

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

STATEMENT OF INVESTMENT PRINCIPLES

1. INTRODUCTION

1.1 Purpose of statement

1.1.1 This statement sets out the principles governing decisions about the investment of the assets of the Northern Ireland Local Government Pension Fund (the Fund). The Northern Ireland Local Government Officers' Superannuation Committee issues this statement as the administrators of the Fund, to comply with Regulation 10 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (as amended).

1.2. Advice

1.2.1 The Committee has obtained written advice on the content of this statement from Hewitt Associates Limited the Fund's investment consultants.

1.3 Consultation

1.3.1 The Committee has consulted its fund managers about the content of this statement.

1.4 Investment Powers

1.4.1 The investment powers of the Committee are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000, as amended. This statement is consistent with those powers. Neither the statement nor the Regulations restrict the Committee's investment powers by requiring the consent of a third party.

2. SCHEME INVESTMENT OBJECTIVE

2.1 The Committee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided, and to provide reasonable stability in contribution rates for the employers.

2.2 To meet this aim the Committee's overall investment objective is to exceed price inflation and general salary growth over long periods.

3. COMPLIANCE WITH STATUTORY FUNDING TARGET

3.1 Funding Level

3.1.1 As at 31 March 2010 the funding level, i.e the ratio of assets to past service liabilities, was 82%. A funding level below 100% means that the Employing Authorities will be required to pay additional contributions into the Fund. A funding level above 100% provides scope for payment of reduced contribution rates by the Employing Authorities.

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3.2 Policy for maintaining funding level

3.2.1 A funding level of 100% has been targeted over a period of 20 years on an ongoing basis. Employers have been paying increased contributions over the three years from 1 April 2011 and further increases are anticipated following the next valuation of the Fund at 31 March 2013. Having considered advice from Hymans Robertson, the Fund's Actuary, the Committee believes that the Fund's investment strategy, in conjunction with the certified levels of future contributions to the Fund, is consistent with the requirement to return the Fund to 100% funding within acceptable levels of contribution rate volatility. The funding level will be considered each year and the investment strategy will be reviewed as necessary.

4. ASSET ALLOCATION STRATEGY

4.1 In setting the asset allocation strategy, the Committee first considers the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The asset allocation strategy is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

4.2 The asset allocation strategy was determined following an Asset Allocation Review Meeting which was attended by all the Fund's investment managers, its Actuary and the Fund's investment consultant. In determining its asset allocation strategy the Committee considered:

- A full range of asset classes
- The risks and rewards of a range of alternative asset allocation strategies
- The suitability of each asset class
- The need for appropriate diversification

The strategy is reviewed annually.

4.3 The current planned asset allocation strategy is set out in the table below, together with the approximate assumptions made about the real return for each asset class in determining the strategy.

Asset Class	Weighting %	Real Return % p.a.
UK Equities	25.0	5
Overseas Equities	50.0	5
Index-linked gilts	6.0	0
Corporate bonds	9.0	2
Property	10.0	4

4.4 The Committee has provisionally allocated £150m for investment in alternative asset classes, to be invested as suitable opportunities are identified. Within this allocation, £50m has been earmarked for assets within the Northern Ireland region.

5. CHOOSING INVESTMENTS

5.1 The Committee relies on professional fund managers for the day-to-day management of the majority of the Fund's assets. However, the Committee retains direct control

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over some investments. In particular, it makes the decisions about the investment vehicles used by members for additional voluntary contributions (AVCs).

5.2 Investments directly controlled by the Committee

- 5.2.1 The Committee's policy is to review the investments over which it retains direct control and to obtain written advice regularly and at least annually. When deciding whether or not to sell or purchase any new investments the Committee will obtain written advice.
- 5.2.2. The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement. The adviser will have the knowledge and experience required under section 36(6) of the Pensions (Northern Ireland) Order 1995.
- 5.2.3 For members' AVCs, the Committee has chosen suitable investment vehicles taking into account past performance, charging structure, flexibility and the quality of administration. The Fund's AVC providers are the Prudential Assurance Co and the Equitable Life Assurance Society (closed to new members). The Committee obtains regular advice on the suitability of these investments and informs the scheme members invested in the products of this advice.

