DORSET COUNTY PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES – June 2015~~2014~~

1. THE STATUTORY REQUIREMENTS FOR A STATEMENT OF INVESTMENT PRINCIPLES (SIP)

- Regulations made by the Secretary of State (The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009) under powers contained in Section 7 of the Superannuation Act 1972 revised the requirement for administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) and consult with persons they deem appropriate when drawing up their statements. The revised statements must be published no later than 1 July, 2010. The regulations came into force on 1 January, 2010.

- The County Council have delegated all aspects of the management of the pension scheme to the Pension Fund Committee the minutes of which are reported to the County Council.

- This revised document was agreed by the Pension Fund Committee, which provides the appropriate basis for consultation, on ~~14 June 2014~~24 June 2015.

2. COMMITTEE CONSTITUTION

- The Pension Fund Committee is a Committee of the County Council which appoints five County Council members, with invitations to Bournemouth and Poole unitary authorities (one member each) and to the six Dorset district councils (one member in total). The scheme members are also represented on the Committee by one member, who is nominated by the Trade Unions.

3. COMMITTEE RESPONSIBILITIES

- The Terms of Reference of the Pension Fund Committee are to exercise all functions of the Council as administering authority under the Local Government Superannuation Act and Regulations and to deal with all matter relating thereto. Such as:

  - Determining the overall investment strategy and strategic asset allocation of the Fund, and in doing so taking proper professional advice
  - Overseeing the preparation of and regularly reviewing the Fund's key policy documents including the Statement of Investment Principles (SIP), Funding Strategy Statement, Governance Policy and Compliance Statement, Business Plan, Communications Strategy.

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- Appointing and reviewing the performance of all Fund Managers and other professional service providers
- Reviewing all aspects of performance across the Pension Fund service
- Deciding upon requests for admission of qualifying organisations wishing to join the Fund
- Deciding upon key pension policy and discretions that are the responsibility of the Administering Authority
- Ensuring that at all times that these responsibilities are discharged in the best interests of the Fund.
- Making appointments to the Pension Board of the Dorset County Pension Fund

4. INVESTMENT POLICY

- The investment policy of the Pension Fund is intended to ensure that all statutory payments made from the fund are at the least possible cost to local taxpayers.

- Investment returns are a key factor and achieving satisfactory returns will to a considerable degree reflect the risks taken. The Committee seeks to control risk, not eliminate it, and deals only with reputable service providers to minimise counterparty risk.

- Consideration is given to the ongoing risks which may arise through a mismatch, over time, between assets of the Fund and its liabilities. These are looked at in greater detail within the Fund's Funding Strategy Statement. However, the major risks that the Fund has are the impact of Interest and Inflation Yields on the liabilities, which can lead to this mismatch. This was highlighted in a Strategic review of the Fund undertaken by JLT in June 2011. The Committee decided to begin a process to reduce the level of mismatch, but without significantly reducing the potential for return. As part of this review process a new strategic target allocation for the portfolio was agreed. This strategy was revised in 2014, and the new target allocation is shown below.

- Investment risk can be measured and managed in many other ways:

    - The absolute risk of a reduction in the value of assets through negative returns. Whilst this cannot be avoided entirely, it can be mitigated by positioning the assets of the Fund across a number of different types of assets and markets.

    - The risk of underperforming the benchmarks or relative risk. Our investment managers can, to a large extent, control relative risk by using statistical techniques to forecast how volatile their performance is likely to be relative to their benchmark or target. Each manager has a mandate specific benchmark and controls.

    - Different asset classes have different risk and return characteristics, e.g. equities. In setting the investment strategy, the Committee takes into account with the Fund actuary, the expected risks and returns of the various asset classes and the correlation between those returns to target or expected return within an acceptable level of risk.

- Other financially material risks such as corporate governance and environmental issues are required to be considered and managed by our investment managers in relation to all asset classes.

- The adoption of a asset allocation strategy and the detailed monitoring of performance and risks relative to the targets set, constrains the investment managers from deviating too far from the intended outcome, whilst at the same time allowing adequate flexibility to manage the portfolios in such a way as to enhance returns.

- Risks may also arise from a lack of suitable balance or diversification of the Fund's assets. The Committee believes that the asset allocation policy currently in place provides an appropriately diversified distribution of assets for this purpose.

