

Merseyside Pension Fund **Statement of Investment Principles**

1. Introduction

- 1.1 This Statement of Investment Principles was agreed at Pensions Committee on **21 September 2005**. The statement complies with LGPS Regulations 1998 and subsequent amendment (SI 2002 No.1852) requiring the Fund to state compliance with the ten principles of investment practice set out in CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom.
- 1.2 In preparing the SIP the Fund has taken professional advice from its advisers whom it considers suitably qualified and experienced in investment matters. The principal employers and Trade Unions are represented at the Pensions Committee, enabling their views to be taken into account.

2. Effective Decision Making

- 2.1 Wirral MBC is the Administering Authority with overall responsibility for the MPF. The Council has delegated to the Pensions Committee various powers and duties in relation to its administering of the Fund. The Committee is made up of 15 members, 10 of which are members from WBC, with representation from other principal employers in the Fund (5) and Trade Unions. There is also an Investment Monitoring Working Party to which all members of the Pensions Committee and Trade Unions are invited; the IMWP meets on a quarterly basis.
- 2.2 The terms of reference for the Committee, IMWP and the Director of Finance are set out in the scheme of delegation for Wirral MBC.
- 2.3 The Pensions Committee takes strategic decisions on asset allocation and delegates tactical asset allocation through the IMWP. The Director of Finance (Section 151 Officer) is delegated to manage the Fund leading a well qualified and experienced internal team.
- 2.4 The Fund has an ongoing training programme for Members and officers to ensure that decision making is on an informed basis.
- 2.5 The Pensions Committee has appointed two independent advisors to the Pensions Investment Monitoring Working Party.

3. Clear Objectives

- 3.1 The Fund objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions and investment strategy is decided with clear reference to this objective.
- 3.2 An investment strategy including the core asset allocation, (see para 4.2) the structure of investment managers and the performance targets given to the respective managers (see below) has been put in place following advice from the Fund's specialist independent advisers.

Manager	Asset Type	Funds managed %	Performance Target % out performance
Internal	UK Equities	11	2
Internal	Pan Europe Equities	3	2
Internal	Venture Capital	6	2
Internal	Property	10	1
Internal	Cash	2	0
Legal & General	Mixed Passive	23	0
Legal & General	Active Bonds	8	1
Schroders	Active Bonds	8	1
BGI	UK Equities	12	2
Wellington	Pan Europe Equities	5	2
Allianz Dresdner	US Equities	5	2
Nomura	Far East / Emerging markets Equities	7	2

- 3.3 This strategy was designed with reference to the Fund's liabilities in the context of expected net contribution inflows; the adequacy of the Fund's assets to meet its liabilities and in the context of the maturity profile of the Fund's liabilities its cashflow situation.
- 3.4 Following the changes in investment management arrangements and the award of external mandates the overall investment target for the Fund is to out perform its strategic benchmark by 1.25% per annum over a rolling three years.

4. Focus on Asset Allocation

- 4.1 Pensions Committee has set the core asset allocation for the investments of the Fund (also known as strategic benchmark) on 12 March 2005 following an asset/liability study from the Fund's actuaries.

MPF MULTI ASSET PORTFOLIO		
Asset Class	Bench mark	Benchmark index
UK Equities	31	FTSE ALL SHARE TR INDEX
Overseas Equities	25	FTSE WORLD EX UK TR
US Equities	8	FTSE USA TR
European Equities	9	FTSE EUROPE EX UK TR
Japan	3	FTSE JAPAN TR
Pacific	2.5	FTSE PACIFIC TR
Emerging Markets	2.5	S&P/IFCU COMPOSITE
Fixed Interest	26	
UK Gilts	7	FTSE UK GILTS ALL STOCKS
Overseas Gilts	0	JPM GLOBAL GOVT EX UK
UK Index Linked	13	FTSE UK GILTS INDEXED ALL STKS
Corporate Bonds	6	ML £ NON GILTS
Property	10	IPD ALL PROPERTIES INDEX
Venture Capital / Other Investments	6	GBP 7 DAY LIBID
Cash	2	GBP 7 DAY LIBID
TOTAL	100	SPECIFIC BENCH MARK

5. Expert Advice

5.1 The Fund is in the process of reviewing its arrangements for procuring expert advice. At present the Fund receives advice from its actuary Mercer on strategic investment and liability issues and has appointed two independent advisers to the Investment Monitoring Working Party who have had considerable experience at a senior level within the Fund Management industry.

6. Explicit Mandates

6.1 The Fund mandates are governed in compliance with the following principles.

Clear instructions for fund managers including; objective, asset allocation, benchmark flexibility, risk parameters, regulatory requirements, performance targets and measurement timescales.

6.2 The Fund is aware of the need to monitor transaction costs for external managers and uses Inalytics Ltd to monitor the explicit and implicit costs arising from transactions.

- 6.3 The Fund does not practice soft commissions through its internal managers. Where external managers operate a soft commission policy the Fund has where possible set up recapture arrangements.
- 6.4 The Fund has appointed internal monitoring officers to closely monitor the external managers and ensure compliance with mandates.
- 6.5 The Fund has utilised the use of the extensions in investment limits per Schedule 1 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003 to allow investments in its Legal and General passive mandate to 35% of the Fund. The extension is to cover urgent transitions required due to the termination of a Fund Manager's contract and is to last for the period from the termination of a contract until the implementation of a new strategy for the assets in question. This facility will be reviewed on an annual basis as part of the SIP review process.

