

**NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION
COMMITTEE**

STATEMENT OF INVESTMENT PRINCIPLES

1. INTRODUCTION

1.1 Purpose of Statement

1.1.1 This Statement sets out the principles governing decisions about the investment of the assets of the Northern Ireland Local Government Pension Fund (the Fund). The Northern Ireland Local Government Officers' Superannuation Committee (the Committee) issues this statement as the administrators of the Fund, to comply with Regulation 10 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (as amended).

1.2. Advice

1.2.1 The Committee has obtained written advice on the content of this Statement from Aon Hewitt, the Fund's independent investment advisers.

1.3 Consultation

1.3.1 The Committee has consulted its fund managers about the content of this Statement.

1.4 Investment Powers

1.4.1 The investment powers of the Committee are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000, (as amended). This statement is consistent with those powers. Neither the Statement nor the Regulations restrict the Committee's investment powers by requiring the consent of a third party.

1.4.2 Investment Restrictions are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 Schedule Part 1. The 2006 amendment introduced a new higher tier of limits, which can be utilised without any additional authorisation, subject to appropriate consideration of the increased risks. Refer to point 8 below for further details.

2. INVESTMENT AIMS AND OBJECTIVES

2.1 The Committee aims to invest the assets of the Scheme prudently to ensure returns are maximised so that the benefits promised to members are provided, and to provide reasonable stability in contribution rates for the employers.

2.2 To meet this aim the Committee's overall investment objective is to exceed price inflation and general salary growth over long periods. The overall investment target is to exceed the Consumer Price Index (CPI) by 5% per annum, to be measured over a three and five year period.

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

STATEMENT OF INVESTMENT PRINCIPLES

3. LINK TO FUNDING STRATEGY

- 3.1 The Committee monitors the suitability of its investment strategy, taking into account the funding position and Funding Strategy Statement. The Committee prudently seeks to secure the solvency of the Fund, where solvency is defined as being achieved when the value of the Fund's assets is greater or equal to the value of the Fund's liabilities, measured using appropriate actuarial assumptions.
- 3.2 A funding level of 100% has been targeted over a period of no more than 20 years. The Committee believes that the Fund's investment strategy, in conjunction with the certified levels of future contributions to the Fund, is consistent with the requirement to return the Fund to 100% solvency within acceptable levels of risk and contribution rate volatility. The funding level will be formally reviewed as part of the triennial valuation process and the position will be monitored on an approximate basis at regular intervals between valuations. The investment strategy will be reviewed as necessary taking into account the fund's liabilities, funding strategy and financial position.

4. INVESTMENT STRATEGY

- 4.1 The Committee sets its long-term investment strategy by taking into account the nature and timing of the Fund's liabilities identified through the triennial actuarial valuation and its investment aims and objectives. In setting the Fund's investment strategy, the Committee first considers the lowest risk strategy that it could adopt in relation to the Scheme's liabilities. The investment strategy is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.
- 4.2 These considerations drive decisions over asset allocation. The Committee formally reviews the Fund's asset allocation strategy every three years, and reviews target weightings every year. In determining its asset allocation, the Committee considers:
- A full range of asset classes
 - The risks and rewards of a range of alternative asset allocation strategies
 - The suitability of each asset class
 - The need for appropriate diversification

The Fund's investments are diversified across various asset classes in order to increase the overall expected returns while reducing the overall level of expected risk. A mixture of passive and active mandates is also used to capture the returns required to meet the Fund's objectives.

- 4.3 The following table sets out the Fund's asset allocation as at 31 December 2016 and the target allocation to be implemented over the medium term. It also sets out the approximate assumptions made about the real return for each asset class in determining the strategy as at 31 December 2016. These real return assumptions are market returns and do not allow for outperformance from the Fund's active mandates'.

**NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION
COMMITTEE**

STATEMENT OF INVESTMENT PRINCIPLES

Asset Class	Current Weighting %	Target Weighting %	Real Return % p.a.
UK Equities	25.0	17.5	4.5
Overseas Equities	50.0	50.0	4.0
Index-linked gilts	3.5	3.5	-1.0
Fixed bonds	9.0	9.0	0.5
Property – Core	10.0	10.0	3.5
Property – Index-linked	2.5	5.0	2.5
Alternatives	0.0	5.0	N/A

Note 1 Real return is in relation to CPI.

Note 2 Median 10 year forward looking assumptions.

- 4.4 The Committee has allocated 5% for investment in Alternative asset classes, to be invested as suitable opportunities are identified. The target allocation to Alternatives includes up to £50m for local investments in the Northern Ireland region.

5. CHOOSING & MANAGING INVESTMENTS

- 5.1 The Committee relies on professional fund managers for the day-to-day management of the majority of the Fund's assets. However, the Committee retains direct control over some investments. In particular, it makes the decisions about the investment vehicles used by members for additional voluntary contributions (AVCs).

5.2 Investments directly controlled by the Committee

- 5.2.1 The Committee's policy is to review the investments over which it retains direct control and to obtain written advice regularly and at least annually. When deciding whether or not to sell or purchase any new investments the Committee will obtain written advice.
- 5.2.2 The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement. The adviser will have the knowledge and experience required under section 36(6) of the Pensions (Northern Ireland) Order 1995.
- 5.2.3 For members' AVCs, the Committee has chosen suitable investment vehicles taking into account past performance, charging structure, flexibility and the quality of administration. The Fund's AVC providers are the Prudential Assurance Co and the Equitable Life Assurance Society (closed to new members). The Committee obtains regular advice on the suitability of these investments and informs the scheme members invested in the products of this advice.
- 5.2.4 Further details on AVC investments are set out in NILGOSC's AVC Investment Policy, available from the NILGOSC website at www.nilgosc.org.uk.

**NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION
COMMITTEE**

STATEMENT OF INVESTMENT PRINCIPLES

5.3 Investments undertaken by Third Party Fund Managers

- 5.3.1 The Committee has delegated its authority to manage the remainder of the Fund to a number of third party fund managers in compliance with Regulation 6 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (as amended).
- 5.3.2 The Committee has determined the types of asset class in which it wishes to invest and has selected a range of fund managers to manage particular types of asset class, depending on their areas of expertise. The current fund managers and their respective mandates and partnerships are set out in the following tables:

Mandates	Asset/Market
Baillie Gifford	UK Equities
	Global Unconstrained Equities
BlackRock Investment Management	UK Unconstrained Equities
Jupiter Asset Management	UK Unconstrained Equities
Wellington Management International	Global Equities
	Global Fixed Income
Unigestion	Global Unconstrained Equities
LaSalle Investment Management	Core Direct and indirect property
	Index-linked property
Legal & General Investment Management	Passive management of equities and bonds, all markets

Partnerships	Asset Class
Antin Infrastructure Fund II	Infrastructure
Antin Infrastructure Fund III	Infrastructure
KKR Infrastructure Fund II	Infrastructure
M&G	Private Rented Sector

- 5.3.3 In addition to the funds listed above, the Committee has made a number of small co-investments in infrastructure assets, with a per investment limit of 0.25% of the total fund.
- 5.3.4 The Financial Conduct Authority (FCA) regulates the fund managers. The Committee has a signed investment management agreement (IMA) or Limited Partnership Agreement (LPA) with each fund manager, which provides for a fee scale on a basis related to the value of the assets managed or performance.
- 5.3.5 The Committee has a range of controls in place to monitor investment by the fund managers. It has set a total fund benchmark, which is aligned to the overall asset allocation. The Committee has also set each fund manager a performance objective

**NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION
COMMITTEE**

STATEMENT OF INVESTMENT PRINCIPLES

in relation to published indices. The performance objectives as agreed between the Committee and the fund managers where applicable are set out in the IMA or LPA.