- The key measure for the Fund will be the performance against its own unique benchmark which is derived from the asset allocation structure and the performance benchmarks set for each of the asset and manager categories. The strategic asset allocation of the Fund was revised at the Committee meeting in February 2014, with a target implementation date of 1 October 2014. This strategy was temporarily amended in September 2014 to reflect the concern over the Barings DGF mandate, and the decision to postpone the procurement of an additional DGF manager. The longer term strategic allocation remains as agreed, and is shown below. The temporary change was agreed in September 2014 and reduced Diversified Growth to 5% and increase UK Equities to 27.5% and Corporate Bonds to 12.5%.~~, and is;~~

Asset Class		Exposure
Equities		
	UK	25%
	Overseas (developed)	22%
	Emerging Markets	3%
Bonds		
	Corporate	10%
	Government	12%
Property		10%
Alternatives		
	Diversified Growth	10%
	Private Equity	4%
	Infrastructure	4%
Liability Hedging Programme		Backed by Government Bonds

Note: There is flexibility bands of +/- 5% on UK and Overseas Equities, and +/- 2.5% on Bonds and Property..

- The Committee reviews asset allocation on at least a six monthly basis, and the individual manager's reports setting out activity and transactions are received quarterly.

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- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 set out certain restrictions to apply in managing investments including:-

    - Not more than 10% of the Fund may be invested in unlisted company securities.

    - Not more than 10% to be invested in any one holding (excluding unit trusts, gilt edged stock and bank deposits).

    - Not more than 25% to be invested in unit trust schemes managed by one person, but not more than 10% in a single holding.

    - Not more than 10% to be deposited with any one bank (excluding the National Savings Bank).

    - Any loans, other than to the Government, may not exceed 10% of the Fund.

    - Not more than 25% to be invested in insurance contracts.

    - Not more than 25% of all securities to be transferred (or agreed to be transferred) by the Fund under stock lending arrangements.

    - Not more than 15% in all sub-underwriting contracts, and not more than 1% in any single sub-underwriting contract.

    - Not more than 8% invested in all partnerships, and not more than 5% in any single partnership.

Flexibility is given around some of these limits, under the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003. On 26 June 2014 were recommended to make use of the headroom allowed for unlisted securities. The limit for all unlisted securities will now be 15%. The regulations require that the following information be included in the SIP:

Requirement	**Statement**
Take proper advice	From Fund Administrator, Independent Adviser and Legal Advisers
The description of investment to which it applies	Unlisted securities
The limit on the amount	Increase limit from 10% to 15%
The reason for that decision	To extend the Inflation hedging programme with Insight
The period for which the decision will apply	Until further notice
That the decision complies with the regulation	Confirmed
The decision must be published in the SIP before it takes effect	Revised SIP considered on 26 June 2014

In addition the County Council, as the administering local authority, must have regard to:-

- The need for the diversification of investments (as described above)
- The suitability of investments
- Proper advice, obtained at regular intervals

The regulations also enable the County Council to vary the manner in which monies are invested thus enabling the switching of monies from one investment to another.

The employment of external investment managers is expressly permitted subject to:-

- Appropriate diversification between managers.
- Regular reviews of managers' performance, dealings and employment (which is terminable at not more than one ~~months notice~~month's notice).
- Their authorisation under the Financial Services Act for 1986 or for European Institutions similarly authorised by their home state and reasonably believed to be suitably qualified by ability and practical experience.

5. INVESTMENT MANAGEMENT ARRANGEMENTS

- Dorset County Council is the administering authority for the Fund and has delegated its responsibilities to the Pension Fund Committee.
- The Chief Financial Officer is the Administrator of the Fund and has delegated responsibilities from the Council for the administration of the Pension Fund. These responsibilities are set out in paragraph 7 of this document. In carrying out these duties he and the Committee take advice from the Fund's independent adviser, Mr Alan Saunders from Allenbridge Epic Investment Advisers.
- The appointment of an appropriate number of managers for each major asset class, with different investment styles, helps provide an adequate level of diversification of manager risk.
- Two thirds of UK Equities are managed by staff in the Chief Executive's department~~Corporate Resources Directorate~~, and the remainder by 3 specialist UK equity managers. In addition external managers are employed in specialist areas including Overseas Equities, Bonds, Property, Private Equity, Diversified Growth and Infrastructure. Managers are required to report on portfolio management on a quarterly basis, they must comply with all instructions given to them by the authority (in accordance with the mandates agreed) and contracts can be terminated at one ~~months notice~~month's notice.
- OVERSEAS EQUITIES

