

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITEE
OF THE FINANCE COMMITTEE - 23 FEBRUARY 2009**

REPORT ON: STATEMENT OF INVESTMENT PRINCIPLES ANNUAL REVIEW

REPORT BY: HEAD OF FINANCE

REPORT NO: 42-2009

1 PURPOSE OF REPORT

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

2 RECOMMENDATIONS

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

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 INTRODUCTION

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

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

The Regulations were amended on 31 March 2003 to require authorities to state the extent to which they comply with the ten principles of investment practice contained in 'CIPFA Pension Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom April 2002'. This codified the best practice identified in the Myners Report "Institutional Investment in the UK: a review".

The Statements have been updated to include the revised remit given to the Superannuation Investment Sub-Committee by the Finance Committee on 8 March 2004.

The Statements were last approved by the Sub-Committee on 18 February 2008 (Report No 52-2008).

These have been updated to reflect the latest triennial valuation results and the revised policy on Environmental, Social and Corporate Governance agreed on 17 November 2008.

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 it's investment managers to engage with companies on Sustainability and the Environment and Employee Care and Human Rights.

6 CONSULTATION

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

7 BACKGROUND PAPERS

None

**MARJORY M STEWART
HEAD OF FINANCE**

17 FEBRUARY 2009

DUNDEE CITY COUNCIL

TAYSIDE SUPERANNUATION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1 INTRODUCTION

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles. A Statement of Investment Principles should cover the policy on:

- The types of investments to be held
- The balance between different types of investments
- Risk
- The expected return on investments
- The realisation of investments
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of the rights (including voting rights) attaching to investments
- The extent of compliance with the ten principles of investment practice set out in "CIPFA Pensions Panel Principles for Investment Decision Making in Local Government Pension Scheme in the United Kingdom.

2 ADMINISTRATION

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

3 REMIT OF SUB-COMMITTEE

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

4 OBJECTIVE OF THE FUND

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

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

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

5 INVESTMENT OBJECTIVE

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

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

6 TYPES OF INVESTMENT TO BE HELD

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

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

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

7 INVESTMENT MANAGERS

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

The current Managers and their targets are as follows:

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

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

8 ADVISERS

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

9 PERFORMANCE MEASUREMENT

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

10 CUSTODIAN

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

11 AUDITORS

Audit Scotland.

12 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

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

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

13 **RISK**

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

14 **EXPECTED RETURN**

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

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

15 **REALISATION OF ASSETS**

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

16 **SOCIALLY RESPONSIBLE INVESTMENT (SRI)**

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

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

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

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

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

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

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

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

17 CORPORATE GOVERNANCE

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

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

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

18 CLASS ACTIONS

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

19 COMPLIANCE

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

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

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

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

SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2008

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

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

REMIT OF SUPERANNUATION INVESTMENT SUB-COMMITTEE

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

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

DUNDEE CITY COUNCIL

TAYSIDE TRANSPORT SUPERANNUATION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1 INTRODUCTION

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- The exercise of the rights (including voting rights) attaching to investments
- The extent of compliance with the ten principles of investment practice set out in "CIPFA Pensions Panel Principles for Investment Decision Making in Local Government Pension Scheme in the United Kingdom" and reasons for any non-compliance.

2 ADMINISTRATION

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

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

Employer Contributions (% Payroll)

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

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

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