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NORTH EAST SCOTLAND PENSION FUNDS – GOVERNANCE POLICY STATEMENT

This statement documents the governance arrangements for the pension schemes administered by Aberdeen City Council. It was agreed by the Pensions Panel on 5 March 2012 and complies with guidance issued by Scottish Ministers.

1. Regulatory Framework

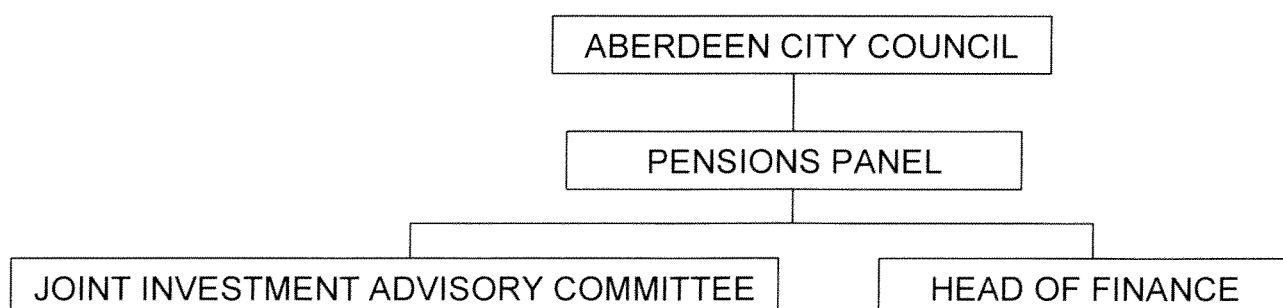
1.1 The North East Scotland Pension Fund (The Main Fund) and the Transport Fund are administered by Aberdeen City within the Local Government Pension Scheme regulations. The scheme was established under the Superannuation Fund Act 1972, is a statutory scheme. The scheme is open to all employees of scheduled bodies except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire, and Teachers). Employees of admitted bodies can join the scheme subject to their individual admission criteria which are out with the control of Aberdeen City Council.

1.2 There are 13 scheduled bodies:

Aberdeen City Council	Aberdeenshire Council	The Moray Council
Scottish Water	Grampian Valuation Joint Board	
Grampian Fire (non uniform)	Grampian Police (non uniform)	Northern Community Justice Authority
Aberdeen College	Banff and Buchan College	Moray College
Visit Scotland	SPSA	

A list of the admitted bodies is available from the office of the Head of Finance, Aberdeen City Council, The Town House, Broad Street, Aberdeen AB10 1AH and is also contained within the Annual Pension Fund Report.

2. Fund governance structure



2.1 Aberdeen City Council has delegated strategic responsibility for the administration of the Pension Funds to the Pensions Panel. The Council's standing orders govern the actions of the Panel and its Officers.

2.2 Pensions Panel

- Carries out a similar role to that of the trustees of a pension scheme. It is the key decision maker for all matters under the LGPS Regulations covering:

- Benefits Administration
- Investment Management
- The Panel consists of 4 City Council elected members, one from each of the major political parties. All members have equal voting rights.
- The detailed terms of reference are reviewed annually by the Aberdeen City Council Pensions Panel and detailed delegations are contained in the report on Committee Terms of Reference. (Appendix 1)

2.3 Joint Investment Advisory Committee (JIAC)

- The JIAC consists of 14 members, 4 elected members from Aberdeen City Council (members of the Pensions Panel), 4 elected members from Aberdeenshire Council, and 2 elected members from the Moray Council, 1 member representing the colleges and admitted bodies and 1 representative from Scottish Water, 2 Trade Union representatives.
- The JIAC have responsibility for monitoring the investment management of the Pension Fund and making recommendations to the Pensions Panel on the appointment, retention and termination of investment management contracts. All members of the JIAC have equal voting rights.
- The detailed terms of reference are reviewed annually by the Aberdeen City Council Pensions Panel and detailed delegations are contained in the report on Committee Terms of Reference. (Appendix 1)
- A copy of the Pension Panel Committee Papers and minutes will be made available to members of the JIAC on a quarterly basis subject to the internal controls of Aberdeen City Council

2.4 Frequency of Meetings

Both the Pensions Panel and the Joint Investment Advisory Committee meet at least quarterly.

