



Government Actuary's Department

Northern Ireland Assembly Members' Pension Scheme (AMPS)

Statement of Investment Principles

Date:

28 April 2015

Author:

Matt Gurden



Contents

1	Introduction	1
2	Objectives	2
3	Risk measurement and management	4
4	Investment policy	6
	Main mandate	6
	Supplementary mandate	7
5	Day-to-day management	9
6	Socially responsible and ethical investment policy	11
7	Controls and review	12



1 Introduction

- 1.1 Section 35 of the Pensions Act 1995, as amended, requires that the Trustees of pension funds prepare and maintain a 'Statement of Investment Principles'. Whilst the Assembly Members' Pension Scheme (NI) 2008 ('the Scheme') is statutorily exempt from this requirement, the Trustees have decided to produce this document in order to comply with best practice in other funded schemes. This document will be made available on request to all members of the Scheme.
- 1.2 The Statement is required to cover:
- > the Trustees' policies on choosing investments and the need for diversification of the portfolio and the suitability of the investments to meet the needs of the Scheme;
 - > the Trustees' policies on Socially Responsible Investment (SRI);
 - > the kind of investments to be held;
 - > the balance between different types of investments;
 - > the risks of the investment strategy and the way in which they are measured and managed;
 - > the expected return on the investments;
 - > the process for realisation of the investments; and
 - > the Trustees' policies (if any) in relation to the exercise of the rights (including voting rights) attaching to the investments.
- 1.3 This Statement has been designed to cover the fundamental aspects of investment policy, which are not expected to differ greatly from one year to the next. The Trustees have obtained advice on the content of this Statement from the Government Actuary's Department and have consulted the Northern Ireland Assembly Commission on its content.
- 1.4 Annual Reports by the Trustees of the Scheme will include a review of the investment performance and policy for the year in question. The annual accounts will also be published and are available to Scheme members.
- 1.5 The investment powers of the Trustees are set out in the Assembly Members' Pension Determination 2000. The Trustees have a fiduciary duty to invest the assets of the Scheme for the benefit of Scheme members.



2 Objectives

- 2.1 The Trustees are responsible for ensuring that the assets are likely to be sufficient to meet the Scheme's liabilities as they fall due. The Scheme Actuary advises the Trustees on the adequacy of the Scheme assets, by carrying out a full actuarial review (a valuation) every three years.
- 2.2 The Scheme is exempt from Section 222 of the Pensions Act 2004, which requires schemes to satisfy the Statutory Funding Objective. Nevertheless, the Trustees anticipate that the assumptions for the valuation will be chosen prudently, in line with the requirements of the Statutory Funding Objective.
- 2.3 The Scheme is relatively new having been set up on 15 May 2000. On 30 June 2008 the Northern Ireland Assembly resolved to confer upon the Assembly Commission the power to amend the Scheme rules. This power was used on 1 July 2008 to make a number of changes to the Scheme, including a name change, and was further used on 2 April 2009 to introduce a new accrual rate with revised member contributions. Further changes are anticipated as a result of the Independent Financial Review Panel's proposals for the Assembly Members' pension arrangements, due to take effect from May 2016. These changes are not expected to have a significant impact on the appropriate investment strategy for the Scheme for a number of years.
- 2.4 An actuarial valuation of the Scheme was carried out as at 31 March 2014 with the next one due as at 31 March 2017. The 2014 valuation revealed a funding surplus of £1.28 million. As a result of the valuation, the Scheme Actuary recommended contributions by the Northern Ireland Assembly to the Scheme at the rate of 20.6% of Pensionable Pay from 1st April 2015.
- 2.5 The method used to project future benefits in the valuation allows for expected salary increases between the valuation date and the expected cessation of service. The valuation also makes assumptions about future investment returns and other actuarial factors. When experience does not match these assumptions the funding position of the Scheme will be improved or weakened.
- 2.6 The 2014 valuation results indicated that the active members accounted for around 56% of the liabilities, deferred pensioners account for 15% of the liabilities and pensions in payment for the remaining 29%.
- 2.7 The Trustees' objectives are:
 - > "funding objective" - to ensure that the likelihood of failing to meet the Scheme's liabilities remains within an appropriate level of risk
 - > "cost objective" - whilst control the risk of failing to meet the Scheme's liabilities the Trustee aims to minimise the cost to the Consolidate Fund of providing the Scheme benefits
 - > "stability objective" – to ensure that the charges borne by the Consolidated Fund for accruing benefits are reasonably stable over time.



