

**ITEM No ...7.....**

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE  
& PENSION BOARD – 6 MARCH 2017**

**REPORT ON: STATEMENT OF INVESTMENT PRINCIPLES REVIEW**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 95-2017**

**1 PURPOSE OF REPORT**

This report reviews Statements of Investment Principles for the Tayside Pension Fund and the Tayside Transport Pension 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 Pension Fund and the Tayside Transport Pension 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). This written statement has been approved by the Pension Sub-Committee annually since 2000 for Tayside Pension Fund and the Tayside Transport Pension Fund.

These regulations have been replaced by the Local Government Pension Scheme Management and Investment of Funds (Scotland) Regulations 2010 and further amended by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 2016. 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). A revised Statement of Investment Principles (Article IV of the minutes of the Superannuation Sub-Committee of the Policy and Resources Committee meeting of the 15 November 2010, Report No 676-2010 refers) review application in accordance with the Myners Principles, with a further revision (Article II of the minutes of the Superannuation Sub-Committee of the Policy and Resources Committee meeting of 27 February 2012, Report No 104-2012 refers).

**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  
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**24 FEBRUARY 2017**



**(incorporating Tayside Transport Pension 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 AND GOVERNANCE**

Tayside Pension Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. Investment policy and decisions are delegated to the Pension Sub-Committee of the Policy and Resources Committee which comprises 6 elected members from Dundee City Council. The Pension Board, comprising of 4 employer representatives (external to the administering authority) and 4 trade union representatives (representing all types of members) assist the Sub-Committee with securing compliance to the regulations.

Investment decisions are made based on advice from Council Officers and professional external advisers. The Sub-Committee and Pension Board meet quarterly.

### **3 INVESTMENT ROLES AND RESPONSIBILITIES**

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

### **4 OBJECTIVE OF THE FUND**

The primary objective of the Tayside Pension 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 STRUCTURE, STRATEGY & OBJECTIVES**

The Fund's investment policy will be directed to achieving and maintaining a fully funded scheme and where practical, a stable employers contribution rate. There is also a requirement to maintain sufficient cash to meet liabilities as they fall due for payment. The latest actuarial valuation of the Fund is shown in Appendix B.

The investment objective is to maximise the overall return whilst maintaining a prudent and balanced investment exposure. To achieve its investment objectives, the Fund will utilise the following different types of investments:

Equities, Managed Funds, Unit Trusts, Partnerships, Investment Trusts, Open Ended Investment Companies, Bonds, Underwriting, Property, Stock Lending\*, Direct Lending, Cash, Commission Recapture and Currency. Derivatives may be used, but only for efficient portfolio management or the reduction of risk. All investments and investment limits will comply with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

\*The Stock Lending programme is currently suspended, however indirect stock lending activities occur within the fund's passive equity mandate (with exception of UK equities).

## **6 INVESTMENT MANAGERS**

The Fund will employ Investment Managers who are judged most suitable to manage the assets of the Fund. The Fund currently employs a range of managers that have been chosen in light of the overall investment strategy and have benchmarks and targets set to provide a prudent and balanced investment exposure to an acceptable level of investment risk.

The asset allocation, structure, manager mix and investment objectives are detailed in appendix C. These objectives and targets have been set to ensure a prudent and balanced investment exposure, which helps control the level of investment risk. These are currently in transition following a review of investment strategy as detailed in report 102-2016 Investment Strategy Review. Appendix C details both the current and recently agreed strategies.

The performance of these managers is monitored on a quarterly basis.

## **7 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.

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

## **8 RISK**

In order to achieve its investment objective the Fund takes investment risk including equity risk and active management risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that objectives will not be met.

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.

The initial risk register (Article III of the Minute of Meeting of the Superannuation Sub-Committee of the Policy and Resources Committee of 21 February 2011, Report No 114-2011 refers) sets the framework for the Fund's acknowledgement of, and appetite for risk. The risk register is reviewed and updated quarterly.

## 9 **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.

## 10 **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.

## 11 **ADVISERS**

Investment Consultant	AON Hewitt
Corporate Governance	Pensions Investment Research Consultants Ltd (PIRC)
Actuarial	Barnett Waddingham

## 12 **PERFORMANCE MEASUREMENT**

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

## 13 **CUSTODIAN**

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

## 14 **AUDITORS**

Audit Scotland.

