

Annex 1 - THE RUSSELL PENSIONS GOVERNANCE INDEX 2013

The purpose of this initiative is to develop and publish a set of pension governance resource measures. The project was initiated for three main reasons:

- To provide better governance resource information to assist in decision making;
- To provide comparisons between schemes to identify areas where greater efficiency can be achieved;
- To provide a catalyst for a wider industry debate about governance issues.

The Royal Borough of Windsor & Maidenhead was one of 40 employers to take part in the survey and was the only local authority included. Whilst no single model of governance emerged as being most popular some trends did emerge as a result of the survey:

- Scale provides a significant cost advantage;
- Large schemes spend a higher proportion on external advice;
- Boards of smaller schemes include a higher proportion of trustees with professional qualification.

The respondents to the survey represented 90 pension schemes with assets of £243bn held on behalf of 3 million members. With median assets of £2.9bn the schemes involved are much larger than the industry average size.

The index itself is based on six key measures:

1. Costs of governance
2. Third party advisers' share of costs of governance
3. Degree of delegation
4. Degree of internal delegation
5. Committee hours
6. Trustees with specific qualifications

The intention of the Index is enable schemes to compare themselves to their peers. For each of the key measures identified above RBWM was compared to the other 39 employers involved in the survey and the following charts show the results of this comparison.

Key measure 1: Costs of governance

Excluded from these costs are the large transactional aspects of asset management, scheme administration and custody.

On average this cost represents 6 basis points similar to that for larger schemes, which is less than half the 13 basis points paid on average by smaller schemes in the survey.

Basis points of assets

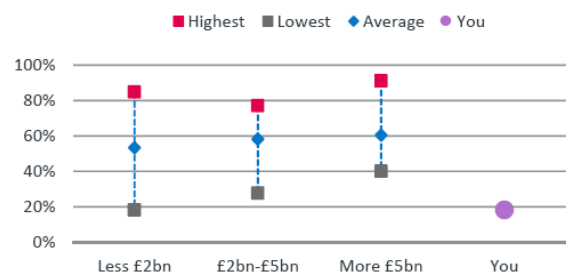


Key measure 2: Third party advisers' share of costs of governance

Total governance spend consists of trustee costs, pension-related employee costs and pension-related third party adviser costs.

Third party advisers' costs represent a higher proportion of costs as schemes get larger reflecting the greater complexity of such funds (e.g liability hedging etc)

Percent of costs of governance

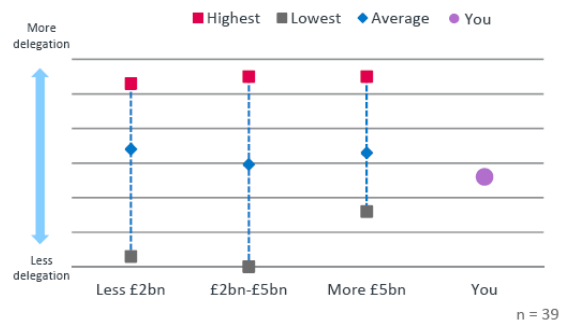


Key measure 3: Degree of delegation

Size does not appear to be a good predictor of tendency to delegate decisions away from the main trustee board.

The way of measuring the decision making structures of pension schemes has been developed so that the more the main trustees board delegates decisions down to other parties the higher the measure they register. Our slighter than below average rating reflects the Panel retaining authority for manager appointment and asset allocation (many larger schemes delegate these functions to fund employees with trustees retaining responsibility for the “bigger picture”).

Measure based decision making structures



Key measure 4: Degree of internal delegation

On average schemes are keeping most decisions in house.

However much a scheme does delegate it is useful to understand who they delegate to. Internal delegation means that decisions have been delegated by the main board to internal parties such as the internal pension team. External delegation means that decisions have been delegated to a third party such as an asset manager or fiduciary manager. The Fund has not delegated decisions regarding fund manager selection etc to third parties hence the 100% score.

Percentage of total delegation measure



Key measure 5: Committee hours

Committees of larger schemes spend nearly twice the time of those of smaller schemes.

Committee hours is the number of committees multiplied by the number of meetings per committee and the average time of each meeting on an annual basis.

The committees in this measure include the main board and sub-committees. The relatively low score reflects the nature of an LGPS fund (no responsibility for setting benefits, employee contributions) and includes meetings of the Investment Working Group but excludes time spent by IWG members on email exchanges used instead of convening a special meeting of the group.

Number of committee hours per year

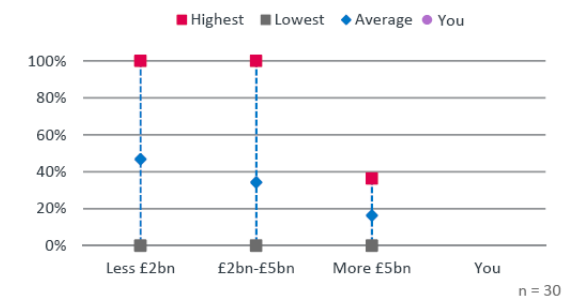


Key measure 6: Trustees with specific qualifications

This includes chartered accountants, actuaries, qualified lawyers and other chartered professionals in relevant disciplines.

Such qualified individuals are less prevalent on larger scheme trustee boards possibly because many larger schemes already employ experienced pension professionals in house or as a third party.

Percent of number of trustees



RBWM did not submit data for this measure due to the nature of the Panels.

Other key points to have come out of the survey are highlighted below.

1. Governance costs

Clear economies of scale

As a proportion of assets, large schemes face a cost of governance that is less than half that of smaller schemes in the survey. It would appear that an important element of governance spend is fixed cost in nature.

Membership drives cost

When categorising schemes by the size of their membership, the larger the membership the lower the cost per member. However, the correlation is not as marked when shown by assets.

Third party adviser costs predominate

Total governance spend consists of trustee costs, pension-related employee costs and pension-related third party adviser costs. Third party adviser costs are the most significant element of governance spend.

Trustee costs

Larger schemes spend less per trustee on external trustees. However, they also seem to be spending more per trustee on internal trustees.

Pension-related employee costs

Total investment-related internal employee activity costs rise in proportion to scheme size as do sponsor liaison costs.

Third party adviser usage

Schemes use many different types of adviser. Fees are highest to investment and actuarial consultants.

Third party adviser costs by type

Investment consultants and actuaries between them earn 65% of the third party adviser fees.

Third party costs by nature of service

When third party adviser costs are analysed by the nature of the service carried out interesting differences emerge. Small schemes use advisers more than others for strategy and legal input while larger schemes use them more for investment input.

2. Governance decisions

Delegation summary

Trustee boards are keeping objective and policy decisions but delegating the rest. 98% of respondents revealed that their trustee boards do not delegate objective and policy decisions. Only 13% of boards make decisions on the day to day execution of investment policy.

Decision making locations

The joint or sole decision makers are the trustee board and the investment sub-committee. Consultants are the advisers who contribute most to decisions without being the decision makers.

Internal pension teams are particularly involved in decisions around objectives and policy. Asset managers have joint or sole responsibility for investment management in over 50% of the schemes surveyed.

3. Governance people

Committee structure

90% of the schemes surveyed had an investment committee. 60% had an audit committee and 25% had a dedicated administration committee.

Trustee numbers

Smaller schemes have 8 or fewer trustees while larger schemes tend to have more than 10. On average around 60% of trustees are internal.

Most important elements of governance

From the survey the top 3 elements of governance were investment, risk and management.