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WIRRAL

Pensions Committee

Date:	**Tuesday, 23 March 2010**
Time:	**6.00 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer:	Pat Phillips
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AGENDA

1. **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

   Members are asked to consider whether they have personal or prejudicial interests in connection with any item(s) on this agenda and, if so, to declare them and state what they are.

2. **MINUTES (Pages 1 - 8)**

   To receive the minutes of the meeting held 13 January 2010.

3. **LGPS REFORM UPDATE (Pages 9 - 16)**

4. **REVIEW OF UPDATED MYNERS PRINCIPLES & REVISED STATEMENT OF INVESTMENT PRINCIPLES (SIP) (Pages 17 - 40)**

5. **TENDERS FOR SERVICES (Pages 41 - 44)**

6. **NATIONAL ASSOCIATION OF PENSION FUNDS CONFERENCE (Pages 45 - 46)**

7. **CIPFA ANNUAL CONFERENCE HARROGATE (Pages 47 - 48)**

8. **JUNE TRAINING EVENT (Pages 49 - 52)**

9. **KNOWLEDGE AND SKILLS FRAMEWORK FOR THE LGPS (Pages 53 - 56)**

   An appendix will be circulated at the meeting.

10. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The public may be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information.

11. CUNARD BUILDING LIVERPOOL REFURBISHMENT (Pages 57 - 62)

12. PASSIVE MANAGEMENT (Pages 63 - 66)

13. ADMISSION BODY APPLICATION - TAYLOR SHAW - ST WILFRID'S SCHOOL (Pages 67 - 70)

14. ADMISSION BODY APPLICATION - TAYLOR SHAW - MEOLS COP HIGH SCHOOL (Pages 71 - 74)

15. PRIVATE EQUITY INVESTMENT (Pages 75 - 88)

16. CLOSURE OF ADMISSION BODY - THE PEOPLE'S CENTRE (Pages 89 - 92)

17. CLOSURE OF ADMISSION BODY - GREEN APPRENTICES (Pages 93 - 96)

18. NON - RECOVERY OF OVERPAYMENT OF DEATH GRANT AND PENSIONS (Pages 97 - 98)

19. MINUTES OF INVESTMENT MONITORING WORKING PARTY 24 FEBRUARY 2010 (Pages 99 - 106)

20. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR

PENSIONS COMMITTEE

Wednesday, 13 January 2010

Present:	Councillor	AR McLachlan (Chair)	
	Councillors	G Watt T Harney W Duffey C Povall D Knowles	G Davies H Smith F Doyle R Moon
	Councillors	N Keats, Knowsley Council A Ibbs, Sefton Council	
	UNISON	Phil Goodwin	
Apologies	Councillors	R Oglethorpe G Pearl	J Brown

78 **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

Members were asked to consider whether they had any personal or prejudicial interests in connection with any item(s) on the agenda and, if so, to declare them and state what they were.

Councillor Keats declared a prejudicial interest in respect of minute 94 Transfer Body Application – Research Machines by virtue of being an elected member on Knowsley Council.

79 **MINUTES**

The Director of Law, HR and Asset Management submitted the minutes of the meeting held 17 November 2009.for consideration.

Resolved – That the minutes be agreed.

80 **MERSEYSIDE PENSION FUND - AUDIT OPINION PLAN 2009-2010**

The Director of Finance submitted a report commenting on the Audit Commission Audit Opinion Plan for the financial year 2009-2010.

He reported that the Opinion Plan had been produced to give Members an early indication of the scope, range, purpose, process, timescales and planned outputs for the audit and opinion on the closure of accounts for the current financial year.

The Director reported that whilst following certain standard approaches, the Plan reflected the outcome of detailed discussions with the MPF.

He reported that the MPF was obliged to advise the Auditor of any additional risks arising, or expected to arise during the year of audit.

The Director reported that the Auditor had agreed other amendments to the draft report, which now indicated the levels of materiality and triviality, and also recognised that there may be various adjustments required to the initial draft accounts during the course of the audit to reflect further information not previously available.

Resolved – That the Audit Opinion Plan for the financial year 2009-2010 be noted.

81 **2009-2010 AUDIT OPINION PLAN - 13 JANUARY 2010**

The District Auditor gave a detailed presentation on the 2009 – 2010 Audit Opinion Plan including the risk assessment and audit fees.

Resolved – That the District Auditor be thanked for her report.

82 **PENSION FUND BUDGET 2010 - 2011**

The Director of Finance submitted a report outlining the proposed Pension Fund budget incorporating the administration and investment costs for 2010 - 2011, and also showed a revised budget for 2009-10.

He reported that final guidance from the Department for Communities and Local Government was still awaited regarding the content of Pension Fund Annual Reports.

The Director reported that this may contain elements which related to the content of annual budgets, particularly with regard to the payment of benefits, transfer values and contributions.

He reported that such elements had never previously featured in Pension Fund budgets. Their main impact would affect individual employers as part of the Triennial Valuation, which sets contribution rates for each employer.

The Director reported that In the absence of this guidance the budget for 2010 – 2011 was being set, as previously, to reflect the administrative and investment management costs of the Pension Fund, and excluded benefits, transfer values and contributions.

Resolved – That the estimates for 2010-2011 be approved.

83 **LGPS REFORM UPDATE**

The Director of Finance submitted a report updating Pensions Committee on developments following the introduction of the revised LGPS on 1 April 2008 by the Department for Communities and Local Government (DCLG).

Resolved – That the report be noted.

84 **TREASURY MANAGEMENT POLICY AND STRATEGY 2010/11**

The Director of Finance submitted a report requesting approval of the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2010 - 2011.

He reported that at its meeting held 29 January 2003 Pensions Committee approved a treasury management policy statement, which set out a framework for treasury management operations.

The Director reported that the policy statement required that the Pensions Committee approves an annual plan and strategy. The plan and strategy were last approved by Pensions Committee at its meeting held 14 January 2009.

He reported that the treasury management policy statement was also due for review and that in November 2009 CIPFA had published a fully revised code of practice for treasury management in the public services following the report "Risk and Return" from the Audit Commission.

Resolved

1. That the policy statement and annual plan and strategy for the treasury management function for 2010 - 2011.be approved.

2. That for the avoidance of doubt, it be confirmed authorised signatories have delegated powers to open and close bank and deposit accounts.

85 **THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2009**

The Director of Finance submitted a report informing Pensions Committee of the Regulations replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

He reported that the Regulations were primarily a consolidation of the LGPS Regulations 1998 with the numerous instruments which had amended them.

The Director reported that a decision had also been taken to update the 1998 Regulations and to make a small number of more substantive changes.

Resolved – That the new Investment Regulations be noted.

86 **DRAFT LGPS (MISCELLANEOUS) REGULATIONS 2010**

The Director of Finance submitted a report informing Members of draft proposals for further amendments to the Local Government Pension Scheme (LGPS) Regulations.

He requested Pensions Committee to agree that a response be prepared and submitted to CLG on any technical issues that are identified with the amendments proposed.

Resolved –

That this Pensions Committee agrees that a response be submitted on any technical issues identified with the amendments proposed.

87 **TRUSTEE TRAINING FUNDAMENTALS REFRESHER COURSE**

The Director of Finance submitted a report regarding a fundamentals course which was run on an annual basis by Local Government Employers (LGE) and provided an insight into Local Government Pension Scheme (LGPS) "trusteeship" for newly Elected Committee Members.

He reported that LGE was now offering a one day refresher course for those Members who attended the three day course between 2002 and 2007.

Resolved – That those members who wished to attend submit their names to the Director of Finance as soon as possible.

88 **MEMBERS' TRAINING 2010**

The Director of Finance submitted a report and a supporting appendix outlining the anticipated Member training programme for 2010

He reported that it comprised a series of internal and external training events throughout the year. Separate papers to authorize attendance at those events, would be submitted to Pensions Committee on an event by event basis.

The Director reported that as a supplement to its recently published guidance on applying the updated Myners Principles, CIPFA Pensions Panel intended to publish a knowledge and skills framework for officers and elected Members serving in the LGPS. This would enable MPF to conduct a self-assessment exercise within the framework.

He requested members of the Pensions Committee to indicate their willingness to participate in such an exercise, and to note that the outcome could lead to revisions being made to the training programme.

Resolved -

1. That the training programme for 2010 be approved.

2. That it be noted that the programme may be subject to revision, following the publication of the CIPFA knowledge and skills framework for the LGPS.

89 **INVESTMENT SEMINAR - PRESENTATION BY ROBERT WESTCOTT**

The Director of Finance submitted a report informing Pensions Committee of a seminar to be hosted at the Cunard Building on 26 January 2010 to which all members were invited.

