

Key Risk Area 5 Stewardship

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The Stewardship Code



- Background:** Developed to address the failure of shareholder oversight, seen as a contributory factor in bank failures.
- What it covers:** Institutional investors' policies and practices in respect of voting and engagement.
- How it will work:** Investors are expected to produce a 'comply or explain' account of how they apply the Code.
- Regulatory oversight:** The Financial Reporting Council (FRC) has responsibility for the Code.
- Who it covers:** Primarily aimed at asset managers, but the FRC says all institutional investors are encouraged to apply it.
- What should funds do?** Encourage manager compliance, and disclose their own approach - LAPFF briefing available.

UK Stewardship Code

7 Principles to be measured against:

- Publish Policy on stewardship approach
- Policy on Managing Conflicts (Fund Managers)
- Monitor investee companies
- Clear Guidelines on escalating activities
- Willing to act Collectively
- Voting Policy and disclosure of voting
- Periodic reporting

Corporate Governance

- Policy to be reflected in SIP
- Environmental, Social & Ethical
- Equity Voting Policy (UK)
- Report on Voting Activity
- Use of Voting Agents & Custodian
- Role of Fund Managers

Key Risk Area 6 Change

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LGPS - Lord Hutton's Public Sector Pensions 27 Recommendations

- Fall into 3 basic categories

Pension
Principles

Scheme
Design

Scheme
Governance

LGPS - Public Sector Scheme Governance Principles

- Competent Pension Board (member nominees)
- Pension Policy Group for each scheme
- Framework for independent oversight
- Common data for schemes to be published
- Establish and benchmark administration standards
- Monitor LGPS procurement/service sharing

LGPS Procurement

- Maximising cost effectiveness/ efficiency/ VFM
- Hutton Interim Report October 2010
 - wide variations in administration costs
 - Final report to consider scope for rationalisation and cost reduction
- Framework agreements / collaboration opportunities
- EU requirements

A New LGPS?

- A new Scheme for 2014
- Consultation due Spring 2012
- LGA leading work streams on design and governance
- Aim to achieve sustainability and affordability
- Target 'best practice' and VFM

Changing Employer Status

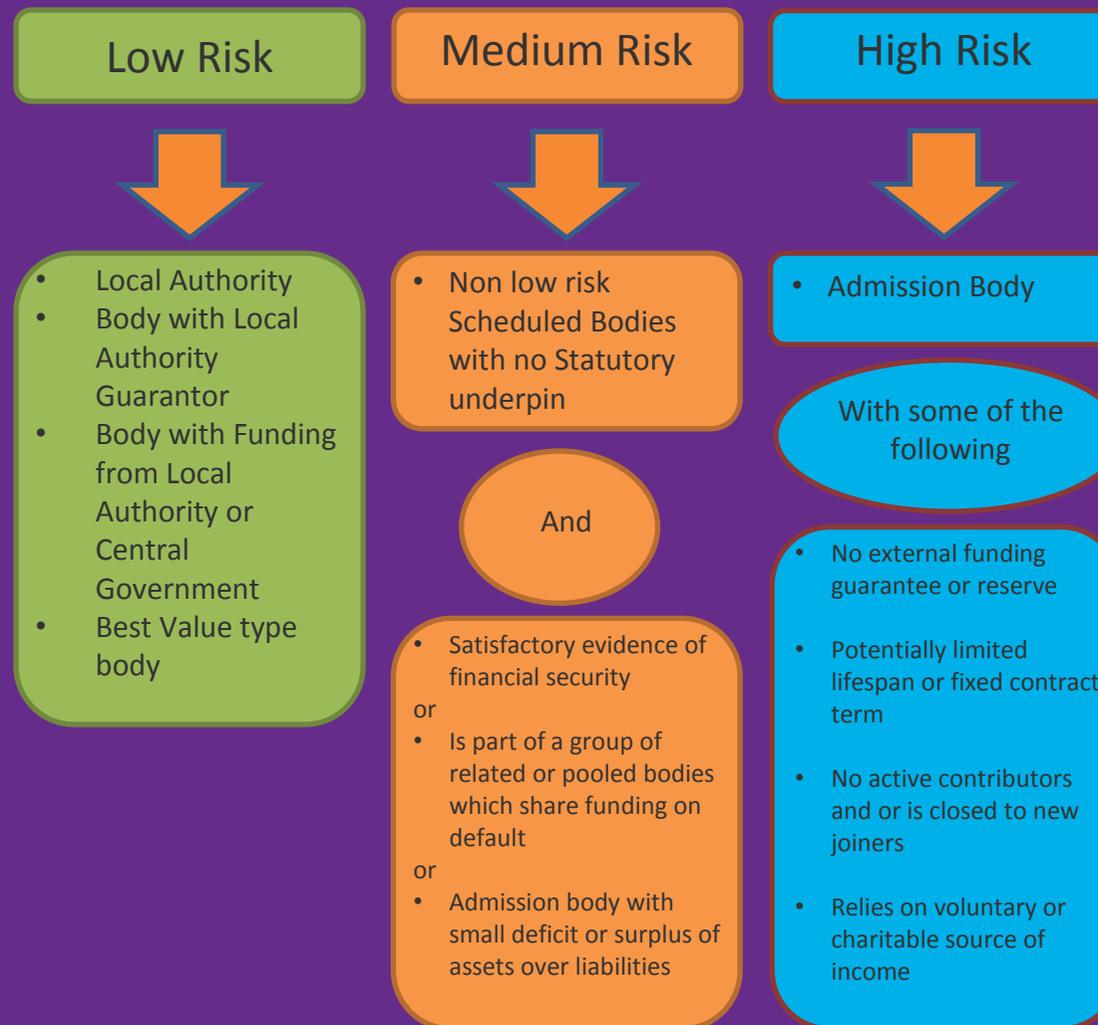
- Different types of employing bodies in LGPS
 - Scheduled
 - Transferee admission bodies
 - Community admission bodies
 - Resolution bodies
- Large and growing number of separate bodies

