



**ISLE OF MAN LOCAL GOVERNMENT SUPERANNUATION SCHEME
GOVERNANCE STATEMENT INCLUDING ADHERENCE TO
BEST PRACTICE**

APRIL 2019

**The Pensions Committee of the Isle of Man Local Government
Superannuation Scheme**

Version 16

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Governance Statement including adherence to Best Practice

Introduction

This document sets out the governance statement and adherence to the key principles of best practice for the Isle of Man Local Government Superannuation Scheme ("the Scheme"). The key principles within this document are broadly based upon the six Myners' principles which apply to UK Local Government Pension Schemes.

This document was originally brought into force on 25 February 2004. The practices described within this document form the basis for Investment Decision Making by the Pensions Committee ("the Committee"). This document is kept under continuous review. Details of version control and changes are provided in Appendix 1. It is maintained by Hymans Robertson LLP on behalf of the Committee.

The document also provides information on all of the Scheme's service providers (investment managers, custodians, advisers, etc.) along with details of the nature of the services they provide and how their performance in these roles is assessed.

This document is hosted on the Scheme's website (www.iomlgps.im) for access by employing organisations, Scheme members and members of the general public.

Layout of document

This document sets out each of the six principles followed by the Scheme's response on how it endeavours to adhere to each principle. The Appendices include additional information.

1 Effective Decision Making

Principle

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.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Response

The Scheme has in place a well-defined framework for decision making. The Committee is responsible for making all decisions in respect of the Scheme. The responsibilities of the Committee are set out below.

Pensions Committee Remit

The Committee is responsible for monitoring all aspects relating to the investment of the assets of the Scheme and to make changes where appropriate. It will report regularly to the Council including in particular any matters of interest or concern. Their specific responsibilities are as follows:

- 1 The Committee is set up in the Council's Constitution. The Committee's tasks have been delegated to it by the Council, and these are set out in [Part 3 of the Council's Constitution - Responsibility for Functions and Scheme of Delegation](#).
- 2 The Council's Corporate Plan sets out a Corporate Objective of Good Governance and Financial Sustainability with a Strategic Objective to Manage the Isle of Man Local Government Superannuation Scheme for all Isle of Man local authorities supporting the delivery of that Corporate Objective.
- 3 The Committee, which deals with investments and benefits, currently comprises five members of Council (the Mayor is also an ex-officio member). The Chairman of the Committee is appointed by the Council, and the Committee has a quorum of three members. Additionally, the Council has appointed an independent member. Any changes to the membership of the Committee require the approval of the full Council.
- 4 All members of the Committee are expected to have or, for new members, to develop sufficient expertise in investment matters to be able to conduct their delegated responsibilities and to interpret the advice which they receive.
- 5 In order to fulfil their roles, the members of the Committee will be provided with appropriate training, initially and on an ongoing basis. A Training Log is maintained and training needs are identified for incorporation into a plan of training to be delivered. The Committee has a training session during each meeting.
- 6 The Committee is able to take such professional advice as it considers necessary.

- 7 The minutes of the Committee are on the Council's website as part of the [Minutes of Council meetings](#). Formal Briefing Notes are provided to the Members of the Pensions Committee on a quarterly basis on administrative matters and on investment values.
- 8 The Committee agrees annually a Plan of Investment Activity and a Plan of Administration Activity to assist with the efficient and timely review of issues. The Plans for 2019 are included in Appendices 2a and 2b.
- 9 Every year a Pensions Fund Annual Report detailing the finances of the Scheme is published. These are available on the Scheme's website.
- 10 The Committee formally reviews the Scheme's asset allocation periodically, taking account of any change in the profile of Scheme liabilities and funding position and any guidance from employers regarding tolerance of risk. It considers any changes to the strategic asset allocation between broad investment classes (bonds, equities, property, etc.). The Director of Finance is responsible for managing the cash movements necessary to implement the asset allocation strategy including instructing the investment of surplus contributions or realisation of assets if necessary to meet the Scheme's liabilities.
- 11 The Committee considers and monitors the Quarterly Reports produced by the investment managers and by Hymans Robertson LLP. In addition to the managers' portfolio and performance reporting, the Committee also receives and reviews information on risk analysis. The Committee reviews the Scheme's investment strategy regularly.
- 12 The Committee formally reviews on a regular basis the mandates of the managers, and their adherence to their expected investment process and style. This is to ensure that the explicit written mandate of each of the managers is consistent with the Scheme's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale. Section 4 discusses the Committee's performance review processes for the Scheme's main service providers in more detail.
- 13 The Committee considers the need for any changes to the Scheme's investment manager arrangements arising from the annual review (e.g. replacement, addition, termination).
- 14 In the event of a proposed change of managers, the Committee evaluates the credentials of potential managers.
- 15 The Committee considers the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism. The Committee has developed an investment belief on these issues which they have shared with the investment managers. The Committee has delegated responsibility for social, ethical, environmental issues, corporate governance and shareholder activism to the Scheme's investment managers.
- 16 The Committee reviews the Scheme's Additional Voluntary Contribution (AVC)

