CAMBRIDGESHIRE LOCAL GOVERNMENT PENSION SCHEME

Statement of Investment Principles

July 2013

Statement of Investment Principles

Contents

A. Introduction

A.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which came into force on 1 January 2010, require an Administering Authority, after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement of the principles governing its decisions about the investment of Fund money.

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 also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not comply, the reasons for not complying.

A.4 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 Pension Fund Board (PFB) reviews the SIP annually.

A.5 The purpose of this document is to satisfy the requirements of these regulations.

A.6 In addition Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect 1 April 2004, requiring Administering Authorities to publish a Funding Strategy Statement (FSS). The FSS must have regard to the SIP. This document contains reference to the FSS for information.

B. Compliance Statement

B.1 As stated above, 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**
C2	The types of investment to be held	Fully Compliant
C4	The balance between different types of investments	Fully Compliant
C5, Appendix C	Risk, including the ways in which risks are to be measured and managed	Fully Compliant
C6	The realisation of investments	Fully Compliant
C7	The expected return on investments	Fully Compliant
C8	Stock Lending	Fully Compliant
C10, Appendix D	The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments	Fully Compliant
C10, Appendix D	The exercise of the rights (including rights) attaching to investments, if the authority has any such policy	Fully Compliant

C. Investment Principles

C.1 Investment Policy

C.1.1 The primary investment objective is to ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.

C.1.2 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).

C.1.3 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.

C.2 Types of Investment to be held

C.2.1 An Investment Management Agreement is in place for each fund manager, setting out the relevant benchmark, performance target, asset allocation ranges and any statutory restrictions or other restrictions determined by the PFB and/or Investment Sub Committee (ISC) as appropriate.

C.2.2 As per the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the types of investment which the fund managers may hold include:

- UK Equities
- Global Equities
- UK Fixed Interest Bonds
- Global Fixed Interest Bonds
- UK Index-linked Investments
- Global 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

C.3 Approach to managing the Fund

C.3.1 The Administering Authority strategically reviews the allocation over the different types of investment formally on a triennial basis; however reviews can occur more frequently should material issues arise.

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

C.3.3 The Fund currently has eleven investment mandates with eleven fund managers. The Fund is also joint owner of Cambridge and Counties Bank. 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/Bank must operate. Appendix A and B show the detailed breakdown of managers and mandates as at the date of this report.

C.3.4 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.

C.4 Balance between different types of investment

C.4.1 Local Government Pension Scheme (LGPS) regulations require that Funds achieve ‘proper diversification’. This may be considered in terms of ensuring that investments are spread across a wide range of investment types.

C.4.2 Active fund managers are given wide discretion over asset allocation, subject to regular review, and are required to report at least once every three months their current asset allocation position against their strategy, and seek approval for variations to their strategies.

C.5 Investment Risk

C.5.1 The constant monitoring of performance relative to a performance target constrains fund managers from deviating significantly from the intended approach, whilst permitting flexibility to manage the Fund in such a way as to enhance returns. The appointment of more than one fund manager introduces a level of diversification of manager risk.

C.5.2 Fund managers are instructed to diversify between investment types and within each investment type so that the prospects of potential losses are reduced. Fund managers are also instructed to observe the Council's restrictions in investments as set out in the Investment Regulations 2009.

C.5.3 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 target is kept within an acceptable limit. Fund managers will use and report on the risk measures employed on a regular basis.

C.6 The realisation of investments

C.6.1 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.

C.6.2 The PFB has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

C.7 Expected return on investments

C.7.1 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.

C.7.2 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, Hymans Robertson, report on fund performance annually at the PFB and ISC.

C.8 Stock Lending

C.8.1 The Fund actively engages in Stock lending through the Funds custodian. The Fund receives a net income, which in 2012-13 was £255.4k. This income is the premium paid by third parties who borrow stock held by this Fund. Collateral stock is held to safeguard the Fund's assets. Lending is limited to 35% of the stock held by the Fund, although actual activity in 2012-13 averaged 11.1% and in 2011-12 10.2%.