Overseas equities are presently managed in the developed markets by Pictet Asset Management who are required to hold a well diversified portfolio of stocks. Use of derivatives and currency hedging is permissible but there is to be no financial gearing. Pictet have a benchmark of the MSCI World (ex UK) Index. The objective is to outperform the benchmark, on a rolling 3 year cycle. In addition to Pictet a proportion of the Fund is managed on an active basis in the US with the target of outperforming the relevant index by a margin. Janus Intech were appointed with effect from 1 April 2006 to manage this active portion of the US portfolio. The manager has a target to outperform the Index by 1-2%. The investments are managed on a segregated basis. With effect from 1 April 2012 JP Morgan Asset Management have been managing Global Emerging Market Equities on an active basis. The investment is in a pooled fund, which has a diversified strategy, with a target of outperforming the MSCI Emerging Markets Index by 2%.

- GLOBAL BONDS

Global bonds are presently managed by Royal London Asset Management (rlam) and Insight Investments. rlam were appointed with effect from 1 July 2007, and Insight 1 April 2012. rlam has 10% of the overall Fund under management, and Insight have 12%.

rlam use the iBoxx Non-Gilt Over 5 Year Index as their benchmark with an outperformance target of 0.75%. This is achieved by investing in the RLPPC Core Bond Fund. The Fund invests in a diversified portfolio of mainly UK Bonds with an emphasis on the corporate sector.

Insight were appointed in 2012 to help the Fund manage its liability risks, with particular focus on inflation. The target is to reduce the Fund's exposure to Inflation by putting together a portfolio that moves in a similar way to the liabilities. This will be achieved initially by holding a portfolio of Index Linked Gilts. Over time and after setting of a series of key trigger points this will develop into a broader hedge of the Fund Inflation risks. This will be achieved by investing in a bespoke Qualifying Investor Fund (QIF), which will enable Insight to use a range of derivative instruments to further protect the Fund.

- PROPERTY INVESTMENTS

CBRE Global Investors is presently the Fund's property advisers and managers. The Manager presents to the Committee for approval sectoral targets within the total approved and carries out acquisitions and disposals to achieve the distribution agreed. Performance of the portfolio is measured against an industry standard benchmark. The Fund also invests in a number of indirect property funds including; Hercules Unit Trust, the Lend Lease Retail Partnership (Jersey) Unit Trust, and the ING Retail Fund Britannica and the ING UK Property Value Added Fund. The manager's target is to achieve a return on assets at least equal to the average IPD Quarterly Universe Portfolio Return for a rolling five year period. The performance against the WM Local Authority Universe is also noted.

- UK EQUITIES

The majority of the UK equity portfolio is presently managed by staff in the Corporate Resources' Directorate on a passive or index tracking basis. The target set is the FTSE 350 Index, with an annual deviation allowed of $\pm$ 0.5%. No derivatives or financial gearing is permitted. The constituents of the FTSE 350 index are fully replicated by the in house team. The remaining 3% of the FT All share index not included in the FTSE 350 index is captured by a separate external fund managed by Schroders (w.e.f. 1 April 2006) in a fund specialising in Small Cap investments. Schroders have a target to outperform the FTSE Small Cap index by 2.5% per annum. This is managed in a pooled vehicle. In addition a proportion of the Fund is managed on an active basis. The managers for this part of the portfolio with effect from 1 April 2006 are AXA Framlington and Standard Life with targets of outperforming the FTSE All Share Index by 3.5% and 2.5% respectively. These Funds are all invested in Pooled vehicles.

- PRIVATE EQUITY FUNDS

Since April 2006 the Fund has invested in Private Equity Fund of Funds. The Fund invests in Fund of Fund products managed by Harbourvest and Standard Life. Harbourvest specialise in the US, whereas Standard Life focus mainly on Europe, and both managers aim to outperform public equity markets by between 4-6% per annum over the life of the Fund (generally 10-15 years). The reasons for these investments is to potentially improve returns, and to improve Fund diversification.

