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| MEETING | PENSIONS COMMITTEE |
| DATE | 5 JULY 2010 |
| TITLE | STATEMENT OF INVESTMENT PRINCIPLES (SIP) |
| PURPOSE | TO SEEK MEMBERS' APPROVAL FOR THE AMENDED STATEMENT OF INVESTMENT PRINCIPLES |
| AUTHOR | DAFYDD L EDWARDS, HEAD OF FINANCE |

## 1. Introduction and Background

**1.1** On the 1st of January 2010 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI. 2009 No. 3093) came into force. One of the requirements of the regulations is that Pension Scheme administering authorities prepare, maintain and publish a Statement of Investment Principles (SIP). These new regulations made a few changes to the requirements in relation to the SIP.

## 2. Changes to the SIP

**2.1** Since 2002, it has been a requirement for administering authorities to state in their SIP, the extent to which they comply with Myners' ten principles of investments which were as follows:

| | |
|---|---|
| Principle 1 | Effective Decision Making; |
| Principle 2 | Clear Objectives; |
| Principle 3 | Focus on Asset Allocation; |
| Principle 4 | Expert Advice; |
| Principle 5 | Explicit Mandates; |
| Principle 6 | Activism; |
| Principle 7 | Appropriate Benchmarks; |
| Principle 8 | Performance Measurement; |
| Principle 9 | Transparency; and |
| Principle 10 | Regular Reporting. |

**2.2** In 2007/08**,** HM Treasury commissioned the National Association of Pension Funds (NAPF) to undertake a review of Myners' Ten Principles. The outcome of the review was that the principles should be cut from ten down to six. The six suggested principles were:

| | |
|---|---|
| Principle 1 | Effective Decision Making; |
| Principle 2 | Clear Objectives; |
| Principle 3 | Risks and Liabilities; |
| Principle 4 | Performance Assessment; |
| Principle 5 | Responsible Ownership; and |
| Principle 6 | Transparency and Reporting |

**2.3** Following a consultation period in 2009, the above six principles were adopted and the new regulations make it a requirement for administering authorities to state in the SIP the extent to which they comply with these six principles. Our compliance with these principles are shown in Appendix CH.

**2.4** In previous regulations, there was a requirement to refer to risk in the SIP. The new regulations now extends this to documenting how risk is monitored and managed. Based on advice given by our advisers at Hymans Robertson we have documented how we monitor and manage risk in para 5.5 of the SIP, which is attached as Appendix A.

**2.5** The new regulations also require administering authorities to state their policy on stocklending. The Pensions Committee will have to look at preparing a detailed policy on stocklending in due course. This can be done when the SIP is reviewed next. The current policy is shown in para 8.0 of the SIP (Appendix A).

**2.6** The SIP has also been updated following the recent changes to fund managers and the Fund's benchmark.

**3.0 Recommendation**

**3.1 The Pensions Committee is asked to approve the amended SIP shown in Appendix A as well as the amended principles of investments shown in Appendix CH.**

**APPENDIX A**

# Gwynedd Pension Fund
# Statement of Investment Principles (SIP)

## 1.0 Introduction

1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare and review from time to time a written statement of the principles governing its decisions about the investment policy of the pension fund. These regulations also require the administering authority to state within the statement the extent to which it complies with a series of principles of good governance known as the Myners Principles. The purpose of this document is to satisfy the requirements of these regulations.

1.2 The Local Government Pension Scheme ("the scheme") was established in accordance with statute to provide death and retirement benefits for all eligible employees.

1.3 The Council have delegated the investment management of the scheme to the Pensions Committee ("the Committee") who decide on the investment policy most suitable to meet the liabilities of the scheme and the ultimate responsibility for the investment strategy lies with them. Investments and performance are monitored on a regular basis by the Committee and advice is received from professional advisers.

1.4 This document outlines the broad investment principles governing the investment policy of the pension fund. The Committee have delegated the management of the pension fund's investments to professional investment managers whose activities are constrained by detailed investment management agreements.

1.5 In preparing this document the committee have taken professional advice from the fund's actuaries and advisers, Hymans Robertson and have obtained and considered written observations from the scheme's investment managers. Due account has been taken of the maturity profile of the fund (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit.