C.8.2 As at 31 March 2013 the value of stock loaned to third parties was £81.7m against collateral held of £89.3m. More information is available in the Pension Fund Annual Report and Statement of Accounts in the Notes to Accounts section.

C.9 Operational Risk

C.9.1 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 these are assessed on an actuarial basis every 3 years (Fund Valuation) and contribution rates are adjusted to ensure solvency.

C.9.2 In terms of specific investment risk, the Cambridgeshire Pension Fund is managed in a way that is designed to control and mitigate against this.

C.9.3 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. 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 reviewed following the triennial valuation, and at other times as required.

C.9.4 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.

C.9.5 The Fund's investment performance is reviewed quarterly by the ISC and should remedial action be required the ISC will determine the action to be taken and, where necessary, recommend to the PFB for approval.

C.9.6 The Fund is subject to actuarial review every three years. The Fund's actuary calculates the contributions required from employing authorities to ensure the solvency of the Fund. The Fund's position is based on the market values of the assets at the time of the review.

C.9.7 At present the Fund has a positive cash flow and is forecast to remain in this position for a number of years. However the Fund is acutely aware of significant potential pressures arising from Opt Outs, fiscal pressures on employers, and the general economic climate. The Fund is actively monitoring the situation to ensure it can act quickly should the need arise. It does, however, sell investments from time to time as part of normal investment management activities. However with pending scheme changes and the circumstances outlined above the positive cash flow horizons are anticipated to significantly reduce.

C.9.8 An alternative annual review of performance is undertaken annually upon receipt of annual data from WM, which provides a local government perspective.

C.9.9 The Fund's Custodian will be reviewed annually. The aim of this is to;

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

C10. Responsible Investment Policy

C.10.1 Responsible Investment – Position, Definition and Beliefs

The Cambridgeshire Local Government Pension Fund (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”.

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.

The Fund believes that ESG and ethical issues can affect the performance of investment portfolios and should therefore be considered as part of the Fund’s investment process.

This policy constitutes the mechanism by which the Fund will monitor ESG risks and opportunities across its assets.

With regard to RI, the authority is mindful of the following principles that are based on legal rulings applicable to all pension schemes:

- Administering authorities are free to adopt a policy of RI investment provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

- Administering authorities are free to avoid certain kinds of prudent investment which they consider scheme members would regard as objectionable so long as they make equally financially advantageous and prudent investments elsewhere. Administering authorities may make RI related or ethical investments provided these are otherwise justifiable on investment grounds.

- Administering authorities are not entitled to subordinate the interests of members to ethical or social demands. The financial performance of the Fund, consistent with proper diversification and prudence is paramount.

C.10.2 Scope

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.

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 will be a major part of how we meet our objectives in this area.

C.10.3 Governance of the RI Policy

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

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

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.

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

C.10.4 Engagement – encouraging ESG best practice

The Fund's objective in addressing RI and related issues is to use its influence to encourage ESG best practice by its investment managers.

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.

The Fund will exercise its ownership responsibilities by doing the following:

- 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.

C.10.5 Collaborative engagement

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.

C.10.6 Corporate Governance and Proxy Voting

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 Corporate Governance Principles and Securities Lending Code of Best Practice as well as the OECD [Organisation for Economic Co-operation and Development] Corporate Governance Guidelines.

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.

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.

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.

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

C.10.7 Manager Monitoring

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.

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

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

The Fund expects investment managers to:

- Integrate ESG considerations into their investment decision-making processes
- Adhere to all relevant stewardship guidelines and codes of practice, such as the UK Stewardship Code, or explain why they have not
- Report regularly (annually) and in detail to the PFB or ISC on how they are meeting or addressing the Fund's ESG requirements.

C.10.8 Negative screening/investment exclusions

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.

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.

