

Isle of Wight Council Pension Fund

Myners Code Adherence Document

Prepared by:

**The Investment Panel of
Isle of Wight Council**

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Myners Code

Introduction

This document contains the Code of Myners Principles Adherence for the Isle of Wight Pension Fund (“the Fund”). It is maintained by the County Treasurer on behalf of the Investment Panel (“the Panel”) of Isle of Wight Council.

The practices described within this document form the basis for Investment Decision Making by the Panel. This document will be kept under continuous review.

The document also provides information on the Fund’s service providers (investment manager, investment consultant) along with details of the nature of the services they provide and how their performance in these roles is assessed.

This document is available to members on request. A short form abstract will also be published and made available to Fund members at least annually.

Signed:

John Pulsford

County Treasurer

26th September 2002.

1. (Investment) Decision Making (Principle 1)

Isle of Wight Council

The Council is responsible for the following activities.

- Management of the Fund in accordance with the Local Government Pension Scheme regulations
- The Council will be responsible for any changes to the terms of the mandates of existing managers.
- The Council will be responsible for the appointment and termination of managers.
- The Council is responsible for the policy in relation to socially responsible investment, corporate governance and shareholder activism. It has delegated these tasks to the Fund's managers, who conduct the delegated tasks in line with the Council's policies.
- The Council will be responsible for the appointment and termination of AVC providers.
- The Council is responsible for maintenance of the Statement of Investment Principles (SIP) and the document setting out the Fund's Myners disclosure.

The Council has delegated all matters relating to the Fund to the Investment Panel.

Investment Panel Terms of Reference

- The Panel is responsible for monitoring all aspects relating to the investment of the assets of the Fund.
- The Panel will formally review the Fund's asset allocation at least annually, taking account of any changes in the profile of Fund liabilities and any change in the Panel's tolerance of risk. They will make any necessary changes in asset allocation.
- The Panel will consider and monitor the Quarterly Reports produced by their Investment Manager. In addition to managers' portfolio and performance reporting, the Panel will also receive and review information from the managers on risk analysis, transaction costs, and details of corporate governance (including SRI, voting activity and engagement with management).
- The Panel will formally review periodically the manager's mandate, and its adherence to its expected investment process and style.

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- The Panel will consider periodically the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination).
- In the event of a proposed change of managers, the Panel will evaluate the credentials of potential managers.
- The Panel will consider periodically the Fund's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism.
- The Panel will review the Fund's AVC arrangements periodically. If they consider a change is appropriate, they will make appropriate arrangements.
- The Panel will monitor the investment advice from their investment consultant and services obtained from other providers at least annually. The Panel will be responsible for the appointment and termination of providers.
- The Panel will conduct and conclude the negotiation of formal agreements with managers, and other investment service providers.
- In order to fulfil their roles, the members of the Panel will be provided with appropriate training, initially and on an ongoing basis.
- The Panel will obtain such professional advice as it considers necessary.
- The Panel will keep Minutes and other appropriate records of its proceedings, and circulate these Minutes to the Council.
- The Panel may also carry out any additional tasks delegated to it by the Council.

The Panel currently consists of Councillor Peter Harris (Chairman), Councillor Reg Barry, Councillor John Bowker, Councillor Tony Mundy, Councillor Andy Sutton, Councillor Brenda Lawson and Councillor Kenn Pearson. There is a Union Representation, Mr S Milford, who is an observer. Any changes to the membership of the Panel require the approval of the Council.

Membership of the Panel consists of 7 Members with a quorum of 4 Members.

Other Delegated Investment Decisions

Delegation to Investment Manager

Day to day management of the Fund's investment portfolios (and related activities – see Section 5) has been delegated to the Fund's investment managers, Schroder Investment Management Limited (SIM). This includes:

- Investment of the Fund's assets.
- Tactical asset allocation around the Fund's strategic benchmark.
- Preparation of quarterly reporting including a review of investment performance.
- Attending meetings of the Investment Panel.
- Providing Fund accounting data concerning the investment portfolio and transactions.
- Settlement of all investment transactions, collection of income, tax reclaims and corporate action administration.