He reported that for the past three years Pioneer Investments had hosted a presentation by Robert Westcott at the Cunard Building as part of their Colloquia

Exchange Series. MPF has assisted Pioneer with setting up this event which had been attended by Members and officers from LGPS Funds in the Northwest.

Resolved - That Members attend the Seminar.

90 **SEMINAR - FUTURE OF GOVERNANCE IN PUBLIC SECTOR PENSIONS**

The Director of Finance submitted a report advising Members of a seminar on the Future of Governance in Public Sector Pensions offered by CIPFA to be held in London on 27 January 2010.

Resolved – That those members who wish to attend submit their names to the Director of Finance as soon as possible.

91 **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

Resolved – That the public be excluded from the meeting on the grounds that the following matters to be considered contain exempt information by virtue of paragraph 1 of Part 1 of Schedule 12A of the Local Government Act 1972.

92 **REVIEW OF SCHEME ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) ARRANGEMENTS - CHOICE OF FUNDS TO BE OFFERED**

The Director of Finance submitted a replacement report outlining modified proposed changes to the arrangements for the provision of Scheme Additional Voluntary Contributions (AVCs)

Resolved –

That this Pensions Committee accepts and implements the changes proposed by HSBC in its report dated November 2009 to the Scheme AVC arrangements in respect of the following matters;-

a. The introduction of bespoke Lifestyle options for new AVC applications with a range of cautious, balanced and adventurous investment choice alternatives (as set out in appendices I to III of the HSBC report) to replace the existing Lifestyle options offered by both Companies.

b. Members with existing Lifestyle accounts would have the option of switching at their own choice to the new arrangements subject to any charges incurred.

c. The introduction of default investment choices with both Prudential and Standard Life, utilising the balanced bespoke Lifestyle options for new cases that arise where members fail to make a positive choice of investment fund.

d. To vary the ranges of individual investment choice available to members by the addition of seven Prudential funds and the removal of ten Standard Life funds.

93 TRANSFEREE ADMISSION BODY APPLICATION - RESEARCH MACHINES

The Director of Finance submitted a report informing Pensions Committee of his decision taken under delegated authority, to approve an application received from Research Machines, for admission to Merseyside Pension Fund.

He reported that Research Machines had taken over the provision of ICT facilities and services at Knowsley schools from 22 June 2009.

Councillor N Keats declared a prejudicial interest in this matter by virtue of being an elected member on Knowsley Council.

Resolved –

That the approval of the application from Research Machines for admission to the Fund be noted.

94 APPOINTMENT OF INDEPENDENT PROPERTY VALUER

The Director of Finance submitted a report recommending the appointment of Colliers CRE for a four year mandate as Independent Property Valuer following a comprehensive tendering exercise.

Resolved - That the appointment of Colliers CRE as the Independent Property Valuer for a period of four years from 1 February 2010 with an option to extend for a further two years be approved.

95 INDEPENDENT ADVISERS

The Director of Finance submitted a report informing Members of the outcome of a procurement exercise in respect of the provision of independent investment advice to the Pension Fund.

Resolved - That Mr Noel Mills be appointed as an independent investment adviser to the Pension Fund.

96 CROMWELL HOUSE, HOOK, HAMPSHIRE - REFURBISHMENT WORKS

The Director of Finance submitted a report informing Pensions Committee of the outcome of a recent tendering exercise in respect of refurbishment works at Cromwell House, Hook, Hampshire a property owned by MPF as part of its direct property investment portfolio.

He reported that the tendering exercise had been conducted on behalf of MPF by CB Richard Ellis (CBRE).

Resolved - That the lowest tender for refurbishment works at Cromwell House, Hook, Hampshire in the sum now reported be approved.

97 **WRITE OFF OF PROPERTY RENTAL ARREARS**

The Director of Finance submitted a report requesting approval by Pensions Committee to write off un-collectable rental arrears in the sum now reported from tenants located in MPF properties.

Resolved - That the write-off of the un-collectable property rental income in the sum now reported be approved.

98 **MINUTES OF THE INVESTMENT MONITORING WORKING PARTY MEETING HELD 24 NOVEMBER 2009**

The Director of Finance submitted the minutes of the Investment Monitoring Working Party held 24 November 2009.

Resolved – That the minutes be agreed.

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WIRRAL COUNCIL

PENSIONS COMMITTEE

23 MARCH 2010

REPORT OF THE DIRECTOR OF FINANCE

LGPS REFORM UPDATE

1. **EXECUTIVE SUMMARY**

1.1. This report informs Members of developments following the introduction of the revised LGPS on 1 April 2008 by the Department for Communities and Local Government (DCLG).

2. **BACKGROUND**

2.1 The Pensions Committee last considered progress in implementing the new regulations as part of the reform of the LGPS, on 13 January 2010 (Minute 83 refers).

Increase to earliest retirement age

2.2 The earliest non ill-health retirement age for those members who joined the Scheme prior to 1 October 2006 increases from age 50 to 55 with effect from 1 April 2010. Members who first joined the Scheme from 1 October 2006 have been subject to a minimum retirement age of 55 since they started.

2.3. This change will apply to staff under age 55 being made redundant or seeking voluntary or flexible retirement and to those seeking early payment of deferred benefits on compassionate grounds before age 55 where the award was made since 1 April 2008.

2.4. MPF has circulated details to employers setting out the important tax implications for individuals and potentially for employers of agreeing to release deferred benefits (other than on grounds of permanent ill health) from 6 April 2010 to Scheme members who have not attained age 55.

2.5. Although the LGPS Regulations continue to permit deferred benefits to be paid to certain protected groups from age 50 (where they were awarded prior to 1 April 2008), new payment cases from 6 April 2010 will be treated as “unauthorised payments” under HMRC tax rules resulting in significant tax liability on the member and possibly on MPF which will be recoverable from the employer.

2.6 I will be making representations that such protected cases eligible for payment of deferred benefits between age 50 and 55 under the LGPS regulations should not be treated as unauthorised payments or liable for such tax deductions.

2.7. HMRC would view the payment of benefits to such members as unauthorised payments if the Benefit Crystallisation Event (BCE) falls on or after 6 April 2010 and the benefit is paid on or after age 50 and before age 55 at the discretion of the former employer.

2.8. The LGE advice is that the LGPS Regulations permit an employer to pay such benefits at their discretion but, if they do so after 5 April 2010 before age 55 the payment may be an **unauthorised payment** attracting the relevant unauthorised payment tax charges. The scheme member, in deciding whether or not to apply for payment before age 55, would need to take this into account.

Draft LGPS (Miscellaneous) Regulations 2010

2.9 As reported at the last meeting of the Committee, on 29 December 2009 DCLG issued a set of amendment regulations to make a number of corrections to those which introduced the new scheme in April 2008.

2.10. A number of drafting errors were identified at the introduction of the Scheme regulations on 1 April 2008. Since that time several sets of amendment regulations have been issued by DCLG to attempt to correct various deficiencies in the legislation and specifically with the new ill health retirement provisions. The closing date for comments was 18 March 2010 and a technical response has been submitted to the DCLG.

Draft LGPS (Amendment) Regulations 2010

2.11. On 18 September 2009 DCLG issued draft amendment regulations for consultation on measures intended to comply with the Fair Deal for Staff Pensions for a small number of staff transferring from the Learning and Skills Council to Local Authorities on 1 April 2010. A technical response was submitted to DCLG by the closing date of 18 December 2009.

2.12. Following the recent consultation DCLG has now circulated a further letter dated 23 February 2010 and a further set of draft regulations (Appendix 1 attached) confirming that it intends to proceed with the original approach set out to deal with this matter.

Councillors Pensions

2.13. There is no further progress to report since the LGE Bulletin 64 (dated November 2009) which confirmed that DCLG intends to amend the scheme regulations to bring Councillors into the current scheme although there is no specific timeframe for the required consultation.

Future of the Scheme

2.14. It has been reported that the Policy Review Group has been asked to consider a number of key issues relating to the future of the LGPS and its operation including:

a. Whether the existing scheme; is fit for purpose? Does it have a long term future? Is it affordable in its present form or does it require minor tweaks around the edges to aid its long term future? Whether there is scope for reducing costs and improving efficiency through organisational aspects of the LGPS including greater partnership working and other forms of rationalisation involving funds working together more closely?.

b. Whether a more fundamental review of the Scheme is needed for the future; including further consideration of CARE, hybrid and Defined Contribution options?

2.15. It is not expected that any formal consultation exercise or decisions on such changes will be completed until after the general election.

3. FINANCIAL IMPLICATIONS

3.1 The increase in the earliest non ill health retirement age from 50 to 55 will reduce potential early retirement strain costs for employers and bond requirements for admission bodies as potential unfunded pensions liabilities will be reduced.

