

**Cronfa Bensiynau Clwyd  
Clwyd Pension Fund**



**FLINTSHIRE COUNTY COUNCIL**

**CLWYD PENSION FUND**

**STATEMENT OF INVESTMENT PRINCIPLES &  
POLICIES**

**JULY 2008  
(UPDATED)**

## **STATEMENT OF INVESTMENT PRINCIPLES & POLICIES**

1. The Clwyd Pension Fund adopted as best practice from April 1997 the production, publication and regular review of a Statement of Investment Principles (SIP). The Fund will continue this practice in response to the Local Government Pension Scheme (Management and Investment)(Amendment) Regulations 1999, which now require the formal publication of a SIP.
2. Flintshire County Council delegates responsibility for the Clwyd Pension Fund to the County Finance Officer, as such, the Pension Fund Panel, which is made up of elected Members from Flintshire, Denbighshire and Wrexham, is an Advisory Body.
3. Elected members on the Clwyd Pension Fund Panel, although an Advisory Body, recognise that they have fiduciary duties (quasi-trustee) towards the beneficiaries, the employers and local taxpayers which are analogous to those holding the office of Trustee in the private sector.
4. The Fund's investment policy and management of the Fund will be directed at achieving and maintaining a fully funded scheme and, where practical, a stable employers' contribution rate.
5. In determining its detailed fund management arrangements and operations, the County Finance Officer and the Pension Fund Panel will consider, at least once a year, its policy as regards social, environmental and ethical investment. The policy currently employed adopts a positive approach. There will be no direct investment restrictions applied and Managers will have full freedom to invest. They will, however, be encouraged to take account of social, environmental and ethical issues in so doing and, in addition, to use their influence with companies on behalf of the Fund to effect social and environmental improvements.
6. Since 1 April 1996, the Clwyd Pension Fund has and will continue to produce, publish and regularly review a set of Corporate Governance Policy Guidelines. These set out guidance to Managers on general investment policies, incorporate the social, environmental and ethical considerations set out above and provide a broad framework.
7. The Fund will pursue a policy of lowering risk through diversification of both investments and investment managers.
8. Investment managers will be given clear investment mandates incorporating appropriate benchmarks and agreed targets. Managers will be employed on a fully discretionary basis within these mandates, but, in making investment decisions and managing the Fund's assets, managers will be expected to have regard to social, environmental and ethical issues, the Fund's Corporate Governance Policy Guidelines and to legislative requirements.
9. Investment managers will be held rigorously accountable for their performance through a regime of performance measurement against targets.
10. Investment management arrangements will be reviewed periodically and as required. A full in-depth review will be carried out at least every four years.
11. The security of the Fund's assets will be closely monitored through its Global Custodian.
12. The Fund's investment managers and custodians will be made aware of this Statement of Investment Principles.

**FLINTSHIRE COUNTY COUNCIL**

**CLWYD PENSION FUND**

**A REFERENCE GUIDE TO THE FUND'S  
STATEMENT OF INVESTMENT PRINCIPLES &  
POLICIES**

**JULY 2008**

## 1. INTRODUCTION

- 1.1 The Pensions Act 1995 requires Trustees of private sector pension schemes to prepare and keep up to date a written statement recording the investment policy of the pension fund, through a Statement of Investment Principles (SIP).
- 1.2 The Local Government Pension Scheme (LGPS), which is subject to Regulations made under the Superannuation Act 1972 and which regulates some of the same issues, was initially exempt from this requirement of the 1995 Act. Nevertheless, the creation, consideration and periodic review of a Statement of Principles on Investment and Fund Management was considered best practice for all funds and one with which the Clwyd Pension Fund voluntarily complied with from 1 April 1997.
- 1.3 With effect from 1 July 2000, LGPS Funds are required by the Local Government Pension Scheme (Management and Investment)(Amendment) Regulations 1999, to publish a SIP, which, when published must include the Fund's policy on the following.
- the types of investments held (see Section 7)
  - the balance between different types of investments (see Section 7)
  - risk (see Section 7)
  - the expected return on investments (see Section 7)
  - the realisation of investments (see Section 7)
  - the extent to which social, environmental or ethical considerations are taken into account in investments (see Section 8)
  - the exercise of the rights (including voting rights), if any, attaching to investments (see Section 9)

The SIP also addresses the role of the County Finance Officer, quasi-trustees and other Panel Members as well as the holding of an annual Joint Consultative Meeting for Employers, Pensioners and Trade Unions.

