CAMBRIDGESHIRE LOCAL GOVERNMENT PENSION SCHEME

Statement of Investment Principles

February 2015

Statement of Investment Principles

Contents

A. Introduction

A.1 The Pension Fund Board (PFB) of the Cambridgeshire Local Government Pension Scheme acting with the delegated authority of the Cambridgeshire County Council (the Administering Authority) has approved this Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This statement is available to the public on the Fund's website at: http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/ .
This document supersedes all previous versions of the SIP.

A.2 This Statement of Investment Principles (SIP) must cover the Fund's policy on:-

a) the types of investment to be held;
b) the balance between different types of investments;
c) risk, including the ways in which risks are to be measured and managed;
d) the expected return on investments;
e) the realisation of investments;
f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
h) stock lending.

A.3 The SIP must be reviewed and if necessary, revised, by the Administering Authority from time to time and, in the case of any material change in the authority's policies or breach of compliance, within six months of such change. To meet this requirement the PFB reviews the SIP annually.

A.4 The SIP has been prepared taking into account the most recent actuarial valuation and the Funding Strategy Statement (FSS).

B. Compliance Statement

B.1 The SIP is required to state the extent to which the Administering Authority is compliant with the Guidance given by the Secretary of State and also the extent the authority does not comply and if so the reasons for non compliance.

B.2 The table below sets out the requirements of the contents of the SIP, and the section within the SIP evidences this. This document therefore demonstrates that the Fund is currently Fully Compliant with all its requirements under the Regulations.

Document Ref	**Requirement** ***That the SIP covers statements on:***	**Compliance Status**
D2	The types of investment to be held	Fully Compliant
D3	The balance between different types of investments	Fully Compliant
D4, Appendix C	Risk, including the ways in which risks are to be measured and managed	Fully Compliant
D5	The realisation of investments	Fully Compliant
D6	The expected return on investments	Fully Compliant
D7	Stock Lending	Fully Compliant
Section E, Appendices D & E	The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments	Fully Compliant
Section E, Appendices D &E	The exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy	Fully Compliant

C. Funding objectives

C.1 Funding objective

C.1.1 The primary objective of the Fund is to achieve a funding level of 100% over the long-term (on a prudent basis) whilst ensuring that there are sufficient resources available to pay pensions and other benefits as and when they fall due. These payments will be met by contributions or asset returns and income. To the extent that the accumulated assets, then higher cash contributions are required from employers, and vice versa.

C.1.2 The Fund is subject to an actuarial review every three years, in preparation for which the Fund, in conjunction with the Fund's Actuary and taking investment advice, prepares a Funding Strategy Statement (FSS) that sets out the strategy to ensure the long-term solvency of the Fund whilst recognising the need for a minimum (where possible and subject to a level of prudence) and stable level of employer contributions. The FSS is published on the Fund's website at: http://pensions.cambridgeshire.gov.uk/index.php/governance2/key-documents/ .

D. Investment Principles

D.1 Investment Policy

D.1.1 The investment objectives are to maximise investment returns over the long term within specified reasonable risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income combined).

D.1.2 The investment style is to appoint suitable expert fund managers with a clear performance benchmark and place maximum accountability for performance against that benchmark on the fund manager.

D.2 Types of Investment to be held

D.2.1 In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the acceptable types of investment which the fund managers may hold include:

- Equities
- Fixed Interest Bonds
- Index linked investments
- Property Unit Trusts
- Hedge Fund of Funds
- Private Equity Fund of Funds

- Alternatives Investments such as Infrastructure, Futures, Derivatives and Commodities.
- Cash Instruments
- Relevant Insurance Instruments

D.3 Balance between different types of investment

D.3.1. The PFB reviews the allocation over the different types of investment formally as part of the triennial funding valuation; however reviews can occur more frequently should material issues arise.

D.3.2. Following the strategic review and allocation of investment types, the Fund will review and if necessary change, its mix of external fund managers to efficiently deliver the Fund's investment portfolio.