3.2 Additional tax liabilities may fall on members and employers in respect of HMRC unauthorised payment charges in relation to release of deferred benefits from 6 April 2010 to members under age 55.

4. STAFFING IMPLICATIONS

4.1. There are none directly arising from this report.

5. EQUAL OPPORTUNITY /EQUALITY IMPACT ASSESSMENT

5.1. There are none arising from this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1. There are none arising from this report.

7. HUMAN RIGHTS IMPLICATIONS

7.1. There are none arising from this report.

8. **LOCAL AGENDA 21 IMPLICATIONS**

8.1. There are none arising from this report.

9. **PLANNING IMPLICATIONS**

9.1. There are none arising from this report.

10. **MEMBER SUPPORT IMPLICATIONS**

10.1. There are none arising from this report.

11. **BACKGROUND PAPERS**

11.1. The DCLG letter dated 23 February 2010.

12. **RECOMMENDATION**

12.1 That Members note the report.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/36/10

APPENDIX

23 February 2010

To: addressees below

Dear Colleague,

Local Government Pension Scheme - an update on the draft Regulations relating to two machinery of government changes – the dissolution of the Learning and Skills Council, and merger of Probation Boards to form Probation Trusts

Part 1 – Learning and Skills Council

Draft proposals to amend the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008 to comply with Fair Deal for Staff Pensions, and deal with other LGPS issues, for staff transferring from the Learning and Skills Council to Local Authorities on 1 April 2010.

1. You have already been consulted on a draft statutory instrument dealing with Fair Deal for Staff Pensions[1] requirements which would apply when staff of the Learning and Skills Council (LSC) transfer to Local Authorities under provisions in the Apprenticeships, Skills, Children and Learning Act 2009. Draft regulations were circulated for comment on 18 September 2009.

2. I attach the latest working draft of the Local Government Pension Scheme (Amendment) Regulations 2010 and bring to your attention changes made taking on board comments made during the consultation. This letter is not seeking comments on the Regulations but is intending to provide assurances to the interested parties that steps are being taken to take forward the amendments needed to permit the smooth transfer across occupational pension schemes.

3. In addition to the protections for a retirement age of 60 (age 50 for certain benefits) for those who retain entitlement under Fair Deal for Staff Pensions, there are new measures as follows:

[1] A note on Fair Deal for Staff Pensions can be found at http://www.hm-treasury.gov.uk/d/pensions_bta_guidance_290604.pdf

Department for Communities and Local Government
5/F5
Eland House
London
SW1E 5DU
020 7944 6002
Lynda.jones@communities.gsi.gov.uk

- Transferring LSC employees will pay an increased employee contribution rate when they join the LGPS. They are to be given a non pensionable pay uplift to meet this additional cost as part of the requirements of Fair Deal for Staff Pensions. The LGPS regulations define what is meant by non pensionable pay but the pay uplift for these transferring staff is not currently included in the list. **Draft Regulation 3** amends Benefits Regulations 4 (2) to add this payment to the list of definitions of non pensionable pay for this group of transferring employees.

- **Draft Regulation 4** adds the PCSPS service for those eligible transferring LSC staff to be included towards the three month qualifying period for retirement benefits.

- **Draft Regulation 7** has been further amended to clarify the PCSPS schemes to be included in this regulation.

- Transferring staff who opt to transfer their PCSPS service to the LGPS will have their accrued membership transferred on bulk transfer terms. Bulk transfers-in are not provided for in the LGPS regulations and there will be provision for this and **draft Regulation 11** will be finalised when discussions about the terms have concluded.

- There are other consequential amendments relating to the LSC transfer.

Part 2 – Probation Boards and Probation Trusts

Draft proposals to amend the Local Government Pension Scheme (Administration) Regulations 2008, to manage the transfer of assets and liabilities between administering authorities affected by the merger of Probation Boards to Probation Trusts taking place from 1 April 2010.

4. Comments received do not impact on the draft Regulations relating to the setting up of Probation Trusts and no further amendments have been made. Comments received were concerned with the process which is being addressed separately.

Amendment to Benefit Regulations 19 – to include 31 March 2010

5. Draft Regulation 9 does not form part of the measures dealing with the machinery of government changes but makes a minor but important correcting amendment to regulation 19 (early leavers: inefficiency and redundancy), to clarify that the age change from 50 to 55 only applies from 1 April, as intended, and not 31 March as currently stated.

The draft Regulations

6. In respect of both main elements of the draft Regulations, please note that there could be some minor and technical drafting amendments necessary before the regulations are finalised and agreed by Ministers but it is unlikely that the substance will be altered.

Timetable

7. LGPS practitioners and affected individuals can be assured that all steps are being taken to ensure the draft Regulations will be finalised and, if Ministers agree, the Statutory Instrument can be made and laid as soon as possible before 1 April 2010.

8. In the event, that there is a delay with this formal procedure, the Regulations will have effect from the date the relevant transfers occur which is 1 April 2010.

Yours sincerely,

Lynda Jones,
Head of Branch 3
Workforce, Pay and Pensions
Communities and Local Government

Communities and Local Government

This letter is addressed to:

Learning and Skills Council
Department for Children, Schools and Families
Ministry of Justice
National Offender Management Service
Government Actuary's Department
Probation Boards and Trusts

All LGPS Administering Authorities

The Chief Executive of:

- County Councils (England)
- District Councils (England)
- Metropolitan Borough Councils (England)
- Unitary Councils (England)
- County and County Borough Councils in Wales
- London Borough Councils
- Tameside Metropolitan Borough Council
- Wirral Metropolitan Borough Council
- City of Bradford Metropolitan District Council
- South Tyneside Metropolitan Borough Council
- Wolverhampton City Council
- London Pension Fund Authority
- Environment Agency
- National Probation Service for England and Wales

Town Clerk, City of London Corporation
Clerk, South Yorkshire PTA
Clerk, West Midlands PTA

The Secretaries of:

- Local Government Association
- LGPC
- Local Government Employers' organisation (LGE)
- PPMA
- SOLACE
- ALACE
- CIPFA
- ALAMA
- UCEA
- NALC
- SLCC

The Secretaries of:

- Society of County Treasurers
- Society of District Council Treasurers
- Society of Welsh Treasurers
- Society of Metropolitan Treasurers
- Society of London Treasurers

Association of Consulting Actuaries
Northern Ireland Public Service Alliance
Homes and Communities Agency

Trades Union Congress
UNISON
GMB/MPO
UCATT
Aspect
Unite
NAPO
Association of Educational Psychologists
CYWU
ACM

Audit Commission

WIRRAL COUNCIL

PENSIONS COMMITTEE

23 MARCH 2010

REPORT OF THE DIRECTOR OF FINANCE

REVIEW OF UPDATED MYNERS PRINCIPLES & REVISED STATEMENT OF INVESTMENT PRINCIPLES (SIP)

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to approve a revised Statement of Investment Principles (SIP) for Merseyside Pension Fund, stating compliance with the updated Myners Principles.

2. BACKGROUND

2.1 The Pensions Committee approved the previous edition of the SIP on 26 November 2007, in accordance with the LGPS Regulations and CIPFA guidance current at that time. This required that the SIP stated compliance with the 10 Myners Principles, as outlined in the CIPFA Pensions Panel guidance document, *Principles for Investment Decision Making in the LGPS 2002.*

2.2 It was reported to Pensions Committee on 24 June 2008 that HM Treasury were consulting over a proposed update to the Myners Principles. The proposal was to consolidate the previous ten into six high level principles that would provide pension fund trustees with an authoritative guide to best practice for investment decision-making and governance. The purpose of the update was to promote wider pensions industry acceptance and ownership of the Principles by making them more flexible, and through the 'comply or explain' approach, to encourage the industry to develop a higher quality body of guidance for trustees.

2.3 The LGPS regulatory framework has incorporated the original ten Myners Principles since 2002, requiring funds to report their compliance as part of their SIP. The amended LGPS (Management & Investment of Funds) Regulations 2009 require adoption of the updated six Principles. A broad consensus had emerged from the consultation process that the LGPS would benefit from continuing to apply updated Myners Principles.

2.4 As it had done previously, the CIPFA Pensions Panel produced guidance on applying the revised Principles; it has subsequently produced a knowledge, skills and competencies framework to provide more practical help to LGPS funds. Details of this initiative are given in a separate report on this agenda. However, it should be noted that the review and consultation process identified the LGPS as a ‘special case’, due partly to its early adoption of the original Myners Principles, but also because of a greater ‘trustee risk’ owing to the uncertainties of the electoral cycle.

