SUFFOLK COUNTY COUNCIL PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

(Update: September 2013)

1. PURPOSE

1.1 Suffolk County Council Pension Fund Committee

Suffolk County Council is required to adopt a Governance Policy Statement for the Suffolk County Council Pension Fund, which sets out the arrangements for the discharge of its responsibilities for administering the Fund. Under the Governance Policy Statement, the Suffolk County Council Pension Fund Committee is responsible for the administration of the Fund's investments, including the maintenance of the statement of investment principles for the Fund. The responsibilities of the Committee are set out in the Governance Policy Statement, which is published on the pension fund website. (www.suffolkpensionfund.org)

1.2 Local Government Pension Fund Regulations

Local authority pension funds are required by the local government pension fund regulations to maintain a statement of investment principles. The statement must set out the Fund's policy on:

a) The types of investments held by the Fund;

b) The balance between different kinds of investments held by the Fund;

c) Risk;

d) The expected return on the Fund's investments;

e) The Fund's ability to realise its investments;

f) The extent to which the Fund takes account of social, environmental or ethical considerations in the selection, retention and realisation of its investments;

g) The Fund's policy regarding the exercise of the rights attached to its investments, including the right to vote at company general meetings.

1.3 The statement of investment principles brings together in a single document the policies that the Committee has adopted in relation to the management of the Fund investments. The Pension Fund Committee is required to publish the statement, and this is an important mechanism for the accountability by the Committee to its stakeholders for its management of the Fund's investments.

1.4 Pension Fund

The Pension Fund provides pensions and retirement benefits for the employees of a range of local government bodies in Suffolk. These include Suffolk County Council (other than teachers and firefighters), the district councils, the town and parish councils and the civilian employees of the Suffolk Police and Crime Commissioner. The non-teaching employees of the Suffolk further education colleges and academies are also statutory employers within the Fund. In addition the Committee has agreed to admit a number of other employers to the Fund, principally contractors for outsourced services.

2. OBJECTIVES

2.1 Funding Strategy

With effect from March 2005 administering authorities have been required to produce and publish a Funding Strategy Statement for the Fund. The Department for Communities and Local Government (DCLG) stated that the purpose of the Statement is:

- "to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities."

The funding objective that has been adopted for the Suffolk Pension Fund is to ensure that the assets of the Pension Fund, when taken in conjunction with future contributions, are sufficient to ensure that all future pension and retirement benefits will be fully covered by the Fund's assets when they fall due.

2.2 Funding Level

The funding level of the Pension Fund is the value of the Fund's assets expressed as a percentage of the actuarial valuation of the Fund's liabilities at the most recent actuarial valuation of the Fund. The estimated funding level at March 2013 was 74%. The Funding Strategy provides for the Fund to return to a fully funded position over a period of around 20 years. In accordance with the Funding Strategy Statement the Committee determined the rate of contributions payable by each of the employers in the Fund for the three years starting 1 April 2011. Following the completion of the 2013 actuarial valuation, the Committee will determine the employer contributions for the three years starting April 2014.

2.3 Investment Strategy

The Committee has adopted a bespoke investment strategy for the Pension Fund. The Pension Fund Committee reviewed its investment strategy during 2012/13. The table below sets out the investment strategy that the Committee approved for April 2013 onwards.

2.4 Investment Allocations

Asset Class	Actual June 2013	Short-term Target Allocation	Long-term Target Allocation	Range Guidelines
	%	%	%	%
UK Equities	17.3	17.8	17.8	+/-5%
Overseas equities	34.9	34.4	27.6	+/-5%
Total listed equities	**52.2**	**52.2**	**45.4**	+/-7%
Private equity	4.3	4.6	4.6	+/-5%
Property	9.3	10.5	10.5	+/-3%
Absolute Return	10.2	10.0	10.0	+/-3%
Infrastructure	1.1	-	5.0	+/-2%
Timber	-	-	2.0	+/-1%
Total Alternatives	**24.9**	**25.1**	**32.1**	+/-5%
Distressed Debt	0.7	-	2.0	+/-1%
UK Gilts	4.0	2.0	-	+/-2%
UK Corporate Bonds	12.3	11.8	11.7	+/2%
UK Index-linked Gilts	4.1	4.3	4.2	+/-2%
Emerging market debt	2.0	2.0	2.0	+/-1%
Total Bonds	**22.1**	**20.1**	**19.9**	+/-3%
Cash	**1.8**	**2.6**	**2.6**	+/-1%
Total	**100.0**	**100.0**	**100.0**	

2.5 It will take a period of time to bring the long-term benchmark allocation into effect. The Short-Term Target Allocation shown in the table above reflects the benchmark that will be used for monitoring purposes until the allocations to the infrastructure and timberlands mandates are fully invested.

