

Suffolk Pension Fund Statement of Investment Principles 2015



SUFFOLK COUNTY COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES

Suffolk County Council is required to adopt a Governance Policy Statement for the Suffolk County Council Pension Fund, which sets out the arrangements for the discharge of its responsibilities for administering the Fund. Under the Governance Policy Statement, the Suffolk Pension Fund Committee is responsible for the administration of the Fund's investments, including the maintenance of the statement of Investment Principles for the Fund. The responsibilities of the Committee are set out in the Governance Policy Statement, which is published on the pension fund website. (www.suffolkpensionfund.org)

This is the Statement of Investment Principles (the "Statement") of the Suffolk Pension Fund as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations").

The Statement is subject to review at least annually and from time to time on any material change in investment policy or other matters as required by law. In preparing this statement, the Committee has consulted with the Fund's employers, investment managers, custodian, actuary, internal & external auditors and has considered advice from its investment advisers.

The responsibilities of relevant parties are set out in appendix B.

Fund Objective

Funding Strategy Statement

The Fund has published a Funding Strategy Statement (FSS). Its purpose is:

- "to establish a clear and transparent fund-specific strategy which will set out how employers' pension liabilities are best met in the future;
- to comply with the regulatory framework to maintain employer contribution rates as constant as possible; and
- to take a prudent longer-term view of funding those liabilities."

The funding objective that has been adopted for the Suffolk Pension Fund is to ensure that the assets of the Pension Fund, when taken in conjunction with future contributions, are sufficient to ensure that all future pension and retirement benefits will be fully covered by the Fund's assets when they fall due.

Funding Level

The funding level of the Pension Fund is the value of the Fund's assets expressed as a percentage of the Fund's liabilities at the most recent actuarial valuation of the Fund. The funding level at March 2013 was 79%. The Funding Strategy provides for the Fund to return to a fully funded position over a period of around 20 years. In accordance with the Funding Strategy Statement the Committee determined the rate of contributions payable by each of the employers in the Fund for the three years starting 1 April 2014.

Investment Strategy

The Committee has translated its objectives into an asset allocation plan and investment management structure for the Fund (set out in appendix A). The Fund's target is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Committee monitors the investment strategy relative to the agreed asset allocation benchmark. In addition to on-going monitoring the investment strategy is formally reviewed annually. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation.

Investment managers

The Committee ensures that the investment managers are properly authorised under the local government investment regulations to manage the assets of the Fund. The investment managers have been appointed in accordance with the County Council's procurement procedures and with appropriate professional advice from the Fund's Investment Adviser, Hymans Robertson LLP.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

The managers appointed, and the mandates they manage, are detailed in appendix A.

Types of investment to be held

The Committee complies with the statutory restrictions in the LGPS investment regulations. It has also determined investment allocations and restrictions for each investment manager, which are consistent with the Fund's overall investment strategy. The Director of Resource Management may vary these restrictions, after consultation with the Pension Fund Committee.

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. These risks are set out and monitored as part of a formal risk register. An extract of the risk register relating to funding and investment is included in Appendix E. However, in summary, the principal risks affecting the Fund are:

- a) **Funding risks:**
 - Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
 - Changing demographics – The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
 - Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

- b) **Asset risks:**
 - Concentration – The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
 - Illiquidity – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
 - Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

- c) **Other provider risks –**
 - Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
 - Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
 - Credit default - The possibility of default of a counterparty in meeting its obligations.

Mitigations:

The approach the Committee adopts to managing these risks is also addressed in Appendix E. However, in general terms, the risks are managed via a combination of:

- The appointment of professional advisers to assist the Committee in managing these risks;
- Agreed processes and guidelines for consideration and monitoring of the investments;
- Specific limits on individual investments;
- Ensuring the expected return from the investment strategy is consistent with the assumptions made by the Actuary in valuing the Fund;
- Assessments of the levels of risk taken by the Fund;
- Diversification of asset classes and managers; and
- Regular review and monitoring.

Full descriptions of these risks, including the mitigating actions taken by the Committee, are set out in appendix E. In addition, the investment limits the Fund operates within are set out in appendix C.

Expected return on investments

Over the long term, the overall level of investment return is expected to exceed the rate of return assumed by the Actuary in valuing the Fund.

Realisation of investments

The majority of assets held within the Fund may be realised quickly if required. The Committee monitor both the level of liquid assets and the liquidity requirements of the Fund.

Environmental, Social & Governance Considerations

The Committee does not restrict the investment managers' choice of investments by reference to social, environmental or ethical criteria.

Exercise of Voting Rights

The Committee has adopted a voting policy in respect of direct holdings of UK equities, which promotes best practice on corporate governance in those companies. The Committee has published the voting policy on the web site (www.suffolkpensionfund.org).