Changing Employer Status

- Different characteristics (nature of business, public authority or body providing a public service)
- Change of public sector financial climate
- Risks are growing and need managing
 - Changing employer covenant strength
 - Terminations
 - New admissions

Employer Covenant

Need a risk evaluation based approach in order to identify and manage covenant risks.



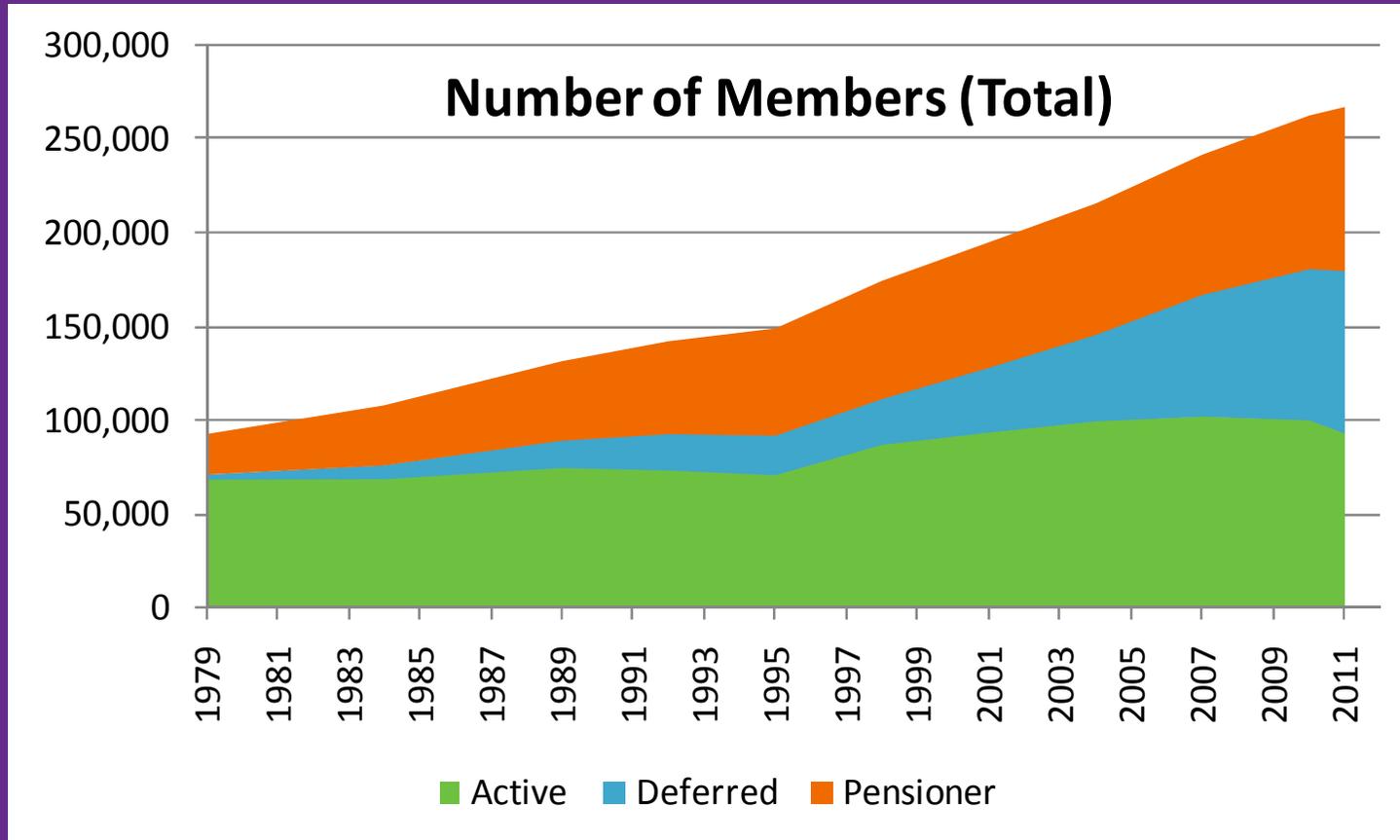
Employer Covenant

- Managing Covenant Risks
 - Compile risk register – identify and know risks
- Mitigate risks, e.g.
 - Bond or guarantee
 - Shorten deficit recovery period
 - Seek contingent assets