arrangements.

- 17 The Committee monitors the investment advice from their investment consultant and investment services obtained from other providers at least annually.
- 18 The Committee is responsible for maintenance of the [Statement of Investment Principles \(SIP\)](#) and this best practice document setting out the Scheme's adherence to the best practice principles.
- 19 The Committee has a defined set of investment beliefs and the Scheme's assets are invested in accordance with these beliefs.
- 20 The Committee is responsible for the negotiation of formal agreements with managers and other investment and administration service providers.

Appointed Investment Advisers

The Committee's investment adviser is the Investment Practice of Hymans Robertson LLP. Hymans Robertson LLP was appointed in 1997.

Hymans Robertson aids the Committee in reviewing the investment objective and asset allocation strategy periodically and also advises on the continuing suitability of the investment managers and other pertinent investment-related matters.

Appointed Investment Managers

The Council has appointed three investment managers to make day-to-day investment decisions. Two of these managers manage assets on an active-only basis, whilst the third invests some assets actively and some on an index-tracking basis. Details of their mandates are set out in Section 2.

Appointed Actuarial Advisers

Barnett Waddingham LLP was appointed as fund actuary with effect from April 2019 following a tender exercise.

2 Investment Objective

Principle

Trustees should set out an overall investment objective(s) for the Fund that takes account of its liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Response

Scheme Objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Committee aims to fund the Scheme in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Scheme's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

Basis of Evaluation

The liabilities are calculated on the basis prescribed in the Local Government Superannuation Scheme (Statutory Document SD 0104/12 approved by Tynwald). This funding position is reviewed at each triennial actuarial valuation, or more frequently as required by the Committee.

The key financial assumptions adopted for the March 2016 valuation are shown in Table 2.1:

Table 2.1: Key actuarial assumptions

Financial Assumptions as at 31 March 2016	Nominal % p.a.	Real % p.a.
Gilt Yield	2.2	0.1
Asset Outperformance Assumption	1.8	-
Discount Rate	4.0	1.9
Pay Increases	3.0	0.9
Price Inflation/Pension Increases (CPI)	2.1	-

Full details of the method and assumptions are described in the valuation report dated March 2017. The valuation revealed that the Scheme's assets, which at 31 March 2016

were valued at £62.2 million, were sufficient to meet approximately 82% of the liabilities accrued up to that date on an on-going basis.

The results of the valuation are summarised in Table 2.2:

Table 2.2: Key results of March 2016 valuation

Member type	Liabilities	
	£m	%
Active Members	38	50
Deferred Members	12	16
Pensioners	26	34
Total Liabilities	76	100
Assets	62	

The information in this section has been sourced from the latest Actuarial Valuation of the Scheme which was conducted as at 31 March 2016. The information above provides a brief summary of the position as at 31 March 2016 and is incomplete without reference to, and should be read in conjunction with [the formal Actuarial Valuation Report dated March 2017](#). The next Actuarial Valuation will be completed as at 31 March 2019 and the results of this are expected to be available for publication in early 2020.

Strategic asset allocation

Since August 2013, the Committee has maintained and annually reviewed a set of investment beliefs which are published on the scheme's website. The Committee has translated its investment beliefs and objectives into a suitable strategic asset allocation benchmark for the Scheme. The Scheme benchmark is consistent with the Committee's current views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk. The current Scheme benchmark is shown in the following section. The investment beliefs and strategic asset allocation were last reviewed by the Committee in 2018.