2.5 Head of Finance

- The Head of Finance has responsibility for implementing the decisions of the Pension Panel/JIAC, and for the day to day management of the affairs of the North East Scotland Pension Funds.
- The office of Head of Finance acts as the link for members, advisers and investment managers between meetings.
- The detailed terms of reference are reviewed annually by the Aberdeen City Council Pensions Panel and detailed delegations are contained in the report on Committee Terms of Reference. (Appendix 1)
- Day to day administration of the Pension Fund is carried out within the Finance

Service by the Pensions Section.

2.6 External Service Providers

- The Pensions Panel appoints an actuary to carry out the triennial actuarial valuation, interim valuation (if appropriate) and provide advice with regard to scheme funding.
- Up to two external advisers may be appointed to assist the Pension Panel in particular, regarding investment related issues.
- A number of investment managers have been appointed. They have responsibility for the selection, retention and realisation of individual investments. Where appropriate they also implement the Fund's policy relating to environmental, social and governance matters.
- The Pensions Panel has appointed a global custodian. The custodian is responsible for the safekeeping of the Fund's assets, along with transaction processing, corporate actions, dividend collection and tax reclaims.
- The Pensions Panel has appointed a performance measurement company which reports quarterly to the JIAC on the performance and risk profile of the Fund and its underlying fund managers.
- The detailed terms of reference are reviewed annually by the Aberdeen City Council Pensions Panel and detailed delegations are contained in the report on Committee Terms of Reference. (Appendix 1)

2.7 Internal controls

Aberdeen City Council provides internal audit arrangements to the North East Scotland Pension Funds both as a tool of management and with direct reporting to the City Council Audit and Risk Committee.

2.8 External Review

The annual financial statement of the Pension Funds are subject to external audit.

The Auditor is appointed by Audit Scotland, this helps ensure that public funds are properly safeguarded and accounted for and are used economically, efficiently and effectively in accordance with statutory and regulatory requirements.

2.9 Risk Management

A risk review covering all aspects of the Pension Fund is carried out on an annual basis. Risk awareness is embedded into the investment performance management process. Risk will continue to feature in the training planned for all those with responsibility for administering the North East Scotland Pension Funds.

2.10 Training

The Pensions Panel has approved a training programme for members of the Pensions Panel and the JIAC in accordance with best practice. Training for members of the

Pensions Panel and the JIAC is reviewed on an annual basis by the Pensions Panel.

2.11 Communication with scheme members

All correspondence is sent direct to each member's home. We work with employers to ensure that we hold the most up to date information and advise members of the importance of notifying a change of address. We provide to members:

- A welcome pack
- Benefit Information on leaving the scheme
- Annual Benefits Statement
- Annual Pensions Update
- Newsletters
- Pensioner pay slips

The Pension Fund website allows members to access their records and is regularly updated with key information.

2.12 Communication with employers

A quarterly bulletin is issued to employers within the fund covering both administration and investment issues. Administration meetings will be held with employers twice a year along with the Annual Pension Fund Forum and ad hoc if required.

3. Access to information

3.1 Panel papers and minutes for the Pensions Panel are available via the Pension Fund website www.nespf.org.uk

3.2 The Pension Fund financial statement is contained within the Pension Fund annual report which is available at www.nespf.org.uk The statement is prepared following recognised Accounting Codes of practice.

3.3 Annual Report

- An Annual Report of the Pension Fund is prepared by the Pensions Section including a copy of the Pension Fund financial statement
- A copy of the report is made available to all scheme employers
- A summary of the review is provided to all pension fund members
- A copy of the Annual Report is available via the Fund's website at www.nespf.org.uk

3.4 Contact details for those who wish to engage with the Panel or JIAC are available on the Pension Fund website at www.nespf.org.uk

3.5 This Governance Statement and all supporting statements and policies are available on the Pension Fund website www.nespf.org.uk

GOVERNANCE STATEMENTS

All governance statements and terms of reference will be reviewed annually by the Pensions Panel and in the event of any change in the management of the Pension Fund. A copy of the governance statements will be available on the website. Quarterly reporting with regard to the governance statements will be made to the Pensions Panel.

Governance Policy Statement

This policy statement.

Governance Compliance Statement

The Regulations that govern the management of LGPS funds in Scotland require that a Governance Compliance Statement is published which sets out the extent to which governance arrangements comply with best practice.

Funding Strategy Statement

The FSS sets out how the administering authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employers' contributions, and prudence in the funding basis.