- 5.3.6 All fund managers are responsible for the selection of individual assets within each type of investment.
- 5.3.7 The percentages of the Fund allocated to each manager will fluctuate depending on performance and/or can be changed at any time by the Committee.

5.4 New investments

- 5.4.1 Within the categories of investment permitted by the Regulations, the fund managers can purchase any new investments as long as they do not breach the provisions of the IMAs or LPAs. The fund managers will bring to the Committee's attention any new category of investment, which in their judgment has become suitable for the Fund, before investing in that category.

5.5 Realisation of investments

- 5.5.1 The fund managers will bring to the Committee's attention any category of investment held by the Fund, which in their judgment has become unsuitable for the Fund. The fund manager is not expected to bring to the Committee's attention individual investments realised on purely investment grounds.

5.6 Securities lending

- 5.6.1 The Fund participates in a collateralised Securities Lending Programme managed by its Global Custodian in order to generate additional income. Stock lending is conducted within the parameters prescribed in the Regulations and does not restrict the investment activity of the underlying fund managers.
- 5.6.2 Safeguards are in place to reduce the risk of financial loss in the event of default. These safeguards include receiving liquid collateral in excess of the value of the loan, indemnity agreement with the lending agent, geographic restrictions, restrictions based on credit ratings and regular reviews of credit-worthiness of potential borrowers of the lending agent.
- 5.6.3 All securities transferred (or agreed to be transferred) by the Committee under stock lending agreements are to be within the 35% increased limit prescribed by the Regulations.

5.7 Commission recapture

- 5.7.1 The Fund supplements its income through participation in a commission recapture programme, which enables the Fund to reclaim a portion of the commission that the fund managers' pay to brokers when purchasing and selling securities.

**NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION
COMMITTEE**

STATEMENT OF INVESTMENT PRINCIPLES

6. DIVERSIFICATION AND RISK MANAGEMENT

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

- Restricting investment to the levels permitted by the Investment Regulations;
- Limiting default risk by restricting investment to asset classes generally recognised as appropriate for UK pension funds;
- Analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Fund's actuary, investment advisers and investment managers and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy;
- Limiting concentration risk by developing a diversified asset allocation; and
- Monitoring the mismatching risk that the investments do not move in line with the Fund's liabilities.

The following control measures have been implemented to reduce the risks associated with making investments.

6.2 Number of fund managers and mandates

6.2.1 The Fund's assets are divided between a number of specialised fund managers across both active and passive mandates. This diversification seeks to gain the benefits of specialist skills in markets, the predictable and diversified results from passive management as well as the reduction of the risks associated with one fund manager having responsibility for all of the Fund's assets. In addition, this division enables the Committee to control the overall asset allocation and the level of risk resulting from the differing approaches, styles and specialisations of each manager. The passive manager maintains the overall asset allocation within defined ranges.

6.3 Risk versus the liabilities

6.3.1 The majority of the Fund's liabilities are linked to inflation and salary growth. The policy is therefore to invest the majority of the assets in investments, which are expected to exceed price inflation and general salary growth over long periods.

6.4 Range of assets

6.4.1 The Committee has set a total fund benchmark. This contains a wide range of assets suitable for a pension scheme. The managers have discretion to move away from the benchmark position within specified tolerance levels to outperform the return on the benchmark. The Committee regularly reviews the distribution of assets.

6.5 Custody

6.5.1 The Committee ensures the separation of custody of the Fund's assets from its fund managers and its officials by the employment of its independent global custodian.

**NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION
COMMITTEE**

STATEMENT OF INVESTMENT PRINCIPLES

6.5.2 The Committee's property solicitors hold the title deeds to the commercial property assets.

6.6 Manager restrictions

6.6.1 The Committee's agreement on the way the portfolio is managed with each fund manager contains a series of restrictions, which may be amended from time to time. The purpose of the restrictions is to limit the risks from each individual investment and prevent unsuitable investment activity. Each fund manager must comply with these restrictions as set out in the IMA.

