

The Highland Council Pension Fund

Statement of Investment Principles – Summary

Background

The Highland Council is the administering authority of the Highland Council Pension Fund. Elected members recognise that they have fiduciary duties and responsibilities towards beneficiaries, employers and local tax payers that are similar to those holding the office of Trustee in the private sector.

Advisors

Independent Investment Managers, Investment Consultants, Actuaries and Performance Measurement Consultants are employed to give ongoing expert advice and assistance in the managing of the Fund.

Funding Policy

The Fund is a defined benefit pension scheme which provides Member's pensions and lump sums related to their final salaries. The fundamental objective is to meet these benefits on retirement, or the dependant's benefits on death before or after retirement.

The funding policy is directed to ensuring that in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that the appropriate level of contributions is agreed by the administering authority to meet the cost of future benefits accruing.

A Funding Strategy Statement for the Pension Fund has been prepared in accordance with Regulation 75A(1) of the Local Government Pension Scheme (Scotland) Regulations 1998 as amended by the Local Government Pension Scheme (Scotland) Amendment Regulations 2005. The Statement describes the strategy of the Highland Council in acting in its capacity as Administering Authority for the funding of the Highland Council Pension Fund. The Statement can be viewed at [Funding Strategy Statement](#)

Investment Policy

The overall investment policy is geared towards the production of superior investment returns relative to the growth of liabilities, whilst striving to maintain a level of consistency within the rate of contribution for employers. The investment policy is based upon achieving a long- term return on investments in excess of inflation through strategic benchmarking and selective asset allocation. With 70% of the Fund's investments in active management and 30% in index tracking (passive), it is hoped that an efficient balance will be met between risk and return in light of liability profile and the funding level.

Asset Mix of Investments

The overall investment portfolio for the Fund is weighted to the equity market, both UK and Overseas.

However, the portfolio also has invested in Index-Linked Gilts, Property, UK Bonds, Overseas Bonds and Cash.

This diverse range of investments over 5 different Managers (4 active and 1 passive) is employed to minimise the effect of risk and enhance overall performance of the Fund for its Members.

Each Manager, with the exception of the index tracking Manager, has full discretion in asset mix and stock selection, subject to the investment principles.

Monitoring

The Fund's officers, and when required advisers, meet quarterly with each of its Investment Managers on a rotational basis to monitor performance relative to performance targets.

Adoption of the strategic benchmark and the performance monitoring constrains the Investment Managers from deviating significantly from the intended approach. It also permits flexibility to manage the Fund in such a way as to enhance returns.

Risk

The Fund pursues a policy of lowering risk through diversification of investments and investment managers. A management agreement is in place for each Investment Manager, which sets out the relevant benchmark performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

Realisation of Investments

The majority of the investments held by the Fund are quoted on major stock markets and may be realised quickly if required. Property investment is via pooled funds which are relatively illiquid and make up approximately 10% of the total Fund.

Underwriting

Managers are permitted to underwrite and sub underwrite stock issues on the basis that the subject stock is already held in the portfolio or that the Manager wishes to acquire a long term holding.

Social, Environmental and Ethical Considerations

The Fund recognises that social, environmental and ethical considerations are among the factors which Managers will take into account, where relevant, when selecting investments for purchase, retention or sales.

The Council has instructed the Investment Managers to take into account the key principals of socially responsible investment primarily through a policy of engagement with Companies that fail to demonstrate appropriate observance of these principals.

Corporate Governance

The Fund ensures that the votes attached to its holdings in all UK quoted companies are exercised whenever practical. The Fund's votes are exercised by its Investment Managers in accordance with their own policies and practices and taking account of the Combined Code on Corporate Governance.

Custody

The Fund has a Global Custodian which ensures the safekeeping of all assets separate from each Investment Manager and other officials. The Global Custodian also provides all the reporting data to the Council for performance monitoring and independent reconciliation purposes with each Investment Manager.

Stock Lending

The Fund has no stock released to a third party under a securities lending agreement at this time.

Compliance

Investment Managers and the Custodian will provide an annual statement to the Council confirming that they have given effect to the investment principles contained in this document so far as is reasonably practicable.

Adhering to guidance given by Scottish Ministers, The Fund is compliant with the six revised principles on investment decision making for occupational pension schemes, as set out in guidance published by the Chartered Institute of Public Finance and Accountancy in December 2009 called 'Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles'.

A detailed version of this Statement of Investment Principles (SIP) expanding on the paragraphs above can be obtained from the address below:

Treasury, Leasing & Investments Section, Corporate Finance, Finance Service, Highland Council, Glenurquhart Road, Inverness, IV3 5NX or Treasury.Team@Highland.gov.uk