

Pension Fund Investments Panel

AGENDA

DATE: Monday 9 January 2012

TIME: 6.30 pm

VENUE: Committee Room 5,
Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chairman: Councillor Mano Dharmarajah

Councillors:

Thaya Idaikkadar (VC)

Tony Ferrari
Richard Romain

(Non-voting Co-optee): Mr H Bluston

Trade Union Observer(s): Mr R Thomas - UNISON
Mr T Thornton - GMB

Reserve Members:

1. Keith Ferry
2. Asad Omar

1. Stephen Wright
2. Kam Chana

Contact: Mark Doherty, Democratic Services Officer
Tel: 020 8416 8050 E-mail: mark.doherty@harrow.gov.uk

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

- (i) to take the place of an ordinary Member for whom they are a reserve;
- (ii) where the ordinary Member will be absent for the whole of the meeting; and
- (iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
- (iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of personal or prejudicial interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Panel;
- (b) all other Members present in any part of the room.

3. MINUTES (Pages 1 - 6)

That the minutes of the meeting held on 15 November 2011 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS

To receive questions (if any) from local residents/organisations under the provisions of Committee Procedure Rule 17 (Part 4B of the Constitution).

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES (Pages 7 - 20)

Report of the Interim Director of Finance.

8. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

9. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the press and public be excluded from the meeting for the following items of business, on the grounds that they involve the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
10.	INFORMATION REPORT - Valuation of the Fund as at 30 November 2011) Information under paragraph 3) (contains information relating to) the financial or business affairs of) any particular person (including the) authority holding that information).)
11.	INFORMATION REPORT - Investment Manager Monitoring))))
12.	Presentation by Fidelity))
13.	INFORMATION REPORT - Presentation by Aviva)))
14.	INFORMATION REPORT - Update Report and Action Points from Previous Meetings)))))

AGENDA - PART II

10. INFORMATION REPORT - INVESTMENT MANAGER MONITORING (Pages 21 - 78)

Report of the Interim Director of Finance.

11. PRESENTATION BY FIDELITY (Pages 79 - 106)

Report of the Interim Director of Finance.

12. INFORMATION REPORT - PRESENTATION BY AVIVA (Pages 107 - 114)

Report of the Interim Director of Finance.

13. INFORMATION REPORT - VALUATION OF THE FUND AS AT 30 NOVEMBER 2011 (Pages 115 - 118)

Report of the Interim Director of Finance.

14. INFORMATION REPORT - UPDATE REPORT AND ACTION POINTS FROM PREVIOUS MEETINGS (Pages 119 - 124)

Report of the Interim Director of Finance.

[Please note that Aon Hewitt, Advisers to the Fund, will be attending this meeting.]

PENSION FUND INVESTMENTS PANEL MINUTES

15 NOVEMBER 2011

Chairman: * Councillor Mano Dharmarajah

Councillors: * Tony Ferrari * Richard Romain
* Thaya Idaikkadar

**Co-optee
(Non-voting):** * Howard Bluston

Other Attendance:

- (1) Robert Thomas attended in an observer role, as the representative of Harrow UNISON;
- (2) John Harrison of Aon Hewitt attended in an advisory role, as the Council's Adviser.

* Denotes Member present

121. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance at this meeting.

122. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 10 – Review of the Pension Fund's Investment Strategy;
Agenda Item 11 – INFORMATION REPORT - Performance of Fund Managers - Quarter ended 30th September 2011

Howard Bluston declared a personal interest in that he was Chair of Edward Harvist Charity which utilized Blackrock Investments and that he had attended meetings of the National Association of Pension Funds at the Aon Hewitt offices in St. Albans. He would remain in the room whilst the matters were considered and voted upon.

123. Minutes

The Panel agreed the minutes subject to amendments as follows:

Minute 112 (Review of Pension Fund's Investment Strategy) – “Members were of the view that it was not their role to consider **pension fund** liabilities and that they should concentrate on.....”

Minute 113 (Information Report – Auditor's Report on Pension Fund Accounts) – “Deloitte LLP concluded that the assumptions used by the Council in calculating pension liabilities were **modesty more cautious**, based on the benchmarking for other 31 March 2011 bodies.”

RESOLVED: That, subject to the above amendments, the minutes of the 12 October 2011, be taken as read and signed as a correct record.