- 1.4 This SIP and Reference Guide, together with the accompanying Corporate Governance Policy Guidelines and the extent of compliance with the Myners 10 principles, are designed to meet the requirements of the legislation.
- 1.5 The SIP is effective from 1 July 2008 and will be reviewed on an annual basis.
- 1.6 The SIP should be read in conjunction with the following statutory documents:
- Funding Strategy Statement
  - Governance Policy Statement
  - Communications Policy Statement

All the above can be found on the Fund's web site : [www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk).

## **2. STATUTORY FRAMEWORK**

- 2.1 The Clwyd Pension Fund is a statutory LGPS, set up to provide death and retirement benefits for local government employees, other than teachers, police and firefighters in North East Wales. In addition, employees of certain other qualifying bodies which provide services similar to that of local authorities have been admitted to membership of the LGPS and hence the Fund.
- 2.2 The Clwyd Pension Fund is funded by banded percentage contributions from employees and variable contributions from employers which take account of the relationship of assets to liabilities as disclosed in the triennial actuarial valuation. The benefits of the scheme are prescribed nationally by Regulations made under the Superannuation Act 1972.
- 2.3 The latest set of Regulations made under the Superannuation Act 1972 are the LGPS Regulations 2008 which came into effect from 1 April 2008. These are amended from time to time to take account of scheme changes.
- 2.4 The Clwyd Pension Fund is administered by Flintshire County Council. In the discharge of this function, the Flintshire County Council has delegated its powers to the County Finance Officer and through an advisory body – The Clwyd Pension Fund Panel - which is made up of elected Members from Flintshire, Denbighshire and Wrexham.
- 2.5 The Pension Fund Panel normally comprises five elected Members, County Finance Officer and officers' and advisers', who are knowledgeable in the investment of Pension Funds, provide advice and assist the Panel in the discharge of its responsibilities. A staff/union representative also sits on the Panel in an observer capacity.
- 2.6 This document outlines the broad investment principles governing the investment policy of the Fund. The Pension Fund Panel has largely delegated the management of the Fund to professional investment managers, with the exception of Property and Private Equity, whose activities are constrained by detailed Investment Management Agreements.
- 2.7 Further details of the Fund's Governance arrangements can be found in the Governance Policy Statement which can be accessed via the Fund's web site [www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk).

### **3. GENERAL OWNERSHIP AND RESPONSIBILITIES (INCLUDING THE ROLE OF THE QUASI TRUSTEE)**

- 3.1 Flintshire is designated as lead authority for the Clwyd Pension Fund by Regulations made under the Local Government (Wales) Act 1995, which dealt with the reorganisation of Local Government in Wales, effective from 1 April 1996.
- 3.2 The administration of Clwyd Pension Fund is a statutory duty laid upon the authority by Regulations made under the Superannuation Act 1972. The Fund is simply a Fund of the Council, albeit closely regulated by statutory instruments, and has no separate legal identity from the Council.
- 3.3 It follows, therefore, that Elected Members are not Trustees of the Fund, even though convenient usage sometimes results in that term being applied to them. Elected Members do, however, have a duty of care which is analogous to the responsibilities of Trustees in the private sector and they could be more accurately described as "Quasi-Trustees". The term Quasi-Trustee will be used throughout this document in order to distinguish those responsible for the Fund from contributor, pensioner and deferred members of the Fund who will, collectively, be termed beneficiaries.
- 3.4 In administering the Fund, the County Finance Officer and Quasi-Trustees owe a duty both to the beneficiaries and the local taxpayers. That duty has been expressed as seeking, ".....to maximise the return on the invested funds so far as it can do so without incurring unacceptable risks" (McFadyen QC 5/90).

