1. Introduction

1.1 Local Government Pension Scheme (LGPS) Funds are required to publish a Statement of Investment Principles (SIP)[1] which must include the Fund's policy on the following:

- The types of investment to be held;
- The balance between different types of investment;
- Risk, including the ways in which risks are to be measured and managed;
- The expected return on investments;
- The realisation of investments;
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- The exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy: and
- Stock lending.

1.2 In response to the Treasury report Updating the Myners Principles: A Response to Consultation (October 2008), LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by CLG (the central government department with responsibility for oversight of the LGPS) and replace the ten Myners principles published in 2001 (see Appendix A).

1.3 The SIP will be regularly reviewed and updated as necessary.

1.4 A copy of the SIP will be made available on request to any interested party.

[1] Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No.3093)

2. Overall Responsibility

2.1 The County Council is the designated statutory body responsible for administering the Powys Pension Fund on behalf of its constituent scheduled and admitted bodies.

2.2 Elected members have a fiduciary duty to the Fund, scheme members and local council taxpayers in relation to the LGPS. Functions may be delegated to Officers but they retain overall responsibility for the management of the Fund and it's investment strategy and individual decisions about investments. The County Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out monitoring and reviews of investment and performance. The County Councils Constitution delegates these functions to the Pensions & Investment Committee.

2.3 The Investment Regulations permit the appointment of one or more investment managers to manage the fund on their behalf, provided that the investment managers are suitably qualified by their ability and practical experience of financial matters to make investment decisions for them, and to their compliance with other specific requirements of the regulations.

2.4 Administering Authorities are required to take proper advice to enable them to fulfil their obligations, "Proper advice" is defined in the regulations as "the advice of a person who is reasonably believed to be qualified by his ability and practical experience of financial matters".

2.5 The County Council has delegated the decision-making responsibilities to the Pensions and Investment Committee. The Section 151 Officer and external fund advisors offer advisory support. The Committee has co-opted two non-voting members, one staff representative nominated by the Trade Unions and one representative nominated by the Outside Bodies Employers.

2.6 Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills, information and resources take decisions affecting the Fund. The members of the Pension and Investment Committee will ensure they receive training as and when deemed appropriate, to enable them to evaluate critically any advice they receive.

2.7 The County Council has in place arrangements for the provision of specialist advice relating to actuarial matters (including the triennial valuation) and investment matters (including asset allocation and manager appointment).

2.8 The County Council has appointed independent specialists to provide actuarial and investment advice and is prepared to pay sufficient fees to attract a broad range of both kinds of providers when tendering.

2.9 The County Council will use suitable means to assess the advice received from its advisers in terms of its contribution to the decision making process.

2.10 Investment Committee

2.10.1 Powys County Council delegates responsibility for the Administrating Authority role to the Pensions & Investment Committee. This includes investing the Funds assets. The Committee is supported by the Fund Administrator and Investment Advisors.

2.10.2 The Committee is responsible in respect of investment matters:

a. To determine the overall strategy relating to the investment of the Pension Fund's assets and to meeting the Fund's liabilities.
b. To keep under review the performance of the Pension Fund and the Fund's managers.
c. To approve the appointment of advisers and fund managers.
d. To publicise its stewardship role to all Scheduled and Admitted Bodies of the Powys Pension Fund and to all contributors and beneficiaries in accordance with the Fund's Communication Strategy.

2.11 Investment Managers

2.11.1 Each Investment Manager will be responsible for:

a. Discretionary management of their portfolio, in accordance with the terms of their management agreement, having regard to the need for diversification of investments so far as appropriate and the suitability of investments.

b. Providing the Committee with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolio.

c. Providing the designated provider with the information necessary to calculate performance statistics.

2.12 Investment Consultant

2.12.1 The Investment Consultant will be responsible for providing prompt, consistent and competent advice and support through one or two named representatives, in respect of investment matters when so requested by the Committee. Advice and support is likely to be sought in regard of:

a. Reviews of the Statement of Investment Principles.

b. Presentation and interpretation of investment performance measurement results.

c. The Potential impact of:

- any changes in the investment managers' organisations that could affect the interests of the Fund
- any changes in the investment environment that could present either opportunities or problems for the Fund.

d. Investment manager selection, retention and termination;
e. Benchmark adjustments;
f. The appropriate content of investment management and other related Agreements;

g. Appropriate investment structures for the Fund in the light of the Fund's liability profile. This will involve working with the Fund's Actuary.

h. Ad-hoc project work as required including research reviews of Investment managers.