124. Petitions, Public Questions and Deputations

RESOLVED: To note that no public questions were put, or petitions or deputations received at this meeting under the provisions of Committee Procedure Rules 17, 15 and 16 (Part 4B of the Constitution) respectively.

RESOLVED ITEMS

125. Responsible Investing

The Panel received the report of the Interim Director of Finance on the potential considerations with regard to responsible investment, following the recent media interest in this area.

Members noted the information and expressed the view that as presented the report did not provide them with the level of detail and extent of legal advice to make a fully informed decision.

The Interim Director of Finance advised that what was sought from Members was an indication of its preferred direction of travel, particularly as moves to a firmer ethical investment approach potentially had implications for the level of return gained on investments.

A Member spoke on the need to gain Union input as part of any firm proposals to come forward as well as clear and definitive legal advice. A further comment made by another Member also questioned the assumptions with respect to Equalities Impacts.

The Panel agreed the report was a summary of the current position and available alternatives but, that further work should be undertaken in terms of input and costed alternatives at a future meeting when submitted for reconsideration.

RESOLVED: That the report be deferred to a future meeting and officers, as part of this, be requested to address the comments above.

126. Exclusion of the Press and Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
10.	Review of the Pension Fund's Investment Strategy	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).
11.	INFORMATION REPORT - Performance of Fund Managers - Quarter ended 30th September 2011	Information under paragraph 1 (contains information relating to any individual).
12.	INFORMATION REPORT - Update Report and Action Points from Previous Meetings	Information under paragraph 7 (contains information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime).

127. Review of the Pension Fund's Investment Strategy

The Panel received an initial report outlining potential proposals for the remodeling of the strategic options of the Investment Strategy in response to the Panel's request to at least maintain the level of return expected from the current Strategy. The report proposed that additional training in relation to absolute return investments would be required and it was suggested this be incorporated as part of the arrangements at the January meeting of the Panel.

Officers then addressed the potentials of moving from passive to active equity management, noting that several of the current Investment Managers were "active" in seeking to out-perform their benchmark.

The Aon Hewitt representative advised that the Council's current rate of return achieved from its portfolio management approach was very efficient and that it would need to consider carefully any potential changes to this approach.

Members thanked Aon and officers noting that they were in agreement with the points made. A Member spoke on the issue of absolute return mandates stating that this was an extensive subject and that considerable training arrangements would need to be in place to ensure councilors fully understand the implications of this area before moving to a decision making position with regard to future investment. Officers agreed that training would need to cover the extent of global absolute return mandates and that a training programme would be put in place which would ensure this was addressed. A Member agreed that training was an essential element of Investments decision making but, accepted this could also be an area of rising cost due to the importance of Panel members being fully informed.

Members then discussed their views of the advantages and disadvantages of passive and active management, absolute return mandates and resulting risk elements.

Resolved: that

- (1) the movement of UK equities from passive to active management was not considered a priority but, should be subject to review in the future;
- (2) appropriate training be arranged for all Panel Members on global universe absolute return mandates;
- (3) the targeting of a portfolio with similar returns but lower risks to the current strategy be noted but, no further action be taken until the completion of the training identified in (2) above.

128. INFORMATION REPORT - Performance of Fund Managers - Quarter ended 30th September 2011

An officer presented a report that set out the performance of the investment managers and of the overall fund for the quarter, year and three years ending 30 September 2011. He reported that the fund value had declined by approximately 10% due to movements in the equity market and the relative performance of fund managers was below the benchmark in what had proved to be a difficult quarter. The Fund value had partially recovered in October.

The Panel briefly discussed Fidelity Investment Managers and agreed that they be invited to make a full presentation to the next meeting.

RESOLVED: That

- (1) Fidelity Investment Managers be requested to make a presentation to the Panel on 9 January 2012;
- (2) the report be noted.

129. INFORMATION REPORT - Update Report and Action Points from Previous Meetings

An officer presented a report that provided an update on the actions taken from prior meetings and since the last meeting. The currency mandate with Mellon had been terminated and the remaining value added to cash balances.

The Panel noted the progress made in relation to some of the actions.

RESOLVED: That the report be noted.

The meeting, having commenced at 6.30 pm, closed at 8.05 pm.