5.3 Investments undertaken by Third Party Fund Managers

- 5.3.1 The Committee has delegated its authority to manage the remainder of the fund to a number of third party fund managers in compliance with Regulation 6 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (as amended).
- 5.3.2 The Committee has determined the types of asset class in which it wishes to invest as set out in the asset allocation strategy. It has selected a range of managers to manage particular types of asset class depending on their areas of expertise. The fund's manager are:

Manager	Asset/Market
Baillie Gifford	UK Equities Global Unconstrained Equities
Blackrock Investment Management	UK Unconstrained Equities
Jupiter Asset Management	UK Unconstrained Equities
Wellington Management International	Global Equities
Edinburgh Partners	Global Unconstrained Equities
Aberdeen Asset Management	UK and Non UK government and corporate bonds
LaSalle Investment Management	Direct and indirect property
Legal & General Investment Management	Passive management of equities and bonds, all markets

- 5.3.3 The Financial Services Authority (FSA) regulates the fund managers. The Committee has a signed agreement with each fund manager, which provides for a fee scale on a basis related to the value of the assets managed or performance.

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- 5.3.4 The Committee has a range of controls in place to monitor investment by the Fund Managers. It has set a total fund benchmark which is aligned to the overall asset allocation. The Committee has also set each fund manager a performance objective in relation to published indices. The performance objectives as agreed between the Committee and the fund managers are set out in the investment management agreements.
- 5.3.5 All fund managers are responsible for the selection of individual stocks within each type of investment.
- 5.3.6 The percentages of the fund allocated to each manager will fluctuate depending on performance and/or can be changed at any time by the Committee.

5.4 New investments

- 5.4.1 Within the categories of investment permitted by the Regulations, the fund managers can purchase any new investments as long as they do not breach the provisions of the fund management agreements. The fund managers will bring to the Committee's attention any new category of investment, which in their judgment has become suitable for the Fund before investing in that category.

5.5 Realisation of investments

- 5.5.1 The fund managers will bring to the Committee's attention any category of investment held by the Fund, which in their judgment has become unsuitable for the Fund. The fund manager is not expected to bring to the Committee's attention individual investments realised on purely investment grounds.

5.6 Securities lending

- 5.6.1 The Fund participates in a Securities Lending Programme managed by its Global Custodian.

5.7 Commission recapture

- 5.7.1 The Fund participates in a commission recapture programme.

6. SOCIALLY RESPONSIBLE INVESTMENT

6.1 Principles

- 6.1.1 NILGOSC's overriding obligation is to act in the best interests of the scheme beneficiaries. In this fiduciary role NILGOSC believes that environmental, social and corporate governance issues can affect the performance of investment portfolios. Therefore it will make the consideration of such matters part of its investment process as set out in this statement.
- 6.1.2 NILGOSC has adopted the United Nation's Principles for Responsible Investment as a means of publicly demonstrating its approach.

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6.2 Responsible Ownership

- 6.2.1 NILGOSC expects the companies in which it invests to comply with best practice in terms of corporate governance.
- 6.2.2 NILGOSC sets out this best practice in three documents; *the* UK Voting policy; the North American Voting Policy; and the International Voting Policy.
- 6.2.3 NILGOSC will collaborate with other like-minded investors and groups in order to engage with companies, industries and countries in which it invests in order to improve levels of corporate governance where needed.
- 6.2.4 NILGOSC will exercise its voting rights if possible at all company meetings and may vote against management if there are corporate governance failings. When possible NILGOSC will inform those companies of its reasons for its voting decision.
- 6.2.5 NILGOSC will seek to recover all monies due to it from settled class actions and will consider, on a case by case basis, being party to class actions against investee companies arising from failings in corporate governance.

6.3 Investment Decisions

- 6.3.1 NILGOSC delegates the selection of investments held to its fund managers and does not impose any investment restrictions in regard of social, ethical and environmental issues. NILGOSC does not make any investments specifically for social, ethical and environmental reasons.
- 6.3.2 NILGOSC has instructed its active fund managers to take account of social, ethical and environmental considerations provided the primary financial obligation is not compromised.
- 6.3.3 NILGOSC will ensure that the fund managers it appoints are capable of taking social, ethical and environmental issues into consideration when making investment choices, it will monitor the managers action in this area and will work with fund managers and the investment sector to ensure sufficient data is available to aid effective decision making.
- 6.3.4 The Committee does not have the direct ownership of the underlying assets of the AVC policies or the policy of assurance for indexed assets, and therefore the Committee's policy on socially responsible investment does not apply to such assets.

7. DIVERSIFICATION AND RISK CONTROLS

- 7.1 The following measures have been implemented to reduce the risks associated with making investments.

7.2 Number of managers

- 7.2.1 The assets are divided between one passive fund manager and seven specialist active fund managers to gain the benefits of specialist skills in markets, the predictable and diversified results from passive management as well as the reduction of the risks

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associated with one fund manager having responsibility for all of the Fund's assets. In addition, this division enables the Committee to control the overall asset allocation and the level of risk resulting from the differing approaches, styles and specialisations of each manager. The passive manager maintains the overall asset allocation within defined ranges.

