

**SUFFOLK COUNTY COUNCIL PENSION FUND COMMITTEE  
BUSINESS PLAN 2015/16**

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## **EXECUTIVE SUMMARY AND ACTION PLAN**

### **Introduction**

1. The local government pension scheme (LGPS) regulations require Suffolk County Council to maintain a pension fund for employees of local authorities and certain other bodies in Suffolk who are members of the local government pension scheme. It has delegated responsibility for the management of the fund's administration and investments to the Pension Fund Committee.
2. The Suffolk County Council Pension Fund provides pensions and retirement benefits for the employees of local government bodies in Suffolk. These include the employees of the County Council (other than teachers, employees transferred in from the NHS and firefighters who have their own schemes), the Suffolk district councils, the town and parish councils, the civilian employees of the Suffolk Police and Crime Commissioner, and the non-teaching employees of the Suffolk academies and further education colleges. A number of other bodies, including employers who have taken over the management of outsourced local authority services, have also been admitted to the fund. The Business Plan deals with the management of the Pension Fund Committee's responsibilities for the Fund for the coming year.

### **Objectives**

3. The Fund's investment strategy seeks to optimise the long-term investment return, consistent with the level of risk that is considered appropriate in the light of the funding strategy.
4. The Fund's funding strategy seeks to minimise the employer contributions that are required, subject to taking a prudent long-term approach to funding the liabilities of the Fund and ensuring that employer contribution rates are stabilised as far as possible.
5. The Fund's administration strategy seeks to deliver a high quality service for the administration of scheme benefits for the members (employees and pensioners) of the Fund.

### **ACTION PLAN 2015/16**

6. The key areas where action will be undertaken over the next 12 months are set out below.

#### **ACTION PLAN 2015/16**

##### **Review of Strategic Asset Allocation and Investment Strategy**

1. The Committee will review its strategic asset allocation and investment strategy, with the assistance of its investment advisers, Hymans Robertson and its independent adviser Mark Stevens.
2. The Committee will consider its investment strategy in light of the outcomes from the consultation following the 'Call for Evidence' exercise.

##### **Monitoring of Investment Performance**

## **ACTION PLAN 2015/16**

3. The Committee will continue to review the investment performance of the Fund as a whole and its investment managers on a quarterly basis.

### **Actuarial Valuation and Funding Strategy**

4. The Committee will continue to monitor the actuarial position of the Fund on a quarterly basis.

### **Governance**

5. The Committee will continue to review its governance arrangements in the light of the creation of the Suffolk Pension Board
6. The Committee will review the knowledge and skills requirements of Committee members.
7. The Committee will keep the risks in the Fund's risk register under review (Annex D).

### **Reporting and Communication**

8. The Committee will report on performance to the Fund employers in October 2015. The Committee will publish the Fund's annual report and accounts for 2014/15 to comply with the statutory deadline of 1 December 2015.
9. The Committee will review the Fund's approach to communication in order to help improve understanding of the local government pension scheme among employers and scheme members.

### **Administration**

10. The Committee will make arrangements for the procurement of its future administration system.
11. The Committee will make arrangements for the procurement of its future share voting service provider.
12. The Committee will either extend or retender the Actuarial and Investment advisory services to the Fund

### **Review**

13. The Committee will review progress against the Business Plan on at least an annual basis, with the next scheduled review at the Committee's March 2016 meeting.

## GOVERNANCE ARRANGEMENTS

### Responsibilities of the Pension Fund Committee

7. The guidance on best practice for decision-making developed by Paul Myners (the Myners Principles) requires that administering authorities have appropriate arrangements to ensure effective decision-making (Annex C, Principle 1). Under the County Council's Governance Policy Statement, the Pension Fund Committee is responsible for the following matters.