COUNCILLOR MANO DHARMARAJAH
Chairman

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**REPORT FOR: PENSION FUND
INVESTMENT PANEL**

Date of Meeting:	9 January 2012
Subject:	Review of the Statement of Investment Principles
Responsible Officer:	Julie Alderson, Interim Corporate Director Finance
Exempt:	No
Enclosures:	Statement of Investment Principles.

Section 1 – Summary and Recommendations

This report sets out amendments to the Statement of Investment Principles (“SIP”) required to bring the SIP in line with the 2009 Regulations.

Recommendation:

The Panel is asked to approve the updated Statement of Investment Principles

Reason:

To enable the Panel to demonstrate that the Fund is being managed in accordance with the SIP.

Section 2 – Report

1. A Statement of Investment Principles (“SIP”) is required by the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 (“The Regulations”) and outlines the principles and policies followed by the Panel in the management of the Fund’s assets.
2. The Regulations require the SIP to cover the Council’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.

The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State (“Myners Principles”), and, to the extent the authority does not so comply, the reasons for not complying.

3. Subsequent to the approval of the SIP in 2010, the Fund’s auditor has recommended that the SIP be updated to reflect (1) the asset class ranges and rebalancing policy adopted by the Panel, and (2) the procedures in place for the management of cash.
4. The revised SIP is attached to the paper. It has been substantially updated to bring it into line with both the current regulations and investment structures e.g. the use of pooled fund investments. The section on individual manager mandates and targets has been deleted for two reasons. Firstly it is not required by the regulations and secondly with frequent changes to managers and mandates the SIP is almost always out of date. If required, a separate appendix with all the manager data could be added.
5. The SIP will be reviewed next on completion of the ongoing strategy review.
6. Aon Hewitt has been asked to review the SIP and to comment at the PFIP meeting.

Financial Implications

7. The SIP addresses the high level risk and return objectives of the Fund.

Risk Management Implications

8. Risk included on Directorate risk register? No
9. Separate risk register in place? No
10. Setting risk tolerances and measuring outcomes will be addressed in the ongoing strategy review.

Equalities implications

11. Was an Equality Impact Assessment carried out? No
12. There are no direct equalities implications relating to the pension fund.

Corporate Priorities

13. Corporate Priorities are not applicable to Pension Fund as it does not have a direct impact on Council's resources.

Section 3 - Statutory Officer Clearance

Name: Julie Alderson	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 20 December 2011		
Name: Matthew Adams	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 20 December 2011		

Section 4 - Contact Details and Background Papers

Contact: George Bruce (Treasury and Pension Fund Manager) Tel: 020-8424-1170 / Email: george.bruce@harrow.gov.uk

Background Papers: None

If appropriate, does the report include the following considerations?

1.	Consultation	N/A
2.	Corporate Priorities	N/A

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***LONDON BOROUGH OF HARROW
PENSION FUND***

***STATEMENT OF
INVESTMENT PRINCIPLES***

LONDON BOROUGH OF HARROW PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

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This Statement of Investment Principles has been prepared in consultation with the Fund's investment managers and investment advisor. Fund members and other employing authorities will be given the opportunity to comment on the Statement and the Council will consider their views.

Appendix 1 Myners Principles

Approved by Harrow Council:

Date 9th January 2012

Introduction

- 1.1 This is the Statement of Investment Principles (SIP) adopted by Harrow Council (the Council) in relation to the investment of assets of the Council's Pension Fund (the Fund). The Council is the Administering Authority of the Fund and, in that role it has responsibility to ensure the proper management of the Fund.
- 1.2 This SIP meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("The Regulations") and has as been prepared after taking appropriate advice.
- 1.3 The Council, as administering authority, decides on the investment policies most suitable to meet the liabilities of the Pension Fund and has ultimate responsibility for investment strategy. These powers are exercised on its behalf by the Council's Pension Fund Investment Panel. The Panel monitors investments, including manager performance, on a quarterly basis. Advice is received as required from the officers and the professional advisers. In addition, the Panel requires managers to periodically attend its meeting. The Panel is responsible for monitoring compliance with guidance given by the Secretary of State for Communities and Local Government. No exceptions have been identified.
- 1.4 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Board is satisfied that the appointed fund managers have sufficient expertise and experience to carry out their role
- 1.5 The LGPS is established by statute. The Pension Fund is a legally distinct account with contributions made by employees (fixed percentage of earnings) and employers. The primary objective of the Fund is to maximise performance and so minimise the level of employer contributions in order to meet the cost of pension benefits as required by statute. A related objective is to minimise the volatility of employer contribution rates as investment returns vary from year to year.