- DIVERSIFIED GROWTH

Since April 2012 the Fund has invested with Barings Asset Management in their Dynamic Asset Allocation Fund. This pooled fund seeks to achieve equity like returns with lower risk, by investing in a range of asset classes and focussing on asset allocation. The Fund identifies an optimal long term strategic position, and makes dynamic asset allocation decisions around this. The target return is cash plus 4% with 70% of equity risk. The Fund will increase its allocation to DGF to 10% later in 2014, and this will either be way of an additional manager appointment, or allocating additional funds to Barings.

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- INFRASTRUCTURE

As a result of a review of the Fund's Strategic Asset Allocation in 2014, an allocation of 4% will be made to Infrastructure assets. The Fund embarked on a collaborative search process, and will appoint at least one manager later in 2014.

- SOCIALLY RESPONSIBLE INVESTMENTS AND CORPORATE GOVERNANCE

Funds are also required to include a statement on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments and a summary of the policy (if any) in relation to the exercise of rights (including voting rights) attaching to investments.

The Pension Fund Committee has decided to place no restrictions on investment managers in choosing individual investments in companies in either the UK or overseas markets. It is noted that emerging markets investments, are made in a wide range of developing countries where conditions of employment and standards of environmental protection are not the same as they are in the developed countries.

The Committee expects that the boards of companies in which the pension fund invests should pay due regard to environmental matters and thereby further the long-term financial interests of the shareholders. Ethical and environmental issues arise not only in board policy decisions but in daily operations. The Pension Fund Committee cannot become involved in those decisions and therefore looks to the directors of a company to manage that company's affairs taking proper account of the shareholders' long-term interests.

The Dorset Fund is a member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

- CORPORATE GOVERNANCE

The Pension Fund Committee has in place a voting issues policy for UK and overseas equity investments. Advice on such issues is taken from the National Association of Pension Funds and the Fund's voting rights are used according to this advice and the agreed policy. LAPFF also advise the Fund on any contentious areas where voting differently to the agreed policy maybe considered.

- THE UK STEWARDSHIP CODE

The Fund's compliance with the Seven Principles of the UK Stewardship Code was presented to the Committee on 12 September 2011. This document will be published separately. The Fund complies with each of the Principles, and has confirmed with each of its appointed Equity managers have taken action to comply with the Code. Each manager also publishes a Stewardship Policy.

- OVERSEAS CURRENCY EXPOSURE

The Fund aims to eliminate the exposure to non-sterling currency by fully hedging any exposures within the Bond and Hedge Fund portfolios. The Fund also has a permanent 50% currency hedge on its entire overseas equity portfolio. This has been in place since July 2005, and is not intended as a speculative decision, but is intended to return the Fund to a level of currency exposure it had before the increase in weight in overseas equities.

- STOCK LENDING

The Committee permits the lending of UK equities, overseas equities and bonds. This is currently limited by the Fund to 25% of the value of the Fund. The Fund lends Global Equities and UK equities from the portfolios managed by Pictet Asset Management and the Internal manager respectively. The Fund's custodians HSBC and Pictet undertake the stocklending as an agent for the Fund. The custodians ensure that on a daily basis collateral (worth at least 105% of the value of the stock on loan) is collected from the counterparties. The Fund does not have a policy of recalling stock for voting reasons, and accepts that there may be occasion where voting rights are lost due to stocklending.

6. RESPONSIBILITIES OF THE FUND ADMINISTRATOR

The Fund Administrator is responsible for:

- Development of an asset allocation strategy in consultation with the Fund's Independent Adviser and Actuary, for approval by the Committee.
- Funding allocation decisions consistent with the asset allocation strategy agreed by the Committee.
- The provision of monitoring information (provided by HSBC) to the Committee on the performance of each manager and the Fund overall,
- The management of Fund Managers and other professional service providers and advising the Committee on terms of engagement.

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- All other aspects of the management of the Fund.

7. RESPONSIBILITIES OF THE CUSTODIAN

- Pictet & Cie, based in Geneva and HSBC Global Investor Services, based in London are presently the appointed custodians for all fund assets except for direct property holdings where title deeds are held in the Council's archives.
- The custodians safeguard assets, ensure that all associated income is collected and settle all transactions (purchases/sales and stock loans). The Fund is provided with statements of assets, cash flow and corporate actions which are reconciled by the Fund Administrator' staff to the reported actions of the managers.
- The Custodian will inform the Council of any areas of concern which arise in its dealings with managers.

