

Myners Adherence Document – February 2015

Introduction

In October 2001 the Government published its response to the review carried out by Paul Myners into institutional investment in the UK. The Myners review considered, and rejected, the possibility of direct Government intervention to compel the industry to change its behaviour through regulatory action. It concluded that it would be preferable for this to be adopted on a voluntary basis. However, it also recommended that the Government should, in due course, conduct a public assessment of the effectiveness of the principles in bringing about change. This assessment, carried out through surveys of pension schemes in 2003 and 2004, produced mixed results. Legislation has again been rejected for the time being. Some revisions to the original Principles have been proposed and are currently “in consultation”; these focus particularly on improving Trustees’ skills and expertise.

In March 2008, HM Treasury, the Department for Work and Pensions and The Pensions Regulator launched a consultation on updating the Myners Principles in response to the National Association of Pension Funds review, ‘Institutional Investment in the UK: Six Years On’, which recommended updating the principles to ensure the continued spread of best practice among pension schemes. The consultation proposed a set of refreshed and simplified higher-level principles and the development of a comprehensive suite of authoritative best practice guidance and tools to help trustees to improve investment decision-making and governance. The Myners Principles Adherence Document was updated to take into account the outcome of this consultation.

This Statement is made by the Trustees of the Legal Services Commission Staff Pension and Life Assurance Scheme No.4 (the “Scheme”) in connection with their approach to the Myners Principles. A summary of each Principle is shown in bold together with the Trustees’ compliance response.

The remit of the Trustees is set out in Appendix 1.

This document was reviewed by the Trustees at their meeting on 12 February 2015.

1. Effective decision-making

PRINCIPLE

- Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

COMPLIANCE

Strategic investment decisions are taken by the full body of Trustees whilst day to day investment decisions are delegated to authorised investment managers, Legal & General Investment Management and Newton. The remit of the Trustees is given in Appendix 1 of this document. The Trustees are experienced and are confident that they have sufficient expertise to interpret and challenge the investment advice that they receive. The Trustees undertake additional training as appropriate on both investment and other Scheme related matters. The adequacy of training is kept under regular review.

The issues dealt with by the Trustees are complex by nature but they have access to professional advice on issues regarding pensions law, investment, administration and actuarial matters.

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A forward looking business plan is in place which covers not only investment matters but also a range of Scheme related issues.

2. Clear objectives

PRINCIPLE

- Trustees should set out an overall investment objective for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

COMPLIANCE

The objectives for the Schemes are set out in the Statement of Investment Principles.

The Trustees have set the overall objectives of the Scheme to meet all of the benefits of the Scheme at the time when they fall due. They have considered the Scheme Actuary's triennial valuations in assessing the adequacy of contributions to meet this ongoing funding target, and taken account of the maturity profile of the liabilities. The investment strategy also takes into account the Crown guarantee provided with the Sponsor, and the ability and willingness of the Sponsor to contribute to the overall funding of the Scheme. The Sponsor is always consulted and their views taken into account when the Trustees are considering a change in investment strategy.

Written agreements are in place with the investment managers and these set out the benchmarks, objectives and risk parameters for each asset class for each manager.

3. Risks and Liabilities

PRINCIPLE

- In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.
- These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

COMPLIANCE

In consultation with their managers and investment consultant, the Trustees have considered the following:

- the appropriateness of index benchmarks;
- the appropriateness of range guidelines and the managers' risk controls;
- the appropriateness of active or passive management.

The Trustees considered the maturity profile of the liabilities when setting their investment strategy, and continue to do so on a regular basis. The Trustees have reviewed the strength of the Sponsor, and given the nature of the Crown guarantee, believe this to be strong.

4. Performance assessment

PRINCIPLE

- Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
- Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

COMPLIANCE

The managers provide the following summary information for the Scheme assets they manage on a quarterly basis - portfolio valuations, consolidated transaction reports. They also provide details of performance at the individual asset class and aggregate level.

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The Trustees monitor the performance of their active investment manager every quarter. They consider not only investment returns but also assess the manager's adherence to its mandate requirements including the full range of activities delegated to it. The Trustees also consider the managers' investment processes, stability of key personnel and market positions as well as other factors. The index-tracking manager is assessed at least once a year.

The Trustees formally review the Scheme's investment consultant and other advisers on a regular basis, and a full market review of all service providers was carried out in 2014. The Trustees also carry out more informal assessments at regular Trustee meetings.

