

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITEE
OF THE POLICY & RESOURCES COMMITTEE - 15 NOVEMBER 2010**

REPORT ON: STATEMENT OF INVESTMENT PRINCIPLES REVIEW

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 676-2010

1 PURPOSE OF REPORT

This report reviews Statements of Investment Principles for the Tayside Superannuation Fund and the Tayside Transport Superannuation Fund.

2 RECOMMENDATIONS

The Sub-Committee are asked to note the information within the report and to approve the Statements of Investment Principles for both the Tayside Superannuation Fund and the Tayside Transport Superannuation Fund.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 INTRODUCTION

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 required administering authorities to prepare, maintain and publish a written Statement of Investment Principles (SIP).

These were originally approved for Tayside Superannuation Fund and the Tayside Transport Superannuation Fund by the Sub-Committee on 23 February 2000 (Report No 148-2000) and are reviewed annually.

The Regulations have been replaced by the Local Government Pension Scheme Management and Investment of Funds (Scotland) Regulations 2010. The requirements for a Statement of Investment Principles are broadly similar but Regulation 12 (3) now requires funds to state the extent to which they comply with guidance given by the Scottish Ministers.

The Scottish Ministers guidance refers to the six revised principles on investment decision making contained within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009). The first SIP requires to be published by 1 December 2010.

5 POLICY IMPLICATIONS

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

The Fund's policy on Socially Responsible Investment requires its investment managers to engage with companies on Sustainability and the Environment and Employee Care and Human Rights.

6 **CONSULTATION**

The Chief Executive and Depute Chief Executive (Support Services) have been consulted in the preparation of this report.

7 **BACKGROUND PAPERS**

None

MARJORY M STEWART
HEAD OF FINANCE

4 NOVEMBER 2010

DUNDEE CITY COUNCIL

TAYSIDE SUPERANNUATION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1 INTRODUCTION

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles. A Statement of Investment Principles should cover the policy on:

- The types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of the rights (including voting rights) attaching to investments
- Stock lending
- The extent of compliance with the six principles of investment practice set out in CIPFA publication "Investment Decision Making and Disclosure in Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

2 ADMINISTRATION

Tayside Superannuation Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. Investment policy and decisions are delegated to the Superannuation Investment Sub-Committee of the Policy and Resources Committee which comprises six elected members and three observer members who represent Scheme members. Decisions are made based on advice from Council Officers and professional external advisers. The Sub-Committee meets quarterly.

3 REMIT OF SUB-COMMITTEE

The full remit of the Sub-Committee is shown at Appendix B.

4 OBJECTIVE OF THE FUND

The primary objective of the Tayside Superannuation Fund is to provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefits basis. There is limited discretion to vary these benefits.

The investment principles of the Fund have been set to ensure that the Fund meets its objective.

This document outlines the investment principles governing the investment policy of the Fund.

5 INVESTMENT OBJECTIVE

The Fund's investment policy will be directed to achieving and maintaining a fully funded scheme and where practical a stable employers contribution rate. The latest actuarial valuation of the Fund is shown in Appendix A.

The investment objective is to maximise the overall return whilst maintaining a prudent and balanced investment exposure.

6 TYPES OF INVESTMENT TO BE HELD

To achieve its investment objectives, the Fund will utilise the following different types of investments:

Equities, Managed Funds, Unit Trusts, Investment Trusts, Open Ended Investment Companies, Bonds, Underwriting, Property, Stock Lending, Cash, Commission Recapture and Currency.

Derivatives may be used for efficient portfolio management or the reduction of risk.

The Stock Lending programme is currently suspended.

7 INVESTMENT MANAGERS

The Fund will employ Investment Managers who are judged most suitable to manage the assets of the Fund.

The current Managers and their targets are as follows:

<u>Manager</u>	<u>Performance Target</u> (on rolling 3 year basis)
Fidelity Investments (Global Equity 21%)	Specific Benchmark + 1.5% pa (gross of fees)
Baillie Gifford (Global Equity 12%)	Specific Benchmark + 1.75 to 2% pa (net of fees)
Baillie Gifford (UK Equity 12%)	Specific Benchmark + 1.75 to 2% pa (net of fees)
Schroder Property Management (12%)	HSBC IPD Pooled Property Median + 0.75% pa
Goldman Sachs (Bonds 12%)	Specific Benchmark + 1.25% pa (gross of fees)
Alliance Bernstein (Global Equity 25%)	Specific Benchmark + 1.5 to 2% pa (net of fees)
Fidelity Investments (Bonds 6%)	Specific Benchmark + 1.5% pa (gross of fees)

These have been set to ensure a prudent and balanced investment exposure.