#### **Responsibilities of the Pension Fund Committee**

- (a) Overall management of the Suffolk County Council Pension Fund.
- (b) Statement of Investment Principles.
- (c) Funding Strategy Statement.
- (d) Strategic asset allocation and investment strategy.
- (e) Appointment of the Fund's investment managers and other providers of professional services for the Fund.
- (f) Setting investment objectives for the Fund's managers.
- (g) Review of the performance of the Fund's managers.
- (h) Consideration of the triennial actuarial valuation and any interim valuation reports.
- (i) Accountability for the Committee's stewardship role by an annual report and annual meeting for employers and other stakeholders.
- (j) Consideration of applications by organisations to be admitted bodies in the fund.
- (k) Training to enable committee members to make effective decisions.
- (l) Any other matters which fall within the responsibilities of the administering authority for the pension fund.

8. The Pension Fund Committee fulfils its responsibilities by:
- (a) Approval of a strategic asset allocation and setting investment objectives via a customised benchmark for the Fund (see paragraphs 9-12);
  - (b) Approval of explicit mandates for the Fund's investment managers (paragraphs 13-17);
  - (c) Regular review of the performance of the investment managers (paragraph 18);
  - (d) An ongoing programme of the procurement of the services required by the Fund (paragraphs 19-24);
  - (e) Monitoring of administration and investment management costs (paragraph 25);
  - (f) Arrangements for statutory triennial actuarial valuations, approval of a Funding Strategy Statement and monitoring of the Fund's actuarial position between valuations (paragraphs 26-30);

- (g) Regular reporting on the performance of the fund to scheme employers and other stakeholders in the fund (paragraphs 31-32).
- (h) Arrangements to ensure effective decision-making by the Pension Fund Committee (paragraphs 33-36)
- (i) Arrangements to exercise the voting rights associated with the Fund's share holdings (paragraph 37).

## **MANAGEMENT ARRANGEMENTS**

- 9. The Myners Principles require that administering authorities establish clear objectives for the management of the pension fund (Annex C, Principle 2). The management arrangements that the Pension Fund Committee has put in place to deliver its key objectives are set out below.

### **Strategic Asset Allocation**

- 10. The Pension Fund's strategic asset allocation is set out in its statement of investment principles. The statement of investment principles was updated most recently in September 2013. The current investment strategy for the Fund is summarised at **Annex A**.
- 11. The Fund's investment managers have a limited discretion under their mandates to vary their asset allocation between different asset classes, subject to the investment guidelines set out in the investment management agreements. This allows the managers scope to optimise the asset allocation within their portfolio, while remaining consistent with the objectives agreed by the Committee for the fund's overall asset allocation.
- 12. The investment strategy is reviewed at least every three years following the results of the actuarial valuation. In addition the strategy is reviewed from time to time on the basis of advice from the Fund's investment advisers. This was completed in November 2014.

### **Explicit mandates for investment managers**

- 13. Each of the Fund's investment managers with a segregated investment mandate operates on the basis of a written investment management agreement, which sets out their performance objectives, any constraints on the manager's discretion and the timescales for performance measurement. The performance objectives are customised to the individual mandates and the asset classes in which the managers are invested.
- 14. In a number of cases the Fund invests in the pooled funds operated by its managers. This applies to private equity (Pantheon and Wilshire), infrastructure (KKR and Partners Group), timber (Brookfield) and absolute return (BlueCrest, Pyrford and Winton). For these investments, the Fund does not have a dedicated investment management agreement and these investments are covered by the terms of the subscription documentation applicable to the individual manager's fund.
- 15. The performance of the unlisted private equity funds is compared with public (listed) equity markets over the life of each fund. Such funds will typically have a life of at least 10 years, during which the manager is expected to liquidate the investments and distribute the proceeds to investors. These mandates are expected to outperform public equity indices on a net of fees basis over a 10 year period.

16. The Fund's infrastructure and timberland investments are in funds which have an expected life of at least 10 years. The long-term performance of these mandates will be compared with that of listed equity markets over the same period.
17. The Fund's investments in the pooled funds managed by its absolute return managers do not have bespoke performance objectives, but are benchmarked against 3 month LIBOR plus 5%. These investments are highly liquid and can be disposed of at short notice, if the Committee decides this is appropriate for performance or other reasons.