D.3.3. The Fund holds assets across a range of products and managers in order to diversify the investment manager risk, and currently has eleven investment mandates with seven fund managers. Each will have an agreement in place that sets out the relevant benchmark against which performance will be measured, a performance target and any constraints and parameters within which the manager must operate. Appendix A and B show the detailed breakdown of managers and mandates as at the date of this report. In December 2014 the PFB approved revisions to the high level Investment Strategy as shown in Appendix A1 which will be implemented during 2015.

D.3.4. Over time the actual asset allocation will deviate from the strategic percentage allocation due to the differential relative performance of each investment type. The Fund's Investment Sub Committee has agreed that the actual value of each major investment type can vary within the following tolerances:

	Allowable variation compared to the total value of the Fund
Equities	+/- 5%
Bonds	+/- 3%
Alternatives	No formal range due to liquidity constraints

Asset balances are rebalanced within these tolerances and the ISC review the actual asset allocation compared to the strategic target allocation each quarter.

D.3.5. The Administering Authority believes the current strategic asset allocation and blend of fund managers, provides a strong diversification, specialisation and spread of risk for the investments of the Fund's assets.

D.4 Investment Risk

D.4.1. Managers are monitored relative to their long term return targets and stated risk levels. Care is also taken to understand the circumstances under which managers are expected to perform well and the converse, with the aim of avoiding short term decision making. The appointment of more than one fund manager introduces a level of diversification of manager risk and style.

D.4.2. Fund managers are expected to exhibit a diversified portfolio within their strategy remit and demonstrate that risks are sufficiently controlled and the potential for losses is reduced. The nature and extent of risks arising from financial instruments is disclosed in the Pension Fund Statement of Accounts each year. Fund managers are also instructed to observe the Fund's restrictions in investments as set out in the Investment Regulations 2009.

D.4.3. Fund managers will bias their portfolios towards stocks which are expected to out-perform in rising or falling markets, but not take such contrarian positions that major under-performance occurs if they are incorrect in their strategies. They are required to operate in such a way that the possibility of under-performance against the long term target is kept within an acceptable limit. Fund managers will use and report on the risk measures employed on a regular basis.

D.5 The realisation of investments

D.5.1. Some fund managers are required to maintain portfolios that consist of assets that are readily realisable. The majority of the Fund's investments are quoted on major stock markets and thus may be realised relatively quickly if required.

D.5.2. The PFB has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

D.6 Expected return on investments

D.6.1. The Fund is expected to produce a return over the long term in excess of the investment return assumed in the actuarial valuation. The majority of the Fund's assets are managed on an active basis and, overall, the Fund is expected to out-perform its benchmarks over the long term.

D.6.2. At the last actuarial valuation, an excess return of 1.6% p.a. over gilts was assumed for the Fund's assets. The Fund monitors investment return against the valuation assumptions, through quarterly performance monitoring from WM Company (the Fund's performance reporter) and meeting with managers at quarterly ISC and Interim meetings to discuss performance relative to their benchmark and longer term objectives. Additionally WM Company and the Fund's Investment Consultant, Mercer Limited, report on fund performance and manager prospects annually at the PFB and ISC.

D.7 Stock Lending

D.7.1. The Fund actively engages in Stock Lending as permitted by the LGPS regulations through the Fund's custodian with a formal agreement in place and approved collateral to protect the Fund's assets. Lending is limited to

25% of the stock held by the Fund, although actual activity in 2012-13 averaged 11.1% and in 2011-12 10.2%.

D.8 Operational Risk

D.8.1. The overall risk for any Pension Scheme is that its assets will be insufficient to meet its liabilities. The risk is negligible for Local Authority Funds as they are open to future accrual and new members and the overall covenant of the major employers is generally strong.

D.8.2. In terms of specific investment risk, the Cambridgeshire Pension Fund is managed in a way that is designed to control and mitigate against this.

D.8.3. Further Asset Liability Studies will be undertaken to help the PFB and ISC determine, from time to time, appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across different asset types and markets, whilst maintaining the required level of expected return. The asset allocation will be formally reviewed following the triennial valuation, and at other times as required.