2.5 In the wake of the financial crisis of 2008 HM Treasury commissioned Sir David Walker to report on corporate governance in UK banks and other financial industry entities. The Walker Review published its final recommendations in November 2009, which included a chapter on the stewardship role of institutional shareholders and looked at the relationship between asset owners (such as pension funds) and asset managers. The findings of the Walker Review were incorporated into the CIPFA guidance paper.

3. REVISED STATEMENT OF INVESTMENT PRINCIPLES

3.1 The draft SIP, which complies with the 2009 regulations and published CIPFA guidance, is attached as Appendix 1 to this report.

3.2 The previous SIP reported MPF to be substantially compliant with the ten Myners/CIPFA Principles. The revised SIP is similarly compliant with the updated Principles/CIPFA guidance but, due to regulatory developments in the LGPS and policy development by MPF since the adoption of the original Myners Principles, MPF may be seen as having kept pace with the updated principles and guidance. For this reason, the format of the compliance statement has been altered to reflect this and to give an indication of the direction of travel of policy in development.

3.3 The following table shows the updated Principles set against existing MPF policy documents and practice:

1	Effective decision making	Wirral MBC Constitution & Scheme of Delegation, Governance Policy Statement, Governance Compliance Statement, Finance Department Plan & Corporate Plan

2	Clear objectives	2007 Actuarial Valuation & Review, 2007 Statement of Investment Principles, 2009 Funding Strategy Statement
3	Risk and liabilities	Funding Strategy Statement, Investment Monitoring Policy, Treasury Management Policy
4	Performance assessment	IMWP, WM Company report Investment Monitoring Policy
5	Responsible ownership	Responsible Investment Policy and voting record published on website & in Annual Report, External validation by UNPRI & FairPensions, Signatory to IIGCC Investor Statement
6	Transparency and reporting	MPF website, Annual Report & Accounts 2008-09, Media coverage

3.4 In addition to the integration of the above (where not previously featured), the revised SIP contains the following changes:

- Updated statement on responsible ownership to include reference to Walker Review and Institutional Shareholders' Committee Principles & Code;
- Fulfilling commitments made under the UNPRI; such as producing a Responsible Investment Review annually and factoring responsible investment considerations into investment manager selection and monitoring processes;
- Expanded description of investment philosophy, in particular; balance between passive and active styles, style diversification and apportionment of risk between active managers.
- Intention to conduct a self-assessment exercise encompassing Members and Officers, now a knowledge, skills and competencies framework is in place for the LGPS;
- Updated policy statement on stock lending, in line with the newly-issued LGPS Investment Regulations 2009.

4. FINANCIAL AND STAFFING IMPLICATIONS

4.1 There are none arising directly out of this report.

5. EQUAL OPPORTUNITY IMPLICATIONS/HEALTH IMPACT ASSESSMENT

5.1. There are none arising from this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1. There are none arising from this report.

7. LOCAL MEMBER SUPPORT IMPLICATIONS

7.1. This report has no particular implications for any Members or wards.

8. LOCAL AGENDA 21 IMPLICATIONS

8.1. There are none arising from this report.

9. PLANNING IMPLICATIONS

9.1. There are none arising from this report.

10. BACKGROUND PAPERS

10.1 CIPFA Pensions Panel: Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2009.

11. RECOMMENDATION

11.1 That Members note the revision to the Myners Principles and approve the publication of the revised Statement of Investment Principles.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/40/10

APPENDIX 1

Merseyside Pension Fund
Statement of Investment Principles

This Statement of Investment Principles (SIP) was approved by the Pension Committee of Wirral Council (constituting the primary governing and decision-making body of the Merseyside Pension Fund) at its meeting on 23rd March 2010. The statement has been prepared in accordance with Regulation 12 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No. 3093).

The SIP describes the high-level principles governing the investment decision-making and management of Merseyside Pension Fund (MPF) and the policy that has been developed to ensure their implementation. It has been prepared, in line with guidance received from the Secretary of State for Communities and Local Government, with reference to the CIPFA Pensions Panel publication 'Principles for Investment Decision Making and Disclosure in the LGPS in the United Kingdon 2009 – A Guide to the Application of the 2008 Myners Principles to the Management of LGPS Funds'. It is accepted that these six principles form the code of best practice for LGPS Funds; this SIP reports the extent of MPF's compliance with each of the six principles. A statement of compliance can be found on page 17 of this document.

This statement supersedes the SIP approved by Pensions Committee on 26th November 2007, which reported compliance against ten CIPFA Principles. The SIP, and the policy approaches it describes, has been developed with the benefit of proper advice from the Fund's consultants and advisers, whom it considers to be suitably qualified and experienced in investment matters. The Fund consults its stakeholders over matters of policy, including scheme employers, trade unions and other interested parties.

The SIP will be made available on the Fund's website and compliance with the CIPFA Principles will be reported in the Fund's Annual Report. This statement should be read in conjunction with the following statements, also available on the Fund's website:

Funding Strategy Statement; Governance Policy Statement; 2007 Actuarial Valuation and Review; Communications Strategy Statement.

Principle 1: Effective decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organizations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest..

- Wirral MBC is the Administering Authority with overall responsibility for Merseyside Pension Fund (MPF), which it delegates to its Pensions Committee. This body comprises 10 Wirral councillors, with representation from other principal employers in the Fund (5) and Trade Unions (3), representing beneficiaries' interests. There is also an Investment Monitoring Working Party (IMWP) to which all members of the Pensions Committee and Trade Unions are invited; the IMWP meets six times a year.

- The terms of reference for the Committee, IMWP and the Director of Finance are set out in the scheme of delegation for Wirral MBC; the structural and operational details of the delegation are set out in a Governance Policy Statement[1] for Merseyside Pension Fund.

- The Pensions Committee takes strategic decisions on asset allocation, investment manager selection and other high-level investment policy matters and delegates tactical asset allocation and investment monitoring through the IMWP. The IMWP is a deliberative body, acting as a forum where investment issues can be discussed in depth, with the power to make recommendations to Committee. The Director of Finance of Wirral MBC (Section 151 Officer) is delegated to implement Committee policy and manage the Fund, leading a well qualified and experienced internal team (Fund officers).

- The Committee receives what it considers to be proper advice from Fund officers and, in addition, has appointed an external consultant to provide advice on its high-level investment strategy. The Committee has also appointed an independent adviser to the IMWP, to further inform and

[1] http://mpfmembers.org.uk/pdf/gov_policy.pdf

support decision-making across the breadth of issues that are considered by the IMWP.

- The Committee considers that its strategic objectives are best met by further delegating investment decision-making, at the level of portfolio management, to a combination of Fund officers and a roster of external investment managers. Fund officers are tasked with making recommendations to Committee regarding the appointment of external managers; a task supported by use of a Committee-approved ‘framework list’ of investment manager selection consultants. Fund officers also make use of specialist advisers in managing those areas over which they exercise delegated responsibility (including property, private equity and responsible ownership).

- The Fund has an ongoing training programme (updated annually) for Committee Members and Fund officers to ensure that decision-making is on an informed basis. Members have each been issued with a manual which outlines the regulatory framework of the LGPS, the Fund’s governance structure, fundamental concepts in pensions administration and investment policy and a glossary of technical terminology. The manual emphasises the quasi-trustee status and fiduciary role of Committee Members. The manual also serves as a tool for Members to assess where their individual training needs may lie. It is intended that this will be developed into a formal self-assessment exercise, following publication of a knowledge and skills framework for the LGPS.

Principle 2: Clear objectives

An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers..

- The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective, as described in MPF's Funding Strategy Statement.[2]

- Over the long-term, the Fund's objective is to set policies that will seek to ensure that investment returns achieved will at least match the assumptions underlying the actuarial valuation and therefore be appropriate to the liabilities of the Fund.

- Having regard to its liability profile, the Fund has determined that adopting a bespoke benchmark should best enable it to implement an effective investment strategy. This strategic benchmark is reviewed every three years, at a minimum, at the time of the actuarial valuation but will be reviewed as required particularly if there have been significant changes in the underlying liability profile or the investment environment.

- The Fund has carefully considered the expected returns from the various permitted asset classes and has concluded that in the longer-term the return on equities will be greater than from other conventional assets. Consequently, the benchmark is biased towards equities and skewed towards active management, particularly in less developed markets.

- The Fund is also cognisant of the risk that the shorter-term returns may vary significantly from one period to another and between the benchmark and actual returns. Diversification of assets is seen as key to managing this risk and the risk/return characteristics of each asset and their relative correlations are reflected in the make-up of the strategic benchmark.

[2] http://mpfmembers.org.uk/pdf/fss2009.pdf

- Following the changes in investment management arrangements and the award of external mandates the overall investment target for the Fund is to outperform its strategic benchmark by 1.25% per annum over a rolling three years.