Scheme Actuary

The Scheme Actuary is responsible for

- Undertaking a triennial valuation of the Fund's assets and liabilities.
- Setting the Scheme's contribution rate.
- Providing advice on the funding level and maturity of the Fund which the Investment Panel can take into consideration when balancing the Fund's investment and funding objectives.

2. Clear Objectives for the Fund (Principle 2)

Fund Objective

The Fund is a Local Government Pension Scheme (LGPS).

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis in accordance with the LGPS regulations.

The Council aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is made by each employer in the Fund to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed and final salary.

Basis of Evaluation

An actuarial valuation of the Fund is conducted at least every three years in accordance with the LGPS regulations. The last actuarial valuation was conducted as at 1 April 2001, and the results became available in October 2001. The results disclosed an ongoing funding level of 97% at the valuation date.

The position of the Fund is monitored each year in consultation with the Scheme Actuary.

3. Asset Allocation and Fund Benchmark (Principle 3)

Basis for Determining Fund Benchmark

The Benchmark of the Fund is shown in the Table 3.1 below. The Council agreed this benchmark and brought it into force on 1 July 2002.

Table 3.1	Weight (%)	Benchmark
UK Equities	45	FTSE All Share Index
Overseas Equities	30	Composite
<i>US</i>	10	FTSE AW North America
<i>Europe ex UK</i>	10	FTSE WI Europe (ex-UK)
<i>Japan</i>	4	FTSE AW Japan
<i>Pacific</i>	4	FTSE AW Developed Asia Pacific ex Japan
<i>Emerging Markets</i>	2	FTSE AW Advanced Emerging Markets
UK Gilts	4	FTSE Govt Over 15 Years
UK Corporate Bonds	8	Merrill Lynch Sterling Non-Govt All Stocks
Index Linked Gilts	2.5	FTSE Over 5 years Index Linked
Overseas Bonds	2.5	Lehman Global Aggregate ex UK
Property	8	IPD Monthly
Cash	0	LIBID 7 day

In setting the Fund benchmark, the Panel took account of the nature of the Fund's liabilities (as provided in the last actuarial valuation report the then current funding position by means of an asset liability study and the aggregate contribution rate payable).

The asset mix takes account of diversification between asset classes.

The Panel took advice from the Fund's investment consultant in relation to the extent to which the asset mix within the benchmark was appropriate for the Fund's liabilities. This principally related to the split between equity and non-equity assets within the Fund.

In arriving at their strategic benchmark, the Panel considered Fund-specific asset / liability data.

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In determining the mix of assets used, the Panel considered the following levels of expected real returns from the different assets in which the Fund invests. These returns were based on advice received from the Fund's investment consultant (Hymans Robertson) in consultation with the Fund's investment managers.

	Market % p.a.	Hymans Robertson % p.a.	Volatility* % p.a.
UK Equities	5.4	4.6	18%
O'seas Equities	5.8	4.6	20%
UK Fixed Interest	2.8	2.1	3%
Index Linked	2.8	2.0	6%
Corporate Bonds	3.5	2.8	8%
Property	4.2	3.6	17%
Cash	2.3	1.5	9%
Inflation	2.4	1.8	

*All volatilities are relative to liabilities, which are assumed to be 2/3 Fixed Interest + 1/3 Index Linked.

Risk

The return assumptions required to achieve and maintain the Fund Objective are set out in the Actuarial Valuation. The benchmark adopted by the Panel for the Fund is designed to achieve that return over the long term. The Panel recognises that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.

Asset Classes

In setting the Scheme benchmark, the Panel considered all of the principal asset classes listed in the CIPFA Guidance.

Periodic Review

The Panel set the benchmark at its meeting on 1st July 2002 and will keep it under review every 3 years in the absence of compelling reasons for an interim review.