D.8.4. The Fund will normally hold a large proportion of its assets in equities, which although they don't match the liabilities, are expected to give a long term return in excess of gilts and so will help recover the deficit and keep future contributions low. There is a risk associated with this view and so the Fund also invests in a range of diversified assets and is looking to build up a level of protection against high inflation (which along with interest rates is the biggest risk in relation to the deficit increasing).

D.8.5. The performance of the Fund's Custodian and associated activities of the Investment Managers will be reviewed annually. The aim of this is to;

- Gain feedback on the quality of services from the existing providers and comparisons with alternative providers.
- Provide transparency and openness with regard to the investment operations of the Fund and the related fees and costs.

E. Responsible Investment Policy

E.1 Responsible Investment – Position, Definition and Beliefs

E.1.1 The Fund is a long-term investor, with a commitment to responsible investment (RI). The Fund defines "responsible investment" as the "integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices.

E.1.2 The Fund recognises that effective management of ESG issues can enhance long-term financial performance of investments, and therefore ESG factors should be a feature of investment analysis and management. This aligns with the best interests of the Fund's beneficiaries and is consistent with fiduciary duty.

E.1.3 With regard to RI, the Fund is mindful of recent Law Commission recommendations on pension trustees' duties when setting an investment strategy which state that:

E.1.3.1 Trustees should take into account factors which are financially material to the performance of an investment. Where trustees think ethical or environmental, social or governance (ESG) issues are financially material they should take them into account.

E.1.3.2 Whilst the pursuit of a financial return should be the predominant concern of pension trustees, the law is sufficiently flexible to allow other, subordinate, concerns to be taken into account. The law permits trustees to make investment decisions that are based on non-financial factors, provided that:

(a) they have good reason to think that scheme members share the concern; and

(b) the decision does not involve a risk of significant financial detriment to the fund.

E.2 Scope

E.2.1 This RI Policy covers the Fund's activities as an asset owner, specifically the decisions and activities that we undertake as we manage the Fund's assets and liabilities.

E.2.2 The Fund's assets are managed by third-party investment managers. Monitoring how the investment managers are meeting the Fund's expectations set out in this policy is therefore a major part of how we meet our objectives in this area.

E.3 Governance of the RI Policy

E.3.1 The Fund's PFB is responsible for the development, implementation and monitoring of this policy.

E.3.2 The PFB is also responsible for reviewing and, if necessary, updating this policy on an annual basis.

E.3.3 The PFB has delegated responsibility for monitoring the Fund's investment managers to the Fund's ISC. The ISC is responsible for monitoring the RI activities of the Fund's investment managers and for reporting on the Fund's RI activities to members.

E.3.4 RI reporting will focus on areas such as the development of the Fund's manager monitoring activities, including their voting and engagement activities.

E.4 Engagement – encouraging ESG best practice

E.4.1 The Fund's objective in addressing RI and related issues is to use its influence to encourage ESG best practice by its investment managers. All managers have statements which detail the principles by which they invest in and engage with companies.

E.4.2 The Fund supports the UK Stewardship Code and expects the Fund's investment managers to comply with the UK Stewardship Code. In Appendix D, the Fund has issued a Statement of Commitment to the UK Stewardship Code highlighting how the Fund is discharging its stewardship responsibilities.

E.4.3 The Fund will exercise its ownership responsibilities by:

- Ensuring that all investment management agreements clearly set out the Fund's expectations regarding the consideration of ESG issues.
  - Managers should have a clear process for integrating ESG considerations into investment decision-making processes
  - Managers will be expected to adhere to all relevant stewardship guidelines (e.g. the UK Stewardship Code) on a comply or explain basis

- Monitoring the Fund's investment managers annually to determine the extent to which our expectations are being met.
  - Where portfolio companies fail to meet certain minimum ESG standards, investment managers must explain what steps are being taken to bring them up to the minimum level.
  - Managers will report regularly (at least annually) and in detail to the ISC on how they are meeting or addressing the Fund's ESG requirements.