## 4. INVESTMENT RESPONSIBILITIES

4.1 The County Finance Officer and the Clwyd Pension Fund Panel, in an advisory capacity, are responsible for:

- Agreeing the Statement of Investment Principles and Corporate Governance Policy Guidelines
- Publication of a Funding Strategy Statement (in line with the Actuarial Valuation), Governance policy statement and Communications Strategy
- Establishing and reviewing strategic asset allocation targets
- Appointing the investment manager(s) and external consultant(s)
- Appointing the custodian and actuary
- Reviewing on a regular basis, the investment managers' performance against established benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls.
- Effecting a review of fund management arrangements (at least every four years).
- Agreeing the Fund's Corporate Governance and Communications Strategy.

4.2 The Investment Managers are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by this document and each Manager's detailed Investment Management Agreement or Investment Memorandum;
- Where allowed, tactical asset allocation around the benchmarks as set out in the Investment Management Agreements;
- Stock selection within asset classes (purchases and realisations);
- Preparation of a quarterly review of investment performance;
- Attending Review Meetings with the Fund's officers, advisors and quasi-trustees';
- Assisting the County Finance Officer and the Clwyd Pension Fund Panel in the preparation/review of this document;
- Providing details in a timely manner to the WM Company, to enable calculation of the rate of return achieved on the Scheme's investments

4.3 The Global Custodian is responsible for:

- Where the Fund holds segregated assets, the safekeeping of assets, the collection of income, the voting of shares and the execution of transactions in accordance with the Custody Agreement and the Fund's Corporate Governance Policy Guidelines;
- Its own compliance with prevailing legislation;
- Providing the County Finance Officer and the Clwyd Pension Fund Panel with quarterly valuations of the Scheme's assets, details of all transactions during the quarter, bank statements and all other relevant documentation.

#### 4.4 The Actuary is responsible for:

- Providing the County Finance Officer and the Clwyd Pension Fund Panel with advice relating to the establishment of strategic asset allocation benchmarks;
- Providing the County Finance Officer and the Clwyd Pension Fund Panel with advice as to the maturity of the Fund and its funding level to aid the Quasi-Trustees in balancing the investment objectives of the Fund through the Actuarial Valuation.
- Working with the Fund at each Actuarial Valuation to produce a Funding Strategy Statement (FSS).
- Providing quarterly funding updates which link into the Funding Strategy Statement.
- Performing the triennial valuations.

## **5. DESCRIPTION OF FUND'S LIABILITIES**

- 5.1 The LGPS is a public sector statutory defined benefit pension scheme which provides benefits related to the final salary of members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets. Full details of Scheme benefits are set out in the Local Government Pension Scheme Regulations.
- 5.2 All active members of the Scheme are required to make banded pension contributions dependent on salary.
- 5.3 The employing bodies are responsible for meeting the balance of costs necessary to finance the benefits payable under the Scheme and their contribution rates are determined on a triennial basis (Actuarial Valuation).
- 5.4 Beneficiaries have an interest in the extent to which the Fund's assets are sufficient to meet accrued benefits, albeit that their benefits are guaranteed by the Regulations. The employers, however, have a direct financial interest in the investment return achieved on the Fund's assets since these returns have a direct bearing on their own costs.
- 5.5 The Fund's Annual Report and Accounts sets out, current details relating to the following areas as determined by the LGPS Regulations 2008:
- A report on the management and financial performance of the Fund
  - A report explaining the investment policy and performance
  - A report on the administration arrangements
  - An actuarial statement including the funding level
  - Funding Strategy Statement
  - Statement of investment principles (SIP)
  - Governance Compliance statement
  - Pension Fund Accounts
  - Pension Fund Administration strategy
  - Communications policy statement