Investment Manager arrangements

The Committee's current investment arrangements are summarised in Table 2.3 below.

Table 2.3: Investment Manager arrangements

Manager	First appointed	Brief	%
Capital International ("Capital")	23/10/12	Absolute Return	20
Canaccord Genuity ("Canaccord")	09/07/14	UK equities, conventional and index-linked gilts, corporate bonds and property	57
Investasure	09/07/14	Global equities	23

Investasure is St James's Place's partner on the Isle of Man.

The three managers are instructed to manage assets to the Scheme's strategic benchmark, which is consistent with the Scheme's overall strategy. The Strategic benchmark, range guidelines and managers' performance targets are shown in Table 2.4. These were effective from May 2017.

Table 2.4: Scheme benchmark, allocation limits and managers' performance targets

Scheme Benchmark					
		Minimum %	Benchmark %	Maximum %	Benchmark and target
UK Equities	Canaccord	14.0	17.0	20.0	Track the Financial Times Stock Exchange (FTSE) All-Share Index
Global Equities	Investasure	20.0	23.0	26.0	Outperform the composite benchmark
Absolute Return	Capital	17.0	20.0	23.0	3-month London Interbank Offered Rate (LIBOR) + 3% p.a.
Property	Canaccord	10.0	12.0	14.0	Outperform the Investment Property Databank (IPD)/Association of Real Estate Funds (AREF) All Balanced Funds Weighted Average
Conventional gilts	Canaccord	7.5	9.5	11.5	Track the Barclays Over 15 Year Gilts Index
Index-linked gilts	Canaccord	8.5	10.5	12.5	Track the Barclays UK Government Inflation-Linked Float Adjusted Bond Index
Corporate bonds	Canaccord	6.0	8.0	10.0	Barclays Sterling Corporate Total Return Value Unhedged GBP Index +1-2% p.a.
Total			100.0		

Cashflow in the Scheme is used to help maintain the Benchmark allocation above. On a quarterly basis, underweight and overweight asset classes are determined in order to evaluate where contributions or disinvestments should be allocated to and from.

In the past, the Scheme has been invested directly with BlackRock. However, in 2016 BlackRock closed their Isle of Man office and therefore are no longer authorised by the Isle of Man Financial Services Authority ("FSA"). As it is a requirement for the Scheme to invest only with firms regulated on the Isle of Man, a manager selection process was undertaken by the Committee in 2016 and BlackRock was replaced by Canaccord (for corporate bonds and property) and Capital (for absolute return).

Alternative Assets

The Committee has considered whether alternative assets are appropriate for the Scheme. In particular, and following discussions with the investment consultant, the Committee has decided the following:

Private Equity

Private Equity is an illiquid, long-term, high risk, high return asset class. The most appropriate approach is to appoint a Fund of Funds investment manager. Fund of Funds tend to require fairly high minimum investments. Given these factors it has been decided not to invest directly in Private Equity at the current time.

Property

Property is also an illiquid, long-term growth asset class with a low correlation to other growth assets. The most appropriate approach is to invest in property unit trusts or pooled funds; these funds often have high bid/offer spreads. Given these factors, it was decided that property was an appropriate asset for the Scheme.

Canaccord is the Committee's appointed property manager and they have recommended an appropriate third party property vehicle.

Currently, the recommended property fund is the BlackRock UK Property Fund, and the Scheme has been invested in it since 2009.

Hedge Funds

Hedge Funds can be more liquid than either Property or Private Equity with risk and return characteristics which are different from traditional equity investments. The most appropriate approach is to appoint a Fund of Funds investment manager. The Committee considered other relevant practical issues such as the fees charged by hedge fund managers, the cost of undertaking a selection exercise and the ongoing burden of managing an additional manager relationship. Taking all these factors into account, the Committee has decided not to invest directly in Hedge Funds at the current time. However, one of the Scheme's managers, Capital International, is allowed to invest up to 15% of their absolute return portfolio in hedge funds.

Currency Management

Currency Management can be used to reduce overall risk, by hedging out the currency risk introduced by holding overseas stocks and shares. It can be extended to allow active currency management to enhance investment returns. Although the Committee does not allow active currency management to enhance returns, the managers are allowed to hedge currency exposure from overseas assets within their portfolios.