E.5 Collaborative engagement

E.6.1 At times the Fund finds it more effective to work in collaboration with other investors to achieve its aims. For example, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) This initiative enables the Fund to work with other investors to understand the impacts of ESG considerations on financial performance.

E.6 Corporate Governance and Proxy Voting

E.6.1. The Fund has used best practice standards to develop a view on the most important high-level governance issues. With respect to investments in the UK, we expect the managers to have due regard to the UK Corporate Governance Code. With respect to overseas investments, we expect the managers to have due regard to relevant recognised standards, including the ICGN's [International Corporate Governance Network] Global Governance Principles and Securities Lending Code of Best Practice as well as the OECD [Organisation for Economic Co-operation and Development] Corporate Governance Guidelines.

E.6.2 These principles are as follows:

- **Effective Boards:** An effective board of directors is essential to the long-term success of a company. The board provides strategic guidance to as well as oversight of the executive directors on behalf of shareholders. The board should also consider the interests of company stakeholders including employees, suppliers, customers, the environment and society. To do this requires sufficient independence from the executives as well as the right mix of skills, competence and experience.

- **Accountability & Risk Management:** The board must at all times be conscious of its accountability to shareholders. It is responsible for determining the nature and extent of any significant risks taken on by the company in the pursuit of its strategic objectives. Risk management should be dynamic and comprehensive, considering operational, reputational and ESG risks in addition to financial risks.

- **Shareholder Rights:** Shareholders should be encouraged to participate in supporting good governance – voting rights should be equal across all shareholders; the exercise of voting rights should not be subject to unnecessary hurdles; directors should engage shareholders to explain voting issues where necessary; shareholders should have a say on major decisions (e.g. approving executive remuneration and major share issuance, nominating and appointing directors and external auditors etc.)

- **Shareholder responsibilities:** Shareholders should remain conscious of their duties to beneficiaries at all times including when considering corporate governance and other ESG issues. This can be achieved by considering ESG issues when assessing the risk of portfolio companies; exercising voting rights actively and intelligently and by collaborating with other investors. Beneficial owners should also aim to integrate ESG criteria into investment management mandates where appropriate.

- **Remuneration:** Remuneration policies should reinforce (rather than undermine) company culture. The board should use remuneration policies to align the interests of executives and shareholders, incentivising behaviour that encourages long-term financial health and promotes sound risk management. Significant aspects of remuneration policy should be developed through formal and transparent processes and be adequately disclosed to and approved by shareholders.

- **Transparency:** The board should ensure that shareholders receive accurate, relevant and timely information regarding financial, strategic, operational, and ESG issues. Accounting, governance, remuneration and wider corporate responsibility policies should be clearly disclosed and come with a statement of support by the board.

- **Stock lending:** Prior to engaging in a programme of stock lending beneficial owners should consider the risks inherent in this activity.

E.6.3 The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Fund and is reviewed by the ISC as part of the Fund's manager monitoring processes.

E.6.4 The Fund expects its investment managers to demonstrate adherence to the above principles in the proxy voting decisions undertaken in relation to the Fund's assets. The PFB will capture the extent to which this has happened through the Fund's manager monitoring process.

E.6.5 The Fund expects that its delegated investment managers will:

- Vote all shares (for listed equity assets) without exception unless a valid reason is provided as to why not (such as share blocking)
- Not undertake stock-lending to any third party without the prior agreement of the Fund.

E.7 Manager Monitoring

E.7.1 Manager monitoring is a key element of the Fund's RI strategy. The PFB monitors the progress of its investment managers regarding the integration of ESG issues into their investment decision-making processes.

E.7.2 The Fund's monitoring process will look for evidence of positive momentum towards its ESG expectations by:

- Developing a formal but straightforward system of monitoring our investment managers based on the Fund's ESG expectations
- Using this system to keep track of progress
- Using information obtained from this monitoring process to demonstrate progress to the Fund's members via reporting on the Fund's website

E.7.3 The Fund's manager monitoring process for the integration of ESG covers all asset classes.

E.8 Negative screening/investment exclusions

E.8.1 The Fund adopts the view that it should seek out investment opportunities on the basis that they meet the needs of its long-term investment strategy and the nature of its liabilities.