 - Phase employer contribution increases
- Employer reduces future liabilities
- Share risks in outsourced contracts:
 - Fix costs for contractor
 - Cap and collar
 - Pass through to contracting body
 - Grouped
 - Risk attribution

A Maturing Liability Profile

- A number of factors are changing the liability profile of the LGPS:
 - Reducing Local Government Workforce
 - Increased 'opt-outs' from recessionary pressures
 - Ageing population
- This will lead to:
 - Less Actives
 - More deferred
 - More Pensioners

Fewer contributors

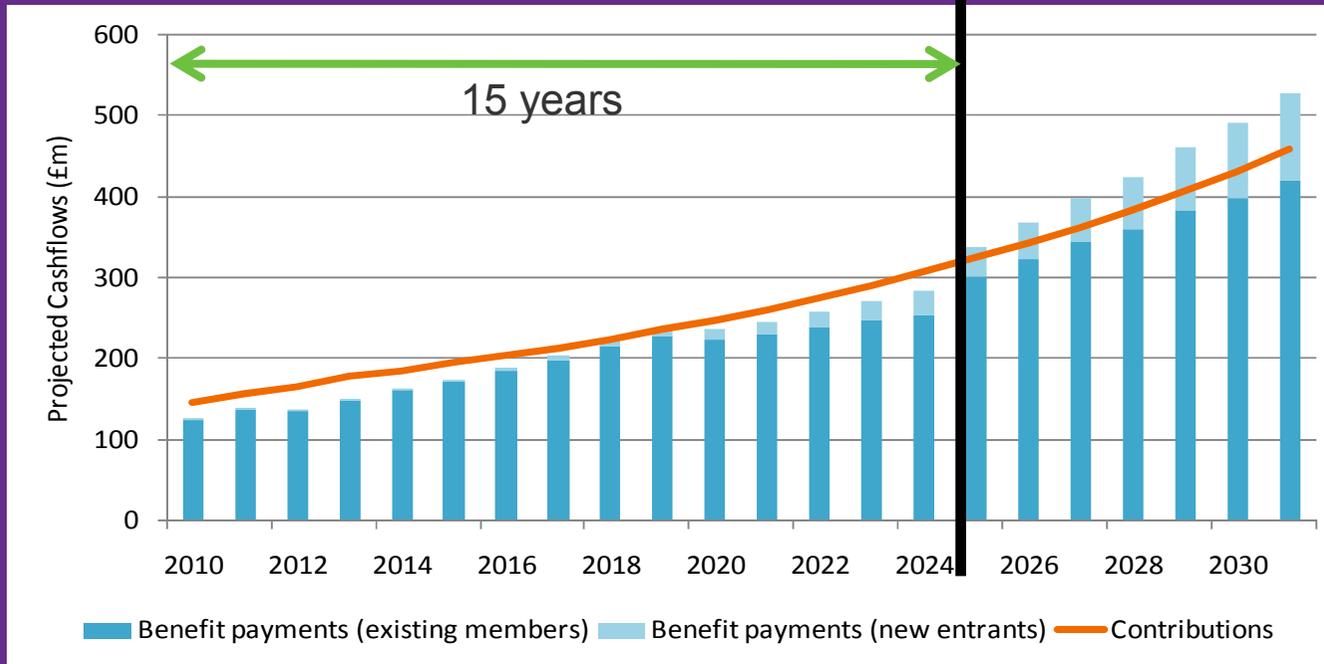


- 1979 – 3/4s of members were contributors
- 2011 – 1/3rd of members are contributors