The Committee has explored the possibility of hedging the Scheme's foreign currency exposure in the active global equity funds (pooled funds which are not currency hedged), but it was agreed that hedging was not a practical option for the Scheme and therefore was not implemented.

3 Risk and Liabilities

Principle

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities, including longevity risk. The trustees should have policies on their willingness to adopt a mismatch between liabilities and assets, and to accept underperformance due to market conditions. This policy should take into account the strength of the sponsor's covenant and its objectives and willingness to contribute to the Scheme as well as the risk of sponsor default.

Trustees have a responsibility to establish and operate internal controls.

Response

Basis for determining the Scheme's strategic asset allocation

To help set the strategic asset allocation benchmark, the Committee carried out a review of the Scheme's investment strategy in 2017. The Committee considered a detailed asset liability modelling study which reviewed the investment and funding strategy employed by the Scheme. The study implicitly took account of the nature of the Scheme's liabilities by using the cash flows produced from the formal valuation as at March 2016.

The investment strategy review considered a range of alternative funding and investment strategies and tested these against four key principles; Prudence, Affordability, Stability and Stewardship. The review indicated that the improvement in funding level since the last actuarial valuation in 2013 meant that the assets could be invested in a slightly lower risk way whilst still maintaining a good chance of becoming fully funded at the end of the deficit recovery plan. On this basis the Committee agreed to:

1. Reduce the allocation to UK equities by 3%;
2. Reduce the allocation to Global equities by 2%;
3. Increase the allocation to fixed interest gilts by 2.5%; and
4. Increase the allocation to index-linked gilts by 2.5%.

These changes were implemented in June-July 2017.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit (relative to the ongoing funding basis).

Expected rates of return and volatilities

In determining the mix of assets used, the Committee considered the risk and levels of expected real returns from the different assets in which the Scheme invests. The absolute expected returns shown in Table 3.1 below are the 20 year geometric averages and the absolute volatilities quoted are the first year's standard deviations.

All returns shown are net of fees. These figures were supplied by Hymans Robertson LLP, the Scheme’s investment adviser; they have been taken from their quantitative model and based on market data as at 31 December 2018.

Table 3.1: Expected returns and volatilities as at 31 December 2018

Asset class	Absolute	
	Median 20 year return (% p.a.)	1 year return dispersions (%)
UK Equity	5.9	19.0
Overseas Equity	6.0	19.0
Commercial Property	4.5	14.0
Long dated Corporate bonds	1.6	13.0
Long dated Gilts	0.7	13.0
Long dated Index-Linked Gilts	-0.1	9.0

Notes: These returns are calculated using 5,000 simulations of the Hymans Robertson Economic Scenario Service, calibrated using market data as at 31/12/18. All returns are shown net of fees.

Sponsor risk

The ultimate sponsor of the Scheme is the Department of Infrastructure of the Isle Of Man Government. This risk is included in the Risk Register, which is available to employing authorities on the website.

Manager risk

The Committee has considered, and is prepared to tolerate, the potential risks of active manager underperformance associated with their pursuit of outperformance, when combined with index-tracking for some asset classes. The short term volatility of the active managers’ relative performance is addressed by spreading the Scheme’s exposure between a number of different active managers with a variety of different management approaches across asset classes.

Benchmarks and targets are used:

- to evaluate managers’ relative performance;
- to monitor the extent of managers’ deviations from benchmark performance; and

- to specify the limits on managers' asset allocation deviations (specified by the size of the managers' active positions and aggregate tracking error).

The Committee recognises that the pursuit of superior performance through active management also carries the risk of underperformance. However, it believes, and the managers accept, that the range guidelines, where appropriate, will limit risk (relative to benchmark) to a tolerance that the Committee deems acceptable.

Transition of assets

Prior to any changes which involve the movement of a significant proportion of assets the Committee will, in consultation with the Investment Consultant, agree a plan to implement the change. Once the transition is in progress, it will receive regular updates (if the change is implemented over a period of months) and, on completion, receive a report summarising the actions taken. This allows the Committee to assess the position before and after the change has occurred and, where appropriate, the cost of change.

Tracking error and volatility compliance

Although tracking errors have not been formally agreed with the managers, the Committee monitors these on a quarterly basis. This is the difference between the investment return and the benchmark return. The active managers are expected to manage tracking error in accordance with their outperformance targets.

