

Isle Of Man Local Government Superannuation Scheme

Governance Statement including Adherence to Best Practice
October 2015

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

Version 14. October 2015

Contents

	PAGE
Statement of Compliance with Best Practice Principles	
Governance Statement including Adherence to Best Practice	1
1 Effective decision making	2
2 Investment objective	5
3 Risk and liabilities	9
4 Performance assessment	12
5 Responsible ownership	15
6 Transparency and reporting	16
Appendices	
Appendix 1: Version Control Record	17
Appendix 2a: Plan of Investment Activity 2015	18
Appendix 2b: Plan of Administration Activity 2015	19
Appendix 3: Quarterly performance monitoring to 31/06/15	20
Appendix 4: Governance activities undertaken since August 2009	22

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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 Douglas Borough Council (“the Council”) website 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.

Prepared by:

Mark Freeman, Senior Investment Consultant

October 2015

For and on behalf of Hymans Robertson LLP

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 priorities and action plan for the Scheme is set out in the [Corporate Plan Pages 11 and 19](#).
- 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. It will commission such training as it considers necessary or appropriate. 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.
- 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 2015 are included in Appendices 2a and 2b.
- 9 Every year a Pensions Fund Annual Report detailing the finances of the Scheme is published. Here is the [2014 Pension Fund Annual Report](#).

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- 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, cash, etc.). The Director of Finance is responsible for managing the cash movements necessary to implement the asset allocation strategy including instructing the 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 from the managers on risk analysis, transaction costs and details of corporate governance (including socially responsible investment (SRI), voting activity and engagement with management). The Committee devotes two meetings each year to reviewing future investment opportunities and the Scheme's investment strategy.
- 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) and make recommendations to the Council.
- 14 In the event of a proposed change of managers, the Committee evaluates the credentials of potential managers. It makes recommendations to the Council in respect of any change of managers.
- 15 The Committee considers the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism. It is empowered to delegate responsibility for SRI, corporate governance and shareholder activism to the Scheme's fund managers, in line with the Council's policies.
- 16 The Committee reviews the Scheme's Additional Voluntary Contribution (AVC) arrangements regularly. It makes recommendations to the Council in respect of any change of AVC providers.
- 17 The Committee monitors the investment advice from their investment consultant and investment services obtained from other providers at least annually. It makes recommendations to the Council in relation to changes to the providers which they propose.
- 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 conducts and concludes the negotiation of formal agreements with managers and other investment service providers.

Appointed Investment and Actuarial Advisers

The Committee's investment adviser is the Investment Practice of Hymans Robertson LLP. Hymans Robertson LLP was appointed in 1997. Hymans Robertson LLP also acts as long standing actuary to the Scheme.

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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.

At the time of appointment of advisers, the Committee did not compete tenders for actuarial and investment advice separately.

Appointed Investment Managers

The Council has appointed four investment managers to make day-to-day investment decisions. Three of these managers manage assets on an active basis, one on an index-tracking basis, and details of their mandates are set out in Section 2.

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 2013 valuation are shown in Table 2.1:

Table 2.1: Key actuarial assumptions

Financial Assumptions as at 31 March 2013	Nominal % p.a.	Real % p.a.
Gilt Yield	4.6	2.1
Asset Outperformance Assumption	1.6	-
Discount Rate	4.6	2.1
Pay Increases	3.8	1.3
Price Inflation/Pension Increases (CPI)	2.5	-

Full details of the method and assumptions are described in the valuation report dated March 2014. The valuation revealed that the Scheme's assets, which at 31 March 2013 were valued at £50.3 million, were sufficient to meet approximately 72% of the liabilities accrued up to that date on an ongoing basis.

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The results of the valuation are summarised in Table 2.2:

Table 2.2: Key results of March 2013 valuation

Liabilities as at 31 March 2010	Liabilities	
	£m	%
Active Members	40.5	57.8
Deferred Members	10.2	14.6
Pensioners	19.4	27.6
Total Liabilities	70.1	100.0
Assets	50.3	

The information in this section has been sourced from the latest Actuarial Valuation of the Scheme which was conducted as at 31 March 2013. The information above provides a brief summary of the position as at 31 March 2013 and is incomplete without reference to, and should be read in conjunction with [the formal Actuarial Valuation Report dated March 2014](#). The next Actuarial Valuation will be completed as at 31 March 2016 and the results of this are expected to be available later in 2016.