## 6. GENERAL FUNDING AND INVESTMENT POLICY

- 6.1 The existence of surpluses or deficits from previous valuation periods can reduce or increase the contributions made by employers. Given constraints on employer spending, volatility in the employers' contribution rate is undesirable.
- 6.2 In managing the Fund, therefore, the overall investment objective should be:
- to aim for a funding level of 100%;
  - to aim for long term stability in employers' contribution rates
- 6.3 The Clwyd Pension Fund is currently funded at 75.0% of liabilities (2007 Actuarial Valuation) for historic reasons and employers' rates are currently structured to achieve a gradual return to 100% funding.
- 6.4 Whilst stability of costs from the employers' rates has the higher priority, absolute cost to the employer is also important. This implies:
- that the cost of administering the Fund will be constrained by the adoption of best management practice;
  - that employers will adopt appropriate and economic policies in those areas where they have discretion and where the costs of their actions fall on the Fund;
  - that the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will continue to take an active risk relative to its liability profile.
- 6.5 The investment policy of the Fund is intended to strike the appropriate balance between the policy most suitable for the long term consistent performance and the objectives outlined in 6.2 above.
- 6.6 At a more detailed level, the Fund's membership comprises approximately 49% contributors and 51% pensioners (including deferred and frozen pensions). The best asset match for index linked pensions would be index linked gilts, with perhaps some conventional bonds, whilst the best match for contributors' liabilities would be "real" assets (equities and alternative investments which include property & private equity). The Fund is a long term investor and can favour the latter.
- 6.7 A Funding Strategy Statement (FSS) has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (as amended). The Statement outlines the strategy for recovering the funding deficit over 17 years. A copy of the FSS can be obtained from the Fund's web site : [www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk).

## **7. INVESTMENT STRATEGY**

- 7.1 Over the next year it is anticipated that the extent of contributions and investment income will exceed the cost of benefits in payment and administration expenses, thus providing a positive cash flow of in excess of £20 million. This means that there will be no necessity to draw down money from fund managers during the year.
- 7.2 Different asset classes, such as equities and bonds, behave in different ways. Funds structured with different proportions of each carry different levels of strategic risk. Risk, though defined in many ways, generally refers to the volatility of returns or their tracking error in the context of investments and it requires consideration of diversification versus concentration; overall degree of out-performance sought; appropriate benchmark and portfolio target(s). The Fund's overall strategic risk is currently determined through its fixed strategic benchmark.
- 7.3 As part of the 2000 Fund Structure Report, the issue of a fixed strategic benchmark was agreed at the Panel meeting of 9 May 2001. Strategic asset allocation levels are used to set out the Fund's broad long term policy on asset allocation and are usually aimed at taking account of the Fund's current and future liability profile. Tactical ranges define the variance allowed around the fixed benchmark for each asset category before rebalancing is required. The fixed strategic benchmark and tactical ranges was reviewed as part of the 2006 Fund Structure Review and it was agreed that the Fund continue to impose a series of bandwidths as shown below.
- 7.4 What is clear, however, is that the Clwyd Fund, whilst continuing to mature gradually in terms of its scheme member mix, still has positive cash flow and is under no pressure to switch to fixed interest stocks to ensure an income stream for benefit payment purposes. The Fund, however, will gradually mature and certainly has a window of opportunity to return to 100% funding from a current level of 75%. The 2006 Fund Structure Review concurred with that view and the Panel approved a greater % allocation to alternative investments.