Longevity risk

Longevity risk is reviewed at the same time as an Actuarial Valuation. Given the relatively small risk resulting from improving longevity compared to the risks set out above, together with the fact that hedging this risk is difficult and expensive, the Committee has not carried out any longevity hedging within the assets.

Internal financial control

The systems of internal financial control provide reasonable assurance that assets are safeguarded, transactions are authorised and properly recorded and that material errors or irregularities are either prevented or would be swiftly detected.

4 Performance Assessment

Principle

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and aim to report on this to scheme members.

Response

Assessment of Performance

The Committee assesses the performance of the Scheme's service providers and of the Committee in a variety of ways. The following summarises the approaches currently used:

Investment Managers

The Committee has appointed Canaccord, Investasure and Capital to manage the Scheme's assets.

The Committee receives a report from Hymans Robertson on a quarterly basis to enable them to monitor the performance and activity of their investment managers. The Committee also receives reports from the managers on a quarterly basis. The active managers attend Committee meetings at least twice a year whilst the index-tracking manager attends at least once a year.

To gain a comparable overview of the managers' performance the Committee also receives an annual report from Hymans Robertson LLP comparing the managers against a selected peer group or market index where relevant.

Performance is assessed against the benchmarks and performance targets shown in section 2. Appropriate indices have been set as benchmarks. Performance objectives are set and performance is assessed relative to the indices and the Scheme's composite index benchmark over rolling three year periods.

The Committee also monitors the managers' transaction costs from time to time.

Investment Consultant

The Committee's Investment Consultant is the Investment Practice of Hymans Robertson LLP.

Hymans Robertson aids the Committee in reviewing the investment objectives and asset allocation strategy periodically and also advises on the continuing suitability of the investment managers and other pertinent investment-related matters.

Performance is monitored against key performance indicators. A market testing exercise was undertaken during 2018 in relation to investment consultancy services resulting in the re-appointment of Hymans Robertson.

Actuarial Adviser

Barnett Waddingham LLP was appointed as Fund Actuary with effect from April 2019 following a tender exercise. Their performance is monitored against key performance indicators as appropriate.

Scheme Administrator

Capita is the administrator of the Scheme. Performance is monitored against key performance indicators quarterly. A market testing exercise was undertaken during 2018 in relation to administration services, resulting in the re-appointment of Capita.

Committee decisions and Pensions Staff

A Governance Review was undertaken in 2017 using a Public Service Pension Scheme Self-Assessment published by The Pensions Regulator (TPR). This was completed separately by the Director of Finance, the Assistant Chief Officer (Finance), the scheme's Investment Consultant and by the Scheme's Administration Technical Consultant. These were then reviewed to compile a consolidated scheme response for use in the TPR Self-Assessment tool.

The TPR Self-Assessment tool is programmed to produce results based on the responses given. Two of the 22 questions are not relevant to the IOMLGSS. The IOMLGSS outcomes on the 20 relevant questions were encouraging in that 70% were rated green, 15% amber with just 15% rated red.

Officers worked with the consultants to develop an Action Plan to address the amber and red matters. This Action Plan is presently being implemented.

Appendix 4 lists governance activities undertaken since 2009.

Strategic Benchmark

In consultation with the Investment Consultant and Fund Actuary the Committee formally considers on a regular basis the performance of the overall Scheme benchmark relative to changes in the value of the liabilities. Changes to the strategic benchmark are made as required, taking into account these considerations.

Significant Changes

As a result of the regular consideration of investment strategy, changes to the Scheme benchmark in the recent past have been 'evolutionary' rather than large 'step changes'.

During 2006, BlackRock was involved in a merger. Merrill Lynch Investment Managers, who was the Scheme's investment manager, merged with BlackRock Limited and assumed the BlackRock name. As a result of the merger there was a change in the individual appointed to manage the Scheme's assets.

In late 2007, BlackRock proposed a further change which transferred overall responsibility for the mandate to the BlackRock Multi-Asset Portfolio Strategies (MAPS) Group, with the Group taking responsibility for overseas equities, property and asset allocation decisions. The Committee undertook a thorough review of the proposed revisions to the investment arrangements and agreed to the proposed approach.