Statement of Investment Principles

The policy outlines the North East Scotland Pension Fund's investment arrangements.

Investment Policy

The policy sets out the investment policy for the North East Scotland Pension Fund (NESPF); the policy is supported by the Fund's:

- Statement of Investment Principles;
- Funding Strategy Statement; and
- Cash Manual

Statement of compliance with the Myners Principles

Details the Pension Fund's compliance with the 10 Myners Principles

Training Policy

Details of the training policy for members of the Pensions Panel and JIAC

Communications Policy Statement

The statement sets out the North East Scotland Pension Fund's policy concerning communications with the following people/organisations:

- Members
- Representatives of members
- Prospective members
- Employing authorities

Corporate Governance and Socially responsible Investment Policy

This statement will provide details of the North East Scotland Pension Fund's policy as an active and responsible investor.

Service Standards

Outlined are the maximum turnaround times in which we aim to take the action indicated.

All the above documentation is available on the Pension Fund website www.nespf.org.uk and hard copy available on request from the Head of Finance.

APPENDIX I

PENSIONS PANEL –TERMS OF REFERENCE

1. Appoint the Convener and Vice Convener of the Pensions Panel.
2. Appoint the Convener of the Joint Investment Advisory Committee.
3. Specify the name of the Fund.
4. Authorise the Convener and Vice Convener of the Pensions Panel to act on behalf of the Panel
5. Prepare, maintain and publish the Governance Policy Statement
6. Ensuring that the Fund complies with all Local Government Pension Scheme (Scotland) Regulations as amended. and all other legislation governing the administration of the Fund.
7. Preparing, maintaining and publishing the Funding Strategy Statement.
8. Ensure that an actuarial valuation is carried out on a triennial basis and consider the outcome of the valuation. Determine the level of employer contributions necessary to ensure a 100% funding level.
9. Set the investment objective and strategy in light of the Fund's liabilities.
10. Oversee and monitor the investment strategy and investment management of the Pension Fund having considered the recommendations of the Joint Investment Advisory Committee
11. Receive on a quarterly basis a report from the Joint Investment Advisory Committee on their recommendations with regard to the appointment, retention and termination of fund management appointments
12. Ensuring that appropriate arrangements for the administration of benefits are in place.
13. Prepare, maintain and publish the Communications policy.
14. Prepare maintain and publish the Statement of Investment Principles.
15. Approve the budget and business plan.
16. Ensure that an effective system of internal financial control is maintained.
17. Review the annual report and accounting statement.

JOINT INVESTMENT ADVISORY COMMITTEE - TERMS OF REFERENCE

1. Appoint the Vice Convener of the Joint Investment Advisory Committee.
2. Ensuring that the Fund complies with the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 as amended.
3. To consider the outcome of the triennial actuarial valuation and its impact on the short, medium and long term investment strategy of the Fund.
4. To advise and make recommendations to the Pensions Panel on the investment strategy and investment management of the Pension Fund.
5. Receive reports quarterly from officers and investment managers as to the investment management and performance of Fund and its underlying fund management portfolios.
6. Report quarterly to the Pensions Panel regarding their consideration of the desirability of the appointment, retention and termination of fund manager appointments.

HEAD OF FINANCE – TERMS OF REFERENCE

1. Provide the Pensions Panel and JIAC with all relevant information as is required to enable the committees to discharge their responsibilities in relation to the benefit administration and investment of the Pension Fund
2. Prepare the budget and service plan
3. Maintain the system of internal controls
4. Prepare the annual report and financial statement of accounts
5. Manage the triennial and interim actuarial valuations
6. Manage the provision of IAS19 information on behalf of employers within the Fund
7. Manage the preparation of the Funding Strategy Statement
8. Manage the preparation of the Governance Policy Statement
9. Manage and preparation of the Communication Policy Statement
10. Ensure that the Pensions Service adheres to best practice

- In relation to the benefit administration of the Pension Fund

Monitor developments which affect the administration of benefits

Promote membership of the Fund

Manage the admission policy

Collect and reconcile the employers and employee contributions

Pay pensions benefits

Maintain records in relation to the entire membership

Devise and implement training, consultation and communication strategies with employers and scheme members

Manage the AVC arrangements

- In relation to the investment management of the Pension Fund

Ensure awareness of the investment management environment and its possible impact on the Pension Fund

With the assistance of external advisors prepare and monitor a strategic investment review of the Pensions Fund at least once every 5 years.

