Nottinghamshire County Council
Pension Funds
Statement Of Investment Principles

December 2009

1. Mission Statement

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 Funds and to use the influence of the Funds in a long term responsible way.

2. Background

2.1 By statute, the County Council is the "administering authority" for the Pension Funds and those responsible for the Pension Funds act in a quasi-trustee capacity (hereafter referred to as 'trustees'). The governance arrangements for the Funds are detailed in the Governance Compliance Statement.

2.2 Membership of the Funds is available to employees of all local authorities in Nottinghamshire and also employees of other local authority organisations in the County. The Main Fund is used for local authority employees and the employees of a number of "scheduled bodies". The Admitted Bodies Fund is used for the employees of other appropriate organisations, primarily voluntary bodies who request admission to the scheme.

2.3 The contributions by employees to the Funds are set by statute and are not affected by how the Funds are run.

2.4 The benefits to employees are set by statute and are not affected by how the Funds are run.

2.5 The contributions by employers are variable and dependent on their own employment policies, the performance of the Funds and the results of the triennial actuarial valuation.

3. Principles

3.1 The Funds will aim to be sufficient to meet all their obligations on a continuing basis.

3.2 The Funds 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 Funds, 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 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. As an illustration, a portfolio of Government bonds would have achieved a return of 4.5% pa over the five years to 31 March 2008, whereas the Fund’s overall investment return for that period was 11.8% pa. These returns will be incorporated into each actuarial valuation.

5.5 The policy of the Funds 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 and investment will be principally through a fund of funds arrangement 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 The Fund’s main concern with cash investment is the security of the sums invested. The Fund’s cash is therefore deposited with the County Council to give a guaranteed return and immediate access to its cash. All risks arising from the investment are borne by the County Council. There is a separately approved document to govern this arrangement.

5.8 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 times, 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 Main Fund to be invested in partnerships, with not more than 2% in any one partnership.
(e) Not more than 5% of the Admitted Bodies Fund to be invested in partnerships with not more than 5% in any one partnership.
(f) Not to enter into any stock lending arrangements.
(g) No underwriting without prior approval.
(h) 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 performance through BNY Mellon Asset Servicing. The accounts of the Funds 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, with the remainder 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 at 30/09/09
- Appendix B – the Fund's Statement on Responsible Investment
- Appendix C – compliance with the Myners principles.

Appendix A

The investment management arrangements as at 30 September 2009 were as below.

Investment	Management	Style	Fee Structure	Main Fund £ million		AB Fund £ million	
Equities							
Global equities	In-house	Consensus indexation		850		26	
Global equities	Schroders	Active management	Fixed fee basis	561		24	
Global equities	Martin Currie	Active management	Fixed fee basis	10		3	
Global equities	Hermes Governance for Owners	Active with focus on company engagement	Fixed fee plus performance fee	96		1	
Private equity	Various	Active management	Fixed fee plus performance fee	47			
				1,564	66%	**54**	70%
Fixed Interest							
Global fixed interest	Aegon	Active management	Fixed fee plus performance fee	367		13	
Index linked bonds	Aegon	Active management	Fixed fee plus performance fee	39		1	
				406	17%	**14**	18%
Property							
Direct UK property	Aberdeen	Active management	Fixed fee basis	206			
Property unit trusts	Various	Active management		37		4	
Overseas property	Various	Active management	Fixed fee plus performance fee	93			
				336	14%	**4**	5%
Cash	Nottinghamshire County Council			69	3%	5	6%
				2,375		**66**	

Appendix B

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).

Appendix C

Myners Principles for Defined Benefit Pensions Schemes

Compliance Statement

Principle	**Compliance Requirement**	**Assessment**
1. Effective Decision-Making	▪ Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. ▪ Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary. ▪ It is good practice for trustee boards to have an investment sub-committee to provide the appropriate focus. ▪ Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.	**COMPLIANT** Trustees are advised by investment specialists. Training is given a high priority with a Training Policy in place and a defined budget set aside for training. An appropriate in house team is in place. Councillors, acting as 'trustees' do not receive any separate payments for their responsibilities on Pension Fund matters. An Investment Sub Committee is in place. A Training Policy and a Governance Compliance Statement are in place. An annual business plan is produced.