E.8.2 In line with this policy and the Fund's commitments to responsible investment, the Fund recognises that it must do this whilst considering ESG issues whenever they are relevant.

E.8.3 The Fund has adopted a policy of engagement rather than exclusion.

E.8.4 The PFB will continue to review the Fund's position on exclusions on an annual basis.

E.9 Compliance with the Myners Principles

E.9.1 In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the Fund's compliance with the Myners principles is set out in Appendix E.

Appendix A - Fund Managers and Mandates – March 2014

Target Asset Allocation and Fund Specific Benchmarks March 2014

The table below shows the Fund's asset allocation together with the specific benchmarks (indices) as at 31 March 2014 against which to measure investment performance.

UK Equity		**20.0%**	
State Street	10.0%*		FTSE All-Share index
Schroder	10.0%*		Composite benchmark
Global Equity		**44.5%**	
State Street	11.0%		FTSE All World
Newton	12.0%		MSCI AC World Unhedged
Amundi	12.0%		MSCI Europe
Schroder	4.5%		Composite benchmark
Skagen	5.0%		MSCI Emerging Markets Index
Bonds and Fixed Income		**14.5%**	
Schroder	12.0%		Composite benchmark
M&G	2.5%		3 month Libor +4%
Property		**11.0%**	
Schroder	11.0%		IPD UK PPF All Balanced Funds
Private Equity		**5.0%**	
Adams Street	2.0%		MSCI World
HarbourVest	2.0%		MSCI World
Cambridge and Counties Bank	1.0%		MSCI World
Infrastructure		**5.0%**	
UBS	**		MSCI World
Equitix	**		MSCI World
Partners Group	**		MSCI World
		100.0%	

*Provisional
**No split calculated

Note: Appendix A1 overleaf describes changes to the Investment Strategy subsequent to 31 March 2014.

Appendix A1 - Fund Managers and Mandates – February 2015

Target Asset Allocation and Fund Specific Benchmarks February 2015

The Pension Fund Board approved revised target strategic asset allocations in December 2014. The table below shows the revised target allocation. The Fund is currently implementing the changes and will be confirming the specific manager mandates during 2015.

Equities		**64%**
Passive	22%	
UK	10%	
Global	26%	
Emerging markets	6%	
Bonds and Fixed Income		**14%**
Alternatives		**22%**
		100%

Appendix B – Performance Targets

The Managers appointed to the Scheme and their individual performance targets over the benchmark indices above [over a rolling three-year program] are:

	Asset class	**Performance Target above benchmark**
Schroder Multi Asset	Multi Asset	1.00%
Schroder Property	Property	0.75%
Newton Global Equity	Global Equities	2.00%
Amundi European Equity	Pan European Equities	2.00%
Skagen EM Equity	Emerging Markets Equities	2.00%
State Street UK Equity	Passive UK Equities	n/a
State Street Global Equity	Passive Global Equities	n/a
M&G Loans	Loans	0.00%
Private Equity	Private Equity	3.00%
Infrastructure	Infrastructure	n/a
Total Fund – the overall performance target is calculated taking into account the weightings for each manager		1.10%

Appendix C - Key Risks and Controls

Risk	Summary of Controls	Risk Index 1:Low...5:High
KEY RISKS AND CONTROLS		
Inappropriate long-term investment strategy.	• Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.	3
Inappropriate investment decisions are made due to inaccurate or unreliable data, insufficiently trained or competent members to make decisions or inappropriate advice.	• Performance measurement is produced by the Fund's external providers and reviewed by Officers. • Market data, such as the performance record of alternative Fund Managers is sourced by the investment consultants from their proprietary database. • Members participate in a Skills & Knowledge programme that is refreshed regularly. • Only reputable professional advisers are employed following a rigorous procurement process.	3
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	• Only anticipate long-term return on a relatively prudent basis to reduce the risk of under-performing. • Analyse progress at three yearly valuations for all employers. • Inter-valuation monitoring of investment performance.	5
Fall in risk-free returns on government bonds, leading to a rise in the value placed on liabilities.	• Inter-valuation monitoring of investment performance. • Asset Allocation reviews	3
Active investment manager under performance relative to benchmark over the medium term.	• Quarterly monitoring of market performance and active managers' performance relative to their benchmark and longer term objectives.	3
Pay and price inflation significantly more than anticipated.	• The focus of the actuarial valuation process is on the real return on assets, net of price and pay increases. • Inter valuation monitoring provides early warning. • Some investment in index-linked bonds helps to mitigate this risk.	3

