

# Myners Adherence Document

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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

## **Introduction**


This document forms the Statement of Compliance with the Myners Principles for the Combined Nuclear Pension Plan ('the Plan') and is designed to be read in conjunction with the Plan's Statement of Investment Principles. It is maintained by the Trustee of the Plan.

The practices described within this document form the basis for investment decision making by the Trustee. This document is reviewed on a regular basis, and is made available to members on request.

The document also provides information on the Plan's investment managers and investment service providers with details of the nature of the services they provide and how their performance in their roles is assessed.

This document has been formally adopted by the Trustee.

Signed:

A handwritten signature in black ink, appearing to read 'Tony Dow', is written over a horizontal line.

**Chairman**

**Signed for and on behalf of the Trustee of the Combined Nuclear Pension Plan**

**Date:** 10 | 07 | 2007

# **1. Investment Decision Making**

## **The Principle**

- **Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively.**
- **Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate any advice they take.**
- **Investment sub-committees favoured.**
- **Trustees should review their structure and processes to carry out their role effectively.**
- **Trustees should draw up a forward looking business plan.**

The Trustee of the Plan is responsible for the administration and investment policy of the Plan. The Trustee body meets on a quarterly basis, although additional meetings may be called as necessary.

The Trustee has appointed a sub group of the Trustee Directors as an Investment Sub-Committee, which also meets on a quarterly basis, or more often if required. The Sub-Committee has no delegated authority to make decisions on behalf of the Trustees, but is expected to provide a forum for monitoring the investment arrangements and managers, and also to discuss potential developments to the arrangements in detail. The Sub-Committee will make formal recommendations to the full Trustee body as appropriate.

Training sessions are incorporated into meetings of the Trustees and Investment Sub-Committee on a regular basis. A record of relevant training and courses/conferences attended by the Trustees is maintained by the Secretary to the Plan.

An annual business plan of proposed agenda items is maintained and updated at each Trustee meeting. This ensures that reviews of all aspects of the investment arrangements are carried out on a regular basis.

## **Responsibility of the Trustee Relating to Investment**

The Trustee is responsible for decisions relating to all aspects of the investment of the assets of the Plan and for making changes where appropriate. The specific responsibilities of the Trustee relating to investment decision making are as follows:

### ***DB Section***

- to review the Plan's asset allocation at least every three years, taking account of any changes in the profile of Plan liabilities and any guidance from the Lead Company or sponsoring employers regarding tolerance of risk. The Trustee will decide on any changes to the asset allocation between broad investment classes (such as bonds, equities, property, cash, etc.) after having taken professional investment advice.
- to consider and monitor the quarterly investment reports produced by the investment managers or by Hymans Robertson (as appropriate). In addition to manager's portfolio and performance

reporting, the Trustee will also receive and review information from the manager on transaction costs and details of corporate governance (including SRI, voting activity and engagement with management).

- to determine the basis on which new money will be invested and on how assets will be realised if necessary in order to meet the Plan liabilities.
- to review annually the investment manager's adherence to their expected investment process and style. The Trustee will ensure that the explicit written mandate of the Plan's managers is consistent with the Plan's overall objective, is appropriately defined in terms of performance target, risk parameters and timescale and reviewed annually.
- to consider whether there is a need for any changes to the Plan's investment manager arrangements (e.g. addition, replacement). In the event of a proposed change of investment manager, the Trustee will evaluate the credentials of potential managers. The Trustee is responsible for the appointment and termination of investment managers.
- to consider the Plan's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism.

#### ***Money Purchase Sections***

- to review the Plan's Defined Contribution (DC), Shift Pay Pension Plan (SPPP) and Additional Voluntary Contribution (AVC) arrangements on a regular basis.

#### ***All Sections***

- to monitor and review annually investment advice received from their professional investment adviser and the investment services obtained from other providers.
- to maintain the Statement of Investment Principles (SolP) and the document setting out the Plan's approach to disclosure on the Myners principles.
- to conduct and conclude the negotiation of formal agreements with managers, custodians and other investment service providers.

The Trustee may chose to delegate some of the above responsibilities to the Investment Sub-Committee at their discretion.

In addition, the Trustee will take such professional advice, as it considers necessary in the fulfilment of its responsibilities.