Custody

HSBC is responsible for the custody of the assets of the Fund. The Pension Fund Committee has authorised HSBC to undertake stock lending on behalf of the Pension Fund, subject to the statutory limits set out in Annex C.

Stock Lending

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Committee, which include both pooled and segregated mandates.

Within its segregated mandates, the Committee has discretion over whether to permit stock lending. The Committee has considered its approach to stock lending, after taking advice from its investment adviser. After consideration of that advice, the Committee has given authority to its custodian to lend stocks (principally equities) within its mandates subject to agreed collateral being provided and an overall restriction that the proportion of Fund assets that are available to be lent at any time is limited to 25% of Fund assets.

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unitholders in the fund. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. The Committee has no direct control over stock lending in pooled funds; nevertheless, it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund. Legal & General undertakes stock lending in its passive funds.

The Committee reviews its policy on stock lending (including the amount and type of collateral used) on a regular basis.

Myners Principles

The Myners Report on Institutional Investment, issued in March 2000, set out 10 principles which it considered to be best practice in investment management for pension funds. The principles were reviewed by the Government in 2008 and consolidated into six principles. The Fund is required to report how far its own policies comply with the Myners principles. **Appendix D** sets out the Committee's policies and practices compared with the Myners Principles.

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Appendix A – Funding Strategy and Management Structure

Investment Allocations

Asset Class	Target Allocation	Range Guidelines
	%	%
UK Equities	16.0	+/-5%
Overseas equities	29.0	+/-5%
Total listed equities	45.0	+/-5%
Fixed Income	15.5	+/-3%
UK Index-linked Gilts	4.0	+/-2%
Emerging market debt	2.0	+/-1%
Total Bonds	21.5	+/-3%
Private equity	4.0	+/-2%
Property	10.0	+/-3%
Absolute Return	10.0	+/-3%
Infrastructure	5.0	+/-2%
Timber	2.0	+/-1%
Distressed Debt	2.0	+/-1%
Total Alternatives	33.0	+/-3%
Cash	0.5	+5%
Total	100.0	

Currency hedging

A proportion of the foreign currency exposure relating to overseas equities is hedged to reduce the impact of exchange rate movements on sterling returns. The Committee will be reviewing the structure of the hedge in the near future.

Investment Managers

The Fund's investment management arrangements are shown below:

FUNDING ALLOCATION BY MANAGER	
Manager	Target Allocation
	%
BlackRock Investment Management	15.5
BlueCrest	2.0
Brookfield	2.0
KKR	2.5
Legal & General	29.0
M&G Investments	11.0
Newton Investment Management	13.0
Pantheon	2.0
Partners Group	2.5
Pyrford	6.0
Schroders	10.0
Wilshire	2.0
Winton	2.0
Cash	0.5
Total	100.0

Infrastructure and timberland mandates (KKR, Partners Group and Brookfield) will be substantially drawn down over the next 2-3 years. Sums allocated to these mandates will be invested in index-tracking funds managed by Legal & General pending the drawdowns by the investment managers.

Appendix B – Responsibilities

Pension Fund Committee Responsibilities

- To approve and annually review the content of the SIP.
- To appoint and review investment managers, custodian and advisors.
- To assess the quality and performance of each investment manager annually in conjunction with investment advisers and Section 151 Officer.
- To set the investment parameters within which the investment managers can operate and review these annually.
- To monitor compliance of the investment arrangements with the SIP.
- To assess the risks assumed by the Fund at a global level as well as on a manager by manager basis.
- To approve and review the asset allocation benchmark for the Fund.
- To submit quarterly reports on its activities to the Suffolk Pension Fund Board.
- To approve and annually review the content of the Pension Fund Treasury Management Strategy.

Section 151 Officer Responsibilities

- To manage the Pension Fund on behalf of the Administering Authority and in line
- To produce the Annual Report and Accounts of the Pension Fund.
- To provide reports to the Pension Fund Committee and Board.
- To provide a training plan for the members of the Pension Fund Committee (and the Board).

Custodian Responsibilities

- To safeguard all segregated assets (excluding direct property holdings, unitised holdings and cash held separately with either the Administering Authority or investment managers) within the Fund and ensure that all associated income is collected, including dividends and tax reclaims. Also to ensure that corporate actions affecting the securities are dealt with, including rights issues, bonus issues and acquisitions.
- To provide regular statements of transactions, corporate actions, income and asset valuations as required by the Administering Authority.
- To report to the Committee in person on the assets of the Fund if required.
- To inform the Fund of any areas of concern which arise in its dealings with investment managers.

Performance Monitoring Service

- To provide quarterly and annual performance monitoring of the Fund and its managers against industry benchmarks and other local authority Funds. This enables the Fund to compare itself with market returns and those achieved by other local authority funds.

External Advisers

Hymans Robertson

- To provide advice to the Fund on investment strategy, asset allocation, benchmark selection and design, investment management structure, legislative changes impacting on the Fund and current emerging issues.

