

LONDON BOROUGH OF WALTHAM FOREST PENSION FUND**MYNERS CODE ADHERENCE DOCUMENT – ANNEX TO STATEMENT OF INVESTMENT PRINCIPLES****Updated August 2008****1. Introduction**

- 1.1 This document details adherence to the Myners Code Principles for the Waltham Forest Pension Fund (“the Fund”). It is maintained by the Director of Finance on behalf of the Pension Fund Members Panel (“PFMP”).
- 1.2. The original document was agreed by Pension Fund Members Panel on 30th October and by the Council on 5th December 2002. It is acknowledged that Waltham Forest is not fully compliant with all aspects of the Myners Principles but the document will be kept under continuous review and compliance reassessed in the light of the modifications to the Myners Principles that are currently being consulted upon by the Government.
- 1.3. The practices described within this document form the basis for Investment Decision Making by the PFMP. The Statement of Investment Principles (SIP) provides information on all of the Fund’s service providers that is investment managers, custodians and investment consultants along with details of the nature of the service that they provide and how their performance is assessed.
- 1.4. This document is published as an Annex to the SIP and as such is published on the Councils website.

2. Effective Decision Making (Principle 1)

- 2.1. The responsibilities of the Council and the terms of reference of the Pension Fund Members Panel are set out in full in section 2 of the SIP.
- 2.2. The PFMP is not a statutory forum of the Council, but the Council has set it up in accordance with Best Practice and changed its terms of reference to comply with the Ten Principles on Investment Practice. In order to fulfil their roles members of the PFMP will be provided with appropriate training, initially and on an ongoing basis, and a formal training policy developed. The PFMP keeps Minutes and circulate these to the Council. Any changes to the membership of the Panel require the approval of the Council and any changes to the Observers require the approval of the PFMP.
- 2.3. Membership of the PFMP consists of a minimum of 5 Members and a quorum of 3 Members. All Panel members are expected to have or, for new members, to develop, sufficient expertise in investment matters to be able to conduct their PFMP responsibilities and interpret the advice, which they receive.
- 2.4. Details of Investment issues delegated to the Investment Managers, Custodians, Performance Measurement, Scheme Actuary and Officers are also contained in section 2 of the SIP.

- 2.5. In house staffing support is currently under review.
- 2.6. Appropriate revisions have been made to the Council's Constitution and Financial Procedure Rules.

3. **Clear Objectives for the Fund (Principle 2)**

3.1. **Fund Objectives**

- 3.1.1. The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/ or benefits on death, before or after retirement for their dependants, on a defined benefits basis. Benefits for active members increase in line with salaries. Benefits for preserved members are subject to statutory increases.
- 3.1.2. The Council aims to manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers, (Waltham Forest Council and the admitted and scheduled bodies) to meet the cost of future benefits accruing.
- 3.1.3. The following main aims and objectives have been defined for the purpose of meeting the primary objectives above
 - a. To ensure that the arrangements for pension fund investments and accounts comply with the relevant legislation and CIPFA recommended practice and both the practice and system documents adopted by the Council from time to time.
 - b. Improve the solvency level of the Pension Fund and reduce the employer's contribution rate.
 - c. Achieve upper quartile investment performance
 - d. Reduce investment costs as a percentage of the Fund value and as an amount per fund member
 - e. Improve communication with members and beneficiaries of the Fund on investments and accounts
 - f. Continue to develop corporate governance, socially responsible investment and venture capital investment policies.

3.2. **Basis of Evaluation**

- 3.2.1. An actuarial valuation of the Fund is conducted at least every three years in accordance with the Local Government Pension Scheme (LGPS) regulations. The last actuarial valuation was conducted as at 31st March 2007
- 3.2.2. Arrangements have been put in place for the position of the Fund to be monitored each year in consultation with the employers and the Scheme Actuary in connection with the preparation of the annual FRS 17 statement.

3.3. Review of Investment Strategy

3.3.1. The Investment Strategy of the Fund is regularly reviewed, full details of recent reviews and developments made to strategy are set out in the latest version of the SIP. The most recent review was carried out during 2007 and a complete restructuring of the Fund implemented with new benchmarks, asset allocation and the appointment of five new specialist managers, plus retention of the property element of one of the former balanced managers, making six specialist mandates.

4. Asset Allocation and Fund Benchmark (Principle 3)

4.1. Basis for Determining Fund Benchmark

4.1.1. The WM Local Authority Universe average (including property) is no longer used as the Fund Benchmark. This benchmark has been phased out as peer group benchmarks are considered inappropriate measures of progress in achieving the funding objectives of the Fund.

4.1.2. A new investment strategy benchmark was established from 1st July 2007 based on the individual benchmarks agreed with the fund managers, and linked to the Council's Funding Strategy and the strategy to achieve this laid down in the SIP.

4.2. Risk

4.2.1. The return assumptions taken into account to achieve Fund Objectives are set out in the Funding Strategy Statement. Any future benchmark adopted by the PFMP will be designed to be consistent with funding objectives over the long term. The PFMP recognises that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.

4.3. Asset Classes

4.3.1. Strategic asset allocation is determined by the PFMP taking appropriate professional advice. The current framework and benchmark weights are set out in the SIP. All asset classes have been considered by the Council but some such as venture capital are not currently considered appropriate for the investment strategy in operation. Asset allocation strategy has been formulated to meet the requirement for diversification.

4.3.2. Asset allocation is not fully linked to the Fund's liabilities as a primarily equity based investment strategy is being followed to target achievement of the funding strategy within the recovery period agreed.

5. Expert Advice (Principle 4)

5.1. W.M. Mercer is the Fund's actuarial adviser. The appointment was made in December 1998 following a competitive tendering process.