- 2.8 The Trustees recognises that these objectives may conflict. For instance greater certainty about meeting the liabilities can be achieved by investing in assets that match the expected Scheme benefit cashflows. However, such assets are expected to provide lower returns over the longer term than some other asset classes. Although growth assets are unlikely to match the expected cashflows from the Scheme, the relative immaturity of the Scheme means the Trustees are comfortable to experience some funding volatility in the short term in the expectation of improved returns in the long term.



3 Risk measurement and management

- 3.1 There are a range of risks associated with investments in a pension scheme. The Trustees will consider the following main risks on an ongoing basis:
- > Cashflow risk – this is the risk of a shortfall in liquid assets relative to immediate liabilities. In the short-term contributions to the Scheme are significantly greater than benefit payments meaning the Scheme is cashflow positive. However, the Trustees will monitor this risk over time and adjust the investment strategy as necessary to ensure sufficient liquidity exists.
 - > Mismatching risk – this is the risk that the asset and liability values change in significantly different ways. The Trustees are aware that significant investment in growth assets involves a mismatching risk, but will look to diversify the growth assets to reduce the downside risk. This risk will be assessed at each actuarial valuation and as the Scheme matures the Trustees will consider whether to reduce the mismatching.
 - > Manager risk – this is the risk that the investment managers do not achieve the returns expected by the Trustees. This risk will be monitored by the Trustees regularly reviewing manager performance against their benchmark and peers. Extended underperformance will usually lead to a re-tender of the investment mandate.
 - > Concentration risk – this is the risk that a large proportion of the Scheme assets are invested in a single asset class or investment. The Scheme is then at risk if that single class or investment underperforms or fails. The Trustees reduce this risk by adopting a strategy that involves investment in a range of different asset classes.
 - > Credit risk – this is the risk that a counterparty defaults and fails to meet its obligations to the Scheme. The Trustees minimise this risk by investing in funds that ring fence investor assets and by only retaining cash deposits with recognised banks authorised to conduct banking business within the United Kingdom. There is a further credit risk in relation to default of the issuers of any debt investments the Scheme holds. This risk is mitigated by holding a diverse strategy that is not reliant on any single asset.
- 3.2 The investments of the Scheme will be managed to contain these risks to a level acceptable to the Trustees. However, the Trustees are aware that a totally risk averse investment strategy is likely to give lower returns over the longer term than investments with an element of uncertainty over the return. The Scheme is funded from public funds and therefore the Trustees wish to provide the benefits at a cost that is not prohibitive, in accordance with the cost objective.
- 3.3 When considering risk, the Trustees will have regard to the advice of their professional advisers and to the general consensus of accepted practice of occupational pension schemes in the United Kingdom. This will not prevent the Trustees from accepting risk in their investment strategy where they believe it provides a worthwhile reward for the Scheme.



- 3.4 Due to the size of the Scheme the Trustees have not commissioned any asset liability modelling to assess the level of risk inherent in the investment strategy. However, they receive an annual investment performance review which includes commentary on the volatility of the returns provided by each of the pooled funds used by the Trustees.



4 Investment policy

- 4.1 The Trustees set the investment policy after seeking advice from the Government Actuary's Department on the suitability of certain asset classes having regard to the nature, timing and currency of the Scheme's liabilities, the funding level of the Scheme and the Trustees and National Assembly's appetite for risk. From time to time the Trustees may also seek advice from other appropriately qualified experts.
- 4.2 The size of the Scheme's assets is currently insufficient to allow a widely diversified portfolio of investment were the assets to be invested directly. Therefore, until the assets have become sufficiently large, the Trustees believe that the most cost effective way of investing to achieve suitable diversification is to use pooled investment products.
- 4.3 The investment criteria of pooled investment products are set by the documents governing those products. The Trustees of an individual pension scheme investing in such a pooled product cannot decide or amend these criteria. However, the Trustees of the Scheme can take full account of the stated investment objectives and ranges of permitted investments of the pooled product when deciding how to invest the Scheme's assets. The Trustees therefore remain responsible for the strategic allocation of the investments between asset classes, but have delegated individual investment decisions within the asset classes to their investment managers.
- 4.4 In order to meet the objective of diversifying the Scheme assets and allowing the use of growth asset classes to provide higher expected returns, the Trustees will invest in a range of asset classes that predominantly seek to provide equity-type returns. The Trustees have set the following strategic benchmark for the investment of the Scheme funds, which is intended to provide opportunities for growth and sufficient diversification:

