

Merseyside Pension Fund
Statement of Investment Principles

1. Introduction

- 1.1 This Statement of Investment Principles was agreed at Pensions Committee on 26 November 2007. 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 (See back page).
- 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.
- 1.3 This Statement should be read in conjunction with the Fund's Funding Strategy Statement.

2. Effective Decision Making

- 2.1 Wirral MBC is the Administering Authority with overall responsibility for Merseyside Pension Fund (MPF), with representation from other principal employers in the Fund (5) and Trade Unions. There is also an Investment Monitoring Working Party (IMWP) to which all members of the Pensions Committee and Trade Unions are invited; the IMWP meets at least quarterly.
- 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 implement Committee policy and 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 Pension's Investment Monitoring Working Party to support the decision-making process.

3. Clear Objectives

- 3.1 The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective.

Over the long-term, the Fund's objective is to set policies that will seek to ensure that investment returns achieved will at least match the assumptions underlying the actuarial valuation and therefore be appropriate to the liabilities of the Fund.

- 3.2 Having regard to its liability profile, the Fund has determined that adopting a bespoke benchmark should best enable it to implement an effective investment strategy. This strategic benchmark is reviewed every three years, at a minimum, at the time of the actuarial valuation but will be reviewed as required particularly if there have been significant changes in the underlying liability profile or the investment environment.
- 3.3 The Fund has carefully considered the expected returns from the various permitted asset classes and has concluded that in the longer-term the return on equities will be greater than from other conventional assets. Consequently, the benchmark is biased towards equities and skewed towards active management, particularly in less developed markets.
- 3.4 The Fund is also cognisant of the risk that the shorter-term returns may vary significantly from one period to another and between the benchmark and actual returns. Diversification of assets is seen as key to managing this risk and the risk/return characteristics of each asset and their relative correlations are reflected in the make-up of the strategic benchmark.
- 3.5 Following the changes in investment management arrangements and the award of external mandates the overall investment target for the Fund is to outperform its strategic benchmark by 1.25% per annum over a rolling three years.

4. Focus on Asset Allocation

4.1 Following an asset/liability study from the Fund's actuaries and consultation with its various advisers and officers, the following strategic benchmark was agreed by the Pensions Committee on 26 November 2007.

MPF MULTI ASSET PORTFOLIO		
Asset Class	Bench mark	Benchmark index
UK Equities	30	FTSE ALL SHARE INDEX
Overseas Equities	29	
US Equities	8	FTSE AW NORTH AMERICA
European Equities	10	FTSE WORLD EUROPE EX UK
Japan	4	FTSE AW JAPAN
Pacific	3	FTSE AW DEV ASIA PAC EX JAPAN
Emerging Markets	4	MSCI EMERGING MARKETS FREE
Fixed Interest	20	
UK Gilts	4	FTSE A ALL STOCKS
Overseas Gilts	0	JPM GLOBAL GOVT EX UK
UK Index Linked	12	FTSE UK GILTS INDEXED ALL STKS
Corporate Bonds	4	ML £ NON GILTS
Property	10	IPD ALL PROPERTIES INDEX
Venture Capital / Other Investments	10	GBP 7 DAY LIBID
Cash	1	GBP 3 MONTH LIBID
TOTAL	100	SPECIFIC BENCH MARK

5. Expert Advice

5.1 The Fund uses a range of advisors in addition to specialist officers, and has recently reviewed its arrangements for procuring actuarial advice and investment consultancy. Previously, these two elements were tendered within the same contract. The current position is that advice on actuarial issues is sought from Mercer Human Resource Consulting and, under a separate contract, Mercer Investment Consulting advise on asset allocation and investment matters relative to liabilities. The Fund had appointed two independent advisors to the Investment Monitoring Working Party and separate advisors are consulted on property and corporate governance issues.

6. Explicit Mandates

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

Investment managers are prohibited from holding investments not defined as such in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 by clear reference in their Investment Management Agreements. Clear instructions for fund managers as to how the investment portfolio is to be managed including; the objective, asset allocation, benchmark flexibility, risk parameters, regulatory requirements, performance targets and measurement timescales.

The Managers, listed below, have been appointed by the Fund.

Manager	Asset type/brief
Internal	UK equities
Internal	European equities
Internal	Alternatives
Internal	Property
Internal	Cash
BGI	UK equities
CB Richard Ellis	Property Managers
Cordea Savills	Strategic Property advisers
JP Morgan	European equities
Legal & General	Passive equities & bonds
Legal & General	Active bonds
Nomura	Far East/Emerging markets equities
Schroders	Active bonds
State Street	Custodians

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 an institutional investor, the Fund readily accepts its responsibility to promote high standards of corporate governance and corporate responsibility in the companies in which it invests. The Fund believes that good corporate governance is an important element in reducing the risk of corporate failure and enhancing returns over the long term. The principles of good governance and best practice outlined in the "revised Combined Code" are supported by the Fund.

7.2 The Fund is also a signatory to the UN Principles for Responsible Investment. Developed by leading institutional investors in a process overseen by the UN Environment Programme Finance Initiative and the UN Global Compact, the Principles include environmental, social and governance criteria, and provide a framework for achieving better long-term investment returns and more sustainable markets.

7.3 In accordance with this framework, the Fund communicates with companies and exercises the rights (including voting rights) attaching to its investments. Pensions and Investment Research Consultants Limited (PIRC) provides research and advice services on these matters. Where practicable, the Fund votes at all Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs) of its UK and European shareholdings.

7.4 The Fund considers that the pursuit of such standards aligns the interests of the Fund's employers, members and beneficiaries with other stakeholders and society as a whole. In furtherance of this policy, the Fund supports standards of best practice on disclosure and management of corporate social responsibility issues by companies and undertakes constructive shareholder engagement.

7.5 This policy of engagement enables the Fund to collaborate with other local authority pension funds and investors to encourage high standards of corporate governance and socially and environmentally responsible corporate behaviour. By combining with other investors to focus on areas of common interest, the Fund is able to exert more influence than by simply disinvesting from companies, sectors or countries.

- 7.6 In accordance with this policy, the Fund seeks to use its own efforts, its fund managers and alliances with other investors to pursue these objectives. The Fund is an active member of the Local Authority Pension Fund Forum and a member of the Institutional Investors Group on Climate Change.
- 7.7 The Fund uses its own staffing resources to ensure that its fund managers, and advisers are acting in compliance with the Fund's strategic objectives.
- 7.8 The Fund's Investment Monitoring Working Party, which meets at least quarterly, has a standing item devoted to corporate governance.

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 4.1.
- 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 (section 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.