2.6 Pension Fund Committee may adapt the allocation between equities and bonds within limits to take account of market conditions and changing expectations of future returns.

2.7 Currency hedging

The Fund's investment in the major overseas markets is subject in part to currency hedging, to reduce the impact of exchange rate movements on the Sterling returns of the Fund from these markets. The exposure to exchange rate movements is hedged in respect of 50% of the Fund's allocation to US and Japanese equities and 100% of the Fund's allocation to Europe (Eurozone).

3. INVESTMENT MANAGEMENT ARRANGEMENTS

3.1 Appointment of investment managers

The Committee ensures that our investment managers are properly authorised under the local government investment regulations to manage the assets of the Fund. We have appointed our investment managers in accordance with the County Council's procurement procedures and with appropriate professional advice from the Fund's Investment Advisers, Hymans Robertson LLP.

3.2 Investment Managers

Our current and future investment management arrangements are shown below:

BENCHMARK ALLOCATION BY MANAGER

Manager	**Actual (June 2013)**	**Short-term (April 2013)**	**Long-term**
	%	%	%
Alliance Bernstein	7.7	7.5	7.5
BlackRock Investment Management	9.3	9.2	9.2
BlueCrest	1.8	2.0	2.0
Brookfield	-	-	2.0
KKR	0.8	-	2.5
Legal & General	41.3	43.0	36.0
M&G Investments	0.7	-	2.0
Newton Investment Management	14.8	12.9	12.9
Pantheon	1.8	1.9	1.9
Partners Group	0.8	-	2.5
Pyrford	5.7	6.0	6.0
Schroders	9.3	10.4	10.4
Wilshire	2.3	2.6	2.6
Winton	1.9	2.0	2.0
Cash	1.8	2.5	2.5
Total	**100.0**	**100.0**	**100.0**

3.3 It will take a period of time to bring the long-term benchmark allocation into effect. It is expected that the sums allocated for the new infrastructure and timberland mandates (KKR, Partners Group and Brookfield) will be substantially drawn down over the next 2-3 years. Sums allocated to these mandates will be invested in index-tracking funds managed by Legal & General pending the drawdowns by the investment managers.

3.4 Custody

State Street Bank and Trust is responsible for the custody of the assets of the Fund. The Pension Fund Committee has authorised State Street to undertake stocklending on behalf of the Pension Fund, subject to the statutory limits set out in **Annex 1**.

3.5 Stock Lending

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Committee, which include both pooled and segregated mandates.

Within its segregated mandates, the Committee has discretion over whether to permit stock lending. The Committee has considered its approach to stock lending, taking after advice from its investment adviser. After consideration of that advice, the Committee has given authority to its custodian to lend stocks (principally equities) within its mandates subject to agreed collateral being provided and an overall restriction that the proportion of Fund assets that are available to be lent at any time is limited to 25% of Fund assets.

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unitholders in the fund. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. The Committee has no direct control over stock lending in pooled funds; nevertheless, it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund. Legal & General undertakes stocklending in its passive funds.

The Committee reviews its policy on stock lending (including the amount and type of collateral used) on a regular basis.

3.6 Kinds of investments to be held

The Committee complies with the statutory restrictions in the LGPS investment regulations. We have also determined investment allocations and restrictions for each investment manager, which are consistent with the Fund's overall investment strategy. The Head of Strategic Finance may vary these restrictions, after consultation with the Pension Fund Committee. Annex 1 shows the investment limits applicable to the Fund's discretionary investment mandates.

3.7 Expected return on investments

The future investment structure of the Fund is expected to produce an excess return from the Fund's investments relative to the movement in the Fund's liabilities of around 3.5% per year. The sources of expected excess investment return relative to the Fund's liabilities are set out below. The biggest sources of expected additional returns relate to the Fund's allocations to equities (UK and overseas) and from active management.

Analysis of Expected Return (relative to liabilities)

	September 2013 Benchmark Return	
	Expected outperformance %	Share of outperformance
Active return	0.50	15%
Private equity	0.32	9%
Overseas equity	1.47	43%
UK equity	0.70	20%
Property	0.19	5%
Corporate bonds	0.20	6%
Emerging Market Debt	0.08	2%
TOTAL	3.46%	100%

Note: The implementation of the new investment strategy will alter the sources of expected return, with a reduction in the proportion that is attributable to equities and an increase in the proportion that is attributable to active return.