## 2.0 Investment Responsibilities

2.1 The Committee have responsibility for:

- preparing the statement of investment principles (SIP),
- monitoring compliance by the parties listed below with the statement and reviewing its contents from time to time,
- appointing the investment managers and any external advisers felt to be necessary,
- approving custodial arrangements and/or appointing the custodian,
- reviewing on a regular basis the investment managers' performance against established benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls and
- ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the fund is invested in suitable types of investments.

This responsibility has been delegated by the administering authority in accordance with its scheme of delegation reproduced in **Appendix B**.

2.2 The Investment Managers are responsible for:

- the investment of the pension fund assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed investment management agreements,
- tactical asset allocation around the strategic benchmark set out in Section 4 below,
- security selection within asset classes,
- preparation of a quarterly report including a review of investment performance,
- attending meetings of the Committee as requested,
- preparation of an annual confirmation that their activities comply with this statement in accordance with the provisions of section 8.1.
- voting shares in accordance with their published policy.

2.3 The Custodians are responsible for:

- their own compliance with prevailing legislation,
- providing the administering authority with monthly valuations of the scheme's assets and details of all transactions during the month,
- providing details in a timely manner to the WM Company,
- collection of income and tax reclaims.

2.4 The Investment Adviser is responsible for:

- advising the Committee on investment strategy and policy,
- assisting the Corporate Director, the Head of Finance and the Committee in the selection and appointment of investment managers and custodians,
- assisting the Corporate Director, the Head of Finance and the Committee in their regular monitoring of the investment managers performance, and
- assisting the Corporate Director, the Head of Finance and the Committee in the preparation and review of this document.

2.5 The Actuary is responsible for:

- assisting the Corporate Director, the Head of Finance and the Committee in the preparation of this document, and
- providing advice as to the maturity of the scheme and its funding level in order to aid the committee in balancing the short term and long term objectives of the pension fund.

2.6 The Corporate Director and the Head of Finance are responsible for:

- ensuring compliance with this document and bringing breaches thereof to the attention of the Committee,
- ensuring that this document is regularly reviewed and updated in accordance with the regulations, and
- preparing an annual report which will include amongst other issues references to investment results.

2.7 The Clerk of the Pensions Committee is responsible for:

- sending reports and papers to members of the committee sufficiently in advance of the meeting to allow them to be read and understood, and
- asking members to declare if they have a personal interest at the beginning of each meeting.

## 3.0 Description of the Scheme's Liabilities

3.1 The pension fund is a defined benefit scheme which provides benefits related to final salary for members on their retirement, or benefits for their dependants on death before or after retirement. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the scheme's assets. Full details of scheme benefits are set out in the LGPS regulations.

3.2 All active members of the scheme are required to make pension contributions which are based upon a fixed percentage of their pensionable pay as defined in the LGPS regulations.

3.3 The funding objective is to fund 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, (as calculated in the triennial valuation).

3.4 Employers contribution rates are determined triennially based on the advice of the scheme's actuary, and are subject to inter-valuation monitoring. The assumptions used for this test, corresponding with the assumptions used in the latest actuarial valuation, are shown in **Appendix C**. This position will be reviewed at least at each triennial valuation. The committee will be advised by the actuary of any significant changes to the Fund during the inter-valuation period.

## 4.0 Investment Policy

4.1 The investment policy of the pension fund is, in a manner which is consistent with adopting a reasonable level of risk, intended to ensure that all statutory payments made from the fund are at minimal cost to local taxpayers.

4.2 The investment policy is to appoint expert investment managers with clear performance benchmarks and to place the maximum accountability for performance against that benchmark on the investment manager. The performance of fund managers will be assessed on a rolling three year basis.

