

## GOVERNANCE ISSUES

Contact Officers

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Papers with this report

Revised Statement of Investment Principles

### SUMMARY

This report provides an update on Pension Fund Governance issues including recommended revisions to the Statement of Investment Principles to include details of the new Fund Managers and to comply with the Financial Reporting Councils Stewardship Code; progress on the review of public sector pensions and an update on various other general governance issues.

### RECOMMENDATIONS

1. That Committee approve the revised Statement of Investment Principles
2. That Committee discuss their approach to the roll out and use of the Training and Skills Framework
3. That Committee note the contents of the other items in the report.

### INFORMATION

#### 1. REVISION TO THE STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles (SolP) has been updated to include specific detail in relation to the newly appointed Fund Managers and various minor updating amendments. In addition, the SolP has been updated to include Hillingdon's response to the Stewardship Code.

#### Stewardship Code

One of the outcomes of the financial crisis has been to seek to improve the extent and effectiveness of shareholder engagement with companies. One of the recommendations of the Walker Review was that the Financial Reporting Council (FRC) should have responsibility for a new Stewardship Code, setting out best practice in respect of investor engagement.

At the start of July the FRC published its version of the Stewardship Code, which has anticipated was based on the previous Institutional Shareholders Committee (ISC) principles. It is now expected that institutional investors publish a statement in respect to their adherence, or otherwise, to the Code in a way that mirrors 'comply or explain' statements made by companies under the Corporate Governance Code.

In its report on the implementation of the Stewardship Code, the FRC states that it would "strongly encourage" all institutional investors to publish a statement on their website on the extent to which they have complied with the Code. Hillingdon has requested responses from its managers with equity holdings and reviewed their statements regarding the adoption of

the code. These are summarised below:

### **Fund Manager Responses**

**Manager: Alliance Bernstein**

Views on the Stewardship Code: Fundamental research is Alliance Bernstein's driver to stewardship. Their response to code sets out how research is implemented into the principles of the stewardship code.

Review of Managers Statements: Response to the code has been issued which shows compliance with principles. Listed as an FRC signatory to the code.

**Manager: Marathon**

Views on the Stewardship Code: To avoid the duplication of work Marathon have postponed the issue of a statement until official guidelines have been released.

Review of Managers Statements: Marathon has various corporate policies in place. They expect to comply with the code. Not listed as an FRC signatory to the code.

**Manager: UBS Global Asset Management**

Views on the Stewardship Code: Strongly supportive of the new code

Review of Managers Statements: Detailed response to the code issued.

Listed as an FRC signatory to the code.

**Manager: State Street Global Advisors**

Views on the Stewardship Code: Engagement activity consistent with the principles of the code

Review of Managers Statements: Full response to be issued. Listed as an FRC signatory to the code.

**Manager: Ruffer**

Views on the Stewardship Code: At this stage, Ruffer does not intend to publish a statement on its website with regard to the Financial Reporting Council's (FRC) UK Stewardship Code.

Review of Managers Statements: Corporate governance remains an important responsibility that Ruffer conducts on behalf of its clients and it continues to do so in accordance with its Statement on Corporate Governance and Voting. Ruffer will continue to follow developments with regard to the Code and act in a manner that it considers in the best interest of its clients. Not listed as an FRC signatory to the code

Whilst the code is addressed primarily to fund managers the FRC encourages pension funds to report if and how they have complied with the code. At the most recent LAPFF meeting the adoption of the stewardship code was discussed and options for possible compliance statements were suggested. This report recommends an update to Hillingdon's SoIP by the inclusion of Appendix E to incorporate the Stewardship Code and demonstrate its support.

The updated SoIP with the changes highlighted, is attached.

## **2. REVIEW OF PUBLIC SECTOR PENSIONS**

The independent review into public sector pension schemes, including the Local Government Pension Scheme and Teachers' Pension Scheme, and led by Lord Hutton was published on 7 October 2010. The review was commissioned to look both at ways of reducing the burden to taxpayers in the short term and to look at ways of making these schemes more affordable in the longer term.

The main recommendation to make short-term savings is to increase member contributions and the Government will make further announcements on this shortly. However, the review has suggested that increases should be managed so as to protect the low paid and, if possible, increases in contributions should be staged and need to be considered with a view to preventing a significant increase in opt out rates.

In the longer term, the design of all schemes will be reviewed and the detail on this will be published in March 2011. This will include consideration of whether these schemes can remain as final salary schemes. However, the report also recommends that benefits already earned by members should be protected.

## **3. KNOWLEDGE AND SKILLS FRAMEWORK**

As part of our commitment to better Governance of the fund, it was previously agreed to participate in the knowledge and skills framework administered by The Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA in partnership with Hymans Robertson have developed a website which holds a central source of information targeted specifically to the LGPS, and associated Statutory Legislation.

Additionally it provides a Training Needs Analysis - a source of self assessment material to enable both Members and Officers to assess their knowledge skills and to continue their development. The training needs analysis has been designed to help measure an individuals own knowledge and understanding of core areas of the scheme. An example of this, specific to Members, will be provided in hard form at Committee to facilitate a discussion on how best use of this site can be made going forward as part of committee's development.

We have registered all of Committee to have access to this site and specific log in details will be issued at the Committee meeting.

## **4. CLUB VITA - Annual Reports**

London Borough was one of the first local authorities to join Club Vita – a service to provide longevity services to occupational pension schemes in the UK. Longevity risk is one of the biggest unmanaged risk any pension fund faces.

This year's annual reports have just been published based on information supplied by the pension's administration system. The reports provide analysis on the mortality experience for the Hillingdon Fund against a combined dataset of 113 other pension funds. The report

outlines emerging longevity trends and whether our members are surviving in greater or fewer numbers than anticipated, and the impact these results have on our funding plans.

Hillingdon results indicate that:

- The average age of new retirees (from active service) has been increasing over the last decade and is generally higher than other LGPS Schemes.
- A decreasing proportion of members have been retiring on ill health.
- More pensions remain in payment at the year ending 31 August 2010 than anticipated under our current funding assumptions.
- As at 22 October 2010 the oldest male pensioner was 105 years and 171 days old and our oldest female pensioner was 99 years and 238 days old.

The results from these reports are taken into account by the scheme actuary as part of the Fund valuation process.

## **5. COMMUNICATION**

The Pensions' website on both the Councils Internet and Intranet website has not been updated for some time. Work is in progress to bring the website up to date. All documents and forms available on the website have been amended and will be posted to the site by January 2011. Work to amend and update all the other information on the site is ongoing and should be completed by March 2011. Revised Policy Documents will be brought to this Committee for approval in March 2011, prior to their inclusion in the 2011 Annual Report.

## **FINANCIAL IMPLICATIONS**

Direct Financial implications arising from the report on the SolP are the ongoing cost of member training. This cost will vary annually depending on the level of training required.

## **LEGAL IMPLICATIONS**

The SolP report complies with regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which came into force on 1<sup>st</sup> January 2010.