

### **Myners Principles (2009): Statement of Compliance**

#### **Principle 1: Effective Decision Making**

*Administering Authorities should ensure that:*

- *Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and*
- *Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*

#### **Fund Compliance - Full**

The Fund complies with this principle as it has a clear governance structure for decision-making a wide scope of issues, which is supported by expert advisors and officers with clear responsibilities. The role and responsibilities of all Committee members is set out in job descriptions. The Fund requires the Committee members to undertake training and a training log is maintained. The Fund intends to use the CIPFA Knowledge and Skills Framework as the basis for its training programme. The Fund has a forward looking three-year business plan.

#### **Fund Policy**

Bath & North East Somerset Council, as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administration and management of the Fund to the Avon Pension Fund Committee ("the Committee") which is the formal decision making body for the Fund. The Committee is subject to Terms of Reference as agreed by the Council which sets out the Committee's responsibilities, the Council's standing orders and financial regulations including the Codes of Practice. Declarations of interest are a standing item on every committee agenda.

The Committee is supported by the Director of Resources and a small team led by the Investments Manager. The Director regularly reviews the level of in-house staffing resource to ensure that it continues to be adequate to provide the necessary support. The Committee is responsible for agreeing policy framework, implementation of which is delegated to officers as appropriate. The Fund's policy on Officer Discretions is approved by the Committee. The Officers have job descriptions which set out their responsibilities in relation to the Fund.

Given the wide scope of the business covered by the Committee, the Fund has established an Investment Panel ("the Panel") to consider matters relating to the management and investment of the Fund's assets including the performance of the investment managers, and to advise the main committee on such matters. The Panel has a Terms of Reference and is subject to the same Council regulations as the Committee.

The Fund's "Governance Compliance Statement" sets out the Fund's governance arrangements, including its Terms of Reference, structure, representation and delegations. This statement is available on request or via the Avon Pension Fund website ([www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk)).

The requirement for broad representation on the Committee can mean that members of the Committee have a diverse set of skills and experience. Prior to their nomination to the Committee, separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the Committee, are issued to members.

All members are required to undergo training in order to develop their skills and understanding, specific to the issues under consideration by the Committee or Panel. In addition, the Fund has appointed expert advisors to provide specialist advice and there are two independent members on the Committee who have been recruited specifically for their financial expertise.

Prior to their nomination to the Committee and Investment Panel, members are required to agree and accept the job specification on the basis of which they receive an appropriate allowance. Allowances are recorded in Bath and North East Somerset Council papers which are publicly available – the Fund does not publish them separately. Expenses are paid in line with the allowances scheme for each employer/stakeholder from which the Committee member is nominated.

The Fund has a clear policy on training and maintains an attendance and training log. The Fund requires new members without prior experience of the Local Government Pension Scheme to attend a customised training course. All members (including non-voting members) are invited to workshops organised by the Fund. The Fund sets a training plan on an annual basis but recognises the need for flexibility so that it can be responsive to the needs of the Committee agenda. This training plan is included in the workplan report presented at each quarterly Committee meeting. The Fund's policy is to base the training programme on the CIPFA Knowledge and Skills Framework. The costs of approved external training courses are paid by the Fund for all Committee members.

The Fund retains the services of an actuary and an investment consultant. The Fund's investment consultant attends all Committee and Panel meetings and other expert advisors attend on an adhoc basis when appropriate. The Fund has an external Independent Investment Advisor who attends all Committee and Panel meetings and ensures relevant information and advice is provided to the Committee. Furthermore, the two "independent members" have been appointed to the Committee to strengthen the independence of the governance process. These Committee members are independent of the administering authority and other stakeholders. The selection process for appointing the Independent Members, Independent Investment Advisor and specialist consultants takes into account the degree of expertise which the individual (or organisation) can deliver to the Fund.

Committee and Panel papers are written in clear, jargon free language, and are circulated in a timely manner in line with the Council's public access policy to ensure members have sufficient time to study them ahead of the meeting.

The Avon Pension Fund Committee approves a forward looking three year Service Plan annually. The Service Plan outlines the major milestones the Fund and Committee will be considering during the three year period and the financial and resource implications of the work programme. Progress on the current plan is measured annually by the Committee. In addition, forward looking workplans for the Committee, Panel, Investment Team and Benefits Team are included in the quarterly Committee papers.

