

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE
OF THE FINANCE COMMITTEE - 5 MARCH 2003**

REPORT ON: STATEMENT OF INVESTMENT PRINCIPLES ANNUAL REVIEW

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 91-2003

1 PURPOSE OF REPORT

This report revises 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 revised 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 LOCAL AGENDA 21 IMPLICATIONS

As part of the Fund's policy on Socially Responsible Investment, its investment managers are required to engage with companies on matters of social responsibility including Sustainability and the Environment.

5 EQUAL OPPORTUNITIES IMPLICATIONS

The Fund's Socially Responsible Investment policy requires investment managers to engage with companies regarding their performance in relation to Employee Care and Human Rights.

6 INTRODUCTION

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 require 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).

The Scottish Public Pensions Agency is proposing an amendment to the regulations which require authorities to state the extent to which they comply with the ten principles of investment practice contained in 'CIPFA Pension Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom April 2002'. This codified the best practice identified in the Myners Report "Institutional Investment in the UK: a review". Although this has not been yet introduced the SIP has been updated to take account of this. These areas were discussed at the training session at the last Sub-Committee meeting on 20 November.

**DAVID K DORWARD
DIRECTOR OF FINANCE**

26 FEBRUARY 2003

NOTE

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

DUNDEE CITY COUNCIL

TAYSIDE SUPERANNUATION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1 INTRODUCTION

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 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
- The expected return on investments
- The realisation of investments
- The extent (if at all) 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

Subsequently, the Scottish Public Pensions Agency has suggested an amendment to state the extent to which authorities comply with "CIPFA Pensions Panel Principles for Investment Decision Making in Local Government Pension Scheme in the United Kingdom.

Tayside Superannuation Fund is administered by Dundee City Council. Investment policy and decisions are delegated to the Superannuation Investment Sub-Committee of the Finance Committee which comprises seven elected members. They make decisions based on advice from Council Officers and professional external advisers. The Sub-Committee meets quarterly.

2 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 no local 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.

3 INVESTMENT OBJECTIVE

The Fund's investment policy will be directed to 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.

4 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

5 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)
Schroder Investment Management	WM 2000 ex property weighted average +1.0% pa
Fidelity Investments	WM 2000 ex property weighted average + 1.5% pa
Baillie Gifford	WM 2000 ex property weighted average + 1.5% pa
Schroder Property Management	CAPS Pooled Property Survey + 0.5% pa

A new structure with changes in managers, mandates and performance targets will be implemented by 1 July 2003. These will be set to ensure a prudent and balanced investment exposure.

6 ADVISERS

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

7 PERFORMANCE MEASUREMENT

Quarterly and Annual performance figures are provided by WM Company and considered by the Sub-Committee.

8 CUSTODIAN

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

9 AUDITORS

Audit Scotland.

10 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.

11 **RISK**

The Fund will seek to control risk through proper diversification of investments and Investment Managers.

12 **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.

13 **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.

14 **SOCIALLY RESPONSIBLE INVESTMENT (SRI)**

The Fund recognises that some social, environmental and ethical concerns may, over time, have an impact on the value of the shares of those companies in which it invests. It has discussed with its Investment Managers the extent to which they take such issues into account, so far as they are able, in making investment decisions on behalf of the Fund. The Fund will work with its Investment Managers to develop processes whereby the Fund will engage with companies where its Managers identify shortcomings of a social, environmental or ethical nature that might adversely affect the value of the company's shares in the UK with a view to improving company practice.

The Fund has a separate SRI policy with which Managers must comply. Reports on this are considered by the Sub-Committee every six months.

15 **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 in respect of quoted UK security holdings, 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.

16 **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.

17 **CIPFA PENSION PANEL PRINCIPLES FOR INVESTMENT DECISION MAKING IN THE LOCAL GOVERNMENT PENSION SCHEME IN THE UK**

The Fund adheres fully to the ten principles and CIPFA's measure of compliance except in the following areas.

- a Business Plan - although Service Plans have been prepared for the Pensions Administration Section and the Treasury and Investment Section no formal plan exists for the Fund as a whole. It is proposed this will be prepared in line with the next round of Dundee City Council departmental business plans.
- b Separate contracts for actuarial and investment advice - tender exercises will be conducted in 2003 to separate these two contracts.