5. Responsible ownership

PRINCIPLE

- Trustees should adopt, or ensure that their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
- Trustees should report periodically to members on the discharge of such responsibilities.

COMPLIANCE

Governance and Voting

The Trustees regularly inform the investment managers on the importance of corporate governance and voting. In addition, they have delegated the following tasks to the Scheme's investment managers:

- Engaging with companies in which the Scheme invests concerning corporate governance issues; and
- The exercise of voting rights on the basis that voting power will be exercised by the managers with the objective of preserving and enhancing long term shareholder value.

The managers have produced written guidelines of its processes and practices in both matters.

The manager is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Engagement

The Scheme's investment managers have disclosed their own policies on corporate governance, engagement and activism which they exercise on behalf of their clients' investment mandates. The managers vote proxies on behalf of the Scheme and engage with companies in which they invest. They report their voting activity to the Trustees every quarter.

6. Transparency and reporting

PRINCIPLE

- Trustees 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.
- Trustees should provide regular communication to members in the form they consider most appropriate.

COMPLIANCE

Communication

This document, when read in conjunction with the Scheme's Statement of Investment Principles, sets out the following information.

- The nature of the investment decision-making within the Scheme (Section 1).

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- The Scheme's investment objective and the mandates given to the Scheme's investment managers (Section 2)
- The basis behind the investment strategy (Section 3)
- The processes in place for monitoring the performance of the Scheme's investment managers and the advice given by the Scheme's investment consultant and other advisers (Section 4).
- The Trustee's policy on responsible ownership (Section 5).

The Scheme's Statement of Investment Principles and this Myners Principles Adherence Document are available to members on request. Key information about the Scheme is communicated as part of the annual Trustee's Report to Members, which is circulated to all members together with the annual Summary Funding Statement.

Appendix 1: Remit of Trustees

The Trustees are responsible for monitoring all aspects relating to the investment of the assets of the Scheme and to make changes where appropriate. Their specific responsibilities are as follows:-

- 1 The Trustees formally review the Scheme's asset allocation at least annually, taking account of any changes in the profile of Scheme's liabilities. They decide on any changes to the Scheme's asset allocation benchmarks.
- 2 The Trustees consider and monitor the quarterly reports produced by the Investment Managers and the Sponsor's own internal reports. In addition to the managers' portfolio and performance reporting, the Trustees also receive and review information from the manager on transaction costs, and details of corporate governance (including SRI, voting activity and engagement with management).
- 3 The Trustees monitor the allocation of new monies and the basis for the realisation of assets where appropriate.
- 4 The Trustees formally review at least annually the mandates of the managers, and their adherence to their expectations for investment process and style. They ensure that the explicit written mandates of the Scheme's managers are consistent with the Scheme's overall objective and are appropriately defined in terms of performance target, risk parameters and timescale.
- 5 The Trustees consider the need for any changes to the Scheme's investment manager arrangements at least annually.
- 6 In the event of a proposed change of manager, the Trustees evaluate the credentials of potential managers.
- 7 The Trustees are responsible for the appointment and termination of their investment managers.
- 8 The Trustees consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism. They are empowered to delegate responsibility for socially responsible investment, corporate governance and shareholder activism to the Scheme's managers.
- 9 The Trustees monitor the investment advice from their investment consultant and investment services obtained from other providers quarterly through KPIs.
- 10 The Trustees are responsible for the appointment and termination of their advisers and other providers.
- 11 The Trustees are responsible for maintenance of the Statement of Investment Principles (SIP) and the document setting out the Schemes' Myners disclosure. These are reviewed at least annually.
- 12 The Trustees maintain a rolling business plan which provides a schedule of activity for monitoring and review activity in line with this remit.
- 13 The Trustees will conduct and conclude the negotiation of formal agreements with managers, custodians and other investment service providers as required.
- 14 In order to fulfil their roles, the Trustees are provided with appropriate training both initially and on an ongoing basis. They commission such training as they consider to be necessary or appropriate.
- 15 The Trustees take such professional advice as they consider necessary.
- 16 The Trustees keep Minutes and other appropriate records of their proceedings.

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- 17 All Trustees are expected to have or, for new members, to develop sufficient expertise in investment matters to be able to conduct their delegated responsibilities and to interpret the advice which they receive.