Strategic asset allocation

In August 2013 the Committee discussed and agreed [six investment beliefs](#). During 2014, the Committee carried out an investment review and translated its objectives and investment beliefs into a suitable strategic asset allocation benchmark for the Scheme. The Scheme benchmark is consistent with the Committee's 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. A further review will be carried out alongside the 31 March 2016 Actuarial Valuation.

Investment manager arrangements

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

Table 2.3: Investment manager arrangements

Manager	First appointed	Brief	%
BlackRock (Isle of Man) Limited ("BlackRock")	01/01/98	Corporate bonds, absolute return and property	30.0
Capital International ("Capital")	23/10/12	Absolute Return	10.0
Canaccord Genuity ("Canaccord")	09/07/14	UK equities, conventional and index-linked gilts	35
Investasure	09/07/14	Global equities	25

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

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The four 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 1 October 2015.

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

Scheme Benchmark					
		Minimum %	Benchmark %	Maximum %	Benchmark and target
UK Equities	Canaccord	17.0	20.0	23.0	Track the FTSE All-Share Index
Global Equities	Investasure	22.0	25.0	28.0	Outperform the composite benchmark
Absolute Return	BlackRock	17.0	10.0	23.0	3-month LIBOR + 3% p.a.
	Capital		10.0		
Property	BlackRock	10.0	12.0	14.0	Outperform the IPD/AREF All Balanced Funds Weighted Average
Conventional gilts	Canaccord	5.0	7.0	9.0	Track the Over 15 Year Gilts Index
Index-linked gilts	Canaccord	6.0	8.0	10.0	Track the Over 5 Year Index-Linked Gilts Index
Corporate bonds	BlackRock	6.0	8.0	10.0	iBoxx Sterling Non-Gilts Index +1% 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.

Alternative Assets

The Committee has considered whether alternative assets are appropriate for the Scheme. In particular, and following discussions with the investments advisor, 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 asset class. The most appropriate approach is to invest in property unit trusts or pooled funds; these funds often have high bid/offer spreads. BlackRock has an appropriate property vehicle with a low required minimum investment. Given these factors, it was decided that property was an appropriate asset for the Scheme.

In February 2009, the Committee took the decision that any investment in property should be via the BlackRock UK Property Fund unless otherwise agreed by the Committee.

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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.

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 and structure during 2013/14. 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 2013.

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 broad conclusion was that the Committee was comfortable with the level of risk inherent within the current investment strategy. The Committee also carried out a more detailed structure review, in order to help achieve the desired investment strategy. Following this review, the Committee agreed to:

1. Invest UK equities, conventional gilts and index-linked gilts on an index-tracking basis rather than active, and to appoint Canaccord for this role;
2. Invest global equities on an active basis and to appoint Investasure for this role;
3. Retain BlackRock for the active management of property and corporate bonds;
4. Retain Capital for the active management of the current absolute return mandate;
5. Also appoint BlackRock to actively manage a second absolute return mandate.

These changes were in line with the Committee's published investment beliefs. Overall, the new structure is a more efficient and cost effective way of managing assets compared with the previous structure.

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 March 2013, at the time that the modelling work was carried out. These will be updated alongside the 2016 Actuarial Valuation.

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Table 3.1: Expected returns and volatilities used in setting objectives as at 31 March 2013

	Absolute	
	Expected return (%)	Volatility (% p.a.)
UK Equity	6.7	17
Overseas Equity	6.4	20
Commercial Property	4.7	15
Corporate bonds	4.0	14
Gilts	3.2	12
Long dated Index Linked Gilts	2.0	8

Sponsor risk

The ultimate sponsor of the Scheme is the Isle Of Man Government. The sponsor risk is deemed to be low and is not frequently monitored. This risk is included in the Risk Register for Employing Authorities, which is available 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 the 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 advisors, 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.