Source: sample LGPS fund

Liquidity management

Benefits exceed contributions

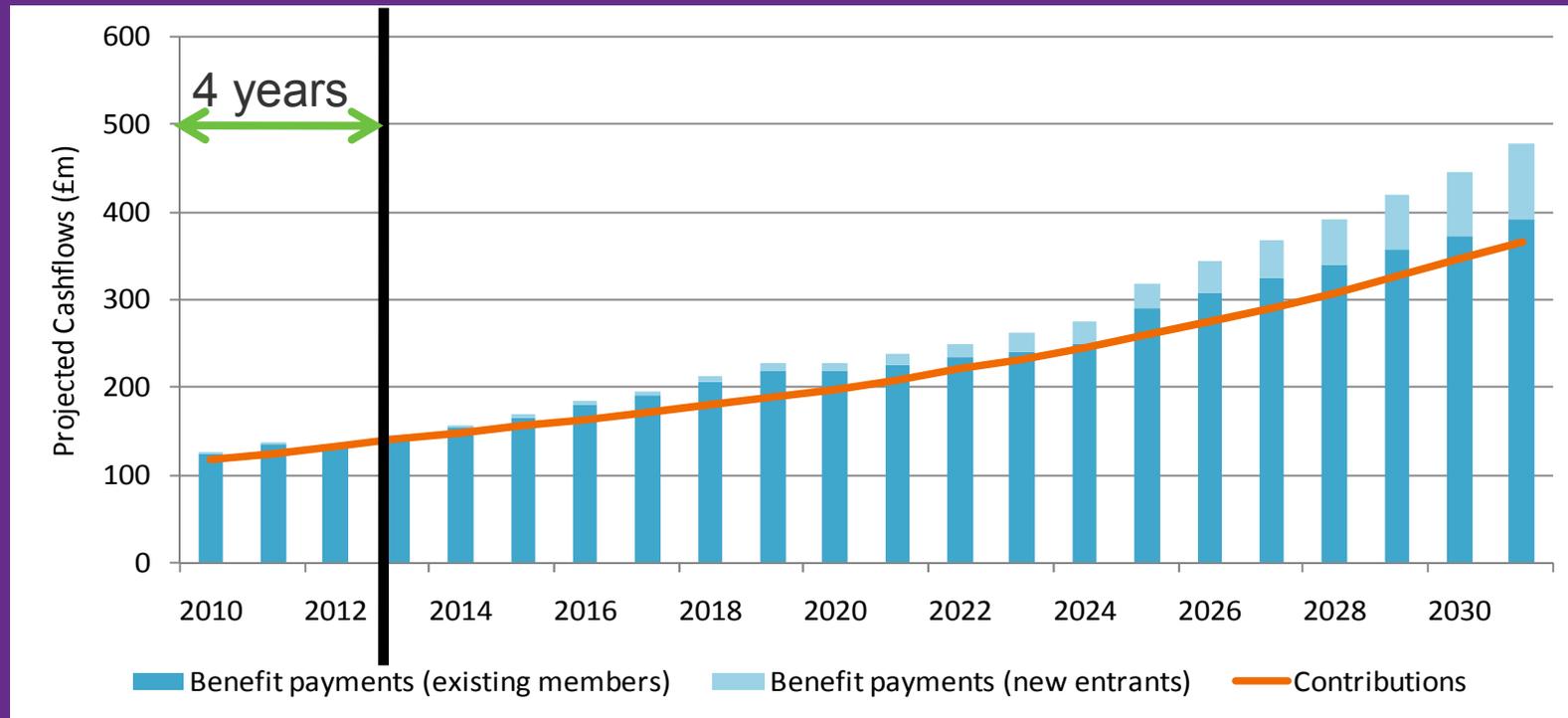


Tipping point occurs over the long term

Source: Sample LGPS Fund

Payroll reduces by 20%

Benefits exceed contributions



Implications for investment strategy

Source: Sample LGPS Fund

Cashflow positions vary by employer



Source: Sample LGPS Fund

Managing Employer Risks

- Monitoring membership data
- Assessing Employer Covenants
- Responsive to outsourcing
- Termination Policies
- Reporting to Committee
- Communication with members

Questions?



Thank You