TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

TEESSIDE PENSION BOARD REPORT

26 APRIL 2016

CHIEF FINANCE OFFICER - PAUL SLOCOMBE

MYNERS PRINCIPLES

1. PURPOSE OF THE REPORT

1.1 Further to the action arising from the Teesside Pension Board meeting held 5th February 2016, the Pension Board identified a number of areas where further training was requested, including training on the Myners Principles.

2. RECOMMENDATIONS

2.1 That the Board notes the report and pass any comments.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications resulting from this report.

4. BACKGROUND

4.1 In 2000, Gordon Brown (then the Chancellor of the Exchequer) was concerned about the relative lack of entrepreneurial enterprise in the UK. His suspicion was that that this might be due, in part at least, to the conservative way that institutional investments were made in this country and lack of funding available to would-be entrepreneurs. So he commissioned Paul Myners, chairman of a fund management firm (Gartmore) to investigate this issue.

4.2 Paul Myners widened his remit considerably. Rather than focusing on the issue of the availability of venture capital, he covered the way in which institutional investments (particularly pension schemes) were governed. His review, 'Institutional Investment in the United Kingdom' was published on 6 March 2001.

The original "Myners Principles"

4.3 Within the review, Myners set out principles that he believed to be best practice for the governance of pension schemes. Following consultation, the Government published its response to the review, which included a voluntary code for pension scheme investment based on those principles. There were originally ten principles for defined benefit pension schemes.

4.4 While these principles were not legally binding, they were intended to be a short common-sense statement in plain English of the basic principles of investment for pension schemes. Trustees were expected not to take legal advice on interpretation of fine details, but rather to seek investment advice to ensure they kept to the spirit of the principles. Pension schemes were encouraged to adopt the principles as best practice, or to explain why an alternative approach has been taken, and are expected to publicly disclose their adherence or otherwise.

The revised "Myners Principles"

4.5 In 2007 the Government asked the National Association of Pension Funds (NAPF) to assess the extent to which:

- pension fund trustees were applying the Myners principles;
- scheme governance and the quality of trusteeship had improved; and
- whether key gaps identified in a previous review had been addressed.

4.6 The Government accepted the NAPF's principal findings and recommendations. In particular, it agreed that the Principles would be more effective if Government and industry developed more flexible and high-level voluntary principles, rather than prescribing how pension funds should manage specific aspects of their business. They also set up an independent Investment Governance Group under the chairmanship of The Pensions Regulator, to enable the pension's community to take responsibility for the content and implementation of the principles and associated guidance and best practice.

5. THE MYNERS PRINCIPLES

5.1 The six "high" level principles are set out below, together with the best practical guidance as recommended by the Pension Regulator. It is not expected that all elements of the guidance will be implemented; that depends on the circumstances of each fund.

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.
- The board has appropriate skills for, and is run in a way that facilitates, effective decision-making.
- There are sufficient internal resources and access to external resources for trustees and Boards to make effective decisions.

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

- It is good practice to have an investment sub-committee to provide the appropriate focus and skills on investment decision-making.
- There is an investment business plan and progress is regularly evaluated.
- Consider remuneration of trustees.
- Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).

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.

- Benchmarks and objectives are in place for the funding and investment of the scheme.
- Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.
- Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.
- Consider the strength of the sponsor covenant.

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.

- Trustees have a clear policy on willingness to accept underperformance due to market conditions.
- Trustees take into account the risks associated with their liabilities valuation and management.
- Trustees analyse factors affecting long-term performance and receive

advice on how these impact on the scheme and its liabilities.
- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor’s objectives and ability to pay.

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.

- There is a formal policy and process for assessing individual performance of trustees and managers.
- Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).
- The chairman addresses the results of the performance evaluation.
- State how performance evaluations have been conducted.
- When selecting external advisers take into account relevant factors, including past performance and price.

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.

- Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.
- Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.
- Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in

which they will intervene in a company.

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

- 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.

CONTACT OFFICER: Paul Campbell (Head of Investments & Treasury Management)

TEL. NO.: 01642 79024