## **Principle 2: Clear Objectives**

*An overall investments objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.*

### **Fund Compliance - Full**

The Fund complies with this principle as it has a clear investment objective and strategy as set out in the Statement of Investment Principles. The actuarial position and financial impact on scheme employers and tax payers is taken into account when formulating the investment strategy. As a result the Fund has a customised benchmark reflecting the Fund's own liability profile. The Committee has considered the impact on return and risk of different asset classes when devising its strategy. The investment managers have individual performance targets and their performance against target is monitored by the Committee. The Fund always obtains expert advice when considering its investment objective and strategy.

### **Fund Policy**

The asset allocation and investment strategy are set out in the Fund's Statement of Investment Principles and Funding Strategy Statement.

The Fund's Investment objective is set having taken into account the actuarial profile of the Fund as advised by the Fund's actuary. The investment strategy is reviewed following the triennial valuation as a matter of course; however, the strategy adopted reflects the long term nature of the liability profile and should not therefore be subject to significant change over shorter time periods.

The Fund adopted a customised investment benchmark policy in 1 April 2003 which is reviewed periodically, most recently in June 2009. In selecting and reviewing its benchmark the Committee takes into account the need to return the Fund to a position of full funding as soon as practicable but aiming to keep contribution rates as stable as possible. The Fund also considers the liabilities maturity profile and cashflow requirements of the Fund as well as the impact upon individual scheme employers and council tax rates. The Committee have been advised that it is not beneficial at this time to establish a sub-fund for individual employers with a separate investment strategy as there is not enough diversity within the membership and financial profile of employers to warrant such an approach.

The Committee's approach to risk is balanced by these requirements and as a result the Fund retains a significant exposure to a diversified selection of return generating assets. In 2006, having taken expert advice, the Fund diversified into property and hedge funds in order to reduce the volatility of the investment returns generated by equities. Asset allocation was reviewed in 2009 and the conclusion was that the allocation between the main asset classes remained valid. The Fund implemented an active currency hedging strategy in 2011 to reduce the volatility of foreign currency on investment returns when translated into sterling.

The Fund's strategy includes a mix of passive and active mandates with the aim of concentrating the risk budget available with a select number of mandates where the Fund believes value can be added. There is no prejudice against the use of any financial instrument provided that there are benefits to the Fund in permitting their use. Where these instruments take the form of derivatives, controls are applied as appropriate.

Within the Fund's overall investment objective, each investment manager is set an appropriate performance target and benchmark against which performance will be measured. The Committee reviews the managers' performance quarterly and all managers are subject to a formal review at least every three years.

When reviewing its investment strategy, the Committee obtains proper advice from specialist advisors. The Fund's investment consultant and actuary are appointed by a competitive tender process, under EU procurement rules, which set clear objectives and assessment criteria. When making appointments, the Committee always evaluate value for money and efficiency/ ability to deliver the service required. The advisors are appointed for a set time period after which the contract is automatically re-tendered.

The Committee are aware of the investment management fees charged by the investment managers and other transaction related costs. The investment managers disclose their commission costs half yearly via their Level II reports in line with industry best practice.

### **Principle 3: Risk and Liabilities**

*In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.*

*These include the implications for local tax payers, the strength of the covenant for participating local employers, the risk of their default and longevity risk.*

#### **Fund Compliance - Full**

The Fund complies with this principle in that the investment objective and strategy reflects the specific liability profile of the scheme members and that the covenant of the employer and their ability to pay contributions is taken into account. The Fund has in place a risk management process to ensure risks are identified and mitigating action is taken where possible and the external auditor reports its assessment of the risk management process to the Committee.

## **Fund Policy**

In setting the overall investment objective, the Committee (in consultation with its actuary and investment advisors), has considered the appropriate risk and return profile given the Fund's specific views on its liabilities, financial risk and the employers' ongoing ability to pay contributions. Comprehensive analysis is undertaken on factors affecting long term performance and the levels of volatility that are acceptable over shorter periods due to market conditions.