#### ***Delegated Investment Decisions***

The day to day management of the Plan's investment portfolio (and related activities) has been delegated to the investment managers.

## **2. Investment Objective**

### **The Principle**

- **Trustees should set out an overall objective for the Plan.**
- **It should take account of the Plan liabilities and the contributions paid by employees and the sponsoring employers.**
- **Objectives should not be expressed in terms having no relationship to the Plan's liabilities (e.g. performance relative to other funds or market indices).**

### **Primary Objective**

#### ***DB Section***

The primary objective of the DB section of the Plan 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 Trustee's over-riding funding principles for the DB section are:

- To build up assets to provide for new benefits of active members as they are earned;
- To recover any shortfall in assets relative to the value placed on accrued liabilities over a time frame to be agreed; and
- To ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The Trustee intends to ensure that the objective is consistent with the Plan's Statement of Funding Principles.

The liabilities will be assessed through an actuarial valuation carried out every three years or more frequently if appropriate.

The objective of the AVC section is to provide members with the opportunity to invest in a range of vehicles at the members' discretion, on a money purchase basis, with the objective of allowing members to 'top-up' their main DB benefits.

#### ***DC and SPPP Sections***

The primary objective of the DC and SPPP sections is to provide, on a defined contribution basis, benefits for members on their retirement or benefits for their dependents on death before retirement.

### 3. Asset Allocation

#### The Principle

- Strategic asset allocation decisions should receive a level of attention that reflects the contribution they make towards achieving the plan's objective.
- Decisions should reflect the plan's own characteristics.

#### DB Section – Strategic Benchmark

In determining the benchmark for the Plan, the Trustee has translated its primary objective, which is defined in terms of liabilities, into an asset allocation defined in terms of market indices. This required the Trustee to make judgements about the risk and return characteristics of the combination of benchmark asset classes and the Trustee have taken professional investment advice in this regard.

The suitability of the Plan's benchmark, in terms of the ability to achieve the Plan's long term objective, is reviewed on a regular basis.

The current DB benchmark is shown in the table below:

	Benchmark Weight (%)	Control Ranges (%)	Benchmark Index
UK Equities	35	+/- 1.75*	FTSE All Share
Overseas Equities	35		
<i>N America</i>	12.25	+/- 1*	<i>FTSE World North America</i>
<i>Europe ex UK</i>	12.25	+/- 1*	<i>FTSE World Europe ex UK</i>
<i>Japan</i>	6.1	+/- 0.7*	<i>FTSE World Japan</i>
<i>Pacific ex Japan</i>	4.4	+/- 0.5*	<i>FTSE World Dev. Asia Pacific ex Japan</i>
<b>Total Equities</b>	<b>70</b>	<b>+/- 2.5</b>	
UK Government Bonds	10	+/- 1	FTSE-A Government Over 15 Years
UK Corporate Bonds	10	+/- 1	iBoxx £ Non-Gilts
UK Index Linked Gilts	10	+/- 1	FTSE-A Index Linked Over 15 Years
<b>Total</b>	<b>100</b>		

\* The control ranges for the various equity regions are derived from the internal ranges operating within the Global Equity fund.

In setting the benchmark, the Trustee took into account the nature of the Plan's liabilities (as provided by the actuarial valuation), the impact on the aggregate contribution rate payable, and also their own and the Lead Company's attitude to risk.

### **Money Purchase Sections**

In determining the range of funds to be made available within the DC, SPPP and AVC arrangements, the Trustee has considered the differing objectives of members at different stages of their working life.

The Trustee has attempted to achieve a balance between offering a suitable range of funds to satisfy members' needs and avoiding excessive complexity within the Plan's investment arrangements.

## 4. Explicit Mandates

### The Principle

- Trustees should agree explicit written mandates with their managers covering:
  - The objective, benchmark and risk parameters;
  - The manager's approach to achieving the objective; and
  - A timescale of measurement and evaluation.
- Any exclusion of specific financial instruments should be justified.
- Trustees should understand transaction related costs

### DB Section

In order to meet the requirements of the benchmark, the manager invests in the following pooled funds:-

	%	Control Range
Global Equity (50:50) Index Fund	70	67.5 – 72.5
Over 15 Year Gilts Index Fund	10	9.0 – 11.0
Investment Grade Corporate Bond – All Stocks – Index Fund	10	9.0 – 11.0
Over 15 Year Index Linked Gilts Index Fund	10	9.0 – 11.0

The manager's objective is to maintain the Plans' asset distribution close to the benchmark and within the ranges set out above. Within each fund, the objective is to track the total return of the relevant market index within specified tolerance ranges.