Appendix D - Statement of Commitment to the UK Stewardship Code

The Cambridgeshire Local Government Pension Scheme (the “Fund”) believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Fund’s beneficiaries and aligned with fiduciary duty. Therefore, the Fund supports the principles of the UK Stewardship Code (the “Code”).

The Fund believes that Environmental, Social and Corporate Governance (“ESG”) issues can affect the performance of investment portfolios and are therefore considered as part of the Fund’s investment process.

Principle	Evidence of compliance
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	The Fund has given its managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Fund’s investments. This policy is outlined in the Fund’s Responsible Investment Policy in section D.3 of the SIP, which is publicly available and is reviewed on an annual basis. The Fund supports the UK Stewardship Code and expects the Fund’s investment managers to comply with the UK Stewardship Code. The Fund monitors the investment managers in this regard on an annual basis.
Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed	The Fund encourages the investment managers to adopt effective policies addressing potential conflicts of interest with regards to stewardship activities. The Fund monitors the investment managers in this regard. The Funds’ overriding obligation is to act in the best financial interests of the members. Our policy of constructive engagement with companies is consistent with the Funds’ fiduciary responsibilities.
Principle 3 – Institutional investors should monitor their investee companies	The Fund has delegated responsibility of the management of its equity holdings to investment managers and monitoring investee companies is part of this responsibility. The Fund encourages investment managers to monitor companies, intervene where necessary and report back regularly on activity undertaken. The Fund undertakes regular monitoring of the activities of the investment managers.

Principle	Evidence of compliance
Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their Stewardship activities	Responsibility for stewardship activities is delegated to the Fund’s investment managers. As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary and the Fund monitors the investment managers in this regard. We expect the approach to engagement on our behalf to be value orientated and focussed on long term profitability. We expect the Fund’s investment managers to disclose their guidelines for such activities in their own statements of commitment to the Code.
Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate	The Fund is willing to work collaboratively with other investors, where appropriate, to enhance the influence that it has on individual companies. The Fund is a member of the Local Authority Pension Fund Forum (“LAPFF”), which engages with companies over ESG issues on behalf of its members.
Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity	The Fund’s investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager’s policy is expected to be provided to the Fund and is reviewed as part of the Fund’s manager monitoring processes. The Fund expects its delegated investment managers to vote on all shares held (without exception unless a valid reason is provided as to why not (such as share blocking)). Reporting on voting and engagement activities is provided to the Fund on a regular basis and the Fund monitors the investment managers in this regard.
Principle 7 – Institutional investors should report periodically on their stewardship and voting activities	The Fund expects the investment managers to report regularly on their stewardship and voting activities. In addition, the Fund encourages the investment managers to consider and report the impact of engagement activity. The Fund reports annually on stewardship activity through a specific section on Responsible Investment in the Funds’ annual report and accounts.

Appendix E - Compliance with the Principles of Good Investment Practice ("the Myners Principles")

The Myners Principles are a set of principles for good investment governance, originally created in 2001 and subsequently updated in 2008. Local government pension funds are required to produce a statement in their annual report regarding compliance with these Principles on a 'comply or explain' basis. The Myners Principles are:

<table>
<tr><th>Principle</th><th>Evidence of compliance</th></tr>
<tr><td>Effective Decision Making

Administering authorities should ensure that:
Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</td><td>The Pension Fund Board meets on a quarterly basis and is the main committee for the Fund addressing strategic and policy matters.