The overall investment objective is expressed as a return in excess of gilt returns (as a proxy for the Fund's liabilities).

The triennial valuation sets out the liability profile for each individual employer within the Fund. The strength of the covenant of each employing body and risk of default is taken into consideration when setting the employer contribution rate and period over which any deficit will be recovered.

The Fund's liabilities are long term in nature and the investment strategy reflects this liability profile by investing in long term return generating assets. The Fund's benchmark includes diversification across a number of asset classes in order to reduce the volatility of returns over shorter periods, specifically over the three year valuation period. However, over such short periods it is not always possible to achieve lower volatility.

Financial risks such as interest rate and inflation risk (or salary risk) are managed through investing in index linked bonds and real assets such as property. The longevity profile of the Fund is reviewed at each triennial valuation. The Fund does not explicitly hedge longevity risk but reviews its longevity assumption against Fund experience and national trends. The Fund's actuary provides annual interim valuations in between the triennial valuation (based on triennial valuation assumptions but updated financial assumptions) to enable the Committee to monitor the change in the funding position over time.

The Fund maintains a Risk Register which consolidates all the significant risks to the Fund and it is updated on a regular basis and the Risk Register action plan is considered by the Committee. The Committee also annually reviews the Internal Control reports of its third party suppliers. The external auditor presents an Annual Governance Report to the Committee which states their assessment of the risk management process. The overall risk management process is outlined in the Annual Report and Accounts.

## **Principle 4: Performance Assessment**

*Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.*

*Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.*

## **Fund Compliance - Full**

The Fund complies with this principle with regard to the measurement of the Fund's performance against its investment objective and that of its investment managers against their benchmarks. In respect of assessing the performance of advisors the Fund complies in that contracts are assessed on an ongoing basis. The performance of the decision-making bodies is assessed by external auditors and through the Committee's Annual Report to Council on its activities and decisions taken during the year.

## **Fund Policy**

The Fund believes as a matter of principle, that the selection of appropriate index benchmarks for the Fund are for the Fund to determine, prior to the appointment of an investment manager, on advice from the Fund's investment consultant. When selecting the index benchmarks for investment manager mandates, the Fund discusses the appropriateness with its investment advisor and investment manager to ensure that there are no sub optimal incentives for the Manager.

Where the Fund has appointed active managers, it has set performance targets and, where appropriate, risk limits which require the application of active strategies and has selected managers whose investment processes are consistent with this. The Fund is fully conscious of the need to ensure that managers have the freedom to pursue their active strategies and discuss any constraints placed on the mandate at regular intervals to ensure this continues to be the case. The Fund also believes that there are other factors which need to be taken into account in deciding between active and passive management apart from the efficiency, liquidity and level of transaction costs in the market concerned.

The Fund has written mandates with all its managers which incorporate overall objectives, asset allocation, benchmark flexibility, performance targets with timescales and risk control mechanisms. Managers' performance is normally assessed on a rolling three-year or five year basis dependent on the mandate. The Fund reserves its right to terminate a mandate before the expiry of the evaluation timescale because there may be circumstances other than those specified in the Myners recommendation which would justify early termination. However, it would not, under normal circumstances, look to early termination.

The Fund employs The WM Company to measure the performance of the investment managers and the Fund as a whole. This includes divergence and impact on overall asset allocation, asset class performance and manager performance against benchmark. The results are reported to the Committee on a quarterly basis and are also included in the Annual Report and Accounts of the Avon Pension Fund. The Committee in consultation with its investment advisors assesses the performance of the investment managers and decides whether any action is required. The Fund uses the WM Local Authority Fund performance statistics for comparative information only.

Currently the Committee and Officers assess the Fund's actuary and investment consultants on an ongoing basis paying attention to the cost, timeliness, consistency and quality of advice. All advisory contracts are for a set period after which they are competitively tendered. Previously the Fund appointed investment

consultants on a project by project basis but appointed a retained consultant in 2009. The advice received will be assessed on an ongoing basis as part of the Committee's Annual Report to Council (see below).