3. Investment Objectives

3.1 The long term investment objectives of the fund are to:

- Maximise investment returns over the long term within an acceptable level of risk.
- Ensure that sufficient assets are readily available to meet liabilities as they fall due.
- Aim for long-term stability in the employers' contribution rates.
- Achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

3.2 Risk is mainly concerned with the possibility of a deficiency in the Fund or a substantial increase, or volatility, in future employer contribution rates.

3.3 Whilst stability of the employers' rate has a high priority, absolute cost to the employer is also important. This implies that:

- The cost of administering the Fund will be constrained by the adoption of best management practice
- Employers will adopt appropriate policies in those areas where they have discretion and where costs of their actions fall on the Fund;
- The Fund will, as far as is practicable, and through the Fund's Actuary, avoid cross subsidisation between the Fund's individual employers;
- The Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will take a controlled active risk relative to its liability profile.

4. The Types of Investment to be held

4.1 The County Council seeks to achieve its investment objectives through investing in a suitable mixture of real and monetary assets. A mixture across the asset classes should provide the level of returns required by the fund to meet its liabilities at an acceptable level of risk and at an acceptable level of cost.

4.2 In making asset allocation decisions the County Council will consider the following asset classes:

- UK Equities
- Overseas Equities
- Private Equity
- Property
- Fixed Interest Securities
- Index Linked Securities
- Cash and Currency
- Other Assets, such as hedge funds.

4.3 In reaching its decisions on asset allocation the County Council will:

- Take proper advice from specialist, independent advisers and give consideration to the desirability of receiving advice based on an asset / liability study.

- Consider the extent to which the assets should match the liabilities.

- Consider the volatility of returns which it is prepared to accept.

- Determine the split between matching and returning seeking assets before it gives consideration to any other asset class.

- Have due regard to the diversification and suitability of investments.

5. The Balance Between Different Types of Investments

5.1 The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of our Investment Advisors.

5.2 The current Medium Term Asset Allocation (MTAA) project utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% p.a. by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. This service has run from 2009. The Pensions & Investment Committee has recently decided to extend the project period, with regular reviews as they see fit. The MTAA service has an artificial benchmark of 52% equity / 33% bond / 15% alternatives. It operates within tolerance bands so the difference between the actual allocation and the strategic allocation will not deviate beyond these set limits. For further information on the MTAA project, please see Appendix B.

5.3 The current strategic benchmark is as follows:

Asset Allocation

Asset Class	%		Benchmark Index
Equities	**47**		
Active		19	Split one third MSCI World and two thirds MSCI World (NDR) due to different manager benchmarks
Passive		28	FTSE Developed World
Bonds	**30**		
Corporate Bonds		6	iBoxx Sterling Non-Gilts All Maturities
Index-Linked Gilts		15	FTSE UK Index-Linked over 5 years
Gilts		3	FTSE UK Gilts All Stock
Absolute Return Bonds		6	3 Month GBP LIBOR
Property	**10**		IPD Index
Private Equity	**5**		MSCI AC World ex UK
FoHF	**8**		3 Month LIBOR
Total	**100**		

Over the next few years the property allocation with CB Richard Ellis will be distributed back to the Fund. Proceeds will either be re-invested into property or allocated within the existing assets of the Fund.

6. Risk

6.1 The Committee recognises that risk is inherent in any investment activity and it seeks to manage the level of risk that it takes in an appropriate manner.

6.2 The operational risk to the Fund is minimised by:

- The use of a regulated, external, third party, professional custodian for custody of assets.
- Having formal contractual arrangements with investment managers.
- Having access to the internal audit service of Powys County Council.
- The activities of the Investment Managers being governed by detailed Investment Management Agreements. Investment Managers are expected to have regards to these principles and legislative requirements, in particular the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009 No.3093).
- Having formal agreements in place with admitted bodies.

6.3 The investment risks to the Fund are managed by:

- Diversification of types of investment.
- Diversification of Investment Managers.
- The setting of a Fund-specific benchmark informed by Asset-Liability modelling of liabilities.
- The appointment of independent professional advisors.
- The appointed expert Investment Managers being given clear performance benchmarks and maximum accountability for performance against those benchmarks over appropriate time-scales.
- Investment Managers being required to implement appropriate risk management measures and to operate in such a manner that will ensure the likelihood of not achieving the performance target is kept within defined acceptable limits.