- To assist the Fund, when required, with manager selection and manager monitoring.
- To carry out asset/liability modelling studies when required.
- To provide expert commentary on the economy and investment market.
- To attend and advise at all meetings of the Committee.
- To assist the Committee in its annual review of asset allocation, investment management structure, SIP and Funding Strategy Statement.

Independent Investment Adviser

- To attend and advise at all meetings of the Committee.
- To attend the quarterly manager meetings and report to the content to the Committee.
- In conjunction with the officers of the Fund, to keep under review the individual investment managers and where necessary put forward proposals for their management, including where appropriate their dismissal.
- To assist the officers of the Fund, where requested, in manager searches and other Fund procurement exercises.

Audit Responsibilities

The Fund is subject to review by both the County Council's External Auditors (EY) and internally by Internal Audit.

The Pension Fund financial statements contained in the Council's Annual Statement of Accounts present fairly:

- the financial transactions of its Pension Fund during the year; and
- the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

The External Auditor audits the Pension Fund financial statements and gives their opinion, including:

- whether they present fairly the financial position of the Pension Fund and its expenditure and income for the year in question; and
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;

In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.

Additionally the Council must prepare a Pension Fund annual report which should contain the Pension Fund account and net asset statement with supporting notes and disclosures. External Audit will review the annual report as a whole and the accounts contained in it and then report:

- whether the accounts contained in the annual report are consistent with the financial statements on which the audit opinion was given; and
- that other information in the annual report is not inconsistent with the financial statements on which the audit opinion was given.

Internal Audit carry out a programme of work designed to reassure the Section 151 Officer that Fund investment systems and records are properly controlled to safeguard the Fund's assets.

ANNEX C - INVESTMENT LIMITS**STATUTORY LIMITS**

The Government has placed certain restrictions on the investments of local authority pension funds in the local government pension scheme investment regulations (Schedule 1 of the 2009 Local Government Pension Scheme (Management and Investment of Funds) Regulations, S.I. 2009, 3093).

	Statutory limits	Discretionary higher limits	Approved Limit
Any single sub-underwriting contract	1%	5%	
Investment in any single partnership (See note)	2%	5%	5% ⁽¹⁾
Total investments in partnerships (See note)	5%	30%	12% ⁽²⁾
Total deposits and loans with any single 'person'	10%	-	
All investments in unlisted securities	10%	15%	
Any single holding	10%	-	
All deposits with any single bank	10%	-	
Total value of all sub-underwriting contracts.	15%	-	
Total investments in the unit trusts etc. managed by any single manager	25%	35%	
Any single insurance contract	25%	35%	
Total stock lending	25%	-	

Notes (1) – (2)**Schedule 1 Limits on Investments**

Discretionary higher limits on certain types of investment were introduced by the pension fund investment regulations in 2003. The availability of these higher limits is subject to specific decision being made by the Pension Fund Committee. The Committee has agreed to make use of the discretionary higher limits as follows:-

At their meeting on 7 March 2012, the Committee agreed to an increase in the limit on contributions to any single partnership from 2% to 5% and the limit on contributions to partnerships in aggregate from 5% to 12%. Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The decision was taken because the most effective way to invest in infrastructure and timberland (along with existing investments in private equity) are through pooled funds set up as partnerships. The decision will apply for a period of 10 years from the date of the meeting (7 March 2012), at which point this will be re-considered. This decision complies with the 2009 Regulations.

INVESTMENT MANAGER GUIDELINES

We have determined a number of additional restrictions on our investment managers, which are set out in their investment management agreements. These restrictions ensure that our managers adhere to the overall objectives of their mandates in terms of the investments they are permitted to hold and the risks associated with these investments. We have shown the main investment restrictions for each investment manager on the remaining pages of this annex.

LEGAL AND GENERAL INVESTMENT MANAGEMENT**PASSIVE MANDATE (29% of Suffolk Fund)****Investment Objective**

The objective is to seek to match the Benchmark gross of fees over rolling three year periods. The Benchmark is the average of the respective FTSE indices for each of the asset classes and markets in which the mandate is invested, weighted according to the proportions in the mandate's asset allocation shown below.

Investment Restrictions

Asset allocations and control ranges

Asset Class	Target Allocation
	%
UK equities	21
Global equities – RAFI 3000	28
North America Equity Index	10
Europe (ex UK) Equity Index	10
Asia Pacific and Global Emerging Markets Indexes	10
Total equities	79
Bonds:	
UK Index-linked (Over 5 Year Index-linked Gilts Index)	14
Emerging market debt	7
Total bonds	21
TOTAL	100

Investment Restrictions

Individual holdings. Legal and General may not invest in unlisted securities. The manager may invest up to 100% of its mandate in pooled life funds.

