General Medical Council

Agenda item:	**13**
Report title:	**Pensions Statement of Investment Principles**
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Considered by:	**Performance and Resources Board**
Action:	**To note**

Executive summary

Trustees of the GMC Staff Superannuation Scheme are required to agree a Statement of Investment Principles (SIP). The SIP sets out the Scheme's overall approach to their investment strategy. Decisions on the investment strategy and therefore the SIP are for Trustees to determine, but they are required to consult the Employer on the SIP.

The document prepared by Trustees is based on the advice of the Scheme's investment consultants and reflects the pensions Investment Strategy reported to Council in April and May 2014.

Recommendation

Council is asked to note the proposed Statement of Investment Principles (Annex A).

Background

1 Trustees of the GMC Staff Superannuation Scheme are required to set out a Statement of Investment Principles (SIP). This must state the Scheme's investment objectives and include their policies on:

a Choosing investments.

b The kinds of investments to be held, and the balance between different kinds of investment.

c Risk, including how risk is to be measured and managed, and the expected return on investments.

d Realising investments.

e The extent that social, environmental or ethical considerations are considered when taking investment decisions.

f Using the rights (including voting rights) attached to investments if you have them.

2 The draft SIP (Annex A) agreed by Trustees has been produced with appropriate external advice. It reflects the investment strategy reported to Council in closed session in April and then May 2014, which set out the proposed appointment of a Fiduciary Manager and included an initial draft of the SIP.

3 Trustees have agreed in principle that the Scheme meets its own investment management charges, which is usual practice, and the proposed SIP has been updated to reflect this.

Investment Strategy

4 While they are required to consult the employer, decisions relating to investments are matters for Trustees. In practice there needs to be a close alignment of both the Scheme's investment approach and the employer's long term aims, particularly with regard to risk.

5 The pensions Investment Strategy set out previously to Council and documented in the SIP is closely aligned with the employer's strategic aims. These include a reduction in the risks associated with the scheme; essentially seeking to reduce volatility in the funding position and lessen the likelihood of significant deficits arising.

6 The Investment Strategy seeks to achieve this in three ways:

a Diversification: Using a wider range of investment categories to lower the risk profile of the scheme whilst maintaining an appropriate level of return.

b A Flight Plan: Setting out a process and triggers for a managed move into investments that closely track the Scheme's liabilities.

c Governance: The Trustees have set out in the SIP a clear decision-making structure detailing the responsibilities of the Trustee Board, the Investment Adviser, the Fiduciary Manager and the Fund Managers.

7 Council has previously received reports on the revised pensions investment strategy, and Council is asked to consider the draft SIP, at Annex A, ahead of it being agreed by the Scheme's Trustees.

DRAFT

The General Medical Council Staff Superannuation Scheme (the "Scheme")

Statement of Investment Principles

Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement XX XX XXXX The Trustees will review this Statement and the Scheme's investment strategy no later than three years after the effective date of this Statement and without delay after any significant change in investment policy.

Consultations Made

The Trustees have consulted with the employer prior to writing this Statement and will take the employer's comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of the Scheme. They have obtained written advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice was provided by Aon Hewitt Ltd who are authorised and regulated by the Financial Conduct Authority.

The day to day management of the Scheme's assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement is available to the members of the Scheme.

Objectives

The Trustees' primary objectives are:

- "funding objective" – to ensure that sufficient assets are available to pay members' benefits as and when they arise;

- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy;

- "security objective" – to ensure that the solvency position of the Scheme (as assessed on a low risk basis) is expected to improve. The Trustees will take into account the strength of the employer's covenant when determining the investment strategy; and

- "de-risking objective" – to monitor the progression of the Scheme's solvency position on a low risk basis and to de-risk the asset allocation as and when it becomes affordable to do so.

Investment Strategy

The current planned asset allocation strategy was set in **June 2014** and is set out in the following table.

Portfolio components	**Weight (%)**	**Control Ranges (%)**
"Matching" (i.e. provide liability hedging)	30.0	+/- 20.0
"Growth" (i.e. provide investment returns)	70.0	+/- 20.0
Total	**100.0**	

In broad terms, the strategy aims to deliver asset growth in excess of the growth of the Scheme's liabilities over the long term. This is achieved by holding a risk-reducing Matching portfolio which is designed specifically to hedge the interest rate and inflation exposure of the Scheme's liabilities, and investing the remaining assets in a diversified portfolio of Growth investments designed to deliver sufficient investment return to improve the funding position over time. The balance between Growth and Matching assets, and the level of hedging protection provided by the Matching portfolio, will be adjusted over time to reduce risk as the Scheme's funding position improves.

