible investment.

2. Policies Adopted

- 2.1 The Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds. The Fund retains responsibility for voting (rather than delegating this to investment managers) and votes are cast for the majority of its equity holdings in the UK, Europe, US and Japan.
- 2.2 Voting is in line with corporate governance best practice and the Fund subscribes to independent research services for voting advice. Quarterly reports are made to the Investments Sub-Committee on votes cast and the issues involved. In exceptional circumstances the Fund will combine with others on a specific issue but only after a specific report has been made or consultation carried out.
- 2.3 In order to ensure ownership rights can be exercised, the Fund holds and will continue to hold, investments in its own name where possible, rather than in the name of investment managers. It will continue to oppose those processes, such as stock lending, which also deprive the Fund of the ability to meet its corporate governance objectives.
- 2.4 The Fund adopts a policy of positive engagement with companies in which it invests in order to promote high standards of corporate governance. It expects investment managers to engage with companies to address concerns affecting performance. The Fund also holds a number of investments that specifically focus on engaging with the management of under-performing companies in order to generate superior returns.

- 2.5 The Fund believes that the greatest impact on behaviour can be achieved when working together with others. It is a member of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Fund actively supports the work of LAPFF and also subscribes to a number of other industry bodies such as the UK Social Investment Forum (UKSIF) and the National Association of Pension Funds (NAPF).