4.3 As a result of a deliberate policy to diversify assets and investment styles, as well as to spread risk, the fund has eight investment managers with varying briefs. They are as follows:

| **Investment Manager** | **Brief** | **Benchmark** | **Target** |
|---|---|---|---|
| BlackRock ("formerly known as BGI") | Passive | FTSE All-Share and FTSE All-World Indices | Benchmark Return |
| Capital International Limited ("Capital") | Active | MSCI AC World Index | Benchmark +2.0% p.a (gross of fees) |
| Fidelity International (Fidelity) | Active | MSCI AC World Index | Benchmark +2-3% p.a. |
| Insight | Active | Cash (Libor) | Benchmark +2% p.a. |
| KBC | Active | IPD Balanced Property Unit Trust Index | Benchmark |
| Legal & General Investment Management | Passive | FTSE All-Share and FTSE All-World Indices | Benchmark Return |
| Partners Group | Active | MSCI World | Benchmark +5.0% p.a * |
| UBS Global Asset Management (UK) Ltd ("UBS") | Active | IPD UK Pooled Property Fund Index | Benchmark +0.5% |

**Partners Group doesn't have an official performance target. The target stated above is purely for indicative purposes*

4.4 The Fund now has its own bespoke benchmark against which its performance is measured. Each investment manager has their own individual benchmark against which they are measured and their own targets. Once L&G's mandate is terminated in May 2010, the fund's new benchmark will be as follows:

| | Black Rock % | Capital % | Fidelity % | Insight % | UBS/ KBC % | Partners % | Total % |
|---|---|---|---|---|---|---|---|
| **UK Equities** | **77.0** | **8.4** | **8.4** | **-** | **-** | **-** | **28.0** |
| **Overseas Equities** | **23.0** | **91.2** | **91.2** | **-** | **-** | **-** | **42.0** |
| North America | - | 47.1 | 47.1 | - | - | - | 17.6 |
| Europe ex-UK | 8.0 | 17.6 | 17.6 | - | - | - | 9.7 |
| Japan | 7.0 | 8.9 | 8.9 | - | - | - | 4.2 |
| Pacific Basin | 3.0 | 5.0 | 5.0 | - | - | - | 4.2 |
| Emerging Markets | 5.0 | 13.0 | 13.0 | - | - | - | 6.3 |
| **Private Equity** | **-** | **-** | **-** | **-** | **-** | **100.0** | **5.0** |
| **Total Equities** | **100.0** | **100.0** | **100.0** | **-** | **-** | **100.0** | **75.0** |
| UK Bonds | - | - | - | 100.0 | - | - | 15.0 |
| **Total Bonds** | **-** | **-** | **-** | **100.0** | **-** | **-** | **15.0** |
| **Property** | **-** | **-** | **-** | **-** | **100.0** | **-** | **10.0** |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

4.5 The investment strategy will be reviewed annually, with a major review taking place following the triennial actuarial review.

4.6 The individual manager's current activity and transactions are reported quarterly to the Committee.

4.7 The investment managers performance is monitored quarterly and reviewed annually.

4.8 BlackRock and Fidelity provide their own custody service for us with JP Morgan Chase Bank while Insight and KBC provide their own custody service for us with Northern Trust. L&G has an associated custodian who holds the assets of that part of the portfolio. Their custodian for UK assets is HSBC Global Investor Services and Citigroup for the overseas assets. As UBS and Capital do not have an associated custodian we've had to appoint external custodians. JP Morgan Chase Bank has been appointed as custodian for UBS's part of the Fund and Northern Trust has been appointed for Capital's part of the Fund. Partners Group is not included in the Fund's custody arrangements.

## 5.0 Objectives

5.1 The investment objectives are to achieve a return on fund assets which is sufficient, over the long-term, to meet the funding objectives set out above on an ongoing basis.

5.2 To achieve these objectives the following have been agreed.

### 5.3 Types of Investments to be held

5.3.1 The Committee will ensure that one or more investment managers are appointed who are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to manage the assets of the fund.

5.3.2 The Committee, after seeking appropriate advice, may give specific directions as to the strategic asset allocation and will ensure the suitability of assets in relation to the needs of the fund. The prevailing legislation allows the scheme to invest in the following asset classes:

- UK Equities;
- UK Fixed Interest;
- UK Index Linked;
- UK Property through pooled funds;
- Overseas Equities, major classes being North America, Japan, Europe, Far East, Pacific Rim and other Emerging Markets;
- Private Equity;
- Global Bonds;
- Unquoted securities via pooled funds;
- Emerging market equities via pooled funds, unless specifically authorised;
- Direct investment in development capital - subject to limit of £5 million at book cost;
- Use of derivatives and other financial instruments is permitted within pre-agreed limits for specific purposes such as asset allocation switches and currency hedging;
- Underwriting is permitted provided that the underlying stock is suitable on investment grounds and complies with existing investment criteria;
- Stock lending is permitted subject to specific approval.