Main mandate

Asset Class	Fund Type	Benchmark Allocation	Allocation Range
UK Equity (Recovery Fund)	Active	40%	30% - 50%
North America Equity	Passive	10%	5% - 15%
Europe (ex-UK) Equity	Passive	14%	7% - 21%
Japan Equity	Passive	6%	3% - 9%
Pacific Basin (ex-Japan) Equity	Passive	8%	4% - 12%
Emerging Markets Equity	Active	2%	0% - 100%
Long Dated Corporate Bond	Active	10%	5% - 15%
Long Term Gilt	Passive	10%	5% - 15%



Supplementary mandate A

Asset Class	Fund Type	Benchmark Allocation	Allocation Range
Long Dated Corporate Bond	Active	100%	100%

Supplementary mandate B

Asset Class	Fund Type	Benchmark Allocation	Allocation Range
Episode Allocation Fund	Active	100%	100%

- 4.5 In the third quarter of 2009 the Trustees took the decision to de-risk the investment strategy slightly by introducing a supplementary mandate A. At this time the investment of future contributions was split 50% into the main mandate and 50% into the supplementary mandate A. This resulted in the Long Dated Corporate Bond Fund gradually becoming a larger part of the overall Scheme holdings.
- 4.6 In April 2015 the Trustees took the decision to invest all new contributions in the M&G Pooled Pensions Episode Allocation Fund. This became a new supplementary mandate B.
- 4.7 The Episode Allocation fund focuses on exploiting market opportunities where asset classes and sectors are over or under valued. As such, the underlying asset allocation within the fund can be quite variable. For example, at August 2014 the fund invested 56% in equity, close to its maximum of 60%. It also had 28% invested in fixed income, significantly below its maximum of 75%. The Trustees consider this fund can provide increased diversification for the Scheme, and introducing it gradually with new contributions will not materially affect the expected level of Scheme investment returns.
- 4.8 As contributions flow into supplementary mandate B the asset allocation to the main mandate and supplementary mandate A will gradually reduce from their current levels as the proportion of total assets invested in the Episode Allocation increases. The speed at which this occurs will depend not only on the level of contributions paid to supplementary mandate B each month, but also on the relative investment performance of each mandate.
- 4.9 The Trustees, or their investment managers, may hold cash on deposit if it is awaiting investment, reinvestment, payment to members or as part of the investment strategy from time to time. All cash deposits must be with a recognised bank or banks authorised to conduct banking business within the United Kingdom.
- 4.10 The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004. In order to take advantage of the tax reliefs granted to registered pension schemes, the Trustees will only invest in pooled investment products that can claim similar tax advantages by only allowing investment by other tax-approved pension schemes or registered charities.



- 4.11 The Trustees expect the funds to provide returns sufficiently in excess of price inflation such that the Scheme benefits can be provided in accordance with the most recent actuarial valuation of the Scheme. Where the Trustees no longer expect this to be the case, a new actuarial valuation of the Scheme should be undertaken to establish the impact on the contributions required to continue funding the Scheme.