Focus on Asset Allocation

Following an asset/liability study from the Fund's actuaries and consultation with its various advisers and officers, the following strategic benchmark was agreed by the Pensions Committee on 26 November 2007.

MPF MULTI ASSET PORTFOLIO		
Asset Class	**Bench mark**	**Benchmark index**
UK Equities	**30**	FTSE ALL SHARE INDEX
Overseas Equities	**29**	
US Equities	8	FTSE AW NORTH AMERICA
European Equities	10	FTSE WORLD EUROPE EX UK
Japan	4	FTSE AW JAPAN
Pacific	3	FTSE AW DEV ASIA PAC EX JAPAN
Emerging Markets	4	MSCI EMERGING MARKETS FREE
Fixed Interest	**20**	
UK Gilts	4	FTSE A ALL STOCKS
Overseas Gilts	0	JPM GLOBAL GOVT EX UK
UK Index Linked	12	FTSE UK GILTS INDEXED ALL STKS
Corporate Bonds	4	ML £ NON GILTS
Property	**10**	IPD ALL PROPERTIES INDEX
Venture Capital / Other Investments	**10**	GBP 7 DAY LIBID
Cash	**1**	GBP 3 MONTH LIBID
TOTAL	**100**	SPECIFIC BENCH MARK

The control range around the main asset classes is +/-5%

Explicit Mandates

- The Fund mandates are governed in compliance with the following principles.

- Investment managers are prohibited from holding investments not defined as such in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 by clear reference in their Investment Management Agreements. Clear instructions for fund managers as to how the investment portfolio is to be managed including; the objective, asset allocation, benchmark flexibility, risk parameters, regulatory requirements, performance targets and measurement timescales.

The Managers, listed below, have been appointed by the Fund.

Manager	**Asset type/brief**
Legal & General	Active bonds
Schroders	Active bonds
Internal	Alternatives / private equity
Internal	Cash
Unigestion	European (ex UK) equities (unconstrained)
Internal	European equities
JP Morgan	European equities
State Street	Global custodian
Nomura	Japan/Far East/Emerging markets equities
Legal & General	Passive equities & bonds
UBS	Passive North American equities
Internal	Property
CB Richard Ellis	Property Managers
CBRE Investors	Strategic Property advisers
Internal	UK equities
BlackRock	UK equities (unconstrained)
M&G	UK equities (unconstrained)
Newton	UK equities (unconstrained)
TT International	UK equities (unconstrained)

- The Fund is aware of the need to monitor transaction costs for external managers and uses Inalytics Ltd to monitor the explicit and implicit costs arising from transactions.

- The Fund does not practice soft commissions through its internal managers. Where external managers operate a soft commission policy the Fund has where possible set up recapture arrangements.

- The Fund has appointed internal monitoring officers to closely monitor the external managers and ensure compliance with mandates.

- The Fund has utilised the use of the extensions in investment limits per Schedule 1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to allow investments in its Legal and General passive mandate to 35% of the Fund. The extension is to cover urgent transitions required due to the termination of a Fund Manager's contract and is to last for the period from the termination of a contract until the implementation of a new strategy for the assets in question. This facility will be reviewed on an annual basis as part of the SIP review process.

Principle 3: Risk and liabilities

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The Fund believes that, over the long term, a willingness to take on volatility and illiquidity is likely to be rewarded with outperformance. The Fund considers that its strong employer covenant, maturity profile and cashflows enable it to adopt a long term investment perspective. A mix of short-term assets such as bonds and cash is maintained to cover short-term liabilities while equities (both passive and active), private equity and direct property are held to benefit from the potential rewards arising from volatility and illiquidity risks.

The Fund recognises that risk is inherent in investment activity and seeks to manage the level of risk that it takes in an appropriate manner.

The Fund manages investment risks through the following measures as illustrated in this SIP

- Broad diversification of types of investment and investment managers
- Explicit mandates governing the activity of investment managers.
- The use of a specific benchmark, related to liabilities of the Fund for investment asset allocation.
- The appointment of independent investment advisors to the IMWP.
- Comprehensive monitoring procedures for investment managers including internal officers and scrutiny by elected Members.

The Fund complies with The Local Government Pension Scheme (Management and Investment of Funds Regulations 2009, where use of the extensions in investment limits per Schedule 1 are utilised.

The Fund manages operational risks through the following measures as illustrated in this SIP.

- The use of a global custodian, State Street, for custody of assets.
- Having formal contractual arrangements with investment managers.
- Maintaining independent investment accounting records.
- Having access to the internal audit service of Wirral MBC.

Compliance manual.

Stock lending policy.

The Fund participates in stock lending of its segregated assets, as permitted under Regulation 3 (8) and 3 (9) of the LGPS (Management and Investment of Funds) Regulations 2009, and within the limits specified in these Regulations.

Lending takes place via the Fund's Custodian as Agent Lender. The Fund has in place a legal agreement with the Custodian, which includes an indemnification to the Fund in the event of loss, providing for full replacement of the lent securities regardless of the value of the collateral, or for the return of the cash value of the lent securities at the time of default.

Regular reviews of the lending programme take place with the Custodian.

<u>Risks in a Stock Lending Programme</u>

Identified risks in participating in such a programme, and the mitigating arrangements, include:

<u>Agent Lender risk</u>: as agreed by Pensions Committee, a Custodian Monitoring service will be activated in 2010. This will measure, among other issues, the financial stability of the Custodian.

<u>Counterparty risk</u>: the Custodian reviews counterparties on a daily basis, and adds or terminates counterparties in the light of market information. Counterparty selection is in accordance with the above Regulations. This risk is be measured by value of stock loaned to any one counterparty at any one time. The risk is managed in conjunction with the Custodian to ensure no undue concentration of risk with counterparties. The Fund has not entered into any exclusive arrangement with a single counterparty, as this would represent an unacceptable concentration of counterparty risk. Counterparty risk is also mitigated by the policies on collateral risk and market risk described below. In addition, all borrowers must have in place with the Custodian an industry standard Global Master Securities Lending Agreement.

<u>Collateral risk</u>: other than in delivery by value when equities from approved Indexes are required, collateral is restricted to G20 sovereign debt. Such collateral is very liquid, hence easy to sell in the event of a default by a

borrower. This represents a conservative approach to collateral risk. Although now permitted by the Regulations, cash is not taken as collateral.

Market risk: as the value of the lent securities varies from day to day, it is marked to market on a daily basis and the value of the collateral is appropriately adjusted. In addition, an excess margin is obtained from the borrower above this mark to market value. This margin is adjusted in the light of market conditions and perceived risks. This excess margin will help to protect the Fund against the possibility that the value of the collateral will fall relative to the lent securities in the period between default by the borrower and the realization of the collateral.

Currency risk: this is partly mitigated by certain collateral being in the same currency as the stock lent out.

Settlement Risk: would arise if, for example, lent securities were delivered in one settlement system prior to the receipt of collateral securities in another system. Steps are taken to ensure that daylight exposure is recognised and properly controlled. The common way of avoid this risk is for the Agent Lender to require settlement of both legs in a delivery-versus-payment system

Operational risk: the possibility that a transaction does not work as planned because of human or system error giving rise to a financial exposure. The Fund is protected against this risk by the Indemnity from the Custodian.

Reputational risk: the damage to the reputation of MPF should any loss be incurred in stock lending. The risk is managed by ensuring both that the Fund has a high level of understanding of the industry and that Members are aware of the nature of the activity, its risks, its risk controls and its rewards.

Performance risk: earnings from the programme are compared with industry averages.

Corporate Governance in Stock Lending
Stock lending involves the temporary loss of title to a security, and its replacement with a legal contract for the return the stock on a fixed day or upon request, together with the provision of appropriate collateral and for an agreed fee. In addition, the lender retains the economic rights in respect of corporate actions and dividends. The return of stock is in accordance with normal settlement timescales. As such, should the lending period of the stock co-incide with a contentious voting issue, the Fund will recall the stock to exercise its vote, in accordance with its corporate governance responsibilities. Additionally, the Fund will have regard to the market environment and liquidity of individual stocks in committing holdings to the programme.

The Fund engages with the industry to promote best practice. Currently it represents the Local Authorities Pension Fund Forum at the International Securities Lending Association (ISLA) and is active within the Corporate Governance sub group of ISLA.

Principle 4: Performance assessment

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.
- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

- In setting the overall investment objective and asset allocation and in the award of mandates to individual investment managers the Pensions Committee has set benchmarks for each asset class, these are set out in the asset allocation table under Principle 2.

- The different benchmarks culminate in the specific benchmark for the Fund, which is determined by the core asset allocation, which has been made with reference to the Fund's liabilities.