Implement investment reviews and strategic decisions

Manage and prepare the Statement of Investment Principles

Monitor the investment management structure and arrangements with regard to the Statement of Investment Principles

Provide advice to members of the Pensions Panel and Joint Investment Advisory Committee in their role of appointing, retaining and terminating fund manager appointees

Maintain records that monitor the investment performance of investment management of the Pension Fund

Maintain a record of the Fund's Assets

Monitor the security and efficiency of the custodian in order to verify:

- The assets' security
- The custodian's records of the Fund's assets agree with in-house and fund manager records
- The custodian's actions are in accordance with the agreement

11. Make recommendations to the Pensions Panel/Joint Investment Advisory Committee as to investment opportunities

12. Manage the in-house private equity fund

13. Manage cash flow

INVESTMENT ADVISORS – TERMS OF REFERENCE

Provide objective and independent advice designed to meet the requirements of the Pension Funds, the Pensions Panel and the Joint Investment Advisory Committee.

ASSET/LIABILITY POSITION

1. Assist in the setting and analysis of the fund objective through identifying;
 - The purpose of the fund
 - Its size and expected growth
 - Long term use and likely timescale
 - Liabilities to be covered and risks to be avoided
2. Assist in the development of a disciplined and efficient investment strategy to meet the fund objective.
3. Through analysis of the fund's performance expectations, risks sensitivity and liability profiles, assist in the establishment of a clear and appropriate investment policy benchmark for the fund.
4. Assist in the determination of an appropriate management structure for the fund.
5. Advise on rational benchmarks, targets and risk parameters for individual portfolios and managers.
6. Assist the Panel in the review, selection and ongoing monitoring of Investment Managers.
Asset as requested in the preparation and provision of a formal training programme for elected members and officers.
7. Provide ad-hoc advice as may be required

FUND ACTUARY – TERMS OF REFERENCE

1. The Consultant Actuaries will be responsible for preparing the actuarial valuations of the North East Scotland Pension Fund and the Transport Fund on a triennial basis.
2. Assistance in preparation of the Funding Strategy Statement
3. Preparation of IAS19 calculations for the various statutory and admitted bodies within the Fund.
4. Calculate employer contribution rates for new employers
5. Calculate bulk transfer values
6. Calculation for individual employers, i.e. windup figures
7. Individual member calculations
8. Provide advise with regard to overall scheme funding
9. Provide advice on matters relevant to the administration of the Pension Fund

INVESTMENT MANAGERS – TERMS OF REFERENCE

1. An investment management agreement is signed with each investment manager. In complying with this each portfolio should be managed in accordance with the Pension Fund's investment objectives and with due regard to the diversification of risk.
2. On a quarterly basis the portfolio manager shall review and report the performance and risk profile of the portfolio.
3. The fund manager will make a formal presentation at least once a year to the Joint Investment Advisory Committee
4. The Pension Fund's investment restrictions and voting policy should be adhered to at all times.
5. The fund managers are expected to sell investments they do not consider suitable for the Funds at opportune times. They are expected to sell any investments that breach this statement in an orderly manner, in the meantime informing the officials of the Council that this action is being taken.
6. The suitability of any new type of investment must be highlighted by the fund managers to the Joint Investment Advisory Committee or in writing to Aberdeen City Council.
7. The fund managers will notify the Council in writing of any changes regarding the fund management house or persons responsible for the fund which might effect the suitability of the fund manager to manage the fund's assets.
8. Aberdeen City Council instructions must be carried out only with appropriate authority.
9. There must be timely and accurate reporting to Aberdeen City Council as detailed in the individual investment management agreement .
10. Computer systems must be secure and must protect client confidentiality and data integrity.
11. The fund manager must confirm on an annual basis that all fund management activity has been fully reconciled with the records of the global custodian.

CUSTODIAN – TERMS OF REFERENCE

1. A formal agreement is in place with the global custodian
2. The custodian is responsible for the safekeeping of the Fund's assets
3. Effect transactions on behalf of the Pension Fund
4. Providing a stock lending service to the Fund
5. Processing all income, tax and corporate actions in a timely manner
6. Invest cash in a suitable vehicle to enhance returns
7. Providing regular reporting covering assets, transactions, cash flow etc.
8. Provide performance measurement reporting to the Pensions Fund