5 Day-to-day management

- 5.1 The Trustees have delegated the day-to-day management of the investments to their investment manager, M&G Investments Ltd, who take decisions regarding the investments to buy and sell. However, the strategic decision regarding which M&G funds to invest in remains with the Trustees.
- 5.2 In making their decisions regarding investments M&G are expected to:
- > exercise their investment powers in a way that is consistent with the governing documentation of their collective investment vehicles and the stated objectives of their funds. Where appropriate, this will include having regard to the suitability and diversification of the investments chosen;
 - > allocate the assets, where appropriate, in a suitable balance between different categories of investment and between individual investments within each category;
 - > carry out all the day-to-day functions relating to the management of the fund;
 - > have regard to the liquidity of an investment before deciding to make an investment of that kind. In particular considering the liquidity in the context of the fund's likely need for cash in the short and longer term, the income generated from such an investment and the prospects for liquidity in the future;
 - > decide whether it is appropriate to retain or realise individual investments under their management; and
 - > exercise rights (including voting rights), attached to the investments, in the best interests of the Trustees and in accordance with their stated socially responsible and ethical investment policies.
- 5.3 Before investing in a pooled product the Trustees will consider the frequency with which units or shares in the product can be traded and any rights the fund manager reserves to restrict the realisation of units or shares. The Trustees should consider these issues in conjunction with the likely cashflow requirements of the Scheme.
- 5.4 All the investments of the Scheme will be held in the name of the Trustees of the Scheme. The Trustees will appoint a responsible official, normally the Scheme Secretary, to keep safe the documents of title for the investments.
- 5.5 The Trustees will receive regular written reports as required from the fund managers and advisers. These reports will summarise the recent performance of each fund and advise on future market expectations and investment prospects.
- 5.6 The Trustees will consider each fund's investment policy and review performance at regular intervals. Review of each fund will include:
- > comparing the investment return to the benchmark return set out in the fund's explanatory documentation;
 - > reviewing at agreed intervals the investment policy and any specific policies agreed by the Trustees to meet particular needs; and
 - > reviewing the reports of the fund managers on their management of the funds.



- 5.7 Review of the investment performance will consider both longer term returns and short term returns for example the return over the quarter, one year, three years and potentially longer periods. Decisions will not usually be made to change the fund or investment manager on the basis of one period of underperformance, unless there are other additional reasons for the change to occur.
- 5.8 The reviews can also include comparison of the fund performance against peer group funds to establish the performance of the individual fund manager. However, this will not necessarily be taken as a reason to change the investment manager or fund as each fund within a peer group is likely to have different risk and return characteristics and therefore a direct comparison will not always be appropriate.
- 5.9 Any diversion from a fund's benchmark or stated objective should be questioned by the Trustees at the earliest available opportunity. The Trustees will also review the appropriateness of the funds after any significant change in objective or if its investments deviate materially from its stated benchmark or objective.



6 Socially responsible and ethical investment policy

- 6.1 The Trustees consider their main duty is to act in the financial interests of the Scheme's beneficiaries. In order to carry out this responsibility the Trustees have delegated responsibility for the selection of individual securities to M&G Investments Ltd. The Trustees expect that, to the extent that ethical, social or governance issues have an impact on returns, M&G will take these into account when exercising their duties.
- 6.2 As previously noted the use of pooled funds prevents the Trustees from setting specific objectives or policies and this includes any socially responsible or ethical investment policy. However, when selecting pooled funds with the same potential return the Trustees will take these policies into account.
- 6.3 The Trustees delegate responsibility for the exercising of voting rights to M&G. The Trustees expect M&G to exercise these where they will add value or protect the interest of shareholders.
- 6.4 The Trustees will, on a regular basis, review the actions taken by M&G in relation to the exercise of voting rights and in the selection of individual securities and asset classes. The Trustees should discuss these actions with M&G if they involve decisions the Trustees would not feel comfortable taking if they had been directly investing the funds. In such a situation the Trustees will also consider whether to change their investment manager.



7 Controls and review

- 7.1 The Trustees are responsible for ensuring that appropriate systems of control are in place to safeguard the Scheme's assets and to prevent and detect fraud and other irregularities. Suitable systems have been set in place in consultation with the investment manager and the Scheme bankers. The internal controls have been subject to an Internal Audit, which concluded that the established controls are adequate for the intended objectives.
- 7.2 The Trustees will review this Statement and their investment policy at least every three years. The Statement should also be reviewed as soon as possible after any change in investment policy or process.

Trustees Signatures

Date 28/4/15

Date 28/4/15

Date 28/4/15

Date _____

Date _____