### **Performance Monitoring**

18. The Myners Principles require that administering authorities have formal arrangements for the measurement of the performance of the Fund's investments, investment managers and advisers (Annex C, Principle 4). The Committee receives quarterly monitoring reports on the investment performance of its managers from the Fund's investment advisers, Hymans Robertson and the independent adviser, Mark Stevens reports on the quarterly manager meetings. The Fund also commissions performance measurement services from State Street Investment Analytics (formerly the WM Company). State Street produces a full analysis of the performance of the Fund and its investment managers each year. This identifies the key factors underlying the performance of the Fund and its managers relative to their benchmarks.

### **Procurement**

19. The Committee's contracts with its investment managers are open-ended and are not subject to review at fixed intervals. The investment management contracts may be terminated without a fixed period of notice. However depending on the underlying nature of the portfolio held by individual managers, the liquidation of the investments may be difficult to undertake where there is no ready market for such holdings. This is particularly the case for investments in private equity, infrastructure and timber, which are highly illiquid, and to a lesser extent for investments in property. These investments are accordingly regarded as medium to long-term investments by the Fund.
20. The performance of the Fund's discretionary investment managers is monitored over rolling three year periods. In the event of a manager's failure to achieve their performance objective or other concerns about the manager's capabilities or organisation, this would lead to a review of the contract. The Committee's investment advisors, Hymans Robertson, and the Council's Procurement team provide advice as required on the conduct of procurement exercises for investment managers.
21. The Committee's contract for custodian services was awarded for a five year period from October 2014 following a collaborative framework procurement process with Norfolk and the London Borough of Hackney Pension Funds.
22. The Committee's contract for actuarial and investment advisory services was subject to a competitive tendering process in 2009 and awarded to Hymans Robertson for a period of 6 years. This expires in October 2015 but can be extended for a period up to 3 years.
23. The Committee's contract for voting advisory services was subject to a competitive tendering process and awarded to Pensions Investment Research Consultants (PIRC) for a period of 3 years from April 2010. The contract was extended for a further three years in April 2013.

24. The Committee makes use of specialist legal advice from Squire Sanders LLP as required for the review of investment management documentation and other legal matters relating to the Fund's management arrangements. A national framework is now in place to allow the Fund to source competitive prices for bespoke pieces of legal work.

### **Administration and investment management costs**

25. The administration and investment management costs of the fund are set out in **Annex B**. The total administration and management costs for 2013/14 represent around 0.45% of the value of the fund at March 2014. The Committee reviews the management costs of the Fund against national benchmarks and comparable local authority funds. The Fund's costs are slightly higher than the national and the shire county average for local authority pension funds

### **Actuarial Valuation and Funding Strategy Statement**

26. The Pension Fund Committee is required to produce and maintain a Funding Strategy Statement for the pension fund. The purpose of the Statement is specified by the Department of Communities and Local Government, the regulator for the LGPS, as:
- (a) to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
  - (b) to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
  - (c) to take a prudent longer-term view of funding the employers' pension liabilities.
27. The Suffolk Fund's funding objective is to ensure that the assets of the Fund are sufficient to cover the actuarial liabilities of the Fund to make future payments of pensions and other retirement benefits and be fully funded on an actuarial basis. The Funding Strategy Statement determines the rate of contributions payable by each of the employers in the Fund to meet the future cost of retirement benefits for their employees and pensioners and to recover any historic deficit as assessed by the Fund's Actuary.
28. The Committee commissions a full actuarial valuation of the Fund every three years as required by law, in order to determine the employers' contributions for the following three years. The most recent statutory valuation as at March 2013 was carried out by the Fund actuary and the employers' contributions for the three years starting April 2014 were determined by the Committee on the basis of the actuarial valuation results and the Funding Strategy for the Fund.
29. The results of the valuation of the Fund at March 2013 showed an overall funding level of 79%. The Funding Strategy that was approved following the 2013 actuarial valuation provides for the recovery of the deficit over a period of 20 years for the local authority employers in the Fund, with shorter periods for most other employers.