BLACKROCK INVESTMENT MANAGEMENT**UK EQUITIES MANDATE (9% of Suffolk Fund)****Investment Objective**

The objective is to seek to outperform the Benchmark by 2.0% per annum gross of fees over rolling three year periods. The Benchmark is the FTSE All-Share Index.

Investment Restrictions

The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the investment management agreement. The main restrictions are set out below.

(a) Geographic / Market / Asset Class / Sector

Asset Class	Permitted Range (% of Market Value of Fund)
UK Equities	90-100
Overseas Equities	0-10
Cash	0-5

(b) Specific company restrictions

The manager may invest for the Fund in equities that are listed on the London Stock Exchange and the stock exchanges of the following countries: France, Germany, Hong Kong, Japan, Switzerland and United States. Investment in equities on other stock exchanges is subject to specific approval by the County Council.

(c) Amount or percentage of the Fund

The manager may not invest for the Fund in any single UK equity holding more than 4% in excess of that holding's weighting in the FTSE All-Share Index or more than 5% of the market value of the Fund, whichever is higher, without specific approval from the Pension Fund Committee. The Fund's investments in In-House Funds are not subject to this restriction.

(d) In-House Funds

The manager may not invest more than 10% of the Fund in the BlackRock Institutional Equity Funds UK Smaller Companies sub-fund.

(e) Derivatives

The manager may not enter into Derivatives contracts in respect of the Fund's segregated holdings without specific approval from the County Council. Subject to this, the manager may deal in Derivatives (including Options, Futures, Currency Forwards and Contracts for Differences) for hedging and other purposes. The manager may only deal in Derivatives traded on or under the rules of a Recognised or Designated Investment Exchange although the manager may deal in Derivatives not traded on or under the rules of a Recognised or Designated Investment Exchange (i.e. an over-the-counter (OTC) Derivatives transaction) in respect of index futures and currency forwards. The manager is not permitted to hold any short positions in the Fund by using Derivatives.

FIXED INCOME MANDATE (6.5% of Suffolk Fund)**Investment Objective**

The objective is to seek a target return of LIBOR +4-6%.

Investment Restrictions

There are no specific investment restriction's placed on the manager as this investment is in BlackRock's pooled fund, the Fixed Income Global Opportunities Fund (FIGO). The Fund itself has built in restrictions, but offers flexibility in duration as well as the ability to allocate across credit sectors and geographies without constraints.

NEWTON INVESTMENT MANAGEMENT

GLOBAL EQUITY MANDATE (13% of Suffolk Fund)

Investment Objective

The objective is to seek to outperform the benchmark by 2.5% p.a. (gross of fees) over rolling 3-year and 5-year periods. Benchmark index: MSCI All Countries World Index (Net Dividend Re-Invested).

Investment Restrictions

The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the investment management agreement. The main restrictions are set out below.

- **Stock positions:** The manager will have discretion to have a nil holding in any stock. The manager will have discretion to have a stock position up to +5% overweight relative to the benchmark weight of the stock (i.e. maximum 6% holding for a stock that comprises 1% of the benchmark). In addition, the manager may invest no more than 10% of the Fund in the securities of any one issuer.
- **Number of Stocks:** The manager will hold a minimum of 80 stocks for the mandate.
- **Individual holdings:** The manager may only invest in equities or securities with equity characteristics (that is securities, which are listed on a formally constituted stock exchange), convertibles, preference shares, warrants and derivatives as specified below, unless specific approval is given to vary this.
- **Country restrictions:** No regional restrictions, with the exception of emerging markets where a maximum of 25% of the portfolio value can be invested (with emerging markets defined as those countries excluded from the MSCI World index but included in the MSCI All Countries World Index).
- **Pooled funds:** In-House Funds can be held, up to a combined 10% of the portfolio value, subject to County Council approval for each required fund. Approval is given to hold the Newton South East Asia Exempt Fund, Newton UK Smaller Companies Fund and the Newton Discovery Fund.
- **Cash:** The manager's average total cash holdings in the Fund over any 12-month period should not exceed 3% of the value of the Fund.
- **Derivatives and currency hedging:** The use of derivatives (which must be traded on a recognised or designated investment exchange) is permitted as follows; the manager may purchase index futures, warrants, exchange traded funds and put options and may invest in covered call options. Over the counter contracts (other than forward currency contracts permitted by LGPS Legislation) and outright short positions are not allowed. Derivative transactions shall be fully covered by cash or other property sufficient to meet any obligation to pay or deliver that could arise.
- **Currency hedging (i.e. sale of currencies into the currency of the account) including cross-currency hedging (i.e. sale of currencies into a currency other than the currency of the account) is permitted. Hedging out of a currency is limited to the total portfolio exposure to that currency i.e. outright short positions are not allowed.**
- **Borrowing:** No borrowing is permitted in respect of the mandate.