## 15 **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. Review of Approach to Socially Responsible Investing (Article III of the Minute of the Joint Meeting of the Pension Sub-Committee of the Policy and Resources Committee and The Pension Board of 6 June 2016, Report No 213-2016 refers) shows the current Policy on Environmental, Social and Corporate Governance.

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.

Report on activities and progress. A six-monthly report will continue to be prepared for the Sub-Committee.

## 16 **CORPORATE GOVERNANCE**

The Fund will vote through its Fund Managers on all global security holdings in accordance with the recommendations of its voting consultants. Managers will be advised to use its best endeavours to vote in accordance with its voting guidelines.

## 17 **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.

## 18 **COMPLIANCE**

The Pension Sub-Committee will take advice on general investment matters from the Executive Director of Corporate Services and external advisers as appropriate. The Pension Board will assist in securing compliance to regulations.

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

## 19 **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).

**INVESTMENT ROLES AND RESPONSIBILITIES**

**1. Introduction**

The Fund pursues a policy of seeking enhanced returns whilst lowering risk through diversification of both investments and investment managers. In order to achieve this it has delegated day to day investment decisions to a number of external investment managers. A management agreement is in place for each Investment Manager, which sets out the relevant benchmark, performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

**2. Tayside Pension Fund Sub-Committee is responsible for:**

- approving the Statement of Investment Principles
- agreeing investment objectives, strategy and structure
- appointing investment managers, global custodian and consultants
- reviewing the performance of the Fund, its investments and investment managers.
- developing investment strategy

The Committee is supported by council officers and external advisers.  
The Committee may appoint a working group to develop specific initiatives.

**3. Tayside Pension Fund Pension Board is responsible for:**

- to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator in such other matters as the LGPS regulations may specify
- to secure the effective and efficient governance and administration of Tayside Pension Fund

**4. The Executive Director of Corporate Services is responsible for:**

- governance of the Fund
- implementation of Committee decisions
- committee training

**5. The Investment Consultant is responsible for:**

- advice on setting investment objectives and strategy
- advice on appropriate investment management structures
- advice on asset classes and investment vehicles
- assistance with investment manager monitoring
- assistance with investment manager selection, retention and termination
- benchmark advice
- advising on the appropriate content of Investment Management and other related agreements.

**6. The Investment Managers are responsible for:**

- portfolio management including individual decisions on purchase retention and sale of investments
- decisions on corporate actions and corporate governance (proxy voting)
- responsible investment activity including analysis and engagement with companies.

**7. The Global Custodian is responsible for:**

- safekeeping of assets
- servicing of assets including income collection
- execution of transactions, corporate actions and proxy voting
- record keeping and primary accounting

- securities lending (if authorised)
- cash management
- performance measurement

**8. The Actuary is responsible for:**

- measurement, monitoring, advice and information relating to the Fund's liabilities and the relationship between its investment assets and liabilities.



**TAYSIDE MAIN FUND - SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2014**

	<u>£m</u>	<u>£m</u>
<b><u>Assets</u></b>		2,396.5
<b><u>Past Service Liabilities</u></b>		
Active Members	1143.6	
Deferred Pensioners	264.8	
No 2 Fund Recharges Pensioners	6.0	
	<u>986.8</u>	
Value of Scheme Liabilities		<u>2401.2</u>
Deficit		<u>4.8</u>
Funding Level (excluding 5% volatility reserve)		<u>99.8%</u>
	<b><u>Employers Contributions</u></b>	
	<b><u>(% of Payroll)</u></b>	
Future Service Funding Rate		16.5
Deficit Recovery (3 years)*		0.5
Total		<u>17.0</u>

\* This is in line with Para 7.7 of the Funding Strategy Statement

**TAYSIDE TRANSPORT FUND - SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2014**

	<u>£m</u>	<u>£m</u>
<b><u>Assets</u></b>		54.2
<b><u>Past Service Liabilities</u></b>		
Active Members	14.0	
Deferred Pensioners	6.2	
Main Fund Recharges	(7.7)	
Pensioners	<u>41.7</u>	
Value of Scheme Liabilities		<u>54.2</u>
Deficit		<u>0.07</u>
Funding Level		<u>99.9%</u>

**Employer Contributions (% Payroll)**

Future Service Funding Rate	33.8%
Deficit Recovery (3 years)*	1.7%
Total	35.5%

\* This is in line with Para 7.3 of the Funding Strategy Statement

<b>Tayside Main Fund - Target Future Asset Allocation</b>		
<b>Asset Class</b>	<b>Current Allocation</b>	<b>Agreed Allocation</b>
Equities	70%	65%
Fixed Income	18%	13%
Property	12%	12%
Local and Alternative Opportunities	0%	10%