The Pension Fund Board is supported by the Investment Sub Committee - formed to specifically implement Investment and funding strategy. They consider the Fund's strategic asset allocation following the results of the triennial actuarial valuation.

The Investment Sub Committee has appointed suitably qualified investment managers to manage the investments of the Fund on their behalf.

The Fund takes advice from its appointed professional investment consultants who attend the quarterly Investment Sub Committee meetings. This is in addition to the advice received from the Fund's actuary.

A formal training programme, in accordance with the requirements of the CIPFA Knowledge and Skills Framework, has been implemented to support informed decision making. Compliance with the Fund's Skills and Knowledge Framework is reported in the Business Plan when appropriate.</td></tr>
</table>

Principle	Evidence of compliance
Clear Objectives • An overall investment objective(s) should be set for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers through employer contributions, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	The overall Fund objective is directly linked to the risks and returns outlined in the Actuary's report, with the expected return on investments contained within the Statement of Investment Principles. The Fund's strategic asset allocation is specifically designed to achieve the Fund objective. Specific asset allocation weightings are detailed in the Statement of Investment Principles. In determining the Fund's asset allocation, the Pension Fund Board and Investment Sub Committee consider all asset classes in terms of their suitability and diversification benefits.
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 local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	The overall risk for any pension scheme is that its assets will be insufficient to meet its liabilities. The risk is negligible for Local Authority Funds as these are assessed on an actuarial basis every 3 years (Fund Valuation) and contribution rates are adjusted to ensure solvency. The Funding Strategy Statement specifically addresses employer issues. The Fund is subject to actuarial review every three years. The Fund's position is based on the market values of the assets at the time of the review. The Fund's actuary calculates the contributions required from employing authorities to ensure the solvency of the Fund. The Fund is managed in a way that is designed to control and mitigate against specific investment risk. Further Asset Liability Studies will be undertaken to help the Pension Fund Board and Investment Sub Committee determine, from time to time, appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across different asset types and markets. As the Fund's liabilities are based in sterling, the majority of the Fund's assets are likely to be sterling denominated. The asset allocation will be formally

Principle	Evidence of compliance
	reviewed following the triennial valuation, and at other times as required. The Fund will normally hold a large proportion of its assets in equities, which are considered to be the most appropriate match with the Fund's liabilities. Over the long term, they should provide a hedge against inflation and grow in line with the underlying economy. To minimise the risks associated with this policy, a broadly based portfolio of stocks is held, spread across different countries and different industrial sectors.
Performance Assessment • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. • Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.	The Fund monitors manager performance, through quarterly performance monitoring from WM Company (the Fund's performance reporter) and meeting with managers at quarterly Investment Sub Committee and interim manager review meetings to discuss performance relative to their benchmark and longer term objectives. Additionally WM Company and the Fund's Investment Consultant, Mercer Limited, report on Fund performance annually at the Pension Fund Board and Investment Sub Committee. There is a regular review (at least biennially) of the effective working of the Pension Fund Board and Investment Sub Committee, the results of which are reported back to the Pension Fund Board.
Responsible Ownership Administering authorities should: • adopt, or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • include a statement of their policy on responsible ownership in the Statement of Investment Principles • report periodically to scheme members on	The Fund has a clear policy regarding Responsible Investment (section D of this document) and will exercise its ownership responsibilities by: Ensuring that all investment management agreements clearly set out the Fund's expectations regarding the consideration of ESG issues. Monitoring the Fund's investment managers annually to determine the extent to which our expectations are being met. The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Fund and is reviewed by the ISC as

Principle	Evidence of compliance
the discharge of such responsibilities.	part of the Fund's manager monitoring processes.
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. • Provide regular communication to scheme members in the form they consider most appropriate.	The following documents are published on the Pension Fund's website: Pension Fund Annual Report and Statement of Accounts. Statement of Investment Principles Governance Policy & Compliance Statement Funding Strategy Statement Administration Strategy Communications Strategy Cash Management Strategy Administering Authority Discretions Actuary Valuation Report Pension Fund Board and Investment Sub Committee Agendas and Minutes are available on the Cambridgeshire County Council's website.