30. The Committee arranges for monitoring of the actuarial position of the Fund as a whole on a quarterly basis. The actuarial position of individual employers is re-assessed if there are significant changes which might affect their required contribution rate in advance of the next formal actuarial valuation. This allows the Committee to ensure that the funding level is kept under review between the statutory valuations. Any factors that might affect future employer contributions are reported as early as possible to the Committee and to employers in the Fund. The most recent actuarial monitoring report available showed that the Fund was 79.3% funded as at December 2014. The actuary has advised that no changes to employer contributions are required in advance of the statutory actuarial valuation as at March 2016.

### **Regular reporting**

31. The Myners Principles require that administering authorities should communicate with stakeholders on issues relating to their management of the Fund's investments, including issues relating to governance and risk (Annex C, Principle 6). The Committee ensures that the Fund's employers and scheme members are kept informed of matters affecting the Fund by arranging for:
- (a) An annual report and accounts for the Fund,
  - (b) An annual meeting for scheme employers to report on the performance of the Fund.
  - (c) A funding strategy statement.
  - (d) A statement of investment principles.
  - (e) A governance policy statement, setting out the way the County Council discharges its statutory responsibilities as the administering authority for the fund.
  - (f) An administration policy (including a communications policy statement) which sets out the Fund's performance standards in relation to communications with scheme members and employers.
32. The Fund's participating employers and scheme members are informed of developments by regular meetings and consultation. The work of the Pension Fund Committee is publicised through the agenda papers and minutes of its meetings which are published on the Suffolk Pension Fund web-site.

### **Effective decision-making**

33. The Myners Principles require that administering authorities ensure that decisions are taken by persons or organisations with the necessary skills, knowledge, advice and resources to take them effectively and to monitor their implementation (Annex C, Principle 1). The responsibilities of the Pension Fund Committee include the requirement to undertake regular training to enable committee members to make effective decisions and be aware of their statutory and fiduciary responsibilities for the fund.
34. The Committee agreed a formal training programme for Committee members at its meeting on 16 July 2014.

35. The Committee takes advice as appropriate to ensure that all investment decisions are made in the best interests of the fund and scheme members. Advice is provided as necessary by the Director of Resource Management and his staff, the Fund's actuary and investment advisor (Hymans Robertson) and the Fund's other external advisors. The Council commissions independent performance measurement of the fund's investment managers by a specialist performance measurer, State Street Investment Analytics. The Council uses the services of Pensions Investment Research Consultants (PIRC) to advise on voting matters relating to its UK and overseas equity holdings.
36. The Myners Principles suggest that Pension Fund Committees should undertake a formal review of the effectiveness of their decision-making arrangements (Annex C, Principle 4). The Committee agreed a formal training programme for committee members at its meeting on 16 July 2014.

### **Responsible Ownership**

37. The Myners Principles require that administering authorities should adopt or ensure that their investment managers adopt an appropriate policy in relation to their responsibilities as shareholders (Annex C, Principle 5). 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 Myners' best practice principles recommends that Pension Fund Committees should review their approach to responsible ownership in the light of the Institutional Shareholders' Committee (ISC) latest statement of principles on the responsibilities of shareholders and agents. The Action Plan for 2015/16 provides for the Committee to review its approach to responsible ownership.

### **REVIEW OF ACTION PLAN 2014/15**

38. The Committee agreed the Business Plan for 2014/15 at its meeting on 2 June 2014. The key actions that were agreed and the progress that has been made against them are set out below.

### **Implementation of changes to investment strategy**

39. The Committee undertook its Asset Allocation Review in November 2014. This resulted in the removal of Alliance Bernstein's mandate, the creation of a passive UK and RAFI global equity investments, with reductions to overseas regional passive equity funds. The Committee will consider the changes to its bonds mandates at its meeting on the 23 March 2015.

### **Monitoring of investment performance**

40. The Committee agreed to review the investment performance of the Fund on a quarterly basis and in particular to review the mandate of Alliance Bernstein during 2014/15.
41. The performance of the Fund as a whole to December 2014 is set out below.