SCHRODERS PROPERTY INVESTMENT MANAGEMENT**PROPERTY MANDATE (10% of Suffolk Fund)****Investment Objective**

The objective is to seek to outperform the Benchmark by 0.75% per annum net of fees over rolling three year periods. The Benchmark is the weighted average of the IPD UK Pooled Property All Balanced Funds Index.

Investment Restrictions

The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below.

Asset allocation and control ranges

Schroders will invest in a range of property investments, subject to the following constraints.

Fund Type	Approved Ranges
Open-ended funds *	60-100%
Close-ended funds	0-40%
Other investments and cash**	0-20%

Open-ended funds may be based in the UK or in the off-shore jurisdictions of Jersey, Guernsey, Luxembourg or Dublin. Investment in funds that are managed from any other non UK jurisdiction will be subject to specific prior approval.

Other investments include UK property equities (subject to a range of 0-5%) and Property Index Certificates (subject to a range of 0-10%)

Individual holdings. The manager will hold investments in a minimum of 3 separate property funds at any time. Schroders agree their investment strategy with us on a quarterly basis, and will have discretion to make investments within the terms of the strategy. Partly paid securities may not exceed 5% of the portfolio when fully paid. Schroders will invest in property based in the UK via collective investment schemes or other investments whose purpose is to invest in property. The manager may not invest more than 50% of the portfolio in a single investment.

M & G

FIXED INCOME MANDATE (9% of Suffolk Fund)

Investment Objective

The Fund seeks a total return of 1 month Libor +3 to 5% gross of fees p.a. over the medium term.

Investment Restrictions

There are no specific investment restriction's placed on the manager as this investment is in M&G's Alpha Opportunities Fund which aims to take advantage of highly diversified opportunities in public and private credit markets, including but not limited to investment grade and high yield corporate bonds, leveraged loans, asset-backed, and mortgage backed securities.

DISTRESSED DEBT MANDATE (2% of Suffolk Fund)

Investment Objective

The objective is to seek a target return of 15%per annum over 5 year investment horizon.

Investment Restrictions

There are no specific investment restriction's placed on the manager as this investment is in M&G's pooled fund, the Debt Opportunities Fund I and II.

OTHER MANDATES

BLUECREST

ABSOLUTE RETURN MANADTE (2% of Suffolk Fund)

Investment Objective

The Fund seeks a total return of 3 month LIBOR + 5% p.a.

Investment Restrictions

There are no specific investment restriction's placed on the manager as this investment is in Bluecrest's AllBlue Pooled Fund, which allocates money within 7 individual investment strategies.

BROOKFIELD

TIMBER MANADTE (2% of Suffolk Fund)

Investment Objective

The Fund seeks a total return of 8% p.a.

Investment Restrictions

There are no specific investment restriction's placed on the manager as this investment is in Brookfield's Timberland Pooled Fund.

KKR

INFRASTRUCTURE MANADTE (2.5% of Suffolk Fund)

Investment Objective

The Fund seeks a total return of 8% p.a.

Investment Restrictions

KKR invests in infrastructure on a global basis, with the goal to achieve returns through the acquisition and operational improvement of the assets to generate returns through income and capital appreciation. No restrictions have been placed on the fund.

PANTHEON

PRIVATE EQUITY MANADTE (2% of Suffolk Fund)

Investment Objective

The Fund seeks a total return of 8% p.a.

Investment Restrictions

Pantheon has a global investment mandate in primary partnerships, secondary partnerships and co-investments within private equity. No restrictions have been placed on the fund.

PARTNERS GROUP

INFRASTRUCTURE MANADTE (2.5% of Suffolk Fund)

Investment Objective

The Fund seeks a total return of 8% p.a.

Investment Restrictions

There are no specific restrictions placed on the manager as this is a pooled investment in Partner's Group Global Infrastructure 2012 SICAR fund which seeks investment opportunities in direct, secondary and primary infrastructure markets.

PYRFORD INTERNATIONAL

ABSOLUTE RETURN MANADTE (6% of Suffolk Fund)

Investment objective:

The Fund seeks to provide a stable stream of real total returns over the long term with low absolute volatility and significant downside protection.

Target: RPI +5%, Gross, Over 5 Years

Investment policy:

The Fund will seek to achieve its investment objective and will focus on capital preservation to achieve real total returns. By investing in asset classes and securities which offer sound fundamental value and avoiding asset classes and securities which offer poor fundamental value, the Fund will seek to achieve real total returns. The Fund will invest in investment grade sovereign Debt Securities and equities of companies that, at time of purchase, have a minimum stock market capitalisation of US\$500 million and that are listed, traded or dealt in on a Regulated Market. Particular emphasis will be placed on Regulated Markets in North America, Europe (including the UK) and the Asia Pacific Region (including Japan).

Investment Restrictions

There is no specific investment restrictions placed on the manager as this investment is in Pyrford's pooled fund, the Global Total Return (Sterling) Fund.