8 ADVISERS

Investment Consultant	Hymans Robertson
Corporate Governance	Pensions Investment Research Consultants Ltd (PIRC)
Actuarial	Barnett Waddingham

9 PERFORMANCE MEASUREMENT

Quarterly and Annual performance figures are provided by Northern Trust and considered by the Sub-Committee.

10 CUSTODIAN

Northern Trust is the sole custodian for the Fund's assets.

11 **AUDITORS**

Audit Scotland.

12 **BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS**

A target has been agreed with each Manager which gives the Manager the balance between different types of investments. These provide an efficient balance between risk and return. These are detailed in Section 5.

The Investment Managers will be given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio.

13 **RISK**

The Fund will seek to control risk through proper diversification of investments and Investment Managers. The tracking error of each manager's portfolio is reported to the Sub-Committee quarterly.

A Risk Register is being prepared for the Fund.

14 **EXPECTED RETURN**

Investment Managers will be held accountable for their performance through a regime of performance measurement against targets.

The Benchmark and performance target set for each Manager are intended to ensure that the total fund investment returns achieved are in excess of that assumed in the Actuarial Valuation.

15 **REALISATION OF ASSETS**

The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy. The Managers may determine whether or not to sell particular investments and which investments to sell to raise cash as and when required for meeting cash requirements notified to the Manager.

16 **SOCIALLY RESPONSIBLE INVESTMENT (SRI)**

Whilst recognising its over-riding fiduciary duties the fund will continue to encourage its managers to engage on issues with companies in which it holds investment. The managers will be instructed to summarise this engagement activity in their quarterly Investment Reports. The key areas will continue to be Employee Care, Human Rights, Sustainability and the Environment.

In addition the fund believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios through time. So, where it is consistent with its fiduciary duty, the Fund would follow the principles below:

Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.

Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights and the engagement activity of managers.

Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment manager engagement.

Promote acceptance and implementation of the Principles within the investment industry - this can be met by seeking the quarterly reports from investment managers.

Work to enhance effectiveness in implementing the Principles - this will be both by working with its investment managers and other Pension Funds (particularly other Scottish Local Authorities).

Report on activities and progress towards implementing the Principles - a six monthly Report will continue to be prepared for the Sub-Committee.

17 **CORPORATE GOVERNANCE**

The Fund will vote through its Fund Managers on all UK security holdings in accordance with the recommendations of its voting consultants. Where there are no specific recommendations, the Managers will be advised to use its best endeavours to vote in accordance with its voting guidelines.

The Fund is extending its current approach to Corporate Governance in the UK to include major overseas markets.

The Fund has appointed PIRC to advise it on Corporate Governance Policy.

18 **CLASS ACTIONS**

Both the fund and its custodian monitor class actions in relation to any investments it has held. It will participate in these where any additional benefit can be achieved.

19 **COMPLIANCE**

The Superannuation Investment Sub-Committee will take advice on general investment matters from the Director of Finance and external advisers as appropriate.

The Superannuation Investment Sub-Committee will review this Statement annually or sooner if there is a change in policy in any of the areas covered.

20 **SCOTTISH MINISTERS' GUIDANCE**

The Fund adheres to the six principles within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2008

	<u>£m</u>	<u>£m</u>
<u>Assets</u>		1,558.3
<u>Past Service Liabilities</u>		
Active Members	928.3	
Deferred Pensioners	119.7	
No 2 Fund Recharges Pensioners	4.4	
	<u>543.5</u>	
Value of Scheme Liabilities		<u>1,595.9</u>
Deficit		<u>37.6</u>
Funding Level		<u>97.6%</u>
	<u>Employers Contributions</u>	
	<u>(% of Payroll)</u>	
Future Service Funding Rate	16.0	
Deficit Contribution (12 years)*	1.0	
Post-Valuation Events	1.5	
Total		<u>18.5</u>