<b>Investment performance</b>			
	<b>12 months to December 2014</b>	<b>5 years to December 2014</b>	<b>10 years to December 2014</b>
	<b>%</b>	<b>% p.a.</b>	<b>% p.a.</b>
Return	10.4	8.9	7.1

Benchmark	9.7	9.1	7.7
Relative return	+0.6	-0.2	-0.6

42. The Fund achieved an absolute return for the year to December 2014 of 10.4% which is considerably higher than the previous year's performance of 5.6%. The Fund's performance over the past 5 years is 8.9% per year. The absolute investment return of the Fund over the past 10 years is good (7.1% per year), and above the long-term target investment return (4.6% per year).
43. The Fund outperformed in the calendar year 2014, and this has helped close the gap of underperformance over the longer term (previously underperforming by 1% over 5 years).
44. The Committee received regular reports on the investment performance of the Fund and individual fund managers during the year. The Committee completed a review of Alliance Bernstein during 2014/15 and made a decision to remove their mandate. This was completed in January 2015.
45. MF Global, a broker used as part of the active currency mandate with Millennium, went into administration at the end of October 2011. The administrators, KPMG, are currently seeking to reconcile the assets which the firm held on behalf of clients. The Fund submitted a claim to KPMG for £8.4 million in respect of sums due to the Fund at the point when the firm went into administration. Interim distributions of £7.725 million have been received to date, 92% of the claim.

#### **Actuarial Valuation and Funding Strategy**

46. The Committee has received reports on the actuarial position of the Fund on a quarterly basis. The most recent information on actuarial position, as at December 2014, was a funding level of 79.3% (compared with 79% at March 2013). The next triennial actuarial valuation will take place as at March 2016.

#### **Governance**

47. The Committee agreed to review its governance arrangements in relation to those areas in the Myners Principles where the Fund is not fully compliant with best practice guidance (Annex C, Principle 4). This review has not taken place and will be undertaken during 2015/16.
48. Mark Stevens role as Independent advisor to the Committee continued through 2014/15.
49. The Committee meeting on 16 July 2014 decided to adopt the CIPFA Knowledge and Skills Framework as the basis for its future training and development programme. The Committee agreed a training programme which started in September 2014. Since then one full day training and 3 pre committee training sessions has been delivered.
50. The Committee has taken part in the consultations on the governance and "Call for Evidence" proposals during 2014.
51. The Committee considered an assessment of the key risks faced by the Pension Fund at its meeting on 16 July 2014. The latest assessment of the pension fund risks is attached at **Annex D**.

#### **Administration**

52. The Fund changed its custodian in October 2014 to HSBC.

53. A document image system has been introduced to streamline further pensions administration work. The savings in staff time as a result have enabled automatic enrolment and the new 2014 local government pension scheme to be introduced without the requirement to source additional resources

### **Reporting and Communication**

54. The Committee reported to the Fund employers at the annual pension fund meeting in October 2014. The Pension Fund Annual Report and Accounts for 2013/14 was published on the Pension Fund's website in November 2014.
55. The Pension Fund has established a dedicated website page for communication with scheme members and employers on issues affecting the scheme ([www.suffolkpensionfund.org](http://www.suffolkpensionfund.org)) .

## **FUTURE PRIORITIES 2015/16 – 2017/18**

56. The Pension Fund Committee's key priorities over the next three years are set out below. The key actions that will be undertaken during 2015/16 are set out in the Action Plan within the Executive Summary (paragraph 6).

### **Strategic Asset Allocation and Investment strategy**

57. To review annually the Fund's asset allocation and investment strategy.
58. To monitor investment performance for the Fund as a whole and for individual managers against their performance benchmarks.
59. To agree the structure of the Fund's future investment in Private Equity.

### **.Actuarial Valuation and Funding Strategy**

60. To continue to review the actuarial position of the Fund on a quarterly basis.

### **Governance**

61. The Council will create and operate a Pensions Board with effect from 1 April 2015, which will oversee the governance and assurance of the Suffolk Pension Fund.
62. The Committee will review its overall governance arrangements for the management of the Suffolk Pension Fund in the context of reporting to the Board.
63. To annually review the training programme to ensure Pension Fund Committee members (and officers) develop their knowledge on pension issues.
64. To develop the Fund's approach on voting and engagement in the light of the Myners guidance on responsible ownership.
65. To undertake a regular review of the risks affecting the Fund's operations.