6.3.1 Investment Managers are permitted to use authorised financial instruments in appropriate circumstances following prior discussion and approval. Approval will not be withheld without clear justification.

6.4 Statistics for measuring the performance of the Fund are provided by the WM Company on a quarterly, annual and 3, 5 and 10-year basis to allow regular monitoring against the prescribed benchmarks and against peer groups.

6.5 The Investment Managers are required to produce a quarterly investment report and to attend Pension and Investment Committee meetings as appropriate.

6.6 The independent investment adviser who attends each Pensions and Investment Committee meeting produces a separate report on investment performance quarterly, based on performance calculated by WM Performance Services. WM provide a performance measurement service of the Fund.

6.7 The Pensions and Investment Committee regularly monitors the investment performance of the Fund in both absolute terms and against the specific benchmarks set. A review of overall, or asset class specific benchmarks will be undertaken if the Pensions and Investment Committee considers it appropriate.

6.9 The County Council requires the Investment Managers to provide details of the commission payments they receive on asset transactions (including soft commissions if applicable) and how they assess their overall trading efficiency. By discussing these matters with the Investment Managers, the County Council seeks to gain a full understanding of the transaction-related costs that the Fund incurs, and to understand the options open to the County Council in relation to those costs.

6.10 Appropriate performance data will be included in the annual report and statement of accounts for the Pension Fund and in the annual members' newsletter.

7. The expected return on investments

7.1 The Investment Managers have been given specific performance targets measured against the index return in the relevant asset class. The County Council recognises that these targets will not be met in all periods under consideration, but expects that the Managers will meet them in the vast majority of periods under consideration.

7.2 The performance targets for the Investment Managers are shown in the table below:

Investment Manager	Mandate	Benchmark	Objective
Carnegie	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 3-5% p.a. (gross of fees) over a typical market cycle
Hosking	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 3-5% p.a. (gross of fees) over a typical market cycle
MFS	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 2% p.a. (gross of fees) over a typical market cycle
Schroders	Global Equity	MSCI AC World (NDR)	To outperform the MSCI World Index by 3-4% p.a. over a typical market cycle
BlackRock	Balanced	Composite benchmark	To track the benchmark
Aviva Investors	UK Property	IPD/PPFI All Balanced Funds Medium Index	To outperform the benchmark by 1% p.a. over rolling 3 year periods.
Hermes Fund Managers	UK Property	IPD Other Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling three year basis
Schroders	UK Property	IPD UK All Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling three year basis
CB Richard Ellis	European Property	UK Retails Price Index (The IPD UK Pooled Property Index will also be used for comparison purposes)	Provide investors with a return of 8-10% p.a., net of fees and expenses.
Insight Asset Management	UK Corporate Bonds	iBoxx Sterling Non-Gilt All Maturities Index	To outperform the benchmark by 0.75% p.a., net of fees
Insight Asset Management	Absolute Return Bonds	3 month GBP LIBOR	To outperform the benchmark by 2% gross of fees
Standard Life Investment	Private Equity (European)	MSCI World	To outperform the benchmark by 5% pa over a rolling three year period.
HarbourVest Partners	Private Equity (US)	MSCI World	No stated objective, just to produce returns which place HarbourVest in the top quartile in the industry

Goldman Sachs	Hedge Fund of Funds	3 month USD LIBOR	To outperform the benchmark by 4 – 9% p.a. net of fees
GAM	Hedge Fund of Funds	3 month GBP LIBOR	To achieve an absolute return of 8-13% p.a. over the long term.

7.3 The managers' benchmarks are based on market indices. The indices used were considered in consultation with the investment adviser and Investment Managers and carefully chosen with regard to their strategic suitability. The limits on the levels of divergence from these indices set out in the investment mandates were chosen with regard to the Investment Managers' overall performance objectives.

8. The realisation of investments

8.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. Current employer and employee contributions are expected to broadly match or exceed pension income. Thus it is not expected that there will be any need to realise investments in the near future other than to seek higher returns.

8.2 The vast majority of the Pension Fund's assets are readily marketable. However some investments, such as property and private equity, are less easy to realise in a timely manner. This relative illiquidity is not considered to have any significant adverse consequences for the fund.