WILSHIRE

PRIVATE EQUITY MANADTE (2% of Suffolk Fund)

Investment Objective

The Fund seeks a total return of 8% p.a.

Investment Restrictions

Wilshire has a global investment mandate in primary partnerships, secondary partnerships and co-investments within private equity. No restrictions have been placed on the fund.

WINTON

ABSOLUTE RETURN MANADTE (2% of Suffolk Fund)

Investment Objective

The Fund seeks a total return of 3 month Libor +5%.

Investment Restrictions

Investment restrictions are not placed on the manager who trades using a highly automated and systematic process using computer algorithms built from research and quantitative data analysis to trade futures in financial assets including equities, currencies, bonds, commodities, livestock and energy.

INVESTMENT MANAGEMENT BEST PRACTICE GUIDELINES (MYNERS PRINCIPLES)

In March 2000 the Government commissioned the leading City figure, Paul Myners (now Lord Myners), to undertake a review of institutional investment in the UK. The Myners Principles are considered to represent best practice for pension funds. We have shown below the Myners Principles and how the practices followed for the Suffolk County Council Pension Fund compare with the Principles.

PRINCIPLE	SUFFOLK PENSION FUND PRACTICES
<p>Principle 1: Effective decision-making</p> <ul style="list-style-type: none"> • 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. 	<p>Full compliance.</p> <ul style="list-style-type: none"> • Appropriate skills. New Pension Fund Committee members receive initial training on the role and responsibilities of the Committee. • The Director of Resource Management provides advice to the Committee and we employ external advisors as necessary to advise on specific issues (e.g. on performance measurement, actuarial issues and corporate governance). • Given the small size of the committee, an investment sub-committee is not considered necessary. • The Pension Fund has a business plan, which is subject to an annual review. • The remuneration of Committee members is subject to the statutory arrangements for members' allowances. Committee chairmen receive a special responsibility allowance. • The Committee's contracts for advisory services for actuarial and investment advice are subject to regular competitive tendering.

PRINCIPLE	SUFFOLK PENSION FUND PRACTICES
<p>Principle 2: Clear objectives</p> <ul style="list-style-type: none"> 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. 	<p>Full compliance.</p> <ul style="list-style-type: none"> The statement of investment principles sets out our long-term investment objective of the fund. We have explicit written investment management agreements with each of our discretionary investment managers, which specify their performance objectives and the basis of their fees. The fund’s investments in pooled funds for private equity, infrastructure, timberland and absolute return products are not subject to an explicit investment management mandate. The funds are expected to outperform the relevant benchmarks over the life of their funds. The fund invests in a range of asset classes and uses a mixture of active and passive investment management. The investment structure of the fund was adopted following the conduct of an asset liability review undertaken by the fund’s investment advisers. The majority of the liabilities of the pension fund relates to local authority and other public sector employers, and are ultimately underwritten by the Government.
<p>Principle 3: Risk and liabilities</p> <ul style="list-style-type: none"> 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 employers, the risk of their default and longevity risk. 	<p>Full compliance.</p> <ul style="list-style-type: none"> The statement of investment principles includes an explicit assessment of the risk of underperformance of the investment strategy for the fund due to adverse market conditions. The risks of the asset allocation relative to the fund’s liabilities were considered as part of the original asset liability review that was undertaken for the fund. The Pension Fund Committee reviews the factors affecting the long-term performance of the fund in an annual review prepared by independent performance advisers.

PRINCIPLE	SUFFOLK PENSION FUND PRACTICES
	<ul style="list-style-type: none"> • The Pension Fund operates within the internal control arrangements administered by the County Council, which are subject to independent external audit by Ernst & Young. • The impact of the investment strategy on the funding position of the Pension Fund is considered at the actuarial valuation, and the affordability of employer contributions is assessed in the Committee's consideration of the funding strategy for the Fund.
<p>Principle 4: Performance assessment</p> <ul style="list-style-type: none"> • Administering authorities should arrange 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. 	<p>Partial compliance.</p> <ul style="list-style-type: none"> • The Pension Fund Committee receives a regular analysis of the performance of its investment managers from an independent performance analysis service. • The selection of external advisers is subject to competitive tendering in accordance with the relevant statutory requirements and the County Council's own procurement regulations. • The Pension Fund Committee has an agreed training plan and its activities have been considered by the Audit Committee.
<p>Principle 5: Responsible ownership</p> <ul style="list-style-type: none"> • Administering authorities should adopt, or ensure their investment managers adopt, the Financial Reporting Council (FRC) 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. 	<p>Partial compliance.</p> <ul style="list-style-type: none"> • The Pension Fund Committee has adopted a proxy voting policy and votes on issues covered by that policy in relation to our segregated UK and overseas equity holdings. • The Pension Fund Committee receives regular reports setting out how the Fund has voted in accordance with its proxy voting policy. This information is published on the Pension Fund's website. • The Pension Fund Committee has not formally considered the Institutional Shareholders' Committee (ISC) statement of principles on the responsibilities of shareholders and agents.