**Main fund - Benchmarks**  
**(effective from 1 April 2017)**

<b>EQUITIES</b>	<b>FIXED INCOME</b>	<b>PROPERTY</b>
80% MSCI AW Index	65% Libor + 5%	100% IPD All Balanced Property Funds Weighted Average Index
20% FTSE All Share Index	20% ML Sterling Non-Gilts Index	
	15% FTSE Index-Linked Over 5yr Index	

**Revised benchmarks for individual mandates are currently being developed as required**

<b>Manager</b>	<b>Asset Class</b>	<b>Weighting</b>	<b>Current Benchmark</b>	<b>Performance Target (3yr rolling)</b>
Fidelity	Global Equities (active)	21%	39% FTSE All Share Index 5% S&P 500 Index 13% MSCI Europe Ex UK Index 18% TOPIX Index 7% MSCI AC Asia Pacific Ex Japan Index 17% MSCI Emerging Markets (Free) Index 1% 7- Day LIBID Index	+ 1.5% pa (gross of fees)
Baillie Gifford Global Alpha	Global Equities (active)	12%	100% MSCI AC World Index	+ 1.75 to 2% pa (net of fees)
Baillie Gifford UK	UK Equities (active)	12%	100% FTSE All Share Index	+ 1.75 to 2% pa (net of fees)
Alliance Bernstein	Global Equities (active)	15%	25% FTSE All Share Index 41% FTSE AW Developed North America Index 16% FTSE AW Developed Europe (Ex UK) Index 8% FTSE Japan Index 3% FTSE AW Developed Asia Pacific Ex Japan Index 7% FTSE AW Emerging Markets Index	+ 1.5 to 2% pa (net of fees)
LGIM	Global Equities (passive)	10%	100% FTSE AW Index	+/- 0.5% p.a. (for 2 years out of 3)
GSAM	Fixed Income (UK)	9%	28.16% FTSE Index-Linked Over 5 Year Index	+ 1.25% pa (gross of fees)

			46.96% iBoxx Sterling Non-Gilts Index 24.88% ML Sterling UK Gilts Index	
Fidelity	Fixed Income (UK)	9%	72% ML Sterling Non-Gilts Index 28% FTSE Index-Linked Over 5 Year Index	+ 0.75% pa (gross of fees)
Schroders	Property (UK)	12%	100% IPD All Balanced Property Funds Weighted Average Index	+ 0.75% pa
M&G	Financing Fund	<1%	100% ML Sterling 3-Month LIBOR Index	

<b>Tayside Transport Fund - Overall Asset Allocation</b>		
<b>Asset Class</b>	<b>Agreed Allocation</b>	<b>Agreed Allocation</b>
Equities	50%	50%
Fixed Income	40%	40%
Property	10%	10%

#### **Transport Fund Benchmarks**

<b>EQUITIES</b>	<b>FIXED INCOME</b>	<b>PROPERTY</b>
55% FTSE All Share Index	27.5% FTSE Index-Linked Over 5 Year Index	100% IPD All Balanced Property Funds Weighted Average Index
24% FTSE AW Developed North America Index	25% ML Sterling Non-UK Gilts Index	
10% FTSE AW Developed Europe (Ex UK) Index	47.5% iBoxx Sterling Non-Gilts Index	
5% FTSE Japan index		
2% MSCI AC Asia Pacific Ex Japan index		
4% MSCI Emerging Markets (Free) Index		

<b>Manager</b>	<b>Asset Class</b>	<b>Weighting</b>	<b>Current Benchmark</b>	<b>Performance Target (3yr rolling)</b>
Baillie Gifford Global Alpha	Global Equities (active)	25%	100% MSCI AC World Index	+ 1.75 to 2% pa (net of fees)
Baillie Gifford UK	UK Equities (active)	25%	100% FTSE All Share Index	+ 1.75 to 2% pa (net of fees)
GSAM	Fixed Income (UK)	40%	28.16% FTSE Index-Linked Over 5 Year Index 46.96% iBoxx Sterling Non-	

			Gilts Index 24.88% ML Sterling UK Gilts Index	
Schroders	Property (UK)	10%	100% IPD All Balanced Property Funds Weighted Average Index	+ 0.75% pa