- The Fund engages the WM Company to provide an independent measurement of investment returns. These are used for comparison purposes against specific and peer group benchmarks. The reporting from the WM Company also comprises performance attribution broken down by asset class, and owing to the impacts of asset allocation and stock selection. The Fund has recently re-negotiated contracts with WM to ensure that information is available for comprehensive monitoring of individual fund managers. The Fund has dedicated internal staff resource to providing timely valuations of its assets.

- The Pensions Committee and IMWP receive WM reports and are therefore able to consider the performance of all asset classes and managers against a variety of time frames on a regular basis. These considerations form the basis of decision making.

- The Investment Monitoring Policy[3] establishes the framework for the monitoring of the Fund's internal and external investment managers. This framework is linked into the reporting and governance framework of the

[3] http://mpfmembers.org.uk/pdf/impolicy09.pdf

Fund and defines a range of status levels linked to management actions, which are assigned to each investment manager. It takes account of quantitative measures, such as performance against benchmark and target, but assessment of status is weighted toward longer-term measures, such as one and three-year annualised returns. The monitoring policy is not felt to be overly prescriptive, as it does allow for qualitative factors to be taken into account in status assessment, as well as flexibility over the range of management actions to be taken and the outcomes expected.

- Neither the Pensions Committee, nor the IMWP, presently undertake a formal self-assessment of their effectiveness as decision-making bodies. Historically, the reasons for this lie in the lack of a suitable framework for conducting such an assessment. However, this position will be reviewed following publication of the CIPFA Pensions Panel's knowledge, skills and competencies framework for elected Members and officers involved in managing the LGPS. Likewise, there is no performance framework in place for monitoring the effectiveness of the Fund's consultants and advisers. However, as these are contractual relationships, they will be subject to a formal review and re-tendering exercise on a five-to-seven yearly cycle.

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents,
- include a statement of their policy on responsible ownership in the SIP; and
- report periodically to scheme members on the discharge of such responsibilities.

- Merseyside Pension Fund has long since regarded the fiduciary duty it has toward its stakeholders as fully including a duty of stewardship over the assets owned by the Fund. As the core purpose of the Fund involves being a long-term investor to meet long-term liabilities, the Fund considers it prudent to view the long-term absolute performance of its investments as being subject to a wide range of factors. Such factors, as may not appear to be materially or financially pertinent in the present, may well prove to be so in the future; and, as such, the Fund considers its interests not best served by a disinterested attitude to asset ownership.

- It is a core belief within the investment philosophy of Merseyside Pension Fund that environmental, social and governance (ESG) factors can affect investment performance and, therefore, should be a feature of investment analysis and management. The Fund is mindful of legal opinion on the nature of its fiduciary responsibility and regards the 'Freshfield opinion' (as commissioned by the United Nations Environmental Project Finance Initiative) as being authoritative. This states that it is a breach of fiduciary duty not to have due regard to ESG issues within the framework of investment policy.

- Therefore, the Fund has adopted a policy of responsible investment and, in November 2007, became a signatory to the United Nations Principles for Responsible Investment (UNPRI). The UNPRI are:

  1. Integrate ESG factors into investment analysis and decision-making;
  2. Active ownership - integrating ESG factors into asset ownership;
  3. Seek effective ESG disclosure in investee entities;
  4. Promote acceptance of UNPRI within the investment industry;
  5. Work with others to enhance our effectiveness in implementing the Principles;

6. Report on our activities and progress toward implementing the Principles.

- The Fund's policy for acting on its UNPRI commitment can be summarized as one of constructive engagement with its investee companies and asset managers on ESG matters; often acting in collaboration with other like-minded investors. Engagement encompasses a broad range of activity, including meaningful dialogue with companies and active use of voting rights. The Fund considers the engagement approach to be best suited to meeting its investment objectives and fulfilling its fiduciary duty to stakeholders; as opposed to an approach based on the positive or negative screening of assets from a portfolio on ESG or ethical grounds. This latter approach could be seen as effectively negating the value of responsible ownership.

- Active use of the voting rights attached to equity shares is the principal tool used in the Fund's engagement strategy. The Fund considers voting rights to be part of the intrinsic value of share ownership; and the use of these rights is an important mechanism for communicating the Fund's views to the management of investee companies. Therefore, the Fund has appointed a specialist adviser (Pensions Investment & Research Consultants Ltd, aka PIRC) to assist in implementing a comprehensive voting policy that covers the Fund's global equities portfolio. The Fund considers PIRC's Global Shareholder Voting Guidelines to insist upon the highest standards of corporate governance and responsibility. Accordingly, MPF's voting policy at all company meetings, in all markets, where it has a vote, is to vote in line with PIRC guidance.

- MPF does not view its voting policy as seeking to enforce a 'tick box' compliance regime within its equity portfolio, but rather as a means of promoting the highest standards of corporate governance. The practical arrangements for implementing the voting policy are determined by the Fund's preference for retaining the beneficial ownership of its equity investments, separate from its investment managers, by using a single global custodian. PIRC are mandated by the Fund to issue voting instructions to the custodian.

- MPF further pursues its engagement strategy through its active membership of the Local Authority Pension Fund Forum (LAPFF). It states its mission thus, "LAPFF exists to promote the investment interests of local authority pension funds, and to maximize their influence as shareholders whilst promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest." The LAPFF membership agree annual research and engagement work-plans that cover a broad range of ESG subjects and are appropriate to the typical member's investment portfolio. LAPFF members then work with a partner organization (PIRC Ltd) to implement these work-plans. The combined ownership influence of LAPFF enables it to conduct high-level engagement with investee companies and policy-makers, both on a sustained long-term basis and with pertinent issues as they arise.

- The Fund recognizes the importance of global climate change and the impact it, and efforts to adapt to and mitigate its effects, will have on its investment strategy. MPF is a member of the Institutional Investors Group on Climate Change (IIGCC), which brings together asset owners and asset managers to catalyse greater investment in a low carbon economy by bringing investors together to use their collective influence with companies, policymakers and investors.

- MPF has taken account of the recommendations of the Walker Review [4]and the publication of the Institutional Shareholders' Committee (ISC) Code on the Responsibilities of Institutional Investors. Although Walker's main focus was on the governance of banks and other financial institutions, the Review placed a welcome emphasis on the role of institutional shareholders and their duty of stewardship by recommending adoption of the ISC Code. The ISC Code sets out best practice for institutional investors that choose to engage with the companies in which they invest. The Fund considers that its responsible ownership policy already complies with, and may even exceed, the principles in the ISC Code. However, the Fund believes it has direct relevance for managing its relationships with external investment managers, and will require its managers to state their approach to the ISC Code on a 'comply or explain' basis, while high-lighting the Fund's policy on engagement and support for the UNPRI.

- The Fund does not believe that it is necessary, nor practicable, to make responsible ownership an explicit part of its investment manager mandates. It considers that it best promotes its belief in responsible investment, and guards against the dilution of its ownership principles, by urging adoption of the ISC Code and promoting the UNPRI as the highest standard of best practice. Therefore, the Fund's selection criteria for investment manager selection will reflect a preference for investment managers that adopt the ISC Code and are signatories to the UNPRI. MPF wishes to see the consideration of ESG factors, and the fulfillment of a duty of stewardship, become part of the mainstream of investment management practice.

- The Fund will publish annually a Responsible Investment Review. The Review will report on the Fund's activities and progress in implementing its responsible investment policy over the calendar year. This will include

[4] http://www.hm-treasury.gov.uk/walker_review_information.htm

disclosure of the Fund's voting record, the activity of LAPFF and IIGCC and a review of the approach of the external investment managers toward responsible investment and ownership practice.

Principle 6: Transparency and reporting

Administering authorities should

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives; and
- provide regular communication to scheme members in the form they consider most appropriate.

The decision making structure for the Fund has been set out earlier. The key decision making forum is the Pensions Committee. The minutes of this Committee are available to the public through the Wirral Council website.[5]

This SIP will be made available to stakeholders on request and its availability will be publicised through newsletters, the annual conference and on the Fund's Website.

The Fund will also make available other documents relating to investment decision making and performance to interested stakeholders.

In accordance with LGPS (Administration) Regulations 2008, MPF has published a Communications Policy Statement[6], which describes the Fund's policy on:

- Providing information to members, employers and representatives,
- The format, frequency and method of distributing such information,
- The promotion of the Fund to prospective members and their employing bodies.

The Fund recognises the need to communicate its purpose and ethos to a wider body of stakeholders, and in furtherance of this, it has developed a media protocol supported by Wirral Council's corporate communications division. The protocol outlines engagement with local and national media, as well as the pensions and investment industry trade media.

The Fund will continue to develop its website, which it considers to be its primary communications channel.