PRINCIPLE	SUFFOLK PENSION FUND PRACTICES
<p>Principle 6: Transparency and reporting</p> <ul style="list-style-type: none"> • 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. • Administering authorities should provide regular communication to members in the form they consider most appropriate. 	<p>Full compliance.</p> <ul style="list-style-type: none"> • The Pension Fund Committee arranges for the publication on the Pension Fund’s website of all the key statements of policy for the Pension Fund, including the governance policy statement, the statement of investment principles, the funding strategy statement and the administration strategy. • The Pension Fund Committee consults with scheme employers and other stakeholders on all substantive changes to its policies, including the statement of the investment principles and the funding strategy for the fund. • The Pension Fund annual report and accounts and the agenda papers for the Pension Fund Committee meetings are published on the Pension Fund’s website. • The Pension Fund Committee holds an annual meeting to report on the fund’s performance to the employers in the Pension Fund. • We provide all employees and pensioners covered by the scheme a link to access the information regarding the fund’s performance. • All active and deferred scheme members receive an annual benefit statement, setting out their accrued pension benefits with the scheme.

SUFFOLK COUNTY COUNCIL PENSION FUND RISK REGISTER: UPDATE MARCH 2015

Risk ID	Risk	Impact	Prob-ability	Risk Score (Impact x Prob.)	Risk Rating	Existing risk control measures/Action required
1	Financial Inappropriate long-term investment strategy in relation to fund liabilities and ability of fund employers to tolerate volatility of investment performance.	Major (4)	Unlikely (2)	8	Medium	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.
2	Financial Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Moderate (3)	Possible (3)	9	Medium	Inter-valuation monitoring. Toleration of risk in the expectation of higher real returns from riskier assets (equities, property). Some investment in bonds and alternatives helps to mitigate this risk.
3	Financial Pay and price inflation significantly higher than anticipated.	Moderate (3)	Possible (3)	9	Medium	Inter-valuation monitoring. Toleration of risk in the expectation of higher real returns from riskier assets (equities, property). The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Some investment in bonds and alternatives helps to mitigate this risk.
4	Employer Effect of possible increase in employer's contribution rate on service delivery by admission/scheduled bodies.	Minor (2)	Possible (3)	6	Medium	Mitigate impact through deficit spreading and phasing in of contribution rises.
5	Demographic Pensioners living longer than assumed in actuarial assumptions.	Moderate (3)	Possible (3)	9	Medium	Review life expectancy assumptions at each valuation. Set mortality assumptions with some allowance for future increases in life expectancy.

Suffolk Pension Fund - Statement of Investment Principles

Risk ID	Risk	Impact	Prob-ability	Risk Score (Impact x Prob.)	Risk Rating	Existing risk control measures/Action required
6	Demographic Deteriorating patterns of early retirements.	Minor (2)	Unlikely (2)	4	Low	Employers are charged the additional capital cost of non ill-health retirements following each individual decision. Employer ill-health retirement experience is monitored.
7	Regulatory Changes to regulations (e.g. changes to scheme design following Hutton Review)	Moderate (3)	Possible (3)	9	Medium	The Pension Fund responds to all consultation papers on structural change to the LGPS issued by the Department of Communities and Local Government. Council officers contribute to discussions with CLG and professional bodies (e.g. CIPFA).
8	Employer County Council unaware of structural changes in an employer's membership (e.g. large fall in employee members; large number of retirements).	Minor (2)	Unlikely (2)	4	Low	The Pension Fund monitors membership movements. The Actuary can be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations
9	Employer County Council not advised of an employer closing to new entrants.	Minor (2)	Unlikely (2)	4	Low	The Pension Fund requires employers with admitted body contractors to inform it of forthcoming changes affecting their membership of the LGPS.
10	Employer County Council failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	Minor (2)	Unlikely (2)	4	Low	The Pension Fund requires employers with Best Value contractors to inform it of forthcoming changes.