- 5.2. The Fund is in process of appointing an investment adviser for adhoc advice on its investment strategy. Consequently arrangements for investment advice will be separate from actuarial advice.
- 5.3. Tender procedures are carried out in line with Council procurement rules and European tender regulations where contract value requires.
- 5.4. The PFMP also receives advice from the Director of Finance (DF) and the Performance Measurement consultant (WM). The role of the DF as the s151 officer has been specified in section 2 of the SIP.
- 5.5. There are no independent advisers appointed to the PFMP.
- 5.6. All advice is assessed as described in Section 9.

6. **Explicit Mandates for Managers and Custodians (Principle 5)**

- 6.1. The investment management arrangements are summarised in the table below

Investment Manager	Appointed	Brief
AXA Framlington	2007	UK Equities
BankInvest	2007	Global Equities
European Credit Management	2007	Fixed Income
Nordea	2007	Global Tactical Asset Allocation
DTZ	2007	European (inc UK) Property
UBS Global Asset Management	Orig 2002	UK Property

- 6.2. The Fund has appointed a separate custodian which is currently State Street.
- 6.3. The mandates of all the investment managers were initiated or reviewed in line with Fund objectives following the completion of the latest investment strategy review. New benchmarks were established from 1st July 2007.
- 6.4. The investment managers manage the fund in line with the LGPS (Management and Investment of Funds) Regulations 1998 (as amended) and the restrictions in the SIP
- 6.5. The PFMP recognises that the pursuit of superior performance through active managers carries the risk of underperformance.
- 6.6. The PFMP will consider the extent to which the managers expect to achieve outperformance through stock and sector selection and asset allocation. They will consider the risks associated with stock and sector concentration in each of the markets in which they invest.
- 6.7. WM and Elkins McSherry were commissioned to carry out a one off review of the transaction costs for the year 2000/01. The survey revealed that Waltham Forest had achieved a top decile position among the Funds surveyed and that price savings from market impact largely offset commission and fees. A further review is required to establish the current position.

- 6.8. Use of soft commission arrangements by the current managers is under review.

7. **Governance/ Activism (Principle 6)**

- 7.1. The investment managers have delegated authority to exercise shareholder voting rights in accordance with the authority's corporate governance policy set out in section 6 of the SIP. The investment managers are also requested to engage in dialogue on socially responsible investment issues as set out in section 7 of the SIP. The investment managers can use their discretion in the interpretation of these policies, without reference back to the Council and the action taken is reviewed at the quarterly meetings between Council officers and investment managers and by the PFMP.
- 7.2. The objective of these policies is to preserve and enhance long term shareholder value.

8. **Appropriate Benchmarks (Principle 7)**

- 8.1. Specific benchmarks were agreed with the Fund Managers from 1st July 2007. These and targets and risk controls are set out in the SIP.
- 8.2. The PFMP has considered its investment structure, the choice between active and passive management, the number of managers it might employ and where risk might best be exploited in the past.
- 8.3. The arrangements put in place following the full review of the Fund's investment strategy in 2007 are set out Sections 4 and 6 above.

9. **Performance Measurement (Principle 8)**

- 9.1. The investment managers provide summary and detailed portfolio valuations, consolidated transaction reports and balance sheet and income statements on a quarterly basis. The PFMP receives independent measurement of returns from the WM Company on a quarterly and annual basis.
- 9.2. The PFMP monitors the relative and absolute performance of its investment managers on a half yearly basis, when formal presentations are made to the Panel by each fund manager (3 managers are seen each quarter). Annual performance is reviewed at the June meeting of the PFMP, when figures are available for the financial year. This review considers not only the investment returns, but also an assessment of the investment managers adherence to their mandate requirements. PFMP will also consider the investment managers' investment processes, stability of key personnel and market position.
- 9.3. The investment managers report on performance and their active asset allocation positions relative to the benchmark. They also report on active positions at the sector and stock level within equity mandates.

- 9.4. Arrangements will be made for the monitoring of the investment adviser when an appointment has been made.
- 9.5. PFMP also reviews investment decisions undertaken by officers and the PFMP itself to check their appropriateness and whether outcomes might have been improved. This will include
- a. How the overall Fund benchmark has performed relative to liabilities and relative to its comparative LGPS peers
 - b. How the PFMP interpreted advice provided by the officers and any consultants.

10. **Transparency (Principle 9)**

- 10.1. This document should be read in conjunction with the Fund's Statement of Investment Principles (SIP). Taken together, these documents provide the framework for the Fund's investment operations.
- 10.2. Section 2 of the SIP describes the structure for making investment decisions for the Fund and the split of responsibilities between the Council, Pension Fund Members Panel, Investment Managers, Custodians, Scheme Actuary, Consultants and other providers.
- 10.3. In addition to investment consultants, the PFMP seeks advice from the Fund's Actuary and the DF. There are no independent advisers appointed to the PFMP.
- 10.4. All advice and decision making is assessed as described in Section 9 above.
- 10.5. Consultation was undertaken on the original SIP and a summary was made available to members of the Fund and a full copy placed on the Council's website. The same procedures are being followed for the revised SIP.

11. **Regular Reporting (Principle 10)**

- 11.1. The Council publishes the following documents in accordance with statutory requirements, which are available to Fund members on the Council's website:
- a. The Statement of Investment Principles (incorporating this document as an Appendix)
 - b. The Funding Strategy Statement
 - c. The Communications Policy Statement
 - d. The Governance Compliance Statement
 - e. The Pension Fund Annual Report
- 11.2. Fund members are advised periodically of the availability of these documents through scheme communications.
- 11.3. Documents are revised periodically and when significant changes occur.