## Fixed Strategic Benchmark

<b>Scenario</b>	<b>Weight (%)</b>	<b>Tactical Ranges</b>
<b>Equities</b>		+/- 3%
Global Unconstrained	5	+/-1%
UK equities		+/-1%
- UK Traditional active	15	+/- 1%
- UK portable alpha FTSE	12	+/- 1%
Overseas equities		+/- 2%
- US equities	5	+/- 1%
- Europe equities	6	+/- 1%
- Japan equities	4	+/- 1%
- Pacific Rim equities	4	+/- 1%
- Emerging Markets equities	4	+/- 1%
<b>Fixed Interest</b>		
Unconstrained	13	+/- 2%
Cash/Other	0	upto+5%
<b>Alternatives</b>		+/- 3%
Asset Allocation	5	+/- 1%
Private Equity	8	+/- 2%
Property	8	+/- 2%
Hedge Fund of Funds	5	+/- 1%
Currency Funds	4	+/- 1%
Commodities	2	+/-1%
<b>TOTAL</b>	100	

- 7.5 Although there is no long term strategic allocation to cash or other assets, there is a need to include a tactical range to accommodate exceptional economic/stockmarket circumstances where it is not considered appropriate to re-balance the portfolio (see 7.7 below) and where investment commitments have been made.
- 7.6 The Fund's asset allocators are required to outperform the fixed strategic benchmark by 0.5% p.a. and they do this by investing in an overlay fund.
- 7.7 Having agreed the fixed benchmark there is a need to keep the position under review. Re-balancing of the Fund to keep it in line with the benchmark will incur costs and will, therefore, need to be considered in light of the benefits to be achieved and the costs associated with turnover. Re-balancing will only take place quarterly when an asset class has moved by more than the ranges indicated in the table above (except in circumstances outlined in 7.5 above).

- 7.7 The County Finance Officer delegates to fund managers, under the appropriate client agreement, the power to make such purchases and sales as they deem appropriate within the above constraints. Furthermore, the County Finance Officer and the Clwyd Pension Fund Panel will review the overall investment strategy of the Fund at least annually, taking account of changes in the liability position of the Fund and employing authorities' attitude to volatility in Fund contributions. Many non-investment factors, such as salary inflation, price inflation, mortality, early retirement, new entrants etc., may also impact materially on the funding position.
- 7.8 The Fund will carry out a fundamental review of fund management arrangements at least every four years.

## 8. SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

- 8.1 The issue of social, environmental and ethical investment has been considered on a regular basis since 1996 and was covered as part of a major Fund Review exercise carried out in 1997. Further consideration was given to these same areas every year as part of the annual review of the Fund's SIP and Corporate Governance Policy Guidelines.
- 8.2 The Clwyd Pension Fund Panel are firm supporters of the need for social, environmental and ethical improvements by companies and, subject to its primary fiduciary duties, have a clear view that the investment process should be used as a means of encouraging and achieving this. The key issue, which has been considered by the County Finance Officer and the Panel at length, is how these aims can be best met.
- 8.3 On this issue, the County Finance Officer and the Clwyd Pension Fund Panel do not believe in the negative approach which involves screening and de-listing stocks for managers, or investing in pooled vehicles constructed using this same approach. In their view, such a policy is not the best way of achieving social, environmental and ethical improvement by companies nor is it practical in terms of the Fund's structure.
- 8.4 Many other Pension Funds in recent years have tried to address this issue by putting a small percentage of their resources into a green, environmental or SRI pooled vehicle. The County Finance Officer and the Clwyd Pension Fund Panel believe that such an approach is merely tokenism and is unlikely to achieve the aim of real social, environmental and ethical change in companies.
- 8.5 The County Finance Officer and the Clwyd Pension Fund Panel believe in adopting a long term positive approach which involves working with companies to encourage improvement rather than excluding them for investment purposes. The principle stages are as follows.
- Research -This involves managers screening/researching and rating/ranking companies
- Evaluation - This follows on from the first element and is about managers drawing comparisons between companies and, providing that the potential returns are considered to be equal, directing investment towards those companies which are better on social, environmental or ethical grounds.
- Engagement - This involves taking up with companies environmental and ethical concerns in the regular meetings with companies and seeking from them a commitment to positive social change.
- 8.6 The Fund recognises the growing scientific and political consensus that emissions of carbon dioxide and other greenhouse gases are contributing to climate change and believes that institutional investors and companies will benefit from a greater understanding of these risks and opportunities presented by climate change through engagement and collaboration. The Fund is a member of the Local Authorities Pension Fund Forum (LAPFF) who has devoted considerable resources to the issue of climate change with major UK companies. The LAPFF has signed up to the UN Principles for Responsible Investment.