4. Expert Advice (Principle 4)

The Panels' investment consultant is the Investment Practice of Hymans Robertson. Hymans Robertson (Actuaries & Consultants) is also the Fund's actuarial adviser. The appointment was made on 23 February 2002.

At the time of appointment of consultants, the Panel did not compete tenders for actuarial and investment advice separately. The Panel will arrange for separate competition when it next tenders either activity.

Other Advice

In addition to the investment consultant, the Panel also seeks advice (where relevant) from the Fund's Actuary, and the County Treasurer.

There are no other independent advisers currently appointed to the Investment Panel.

Assessment of Advice

All advice is assessed as described in Section 8.

5. Manager and Custody Mandates (Principle 5)

The Fund's investment manager is Schroder Investment Management (UK) Limited. The Fund's custodian is Schroder Investment Management Limited.

Schroder Investment Management (UK) Limited (SIM)

SIM's mandate was last reviewed in July 2001 and range guidelines are shown in Table 5.2. SIM's target is to outperform the composite benchmark (re-balanced quarterly) by 1% p.a. when assessed over rolling 3 year periods.

The Panel has discussed the nature of the absolute and relative return targets with SIM and with the Panel's investment consultant.

Table 5.2	Benchmark	Min	Central	Max
UK Equities	FTSE All Share Index	40	45	50
Overseas Equities	Composite	25	30	35
<i>US</i>	FTSE AW North America	5	10	15
<i>Europe ex UK</i>	FTSE WI Europe (ex-UK)	5	10	15
<i>Japan</i>	FTSE AW Japan	0	4	9
<i>Pacific</i>	FTSE AW Developed Asia Pacific ex Japan	0	4	9
<i>Emerging Markets</i>	FTSE AW Advanced Emerging Markets	0	2	7
UK Gilts	FTSE Govt Over 15 Years	0	4	9
UK Corporate Bonds	Merrill Lynch Sterling non-Gilt All Stocks	3	8	13
Index Linked Gilts	FTSE Over 5 years Index Linked	0	2.5	7.5
Overseas Bonds	Lehman Global Aggregate ex UK	0	2.5	7.5
Property	IPD Monthly	3	8	13
Cash	LIBID 7 day	0	0	5
Composite Index	Weighted Index Return		100	

SIM manages the fund in line with LGPS regulations. There are no restrictions in SIM's agreement which prevents it from investing in any financial instrument permitted in these regulations, except to the extent that derivative instruments may only be used for the purposes of risk reduction and efficient portfolio management.

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The Panel recognises that the pursuit of superior performance through active management also carries the risk of under performance.

The Panel has considered the extent to which their managers expect to achieve out performance through stock and sector selection and asset allocation.

The Panel also monitors the SIM's transaction costs every 6 months (in line with the transaction cost reporting framework of the Fund Management Association which SIM supports). It also provides detail on its level of turnover and commission levels on a quarterly basis.

SIM does not make use of soft commission arrangements.

The Panel takes advice from its investment consultant relating to SIM's transaction costs.

6. Governance / Activism (Principle 6)

Governance and Voting

The Council has delegated the following tasks to the investment manager.

- Engaging with companies in which the Fund invests concerning corporate governance issues
- The exercises of voting rights on the basis that voting power will be exercised by the manager with the objective of preserving and enhancing long term shareholder value.

Accordingly, SIM has produced written guidelines of its process and practice in both matters.

SIM is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Engagement and Activism

SIM has disclosed its own policy on corporate governance, engagement and activism which it exercises on behalf of client's investment mandates when the client has delegated responsibility for these activities to SIM. It votes proxies on behalf of the Fund and engages with the UK companies (and larger international companies) in which it invests. SIM reports its voting activity to the Panel each quarter on an exceptions basis, i.e. it does not include details of non controversial items such as re-appointment of directors.

In general, SIM does not intervene in companies, except in unusual circumstances with a view to preserving and enhancing long term shareholder value. The Panel accepts that it is not in the economic interests of the Fund for its manager to intervene more generally.