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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 BlackRock, 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.

A summary of the performance of the Scheme to 30 June 2015 is included in Appendix 3.

Investment and Actuarial Advisers

The Committee's investment adviser is the Investment Practice of Hymans Robertson LLP. Hymans Robertson LLP also acts as actuary to the Scheme.

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.

At the time of appointment of advisers, the Committee did not compete tenders for actuarial and investment advice separately.

The Committee assesses the quality of the advice which it receives from its investment advisor and other service providers.

Scheme Administrator

Capita is the administrator of the Scheme. The Committee reviews the quality of Capita's service periodically, using a similar review process as for the Scheme's actuarial and investment advisors.

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Committee Decisions and Pensions Staff

The Committee is currently reconsidering its process for assessing its own procedures and the quality of its decision making, and the performance of the pension staff at Douglas Borough Council's Finance Department in their role of day-to-day management of the Scheme's affairs.

Appendix 4 lists governance activities undertaken since 2009.

Strategic Benchmark

In consultation with the Scheme 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.

The Committee continues to monitor the revised arrangements.

There has been no change to the other service providers. The Committee will put in place a process for assessing these types of changes before they take place.

Custody

Custody services are provided in conjunction with the investment management arrangements. The Scheme's investments with Canaccord and Investasure are 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 also has 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. This appointment is reviewed periodically.

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.

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Table 4.1: AVC arrangements

Provider	Investment Choice	Current or Closed
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 will be carrying out formal market testing of all of the key service providers in the following order of priority: Investment Consultant, Administrator and Scheme Actuary.

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 follow issues:

Socially Responsible Investment: The Committee has considered social, environmental and ethical issues in the context of the Scheme's investment strategy. The managers produce statements setting out their policies on these issues. The Committee has reviewed the managers' policy statements and considers them consistent with the manager's investment and performance objectives in relation to the assets they manage for the Scheme. The managers will act at all times in the best financial interests of the Scheme by seeking to protect and enhance the long term value of the Scheme's shareholdings.

Corporate Governance: The Committee does not exercise the voting rights on shares directly owned by the Scheme (i.e. in Capital's portfolio and the manager does not vote on any direct investments on behalf of the Scheme). Within the pooled equity funds in which the Scheme invests, voting is delegated to the pooled fund manager.

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 Douglas Borough Council 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;
- this document, which encompasses all of the additional information proposed 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 and this document on the Douglas Borough Council 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.

Appendix 2a: Plan of Investment Activity 2016

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PLAN OF INVESTMENT ACTIVITY 2016

INTRODUCTION

The Committee has agreed to implement an annual Plan of Investment Activity to assist with the efficient and timely review of relevant issues. This note provides a draft Plan of business for the Pension Committee for 2016. The Plan places most emphasis on 2 factors, strategic issues and monitoring the revised investment structure. At each meeting the Committee should consider its decisions in the context of the Statement of Investment Principles and communication to members in general.

MANAGER PRESENTATIONS

The Committee has previously agreed to receive presentations from the investment managers at meetings as follows:

- Active managers twice per annum;
- Index-tracking manager once per annum.

We have based the managers' attendance at meetings for 2016 on this schedule.

Managers' meeting attendance during 2016

Manager	Manager style	February	May	September	November
BlackRock	Active	✓		✓	
Capital	Active		✓		✓
Investasure	Active	✓		✓	
Canaccord	Index-tracking				✓

TRAINING ACTIVITIES

We have continued to include a training topic at each meeting. Given that the Scheme is now invested with four managers, we propose that some of this training is conducted by the managers and based on the specific assets managed by the managers, in order to be relevant to the Scheme.

VISIT TO ST JAMES'S PLACE'S HEAD OFFICE - CIRENCESTER

It is proposed that the September Committee meeting will be held at St James's Place's head offices in Cirencester. A visit to their offices will provide Committee Members with the opportunity to become more familiar with the manager's overall business, size, capabilities etc. and would include being able to meet with more specialist staff than otherwise would be available on-Island. Their offices are easily accessible via Gloucestershire Airport where direct flights are available from Ronaldsway.