5.3.3 Any instrument not explicitly permitted in para. 5.3.2 may only be purchased for the fund with the express written consent of the Committee via the Corporate Director.

5.3.4 The investment managers will be given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio. However, the investment managers will have to comply with the prevailing legislation on the limits on individual investments specified in Part 1 as set out in the Schedule to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Committee having taken proper advice from the Fund's advisor, have decided to increase the limit on investments in "any single insurance contract". The new limit has now been set at 35%. The decision to increase this limit was taken because it allows the fund to invest more in pooled funds which are much more diversified than any individual segregated portfolio. The above limit will apply until such time that the decision is revoked by the committee; and that the decision be reviewed before 31 January 2012. This decision complies with the above regulations.

5.4 **Balance between different types of Investments**

5.4.1 An agreement is in place for each investment manager which sets out the relevant benchmark, performance target, and where appropriate asset allocation ranges and any restrictions, as determined by the Committee.

5.4.2 The Committee have agreed a benchmark which provides an efficient balance between risk and return, in the light of the liability profile and funding level of the fund.

## 5.5 Risk

5.5.1 The Fund needs to manage (rather than avoid) risk on the investment markets in order to achieve rewards in the form of financial returns on assets. However, the Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks (threats) affecting the Fund are:

5.5.2 **Funding risks:**

- Financial mismatch - The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities; or that unexpected inflation increases the pension benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics - The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee regularly reviews mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at each triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

5.5.3 **Asset risks:**

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committees' expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager. However, it is not possible to eliminate the threat of underperformance without restricting the potential for outperformance.

5.5.4 **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

5.6 **Expected Return on Investments**

5.6.1 The strategic benchmark is expected to produce a return over the long term in excess of the investment return implied in the actuarial valuation. Investment returns are defined as the overall rates of return (capital growth and income combined).

5.6.2 The majority of the fund's assets are managed on an active basis and are expected to outperform their respective benchmarks over the long term.

5.6.3 In this way, the investment performance achieved by the fund is expected to exceed the rate of return assumed by the actuary in funding the liabilities on an ongoing basis.

5.7 **Realisation of Investments**

5.7.1 The majority of stocks held by the fund's investment managers are quoted on major stock markets and may be realised quickly if required.

5.7.2 Property investments, which are relatively illiquid, currently make up around 10% of the fund's assets.

**6.0 Social, Environmental and Ethical considerations**

6.1 With regard to socially responsible investment, the Committee is mindful of legal principles which are based on recent decisions in the courts and which apply to all pension schemes. In particular the administering authorities are not entitled to subordinate the interests of members to social, environmental and ethical demands. The financial performance of the fund consistent with proper diversification and prudence, is paramount.

6.2 The Committee have considered the extent to which social, environmental and ethical factors should be taken into account in the selection, retention and realisation of investments. They also recognise that these factors can also affect the return on investments.

6.3 The Committee expects that the boards of companies in which the pension fund invests should pay due regard to social, environmental and ethical matters and thereby further long-term financial interests of the shareholders. The Committee looks to the directors of a company to manage that company's affairs taking proper account of the shareholder's long-term interests.

6.4 The investment managers have produced statements of investment policy in relation to social, environmental and ethical considerations which the Committee deem to be consistent with the aims outlined in para. 6.3. above. The Committee expects investment managers to act in accordance with their stated socially responsible investment policies.

6.5 The Committee believe that this stance is consistent with the long-term objective of the scheme.

6.6 The Committee will satisfy themselves annually that the investment managers are following this policy.

**7.0 Exercise of the rights including voting rights attaching to investments**

7.1 The Committee believe that the adoption of good practice in corporate governance will improve the management of companies and thereby add long term shareholder value.

7.2 The Committee expect the investment managers to make regular contact at senior executive levels with the companies in which the scheme's assets are invested, both as an important element of the investment process and to ensure good corporate governance.