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

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

Fund Managers and Mandates

Target Asset Allocation and Fund Specific Benchmarks July 2013

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

UK Equity		**20.0%**	
State Street	10.0%*		FTSE All-Share index
Schroder	10.0%*		FTSE All-Share index
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
Skagen	5.0%		MSCI Emerging Markets Index
Bonds and Fixed Income		**14.5%**	
Schroder	12.0%		Composite
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*

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;

	Performance Target
Schroder Multi Asset	1.00%
Schroder Property	0.75%
Newton Global Equity	2.00%
Amundi European Equity	2.00%
Skagen EM Equity	2.00%
State Street UK Equity	0.00%
State Street Global Equity	0.00%
State Street Index-Linked Gilts	0.00%
M&G Loans	0.00%
Private Equity	3.00%
Infrastructure	0.00%
Total Fund	**1.10%**

Key Risks and Controls

Risk	Summary of Controls	Risk Index 1:Low...5:High
	FINANCIAL RISKS	
Inappropriate long-term investment strategy.	• Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.	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
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	• Seek feedback from employers on scope to absorb short-term contribution rises. • Mitigate impact through deficit spreading and phasing in of contribution rises where this is possible and does not negatively impact the Fund. This to be considered against the need to ensure that deficit spreading does not become a one-off opportunity. • Introduction of "Smoothing" over a number of valuation periods. • Ensure decisions are well informed and account for current and future asset and liability expectations.	3

Risk	Summary of Controls	Risk Index 1:Low...5:High
DEMOGRAPHIC		
Pensioners living longer than previous experience.	• Consider allowance in future valuations for future increases in life expectancy beyond experience to date. • Fund Actuary monitors combined experience of around 50 Funds to look for early warnings of differing mortality rates than those assumed in funding. • Administering Authority encourages any employers concerned at pension costs to promote late retirement culture. • Implementation of Hutton review.	5
Deteriorating patterns of early retirements.	• Employers are charged the extra capital cost of non ill health early retirements following each individual decision. • Employer ill health retirement experience is monitored.	3
REGULATORY		
Changes to regulations This may give rise to: • More favourable benefits packages • Potential new entrants to the Fund • Backdating of benefits improvements or membership e.g. developments around part-time workers Changes to national pension requirements and/or Inland Revenue rules e.g. the new scheme scheduled for introduction from April 2008 and subsequent new regulations.	• The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself. • New CARE Scheme proposals falling out of Hutton by 2015. • The Administering Authority considers all consultation papers issued by the ODPM and comments where it considers that that is appropriate. • The Administering Authority will consult employers where it considers that it is appropriate. It urges all employers to participate where national consultation exercises are undertaken.	4
GOVERNANCE		
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements)	• The Actuary may be instructed to consider revising the Rates and Adjustments certificate to increase an employer's contribution (under Regulation 78) between triennial valuations. • Deficits are expressed as monetary	3

Risk	Summary of Controls	Risk Index 1:Low...5:High
	amounts.	
Administering Authority not advised of an employer closing to new entrants.	• The Fund maintains communication with all employer bodies to understand the impact of changes in their business on the Pension Fund. • The Actuary may be instructed to consider revising the Rates and Adjustments certificate to increase an employer's contribution (under Regulation 78) between triennial valuations. • The Fund monitors the receipt of contributions on a monthly basis and investigates all non-receipts.	4
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in any debt in respect of a funding deficit.	• The Fund is developing a database to monitor all admission bodies. • Data on all bodies is provided to the Actuary at valuation. • The Fund monitors the receipt of contributions on a monthly basis and investigates all non-receipts.	4
An employer ceases to exist with insufficient funding or adequacy of bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by a prudent admissions policy which: • Sets out the employer obligations clearly. • Seeks an appropriate funding guarantee. • Encourages the employer to take actuarial advice. • Where permitted under the regulations, requires a bond to protect the Fund.	1
Administering Authority fails to implement sound internal governance arrangements for the management of the Fund.	• The Administering Authority operates a Pension Fund Board with a supporting Investment Sub Committee, as recommended by CIPFA best practice. • All meetings are duly minuted and minutes inspected as part of the annual external audit process. • Adoption of the CIPFA Skills and Knowledge Framework.	1

Cambridgeshire Local Government Pension Scheme – Statement of Commitment to the UK Stewardship Code

The Cambridgeshire Local Government Pension Fund (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 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, 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 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

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.

July 2013

If you have any queries relating to this Statement of Commitment please contact Emma Bland, Group Accountant, LGSS – Pensions Investments on +44 (0)1604 368672 or ebland@northamptonshire.gov.uk