7.3 Risk versus the liabilities

7.3.1 The majority of the Fund's liabilities are linked to inflation and salary growth. The policy is therefore to invest the majority of the assets in investments, which are expected to exceed price inflation and general salary growth over long periods.

7.4 Range of assets

7.4.1 The Committee has set a Total Fund benchmark. This contains a wide range of assets suitable for a pension scheme. The managers have discretion to move away from the benchmark position within specified tolerance levels to outperform the return on the benchmark. The Committee reviews the distribution of assets quarterly.

7.5 Custody

7.5.1 The Committee ensures the separation of custody of the Fund's assets from its Investment Managers and its officials by the employment of its independent global custodian.

7.5.2 The Committee's property solicitors hold the title deeds to the commercial property assets.

7.6 Manager restrictions

7.6.1 The Committee's agreement on the way the portfolio is managed with each fund manager contains a series of restrictions, which may be amended from time to time. The purpose of the restrictions is to limit the risks from each individual investment and prevent unsuitable investment activity. Each fund manager must comply with these restrictions.

7.7 Manager controls

7.7.1 Powers of investment delegated to the fund managers must be exercised with a view to giving effect to the principles contained in this statement so far as is reasonably practicable. The manager will also ensure that suitable internal operating procedures are in place to control individuals making investments for the Fund.

8. COMPLIANCE

8.1 Frequency of review

8.1.1 The Committee will review this statement annually or sooner if there is a change in the policy on any of the areas covered by the statement. The Committee will consult with such persons, as it considers appropriate and take written advice when revising the statement.

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8.2 Professional advice

8.2.1 The Committee employs Aon Hewitt as investment adviser to provide such services as needed to ensure that the Committee is fully briefed to both take direct decisions and to monitor those which it delegates. Aon Hewitt is paid on either a fixed or variable fee basis according to the requirements of the Committee for each task.

8.3 Performance measurement information

8.3.1 The Committee uses the services of its custodian and Investment Property Databank, (IPD), to independently measure the investment performance of the equity and bond managers and the property manager respectively. Each quarter, the Committee monitors the performance of the combined assets and the performance of each manager's portfolio against their target benchmark. Annually the Committee reviews with its investment advisers, Aon Hewitt, each manager's annual and rolling three year investment performance together with a review of the Fund's benchmarks.

8.4 CIPFA Pensions Panel Principles

8.4.1 The Committee is required to state the extent to which it complies with the ten principles of investment practice set out in a document published in April 2002 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pension Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No 5). The ten principles are as follows:

<u>Principle</u>	<u>Compliance</u>
1. Effective Decision Making	The Committee is compliant with this principle.
2. Clear Objectives	The Committee is compliant with this principle.
3. Focus on Asset Allocation	The Committee is compliant with this principle.
4. Expert Advice	The Committee is compliant with this principle.
5. Explicit Mandate	The Committee is not fully compliant with this principle. (See below)
6. Activism	The Committee is not fully compliant with this principle. (See below)
7. Appropriate Benchmarks	The Committee is compliant with this principle.

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| 8. Performance Measurement | The Committee is compliant with this principle. |
| 9. Transparency | The Committee is compliant with this principle. |
| 10. Regular Reporting | The Committee is compliant with this principle. |

8.4.2 The Committee does not comply with these Principles in the following respects:

Principle 5 – This requires that manager mandates should not be terminated before the expiry of the evaluation timescale for underperformance alone. The Committee takes a rigorous and long term approach in the selection and monitoring of investment managers but believes that it should always have the power to terminate a manager's services with immediate effect should this be in the best interest of its beneficiaries.

Principle 6 – The original 2002 CIPFA document requires the incorporation of the principles of the US Department of Labor Interpretative Bulletin on activism. However it is more appropriate to make reference and comparisons to the the UK Stewardship Code issued in July 2010, which sets out best practice for investors that choose to engage with the companies in which they invest. The Committee has published a statement of its compliance with the Stewardship Code, a copy of which is available at www.nilgosc.org.uk

8.4.3 HM Treasury issued updated Myners Principles in October 2008 however the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000, as amended, have not yet been amended to reflect the six revised principles. Until CIPFA has issued guidance in this respect, and Regulation 10 (3A) is suitably amended, the Statement of Investment Principles will continue to refer to the original 10 principles.

Approved by the Committee on 24 January 2012