APPENDIX A

SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2002

	<u>£m</u>
<u>Past Service Liabilities</u>	
Active Members	517.6
Deferred Pensioners	59.6
No 2 Fund Recharges	3.4
Pensioners	<u>375.6</u>
	956.2
Assets	927.0
Deficit	(29.2)
<u>Funding Level</u>	<u>97%</u>
<u>Employer Contribution Rates</u>	<u>% of Employees Contributions</u>
Future Service Funding Rate	240%
Past Service Adjustment	25%
Total Contribution Rate	265%

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 1998 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
- The expected return on investments
- The realisation of investments
- The extent (if at all) 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

Subsequently, the Scottish Public Pensions Agency has suggested an amendment to state the extent to which authorities comply with "CIPFA Pensions Panel Principles for Investment Decision Making in Local Government Pension Scheme in the United Kingdom".

Tayside Transport Superannuation Fund is administered by Dundee City Council. Investment policy and decisions are delegated to the Superannuation Investment Sub-Committee of the Finance Committee which comprises seven elected members. They make decisions based on advice from Council Officers and professional external advisers. The Sub-Committee meets quarterly.

2 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 no local 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.

3 INVESTMENT OBJECTIVE

The Fund's investment policy will be directed to 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.

4 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

5 INVESTMENT MANAGERS

The Fund will employ an Investment Manager who is judged most suitable to manage the assets of the Fund.

The current Manager is Schroder Investment Management and the fund is split into two portfolios as follows:

	<u>Performance Target</u> (on rolling 3 year basis)	
Main	WM 2000 ex property weighted average +1.0% pa	
Specialist Bond	33% FT Government Index Linked Securities)
	over 5 years)
	67% FT Government Securities over 15 years)
	Index)
		+0.25% pa

A new structure with changes in managers, mandates and performance targets will be implemented by 1 July 2003. These will be set to ensure a prudent and balanced investment exposure.

6 ADVISERS

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

7 PERFORMANCE MEASUREMENT

Quarterly and Annual performance figures are provided by WM Company and considered by the Sub-Committee.

8 CUSTODIAN

From 1 April 2003, Northern Trust will be the sole custodian for the Fund's assets.

9 AUDITORS

Audit Scotland.

10 **BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS**

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

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

11 **RISK**

The Fund will seek to control risk through proper diversification of investments.

12 **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 Manager is intended to ensure that the total fund investment returns achieved are in excess of that assumed in the Actuarial Valuation.

13 **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.

14 **SOCIALLY RESPONSIBLE INVESTMENT (SRI)**

The Fund recognises that some social, environmental and ethical concerns may, over time, have an impact on the value of the shares of those companies in which it invests. It has discussed with its Investment Managers the extent to which they take such issues into account, so far as they are able, in making investment decisions on behalf of the Fund. The Fund will work with its Investment Managers to develop processes whereby the Fund will engage with companies where its Managers identify shortcomings of a social, environmental or ethical nature that might adversely affect the value of the company's shares in the UK with a view to improving company practice.

15 **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 in respect of quoted UK security holdings, 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.

16 **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.

17 **CIPFA PENSION PANEL PRINCIPLES FOR INVESTMENT DECISION MAKING IN THE LOCAL GOVERNMENT PENSION SCHEME IN THE UK**

The Fund adheres fully to the ten principles and CIPFA's measure of compliance except in the following areas.

- a Business Plan - although Service Plans have been prepared for the Pensions Administration Section and the Treasury and Investment Section no formal plan exists for the Fund as a whole. It is proposed this will be prepared in line with the next round of Dundee City Council departmental business plans.
- b Separate contracts for actuarial and investment advice - tender exercises will be conducted in 2003 to separate these two contracts.

SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2002

	<u>£m</u>
<u>Past Service Liabilities</u>	
Active Members	11.0
Deferred Pensioners	2.2
Main Fund Recharges	(4.0)
Pensioners	<u>24.6</u>
	33.8
Assets	36.2
Surplus	2.4
<u>Funding Level</u>	<u>107%%</u>
<u>Employer Contribution Rates</u>	<u>% of Employees Contributions</u>
Future Service Funding Rate	490%
Past Service Adjustment	(250%)
Total Contribution Rate	<u>240%</u>