The Growth component consists of several different asset categories. The permitted control range for each of the asset categories as a percentage of the Growth component is as follows:

Growth portfolio – Asset categories	**Control Ranges (%)**
Equities	0% - 75%
Corporate Bonds	0% - 75%
Liquid Alternatives	0% - 50%
Opportunities	0% - 10%
Illiquid Alternatives (infrastructure, private equity)	0% - 15%
Property	0% - 20%
Emerging market exposure	0% - 20%

The planned asset allocation strategy was determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position and the liability profile. The Trustees considered written advice from their investment advisers when choosing the Scheme's planned asset allocation strategy.

The Trustees, in consultation with their investment advisers, review their investment strategy following each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way).

Implementation

The Trustees recognise that a key source of financial risk (in relation to meeting their objectives) arises from asset allocation. They therefore retain responsibility for setting the planned asset allocation strategy and take expert advice from their professional advisers, as required.

The Trustees have appointed Hewitt Risk Management Services Limited's ("HRMSL's") Delegated Consulting Service ("DCS") to manage the majority of the Scheme's assets (i.e. a fiduciary management solution). Within both the Growth Component and Liability Hedging Component of DCS, the Trustees have delegated responsibility to set the asset allocation to HRMSL. This has been done to further aid the diversification of the Scheme's assets and to reduce the investment risk relative to the Scheme's liabilities. Performance objectives for the two components of DCS are shown in the following table. Further, HRMSL have been instructed to monitor and manage the Scheme's investment risks (see Investment Risk Monitoring and Management).

Portfolio Component	Manager	Benchmark	Performance Objective*
Matching (i.e. liability hedging)	HRMSL	Scheme's liabilities proxied by their sensitivity to inflation and interest rate movements	Match the benchmark
Growth	HRMSL	3 month LIBOR	Outperform the benchmark by 4% p.a. over rolling 3 year periods net of fees

* The overall strategy (comprising both the Matching and Growth portfolios) aims to deliver investment performance in excess of a measure of the Scheme's liabilities. The target margin of outperformance will vary over time in line with the Trustees' de-risking strategy.

This structure means that, in practice, HRMSL is responsible for much of the day-to-day running of the strategy (including decisions relating to asset allocation, selection of fund managers and rebalancing of assets) within parameters set by the Trustees.

Expected Returns on Assets

Over the long-term the Trustees’ expectations are:

- for the “Growth” assets (DCS Growth Component and property), to achieve asset growth in excess of the growth of the Scheme's liabilities over the long term. The Trustees are willing to incur short-term volatility in asset price behaviour with the expectation that over the long term these assets will outperform asset classes which may be regarded as matching the liabilities;

- for the “Matching” assets (DCS Liability Hedging Component and cash), to match a percentage of the Scheme's fixed and interest and inflation linked liabilities through the use of bonds, interest rate swaps, and / or inflation swaps.

The Trustees review investment performance of the Scheme's assets on a quarterly basis, and consider professional advice relating to the long term strategy.

Choosing Investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme and the Trustees’ objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid undue concentration of risk, a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to cover the Scheme's liabilities are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made by the managers in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

Investment Risk Monitoring and Management

As noted above, one of the key investment risks is recognised as arising from asset allocation. The asset allocation strategy is assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustees take advice on the continued appropriateness of the existing investment strategy. A check is made as to whether the funding and investment strategy remains on target to achieve the original objectives, and within acceptable parameters. If not, then corrective action is considered by adjusting investment policy or through amendments to the contribution plan.

The Trustees and their advisers considered the risk of failure of the Scheme's sponsoring employer when setting investment strategy and have consulted with the sponsoring employer as to the suitability of the proposed strategy. The Trustees receive regular updates from the employer to monitor the covenant on an ongoing basis and assess the impact on the Scheme.

The Trustees aim to reduce the risks arising through the selection or appointment of fund managers through investment in a fiduciary management solution. HRSML monitor the underlying fund managers and will make changes to the asset portfolio if there are matters of material significance that might affect the ability of each fund manager to achieve its objectives.

