

Investment Governance Group

Local Government Pension Scheme Subgroup

Adaptation of updated Myners Principles for the LGPS

The Government's response to consultation on the proposed revisions to the Myners Principles commented that there was broad support for the proposition that the Local Government Pension Scheme (LGPS) would benefit from continuing to apply updated Myners principles, with appropriate adjustment to reflect the specific requirements of the LGPS.

The LGPS Sub-Group has considered the wording of the updated principles, insofar as they are specific to the private sector trustee structure, and has recommended some minor changes to the wording to reflect the LGPS governance structure more appropriately. However, the underlying objective of the Principles has not changed.

The Investment Governance Group (IGG) has agreed to adopt these recommendations which are shown in this LGPS Table of Updated Principles.

Further work is in hand through the CIPFA Pensions Panel in conjunction with the IGG LGPS Sub-Group, to produce updated guidance for local authority pension funds in applying the updated principles in practice, and to reflect the best practice guidance and trustee tools applying in the private sector.

It is expected that this guidance will be completed by the end of 2009 and the regulatory requirement on local authorities to state their compliance with the Myners Principles will be revised accordingly. Local authorities are required to publish a statement of their compliance in the Statement of Investment Principles.

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October 2009

Local Government Pension Scheme

Principles for Investment Governance (formerly Myners) in Local Government Pension Scheme

October 2009

The framework for investment decision-making:

Principle

The high level principles will be the accepted code of practice applying to investment decision-making and investment governance in local government pension funds throughout the United Kingdom, including the Environment Agency¹. Administering authorities will be required or expected by the management of investment of funds regulations to report against these on a 'comply or explain' basis.

Guidance on good practice

Guidance on good practice is intended to help funds to apply the principles effectively and they are not expected to implement every element . Rather administering authorities may use examples of good practice where appropriate to help demonstrate the extent to which the principles have been applied and whether compliance has been achieved.

Good practice tools

Tools provide practical help and support to administering authorities and their advisers to enable them to apply the principles and ensure that standards of investment decision-making and governance continue to rise.

Principles:

Principle 1: Effective decision- making	<p>Administering authorities should ensure that</p> <ul style="list-style-type: none">• 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.
Principle 2: Clear objectives	<ul style="list-style-type: none">• 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 advisers and investment managers.
Principle 3: Risk and liabilities	<ul style="list-style-type: none">• 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.
Principle 4: Performance assessment	<ul style="list-style-type: none">• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.• 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.
Principle 5: Responsible ownership	<p>Administering authorities should:</p> <ul style="list-style-type: none">• adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles 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.
Principle 6: Transparency and reporting	<p>Administering authorities should</p> <ul style="list-style-type: none">• 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; and• provide regular communication to scheme members in the form they consider most appropriate.