8. AUDIT RESPONSIBILITIES

- The Dorset County Pension Fund is subject to review by both the County Council's external auditors (KPMG) and the County Council's internal auditors (a service provided by the South West Audit Partnership).
- The external auditors are responsible for reporting on whether the Statement of Accounts presents fairly the income and expenditure for the year and the financial position of the Dorset County Pension Fund, for the year then ended.

Their audit report to Dorset County Council is contained in the County Council's Annual Report and Accounts.

- The internal audit team carries out a programme of work designed to re-assure the Fund Administrator that Pension Fund investment systems and records are properly controlled to safeguard the Fund's assets.

9. ACTUARIAL RESPONSIBILITIES

- The Dorset County Pension Fund is subject to a full actuarial review every 3 years by the Fund's actuary, currently Barnett Waddingham. The last full review was at 31 March 2013 which reported an overall 82% funding level.

- The actuary is responsible for providing advice as to the maturity of the Fund and its funding level and to determine employers' contributions so as to maintain the Fund's ability to meet its liabilities.

10. RESPONSIBILITIES OF INDEPENDENT ADVISER

The Independent Adviser to the Committee is currently Alan Saunders from Allenbridge Epic, and is responsible for assisting the Fund Administrator and Committee:

- in the preparation and review of this document,

- In the development of an appropriate asset allocations strategy,

- in the regular monitoring of the investment managers' performance,

- in asset allocation decisions, and

- in the selection and appointment of investment managers and custodians.

11. RESPONSIBILITIES OF THE INDEPENDENT PROFESSIONAL OBSERVER

The Department for Communities and Local Government (CLG) issued guidance to Local Government Pension Funds in 2008 recommending the participation of an Independent Professional Observer (IPO) in the governance arrangements of schemes. The IPO's role is outlined as undertaking independent assessment of compliance against the Myners' principles and other benchmarks, and to offer a practical approach to the management of risks. The Fund has appointed Peter Scales of Allenbridge Epic to this position. The adviser reports annually to the Committee with his independent assessment on the Fund's work, and its compliance with governance and other principles.

12. COMPLIANCE WITH MYNERS' PRINCIPLES

Since the original Myners Review in 2001 established 10 principles of investment for defined benefit schemes, the Dorset County Pension Fund has carried out a self-assessment of their position and implemented arrangements in order to comply with these principles. The Annual Report & Accounts for 2008-09 reported full compliance.

In October 2008, the Government published their response to consultation on updating the Myners review and restructured the original principles into 6 new high level principles, providing guidance on recommended best practice for applying the principles, and identifying tools to provide practical help and support to trustees and their advisers. The Investment Governance Group – LGPS Sub-Group has issued an adapted version for LGPS pension funds.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require, inter alia, administering authorities to state in their Statement of Investment Principles, the extent to which they comply with the updated principles as contained in guidance issued by CIPFA. If an authority does not comply with that guidance in any respect, it should describe the relevant aspects of its practice and give the reasons for them.

Dorset County Pension Fund maintains a high level of compliance with the updated principles and guidance, as shown in the following table.

Principle 1: Effective decision-making	**Fully compliant**
Dorset County Pension Fund has ensured that decisions are taken by those with the skills, knowledge, advice and resources necessary to make them effectively, that their implementation is regularly monitored, and that they have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	

Principle 2: Clear objectives	**Fully compliant**
Dorset County Pension Fund has set out an overall investment objective that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and has clearly communicated these to advisers and investment managers.	

Principle 3: Risk and liabilities	Fully compliant

In setting and reviewing their investment strategy, Dorset County Pension Fund has taken full and proper account of the form and structure of liabilities, including the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Principle 4: Performance assessment	Fully~~Mainly~~ compliant

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Dorset County Pension Fund has made suitable arrangements for the formal measurement of performance of the investments, investment managers and advisers, and periodically makes a formal assessment of their own effectiveness as a decision-making body, reporting to scheme members each year.

~~The Fund is not fully compliant with CIPFA guidance because the Committee does not currently undertake a formal assessment of its own performance as a decision-making body.~~

Principle 5: Responsible ownership	Fully compliant

Dorset County Pension Fund has included a statement of the fund's policy on responsible ownership in the Statement of Investment Principles and the discharge of such responsibilities is reported periodically to scheme members.

Principle 6: Transparency and reporting	Fully compliant

Dorset County Pension Fund acts in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives, and reports regularly to scheme members.

County Hall
DORCHESTER
June 2015~~2014~~