The Trustees have appointed HRMSL to monitor the solvency position (assessed on a low risk basis) of the Scheme daily against pre-defined triggers, designed to switch assets from the Growth Component to the Liability Hedging Component, thereby de-risking the asset allocation and increasing the liability hedge, as the funding level improves. Specific levels for a series of pre-defined triggers (set by the Trustees, in consultation with their investment advisers and the sponsoring employer) are detailed in written contracts with HRMSL and are reviewed regularly.

The Trustees acknowledge that investment returns achieved outside the expected deviation (positive or negative) may be an indication that the investment manager is taking a higher level of risk than indicated.

The Trustees monitor key performance and risk metrics on a quarterly basis via monitoring reports provided by HRMSL and through discussion with their investment advisers at regular meetings. Further, the Trustees monitor the performance of HRMSL on an annual basis and have appointed a third party evaluator to provide independent oversight.

Governance

The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

The Trustees of the Scheme are responsible for the investment of the Scheme assets. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have taken into account whether they have the appropriate training and expert advice in order to take an informed decision.

The Trustees have established the following decision making structure:

Trustee Board • Set structures and processes for carrying out their role • Select and monitor investment strategy objectives and the planned asset allocation strategy • Select investment advisers, fiduciary managers and retain overall responsibility for selection of fund managers (currently delegated to the fiduciary manager) • Monitor investment advisers, fiduciary managers and fund managers • Select structure for implementing investment strategy • Select and monitor direct investments (see below) • Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy
Investment Adviser • Advise on all aspects of the investment of the Scheme assets, including implementation • Advise on this Statement • Provide required training
Fiduciary Manager • Operate within the terms of this Statement and the written contracts • Select individual asset classes and best in class investment managers with regard to their suitability and diversification • Manage the Scheme's investments with regard to the liabilities
Fund Managers • Operate within the terms of this statement and their written contracts • Select individual investments with regard to their suitability and diversification

Direct Investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments.**

The Trustees' policy is to review their direct investments and to obtain written advice about them at regular intervals. These may include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement. The Trustees' investment adviser, Aon Hewitt Limited, has the knowledge and experience required under the Pensions Act 1995.

Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The HRMSL custody account is managed by BNY Mellon. For each of the underlying pooled fund investments, the fund manager is responsible for the appointment and monitoring of the custodian of the fund's assets.

Investment Management Fees

The Trustees investment advisers are paid for advice received on the basis of an agreed annual fee which covers all services needed on a regular basis, including quarterly monitoring of the performance of the Scheme's investments and its managers as well as attendance at Trustee meetings. For significant areas of advice that are agreed to be outside of the contract, the Trustees will endeavour to agree a project budget.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

The investment managers are remunerated as a set percentage of the assets under management, and where applicable performance fees may be paid. This is in keeping with market practice. The majority of investment management fees are deducted directly from the underlying fund unit prices, except for the Legal & General Property Fund, which is invoiced separately.

The HRMSL fiduciary management fees are charged as a percentage of assets under management, as follows:

Portfolio Component	Manager	Fees
Liability Hedging Component	HRMSL	0.275% p.a.
Growth Component*	HRMSL	0.275% p.a.

* Note: For the purposes of calculating the fiduciary management fees, the Growth Component excludes assets held within the Legal & General Property Fund (as the life policy structure of this fund prevents it being re-registered with HRMSL as the policyholder). Fees for this holding continue to be invoiced separately using a tiered fee scale of 0.55% p.a. on the first £2.5m, 0.50% p.a. on the next £2.5m and 0.45% p.a. thereafter.

Realisation of Investments/Liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice. The DCS Growth portfolio currently offers daily liquidity (subject to any force majeure provisions), and the DCS Liability Hedging portfolio is held in liquid assets requiring a lead time of approximately two weeks for significant disinvestments.

Social, Environmental or Ethical Considerations

The majority of the assets are currently invested in pooled funds. The managers of the pooled funds are expected to have a policy in place on social, environmental and ethical considerations. Whilst the Trustees do not have direct control of the policies, these matters are kept under review by the Trustees, in consultation with their investment adviser, fiduciary manager and investment managers.

Activism, and the Exercise of the Rights Attaching to Investments

As the majority of the Scheme's assets are invested in pooled funds, the Trustees do not have direct control of the specific policy used by the funds in relation to the exercise of the rights (including voting rights).

Additional Voluntary Contribution ("AVC") Arrangements

Some members have obtained further benefits by paying AVCs to the Scheme. From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate formembers' needs.

Dated [April 2015]

Signed for and on behalf of the Trustees of the Scheme:

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Name (Print)	Signature	Date
....	....	....
Name (Print)	Signature	Date