7.3 Investment managers have produced statements regarding their corporate governance policies which the Committee consider compatible with the requirements stated in para. 7.2. The Committee expects investment managers to act in accordance with their stated corporate governance policies.

7.4 Voting actions will be reported on an exception basis to the Committee on a regular basis.

**8.0 Stock Lending**

8.1 Stock lending will be permitted subject to specific approval. The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Committee, which include both pooled and segregated mandates.

**9.0 Compliance**

9.1 Investment managers and custodians will provide the Committee, with annual confirmation that their activities, have in respect of that part of the fund over which they have control, complied with the investment restrictions set out in this document (to the extent amendments thereto are notified to the Manager) and more particularly set out in their investment management agreement.

9.2 The Committee will be responsible for assessing the risks assumed by the scheme at a global level, i.e. assuming that the portfolios of the individual managers were amalgamated.

9.3 The Committee is responsible for monitoring the scheme's performance both at global level and manager by manager.

9.4 The Committee are responsible for monitoring the qualitative performance of the managers and custodians employed to ensure that they remain suitable investment managers/custodians for the scheme. These qualitative aspects include, inter alia, changes in ownership, changes in personnel, poor administrations etc.

9.5 The Committee will consider the scheme's compliance with this statement of investment principles on a regular basis.

9.6 The statement will be reviewed as required but at least in full every three years (in conjunction with the other parties to the statement) and a revised statement prepared and published.

**10.0 Compliance with Investment Principles**

10.1 In response to the Treasury Report "Updating the Myners Principles: A Response to Consultation (October 2008), LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles contained in the CIPFA document titled "Investment Decision Making and Disclosure in the Local Government Pension Scheme".

10.2 These principles have been adopted by the Department of Communities and Local Government (CLG) and replace the ten Myners principles previously published.

10.3 Appendix CH notes the extent to which the Gwynedd Fund complies with these six principles and if they do not comply, the reasons why.

**APPENDIX B**

**Delegation Scheme for Committees and Sub-Committees**

The contents of this scheme are additional to all other delegated powers contained in the Council's Constitution and in particular Articles 6,7,8,9 and 10, in other places in Part 3 of the Constitution, and also any relevant rules of procedure in Part 4 of the Constitution.

The following functions have been delegated to the Pensions Committee:

(i) Decide on the strategy regarding the investing of surplus money in the superannuation fund and other trust funds;
(ii) Appoint and terminate the appointment of managers and consultants of the specialist funds; review their performance with regard to investment;
(iii) Ensure that safe and efficient arrangements are in hand for purchasing, selling and monitoring the council's investments;
(iv) Making decisions in the context of pension administration.

**APPENDIX C**

**Main Actuarial Assumptions as at 31 March 2007**

| | % per annum | Relative to RPI % per annum |
|---|---|---|
| RPI Inflation | 3.2 | - |
| Pay Increases | 4.7 | 1.5 |
| Investment Returns<br>• equities<br>• bonds | <br>6.25<br>4.75 | <br>-<br>- |

The actuarial valuation has taken the assets of the Fund into account at their market value as indicated in the Fund Accounts for the period ended 31 March 2007. This is consistent with the approach of valuing the liabilities by reference to spot market conditions on the valuation date.

**Results Summary**

| **Value of Accrued Liabilities** | **Total Liabilities £'m** |
|---|---|
| Employee members | 549.1 |
| Deferred pensioners | 106.6 |
| Pensioners | 318.7 |
| **Total liabilities** | **974.4** |
| **Value of Fund Assets** | **813.8** |
| **Deficit** | **160.6** |
| **Funding Level (at actuarial value)** | **84%** |

Based on the actuarial valuation as at 31 March 2007

**Asset Mix**

| **Figures as at 31 March 2010** | **Actual Fund %** |
|---|---|
| UK Equities | 27.1 |
| UK Bonds | 13.9 |
| Overseas Equities | 44.8 |
| Private Equity | 3.8 |
| Property | 7.7 |
| Derivatives | 0.0 |
| Cash & Net Current Assets | 2.7 |
| **Total** | **100.0%** |

**Assets Held by Managers (as at 31 March 2010)**

| **Manager** | **Assets** | **Active/Passive** |
|---|---|---|
| BlackRock ("formerly known as BGI") | £174m* | Passive |
| Capital International Limited ("Capital") | £183m | Active |
| Fidelity International (Fidelity) | £177m | Active |
| Insight | £129m** | Active |
| KBC | £12m | Active |
| Legal & General Investment Management | £144m | Passive |
| Partners Group | £35m | Active |
| UBS Global Asset Management (UK) Ltd "UBS") | £62m | Active |

*Assets of £304m less the Pending Transfer of £130m to Insight on 6 April 2010.
**Assets include the Pending Transfer from BGI of £130m less purchase costs.