In 2012, following a tender exercise, Capital was appointed as an additional manager for the purpose of managing an absolute return mandate.

In 2014, following two tender exercises, Canaccord and Investasure were appointed as additional managers for the purpose of managing global equities, UK equities and gilts. Capital was retained for managing the existing absolute return mandate, whilst BlackRock was retained for the management of property and corporate bonds. BlackRock’s mandate was also expanded to include a second absolute return mandate.

In 2016 when BlackRock closed their office on the Isle of Man, a further tender exercise was carried out. As a result of this review Canaccord’s mandate was expanded to include corporate bonds and property, whilst the allocation to Capital’s absolute return mandate was doubled in order to replace the BlackRock allocation.

In 2017, in conjunction with the triennial actuarial valuation and investment strategy review, the Committee implemented a modest level of de-risking by switching 5% of total assets from equities to gilts.

The Committee continues to monitor the revised arrangements.

There has been no change to the other service providers.

Custody

Custody services are provided in conjunction with the investment management arrangements. Canaccord and Investasure segregate clients’ assets from their own. The Scheme’s investments with them are mainly via pooled funds. Therefore, the Scheme does not have direct relationships with these managers’ custodians. Canaccord’s custodian is Forest Nominees and Investasure’s is State Street Global Advisors. Capital invests in a mix of third party pooled funds and direct holdings, and their custodian is Capital International Nominees Limited. The Scheme has previously had a direct relationship with BNP Paribas Securities Services SA Isle of Man Branch, who acts as global custodian for the Scheme for funds managed by BlackRock, but this was terminated at the same time as the direct BlackRock relationship, as they were no longer required.

AVC Provider

There is a legal requirement for the Scheme to provide an AVC arrangement to members. There is limited choice on the Island and the Committee has endeavoured to make a suitable AVC contract available. Details are given in Table 4.1.

Table 4.1: AVC arrangements

Provider	Investment Choice	Current or Closed
AVIVA (previously known as Norwich Union)	With profits	Current from 2003

The with-profits vehicle is designed to provide smoothed medium to long term growth by investing in a range of assets including equities, bonds and property. The investment returns are distributed by way of reversionary and terminal bonuses.

The objective of the with-profits policies is to provide returns on members' contributions which at least keep pace with inflation.

Reviews

The Committee carried out formal market testing of the Investment Consultant, Administrator and Fund Actuary in 2018.

5 Responsible Ownership

Principle

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Response

The Committee has considered the following issues:

Socially Responsible Investment: The Committee has considered environmental, social and governance (ESG) issues in the context of the Scheme's investment strategy. A series of policies has been developed that have been shared with the investment managers for taking into account in their portfolios where possible. The Committee will monitor the managers in respect of these policies and continue developing its ESG policy to ensure it reflects latest industry developments and regulations. The Committee will review compliance every year.

Corporate Governance: The Committee encourages the investment managers to exercise voting rights on shares directly owned by the Scheme and within the pooled equity funds in which the Scheme invests.

Engagement and activism: In general, the Scheme's managers do not intervene in companies, except in unusual circumstances, and then generally as part of an investment industry grouping. The Committee accepts that it is not in the economic interests of the Scheme for its managers to intervene more generally.

Institutional Shareholders Committee (ISC) Statement of Principles: The managers incorporate the guidelines set out in the ISC Statement of Principles within their Corporate Governance policy.

6 Transparency and Reporting

Principle

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.

Trustees should provide regular communication to members in the form they consider most appropriate.

Response

Each of the points in the sixth Principle is addressed within this document, which is made available to Scheme members on the Scheme's website, together with other relevant documents mentioned elsewhere in this document.

The Committee has decided to split the contents of the Statement of Investment Principles (SIP) into two distinct sections:

- the formal SIP covering the regulatory requirements; and
- this document, which encompasses all of the additional information recommended by Myners.

This reflects the fact that the SIP is a statutory requirement of the Pension Act (1995) whereas the six principles included in this document form a voluntary code of good conduct. The Committee believes that, collectively, these principles represent best practice and has set out in this document how they have interpreted these principles and put them into practice.

The Committee will maintain the SIP and this Governance Statement including Adherence to Best Practice Document and keep them under review to ensure that they continue to reflect current practice. The Committee has also put in place a Risk Register to help identify and monitor the main risks which the Scheme faces.