The Committee receives regular performance monitoring reports on operational aspects of the Fund and reviews its policies and procedures periodically according to its work-plan. The Committee also relies on auditors and external inspectors to assess its procedures and performance. The Committee sets out its objectives in a forward looking three year Service Plan, progress against which is reported annually. The Committee recognises that self assessment of their performance is difficult to implement. However, the Committee annually publishes an Annual Report for the Council on its activities (including training) and the decisions taken. This report is distributed to all employing bodies. In addition, the Committee periodically assesses the effectiveness of its decision-making process and structure in order to identify areas for improvement. The most recent assessment was in 2010.

## **Principle 5: Responsible Ownership**

*Administering Authorities should:*

- *Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.*
- *Include a statement of their policy on responsible ownership in the statement of investment principles*
- *Report periodically to scheme members on the discharge of such responsibilities.*

### **Fund Compliance – Full**

The Fund requires its managers adopt the FRC UK Stewardship Code and the Fund's policy on responsible ownership is included in its Statement of Investment Principles. The Fund published its compliance with the FRC UK Stewardship Code in December 2010.

### **Fund Policy**

As a matter of principle, the Fund believes that, in the final analysis, any decision as to whether to engage with a company or exercise a vote in a particular way is a matter for the investment manager.

The Fund's policy towards responsible ownership is set out in its Statement of Investment Principles. The Fund's investment managers previously all adopted the Institutional Shareholders' Committee - Responsibilities of Institutional Investors and Agents, Statement of Principles (ISC SIP). This code has now been replaced by the FRC UK Stewardship Code which sets out best practice for how shareholders and their agents should discharge their responsibilities with regard to corporate governance. Each of the investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. The corporate governance policies of each of the Fund's Investment Managers can be found on the Fund's website ([www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk)).

The Fund's voting policy requires its UK equity managers to vote at all company meetings and the managers are expected to uphold the principles of the UK Corporate Governance Code. The overseas equity managers are required to vote at all overseas company meeting where practical. The voting activity of the managers is monitored by Manifest and will be reported to the Committee each quarter. From 2012 Manifest will provide an annual report on the Fund's voting activity as well as wider trends in corporate governance.

In addition the Fund believes that in order to responsibly address long term investments concerns and opportunities, environmental, social and governance issues must be considered when appointing and monitoring investment managers. The Fund adopted a Responsible Investing Policy in June 2012 which sets out the Fund's approach to all aspects of responsible investing.

The Fund is a member of the Local Authority Pension Fund Forum, a collaborative body that seeks to maximise the influence of, and promote the interests of, local authority pension funds with regard to governance, social, ethical and environmental issues.

## **Principle 6: Transparency and Reporting**

*Administering Authorities should:*

- *Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives*
- *Provide regular communication to scheme members in the form they consider most appropriate*

### **Fund Compliance – Full**

The Fund complies with this principle in that it has a clear policy to communicate and consult with its scheme members, representatives and employers as appropriate. The Fund ensures that all documents and statements are made available and that the Annual report contains information and data relevant to its many, diverse stakeholders.

### **Fund Policy**

The Fund publishes the following statements: a Statement of Investment Principles, a Funding Strategy Statement, a Governance Compliance Statement and a Communications Policy Statement. Scheme members and employers are informed when these statements are revised through various communication tools and they are made available either in hard copy on request or via the Avon Pension Fund website ([www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk)). These statements are updated as required or when material changes are implemented. All the statements must be approved by the Committee.

The published Annual Report highlights any changes made to any of the above statements during the year. In addition the review of the year includes all the activities and projects the Fund has undertaken during the period under review. The Annual Report provides scheme members and employers information about



the Fund, its investment and administration strategies and its performance as well as its financial statements and auditors opinion.

Monitoring reports on investments, advisors, managers and risks are formally reported to the Committee, copies of which are made publicly available on the Council's website.

Major developments relating to the Fund's investments and governance are also reported to scheme members through regular newsletters, which can be accessed on the website and are also distributed via email and hard copy through the post.

The Administering Authority consults stakeholders on actuarial valuation issues, legislative consultations affecting the Scheme, quality of service issues, governance issues and the committee structure. The extent to which stakeholders are consulted is not stated in a written policy as it will be determined on a case by case basis.

*To be approved by APF Committee 21 September 2012*