Investment Objectives

- 2.1 The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective as set out above, subject to an appropriate level of risk (implicit in the target) and liquidity. Over the long-term, it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

Investment style

- 3.1 It is the Council's current policy that external fund managers are employed to administer the Fund's assets. The current structure as set out in the table below was implemented following the Actuarial Valuation results as at 31 March 2007. The assets of the fund are mostly in "growth assets" i.e. those expected to generate additional ("excess") returns over the long term. These include equity, and private equity. The asset allocation also has a small allocation to "cash flow matching" assets, mainly index linked bonds. Corporate

bonds, property and active currency provide both diversification and expected returns in excess of liabilities.

The table below shows the asset allocation structure.

Asset Class	Allocation	Range	Approach
UK Equities	26%		Passive
Overseas Equities	45%		Active Global Strategy
Total Equities	71%	66-76%	
Bonds	13%	11-15%	Active Sterling aggregate benchmark plus gilts
	Corporate bonds 10.4%		
	Index Linked gilts 2.6%		
Alternatives:-			
Property	10%	8-12%	Active Management
Private Equity	3%	N/A	Active Management
Currency	3%	N/A	Active Management
Total	100%		

- 3.2 The above allocations, ranges and the management structure comply with the limits set out in table 1 of The Regulations with the exception that the limit on single insurance contracts has been increased from 25% to the upper limit of 35% to permit investment in a passive UK equity portfolio. This decision will apply until the completion of the next strategic review or if earlier 31st March 2014. The decision to increase the limit complies with The Regulations.
- 3.3 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with the investment manager. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and also performance related fees.
- 3.3 The investment strategy is reviewed periodically, with a major review taking place following each triennial actuarial review.

- 3.4 Cash balances are held either within bank accounts in the name of the Fund or by the Council on behalf of the Fund. Interest on balances held by the Council is allocated to the Fund based on the average interest income earned by the Council.
- 3.5 Actual asset allocations are monitored against the above structure and rebalanced as appropriate. The Section 151 officer has delegated authority to undertake a quarterly rebalancing of the equity and bond portfolios should they breach the above ranges. Rebalancing within the bond portfolio is delegated to the fund manager.
- 3.6 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through funds, the fund appoints its own custodian.
- 3.7 A currency hedge equal to 50% on the non sterling equity exposure is maintained.
- 3.8 The Council does not engage in stock lending activities.

Performance

- 4.1 Performance targets are set on a three-year rolling basis in relation to the benchmark. The investment managers' performance is reviewed at quarterly and annual intervals by the WM Company who provides independent performance statistics.

Types of investments

- 5.1 A management agreement is in place for each fund manager, setting out, where relevant, the benchmark, performance target and asset allocation ranges. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with the regulations in equities, fixed interest and other bonds, and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.
- 5.2 The Regulations also specify certain limitations on investments. Principally, these place a limit of 10% of the total value of the fund on any single holding, or deposits with a single bank or institution, or investments in unlisted securities. The Council does however have discretion to adopt a higher statutory limit in respect of specific investments subject to formal agreement by the Council.

Investment Risk

- 6.1 Whilst the objective of the Council is to maximise the return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Council acknowledges that the predominantly equity based investment strategy may entail risk to contribution stability, particularly due to the short term volatility that equity investments can involve. The longer term nature of the fund and the expected higher longer term returns expected of equity investments over bonds mean,

however, that a high equity allocation remains an appropriate strategy for the Fund. Total risk arising from the investment strategy and its implementation is monitored as part of the tri-annual strategy review. Control ranges have been set to aid the monitoring of return and risk targets.