SUMMARY

The Plan of Investment Activities provides the Committee with a "working" agenda that incorporates the issues for annual review. We recommend the Committee adopts the Plan of Investment Activity 2016.

We look forward to discussing this note and recommendations on 25 November.

Prepared by:-

Mark Freeman, Senior Investment Consultant, October 2015, for and on behalf of Hymans Robertson LLP

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PLAN OF INVESTMENT ACTIVITY 2016

February 2016 - Monitoring

		Owner/Leader
1	Training: Investing for Growth, Income and Protection	Hymans Robertson
2	Market reporting (Q4 2015): <ul style="list-style-type: none"> Capital Markets Service 	Hymans Robertson
3	Annual review of investment managers - BlackRock and Capital	Hymans Robertson
4	Manager reporting (Q4 2015): <ul style="list-style-type: none"> Review of investment managers' performance (Hymans Robertson) Presentation from BlackRock Presentation from Investasure 	Hymans Robertson/ BlackRock/Investasure

May 2016 - Monitoring

		Owner/Leader
1	Training: <ul style="list-style-type: none"> Introductory training for new Committee Members (if required) Triennial actuarial valuation (31 March 2016) – Scheme Actuary 	Hymans Robertson/Borough Treasurer
2	Market reporting (Q1 2016): <ul style="list-style-type: none"> Capital Markets Service 	Hymans Robertson
3	Manager reporting (Q1 2016): <ul style="list-style-type: none"> Review of investment managers' performance (Hymans Robertson) Presentation from Capital 	Hymans Robertson/ Capital
4	Update of Investment Beliefs and investment decisions	Hymans Robertson

Additional actuarial valuation training is planned to be carried out with the Administering Authority and Employing Authorities after the May Committee meeting.

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September 2016 – Strategic – planned visit to St James's Place's offices in Cirencester

		Owner/Leader
1	Investment quiz	Hymans Robertson
2	Training: Characteristics and features of the underlying managers in the St James's Place/Investasure global equity portfolio	St James's Place/Investasure
3	Market reporting (Q2 2016): <ul style="list-style-type: none"> Capital Markets Service Investment ideas 	Hymans Robertson
4	Manager reporting (Q2 2016): <ul style="list-style-type: none"> Review of investment managers' performance (Hymans Robertson) Presentation from Investasure Presentation from BlackRock: <ol style="list-style-type: none"> Property Corporate bonds Absolute return fund 	Hymans Robertson/ BlackRock/St James's Place/Investasure
5	Funding Strategy Statement	Hymans Robertson

November 2016 - Monitoring

		Owner/Leader
1	Training: Review of what is working well in the revised structure and what could be improved	Hymans Robertson
2	Discussion of results of triennial valuation (31 March 2016) and investment strategy review	Hymans Robertson
3	Market reporting (Q3 2016): <ul style="list-style-type: none"> Capital Markets Service 	Hymans Robertson
4	Manager reporting (Q3 2016): <ul style="list-style-type: none"> Review of investment managers' performance (Hymans Robertson) Presentation from Capital Presentation from Canaccord 	Hymans Robertson/ Capital/Canaccord
5	Review Plan of Activities and meeting dates for following year	Hymans Robertson / Borough Treasurer
6	Revenue estimate for 2017/18	Borough Treasurer

Appendix 2b: Plan of Administration Activity 2016

CAPITA



Isle of Man Local Government Superannuation Scheme 2012

Plan of Administration Activities 2016

17 November 2016

Prepared for Borough of Douglas by Capita – Version 2.1

CAPITA

Prepared by:

Martyn Slaughter DipPMI | Technical Consultant (LGPS)

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CAPITA

1. Introduction

The Committee has agreed to implement an annual Plan of Administration activities to assist with the efficient and timely review of relevant issues. This note provides a draft plan of business for the Pensions Committee for 2016.

At each meeting the Pensions Committee should consider its decisions in the context of its obligations under both the regulations and all stakeholders.