8.7 Under the current Corporate Governance Policy Guidelines, it is already a requirement that managers "should maintain a high awareness of social, environmental and ethical issues and will be expected to use their influence to achieve improvements in these areas as appropriate".

## **9. CORPORATE GOVERNANCE**

- 9.1 The Fund's investment managers keep in very close contact with the management of Companies in which they invest client monies and devote considerable highly skilled analytical resources to understanding those businesses. Hence they are in a strong position both to informally influence company management and to consider thoughtfully issues which arise on company agendas.
- 9.2 The County Finance Officer and the Clwyd Pension Fund Panel require investment managers, where appropriate, to vote the Fund's holdings at the AGMs and EGMs of Companies. A quarterly report to the Panel details the voting action effected by fund managers.
- 9.3 In order to provide assistance to investment managers in carrying out this role, the County Finance Officer and the Clwyd Pension Fund Panel have formulated and agreed Corporate Governance Policy Guidelines, which take account of the Cadbury, Greenbury and other recommendations. The Fund has also joined the Local Authority Pension Fund Forum (LAPFF) and the National Association of Pension Funds (NAPF) which exists to promote the investment issues of LGPS, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst companies in which they invest.
- 9.4 The current Corporate Governance Policy Guidelines are included as an Appendix to this SIP Reference Guide (See Appendix A).

## **10. DIVERSIFICATION OF INVESTMENT**

10.1 The Fund pursues a policy of lowering risk by diversifying both investments and investment managers. As a result of a fundamental fund management review carried out in 1992, the County Finance Officer and the Quasi-Trustees appointed three investment managers with effect from 1 April 1993 to manage specific portfolios and to match or outperform prescribed benchmarks on those portfolios.

10.2 This structure and the existing investment managers were reviewed again during 1997 and a number of changes introduced, including the appointment of a fourth manager, aimed primarily at marginally reducing risk and increasing diversification. A further exercise was carried out in 1999, primarily aimed at reviewing detailed asset allocation processes as well as the performance of managers on a couple of specific portfolios which were subject to detailed monitoring after the 1997 review. No manager changes were proposed as a result of the review. A further review was affected in 2000 which resulted in the Japanese portfolio being awarded to Fidelity, with effect from 1 April 2001. The 2003 Fund Structure Review resulted in an increased % allocation to alternative investments. The 2006 Review made no fundamental structural adjustments. However, there are changes in the method of delivery aimed at further diversification from, and less constraint on, traditional asset classes. Along with the use of new investment approaches, tools and products to improve returns further and reduce volatility. Managers were appointed to the following mandates:

- UK Core Equity
- UK Equity Portable Alpha
- Global Equity Unconstrained
- Fixed Interest Unconstrained
- Global Tactical Asset Allocation
- Commodities

10.3 Each Manager has full discretion in terms of stock selection within the mandate awarded. In choosing investments, however, the managers must have regard to, their performance objective, diversification and the suitability of those assets. The Fund's managers, their benchmarks and targets are set out below.

