

## Table of updated principles, best practice guidance and tools

Principle	Best practice guidance	Trustee tools
<p>The high level principles will be the accepted code of best practice throughout the industry in investment decision-making and governance. It is expected that trust boards will report against these on a voluntary 'comply or explain' basis.</p>	<p>Best practice guidance is intended to help trustees to apply the principles effectively. Trustees are not expected to implement every element of best practice. Rather trustees may use best practice examples where appropriate to help demonstrate whether compliance has been achieved.</p>	<p>Tools provide practical help and support to trustees and their advisers to enable them to apply the principles and ensure that standards of investment decision-making and governance continue to rise.</p>
<p><b>Principle 1: Effective decision-making</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>	<ul style="list-style-type: none"> <li>• The board has appropriate skills for, and is run in a way that facilitates, effective decision-making.</li> <li>• There are sufficient internal resources and access to external resources for trustees and Boards to make effective decisions.</li> <li>• It is good practice to have an investment sub-committee to provide the appropriate focus and skills on investment decision-making.</li> <li>• There is an investment business plan and progress is regularly evaluated.</li> <li>• Consider remuneration of trustees.</li> <li>• Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).</li> </ul>	<ul style="list-style-type: none"> <li>• TPR's Trustee toolkit and other training material.</li> <li>• Publication of best practice guidance / templates eg in relation to business plans, scheme structures etc.</li> <li>• TPR guidance on conflicts of interest.</li> <li>• Publication of industry-average lay-trustee remuneration.</li> </ul>
<p><b>Principle 2: Clear objectives</b></p> <ul style="list-style-type: none"> <li>• Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the</li> </ul>	<ul style="list-style-type: none"> <li>• Benchmarks and objectives are in place for the funding and investment of the scheme.</li> <li>• Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.</li> <li>• Trustees consider as appropriate, given the size of fund, a range of asset</li> </ul>	<ul style="list-style-type: none"> <li>• TPR guide on covenant assessment</li> <li>• TPR Trustee toolkit.</li> <li>• IMA Pension Fund Disclosure Code.</li> <li>• Marathon Club Guidance for</li> </ul>

<p>sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.</p>	<p>classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.</p> <ul style="list-style-type: none"> <li>• Consider the strength of the sponsor covenant.</li> </ul>	<p>Long-Term Investing.</p>
---	--	-----------------------------

<p><b>Principle 3: Risk and liabilities</b></p> <ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.</li> <li>• These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.</li> </ul>	<ul style="list-style-type: none"> <li>• Trustees have a clear policy on willingness to accept underperformance due to market conditions.</li> <li>• Trustees take into account the risks associated with their liabilities valuation and management.</li> <li>• Trustees analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.</li> <li>• Trustees have a legal requirement to establish and operate internal controls.</li> <li>• Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.</li> </ul>	<ul style="list-style-type: none"> <li>• TPR guide on working with the employer.</li> <li>• Code of practice No 3: Funding defined benefits.</li> <li>• Code of practice No 9: Internal controls.</li> <li>• TPR guidance on longevity.</li> </ul>
---	---	--

<p><b>Principle 4: Performance assessment</b></p> <ul style="list-style-type: none"> <li>• Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• There is a formal policy and process for assessing individual performance of trustees and managers.</li> <li>• Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).</li> <li>• The chairman addresses the results of the performance evaluation.</li> <li>• State how performance evaluations have been conducted.</li> <li>• When selecting external advisers take into account relevant factors, including past performance and price.</li> </ul>	<ul style="list-style-type: none"> <li>• Trustee 'Key Performance Indicators'</li> <li>• TPR's Trustee toolkit.</li> <li>• Assessing consultants performance 'toolkit' eg model balanced scorecard etc.</li> </ul>
---	--	--

--	--	--

<p><b>Principle 5: Responsible ownership</b></p> <ul style="list-style-type: none"> <li>• Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.</li> <li>• A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.</li> <li>• Trustees should report periodically to members on the discharge of such responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.</li> <li>• Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.</li> <li>• Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.</li> <li>• Trustees ensure that investment consultants adopt the ISC's Statement of Practice relating to consultants.</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Investment Principles.</li> <li>• ISC Statement of Principles.</li> <li>• Supporting statement for investment consultants on the ISC principles.</li> </ul>
--	---	---

<p><b>Principle 6: Transparency and reporting</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Trustees should provide regular communication to members in the form they consider most appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>• Reporting ensures that: <ul style="list-style-type: none"> <li>○ The scheme operates transparently and enhances accountability to scheme members; and</li> <li>○ Best practice provides a basis for the continuing improvement of governance standards.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Investment Principles including statement of funding principle.</li> <li>• Websites / helplines (for larger schemes).</li> <li>• Annual report and accounts.</li> <li>• Best practice on quality disclosure and reporting.</li> </ul>
---	---	---