### **Reporting and Communication**

66. To develop communications with stakeholders by improved reporting on pension fund activities.
67. To help improve the public understanding of the local government pension scheme by better communication of the issues relating to the scheme.

### **Administration**

68. To demonstrate value for money in the Fund's operations by benchmarking of costs and by monitoring of service performance against agreed performance targets.
69. To update the administration policy document, including the communications strategy.
70. To explore the scope for savings and/or improvements in service delivery by collaborative procurement arrangements and other forms of joint working with other local authority pension funds.
71. To extend or retender the Actuarial and Investment advisor services to the Fund.
72. To complete the procurement of a new pensions administration system.
73. To retender the Proxy Voting Service for the Fund.

## PENSION FUND INVESTMENT STRATEGY

The Pension Fund's investment strategy is set out in full in its Statement of Investment Principles. The investment management arrangements as at 31 December 2014 are summarised below.

### Asset Allocation

Asset Class		Actual	Long-term	Range Guidelines
	£'m	%	%	
UK Equities	350.7	17.0	16.0	+/-5%
Overseas Equities	708.0	34.3	29.0	+/-5%
<b>Total listed equities</b>	<b>1,058.7</b>	<b>51.3</b>	<b>45.0</b>	+/-7%
UK Gilts	46.1	2.2	-	+/-2%
UK Corporate Bonds	249.7	12.0	15.5	+2%
UK Index-linked Gilts	88.5	4.3	4.0	+/-2%
Emerging Market Debt	40.5	2.0	2.0	+/-1%
<b>Total Bonds</b>	<b>424.8</b>	<b>20.5</b>	<b>21.5</b>	+/-5%
Private Equity	66.7	3.2	4.0	+/-5%
Property	204.1	10.0	10.0	+/-3%
Absolute Return	189.0	9.2	10.0	+/-3%
Infrastructure	44.1	2.1	5.0	+/-2%
Timber	6.1	0.3	2.0	+/-1%
Distressed Debt	39.7	1.9	2.0	+/-1%
<b>Total Alternatives</b>	<b>549.7</b>	<b>26.7</b>	<b>33.0</b>	+/-3%
<b>Cash</b>	<b>32.0</b>	<b>1.5</b>	<b>0.5</b>	+/-1%
<b>Total</b>	<b>2,065.2</b>	<b>100.0</b>	<b>100.0</b>	

The Overseas equity holdings are currently outside the target range. This is because additional money has been invested temporarily in overseas equities whilst commitments to infrastructure and timber wait to be funded

The Committee are reviewing the Bonds allocations at its meeting on 23 March 2015, and it is expected that these will all revert to target ranges once this has been completed.

The cash is higher than normal. This is due to the timing differences between selling and buying units in Property Unit Trusts, undertaken by Schroders.

## Manager allocations

1. The holdings below are at 31 December 2014.

Manager	Benchmark Allocation by Manager		
	Holdings £'m	Actual %	Long-term %
Alliance Bernstein	156.0	7.6	-
BlackRock	189.3	9.2	9.0
BlueCrest	35.1	1.7	2.0
Brookfield	7.0	0.3	2.0
CRIL	0.1	0.0	-
KKR	35.9	1.7	2.5
Legal & General	846.3	41.1	44.5
M&G	39.7	1.9	2.0
Newton	297.6	14.4	13.0
Pantheon	30.5	1.5	2.0
Partners Group	10.0	0.5	2.5
Pyrford	114.4	5.5	6.0
Schroders	219.5	10.6	10.0
Wilshire	36.1	1.7	2.0
Winton	39.5	1.9	2.0
Internal Cash	8.2	0.4	0.5
<b>Total</b>	<b>2,065.2</b>	<b>100.0</b>	<b>100.0</b>

The allocation to Alliance Bernstein was terminated on 23 January 2015, with the assets transferring to Legal & General.

