



Trustee Report on the current position in relation to the
'Principles of Investment' from

The Myners' Review

Statement from the Trustee Board

In October 2008 the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of a revised set of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance.

The Trustee Board has conducted a review of its compliance with the new higher level principles and is satisfied that it complies with the best practice guidance. The results of this review are detailed below:

Principle 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 Practice Guidance:

The Board has appropriate skills for, and is run in a way that facilitates, effective decision making.

- The possibility that the elective system for Directors will not provide appropriate skills has led the Board to amend the Trust Deed and Rules to give the Board the power to co-opt up to two additional Directors to fill any skills gaps that may arise.
- A skills/knowledge analysis is conducted every year for all Board members (not just new Directors). From this analysis, training and development, needs are identified and met as well as appointments to sub committees made. This analysis also identifies skills gaps, which assists in the selection of co-opted Directors.

- Rules of engagement for meetings are documented in the Board's Governance Document, which is reviewed annually.
- The Board's Governance Document includes the terms of reference of each of its committees and in particular the matters delegated to each committee. The use of these delegations is reported at each Board meeting. Directors have the opportunity to question the exercise of delegations but the Board does not set out to duplicate the work of its committees.
- The Board has a formal policy for managing conflicts of interest.

There are sufficient internal resources and access to external resources for trustees and Boards to make effective decisions.

- The Pensions Trust has an internal team dedicated to investment. The team was strengthened in May 2010 by the appointment of a Chief Investment Officer. This team is supported by advice from our professional investment advisers, Mercer Human Resources and Consulting Limited.
- The Pensions Trust employs 150 staff to administer all aspects of the Fund.
- The Investment Committee includes two co-optees with direct investment experience.

It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.

- The Trustee operates with an Investment sub-committee which includes co-optees with direct investment experience.
- The Investment Committee also has two sub-committees, one to review Investment Manager performance and one to investigate new investment ideas and opportunities.

There is an investment Business Plan and progress is regularly evaluated.

- The Trust has a five year Business Plan and annual Operational Plan to reflect the internal and external challenges faced by the Trust.

- Investment Committee business is regulated by an annual programme, rolling agendas and structured implementation plans when investment manager line ups are being changed.

Consider remuneration of trustees.

- The Board has considered whether or not its Directors should be paid. Directors do not receive payment for being members of the Board. However, the Chair, Deputy Chair and Chairs of the Audit and Compliance Committee and Investment Committee receive a fee in recognition of the additional time commitment and responsibilities attached to these posts. Co-optees to the Board and Investment Committee also receive a fee for their services. All other Directors receive a daily fee for attendance at sub-committee and working party meetings.

Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

- At present Mercer Human Resources and Consulting Ltd are investment consultants and provide advice on all of the Trust's Schemes with the exception of the Growth Plan. Cardano Risk Management were appointed in 2011 to provide advice on strategic asset allocation for the Growth Plan. JLT Benefit Solutions provide actuarial services.
- The Trustee has a supplier review policy in place that requires the performance of advisers is reviewed regularly and we aim to undertake a full re-tendering process of all professional advisers every five years.

**Principle 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:

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.

- The Pensions Trust is made up of 39 separate schemes, 37 of which are defined benefit, all of which are ring fenced from one another. All schemes have an individual investment strategy in place which includes consideration of the mix between the main asset classes (equities, bonds and property) after looking at the specific liability and risk profile of the scheme and risk tolerance and covenant of the sponsoring employer(s).
- Schemes benefit from the economies of scale associated with being part of an industry-wide scheme. This means that smaller schemes have access to a wider variety of asset classes and investment styles than would be the case if they were not part of The Pensions Trust.

Consider the strength of the sponsor covenant.

- As part of each scheme's triennial valuation process an assessment of the employer covenant is carried out by the internal staff using a methodology designed by The Pensions Trust's external advisers, Pricewaterhouse Coopers.
- The Trustee has recently appointed KPMG to advise on developing the methodology, particularly for multi-employer schemes. Going forward the employer covenant will be reviewed on an annual basis.

Benchmarks and objectives are in place for the funding and investment of the scheme.

- All investment manager mandates incorporate appropriate benchmarks and objectives.
- The Trustee accepts that external benchmarks should challenge performance rather than constrain it.



- The Pensions Trust has four principle asset categories; quoted equities, liquid growth alternatives, illiquid growth alternatives and liability focused which the assets of The Pensions Trust's 37 defined benefit schemes are invested. Each asset fund has an appropriate objective. In order for schemes to tailor investment strategies to their own liability and risk profiles, they receive an allocation in the appropriate asset categories

Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.

- Clear written mandates are in place with all investment managers. All mandates are reviewed by our legal advisers and investment consultants before signing.

Principle 3: Risk 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 take into account the risks associated with their liabilities valuation and management.