<b>Manager</b>	<b>Asset Category</b>	<b>Benchmark</b>	<b>Target</b>
<b>Benchmark Strategies</b>			
Standard Life	UK Core Equity	FT All Share	+2.00%
Stone Harbor	Unconstrained Fixed Interest	FT All Stocks	+1.50%
T Rowe Price	US Equity	S&P 500	+1.25%
BGI	Europe Equity	FT Europe excl. UK	+1.50%
Fidelity	Japan Equity	FT Japan Topix	+1.50%
Aberdeen	Asia Pacific (ex Japan) Equities	MSCI AC Asia Pacific (ex Japan)	+3.00%
Wellington	Emerging Markets Equity	MSCI Emerging Markets Free	+1.50%
TT International	Europe Equities (High Alpha)	FT Europe (ex UK)	+3.00%
Gottex	UK Equity Portable Alpha	FTSE 100	+4.00%
<b>Absolute Return Strategies</b>			
BGI	Global Tactical Asset Allocation	3 Month £ Libor *	+15.00%*
Investec	Global Equity	MSCI World *	+3.50%*
Wellington	Commodities	GSCI Sectors *	+1.50%*
Pioneer	Fund of Hedge Fund	Absolute Return	+8-10%
Quellos	Fund of Hedge Fund	Absolute Return	+8-10%
GSAM	Currency Fund	Absolute Return	+8-10%
Various	Property/Private Equity	Absolute Return	+8-10%

\* Benchmark and target are nominal – the real target is absolute return.

10.4 The County Finance Officer and the Clwyd Pension Fund Panel appreciate the need for stability and will assess the managers' investment returns on a rolling three year basis. Performance in terms of diversification, compliance with Investment Management Agreements, administration and returns will be monitored quarterly and considered in more detail on an annual basis.

## 11. MYNERS

- 11.1 The Government published its Code of Investment Principles on 2nd October 2001 in response to the Myners Report : “Institutional Investment in the UK: a Review”.
- 11.2 The Local Government Pensions Scheme (management and Investment of Funds) Regulations 2002 came into force on the 9th August 2002 and states that administering authorities must state the extent to which they comply with the Myners 10 principles in their Statement of Investment Principles. Furthermore, each administering body must publish annually, by no later than 30th September each year, their policy to which they comply with the 10 principles.
- 11.3 The table below identifies the extent of compliance with Myners 10 principles which can be summarised as follows (See Appendix B):

<b>MYNERS 10 PRINCIPLES</b>	<b>EXTENT OF COMPLIANCE</b>	
Principle 1 : Effective Decision Making	1	Full Compliance
Principle 2 : Clear Objectives	2	Full Compliance
Principle 3 : Focus on Asset Allocation	3	Full Compliance
Principle 4 : Expert Advice	4	Full Compliance
Principle 5 : Explicit Mandates	5	Full Compliance
Principle 6 : Activism	6	Full Compliance
Principle 7 : Appropriate Benchmarks	7	Full Compliance
Principle 8 : Performance Measurement	8	Full Compliance
Principle 9 : Transparency	9	Full Compliance
Principle 10 : Regular Reporting	10	Full Compliance

## **12. COMPLIANCE**

- 12.1 The County Finance Officer and the Clwyd Pension Fund Panel are responsible for monitoring the Fund's performance both at global level and on a manager by manager basis.
- 12.2 The County Finance Officer and the Clwyd Pension Fund Panel are responsible for monitoring the qualitative performance of the managers and custodians employed to ensure that they remain suitable investment managers/custodians for the Fund. These qualitative aspects include, inter alia, changes in ownership, changes in personnel, poor administration etc. and compliance with regulatory bodies codes/guidelines.
- 12.3 At an annual Pension Fund Panel meeting, the County Finance Officer and the Clwyd Pension Fund Panel will consider the Fund's compliance with this Statement of Investment Principles and Policies.

**CORPORATE GOVERNANCE POLICY GUIDELINES**

**OVERRIDING PRINCIPLES**

<b>Restrictions</b>	No social, ethical or environmental restrictions exist as regards the selection of stocks for investment by managers.
<b>Voting</b>	Wherever practicable, the voting rights attaching to shareholdings should be exercised through the respective managers of the Fund's investments.
<b>Financial considerations</b>	In view of the authority's trustee role, the prime consideration in any decision affecting the Pension Fund, including the exercise of voting rights, must be financial and the protection of the Fund's assets in the long term.
<b>Interpretation</b>	It is accepted that each issue will need to be dealt with on its merits and that strict compliance with the guidance may not be appropriate in every case. The aim is to ensure that companies in which investments have been made are moving towards best practice.
<b>Reporting</b>	Managers, where appropriate, should include a section in their Quarterly Report giving details of corporate governance activity generally and noting specifically where voting rights have been exercised against the existing management.