## INVESTMENT MANAGEMENT AND ADMINISTRATION COSTS

The actual administration costs for the Suffolk Pension Fund for 2013-14 and the estimated administration costs for 2014-15 and 2015-16 are set out below:

<b>Table 1: Administration Costs</b>			
	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Suffolk County Council administration	1,258	944	991
Actuarial Fees	159	78	82
Audit Fees	28	28	28
Legal Fees	6	4	4
Administration System	177	189	200
Other expenses	66	62	58
<b>Total Administration</b>	<b>1,694</b>	<b>1,305</b>	<b>1,363</b>
<b>Table 2: Investment Management Costs</b>			
	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
AllianceBernstein	254	560	-
BlackRock	285	520	546
Bluecrest	1,107	1,252	1,315
Brookfield	15	59	250
JP Morgan	93	-	-
KKR	365	330	346
Legal and General	862	992	1,141
M&G	80	715	822
Millennium	-36		
Newton	1,008	1,082	1,136
Pantheon	278	301	286
Partners	563	307	460
Pyrford	472	479	503
Schroders	348	290	305
Wilshire	347	343	326
Winton	714	1,612	1,693
<b>Other Costs</b>			
Custodian (State Street)	52	34	-
Custodian (HSBC)		22	51
<b>Total Investment Manager Fees</b>	<b>6,807</b>	<b>8,898</b>	<b>9,180</b>
<b>Consultancy Costs</b>			
Performance Analysis	28	31	33
Proxy Voting Service	31	32	33
Investment Advice	86	117	122
<b>Total Consultancy Costs</b>	<b>145</b>	<b>180</b>	<b>188</b>
<b>Total Investment Management Costs</b>	<b>6,952</b>	<b>9,077</b>	<b>9,368</b>

**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.

<b>PRINCIPLE</b>	<b>SUFFOLK PENSION FUND PRACTICES</b>
<p><b>Principle 1: Effective decision-making</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>	<p><b>Full compliance.</b></p> <ul style="list-style-type: none"> <li>• Appropriate skills. New Pension Fund Committee members receive initial training on the role and responsibilities of the Committee.</li> <li>• 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).</li> <li>• Given the small size of the committee, an investment sub-committee is not considered necessary.</li> <li>• The Pension Fund has a business plan, which is subject to an annual review.</li> <li>• The remuneration of Committee members is subject to the statutory arrangements for members' allowances. Committee chairmen receive a special responsibility allowance.</li> <li>• The Committee's contracts for advisory services for actuarial and investment advice are subject to regular competitive tendering.</li> </ul>

PRINCIPLE	SUFFOLK PENSION FUND PRACTICES
<p><b>Principle 2: Clear objectives</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>	<p><b>Full compliance.</b></p> <ul style="list-style-type: none"> <li>The statement of investment principles sets out our long-term investment objective of the fund.</li> <li>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, currency??, 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.</li> <li>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.</li> <li>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.</li> </ul>
<p><b>Principle 3: Risk and liabilities</b></p> <ul style="list-style-type: none"> <li>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>These include the implications for council tax payers, the strength of the covenant of participating employers, the risk of their default and longevity risk.</li> </ul>	<p><b>Full compliance.</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>The Pension Fund Committee reviews the factors affecting the long-term performance of the fund in an annual review prepared by independent performance advisers.</li> <li>The Pension Fund operates within the internal control arrangements administered by the County Council, which are subject to independent</li> </ul>

PRINCIPLE	SUFFOLK PENSION FUND PRACTICES
	<p>external audit by Ernst &amp; Young.</p> <ul style="list-style-type: none"> <li>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.</li> </ul>
<p><b>Principle 4: Performance assessment</b></p> <ul style="list-style-type: none"> <li>Administering authorities should arrange for the formal measurement of the performance of the investments, investment managers and advisers.</li> <li>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.</li> </ul>	<p><b>Partial compliance.</b></p> <ul style="list-style-type: none"> <li>The Pension Fund Committee receives a regular analysis of the performance of its investment managers from an independent performance analysis service.</li> <li>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.</li> <li>The Pension Fund Committee does not have a formal process for assessing its own performance and effectiveness.</li> </ul>
<p><b>Principle 5: Responsible ownership</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.</li> <li>Administering authorities should report periodically to members on the discharge of such responsibilities.</li> </ul>	<p><b>Partial compliance.</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>The Pension Fund Committee has not formally considered the Institutional Shareholders' Committee (ISC) statement of principles on the responsibilities of shareholders and agents.</li> </ul>