3.8 Risk

The risk in the investment structure is expressed by the tracking error or volatility of the expected investment returns. The investment structure for the Fund has an expected volatility of around 13% per year, relative to the movement in the Fund's liabilities. The sources of risk are set out below. The main sources of risk are from the Fund's allocations to UK and overseas equities and from yields and inflation.

Analysis of Expected Risk

	September 2013 Benchmark Risk	
	Expected risk %	Share of risk budget
Active return	0.15	1%
Currency	0.07	1%
Private equity	0.62	5%
Overseas equity	5.50	41%
UK equity	2.23	17%
Property	0.00	0%
Corporate spreads	0.08	1%
Emerging Market Debt	0.08	1%
Yields & inflation	4.49	34%
TOTAL	13.22%	100%

Note: The implementation of the new investment strategy has reduced the overall level of benchmark risk as a result of the additional diversification arising from the reduction in equity exposure in favour of absolute return investments

3.9 Risk management and monitoring

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

(a) Funding risks:

- Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

(b) Asset risks

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the Fund managers to achieve the rate of investment return assumed in setting their mandates

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committee's expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager.

(c) Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.

- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

3.10 Performance objectives

Our managers, with the exception of the passive (index-tracking) mandate, are required to manage the investments actively and are expected to outperform the benchmark indices for the respective asset classes. We expect the overall performance of the Fund's managers to produce a long-term return in excess of the investment return assumed in the actuarial valuation. The performance targets for our active managers represent the additional return compared with their benchmark indices that they are expected to achieve. Fund managers' performance will be assessed over rolling three year periods.

Manager	**Performance objective relative to index benchmark**
Bernstein	+1.5% p.a. *
Schroders	+0.75% p.a. *
BlackRock Investment Management	+2.0% p.a. #
Newton Investment Management	+2.5% p.a. #
Pyrford	LIBOR + 5% p.a. #
BlueCrest	LIBOR + 5% p.a. #
Winton	LIBOR + 5% p.a. #

Note: Performance objective is net (*) or gross (#) of management fees.

As our investments with our private equity managers (Wilshire Associates and Pantheon Ventures) and our infrastructure and timberland managers (KKR, Partners Group and Brookfield) are long-term, we have not specified explicit performance targets for these mandates.

3.11 Liquidity and realisation of investments

Most of the Fund's investments are listed on major stock markets and the managers can dispose of them quickly if required. The Fund's absolute return investments will also be in highly liquid investment vehicles.

However there are a number of asset classes which can be quite illiquid. Property investments make up around 10% of the Fund's new target allocation. The Fund reduces the illiquidity of the property holdings by investing in property through the medium of a number of property unit trusts. The private equity mandates will represent 5% of the Fund, when they are fully invested. Private equity investments cannot easily be realised and the return on the investments will typically be received by the Fund over a 10 - 15 year period, as the underlying investments by the private equity managers are disposed of. The Fund's future allocations to infrastructure and timberlands (7% of the Fund in total) are long-term investments in pooled investment vehicles which are highly illiquid. The underlying investments in these vehicles will be realised over a similar time period to that of private equity investments.

4. MONITORING OF INVESTMENTS

The Pension Fund Committee receives quarterly reports on investment performance. We obtain a regular analysis of performance from an independent performance analysis service. We publish an annual report for the Fund, which summarises its financial position and its performance. We report on the Fund's performance to an annual meeting of employing bodies and issue an annual statement on the Fund to all scheme members.

5. VOTING POLICY IN RESPECT OF PENSION FUND INVESTMENTS

We have adopted a voting policy in respect of our direct holdings of UK equities, which promotes best practice on corporate governance in those companies. We have published the voting policy on our web site (www.suffolkpesnionfund.org).

6. SOCIAL, ENVIRONMENTAL OR ETHICAL CONSIDERATIONS

We do not restrict our investment managers' choice of investments by reference to social, environmental or ethical criteria.

7. REVIEW OF STATEMENT OF INVESTMENT PRINCIPLES

The Head of Strategic Finance keeps the statement of investment principles under review and makes recommendations for changes to the Pension Fund Committee where appropriate.

8. MYNERS PRINCIPLES

The Myners Report on Institutional Investment was issued in March 2000 set out 10 principles which it considered to be best practice in investment management for pension funds. The principles were reviewed by the Government in 2008 and consolidated into six principles. The Fund is required to report how far its own policies comply with the Myners principles**. Annex 2** sets out our policies and practices compared with the Myners Principles.