[5] www.wirral.gov.uk
[6] http://mpfmembers.org.uk/pdf/commspolicy2009.pdf

Compliance with CIPFA Principles for Investment Decision Making in LGPS

Compliance statement from SIP November 2007

Area	
Effective Decision Making	**The Fund considers that its practices are compliant with the CIPFA principles.**
Clear Objectives	**The Fund considers that its practices are compliant with the CIPFA principles.**
Asset Allocation	**The Fund considers that its practices are compliant with the CIPFA principles.**
Expert Advice	**The Fund considers that its practices are compliant with the CIPFA principles.**
Explicit Mandates	**The Fund considers that its practices are compliant with the CIPFA principles.**
Activism	**The Fund is partially compliant with the CIPFA principles.**
Appropriate Benchmarks	**The Fund considers that its practices are compliant with the CIPFA principles.**
Performance Measurement	**The Fund is partially compliant with the CIPFA principles.** The Fund does not currently undertake a formal review of the success of decisions of Members, neither does the Fund undertake a formal review of the success of decisions /recommendations of managers / advisers at present.
Transparency	**The Fund considers that its practices are compliant with the CIPFA principles.**
Regular Reporting	**The Fund considers that its practices are compliant with the CIPFA principles.**

Compliance with CIPFA Principles for Investment Decision Making in LGPS 2010 (Applying the 2008 Myners Principles)

Effective decision making	✔ ✔ ✔
Clear objectives	✔ ✔ ✔
Risk and liabilities	✔ ✔ ✔
Performance assessment	✔ ✔
Responsible ownership	✔ ✔ ✔ ✔
Transparency and reporting	✔ ✔ ✔ ✔

✔ ✔ ✔ ✔	The Fund's policy and practice exceed compliance requirements
✔ ✔ ✔	The Fund is wholly or substantially compliant
✔ ✔	The Fund is taking steps towards compliance
✔	The Fund does not comply for reasons stated

WIRRAL COUNCIL

PENSIONS COMMITTEE

23 MARCH 2010

REPORT OF THE DIRECTOR OF FINANCE

TENDERS FOR SERVICES

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to advise Members of the proposed timescales for four contracts, covering Property Estate Management, Global Custodian Services, Actuarial Services and the provision of Investment Advice.

2. BACKGROUND

2.1 On 23 November 2004, Pensions Committee awarded the contract for Property Estate Management to CB Richard Ellis for four years with an option of a maximum two year extension. On 14 January 2009, Members agreed an extension to 31 January 2011.

2.2. Also on 23 November 2004, the contract for Global Custodian was awarded to State Street for a period of five years, from a starting date to be agreed, with an option of a maximum two year extension. On 18 June 2009, Members agreed an extension to 30 September 2011.

2.3 On 21 September 2005, Pensions Committee awarded two separate contracts for Actuarial Services and Investment Advice to Mercer. Both contracts were for a period of six years, which allowed for the completion of two Triennial Valuations. The proposed new contracts are of a similar duration.

3. DETAILS OF CONTRACTS

3.1. The appendix shows the proposed timescales for each of the four contracts.

3.2 It is anticipated that external consultancy will be required for the custodianship contract, to ensure that tenderers’ standards, responses and pricing are in accordance with current market practice.

4. FINANCIAL IMPLICATIONS

4.1. Property Management Contract: pension funds account for property income net of costs, any costs of the property management contract, where not recovered from tenants as service charges, are deducted from gross rental income before the net rental income is credited to the accounts.

4.2 Custodian contract: these costs are met from the budget. However, in accordance with the Statement of Investment Principles, MPF participates in securities lending, currently via the global custodian. Income from securities lending enhances the value of the Fund, and is expected to exceed the cost of the custodian contract.

4.3 Actuarial contract: the net costs are met from the budget. However much of the work and charges is for individual employers, and is therefore recovered from employers.

4.4 Investment advice contract: these costs are funded from the budget.

5. STAFFING IMPLICATIONS

5.1. There are none arising directly from this report.

6. EQUAL OPPORTUNITY IMPLICATIONS

6.1. There are none arising directly from this report.

7. COMMUNITY SAFETY IMPLICATIONS

7.1. There are none arising directly from this report.

8. HUMAN RIGHTS IMPLICATIONS

8.1. There are none arising directly from this report.

9. LOCAL AGENDA 21 IMPLICATIONS

9.1. There are none arising directly from this report.

10. PLANNING IMPLICATIONS

10.1. There are none arising directly from this report.

11. LOCAL MEMBER SUPPORT IMPLICATIONS

11.1. There are no specific implications for any Member or Ward.

12. BACKGROUND PAPERS

12.1. Previous reports to Pensions Committee referred to above.

13. **RECOMMENDATION**

13.1 That Members approve the timescales for the procurement of contracts for Estate Management, Global Custody, Actuarial Services and Investment Advice.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/49/10

APPENDIX

TENDER	PROPERTY MANAGEMENT	GLOBAL CUSTODY	ACTUARIAL SERVICES	INVESTMENT ADVICE
Current Supplier	CB Richard Ellis	State Street	Mercer	Mercer
End date of current contract	31 January 2011	30 September 2011	30 Sept 2011	30 September 2011
Likely Tender Type	Open	Open	Open	Restricted
Issue of OJEU Notice	May 2010	September 2010	December 2010	December 2010
Proposed duration of Contract	4 years plus up to two years extension	4 years plus up to two years extension	6 years	6 years
Expected Date of Recommendation to Committee	November 2010	March 2011	June 2011	June 2011
Proposed Start Date of New Contract	1 February 2011	1 October 2011	1 October 2011	1 October 2011
Proposed End Date of New Contract	31 January 2015 plus optional extension	30 September 2015 plus optional extension	30 September 2017	30 September 2017

WIRRAL COUNCIL

PENSIONS COMMITTEE

23 MARCH 2010

REPORT OF THE DIRECTOR OF FINANCE

NATIONAL ASSOCIATION OF PENSION FUNDS CONFERENCE (NAPF)

1. EXECUTIVE SUMMARY

1.1. This report requests whether the Committee wishes to be represented at the NAPF Local Authority Conference, to be held in Birmingham from 17 May to 19 May 2010.

2. THE NAPF LOCAL AUTHORITY CONFERENCE

2.1. Merseyside Pension Fund is a member of the National Association of Pension Funds (NAPF) which represents some 10 million employees. The NAPF seeks to make effective representation to encourage provision as well as sound stewardship of pension fund assets.

2.2. MPF has been represented at all previous NAPF Local Authority Conferences usually by the Chair of the Pensions Committee and an officer.

2.3. Accommodation will be required for the nights of 17 and 18 May 2010.

3. FINANCIAL IMPLICATIONS

3.1. The cost of attendance plus two nights accommodation will be about £600 plus VAT per delegate excluding travel which can be met from the existing Pension Fund budget.

4. STAFFING IMPLICATIONS

4.1. There are no staffing implications in this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1. There are none arising directly from this report.

6. HUMAN RIGHTS IMPLICATIONS

6.1. There are none arising directly from this report.

7. **COMMUNITY SAFETY IMPLICATIONS**

7.1. There are no specific implications arising from this report.

8. **LOCAL MEMBER SUPPORT IMPLICATIONS**

8.1. There are no specific implications for any Member or Ward.

9. **LOCAL AGENDA 21 IMPLICATIONS**

9.1. There are no specific implications arising from this report.

10. **PLANNING IMPLICATIONS**

10.1. There are no specific implications arising from this report.

11. **BACKGROUND PAPERS**

11.1 None used in the preparation of this report.

12. **RECOMMENDATION**

12.1. That Committee is requested to consider if it wishes to send a delegation to attend this conference, and if so, to determine the number and allocation of places.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/23/10

WIRRAL COUNCIL

PENSIONS COMMITTEE

23 MARCH 2010

REPORT OF THE DIRECTOR OF FINANCE

CIPFA ANNUAL CONFERENCE

1. EXECUTIVE SUMMARY

1.1. Members are requested to consider whether there should be representation at the CIPFA Annual Conference to be held in Harrogate from 8 June to 11 June 2010.

2. THE CONFERENCE

2.1. The CIPFA Annual Conference is one of the annual conferences approved by the Cabinet. As an approved conference, attendance has been agreed as the Executive Member for Finance and Best Value (the Leader of the Council), the Chair of the Council Excellence Overview and Scrutiny Committee, and the Opposition spokesperson for Finance.

2.2. The CIPFA Conference contains a significant number of sessions which are relevant to Pension Fund management and administration. Therefore I think it would be beneficial if the Chair of the Pensions Committee attended the Conference in addition to the existing approvals.