Principle	Compliance Requirement	Assessment
2. Clear Objectives	▪ Trustees should set out an overall investment objective for the fund that: ⇒ represents their best judgement of what is necessary to meet the fund's liabilities, given their understanding of the contributions likely to be received from employer(s) and employees, and ⇒ takes account of their attitude to risk, specifically their willingness to accept under-performance due to market conditions. ▪ Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	**COMPLIANT** The Fund's Funding Strategy Statement outlines the funding strategy and target funding levels. Key risks are identified in the Funding Strategy Statement and risk attitude is considered on a regular basis by the Sub Committee and Pensions Working Party. The aims of the fund, as set out in the Funding Strategy Statement, make clear reference to the liabilities. All Fund Managers have targets for performance against benchmarks and risk minimisation by setting limits for under performance against benchmarks.
3. Focus on Asset Allocation	Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.	**COMPLIANT** Asset allocation is a key part of 'trustees' responsibilities and is considered on an annual basis and at more frequent intervals when necessary. The 'trustees' receive regular training on other investment classes in order to inform this process.

Principle	Compliance Requirement	Assessment
4. Expert Advice	▪ Contracts for actuarial services and investment advice should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.	**COMPLIANT** A contract for actuarial services was awarded from September 2008 following an EU tendering exercise. The Fund has an appointed independent adviser for investment advice. Separate competitions are held for Fund Manager selection.
5. Explicit Mandates	▪ Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on: ⇒ an objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances ⇒ the manager's approach in attempting to achieve the objective, and clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.	**COMPLIANT** A written statement for the management of the in house portfolio is in place. Fund Managers are given clear mandates and performance is measured against these.

Principle	Compliance Requirement	Assessment
5. cont'd	▪ The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund. ▪ Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. ▪ Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.	The SIP requires a diversified spread of assets and sets out guidance on this. Alternative asset classes are considered as part of the regular asset allocation strategy review. Fund Managers provide regular information on transaction costs which are not included in the management fees. This is the case and where soft commissions are suspected, this is challenged.
6. Activism	▪ The mandate and trust deed should incorporate the principle of the US Department of Labour Interpretative Bulletin on Activism. Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how much they measure the effectiveness of this strategy.	**COMPLIANT** The SIP contains a Statement on Responsible Investment. Policies include: • actively voting its shares • requiring managers to engage with companies to address concerns • actively supporting LAPFF.

Principle	Compliance Requirement	Assessment
7. Appropriate Benchmarks	▪ Trustees should: ⇒ explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies ⇒ if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection ⇒ consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned, and ⇒ where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies.	**COMPLIANT** Index benchmarks are in place for each of the Fund Managers, which are appropriately constructed in consultation with independent advice. Targets are set to take account of this. This issue is kept under review by the Investment Sub Committee. Targets and risk controls are specified for active Fund Managers.
8. Performance Measurement	▪ Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.	**COMPLIANT** Fund Managers' performance is measured through Mellon reviews and reported to the Sub Committee. Procedures are covered in the Fund's Governance Compliance Statement.

Principle	Compliance Requirement	Assessment
9. Transparency	▪ A strengthened Statement of Investment Principles should set out: ⇒ who is taking which decisions and why this structure has been selected ⇒ the fund's investment objectives ⇒ the fund's planned asset allocation strategy, including projected investment returns on each asset class and how the strategy has been arrived at ⇒ the mandates given to all advisers and managers, and the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.	**LARGELY COMPLIANT** Trustee responsibilities are clearly set out. These are included in the SIP and Funding Strategy Statement. The asset allocation strategy is contained in the Statement together with the long term expectations of the different asset classes . The amounts involved are detailed but the mandates need to be included in the SIP. The nature of fee structures is contained in the SIP.
10. Regular Reporting	▪ Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers. They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.	**LARGELY COMPLIANT** This is contained in Pensions Investment Sub Committee and Pensions Committee reports available on the intranet and is contained on the Pension Scheme website. Key information is contained in the Annual Report and in Nest Egg which is produced three times a year.