- 6.2 A policy of diversification for its investments and investment managers helps the Council to mitigate overall risk. Benchmarks and targets against which investment managers are expected to perform are further measures put in place to manage the risks for the fund. Manager performance is monitored quarterly with investigation of any significant deviations from intended strategy.
- 6.3 The fund has a positive cash flow that enables investment in illiquid asset class's e.g. private equity and property. More than 80% of the fund is invested in equities and bonds that are highly liquid.
- 6.4 The Council has established a currency hedge covering 50% of the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling.
- 6.5 Demographic factors including the uncertainty around longevity / mortality projections (e.g. longer life expectancies) contribute to funding risk. There are limited options currently available to fully mitigate or hedge this risk. The Council monitors liabilities using a specialist service (Club Vita) which provides a comprehensive analysis of the Fund's longevity data to enable them to understand and manage this issue in the most effective way.

The realisation of investments

- 7.1 A realisable (liquid) investment is one that can be readily converted into cash, for example to satisfy payments out of the Fund. The majority of the Fund's assets are highly liquid and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. Assets in the Fund that are considered to be illiquid include property and private equity. As a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.
- 7.2 The Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

Investment advice

- 8.1 Professional advice on investment matters is taken from the investment practice of Aon Hewitt and from Hymans Robertson who provide actuarial services.

Social, environmental or ethical

- 9.1 The extent to which social, environmental and ethical considerations are taken into account in these decisions is left to the discretion of the fund managers. However, the Council expects that the extent to which social, environmental and ethical issues may

have a financial impact on the portfolio will be taken into account by the fund managers in the exercise of their delegated duties. The Council expects the fund managers to positively engage and seek to influence companies in which the Fund invests to take account of key social, environmental and ethical considerations.

Exercise of the rights (including voting rights) attaching to investments

- 10.1 The Council is an active shareholder and will exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance.
- 10.2 In practice, the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by the fund manager. The Council encourages its managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality. The managers provide reports on their voting and engagement activities.

Myners

- 11.1 The Myners principals codify best practice in investment Decision-making. While they are voluntary, pension fund trustees are expected to consider their applicability to their own fund and report on a 'comply or explain' basis how they used them. The Regulations require administering authorities to publish in their Statement of Investment Principles the extent to which they comply with the six new investment principles set out in the Myners report on Institutional Investment. The principles and best practice guidance are attached in Appendix 1.
- 11.2 The Council do broadly comply with the principles but will continue to examine the requirements of the Myners principles with a view to ensuring greater compliance. Any changes will be reflected in updated versions of the Statement of Investment Principles

Additional Voluntary Contributions (AVC)

- 12.1 In line with statute, the Council has to appoint AVC providers and the current providers are Clerical Medical and Prudential.

Compliance

- 13.1 The Council is responsible for monitoring the Fund's overall investment performance and the performance of each manager.
- 13.2 The Council is responsible for monitoring the qualitative performance of the managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration.
- 13.3 The Council will regularly review the Scheme's compliance with this Statement of Investment Principles. The Statement is reviewed at least every three years and in addition a revised version is issued in the event of significant change occurring.

Myners Principles: Defined Benefit Pension Schemes

1. Effective decision-making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Best Principle Guidance

- The board has appropriate skills for, and is run in a way that facilitates, effective decision making.
- There are sufficient internal resources and access to external resources for trustees and boards to make effective decisions.
- It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.
- There is an investment business plan and progress is regularly evaluated.
- Consider remuneration of trustees.
- Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

2 Clear objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Best Practice Guidance

- Benchmarks and objectives are in place for the funding and investment of the scheme.
- Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.

- Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.
- Consider the strength of the sponsor covenant.

3 Risks and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Best Practice Guidance

- Trustees have a clear policy on willingness to accept underperformance due to market conditions.
- Trustees take into account the risks associated with their liabilities' valuation and management.
- Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.
- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

4 Performance Assessment

Trustees should arrange for the formal measurement of the performance of investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Best Practice Guidance

- There is a formal policy and process for assessing individual performance of trustees and managers.
- Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).
- The chairman addresses the results of the performance evaluation.
- State how performance evaluations have been conducted.

- When selecting external advisers take into account relevant factors, including past performance and price.

5 Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Best Practice Guidance

- Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.
- Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.
- Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.
- Trustees ensure that Investment consultants adopt the ISC's Statement of Practice relating to consultants.

6 Transparency and Reporting

Trustees 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.

Trustees should provide regular communication to members in the form they consider most appropriate.

Best Practice Guidance:

- Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.

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