2.3. Conference fees will be about £600 plus VAT. Accommodation and transport costs will also be incurred.

3. FINANCIAL IMPLICATIONS

3.1. The costs can be met from the Pension Fund budget.

4. STAFFING IMPLICATIONS

4.1. There are none arising from this report.

5. EQUAL OPPORTUNITIES IMPLICATIONS

5.1. There are none arising from this report.

6. HUMAN RIGHTS IMPLICATIONS

6.1. There are none arising from this report.

7. **COMMUNITY SAFETY IMPLICATIONS**

7.1. There are none arising from this report.

8. **LOCAL AGENDA 21 IMPLICATIONS**

8.1. There are none arising from this report.

9. **PLANNING IMPLICATIONS**

9.1. There are none arising from this report.

10. **RECOMMENDATION**

10.1. That the Chair of the Pensions Committee be delegated to attend the CIPFA Conference.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/24/10

WIRRAL COUNCIL

PENSIONS COMMITTEE

23 MARCH 2010

REPORT OF THE DIRECTOR OF FINANCE

JUNE TRAINING EVENT

1. EXECUTIVE SUMMARY

1.1 This paper informs Members of a training event at the Cunard Building arranged for 29 June 2010.

2. BACKGROUND

2.1 On 13 January 2010, Pensions Committee were advised of the training events for 2010, which included two internal training days. The first event has been arranged for 29 June 2010.

3. THE TRAINING DAY

3.1 The agenda is attached as Appendix 1 to this report. Invitations have been extended to neighbouring Administering Authorities.

3.2 As 2010 is a triennial valuation year, it is felt appropriate for this training day to focus on topics related to the actuarial valuation of liabilities and the setting of the asset allocation strategy. The purpose of the day will be to build on Members' prior knowledge of this process, as gained from reference to the Members' Induction Pack and attendance at external training events.

3.3 The first presentation will be from Paul Middleman, from the Actuary, Mercer, and will provide an overview of the actuarial valuation process. This will comprise of a refresher on general actuarial principles and methods; together with a view of the outlook for the 2010 valuation, the possible future shape of the LGPS and a look at 'de-risking' measures. The second presentation will focus on the investment side of the process; a speaker from a specialist division of UBS Asset Management will present on the use of asset/liability modeling in determining the strategic asset allocation.

3.4 As with previous training days, it is intended that the sessions should be highly interactive. The agenda has been designed to allow ample scope for Members' questions and general discussion of the topics covered.

4. FINANCIAL AND STAFFING IMPLICATIONS

4.1 The cost of the programme is included in the training budget.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1. There are none arising from this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1. There are none arising from this report.

7. LOCAL MEMBER SUPPORT IMPLICATIONS

7.1. This report has no particular implications for any Members or wards.

8. LOCAL AGENDA 21 IMPLICATIONS

8.1. There are none arising from this report.

9. PLANNING IMPLICATIONS

9.1. There are none arising from this report.

10. BACKGROUND PAPERS

10.1 None were used in the preparation of this report.

11. RECOMMENDATION

11.1 That Members attend the training day.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/26/10

APPENDIX 1

MPF - Internal Training Day

Cunard Building, 6th floor Banqueting Suite

29 June 2010

Agenda

10.00 Coffee and registration

10.15 Opening remarks: triennial valuations in the context of the LGPS – *Peter Mawdsley, Deputy Head of Pension Fund*

10.25 Actuarial methods, standards & practices: an overview – *Paul Middleman, Principal, Mercer*

11.15 Coffee break

11.30 Asset/liability models & strategic asset allocation – *speaker tbc, UBS*

12.20 Plenary session: questions, comments & observations on topics covered

13.00 Lunch

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WIRRAL COUNCIL

PENSIONS COMMITTEE

23 MARCH 2010

REPORT OF THE DIRECTOR OF FINANCE

KNOWLEDGE & SKILLS FRAMEWORK FOR THE LGPS

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Members of the publication of a Knowledge and Skills Framework.

2. BACKGROUND

2.1 The policy and regulatory emphasis on the need for good governance arrangements in the LGPS, and the conduct of business likely to achieve this, is well established. A key component in delivering good governance is to ensure that the members of decision-making bodies, as well as those that advise and support them, are equipped with the necessary knowledge and skills to effectively perform this function.

2.2 The CIPFA Guide to the Application of the Myners Principles re-emphasises this point; the guidance for applying Principle 1: Effective decision-making recommends that skills and knowledge audits be conducted at regular intervals. Pensions Committee already approves an annual training programme that encompasses the scope of its work and the most relevant pensions issues, as well as providing tailored training opportunities to individual Committee Members.

2.3 However, at present this is not accompanied by a formal update of training and development needs or a measure of progress made. CIPFA advises that it would represent good practice for the Committee to demonstrate that it is actively managing the development of its Members, and for a statement to this effect to be included in the Annual Report. This would enhance the accountability of the Committee, by virtue of being able to further demonstrate competency to its stakeholders.

2.4 In the absence of any detailed definition of what knowledge and skills are actually required to carry out particular roles, it is difficult to ascertain the effectiveness of the training provided. Likewise, it is difficult for a decision-making body to determine the adequacy of its internal resources, without recourse to a description of the right skill set for public sector pensions finance professionals. To address these difficulties CIPFA, through the CIPFA Pensions Panel has developed a technical knowledge and skills framework.

3. THE FRAMEWORK

3.1 The CIPFA Pensions Panel has produced two versions of the framework; one for elected representatives and non-executives, the other for pensions practitioners. Both versions are based around six areas of knowledge and skill:

- Pensions legislative and governance context
- Pensions accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practices.

3.2 The framework contains detailed guidance identifying the knowledge and skills, under each of the above headings, which are required of Elected Members to best perform their governance role. There is a detailed description of the role of the Chair of an LGPS Pensions Committee, which includes the required knowledge and skills. The framework for pensions practitioners covers post-holders grouped into four levels of broadly equivalent responsibility and technical demand: chief finance officer, head of pensions / chief investment officer, investment manager / senior fund accountant, investment administrator / assistant fund accountant.

3.3 The purpose of the framework is twofold: it is an organizational tool to be used to determine if Merseyside Pension Fund has the appropriate mix of knowledge and skills necessary to achieve its objectives; it is also an assessment tool for use by individuals to measure their progress and plan their development.

3.4 The framework is designed to be adapted to suit the particular circumstances of both organizations and individuals. An initial review of the detailed knowledge and skills outlined in the framework, under the six headings listed above, suggests that this Committee and its officers are already well equipped. It is reasonable to conclude that through ongoing service on the Pensions Committee, coupled with involvement in the training programme, attendance at pre-meeting briefings and access to the Members' Induction Pack, those serving would not be found wanting, according to the framework. However, adoption of the framework would afford Members the opportunity to make their own forward training and development plans.

3.5 The version of the framework relating to officers is easier to adapt. The guidance refers to a range of job roles and related key skills, which can be easily mapped onto the relevant Merseyside Pension Fund management and staffing structure. The framework could easily be incorporated into the Key Issues Exchange process. A significant number of officers covered by the framework are members of professional organisations and keep records of their training and development to meet their continuing professional development (CPD) targets.

3.6 Self-assessment and reporting against the framework would represent a departure from current practice, but as a form of good practice must be given careful consideration. DCLG is considering an amendment to the 2008 regulations (concerning pension fund Annual Reports) that would require pension funds to state their policy on delivering and monitoring training and development in their Annual Reports. Adoption of the framework at this stage would allow time to integrate the framework into the forward planning process, which includes objectives for workforce and Elected Member development.

3.7 The CIPFA Pensions Network is developing a web-based knowledge and skills self assessment tool, to be linked to a repository of knowledge sources. The intention is to provide support for those adopting this framework. The self-assessment tool would allow individuals to test and extend their knowledge, as well as assess and manage their own training and development needs.

4. FINANCIAL AND STAFFING IMPLICATIONS

4.1 There are none arising from this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1. There are none arising from this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1. There are none arising from this report.

7. LOCAL MEMBER SUPPORT IMPLICATIONS

7.1. This report has no particular implications for any Members or wards.

8. LOCAL AGENDA 21 IMPLICATIONS

8.1. There are none arising from this report.

9. PLANNING IMPLICATIONS

9.1. There are none arising from this report.

10. BACKGROUND PAPERS

10.1 'Knowledge and Skills Framework. Technical guidance for Pensions Practitioners in the Public Sector', CIPFA
10.2 'Knowledge and Skills Framework. Technical guidance for Elected Representatives and Non-executives in the Public Sector', CIPFA

11. RECOMMENDATIONS

11.1 That Members note the publication of the Knowledge & Skills Framework and its relevance in assisting them to perform their governance role.

11.2 That Members agree to adopt the Framework.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/45/10

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Agenda Item 12

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