ASSOCIATION OF
aca
CONSULTING ACTUARIES

Warnford Court, 29 Throgmorton Street, London EC2N 2AT
Tel: +44 (0)20 7382 4594 Fax: +44 (0)20 7374 6220 EMail: acahelp@aca.org.uk
Web: www.aca.org.uk

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Email to myners@napf.co.uk
Jonathan Hoffman
Policy Adviser
NAPF
NIOC House
4 Victoria Street
London SW1

Dear Jonathan

Institutional Investment Review

Thank you for giving the Association of Consulting Actuaries (ACA) the opportunity to provide our view on the above.

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. Many of our members advise on investment objectives and on asset allocation strategies appropriate to these objectives. They also analyse and monitor investment performance of pension funds and advise on the selection of investment managers when required.

The ACA is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

Our Investment Committee has reviewed the Review and comments as follows:

Question 1

Six years on from the Myners Report, what are the key issues in pension scheme governance and the efficiency in investment decision making?

In our view the key issues in pension scheme governance are the calibre and level of knowledge of the individuals taking the decisions. This was identified as an issue in the original Myners report and forms the centrepiece of the first Principle. Although the remainder of the Principles form a useful framework for considering investment issues the quality of the decisions ultimately depends on a sufficiently robust implementation of the first Principle.

We note that pension schemes are in the unusual position of having the ultimate destination of billions of pounds decided by largely amateur trustee boards, albeit with professional advisors. It is critical that the level of knowledge in these boards is adequate for the task with which they have been entrusted. The main ways by which this can be achieved given the trust based nature of the schemes are:

- Ensuring minimum knowledge requirements for trustees
- Encouraging suitably qualified individuals to become trustees or members of investment sub-committees and
- Making more use of independent professional trustees

The Myners report and subsequent government legislation have gone some way towards addressing the first of these issues although we believe that there is scope for further progress. In particular, the rapid rate of change in the pension investment environment means that despite efforts to improve trustee education it still lags behind addressing the current issues with which the trustees need to be familiar. In practice most trustee education relevant to impending decisions is therefore given by the advisers to the trustee boards. The extent to which most trustee boards are able to challenge their investment advisers is therefore open to question.

We believe it would be beneficial, both in terms of governance and efficiency of decisions, to find ways of addressing the last two points. Despite the recommendation of the first Principle that trustees should be paid it remains the case that in most situations trustees are only reimbursed for their expenses. This may act as a disincentive for suitably qualified individuals to put themselves forward for consideration. There is also an increasing tendency for some senior company appointments to step down due to perceived conflict of interest issues (the example of finance directors is given in the discussion document) thus depriving trustee boards of some of their most investment literate individuals.

We believe that more use could be made of independent professional trustees. These individuals tend to have a greater knowledge of investments as they apply to pension schemes than typical trustees. It is also the case that many of them will have encountered advice from a variety of different investment advisers and will therefore be in a better position to challenge any advice than a typical trustee. We note from the discussion paper that the independent trustee companies now provide around 1,000 trustees and hope that their numbers continue to increase.

In summary we believe that having the right people focussing on the right objectives is the best way to ensure the quality of investment decisions.

Question 2

What are the implications of the transformed pensions environment compared with 2001 for the Myners approach of voluntary 'comply or explain' Principles and the relevance of the Principles themselves?

In general we do not believe that the changed investment environment has changed the relevance of the Principles as a whole although the relative importance of each Principle will vary from time to time. Although the Principles were designed to address issues that existed in 2001 we think that the resulting framework is robust against a wide range of backgrounds largely because the basic problems of pension investment and funding remain the same (i.e. how to ensure that the liabilities are met). Having said that there are a few areas in which we think the Principles could be modified and these are covered in the relevant sections in this response.

The ‘comply or explain’ approach by its nature is never going to ensure that all, or even the majority, of pension schemes comply with any particular Principle. However, the progress to date has been encouraging in many areas although further progress is undoubtedly desirable in others. The ‘comply or explain’ regime has the advantage over compulsion in that it encourages trustees to debate how the Principles can best be applied to their scheme with less risk that a purely ‘tick-box’ mentality is adopted. It does however require the trustees to be open minded and receptive when considering the Principles rather than viewing them as just another compliance exercise to go through. In our experience the attitude of trustee boards to the Myners Principles varies widely.

A more prescriptive environment may lead trustees to become too focused on following a process rather than leading to better decisions and outcomes.

Question 3

In the light of experience, what additional Principles might be added or how might the existing Principles be further amended?

Overall we believe that the Principles form a comprehensive framework that has provided trustees with more focus to their investment deliberations. As noted earlier we believe that consideration should be made to strengthening Principle 1 as this forms the bedrock of the whole decision making process. Apart from this we do not see a need for radically changing the Principles in so far as they related to defined benefit schemes although there are areas in which we would support some modifications.

We also believe that there is scope to include an additional principle in the DC Principles and cover this later in this document.

Question 4

What further developments do you think are relevant to an assessment of progress against the Myners Principles in 2007?