6.7 Manager controls

6.7.1 Powers of investment delegated to the fund managers must be exercised with a view to giving effect to the principles contained in this statement so far as is reasonably practicable. The manager will also ensure that suitable internal operating procedures are in place to control individuals making investments for the Fund.

7. SOCIALLY RESPONSIBLE INVESTMENT

7.1 Principles

7.1.1 The Committee's overriding obligation is to act in the best interests of the Scheme beneficiaries. In this fiduciary role, NILGOSC believes that environmental, social and corporate governance (ESG) issues can affect the financial performance of investments. Accordingly, NILGOSC believes that these factors should be taken into account when managing the Scheme's assets, subject to the overriding fiduciary duty to maximise the financial return on investments.

7.1.2 The Committee has adopted the United Nations Principles of Responsible Investment as a means of publicly demonstrating this approach.

7.2 Responsible Ownership

7.2.1 The Committee expects the companies in which it invests to comply with best practice in terms of corporate governance. The Committee sets out this best practice in its Proxy Voting Policy. A copy is available at www.nilgosc.org.uk/voting-policies-and-activity.

7.2.2 The Committee will collaborate with other like-minded investors and groups in order to engage with companies, industries and countries in which it invests in order to improve levels of corporate governance where needed.

7.2.3 The Committee will exercise its voting rights, if possible, at all company meetings within its actively managed portfolios and will vote against management where there are significant ESG failings. When possible, NILGOSC will inform those companies of the rationale for its voting decision. At present, this applies to UK and European listed companies only.

**NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION
COMMITTEE**

STATEMENT OF INVESTMENT PRINCIPLES

- 7.2.4 For passively managed equities, votes are cast by NILGOSC's passive fund manager, Legal and General Investment Management, according to its own voting policies. The manager reports to NILGOSC on its voting activities on a quarterly basis.
- 7.2.5 The Committee will seek to recover all monies due to it from settled class actions and will consider, on a case-by-case basis, being party to class actions against investee companies arising from failings in corporate governance.
- 7.2.6 Further details on the Committee's responsible ownership practices are set out in its Statement of Responsible Investment, available from the NILGOSC website at www.nilgosc.org.uk/responsible-investment.

7.3 Investment Decisions

- 7.3.1 The Committee delegates the selection of investments held to its fund managers and does not impose any investment restrictions in regard of social, ethical and environmental issues. NILGOSC does not make any investments specifically for social, ethical and environmental reasons.
- 7.3.2 The Committee has instructed its active fund managers to take account of ESG considerations provided the primary financial obligation is not compromised.
- 7.3.3 The Committee will ensure that the fund managers it appoints are capable of appropriately considering ESG issues when making investment choices. It will monitor the managers' action in this area and will work with fund managers and the investment sector to ensure sufficient data is available to aid effective decision making.

8. COMPLIANCE

8.1 Regulations and Investment Limits

- 8.1.1 The Fund is compliant with the statutory restrictions set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (as amended, updated or re-enacted from time to time) – "the Regulations".
- 8.1.2 The Regulations contain limits on the percentage of a pension fund that may be invested in certain asset types and the 2006 amendment provides for the limits to be raised, subject to certain requirements being met.
- 8.1.3 If the Committee decides to increase limits under regulation 12(2A) it must comply with further requirements of the Regulations:
- It must have taken proper advice.
 - It must have taken into account the factors set out in regulation 9(3) which consider the advisability of investing fund money in a wide variety of instruments and the sustainability of particular investments and particular types of investments.

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

STATEMENT OF INVESTMENT PRINCIPLES

- The additional risks of the increased limit must have been taken into account in addition to those factors set out in regulation 12A(3).
- The limits will apply for the period during which the Funds' strategic allocations include investments in partnerships, unless investment considerations require an earlier review. This decision is compliant with the Regulations.

