UKSIF

MYNERS, P., 2004. *Myners principles for institutional investment decision-making: review of progress*. UKSIF summary, 2009.

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I. Key points

- **Survey:**
  - **Goal:** review the extent to which the Myners principles have been effective in bringing about behavioural change
  - **Methodology:** 14 case studies, 1,580 quantitative surveys (1/4 of the 6,699 schemes to which the principles apply), survey of 89 pension schemes and consultation with industry and stakeholders
  - **Responsible:** commissioned by DWP and HMT and undertaken by Consensus Research International
- **Research results:**
  - **Progress:**
    - **General:**
      - Action is certainly being taken on a voluntary basis by many schemes.
      - Over ½ of the trustees surveyed agreed that the principles provided guidelines for best practice.
      - Larger schemes are significantly more likely than smaller schemes to have taken action on the issues arising from the principles.
      - Local authority pension schemes have made materially more progress towards implementing the principles.
      - Around 70% of the surveyed schemes reported that they were fully or mostly compliant with the principles in aggregate (according to their self-assessment).
      - The principles most widely considered and acted upon were asset allocation, appropriate benchmarks,

explicit mandates and clear objectives (74%-80% of schemes membership considered).
- Among the local authority pension schemes, 77% reported they were in full compliance with 5 or more principles, with 38% said they complied with 8 or more.
- Of very large schemes, 93% already have part or full-time internal support staff.
- 44% put the principles on the board's agenda and carried out a full review of compliance.
- The statutory requirements of the Pensions Act 2004 require the trustees of occupational pension schemes to have knowledge and understanding of pension matters[1].

- **Areas lagging progress:**
  - **General:**
    - Progress has been slower in areas where the change is qualitative or behavioural.
    - 18% of all schemes took no action on the principles during the 2 years following their publication.
    - Principles showing the worst performance: engagement, performance measurement of advisers and trustees.
  - **Principle 1 (effective decision-making):**
    - Trustees spent, on average, 10.6 hours per year in board meetings and, of those, devoted fewer than 4 hours in investment matters.
    - Only 25% of schemes said their trustees took part in formal training programmes aimed at improving knowledge of investment matters.
    - Many trustee boards have not yet attained the levels of skill, expertise and resourcing necessary to achieve the improvements in investment decision-making necessary to achieve the improvements in investment decision-making.
  - **Principle 3 (asset allocation):** Insufficient resources being devoted to the asset allocation process.
  - **Principle 4 (expert advice):**
    - Lack of clarity of the roles of trustees and their advisers.

[1] Pensions Act 2004: Every individual who is a trustee of an occupational pension scheme will be required to have knowledge and understanding of:

a) the law relating to pensions and trusts
b) the principles relating to the funding of occupational pension schemes
c) the principles relating to the investment of the assets of such schemes.

        - 80% of schemes employed an investment consultant – with 53% of all schemes relying on a pool of just 8 organizations
    - **Principle 5 (explicit mandates):** There is a need to make more progress in agreeing clear mandates for the timescales over which the performance of fund managers is measured.
    - **Principle 6 (shareholder activism):** Insufficient promotion of shareholder engagement – only 25% had reviewed this area and 15% had taken a formal minuted decision to act.
    - **Principle 8 (performance measurement):** Principles of performance measurement of advisers and trustees were considered and acted upon only by 30% or less of schemes members.
    - **Principle 10 (regular disclosure):** Poor quality of commentary on and, disclosure of progress in, implementing the principles.