We think the discussion paper covers the main developments that have occurred to date and are likely to remain relevant. However, we recognise that it is always difficult to identify those issues in advance that will become the most important in future years.

Question 5

What governance issues are raised by the shift from DB to DC pension provision (and increasingly contract-based DC schemes)? Are these issues different from those raised by Myners in 2001?

The key element here is that the choice of investment falls directly on the members. Even if a trustee board has put in place a suitable range of investment options to meet the needs of the members it does not follow that the members will make appropriate use of these funds. This is a particular issue for those who are less financially literate which unfortunately means that a large number of individuals are potentially at risk of making poor investment choices.

In practice this risk is mitigated to some extent if a suitable default fund is put in place as research has shown that the majority of individuals will select the default fund. These default funds are usually designed to manage the long term (far from retirement) and short term (close to retirement) investment risks that a typical member may be expected to face. However, even where default funds exist it does not mean that they are suitable for all individuals.

We note that as the Principles stand there is no requirement to put in place a default fund for an occupational pension scheme (although such a requirement does exist for stakeholder schemes). We are cautious about extending such a requirement to an occupational scheme as in some senses a default fund is addressing the symptom (in a very broad brush manner) rather than the cause (lack of financial literacy).

We do believe that consideration is given as to whether the Principles could be extended in some way to include the level of education given to members. Unless this is done it is inevitable that a large number of people will invest in funds that may not be the most appropriate given their circumstances.

Question 6

What is your perception of the extent of compliance with the Myners Principles by pension funds since their publication in 2001 and the Government's review of progress in 2004?

Although we have not conducted an internal survey on the level of compliance we believe that our experience is broadly in line with that contained in the discussion paper with good progress being made on some of the Principles and more patchy adoption on others.

The areas where most progress has been achieved have generally had some other trigger to encourage progress. For example, the focus on asset allocation and use of alternative assets has also been encouraged by the financial position of pension schemes and the increased level of opportunities in the alternative asset classes. So although the Myners Principles put these on trustees' radar screens it is not necessarily true that the Principles in isolation caused changes in behaviour.

In contrast where there is little further pressure aside from the Principles such as shareholder activism and performance measurement progress has been less rapid. To some extent this may reflect the fact that attention has been focussed heavily on the issues of funding and investment strategy leaving less time for the other issues to be discussed. However, we are not optimistic (given that the Code has already been in place for a number of years) that good progress will be made on the remaining issues, if indeed it will occur at all, without further incentives to do so.

Question 7

What evidence have you of changes on behaviour and practice as envisaged by the Principles in your own organisation or through surveys conducted by your organisation or those you represent?

Although we have not conducted a detailed survey of our clients we believe that progress is not too dissimilar to that set out in the discussion paper in that good progress has been made on some fronts with only limited progress made on others.

From the work we have been engaged in with clients there has been a lot of work in defining objectives relative to the liabilities and considering the full range of asset classes available. We think that trustees now have more knowledge about the basic nature of the investment problems they need to address and are pleased that most schemes have abandoned peer group benchmarks in favour of measures that are more directly relevant to their scheme.

We are also starting to see a willingness to consider the inclusion of asset classes that most trustees would have rejected out of hand a few years ago.

Question 8

Given the evidence on progress to date, do you see a need for moving further beyond the voluntary approach? What would be the advantages and disadvantages of moving further beyond the voluntary approach?

We generally do not favour moving beyond the voluntary approach except in some limited circumstances. We would prefer that other methods are found to provide incentives for trustee boards to engage with the Principles more fully. In particular we believe that the voluntary approach is more flexible and can react to changing circumstances more rapidly than a wholly prescriptive approach. Provided that the trustees are engaged with the Principles we believe it can also facilitate better decision making as the trustees will need to debate each aspect of the Principles and decide which is right for their scheme.

We think that compulsion could also have the undesirable effect of encouraging a 'tick box' mentality rather than promoting genuine engagement with the Principles.

The advantage of compulsion is that it would enable more rapid progress on those Principles that have hitherto been relatively neglected in terms of progress made. Whilst we would generally favour giving incentives it may be that in some areas compulsion is required if any further progress is to be made.

Question 9

A – Do you agree with the assessment of progress on Principle 1 (effective decision making)? Has behaviour and practice changed as envisaged by the Principle?

We cannot wholeheartedly agree with the assessment. Although we believe that the position has improved due to the existence of this Principle and efforts to underpin the knowledge levels of Trustees by the Government this is from a pretty low base. In addition we do not believe that the original Myners report was over pessimistic in this area but highlighted very real concerns about the level of investment knowledge then existing in trustee boards. Although progress has been made in raising the level of knowledge it is also true that that the level of knowledge required to operate effectively has increased significantly over the period largely due to the rapid pace of innovation in the financial markets.

For example how many trustee boards would be in a position to make an independent assessment of whether it would be appropriate for their scheme to take out an interest rate swaption as a way of managing their interest rate risk?