The Plan provides the Pensions Committee with a 'working agenda' that incorporates issues for annual review.

CAPITA

2. Plan of Administration Activity 2016

23 March 2016 – Pensions Committee

Owner/Leader		
1	Training: ✓ Early payment of pension (administering authority's role in exercising an employer discretion)	Capita
2	Annual review: ✓ Risk Register	Borough Treasurer/Capita
3	Update: ✓ Scheme Actuarial Guidance ✓ Policy for employers approaching cessation ✓ Required changes/amendments to the LGSS 2012 ✓ Membership of the Public Service Transfer Club	Borough Treasurer/Capita
4	Review of Administering Authority's discretionary policies	Borough Treasurer/Capita
5	Review of current pensions investment consultant	Borough Treasurer

October 2016 – Pensions Committee

Owner/Leader		
1	Training: ✓ Overview of the Scheme (refresher)	Capita
2	Review mandatory requirement: ✓ Pension Fund Annual Report	Borough Treasurer
3	Update: ✓ Scheme Actuarial Guidance ✓ Progress on required changes/amendments to the LGSS 2012	Borough Treasurer/Capita
4	Review of benefit structure	Borough Treasurer/Capita

Note – following the local elections in May 2016, Capita will be delivering training to the administering and employing authorities (date to be agreed).

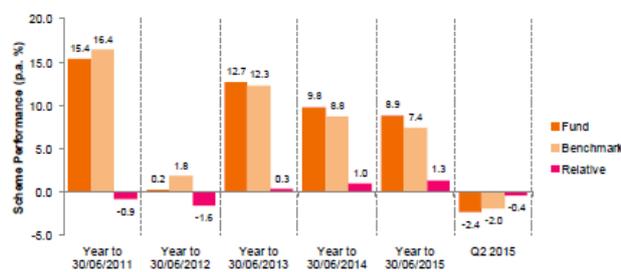
Appendix 3: Quarterly performance monitoring to 31/06/15

Portfolio Summary

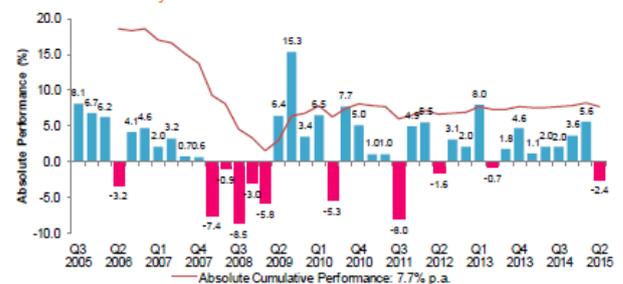
Valuation Summary ^[1]

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2015	Q2 2015			
UK Equity	12.9	13.1	21.7	24.0	-2.3
International Equity	23.5	21.1	34.9	31.0	3.9
Bonds	10.2	10.1	16.7	23.0	-6.3
Property	7.0	7.1	11.8	12.0	-0.2
Absolute Return Funds	6.8	6.8	11.2	10.0	1.2
Cash	1.6	2.3	3.8	0.0	3.8
Total Client	62.0	60.5	100.0	100.0	

Performance Summary (Gross of Fees) ^[2]



Absolute Quarterly and Annualised Cumulative Performance ^[3]



Source: [1] Fund Manager, [2] Hymans Robertson, [3] Hymans Robertson

BlackRock Overview

Corporate Bonds and Property

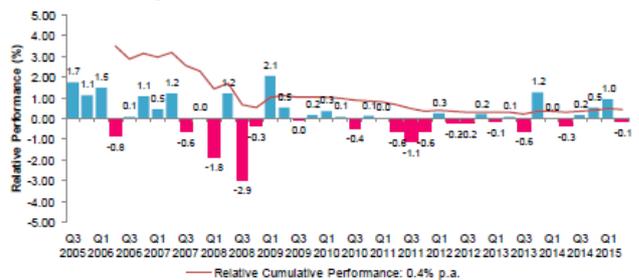


We continue to support Blackrock for their Corporate Bond and Property portfolios. However we feel that there are better alternative managers for UK equity, overseas equity and gilts. Our rating for these asset classes are as follows:

UK Equity, Overseas Equity and Gilts



Relative Quarterly and Relative Cumulative Performance ^[4]



Performance Comments

The BlackRock mandate marginally underperformed the benchmark over the quarter with a negative absolute return of -2.4% compared to the benchmark return of -2.3%. It remains ahead of benchmark over one and three years and marginally behind over a five year period.