- All schemes have an individual investment strategy in place which includes consideration of the mix between the main asset classes (equities, bonds, alternatives and property) after looking at the specific liability and risk profile of the scheme. Quantitative financial analysis sets out the level of risk that each scheme is taking from the perspective of its funding position.

Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.

- The Trustee considers the level to which liabilities are affected by the assumptions used and the variability that can arise, when these assumptions are considered and agreed. This is built in to the triennial valuation process.
- Each year the Trustee adopts a standard set of assumptions to apply to all schemes undergoing a valuation that year. However, these assumptions can be varied depending upon the circumstances of the individual scheme and the strength of the employer covenant.

Trustees have a clear policy on willingness to accept underperformance due to market conditions.

- The Trustee accepts that long-term benefit is the goal and that this will mean from time to time, periods of short-term disappointment.

Trustees have a legal requirement to establish and operate internal controls.

- The Trustee has in place a comprehensive risk management framework to comply with the Code of Practice on Internal Controls. This is supported by an extensive internal audit program and the twice yearly self-certification by risk owners that key controls in place to mitigate risk are fit for purpose and operating effectively. The framework is reviewed regularly by the Audit and Compliance Committee.

Trustees consider whether the investment strategy is consistent with the scheme sponsors' objectives and ability to pay.

- This is built in to the triennial valuation process.

Principle 4: Performance assessment

- *Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.*
- *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.

- All Directors participate in the annual appraisal process.
- An investment performance measurement system has been in use since 1976. The Investment Committee reviews the independent quarterly investment performance analysis from the Northern Trust Company. Performance results are discussed in a formal way at least once a year with each investment manager. The Investment Committee formally assesses all investment managers and investment consultants in May each year and reports its findings to the Board. It also provides the Board a quarterly Stewardship Report covering all its activities.

Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).

- Directors are encouraged to attend all meetings. Attendance figures for board meetings, sub-committee meetings and training sessions are published in The Pensions Trust's Annual Report.

- Directors complete an annual self-assessment form which includes a report on personal skills.

The chairman addresses the results of the performance evaluation.

- Each Director has an annual appraisal meeting with the Deputy Chair.

State how performance evaluations have been conducted.

- The Board appraisal system covers three matrixes of knowledge and understanding:
 - The Trustee Knowledge and Understanding requirements taken from The Pensions Regulator's scope guidance document.
 - Business skills (those relevant to the Trust's business activities).
 - Personal skills.
- Directors score themselves against the criteria. A target score for each skill set has been agreed and Directors results are assessed against this target score.
- From October 2011 the directors will be using a new appraisal system. It is a developmental type of appraisal system, completely open for the individual, and based on the concept of 360 degree review with annual feedback to each director from:-
 - Themselves
 - Their peers
 - The Chair/Deputy Chair/Chair of Committee
 - The Senior Management Group (SMG)
- The assessment is based on the director's job specification, the Board annual targets and a set of performance criteria which sets out the skills, knowledge and behaviour needed for the director to perform their role to the required standard.
- The results of the feedback will be discussed with each director and a tailored development plan drawn up allowing the Trust to provide appropriate support to each director and the board as a whole.



Principle 5: Responsible ownership

- *Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee 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.

- The Pensions Trust's Statement of Investment Principles, which is reproduced in full in the Annual Report, includes a summary of the Board's policy on Voting and Engagement. The full Voting and Engagement policy is available on The Pensions Trust's website at www.thepensiontrust.org.uk

Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.

- The Pensions Trust believes that companies concerned and involved with shareholders (where management of these companies is fully and properly accountable to the shareholders) are more likely to achieve superior long-term returns than those without such involvement and accountability.
- The Trustee is a signatory to the United Nations Principles for Responsible Investment.

Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.

- The Pensions Trust requires its investment managers to follow voting policies consistent with the National Association of Pensions Fund's Corporate Governance Policy and Voting Guidelines (February 2009) and OECD Principles of Corporate Governance (2004).
- Where possible, The Pensions Trust requires its investment managers to apply the Association of British Insurers (ABI) Guidelines on Environmental, Social and Governance (ESG) Matters.

Trustees ensure that investment consultants adopt the ISC's Statement of Practice relating to consultants.

- The Pensions Trust's investment consultants, Mercer Human Resources and Consulting Ltd and Cardano Risk Management have confirmed that they are supportive of the ISC's Statement of Practice but do not believe that it is something for consultants to sign up for as it relates to best practice for institutional shareholders (including pension funds) and/or agents (i.e. fund managers) in relation to their responsibilities in respect of investment companies). Mercer Human Resources and Consulting Ltd and Cardano Risk Management support have adopted the NAPF Best Practice Principles relating to investment consultants.

Principle 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.**
- The Annual Report includes a copy of The Pensions Trust's Statement of Investment Principles, an abridged version of the Investment Strategy and the results of the Trustee's monitoring of advisers and managers. A copy of the Annual Report is available on The Pensions Trust's website.
- The Trustee reviews all of The Pensions Trust's governance documentation annually.

Further Information

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