



West Midlands Integrated Transport Authority (ITA) Pension Fund

Compliance with Myners' Principles

May 2013

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Introduction

In 2000, UK government commissioned Paul Myners to undertake a review of institutional investment, publishing a report in 2001 which became established as the Myners' Principles on good investment governance. The principles were updated through a Treasury report in October 2008, 'Updating the Myners' Principles: A Response to Consultation'.

Local government pension funds are required, by regulation, to produce a statement on their compliance with the Myners' Principles on the basis of 'comply or explain', including the statement in their annual report. CIPFA produces guidance and advises on the application of the Myners' Principles to local government pension funds (Investment Decision Making and Disclosure 2012).

Executive Summary

The West Midlands ITA Pension Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice. The power to establish and maintain pension funds is set out in various local government regulations, some of which establish limits and controls on investment activity. The Myners' Principles support and complement these regulations.

The Secretary of State has previously highlighted the principle contained in *Roberts v. Hopwood* whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach.

This statement links with and is supported by the Fund's SIP (Statement of Investment Principles), FSS (Funding Strategy Statement) and Governance Compliance Statement.

Demonstration of Compliance with Myners' Principles

The table demonstrates how Myners-compliant the Fund is; details of which are further described on the following pages.

	Myners' Principle					
Supporting Documents and Operational Arrangements	1	2	3	4	5	6
a) ITA Constitution and ITA Pension Committee	✓					
b) Fund Strategies and Statement						
• SIP	✓	✓	✓	✓	✓	✓
• FSS	✓	✓	✓	✓		✓
• Fund Governance Statement	✓					✓
• Communication Strategy	✓					✓
c) Procedures						
• Practices of Service Provider	✓	✓	✓	✓	✓	✓
• Audit Activity			✓			
• Valuation Report		✓	✓			✓
• Annual Report		✓	✓	✓	✓	✓
d) Fund Reporting						
• Quarterly Investment Activity	✓			✓		✓
• Annual Benefit Statements						✓
e) Advisors						
• Investments	✓	✓	✓	✓		
• Actuary	✓	✓	✓	✓		
• Company Governance	✓	✓			✓	
• Finance and Legal	✓	✓	✓			
f) Support Arrangements						
• Custodian	✓					
• Management Agreements	✓	✓	✓		✓	

Myners' Principles and Compliance by the Fund

Principle 1: Effective decision-making

Administering authorities should ensure that:

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

Key points

- 1) Elected members have a fiduciary duty to the Fund, Scheme members and local taxpayers.
- 2) Functions can be delegated and investment managers used, but overall responsibility rests with members.
- 3) Proper advice should be taken and the regulations define this as: *"the advice of a person who is reasonably believed...to be qualified by his ability in and practical experience of financial matters."*
- 4) The Wednesbury Principle (1945) applies to all parties involved in the arrangements and ensures they direct themselves properly in law and demonstrate reasonable behaviour.
- 5) All councils must appoint one of its officers to have responsibility for ensuring arrangements are in a place for the proper/financial administration of its financial affairs.
- 6) The role of the Pensions Committee and key officers should be clear in the Council's constitution.
- 7) Best governance practices should be followed.
- 8) The Pensions Committee should ensure it has appropriate skills and is run in a way to facilitate effective decision-making.

Demonstration of Compliance

The Fund produces and maintains the following:

- SIP (Statement of Investment Principles)
- FSS (Funding Strategy Statement)
- Governance Compliance Statement

The functions delegated and the administration of the Fund's activities are undertaken with appropriately trained staff, use of professional advisors where necessary, in accordance with the ITA's constitution and service provider's (West Midlands Pension Fund) compliance and procedure arrangements.

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 advisors and investment managers..

Key points

- 1) A three-yearly actuarial valuation as required by regulation.
- 2) A full range of investment opportunities should be considered.
- 3) A strategic asset allocation should be used and reviewed regularly.
- 4) Robust investment management agreements should be used.
- 5) The targeted investment return and associated risks should reflect the liabilities, assets held and link to the actuarial process.
- 6) The provision for taking proper advice should be demonstrated.

Demonstration of Compliance

The Fund takes a range of specialist advice in formulating its SIP and FSS, ensuring all link to the common objectives that arise from the actuarial process with emphasis on managing investment risk relative to fund cash flows and need for stable contribution rates.

These policies are reviewed regularly.

The Pension Committee places significant emphasis on reviewing and monitoring the investment strategy with regular reviews and input from professional and experienced advisors. The ITA engages with the two admitted bodies and consultants on a regular basis, and before any major decision is taken.

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.

Key points

- 1) The Pensions Committee should set a clear investment objective.
- 2) Investment risk should be fully evaluated, monitored and the link to employing bodies' ability to meet liabilities recognised.
- 3) Appropriate guarantees should be used to protect against employer default.
- 4) The need for affordable, stable contributions should be reflected in the work of the Pensions Committee.
- 5) The Pension Committee should satisfy itself about the standards of internal controls applied are sound and robust.
- 6) An understanding of risk should be demonstrated and reported upon.

Demonstration of Compliance

Members set the Fund's investment strategy having regard to the liabilities and achieving stable affordable contributions, consulting with interested parties regularly.

The investment strategy setting process takes account of the mature nature of the Fund and financial strength of the admitted bodies.

The Fund's annual report includes a statement on overall risk management of its activities.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

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.

Key points

- 1) Extensive formal performance measurement of investments, managers and advisors should be in place and relate to the investment objectives.
- 2) Effectiveness of the Superannuation Committee should be reported upon at regular intervals.
- 3) Returns should be measured on a quarterly basis in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile.

Demonstration of Compliance

The overall investment objectives link to portfolios and the individual investment objectives.

The performance measurement is made up of targets driven by the investment strategy and its component parts.

An external measurement service is used to provide robust and reliable information. Off-target performance is reviewed by the Pension Committee and appropriate action agreed.

The regular annual report details the work and achievement of the Committee.

Principle 5: Responsible ownership

Administering authorities should:

- adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- include a statement of their policy on responsible ownership in the statement of investment principles.
- report periodically to Scheme members on the discharge of such responsibilities.

Key points

- 1) Disclose approach to company governance matters and socially responsible issues in SIP.
- 2) Define expectations of managers on company governance matters.
- 3) The Institutional Shareholders' Committee of Principles for institutional shareholders and/or agents should be followed.

Demonstration of Compliance

The Fund reviews corporate governance advice from a specialist advisor and works in partnership with other funds actively promoting good company governance, eg, LAPFF.

The Fund's investment managers corporate governance activity is in line with the Pension Committee's aims. Regular reports are submitted by the manager to the committee on governance activity.

Principle 6: Transparency and reporting

Administering authorities should:

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

Key points

- 1) Maintain a sound governance policy and demonstrate its implementation.
- 2) Maintain a communication policy and strategy.
- 3) Ensure all required strategies and policies are published in a clear transparent manner.
- 4) Annual reports are a demonstration of accountability to stakeholders and should be comprehensive and readily available.

Demonstration of Compliance

The ITA produces and reviews regularly its key policy and strategy documents, publishing them on its website, shared with the West Midlands Pension Fund. An annual report is produced and is available on the website

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