This document, when read in conjunction with the SIP and Risk Register, sets out the following information:

- the nature of the investment decision making within the Scheme (Section 1);
- the Scheme's investment objective (Section 2);
- the Scheme's planned asset allocation (Section 2);
- the mandates given to the Scheme's managers (section 2);
- some of the potential risks which the Scheme faces - risk register (Section 3).

Communication with Scheme members

[A guide to the Isle of Man Local Government Superannuation Scheme](#) is a key communications document for Scheme members. However, the Committee has also developed a member communication strategy with the Scheme administrators, Capita. The Committee has published the communication strategy together with items such as the Pension Fund Annual Report, Statement of Investment Principles, Investment Beliefs and this document on the Scheme's website.

Appendix 1: Version Control Record

Table 1 records all changes to this document.

Table 1: Table of Amendments

Version	Document Name	Changes
2002 V2	020802 mynersadherence.doc	Initial Creation
2002 V2	030207 mynersadherence.doc	Section 4 and 5 updated.
2003 V3	030512 mynersadherence.doc	Section 2 and 3 updated.
2003 V4	031105 mynersadherence v4.doc	Sections 6, 7, 8, 10 and 11 updated.
2004 V5	040108 mynersadherence v5.doc	Final Version
2005 V6	050713 mynersadherence v6.doc	Sections 3, 4, 5, 6, 7 and Appendices 2, 3, 4 and 6 updated
2006 V7	061213 best practice document.doc	SoIP moved to a separate document. Minor changes to Sections 3, 4, 5, 6, 7, 8 10
2007 V8	070511 best practice document.doc	Appendices 6, 7 and 8 updated to BlackRock approach
2007 V9	070817 best practice document.doc	Sections 4, 5, 7, 8, 10 and Appendices 2, 3 and 5 revised.
2009 V10	090505 Best practice document V10.docx	Sections 3, 4, 5, 6, 7, 9 and 10 updated. Appendices updated.
2010 V11	100712 ADHERENCE TO BEST PRACTICE DOCUMENT (FINAL VERSION 11 JUNE 2010).DOC	Overhaul of document: moved to 6 principles
2011 V12	110428 ADHERENCE TO BEST PRACTICE DOCUMENT (FINAL VERSION MAY 2011).DOC	Annual review and update taking into account 2010 valuation and updated investment strategy
2013 V13	130412 Governance Statement April 2013	Annual review and update taking into account updated investment strategy. Conversion of document to Governance Statement including Adherence to Best Practice.

2015 V14	151012 Governance Statement October 2015	Annual review and update taking into account updated investment structure and 2013 valuation.
2018 V15	290318 Governance Statement April 2018	Annual review and update taking into account 2016 valuation and manager changes.
2019 V16	Governance Statement April 2019	Review and update reflecting the Scheme's new website, updates following market testing of service providers, constitutional responsibility.

Appendix 2A: Plan of Investment Activity 2019

February 2019

		Owner/Leader
1	Training: <ul style="list-style-type: none"> Active and passive investment management 	Hymans Robertson
2	Review of global equities (stage two)	Hymans Robertson
3	Manager reporting (Q4 2018): <ul style="list-style-type: none"> Quarterly review of investment managers' performance (Hymans Robertson) Presentation from Capital (absolute return) Presentation from Canaccord (active funds - bonds and property) 	Hymans Robertson/Capital/Canaccord
4	Annual rebalancing of assets	Assistant Chief Officer (Finance)

May 2019

		Owner/Leader
1	Training: <ul style="list-style-type: none"> Responsible investment and changes to regulations 	Hymans Robertson
2	Update on implementation of global equity review (if relevant)	Hymans Robertson
3	Manager reporting (Q1 2019): <ul style="list-style-type: none"> Quarterly review of investment managers' performance (Hymans Robertson) Presentation from global equity manager (currently Investasure) 	Hymans Robertson/Investasure
4	Update of Investment Beliefs and structural investment decisions	Hymans Robertson
5	Review of Statement of Investment Principles and Governance Statement	Hymans Robertson