7. Activism

- 7.1 As a responsible investor, the Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. The Fund will therefore monitor investee companies to ensure they meet standards of best practice in relation to their key stakeholders.
- 7.2 The Fund supports the principles of good governance the detailed code of best practice as brought together in the "revise combined code". The Fund votes at all AGM's and EGM's of its holdings of UK shares. With respect to the various agenda items at such meetings, the Fund receives detailed advice and recommendations from PIRC. The main themes of the Combined Code voting policy centre on issues surrounding Board structure, Directors pay, shareholder accountability and Audit issues.
- 7.3 The Fund considers that the pursuit of such standards aligns the interests of Fund members and beneficiaries with those stakeholders and society as a whole over the long term. In furtherance of this policy, the Fund will support standards of best practice on disclosure and management of corporate social responsibility issues by companies and will pursue constructive shareholder engagement with companies on these issues, consistent with the Fund's fiduciary responsibilities.
- 7.4 In accordance with this policy, the Fund will seek where necessary to use its own efforts, its fund managers and alliances with other investors to pursue these goals. To this end the Fund is an active member of the Local Authority Pension Fund Forum. The Fund is also a member of the Institutional Investors Group on Climate Change. In addition, the Fund will pursue an active corporate governance policy, including using its voting rights, in accordance with its own policies as determined from time to time.

- 7.5 The Pensions Investment Research Consultants Limited (PIRC) provide advice and research services on the above issues to the Fund.
- 7.6 The Fund will use its own staffing resources to ensure that fund managers, and advisers are acting in compliance with the Fund's strategic objectives.
- 7.7 The Investment Monitoring Working Party has a standing item devoted to corporate governance / activism issues.

8. Appropriate Benchmarks

- 8.1 In setting the overall investment objective and asset allocation and in the award of mandates to individual investment managers the Pensions Committee has set benchmarks for each asset class, these are set out in the table in section 4.2.
- 8.2 The different benchmarks culminate in the specific benchmark for the Fund, which is determined by the core asset allocation, which has been made with reference to the Fund's liabilities.

9. Performance Measurement

- 9.1 The Fund engages the WM Company to provide an independent measurement of investment returns. These are used for comparison purposes against specific and peer group benchmarks. The Fund has recently re-negotiated contracts with WM to ensure that information is available for comprehensive monitoring of individual fund managers.
- 9.2 The Pensions Committee and IMWP receive WM reports and are therefore able to consider the performance of all asset classes and managers against a variety of time frames on a regular basis. These considerations form the basis of decision making.

10. Transparency

- 10.1 The decision making structure for the Fund has been set out earlier. The key decision making forum is the Pensions Committee. The minutes of this Committee are available to the public.

11. Regular Reporting

- 11.1 This SIP will be made available to stakeholders on request and its availability will be publicised through newsletters, the annual conference and on the Fund's Website.
- 11.2 The Fund will also make available other documents relating to investment decision making and performance to interested stakeholders.

12. Risk

12.1 The Fund recognises that risk is inherent in investment activity and seeks to manage the level of risk that it takes in an appropriate manner.

12.2 The Fund manages investment risks through the following measures as illustrated in this SIP

- Broad Diversification of types of investment and investment managers
- Explicit mandates governing the activity of investment managers.
- The use of a specific benchmark, related to liabilities of the Fund for investment asset allocation.
- The appointment of independent investment advisors to the IMWP.
- Comprehensive monitoring procedures for investment managers including internal officers and scrutiny by elected Members.
- The Fund complies with The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003, where use of the extensions in investment limits per Schedule 1 are utilised, this is reported in this SIP (para 6.5)

12.3 The Fund manages operational risks through the following measures as illustrated in this SIP.

- The use of a global custodian, State Street, for custody of assets.
- Having formal contractual arrangements with investment managers.
- Maintaining independent investment accounting records.
- Having access to the internal audit service of Wirral MBC.

Compliance with
CIPFA Principles for Investment Decision Making in LGPS

Area	
Effective Decision Making	The Fund considers that its practices are compliant with the CIPFA principles.
Clear Objectives	The Fund considers that its practices are compliant with the CIPFA principles.
Asset Allocation	The Fund considers that its practices are compliant with the CIPFA principles.
Expert Advice	The Fund considers that its practices are compliant with the CIPFA principles.
Explicit Mandates	The Fund considers that its practices are compliant with the CIPFA principles.
Activism	The Fund is partially compliant with the CIPFA principles.
Appropriate Benchmarks	The Fund considers that its practices are compliant with the CIPFA principles.
Performance Measurement	<p>The Fund is partially compliant with the CIPFA principles.</p> <p>The Fund does not currently undertake a formal review of the success of decisions of Members, neither does the Fund undertake a formal review of the success of decisions /recommendations of managers / advisers at present.</p>
Transparency	The Fund considers that its practices are compliant with the CIPFA principles.
Regular Reporting	The Fund considers that its practices are compliant with the CIPFA principles.