## Fees

<b>Fund</b>	<b>Fee Scale (%)</b>
Global Equity (50:50) Index Fund	0.165 on first £2.5m 0.155 on next £7.5m 0.14 on next £15m 0.115 on next £25m 0.095 thereafter
Over 15 Year Gilts Index Fund	0.1 on first £5m 0.075 on next £5m 0.05 on next £20m 0.03 thereafter
Investment Grade Corporate Bond – All Stocks – Index Fund	0.15 on first £5m 0.125 on next £5m 0.1 on next £20m 0.08 thereafter
Over 15 Year Index Linked Gilts Index Fund	0.1 on first £5m 0.075 on next £5m 0.05 on next £20m 0.03 thereafter

The manager is not allowed to invest in any other asset classes. The Trustees have discussed the potential for incorporating other asset classes into manager mandates, but have decided that the current limited size of assets makes it impractical to invest more widely. The potential for investing in other asset classes will be reviewed on a regular basis.

The level of transaction costs incurred by the manager is detailed in the manager's quarterly reports. The Trustee will consider the appropriateness of these costs on a regular basis.

### Money Purchase Sections

The Trustee has appointed Prudential as the provider of funds for the Plan's DC, SPPP and AVC arrangements. The Trustees have established a direct service agreement with Prudential for the administration of these arrangements and the provision of access to a range of funds.

The following range of funds is made available to members.

<b>Fund</b>	<b>Asset Class</b>	<b>Annual Charge (%)</b>
BGI Global Equity (50:50) Index Fund*	Global Equities	0.75
BGI UK Equity Index Fund	UK Equities	0.75
BGI World ex-UK Index Fund	Overseas Equities	0.75
Prudential Index Linked Passive Fund	Index Linked Gilts	0.65
Prudential Retirement Protection Fund*	Fixed Interest Bonds	0.65
Prudential Cash Fund*	Cash	0.75
Prudential With-Profits**	Multi Asset	1

Key:

*Default Funds for lifestyling
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**Only available for AVC investments
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The default fund for both the DC and SPPP sections is the BGI Global Equity (50:50) Index Fund with a lifestyling policy transferring assets to a mix of 75% Prudential Retirement Protection and 25% Cash Fund over the 10 years ahead of retirement. There is no default fund for AVC contributions.

## **5. Appropriate Benchmarks**

### **The Principle**

- **Trustees should ensure (in consultation with their managers) that the index benchmarks set are appropriate.**
- **Limits on managers' divergence from index (e.g. tracking errors) should recognise realistic approximations within indices.**
- **Both active and passive approaches should be considered for each asset class.**
- **Targets for active management should be appropriate and risk controls should provide leeway for genuine active management.**

### **Overall Investment Structure**

The Trustee considered the relevance of the respective benchmark indices when specifying the pooled funds to be used with all of the sections of the Plan.

The Plan's assets are currently invested on a passive basis. As the assets within the DB section increase, the Trustee will consider introducing active management into the investment arrangements.

For the money purchase style arrangements, the Trustee believe that the use of index-tracking funds protects the member from the fluctuating fortunes of active manager performance and allows the arrangements to remain relatively straight forward. However, the Trustee will also monitor feedback from members in future and will gauge the demand for additional funds as required.

An active management approach is used within the Prudential With Profits Fund. However, the inherent smoothing of returns from such funds helps to protect the member from shorter term volatility.

## **6. Expert Advice**

### **The Principle**

- **Actuarial and investment services should be open to separate competition.**
- **Appropriate levels of fee should be paid for each service.**

### **Appointments**

Following a full tender process, the Trustee has appointed the Investment Consultancy Practice of Hymans Robertson LLP as the Plan's Investment Consultants. The Scheme Actuary is Mr J Atherton of Deloitte.