9. CURRENT BENCHMARK ALLOCATION (SEPTEMBER 2013)

The short-term benchmark that will be used to measure the Fund's overall performance is set out in **Annex 3.** The Fund's benchmark will be adjusted to the long-term benchmark as the drawdowns to the investment mandates for infrastructure and timberland are implemented.

10. TREASURY MANAGEMENT PRACTICES

The Local Government Pension Scheme (Management of Investment of Funds) Regulations 2009 (SI 2009, No 3093) introduced a requirement for local authority pension funds to have a separate bank account from 1 April 2011, which must be operated separately for any bank account maintained by the administering authority (Suffolk County Council). The Pension Fund is required to adopt a treasury management strategy, which specifies how any Fund moneys held by the County Council will be managed pending their allocation to the Fund's investment managers. **Annex 4** sets out the permitted investments that the Pension Fund Committee has approved for Pension Fund cash pending its allocation to the Fund's investment managers.

Suffolk County Council has a comprehensive statement of Treasury Management Practices, which sets out how treasury management activities are undertaken. This statement is maintained and updated by the Head of Strategic Finance as the Council's section 151 officer. Any cash held by the County Council for the Suffolk Pension Fund will be managed in accordance with these Treasury Management Practices, but subject to the restrictions on the Pension Fund's permitted investments as set out in Annex 4.

ANNEX 1

INVESTMENT LIMITS

STATUTORY LIMITS

The Government has placed certain restrictions on the investments of local authority pension funds in the local government pension scheme investment regulations (Schedule 1 of the 2009 Local Government Pension Scheme (Management and Investment of Funds) Regulations, S.I. 2009, 3093).

	Statutory limits	Discretion-ary higher limits	Approved Limit
1. Any single sub-underwriting contract	1%	5%	
2. Investment in any single partnership (See note)	2%	5%	5%(1)
3. Total investments in partnerships (See note)	5%	30%	12%(2)
4. Total deposits and loans with any single 'person'	10%	-	
5. All investments in unlisted securities	10%	15%	
6. Any single holding	10%	-	
7. All deposits with any single bank	10%	-	
8. Total value of all sub-underwriting contracts.	15%	-	
9. Total investments in the unit trusts etc. managed by any single manager	25%	35%	
10. Any single insurance contract (See note)	25%	35%	35%(3)
11. Total stock lending	25%	-	

<u>Notes (1) – (3)</u>

Schedule 1 Limits on Investments

Discretionary higher limits on certain types of investment were introduced by pension fund investment regulations in 2003. The availability of these higher limits is subject to specific decision being made by the Pension Fund Committee. The Committee has agreed to make use of the discretionary higher limits as follows

At their meeting on 7 March 2012, the Committee agreed to an increase in the limit on any single insurance contract, from 25% to 35% (the upper limit specified in Schedule 1 of the 2009 Regulations). Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The decision was taken because making use of the pooled passive funds within the insurance contract was effective both in terms of cost and also in terms of broader portfolio diversification within these funds. The decision will apply for a period of 3 years from the date of the meeting (7 March 2012), at which point this will be re-considered. This decision complies with the 2009 Regulations.

At their meeting on 7 March 2012, the Committee agreed to an increase in the limit on contributions to any single partnership from 2% to 5% and the limit on contributions to partnerships in aggregate from 5% to 12%. Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The decision was taken because the most effective way to invest in infrastructure and timberland (along with existing investments in private equity) are through pooled funds set up as partnerships. The decision will apply for a period of 10 years from the date of the meeting (7 March 2012), at which point this will be re-considered. This decision complies with the 2009 Regulations.

INVESTMENT MANAGER GUIDELINES

We have determined a number of additional restrictions on our investment managers, which are set out in their investment management agreements. These restrictions ensure that our managers adhere to the overall objectives of their mandates in terms of the investments they are permitted to hold and the risks associated with these investments. We have shown the main investment restrictions for each investment manager below.

LEGAL AND GENERAL INVESTMENT MANAGEMENT

Investment Objective

The objective is to seek to match the Benchmark gross of fees over rolling three year periods. The Benchmark is the average of the respective FTSE indices for each of the asset classes and markets in which the mandate is invested, weighted according to the proportions in the mandate's asset allocation shown below.