Performance Summary ^{[1][2]}

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-2.4	9.5	10.7	9.4
Benchmark	-2.3	7.8	10.0	9.5
Relative	-0.1	1.6	0.7	-0.1

3 Year Relative Return

Actual % p.a.	Target % p.a.
0.7	0.7

3 Year Tracking Error

Actual % p.a.	Target % p.a.
1.0	1.5 - 4.0

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Capital International Overview

Business Comments

Although Hymans do not have a central rating for Capital International, the work we carry out on behalf of the Borough of Douglas allows us to monitor the manager.

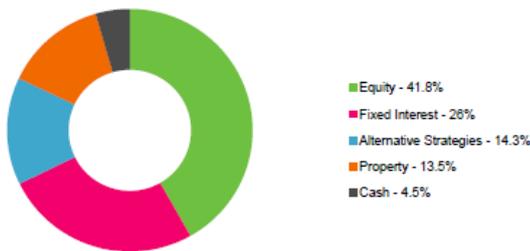
There have been no material changes to the investment philosophy, process or team over the quarter. As such we continue to support Capital for the management of this mandate.

Performance Summary [1] [2]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-2.4	3.4	7.6
Benchmark	0.9	3.5	3.5
Relative	-3.2	-0.1	3.9

* Inception date 31 Oct 2012.

Fund Holdings as at 30 June 2015



Performance Comments

The Fund returned -2.4% over the quarter some way short of the target return of 0.9%. Over a 12 month period the Fund has provided a positive absolute return, although trails the target return marginally. Since the inception date the Fund has produced strong returns comfortably outperforming the target return. It should be noted that while the fund had a negative return over the quarter, it outperformed both global equity and UK fixed income indices.

The key drivers for the negative performance was the allocation to equities, in particular European equities, and also fixed income assets. Exposure to property and alternative strategies fared better and limited overall portfolio losses. The Fund's asset allocation remains broadly similar to the previous quarter.

The Manager believes global economic growth is on a reasonable footing; the situation in Greece is creating a short term uncertainty in Europe but considerable fear has now been priced into European equities and there is scope EU and UK equities to rally.

For fixed income assets the Manager believes risks are clearly emerging in the asset class, as investor's position ahead of US interest rate rises. There is a danger that the US and UK Central Banks fall behind the curve and are too slow in reversing QE. However, Central Bank actions will remain firmly driven by economic data and investors need to watch this closely.

[1] Capital International was appointed on 23 October 2012.

Source: [1] Fund Manager, Hymans Robertson

Appendix 4: 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
- Review and approval of Pensions Fund Annual Report
- Review of Investment Manager Performance
- Plan Activities for the year ahead
- Review of the Adherence to Best Practice document
- Review and update of the risk register relating to the Isle of Man Local Government Superannuation Scheme
- Review of the Corporate Plan action plan for Pensions Committee
- Approval of the Revenue Estimates

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

Three yearly activity

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

Periodic activity

- Review of Benchmarks
- Review of the Investment Structure
- Appointment of Person for Internal Dispute Resolution Procedure
- Revision of Discretionary 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
- Adoption of investment beliefs
- Approval of the Independent Registered Medical Practitioner for the Scheme
- Selection of Index Tracking, absolute return and active fund Managers

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- Review of best practice

Internal governance review

The Committee have for some time been considering how to undertake a review by an independent organisation, and at a price that is reasonable for the size of the Scheme. Having considered and not accepted a number of options, there is an item on activities for 2016 for “Consideration of a Review including Governance”. To ensure that Scheme members and employers can see that governance work is being undertaken, 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 Douglas Borough Council website.