7. Appropriate Benchmarks (Principle 7)

Benchmarks

The benchmark is used

- To evaluate the manager's relative performance
- To monitor the extent of the manager's deviations from benchmark performance
- To specify the limits on manager's asset allocation deviations (specified by size of 'active bets' and aggregate tracking error).

At the asset class level, the manager's activity is assessed relative to specific stock market indices (e.g. the FTSE All-Share index for UK equities).

The Panel also considers returns relative to peer group benchmarks, such as the WM Local Authority universe, for comparing the general performance of the Scheme as opposed to the performance of the managers and its asset allocation benchmark, recognising that its asset liability structure may differ.

The use of benchmarks for assessing managers, providers, and the Panel is discussed in Section 8.

Benchmark Indices

The Panel discusses the appropriateness of the asset class indices with its investment manager and investment consultant on an annual basis. The review takes account of changes in the constituency of indices, their degree of concentration, changes made by index providers, new classes of assets, and changes in the profile of liabilities which may affect the duration of bond indices.

The Panel recognises that the setting of benchmark targets can encourage managers to closet index, i.e. to hug the index too closely to be able to deliver the performance target set. The Panel has discussed this subject with its manager and investment consultant.

Investment Structure

The Panel has considered its investment structure, the choice between active and passive management, the number of managers it might employ, and where risk might best be exploited.

It employs a single active manager who is responsible for all of the asset classes within the benchmark and for asset allocation around that benchmark within the guideline ranges set. In choosing a single active multi-asset manager, the Panel has considered, and is prepared to tolerate the potential risks associated with that manager's pursuit of out-performance.

8. Performance Measurement (Principle 8)

Information

SIM provides summary and detailed portfolio valuations, consolidated transaction reports and balance sheet and income statements on a quarterly basis. It also provides details of performance at the individual asset class and aggregate level. The Panel obtains independent measurement of returns from the WM Company.

Manager Monitoring Activity

The Panel monitors the relative and absolute performance of its investment manager, SIM, on a quarterly basis. However, it reviews SIM's performance more formally once a year. This review considers not only investment returns but also an assessment of SIM's adherence to its mandate requirements including the full range of activities delegated to them. The Panel also considers the manager's investment process, stability of key personnel and market position.

SIM reports its performance, its active asset allocation positions relative to benchmark on a quarterly basis. SIM also reports active positions at the sector and stock level within UK equities.

Investment Consultant Monitoring Activity

The Panel monitors performance of its investment consultant, Hymans Robertson, largely on a qualitative basis. The consultant provides guidance on asset allocation, benchmark setting, risk and goal setting of the investment manager, manager monitoring and general information on legislation, industry background and securities markets (all from an investment perspective). To date, the investment consultant has not provided advice on manager selection.

Panel and Officers

The Panel will review the investment decisions undertaken by the Panel, to check their appropriateness and whether outcomes might have been improved. This includes:

- How the overall Fund benchmark has performed relative to liabilities and relative to its comparable LGPS peers.
- How the Panel interpreted advice provided by the investment consultant.

9. Transparency (Principle 9)

This document should be read in conjunction with the Fund's Statement of Investment Principles. Taken together, these documents provide the framework for the Fund's investment operations.

Section 1 of this document describes the structure for making investment decisions for the Fund, the split of responsibilities among the Council, Investment Panel, Investment Manager, Custodian, Scheme Actuary, Investment Consultant and other providers.

Sections 4 and 5 describe the roles and mandates of external providers.

Other Advice

In addition to the investment consultant, the Panel also seeks advice (where relevant) from the Fund's Actuary.

There are no other independent advisers currently appointed to the Investment Panel.

Assessment of Advice and Decision Making

All advice and decision making is assessed as described in Section 8.

10. Regular Reporting (Principle 10)

The Council makes the following documents available to Fund members on request.

- The Statement of Investment Principles.
- Details of the Fund's adoption of Myners Principles (i.e. this document).

Both documents are revised periodically as appropriate.

An abbreviated version of this document will be sent to Fund members annually.