Investment Restrictions

Asset allocations and control ranges

Asset Class	**Short-term Bench-mark**	**Long-term Bench-mark**	**Control ranges (+/-)**
	%	%	%
Overseas equities:			
North America Equity Index – GBP Hedged	18	16	1.5
Europe (ex UK) Equity Index – GBP Hedged	16	14	1.5
Japan Equity Index – GBP Hedged	5	4	0.5
Asia Pacific (ex Japan) Developed Equity Index – GBP Hedged	7	6	0.5
Global Emerging Markets Equity Index	8	7	0.75
Total Overseas equities	53	46	
Total equities	53	46	
Bonds:			
UK gilts (Over 15 Year Gilts Index)	18	19	0.75
UK Index-linked (Over 5 Year Index-linked Gilts Index)	10	12	1.5
UK corporate bonds (Investment Grade Corporate Bond – All Stocks Index)	15	18	2.0
Emerging market debt	5	5	0.5
Total bonds	47	54	
TOTAL	100	100	

Investment Restrictions

The control ranges set out the tolerances that we have allowed around the central benchmark. Legal and General manage the allocation to each of the asset classes within the control ranges shown and may not make any new investment, which results in the value of any asset class falling outside this range.

Individual holdings. Legal and General may not invest in unlisted securities. The manager may invest up to 100% of its mandate in pooled life funds.

ALLIANCE BERNSTEIN

Investment Objective

The objective is to seek to outperform the Benchmark by 1.5% per annum net of fees over rolling three year periods. The Benchmark is the UK FTSE All-Share Index.

Investment Restrictions

The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below.

Asset allocation and control ranges

	Central Benchmark %	**Control Ranges %**
UK equities	100	90 – 100
Overseas equities	0	0 – 10
Cash	0	0 – 5
Exchange Traded Funds	0	0 – 5
TOTAL	100	

Except during the initial funding of the mandate or where new funding is provided for the mandate, Bernstein will manage the allocation to each of the asset classes within the control ranges indicated. Bernstein may not make any new investments, which result in the market value of the asset classes falling outside the control ranges.

(a) Individual holdings. The manager may only invest in companies that are listed on the London Stock Exchange and in cash, without specific approval. A maximum of 10% of the portfolio may be invested in quoted Irish companies which are listed on the London Stock Exchange. The manager may not invest in pooled funds.

(b) The manager may not invest in a single holding more than 10% of the portfolio, without specific approval.

(c) The manager may invest in Exchange Traded Funds up to 5% of the portfolio.

(d) Derivatives etc. The manager may enter into currency spot contracts. The manager may not enter into any other derivative contracts without specific approval. The manager may not undertake stock lending without specific approval.

(e) The manager will operate within a range of +/-7% on sector weightings, relative to the index weights in the FTSE All-Share Index. The manager will re-balance sectoral weights if market movements takes the under/overweight position to +/-10% relative to the index.

BLACKROCK INVESTMENT MANAGEMENT

Investment Objective

The objective is to seek to outperform the Benchmark by 2.0% per annum gross of fees over rolling three year periods. The Benchmark is the FTSE All-Share Index.

Investment Restrictions

The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the investment management agreement. The main restrictions are set out below.

(a) Geographic / Market / Asset Class / Sector

Asset Class	Permitted Range (% of Market Value of Fund)
UK Equities	90-100
Overseas Equities	0-10
Cash	0-5

(b) Specific company restrictions

The manager may invest for the Fund in equities that are listed on the London Stock Exchange and the stock exchanges of the following countries: France, Germany, Hong Kong, Japan, Switzerland and United States. Investment in equities on other stock exchanges is subject to specific approval by the County Council.

(c) Amount or percentage of the Fund

The manager may not invest for the Fund in any single UK equity holding more than 4% in excess of that holding's weighting in the FTSE All-Share Index or more than 5% of the market value of the Fund, whichever is higher, without specific approval from the County Council. The Fund's investments in In-House Funds are not subject to this restriction.

(d) In-House Funds

The manager may not invest more than 10% of the Fund in the BlackRock Institutional Equity Funds UK Smaller Companies sub-fund.

(e) Derivatives

The manager may not enter into Derivatives contracts in respect of the Fund's segregated holdings without specific approval from the County Council. Subject to this, the manager may deal in Derivatives (including Options, Futures, Currency Forwards and Contracts for Differences) for hedging and other purposes. The manager may only deal in Derivatives traded on or under the rules of a Recognised or Designated Investment Exchange although the manager may deal in Derivatives not traded on or under the rules of a Recognised or Designated Investment Exchange (i.e. an over-the-counter (OTC) Derivatives transaction) in respect of index futures and currency forwards. The manager is not permitted to hold any short positions in the Fund by using Derivatives.