* This is in line with Para 7.4 of the Funding Strategy Statement

REMIT OF SUPERANNUATION INVESTMENT SUB-COMMITTEE

The supervision and control of the operations and investments of the Tayside Superannuation Fund and Tayside Transport Superannuation Fund and any other fund of a similar nature set up by the Council in pursuance of Statutory powers including:-

- i monitoring investment performance of Fund managers.
- ii the review of investments and managers.
- iii the review of asset allocation in light of the Funds' maturity profiles.
- iv the investment of new funds at the disposal of the Council.
- v ensuring appropriate custody arrangements are made for all Funds' assets.
- vi approving the Funds' Statement of Investment Principles at least annually and ensuring ongoing compliance with this.
- vii monitoring the managers' implementation of the Funds' Socially Responsible Investment policy.
- viii approving and reviewing the Funds' annual Business Plan.
- ix arranging the appointment of external advisers as required.
- x considering any other matters which may affect the management or value of the Funds' investment.

DUNDEE CITY COUNCIL

TAYSIDE TRANSPORT SUPERANNUATION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1 INTRODUCTION

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles. A Statement of Investment Principles should cover the policy on:

- The types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of the rights (including voting rights) attaching to investments
- Stock lending
- The extent of compliance with the six principles of investment practice set out in CIPFA publication "Investment Decision Making and Disclosure in Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

2 ADMINISTRATION

Tayside Transport Superannuation Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. Investment policy and decisions are delegated to the Superannuation Investment Sub-Committee of the Policy and Resources Committee which comprises six elected members and three observer members who represent scheme members. Decisions are made based on advice from Council Officers and professional external advisers. The Sub-Committee meets quarterly.

3 REMIT OF SUB-COMMITTEE

The full remit of the Sub-Committee is shown at Appendix B.

4 OBJECTIVE OF THE FUND

The primary objective of the Tayside Transport Superannuation Fund is to provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefits basis. There is limited discretion to vary these benefits.

The investment principles of the Fund have been set to ensure that the Fund meets its objective.

This document outlines the investment principles governing the investment policy of the Fund.

5 INVESTMENT OBJECTIVE

The Fund's investment policy will be directed to achieving and maintaining a fully funded scheme and where practical a stable employers contribution rate. The latest actuarial valuation of the Fund is shown in Appendix A.

The investment objective is to maximise the overall return whilst maintaining a prudent and balanced investment exposure.

6 TYPES OF INVESTMENT TO BE HELD

To achieve its investment objectives, the Fund will utilise the following different types of investments:

Equities, Managed Funds, Unit Trusts, Investment Trusts, Open Ended Investment Companies, Bonds, Underwriting, Property, Stock Lending, Cash, Commission Recapture and Currency.

Derivatives may be used for efficient portfolio management or the reduction of risk.

The Stock Lending programme is currently suspended.

7 INVESTMENT MANAGERS

The Fund will employ Investment Managers who are judged most suitable to manage the assets of the Fund.

The current Managers and their targets are as follows:

	<u>Performance Target</u> (on rolling 3 year basis)
Baillie Gifford (UK Equity 27.5%)	Specific benchmark + 1.75 to 2% pa (gross of fees)
Baillie Gifford (Global Equity 22.5%)	Specific benchmark + 1.75 to 2% pa (gross of fees)
Goldman Sachs (Bonds 40%)	Specific benchmark +1.25% pa (gross of fees)
Schroder Property (10%)	HSBC/IPD Pooled Property Median + 0.75% pa

These have been set to ensure a prudent and balanced investment exposure.

8 ADVISERS

Investment Consultant	Hymans Robertson
Corporate Governance	Pensions Investment Research Consultants Ltd (PIRC)
Actuarial	Barnett Waddingham

9 PERFORMANCE MEASUREMENT

Quarterly and Annual performance figures are provided by Northern Trust and considered by the Sub-Committee.

10 CUSTODIAN

Northern Trust is the sole custodian for the Fund's assets.

11 AUDITORS

Audit Scotland.

