

COMMITTEE	PENSIONS COMMITTEE
DATE	23 MARCH 2012
PURPOSE	Change investment limits and agree consultation process
TITLE	STATEMENT OF INVESTMENT PRINCIPLES
AUTHOR	DILWYN WILLIAMS, CORPORATE DIRECTOR

1. INTRODUCTION

- 1.1** It is necessary to review the Pension Fund's Statement of Investment Principles following recent investment decisions. The full process requires consultation with interested parties and is due to be completed by September 2012. However, there are two decisions that need to be made now.

2. LIMITS ON INVESTMENTS

- 2.1** Schedule 1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 sets limits for different types of investments. At the meeting of the Pensions Committee held on 25 February 2008 the decision was made to increase the sum that can be invested in any single insurance contract to 35% and that the decision would be reviewed after three years.
- 2.2** Therefore it is necessary to review the decision that was made and in order to do this it is necessary to consider whether 35% is still appropriate for the pension fund.
- 2.3** Another limit in the regulations is the total contributions to partnerships. The Pension Fund's current limits are:

All contributions to any single partnership	2%
All contributions to partnerships	5%

The Pension Fund has 5% of its investments in private equity which is structured as partnerships. By deciding to invest in infrastructure which is also structured as partnerships it has made it necessary to re-consider the limits for partnerships. The long-term intention is to have 5% of the Fund's investments in infrastructure. Because of this Hymans Robertson advise that the limit for all contributions to any single partnership should be increased to 5% and all contributions to

partnerships should be increased to 15% which are the maximum amounts permitted under the regulations.

3. THE REGULATIONS

3.1 The Regulations give the right to administering authorities to increase the percentages to be held in some types of investments to the maximum stated in the Regulations. Before an administering authority can decide to increase the investment limits it must comply with the following requirements:

- it must have taken proper advice;
- that its investment policy must be formulated with a view to the advisability of investing fund money in a wide variety of investments and to the suitability of particular investments and type of investments;
- the decision must specify:
 - a) the description of investment to which it applies;
 - b) the limit on the amount of the investment;
 - c) the reason for that decision;
 - ch) the period for which that decision will apply;
 - d) if the authority intend to review the decision before the end of the period in (ch), the date when the decision will be reviewed; and
 - dd) that the decision complies with these Regulations.

3.2 In revising the previous decision to increase the percentage it is necessary to comply with the above requirements again.

3.3 However, before a decision to increase limits can take effect, the Administering Authority must also revise and publish their written statement of Investment Principles.

4. PROPOSAL TO INCREASE THE LIMIT ON INVESTMENTS

4.1 I have sought the advice of Paul Potter, the Fund's Advisor on the issue of keeping the investment limit for any single insurance contract at 35%. The reason for this decision is that it allows efficient management of the Fund's investments especially during periods of transition.

4.2 The Adviser states that he would strongly support any proposal to keep the percentage that can be invested in any single insurance contract at 35%.

4.3 I have sought the advice of Paul Potter, the Fund's Advisor, on the issue of increasing limit on all contributions to any single partnership to 5%. The reason

for the decision is that contributions to large global funds could be higher than 2% in the future.

- 4.4 The Advisor states that he would strongly support any proposal to increase the percentage to be contributed to any single partnership to 5%.
- 4.5 I have sought the advice of Paul Potter, the Fund's Advisor, on the issue of increasing limit on all contributions to any partnership to 15%. The reason for the decision is that infrastructure investments over coming years on top of the current investments in private equity will increase investments in partnerships to around 10% of the Fund.
- 4.6 The Advisor states that he would strongly support any proposal to increase the percentage to be contributed to partnerships to 15%.
- 4.7 These limits will be reviewed by the Pensions Committee every three years as part of the SIP.

5. REVISION OF THE STATEMENT OF INVESTMENT PRINCIPLES

- 5.1 As indicated in paragraph 1 above a general review of the Statement of Investment Principles is due. This normally takes place following completion of the triennial actuarial valuation but due to the recent considerations regarding changes in investments and fund managers the review has been postponed until the results of the proposed changes were available.
- 5.2 The review involves consultation with interested parties before the final Statement is adopted. Ideally this should take place before the next annual meeting in July 2012.
- 5.3 In order to do this it is suggested that the preliminary review of the Statement of Investment Principles be produced by officers and that the draft is circulated to interested parties during June and July 2012.
- 5.4 The final version of the SIP following the consultation will be presented to the Pensions Committee in September 2012 for discussion and approval.

6. RECOMMENDATION

- 6.1 I recommend that the Pensions Committee, having regard to the advice given in Section 4 above, and bearing in mind the diversification afforded, that the limit on the amount which can be invested in any one single insurance contract be kept at 35% and that the limits on all contributions to any single partnership be increased to 5% and all contributions to partnerships be increased to 15%.

6.2 That the above limits should apply until such time as the decision is revoked by the Committee; and that the decision is reviewed by 31 March 2015.

6.3 In order that this decision may take effect, that clause 5.3 of the Statement of Investment Principles is amended to note that the following limit have been set:

Investment in any single insurance contract	35%
All contributions to any single partnership	5%
All contributions to partnerships	15%

and that the revised statement be published on 26 March 2012.

6.4 The Committee is asked to agree on the way forward for the formal review of the Statement of Investment Principles.