8.2.1 The Council would inform the Investment Managers of any projected need to withdraw funds in order to enable the fund managers to plan an orderly realisation of assets if this proves necessary.

9. Socially Responsible Investment

9.1 The County Council has delegated responsibility for the selection, retention and realisation of investments to the investment managers.

9.2 The County Council's policy is to invest part of the Fund's assets on a passive basis. The County Council does not consider it appropriate for a passive investment manager to take account of social, environmental or ethical considerations in the selection, retention and realisation of investments.

9.3 The County Council's policy in respect of the actively managed portion of the Fund's assets is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers. However the County Council expects that the active investment managers in the exercise of their delegated duties will take the extent to which social, environmental or ethical issues may have a financial impact on the portfolio into account.

10. The exercise of the rights attaching to investments

10.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Investment Managers who exercise its voting rights. Votes are cast by proxy. Managers provide reports when any voting rights are exercised. Only direct investments in traded equity shares carry such voting rights.

11. Corporate Governance

11.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Fund Managers who exercise its voting rights. Votes are cast by proxy. Each Fund Manager is required to report its actions on a quarterly basis.

12. Stock lending

12.1 The Fund, custodian or investment managers do not engage in stock lending on behalf of the Fund.

13. Monitoring and Implementing of Investment Policy

13.1 Monitoring and Review

13.1.1 The Committee will meet on a quarterly basis with the Investment Advisors to review and discuss the operation of each investment manager's portfolio, including past and future policy decisions. The performance of the investment managers will be monitored by the Committee on a quarterly basis at the Investment Committee meetings.

13.1.2 The Committee, in conjunction with the Investment Consultant, will review the allocation of assets between the passive and specialist portfolios, property and other asset classes.

13.1.3 The appointments of the investment managers will be subject to review at the meeting held to consider the performance results from the designated provider. The review will be based on the monitoring of the Investment managers' processes as well as their performance.

13.1.4 The investment managers' appointments, whilst subject to annual monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks.

13.1.5 If an investment manager performance prompts concerns then the Committee may ask the manager to come to a meeting for a special review meeting.

Appendix A

Principles for Institutional Investment Decision Making

Compliance with CIPFA Principles for Investment Decision Making in LGPS

Compliance with CIPFA Principles for Investment Decision Making in LGPS

Principle	Compliance
Effective Decision Making	The Fund considers that its practices are compliant with the CIPFA principles
Clear objectives	The Fund considers that its practices are compliant with the CIPFA principles
Risk and Liabilities	The Fund considers that its practices are compliant with the CIPFA principles
Performance Assessment	The Fund considers that its practices are compliant with the CIPFA principles
Responsible Ownership	The Fund considers that its practices are compliant with the CIPFA principles
Transparency and Reporting	The Fund considers that its practices are compliant with the CIPFA principles

Appendix B

Background to Medium Term Asset Allocation

Philosophy

The Committee recognises that it is possible to take advantage of excessive over/under valuations of markets in order to target additional returns. The Committee in conjunction with the Investment Consultants seek to identify opportunities to allocate investments away from the strategic benchmark that are designed to add additional return relative to the benchmark return over the medium term (around 1 to 3 years).

Process

A thorough fundamental analysis of economics and financial markets is carried out to identify and incorporate general investor expectations into views of the different markets. In particular, attention is paid to establishing consensus views and profit is taken from positions which differ from the consensus. A range of appropriate timing indicators are utilised in order to achieve the best entry and exit levels to and from asset classes.

In terms of the practical application, once an opportunity has been identified the Fund's Investment Consultant will notify the Pensions & Investment Committee. The Committee decides whether to pursue the opportunity and if so will work with the Investment Consultant to complete any necessary asset transitions. The Investment Consultants liaise with the investment managers and follow each transaction as it happens to make sure each trade goes through smoothly.

Risk management

Considerable lengths are taken to assess what correlations are likely to be in the future so as to ensure asset allocation views are truly diversified. The style of the MTAA project is to have a limited number of meaningful positions rather than either a small number of large positions or a large number of small positions. The overall objective is to achieve an additional return of 0.5% p.a. of assets involved in the MTAA project. The Investment Consultant will provide regular reporting to the Pensions & Investment Committee.