NEWTON INVESTMENT MANAGEMENT

Investment Objective

The objective is to seek to outperform the benchmark by 2.5% p.a. (gross of fees) over rolling 3-year and 5-year periods. Benchmark index: MSCI All Countries World Index (Net Dividend Re-Invested).

Investment Restrictions

The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the investment management agreement. The main restrictions are set out below.

Stock positions: The manager will have discretion to have a nil holding in any stock. The manager will have discretion to have a stock position up to +5% overweight relative to the benchmark weight of the stock (i.e. maximum 6% holding for a stock that comprises 1% of the benchmark). In addition, the manager may invest no more than 10% of the Fund in the securities of any one issuer.

Number of Stocks: The manager will hold a minimum of 80 stocks for the mandate.

Individual holdings: The manager may only invest in equities or securities with equity characteristics (that is securities, which are listed on a formally constituted stock exchange), convertibles, preference shares, warrants and derivatives as specified below, unless specific approval is given to vary this.

Country restrictions: No regional restrictions, with the exception of emerging markets where a maximum of 25% of the portfolio value can be invested (with emerging markets defined as those countries excluded from the MSCI World index but included in the MSCI All Countries World Index).

Pooled funds: In-House Funds can be held, up to a combined 10% of the portfolio value, subject to County Council approval for each required fund. Approval is given to hold the Newton South East Asia Exempt Fund, Newton UK Smaller Companies Fund and the Newton Discovery Fund.

Cash: The manager's average total cash holdings in the Fund over any 12-month period should not exceed 3% of the value of the Fund.

Derivatives and currency hedging: The use of derivatives (which must be traded on a recognised or designated investment exchange) is permitted as follows; the manager may purchase index futures, warrants, exchange traded funds and put options and may invest in covered call options. Over the counter contracts (other than forward currency contracts permitted by LGPS Legislation) and outright short positions are not allowed. Derivative transactions shall be fully covered by cash or other property sufficient to meet any obligation to pay or deliver that could arise.

Currency hedging (i.e. sale of currencies into the currency of the account) including cross-currency hedging (i.e. sale of currencies into a currency other than the currency of the account) is permitted. Hedging out of a currency is limited to the total portfolio exposure to that currency i.e. outright short positions are not allowed.

Borrowing: No borrowing is permitted in respect of the mandate.

SCHRODERS PROPERTY INVESTMENT MANAGEMENT

Investment Objective

The objective is to seek to outperform the Benchmark by 0.75% per annum net of fees over rolling three year periods. The Benchmark is the weighted average of the IPD UK Pooled Property All Balanced Funds Index.

Investment Restrictions

The investment restrictions on the manager's discretion in the management of the mandate are set out in full in the Investment Management agreement. The main restrictions are set out below.

Asset allocation and control ranges

Schroders will invest in a range of property investments, subject to the following constraints.

Fund Type	Approved Ranges
Open-ended funds *	60-100%
Close-ended funds	0-40%
Other investments and cash**	0-20%

Open-ended funds may be based in the UK or in the off-shore jurisdictions of Jersey, Guernsey, Luxembourg or Dublin. Investment in funds that are managed from any other non UK jurisdiction will be subject to specific prior approval.

** Other investments include UK property equities (subject to a range of 0-5%) and Property Index Certificates (subject to a range of 0-10%)

(a) Individual holdings. The manager will hold investments in a minimum of 3 separate property funds at any time. Schroders agree their investment strategy with us on a quarterly basis, and will have discretion to make investments within the terms of the strategy. Partly paid securities may not exceed 5% of the portfolio when fully paid. Schroders will invest in property based in the UK via collective investment schemes or other investments whose purpose is to invest in property. The manager may not invest more than 50% of the portfolio in a single investment.

WILSHIRE ASSOCIATES

Investment Restrictions

Asset allocation and control ranges

The allocation benchmarks for the portfolio are as follows:

Fund Type	**Approved Investments (Commitments at March 2011)**			
		Committed		**Benchmark**
		$M	%	%
U.S. funds	US Private Markets Fund V	9.9		
	US Private Markets Fund VI	9.9		
	US Private Markets Fund VII	19.1		
	US Private Markets Fund VIII	14.9		
	Total US funds	**38.9**	**55%**	**60%**
European funds	Europe Private Markets Fund V	6.6		
	Europe Private Markets Fund VI	7.4		
	Europe Private Markets Fund VII	14.3		
	Europe Private Markets Fund VIII	11.9		
	Total Europe funds	**28.1**	**41%**	**40%**
Asian funds	**Asia Private Markets Fund VIII**	**3.0**	**3%**	
Total Commitments (US dollars)		**$97.0M**	**100%**	**100%**
Total Commitments (£ Sterling)		**£60M**		

Investment Type	**Benchmark**
Venture Capital	35%
Management Buy-out	65%

A deviation of +/-20% from each benchmark is allowed.