The Trustee monitors the fees which are charged for these services to ensure they are appropriate for the services provided.

## 7. Activism

### The Principle

Myners original principle stated that a scheme's mandate and Trust Deed should incorporate the US Department of Labour Interpretative Bulletin on Activism. However, following consultation with the industry, this has now been revised to read as follows:

- **Trustees should comply with the Institutional Shareholders' Committee (ISC) statement of principles on the responsibilities of institutional shareholders and agents, and ensure that the principles are incorporated into fund managers' mandates.**
- **In line with the principles, trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they will measure the effectiveness of this strategy.**

The Trustee has conducted initial discussions on its approach to this area.

The policies pursued by Legal & General have been reviewed, and the Trustee has agreed that they are comfortable with the manager's approach. The manager's policies do comply with the ISC statement referred to above.

Details of the manager's voting activity and level of corporate engagement with companies is outlined in the manager's regular quarterly reports.

The Trustee acknowledges that the limited size of the Plan makes it impractical to develop a bespoke policy in this area at this time.

The Trustee has not yet considered the policies of Prudential and Barclays Global Investors (BGI).

## **8. Performance Measurement**

### **The Principle**

- This encompasses not only fund performance, but also a formal assessment of trustees' own procedures and decisions.
- This performance assessment will also apply to all advice received and decisions delegated (e.g. to advisors and managers).

### **Investment Managers**

- The Trustee will monitor the performance and activity of Legal & General on a quarterly basis using information provided in the manager's quarterly reports.
- The Trustee will monitor the performance of the money purchase funds on a quarterly basis using information provided by Prudential.

### **Performance Relative to Liabilities**

The Trustee will receive regular funding updates from the Scheme Actuary in order to monitor the performance of the assets relative to the Plan's liabilities.

### **Assessing Investment Decisions and Investment Advice**

The Trustee has yet to agree a process for assessing the advice received by its advisers and the effectiveness of its own decision making process.

## **9. Transparency**

### **The Principle**

**A strengthened Statement of Investment Principles (SolP) should set out:**

- **Who is taking decisions and why**
- **The fund's investment objective**
- **The planned asset allocation strategy, including projected investment returns and why the current strategy has been adopted**
- **Details of manager and adviser mandates, fee structures in place with reasons.**

### **Trustee Approach**

**The Trustee has decided to split the contents of the Statement of Investment Principles (SolP) outlined above. The Trustee will maintain:**

- (i) a formal SolP, covering the regulatory requirements;**
- (ii) this document, which encompasses all of the additional information proposed by Myners and documents the extent of the Trustee's adherence to the Myners principles.**

**This reflects the fact that the SolP is a statutory requirement of the Pension Act (1995) whereas the principles included in this document form a voluntary code of good conduct. The Trustee believe 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 Trustee will maintain the SolP and this Myners Adherence Document and keep them under review to ensure that they continue to reflect current practice.**

## **10. Regular Reporting**

### **The Principle**

- **Trustees are required to publish the Statement of Investment principles and the results of monitoring of advisers and managers.**
- **Key summary information should be sent annually to members.**
- **Trustees should explain any departure from these principles.**

### **Approach**

The formal Statement of Investment Principles is available to all Plan members on request.

The Trustee have yet to decide how they will make this Myners document available to members.

Key information on the Plan will be included in future communications with members.



## **11. DC Principles**

Myners published a separate set of 11 principles for DC plans. However, there is a large degree of overlap between the DB and DC principles and, reflecting this, we have set out relevant policies for the money purchase style arrangements throughout this document.

Two specific issues remain in this section.

### **The Principles**

- **Where members are given a choice regarding investment issues, they should be given sufficient information to allow them to make an appropriate choice.**
- **Where a fund is offered as a default option to members through a customised combination of funds, trustees should ensure that an investment objective is set for the option which includes expected returns and risks.**

### **Approach**

The Trustee has prepared member communication material setting out the details of each of the funds made available. This includes the funds' objectives and an indication of the funds' risk characteristics. Background information is also made available by the manager.

In setting the default option, the Trustee have taken into account a requirement for investing for long term capital growth during the early part of a member's working life and a need to reduce risk in the years leading up to retirement. In the member communication, the Trustee stress that this approach may not be appropriate for all individual members.