September 2019

		Owner/Leader
1	Training: <ul style="list-style-type: none"> Reviewing of investments 	Hymans Robertson
2	Preliminary results of 2019 actuarial valuation (subject to them being ready)	Barnett Waddingham
3	Investment strategy review (stage one)	Hymans Robertson
4	Manager reporting (Q2 2019): <ul style="list-style-type: none"> Quarterly review of investment managers' performance (Hymans Robertson) Presentation from Capital (absolute return) Presentation from Canaccord (active and index-tracking funds) 	Hymans Robertson/Capital/Canaccord
5	Review of managers' Responsible Investing policies	Royal London/St James's Place/Capital

November 2019

		Owner/Leader
1	Training: <ul style="list-style-type: none"> Capital markets and economic cycles 	Hymans Robertson
2	2019 actuarial valuation update (if required)	Barnett Waddingham
3	Investment strategy review (stage two)	Hymans Robertson
4	Annual review of investment managers	Hymans Robertson
5	Manager reporting (Q3 2019): <ul style="list-style-type: none"> Review of investment managers' performance (Hymans Robertson) Presentation from Investasure (global equity) 	Hymans Robertson/Investasure
6	Review Plan of Activities and meeting dates for 2020	Hymans Robertson / Director of Finance
7	Revenue estimate for 2019/20	Director of Finance

Appendix 2B: Plan of Administration Activity 2019

March 2019 – Pensions Committee

		Owner/Leader
1	Training: <ul style="list-style-type: none"> ✓ Eligible Employers ✓ Admitted Bodies ✓ Contributions ✓ Benefits 	Capita
2	Superannuation Scheme Performance Monitoring	Assistant Chief Officer (Finance)
3	Annual review: <ul style="list-style-type: none"> ✓ Risk Register 	Director of Finance/Capita

October 2019 – Pensions Committee

		Owner/Leader
1	Training: <ul style="list-style-type: none"> ✓ Member eligibility, pay and contributions ✓ Final Pay calculations ✓ Employer Discretionary Policy 	Capita
2	Superannuation Scheme Performance Monitoring	Assistant Chief Officer (Finance)
3	Review mandatory requirement: <ul style="list-style-type: none"> ✓ Pension Fund Annual Report 	Assistant Chief Officer (Finance)
4	Policy Review <ul style="list-style-type: none"> ✓ Administering Authority Discretionary Policy 	Capita / Assistant Chief Officer (Finance)

Appendix 3: Governance activities undertaken since August 2009

Quarterly activity

- Training for the Committee in relation to investment or Administration topics.

Annual activity

- Election of Vice Chair
- Review and update to the Statement of Investment Principles (Annual review until 2018. Triennial review thereafter unless there are significant circumstances that warrant an update.)
- Review and approval of Pensions Fund Annual Report
- Review of investment managers' performance
- Plan Activities for the year ahead
- Review of the Adherence to Best Practice document
- Review and update of the risk register
- Review of the Superannuation Scheme Service Plan
- Approval of the revenue estimates
- Review of Committee's training requirements
- Review of the need to rebalance investments to the strategic asset allocation

Bi-annual activity

- Council as Administering Authority elect Chair and consider membership of the Pensions Committee
- Council appoint Independent Member to serve on the Pensions Committee
- A Superannuation Scheme Service Plan is prepared to help plan the facilitate progress monitoring

Three yearly activity

- Actuarial valuation of the Fund, including the stabilisation approach to be taken and the contribution rate to apply
- Update to the Funding Strategy Statement
- Asset / Liability modelling alongside the triennial Valuation
- Review of the Contribution Strategy
- Review and update to the Statement of Investment Principles

Periodic activity

- Review of benchmarks
- Review of the investment structure
- Appointment of Person for Internal Dispute Resolution Procedure

- Revision of investment management agreements
- Review of the policies set by the Committee
- Appointment of Person for stage 2 of Internal Dispute Resolution Procedure
- Implementation of Superannuation regulations including improved governance requirements
- Review and monitoring of investment beliefs
- Approval of the Independent Registered Medical Practitioner for the Scheme
- Selection of index-tracking and active investment managers
- Consideration of responsible investment
- Review of changes to the Regulations
- Review of best practice
- Completion of TPR Public Service Pension Scheme Self-Assessment governance review

Internal governance review

The above list of governance activities recently carried out were recorded by the Pensions Committee in summary, and it was agreed that they would be included in the Best Practice document on the Scheme's website.