No investment may be made in any Wilshire Fund which has a commitment period or investment life of more than 20 years. The manager may not:

(a) make any transaction in a contingent liability investment on behalf of the Council;

(b) underwrite or sub-underwrite any issue or any offer for sale of investments on behalf of the Council;

(c) commit Suffolk to supplement the Fund Portfolio (including by borrowing monies on behalf of Suffolk), except with the prior consent of the Council.

(d) make any stock lending transactions on behalf of the Council;

PANTHEON VENTURES

Investment Restrictions

Asset allocation and control ranges

The asset allocation benchmarks for the portfolio are as follows:

Fund Type	Approved investments (March 2011)	Vintage	Committed		Bench mark
			£M	%	
U.S.	Pantheon USA Fund V	2002	4.5		
	Pantheon USA Fund VII	2006	4.2		
	Pantheon USA Fund VIII	2007	3.1		
	Total US funds		**11.8**	**28%**	**30%**
Europe	Pantheon Europe Fund IV	2004	5.6		
	Pantheon Europe Fund V	2006	4.7		
	Pantheon Europe Fund VI	2007	3.3		
	Total Europe funds		**13.6**	**32%**	**30%**
Asia	**Pantheon Asia Fund IV**	2005	**2.1**	**5%**	**5%**
Secondary	Pantheon Global Secondary Fund II	2004	2.5		
	Pantheon Global Secondary Fund III	2006	2.0		
	Pantheon Global Secondary Fund IV	2010	5.5		
	Total secondary funds		**10.0**	**23%**	**20%**
Listed holdings	**Pantheon International Participations (PIP)**	**-**	**5.4**	**13%**	**15%**
Total Commitments			**£42.9m**	**100%**	**100%**

A deviation of +/-10% from each benchmark is permissible in respect of each investment.

No investment may be made in any Pantheon in-house fund which has a commitment period or investment life of more than 20 years.

The manager may not:

(a) make any transaction in a contingent liability investment on behalf of the Council;

(b) underwrite or sub-underwrite any issue or any offer for sale of investments;

(c) commit the Council to supplement the private equity fund portfolio (including by borrowing monies on behalf of the Council), except with the prior consent of the Council.

(d) make any stock lending transactions on behalf of the Council.

ANNEX 2

BEST PRACTICE GUIDELINES

In March 2000 the Government commissioned the Paul Myners to undertake a review of institutional investment in the UK. Myners recommended 10 principles that he considered represented best practice for pension fund trustees in the management of their investment responsibilities. The Government reviewed the Myners' principles in 2008, and issued a revised set of six principles.

We have shown below the new Myners principles and how the practices followed for the Suffolk County Council Pension Fund compare with the best practice guidance which has been issued by HM Treasury in relation to them.

Principle 1: Effective decision-making 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. Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
Full compliance. • Appropriate skills. New Pension Fund Committee members receive initial training on the role and responsibilities of the Committee. • The Head of Strategic Finance 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). • Given the small size of the committee, an investment sub-committee is not considered necessary. • The Pension Fund has a business plan, which is subject to an annual review. • The remuneration of Committee members is subject to the statutory arrangements for members' allowances. Committee chairmen receive a special responsibility allowance. • The Committee's contracts for advisory services for actuarial and investment advice are subject to regular competitive tendering.

Principle 2: Clear objectives 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.
Full compliance. • The statement of investment principles sets out our long-term investment objective of the Fund. • We have explicit written investment management agreements with each of our investment managers, which specify their performance objectives and the basis of their fees. • 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. • The majority of the liabilities of the Fund relates to local authority and other public sector employers, and are ultimately underwritten by the Government.
Principle 3: Risk and liabilities In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for council tax payers, the strength of the covenant of participating employers, the risk of their default and longevity risk.
Full compliance. • The statement of investment principles includes an explicit assessment of the risk of underperformance of the investment strategy for the Fund due to market conditions. • The risks of the asset allocation relative to the Fund's liabilities were considered as part of the asset liability review that was undertaken for the Fund. • The Pension Fund Committee reviews the factors affecting the long-term performance of the Fund in an annual review prepared by its independent performance advisers. • The Pension Fund operates within the internal control arrangements administered by the County Council, which are subject to independent external audit by the Audit Commission. • 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.