Suffolk Pension Fund - Statement of Investment Principles

Risk ID	Risk	Impact	Probability	Risk Score (Impact x Prob.)	Risk Rating	Existing risk control measures/Action required
11	Employer An employer ceasing to exist with insufficient funding or adequacy of a bond.	Minor (2)	Possible (3)	6	Medium	The risk is mitigated by: <ul style="list-style-type: none"> • Seeking a funding guarantee or indemnity from another scheme employer, or external body. • Vetting prospective employers before admission.
12	Investment Failure of investment strategy to produce long-term returns assumed by Funding Strategy.	Major (4)	Possible (3)	12	High	Investment Strategy is reviewed at least every 3 years by the Pension Fund Committee. The most recent review was undertaken in 2014 and some minor changes to the Fund's asset allocation and management structure were approved.
13	Investment Failure of investment markets (long-term failure in return generation)	Major (4)	Possible (3)	12	High	Diversification between asset classes. Reporting and monitoring arrangements for investment performance in place. Allocations have been made to absolute return mandates to reduce reliance on market returns.
14	Investment Failure in investment performance by individual investment managers.	Moderate (3)	Unlikely (2)	6	Medium	Well developed manager selection and due diligence process. Regular monitoring of manager performance.
15	Investment Failure of individual investments.	Minor (2)	Probable (4)	8	Medium	Diversified investment strategy and investment manager structure minimises impact at fund level of any individual investment failure. Top 20 holdings reported on a quarterly basis.

Suffolk Pension Fund - Statement of Investment Principles

Risk ID	Risk	Impact	Prob-ability	Risk Score (Impact x Prob.)	Risk Rating	Existing risk control measures/Action required
16	Investment Negligence, fraud or default by individual investment manager.	Moderate (3)	Unlikely (2)	6	Medium	Legal requirements on fund managers set out in investment management agreements; FCA and other compliance requirements on fund managers. Separation of investment management arrangements from custody of assets through use of global custodian.
17	Investment Failure of custodian.	Major (4)	Very unlikely (1)	4	Low	Regular review and periodic re-tendering of custodian contract. FCA regulation of custodian. All pension fund assets in custody are in ring-fenced nominee holdings independent of custodians.
18	Investment Counterparty default in securities lending programme.	Minor (2)	Unlikely (2)	4	Low	Programme managed by experienced third party, HSBC (Fund custodian). Fund is indemnified within programme. All securities in programme are over-collateralised (by 5%) by government bonds.
19	Investment Non-compliance with LGPS investment regulations on investments permitted to pension fund.	Minor (2)	Unlikely (2)	4	Low	Investment management mandates are structured to ensure that Fund overall complies with LGPS regulations. Robust monitoring arrangements for investment managers.
20	Operational Failure of pensions administration IT systems.	Moderate (3)	Unlikely (2)	6	Medium	SCC has disaster recover arrangements and system back up procedures in place.

Risk ID	Risk	Impact	Prob-ability	Risk Score (Impact x Prob.)	Risk Rating	Existing risk control measures/Action required
21	Operational Failure to comply with LGPS pensions benefits regulations (e.g. as the result of incorrect benefit calculations and the holding of incorrect data)	Moderate (3)	Unlikely (2)	6	Medium	The pensions administration team has detailed written procedures. Independent internal and external audit review of internal control arrangements.
22	Operational Breach of data protection legislation.	Moderate (3)	Unlikely (2)	6	Medium	County Council data security protocols.
23	Operational Failure to comply with pension fund accounting requirements.	Minor (2)	Unlikely (2)	4	Low	CIPFA training courses and technical updates are available to SCC staff involved. External audit review of pension fund accounts.
24	Employer Employers' failure to carry out their responsibilities for scheme administration.	Minor (2)	Unlikely (2)	4	Low	Administration Strategy sets out employer responsibilities. Regular communication to employers on LGPS matters provided by Pensions staff.
25	Operational Staff fraud/theft/negligence	Minor (2)	Unlikely (2)	4	Low	The council has systems controls and security arrangements in place. Internal and external audit scrutiny of internal control arrangements.
26	Operational Loss of pensions microfiche records.	Major (4)	Unlikely (2)	8	Medium	All documents received from January 2014 have been scanned using a document image process. The project to backscan all of the microfiche records will be completed by November 2015.
27	Operational Failure by a provider of AVC services to the Pension Fund.	Minor (2)	Unlikely (2)	4	Low	Several AVC providers currently available to scheme members (Prudential, Clerical Medical, Standard Life, Equitable Life). Performance of AVC providers monitored SCC.

Note: The Risk Score is determined by multiplying the impact and the likelihood of the risk together. The significance of the risk Rating is assessed in accordance with the County Council's framework for managing risks, as set out below.

Risk Score	How the risk should be managed
Very High Risk (Score = 16-25)	Requires urgent action High impact / High likelihood: risk requires urgent action to manage down and maintain exposure at an acceptable level
High Risk (Score = 10-15)	Management required Risk should be managed to ensure risk does not become very high. May require further management attention to reduce level of risk and/or maintain at an acceptable level. Contingency plans will be required for low likelihood/high impact risks
Medium Risk (Score = 5-9)	Good Housekeeping May require some risk mitigation to reduce likelihood if this can be done cost effectively, but good housekeeping to ensure the impact remains low should be adequate. Reassess regularly to ensure conditions remain same.
Low Risk (Score = 1-4)	Review periodically Risks are unlikely to require mitigating actions but status should be reviewed regularly to ensure conditions have not changed