**Added Voluntary Contribution Arrangements**

The options for members' added voluntary contributions (AVCs) are set out below, together with details of the principles governing the range of investment vehicles offered. Members can choose to switch to AVCs between options available to them from time to time, subject to the terms and conditions of each vehicle. At retirement, the accumulated value of a members AVC is used to purchase an annuity on the open market or to buy additional service.

| Provider | Vehicle |
|---|---|
| Clerical Medical | With Profits , Managed & Building Society Funds |
| Equitable Life | Closed |
| Standard Life | Closed |

Standard Life and Equitable Life are no longer offered as an option to employees wishing to start new AVC contracts. However, any employees who were already paying AVC's to Standard Life and Equitable Life may continue to do so.

The objective of the managed fund is to provide returns on members' contributions which at least keep pace with inflation. The building society fund option offers interest at competitive rates.

There is no specific "lifestyle" option. Contributors must take their own actions on switching between funds to protect investment returns.

**A statement of the extent to which the Gwynedd Pension Fund complies with the six principles of investment practice set out in the Cipfa document "Investment Decision Making and Disclosure in the Local Government Pension Scheme – A guide to the Application of the Myners Principles" - 2009**

### 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 effectively 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.**

The Gwynedd Fund complies to a large degree with this principle. However, responsibility for the Pensions Committee structure and composition lies with Gwynedd Council and is reviewed on a periodic basis as structural issues arise.

All members of the Pensions Committee are required to attend a three day Trustee Training Fundamentals course, after which they receive an "LGPS Fundamentals" training certificate. Ideally new members are required to complete the course prior to sitting on the Pensions Committee for the first time. From time to time members are also sent on refresher courses.

Members of the Pensions Committee are not paid - they receive the same allowances as other local authority members. No specific allowances are given in relation to their Pensions duties.

No formal annual business plan is prepared.

### 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.**

The Gwynedd Fund complies to a large degree with this principle.

Contracts for advisors have not been subject to separate competition. At the time the service was originally tendered, this was not an issue and hitherto, there are no compelling reasons to place the service out to competition. No formal process exists to assess the advisors performance.

Currently the Pensions Committee do not have a strategy for ensuring that the transaction-related costs incurred are properly controlled without jeopardising the fund's other objectives.

**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 Gwynedd Fund complies to a large degree with this principle. In order to achieve "full compliance", further work needs to be undertaken with regards to the strength of the covenants for participating employers.

**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.**

There is partial compliance with this principle. There are processes to measure the performance of the investments and investment managers. However, no formal process exists to assess the advisors performance. The Committee has had no cause to consider that the advice received in relation to choosing benchmarks and investment managers was not up to the performance level required.

No formal process exists to assess the Committee's own performance. Ultimately in the past this has been measured in terms of the Fund's relative performance in relation to other Pension Funds and the Committee's accountability to employers and employee representatives at the Annual General Meeting.

In the coming months CIPFA will be publishing their knowledge and skills framework, which is a set of standards which Committee's should attain. Once this is published then consideration will be given to the above issues.

**Principle 5: Responsible Ownership**

**Administering authorities should:**

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

The Gwynedd Fund partially complies with this principle.

Some of our investment managers have adopted the ISC SIP, others are reviewing it and some haven't adopted it. Our private equity manager does not believe that the ISC SIP applies to them. To the best of their knowledge it only applies to institutional investors located in the UK.

**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.**

The Gwynedd Fund largely complies with this principle. The Committee do not formally look at published reports and communication policies of other pension funds. The Committee don't formally compare the Fund's Annual Report to the regulations either.