Principle 4: Performance assessment Administering authorities should arrange for the formal measurement of the performance of the investments, investment managers and advisers. 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.
Partial compliance. • The Pension Fund Committee does not have a formal process for assessing its own performance and effectiveness. • The Pension Fund Committee receives a regular analysis of the performance of its investment managers from an independent performance analysis service. • 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.
Principle 5: Responsible ownership Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles. Administering authorities should report periodically to members on the discharge of such responsibilities.
Partial compliance. • The Pension Fund Committee has not formally considered the Institutional Shareholders' Committee (ISC) statement of principles on the responsibilities of shareholders and agents. • The Pension Fund Committee has adopted a proxy voting policy and votes on issues covered by that policy in relation to our segregated UK equity holdings.
Principle 6: Transparency and reporting 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. Administering authorities should provide regular communication to members in the form they consider most appropriate.
Full compliance. • The Pension Fund Committee arranges for the publication 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. • The Pension Fund annual report and accounts and the agenda papers for the Pension Fund Committee meetings are published on the County Council's website. • The Pension Fund Committee holds an annual meeting to report on the Fund's performance to the employers in the Pension Fund. • We issue an annual statement of the Fund's performance to all employees and pensioners covered by the scheme.

ANNEX 3

INVESTMENT STRATEGY

BENCHMARK ALLOCATION BY ASSET CLASS

Asset Class	June 2013 %	Index
UK Equities	**18.1**	FTSE All-Share
North America	6.5	FTSE North America
North America (hedged)	6.8	FTSE North America Hedged to GBP
Europe (hedged)	9.0	FTSE W Europe ex UK Hedged to GBP
Japan	1.5	FTSE Japan
Japan (hedged)	1.5	FTSE Japan Hedged to GBP
Pacific ex Japan	1.9	FTSE Developed Pacific ex Japan
Pacific ex Japan (hedged)	1.9	FTSE Developed Pacific ex Japan Hedged to GBP
Other International	4.8	S&P IFC Investible
Total Overseas Equities	**33.9**	
Total Equities	**52.0**	
UK Govt Bonds	2.1	FTSE Over 15 yr British Govt Bonds
Corporate Bonds	12.5	iBoxx £ Non Gilts Index /Merrill Lynch £ non Gilts All Stocks
UK Index Linked	4.3	FTSE Over 5 Yr Index Linked Gilts
Emerging markets debt	2.1	JP Morgan Emerging Market Debt (unhedged)
Total Bonds and Index-linked	**21.0**	
Private Equity	5.0	FTSE World
Property	10.0	IPD UK Pooled Property All Balanced Funds Index
Absolute return	10.0	3 month LIBOR plus 5%
Infrastructure	-	-
Timberland	-	-
Total Alternatives	**25.0**	
Cash	**2.0**	3 month LIBOR
TOTAL	**100.0**	

Note: The above table sets out the construction of the benchmark index against which the Fund will assess its overall performance. The Fund has arrangements in place which hedge around half its exposure to currency movements in respect of its US dollar and Yen equity holdings and which fully hedge its exposure to currency movements in respect of its Euro equity holdings back into Sterling (GBP).

The Fund’s target allocations to infrastructure and timber are expected to take place over the next 2-3 years. The Fund’s overall benchmark will be amended as these allocations are drawn down.

ANNEX 4

TREASURY MANAGEMENT PRACTICES FOR SUFFOLK PENSION FUND

1. The Pension Fund will make use of money market funds, which are both AAA rated and have a MR1+ status, for any sums which are held pending their allocation to the Fund's investment managers. Money market funds will only be used where they have at least £2.5 billion in deposits. The maximum amount that the Pension Fund will place in any individual money market fund is **£25 million**.

2. The Pension Fund is currently makes use of the Insight money market fund and the deposit account it has with Lloyds Bank.

3. The County Council has an account with the Debt Management Account Deposit Facility, which is operated by the Debt Management Office. If for any reason the Pension Fund was holding more cash than could be placed in the money market funds that it currently has available, it will use the Debt Management Account Deposit Facility for temporary investment of moneys, pending their allocation to the Fund's investment managers.

4. The Pension Fund will not undertake borrowing as a matter of policy. The Pension Fund has an overdraft facility of £1 million on its bank account with Lloyds Bank. This facility will only be used if the bank account becomes overdrawn as a result of a technical failure in money transmission instructions.