PRINCIPLE	SUFFOLK PENSION FUND PRACTICES
<p><b>Principle 6: Transparency and reporting</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Administering authorities should provide regular communication to members in the form they consider most appropriate.</li> </ul>	<p><b>Full compliance.</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• The Pension Fund Committee holds an annual meeting to report on the fund’s performance to the employers in the Pension Fund.</li> <li>• We provide all employees and pensioners covered by the scheme a link to access the information regarding the fund’s performance.</li> <li>• All active and deferred scheme members receive an annual benefit statement, setting out their accrued pension benefits with the scheme.</li> </ul>

**SUFFOLK COUNTY COUNCIL PENSION FUND RISK REGISTER: UPDATE MARCH 2015**

<b>Risk ID</b>	<b>Risk</b>	<b>Impact</b>	<b>Prob-ability</b>	<b>Risk Score (Impact x Prob.)</b>	<b>Risk Rating</b>	<b>Existing risk control measures/Action required</b>
1	<b>Financial</b> 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	<b>Financial</b> 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	<b>Financial</b> 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	<b>Employer</b> 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.

Risk ID	Risk	Impact	Probability	Risk Score (Impact x Prob.)	Risk Rating	Existing risk control measures/Action required
5	<b>Demographic</b> 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.
6	<b>Demographic</b> 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	<b>Regulatory</b> 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	<b>Employer</b> 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	<b>Employer</b> 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.

Risk ID	Risk	Impact	Probability	Risk Score (Impact x Prob.)	Risk Rating	Existing risk control measures/Action required
10	<b>Employer</b> 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.
11	<b>Employer</b> 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"> <li>Seeking a funding guarantee or indemnity from another scheme employer, or external body.</li> <li>Vetting prospective employers before admission.</li> </ul>
12	<b>Investment</b> 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	<b>Investment</b> 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.

Risk ID	Risk	Impact	Probability	Risk Score (Impact x Prob.)	Risk Rating	Existing risk control measures/Action required
14	<b>Investment</b> 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	<b>Investment</b> 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.
16	<b>Investment</b> 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	<b>Investment</b> 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	<b>Investment</b> 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.

Risk ID	Risk	Impact	Probability	Risk Score (Impact x Prob.)	Risk Rating	Existing risk control measures/Action required
19	<b>Investment</b> 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	<b>Operational</b> Failure of pensions administration IT systems.	Moderate (3)	Unlikely (2)	6	Medium	SCC has disaster recover arrangements and system back up procedures in place.
21	<b>Operational</b> 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	<b>Operational</b> Breach of data protection legislation.	Moderate (3)	Unlikely (2)	6	Medium	County Council data security protocols.
23	<b>Operational</b> 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	<b>Employer</b> 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.

Risk ID	Risk	Impact	Probability	Risk Score (Impact x Prob.)	Risk Rating	Existing risk control measures/Action required
25	<b>Operational</b> 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	<b>Operational</b> 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	<b>Operational</b> 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
<b>Very High Risk</b> (Score = 16-25)	<b>Requires urgent action</b> High impact / High likelihood: risk requires urgent action to manage down and maintain exposure at an acceptable level
<b>High Risk</b> (Score = 10-15)	<b>Management required</b> 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

Risk Score	How the risk should be managed
<b>Medium Risk</b>  <b>(Score = 5-9)</b>	<b>Good Housekeeping</b>  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.
<b>Low Risk</b>  <b>(Score = 1-4)</b>	<b>Review periodically</b>  Risks are unlikely to require mitigating actions but status should be reviewed regularly to ensure conditions have not changed