- **Amendments proposed to strengthen the Myners Principles:**
    - **Principle 1: Effective decision-Making:**
        - The chair of the board should be responsible for ensuring that trustees taking investment decisions are familiar with investment issues and that the board has sufficient trustees for that purpose
        - Fund with more than 5,000 members should have access to in-house investment expertise equivalent at least to one full-time staff member who is familiar with investment issues
        - For funds with more than 5,000 members, the chair if the Board and at least 1/3 of trustees should be familiar with investment issues (+ being sufficiently expert to be able to take investment decisions, rather than delegate them).
        - The Principle should be aligned with the knowledge and understanding set in the new Pensions Act.
    - **Principle 4 – Expert advice**
        - Contracts for investment advice should be split between advice on strategic asset allocation and advice on fund manager selection.
    - **Principle 5 – Explicit Mandates**
        - Trustees should agree mandates containing clear timescales for performance measurement and evaluation
    - **Principle 6 – Shareholder Activism**

- Trustees should comply with the ISC's Statement of Principles
- **Principle 10 – Regular Reporting**
    - Trustees should make available assessment of their own performance to the scheme membership
    - Trustees should post on a fund website the key information they provide annually to fund members
- **Expected benefits from adopting the revisions:** improvement in the quality of investment decision-making by pension fund trustees, lower costs of funding, management of the risk around funding for firms and greater efficiency in the allocation of capital.

II. Key quotes

- "Improvement in expertise and decision-making processes should help transform trustee boards into more informed and effective customers for advice, reducing trustees' over-dependence on investment consultants in a relationship" (Myners 2004, p. 4).
- "Ensuring this chain works efficiently is of vital economic importance for productivity and long-term growth because the chain is a critical mechanism for ensuring that investment is efficiently allocated" (Myners 2004, p. 7).
- "The chain is complex: in pensions, for example, pension fund trustees, stewards on behalf of pension fund sponsors and members, are themselves advised by investment consultants; assets are in turn invested through fund managers and brokers with whom companies have crucial relationships; and companies' financial statements are verified by auditors acting on behalf of shareholders – such as pension funds" (Myners 2004, p. 7)
- "The overarching message from the review findings is the importance of having qualified and appropriately skilled trustees. Trustees are at the heart of investment decision-making and the review reinforced the need to concentrate on strengthening trustee skills and expertise" (Myners 2004, p. 19).
- "…the Government is introducing a legal requirement to ensure that, where trustees are taking decisions in relation to investment, they have the relevant degree of knowledge and expertise" (Myners 2004, p. 19).
- "…training may not be sufficient in itself to achieve the improvement in expertise required in relation to investment matters, so that efforts to help schemes fills gaps by recruiting appropriately skilled and experienced trustees will be important…"(Myners 2004, p. 20).
- "These changes are consistent with the strengthening of skills and expertise among trustees, are likely to help increase competition among

investment advisers, and to help raise the quality of investment decision-making" (Myners 2004, p. 24).

- "Myners identified that pension fund clients are in many cases overly wedded to peer group benchmarks, which may have little reference to the members' long-term interests, and are frequently vague about the time horizons over which managers' performance will be judged. These inappropriate and/or unclear investment objectives can encourage managers to adopt an investment approach that is not fully aligned with their clients' objective or interests, such as herding around a benchmark" (Myners 2004, p. 26).
- "The example of the Combined Code shows that a best practice model, backed with disclosure requirements, can be a powerful force for behavioural change." "However, the review concluded that if the industry was not willing to adopt the principles voluntarily, the scale of the distortions it had identified justified legislative enforcement of disclosure." "The Government therefore proposes to continue to advocate that funds should, voluntarily, set out annually in their SIP what they are doing to comply with each of the principles, and to explain the reasons where they choose not to comply." (Myners 2004, p. 30).
- "The Government therefore proposes to continue to advocate that funds should, voluntarily, set out annually in their SIP what they are doing to comply with each of the principles, and to explain the reasons where they choose not to comply" (Myners 2004, p. 31).
- "Because the principles are focused on outcomes, some funds will have in place or be able to find alternative lower-cost ways of achieving these" (Myners 2004, p. 41).
- "The benefits of the proposed revisions to the Myners principles are the same as those originally expected, namely an improvement in the quality of investment decision-making by pension fund trustees, flowing through into higher returns for the beneficiaries of pension funds, a lower costs of funding and management of the risk around funding for firms, and greater efficiency in the allocation of capital, leading to increased productivity in the UK economy" (Myners 2004, p. 43).