8.1.4 The Committee has agreed three instances where the increased limits may be used:

- In accordance with Regulation 12 and Part 1 of the Schedule, an increased limit of 35% (of total fund) invested under the terms of any single insurance contract is permitted for the duration of the current mandate with Legal & General Investment Management.
- In accordance with Regulation 12 and Part 1 of the Schedule, an increased limit of 35% (of total fund) is permitted to be transferred under Stock Lending agreements.
- In accordance with Regulation 12 and Part 1 of the Schedule, an increased limit of 15% for all contributions to partnerships is permitted.

These decisions are subject to periodic review simultaneous with the periodic review of the Fund's Statement of Investment Principles.

8.2 Frequency of review

8.2.1 The Committee will review this Statement annually or sooner if there is a change in the policy on any of the areas covered by the Statement. The Committee will consult with such persons, as it considers appropriate and take written advice when revising the Statement.

8.3 Professional advice

8.3.1 The Committee employs Aon Hewitt as its investment adviser to provide such services as needed to ensure that the Committee is fully briefed to both take direct decisions and to monitor those which it delegates. Aon Hewitt is paid on either a fixed or variable fee basis according to the requirements of the Committee for each task.

8.4 Performance measurement

8.4.1 The Committee uses the services of its custodian and Investment Property Databank, (IPD), to independently measure the investment performance of the equity and bond managers and the property manager respectively. Each quarter, the Committee monitors the performance of the combined assets and the performance of each manager's portfolio against their target benchmark. The Committee also reviews with its investment advisers, Aon Hewitt, each manager's long-term investment performance and the appropriateness of the Fund's benchmarks.

8.5 CIPFA Pensions Panel Principles 2007

8.5.1 The Committee is required to state the extent to which it complies with the ten principles of investment practice set out in "CIPFA Pension Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United

**NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION
COMMITTEE**

STATEMENT OF INVESTMENT PRINCIPLES

Kingdom (Guidance note issue No 5)". This document was published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in April 2002 and sets out the ten principles as outlined below:

Principle	Title	Compliance
1	Effective Decision Making	NILGOSC considers that its practices are compliant with this principle
2	Clear Objectives	NILGOSC considers that its practices are compliant with this principle
3	Asset Allocation	NILGOSC considers that its practices are compliant with this principle
4	Expert Advice	NILGOSC considers that its practices are compliant with this principle
5	Explicit Mandates	NILGOSC considers that its practices are not fully compliant with this principle (see below)
6	Activism	NILGOSC considers that its practices are not fully compliant with this principle (see below)
7	Appropriate Benchmarks	NILGOSC considers that its practices are compliant with this principle
8	Performance Measurement	NILGOSC considers that its practices are compliant with this principle
9	Transparency	NILGOSC considers that its practices are compliant with this principle
10	Regular Reporting	NILGOSC considers that its practices are compliant with this principle

8.5.2 The Committee does not comply with these Principles in the following respects:

Principle 5 – This requires that manager mandates should not be terminated before the expiry of the evaluation timescale for underperformance alone. The Committee takes a rigorous and long term approach in the selection and monitoring of investment managers but believes that it should always have the power to terminate a manager's services with immediate effect should this be in the best interest of its beneficiaries.

Principle 6 – The original 2002 CIPFA document requires the incorporation of the principles of the US Department of Labor Interpretative Bulletin on activism. However, it is more appropriate to make reference and comparisons to the UK Stewardship Code (the Code) issued in July 2010, which sets out best practice for investors that choose to engage with the companies in which they invest. The Committee published a Statement of its Adherence with the Code, which was updated when the Code was revised in September 2016. A copy of the Statement of Adherence is available at www.nilgosc.org.uk.

8.5.3 HM Treasury issued updated Myners Principles in October 2008 however the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000, (as amended), have not yet been amended to reflect the six revised principles. Until Regulation 10(3A) is suitably amended, the Statement of

**NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION
COMMITTEE**

STATEMENT OF INVESTMENT PRINCIPLES

Investment Principles will continue to refer to the CIPFA Pension Panel Principles 2007.

Approved by the Committee on 23 May 2017.