12 **BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS**

A target has been agreed with each Manager which gives the Manager the balance between different types of investments. These provide an efficient balance between risk and return. This is detailed in Section 5.

The Investment Managers will be given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio.

13 **RISK**

The Fund will seek to control risk through proper diversification of investments. The tracking error of each manager's portfolio is reported to the Sub-Committee quarterly.

A Risk Register is being prepared for the Fund.

14 **EXPECTED RETURN**

The Investment Manager will be held accountable for performance through a regime of performance measurement against targets.

The Benchmark and performance target set for the Managers are intended to ensure that the total fund investment returns achieved are in excess of that assumed in the Actuarial Valuation.

15 **REALISATION OF ASSETS**

The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy. The Manager may determine whether or not to sell particular investments and which investments to sell to raise cash as and when required for meeting cash requirements notified to the Manager.

16 **SOCIALLY RESPONSIBLE INVESTMENT (SRI)**

Whilst recognising its over-riding fiduciary duties the fund will continue to encourage its managers to engage on issues with companies in which it holds investments. The managers will be instructed to summarise this engagement activity in their quarterly Investment Reports. The key areas will continue to be Employee Care, Human Rights, Sustainability and the Environment.

In addition the fund believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios through time. So, where it is consistent with its fiduciary duty, the Fund would follow the principles below:

Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.

Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights and the engagement activity of managers.

Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment managers' engagement.

Promote acceptance and implementation of the Principles within the investment industry - this can be met by seeking the quarterly reports from investment managers.

Work to enhance effectiveness in implementing the Principles - the will be both by working with its investment managers and other Pension Funds (particularly other Scottish Local Authorities).

Report on activities and progress towards implementing the Principles - a six monthly Report will continue to be prepared for the Sub-Committee.

17 **CORPORATE GOVERNANCE**

The Fund will vote through its Fund Managers on all UK security holdings in accordance with the recommendations of its voting consultants. Where there are no specific recommendations, the Managers will be advised to use its best endeavours to vote in accordance with its voting guidelines.

The Fund is extending its current approach to Corporate Governance in the UK to include major overseas markets.

The Fund has appointed PIRC to advise it on Corporate Governance Policy.

18 **CLASS ACTION**

Both the Fund and its custodian monitor class actions in relation to any investments it has held. It will participate in these where any additional benefit can be achieved.

19 **COMPLIANCE**

The Superannuation Investment Sub-Committee will take advice on general investment matters from the Director of Finance and external advisers as appropriate.

The Superannuation Investment Sub-Committee will review this Statement annually or sooner if there is a change in policy in any of the areas covered.

20 **SCOTTISH MINISTERS' FUNDING**

The Fund adheres to the six principles within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2008

	<u>£m</u>	<u>£m</u>
<u>Assets</u>		41.0
<u>Past Service Liabilities</u>		
Active Members	13.9	
Deferred Pensioners	3.4	
Main Fund Recharges	(4.7)	
Pensioners	<u>31.9</u>	
Value of Scheme Liabilities		<u>44.5</u>
Deficit		<u>3.5</u>
Funding Level		<u>92.3%</u>

Employer Contributions (% Payroll)

Future Service Funding Rate	25.1%
Past Service Adjustment (10 years)*	18.7%
Total	43.8%

* This is in line with Para 7.4 of the Funding Strategy Statement

REMIT OF SUPERANNUATION INVESTMENT SUB-COMMITTEE

The supervision and control of the operations and investments of the Tayside Superannuation Fund and Tayside Transport Superannuation Fund and any other fund of a similar nature set up by the Council in pursuance of Statutory powers including:-

- i monitoring investment performance of Fund managers.
- ii the review of investments and managers.
- iii the review of asset allocation in light of the Funds' maturity profiles.
- iv the investment of new funds at the disposal of the Council.
- v ensuring appropriate custody arrangements are made for all Funds' assets.
- vi approving the Funds' Statement of Investment Principles at least annually and ensuring ongoing compliance with this.
- vii monitoring the managers' implementation of the Funds' Socially Responsible Investment policy.
- viii approving and reviewing the Funds' annual Business Plan.
- ix arranging the appointment of external advisers as required.
- x considering any other matters which may affect the management or value of the Funds' investments.