# **CORPORATE GOVERNANCE POLICY GUIDELINES**

## **GUIDANCE**

<b>Board Structure</b>	A properly structured Board should include an appropriate number of contributing independent non-executive directors.
<b>Chairman/Chief Executive</b>	Unless there are strong arguments to the contrary and adequate safeguards, no director should hold both posts at the same time or be in a position of unaccountability by virtue of having absolute control.
<b>Directors</b>	All Directors should be subject to at least three-yearly re-election.
<b>Non-executive directors</b>	In view of their stewardship role, non-executives should normally be independent in terms of other links to the company and other directorships.
<b>Share Structure</b>	The issue of shares with reduced or non-existent voting rights often disadvantages the majority of shareholders and should not normally be supported.
<b>Pre-emption</b>	Existing shareholders in a company should have a right to subscribe for new equity capital raised by a company, normally in proportion to their existing share of the company's equity capital.
<b>Take-over bids</b>	Unless financial criteria dictate otherwise, the general policy should be to support incumbent management in good standing.
<b>Directors' remuneration</b>	Remuneration packages in different companies should reflect relative performance taking business size and complexity into account. A properly constituted Remuneration Committee is the best judge of what is necessary to recruit, train and motivate.
<b>Contracts</b>	If not already in place, companies should be working towards one year fixed term contracts for executives.
<b>Audit Committee</b>	There should be a properly constituted Audit Committee.

# **CORPORATE GOVERNANCE POLICY GUIDELINES**

## **GUIDANCE**

### **Donations**

No return which is rightfully the Fund's should be diverted to political donations. Charitable donations are acceptable if they are reasonable and have public relations values.

### **Social/Ethical/Environmental**

Managers should maintain a high awareness of social, environmental (including climate change) and ethical issues and will be expected to use their influence to achieve improvements in these areas as appropriate.

**MYNERS PRINCIPLES**

**EXTENT OF COMPLIANCE**

**Principle 1 - Effective decision-making**

Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment sub-committee to provide the appropriate focus.

Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.

	<b>Full compliance</b>
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**Principle 2 - Clear objectives**

Trustees should set out an overall investment objective for the fund that:

- represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and
- takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.

Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.

	<b>Full compliance.</b>
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### **Principle 3 - Focus on asset allocation**

Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the funds' own characteristics, not the average allocation of other funds.

	<b>Full compliance.</b>
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### **Principle 4 - Expert advice**

Contracts for actuarial services and investment advice should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

	<b>Full compliance.</b>
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### **Principle 5 - Explicit mandates**

Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:

- An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances;
- The manager's approach in attempting to achieve the objective; and
- Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for under performance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.

	<b>Full compliance.</b>
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Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy - whether through direct financial incentives or otherwise - for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.

	<b>Full Compliance.</b>
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## **Principle 6 - Activism**

The mandate and trust deed should incorporate the principle of the US Department of Labour Interpretative Bulletin on activism. Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company, the approach they will use in doing so, and how they measure the effectiveness of this strategy.

	<b>Full Compliance.</b>
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## **Principle 7 - Appropriate benchmarks**

Trustees should:

- explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate, in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;
- if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;
- consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and
- where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.

	<b>Full compliance.</b>
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## **Principle 8 - Performance measurement**

Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.

	<b>Full Compliance.</b>
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## **Principle 9 - Transparency**

A strengthened Statement of Investment Principles should set out:

- who is taking which decisions and why this structure has been selected;
- the fund's investment objective;
- the fund's planned investment returns on each asset class, and how the strategy has been arrived at;
- and the mandates given to all advisers and managers.

	<b>Full compliance.</b>
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## **Principle 10 - Regular reporting**

Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers. They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.

	<b>Full compliance.</b>
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