B – What evidence do you have from your own organisation (or those you represent) that behaviour and practice has changed, for example from survey data or other activities?

We believe the main areas of progress have been in the additional focus and time that trustee boards are devoting to investment matters and also in the adoption of business plans to make sure that most aspects of investment are covered and the training is given on the most important investment issues.

Most trustees are still not paid for discharging their duties with a common attitude being 'we don't want to be out of pocket as a result of becoming a trustee but neither do we want to profit from it.' It is at least comforting that individuals are still coming forward with a strong ethic of wanting to do something for the benefit of others for which they are not directly rewarded. We do however wonder if this is deterring capable individuals but with a more 'hard nosed' approach from offering their services.

C – Given the changes in the pensions environment since 2001, is Principle 1 (effective decision making) still appropriate?

Principle 1 is perhaps more relevant than it has ever been. The increasing complexity of pension scheme investment opportunities really does require that those taking the decisions have a good understanding of both investment and liability issues.

D – What changes to this Principle (if any) would be desirable to improve governance and investment decision making by trustees?

In so far as is practicable we would recommend that the Principle is strengthened so that at least one half of the trustees are knowledgeable about investment issues. As the Principle stands it admits the possibility that investment decisions (including whether to delegate) could be influenced by a majority of non-investment literate trustees.

We also believe it would be desirable to encourage trustee boards to have at least some professional independent trustees and perhaps this requirement could be included as a matter of best practice.

Question 10

Are the 2004 Pensions Act requirements on trustee knowledge and understanding appropriate?

We believe they are an encouraging step to increasing the level of knowledge and understanding but in general this is from a fairly low base. We would welcome a gradual strengthening of the knowledge requirements in so far as this can be achieved without deterring individuals from putting themselves forward to engage in trustee work. Perhaps this could be achieved by developing a voluntary 'advanced investment' course for trustees.

Question 11

A – Do you agree with the assessment of progress on Principle 2 (clear objectives)? Has behaviour and practice changed as envisaged by the Principle?

We agree with the assessment that considerable progress has been made on this Principle by the majority of trustee boards. The last five years have seen much more focus on how an investment strategy relates to the specific circumstances of each scheme. Many trustee boards now have explicit return targets related to their liabilities and have a fuller understanding of the nature of the risk they face. In addition the new funding regime has meant that trustee boards now understand the employer covenant better and are able to link funding and investment issues together in a consistent way.

B – What evidence do you have from your own organisation (or from those you represent) that behaviour and practice has changed, for example from survey data or other activities?

Although we have not undertaken a survey the vast majority of our clients have adopted investment risk and return targets that are specifically related to the circumstances of their scheme allowing for its financial position, liability structure and their assessment of the sponsors covenant. This is a big improvement on the situation that existed five years ago.

C – Given the changes in the pensions environment since 2001, is Principle 2 (clear objectives) still appropriate?

Yes. It would be difficult to envisage circumstances in which this Principle would cease to be relevant.

D – What changes to this Principle (if any) would be desirable to improve governance and investment decision making by trustees?

We do not believe that any changes are necessary to this Principle.

Question 12

Do you agree that trustees should set out in writing their collective beliefs, as a 'sheet anchor' to their investment approach?

It would be helpful to have an explicit statement of belief given that many of the issues in investment are matter of considered opinion rather than hard fact. In many instances the available data and academic literature can support a wide range of beliefs rather than a single outcome. In practice trustees (and their advisors) already have an implicit set of beliefs/biases and it would add clarity to decision making if these were written down.

Question 13

A – Do you agree with the assessment of progress on Principle 3 (asset allocation)? Has behaviour and practice changed as envisaged by the Principle?

We are in broad agreement with the assessment of progress. With the exception of very small schemes most of the trustee boards that we advise have considered a full range of asset classes when they reviewed their investment arrangements.

B – What evidence do you have from your own organisation (or those you represent) that behaviour and practice has changed, for example from survey data or other activities?

Although we have not conducted any surveys the use of alternative assets does appear to be steadily increasing in our client base.

C – Given the changes in the pensions environment since 2001, is Principle 3 (asset allocation) still appropriate.

We believe this Principle still remains appropriate.

D – What changes to this Principle (if any) would be desirable to improve governance and investment decision making by trustees.

We do not believe that any changes to this Principle are necessary.

Question 14

As regards asset allocation, to what extent are schemes looking more widely than in 2001 and are asset allocation and manager structures better designed to achieve scheme investment objectives?

Trustee boards are now willing to consider investing in alternative assets as trustees have come to realise that more effective investment structures (in terms of the risk/reward trade-off relative to their liabilities) can be attained. Principle 3 is effectively a natural follow on to Principle 2 and it is therefore unsurprising that compliance with these two Principles is fairly high.

We also think that market evolution has played a part in this with the expansion of the investment opportunities in hedge funds, private equity and oversees property becoming more available for schemes to invest in.

Question 15

What are the main reasons which have led pension funds to consider/invest in a wider range of assets?

The main reason is undoubtedly to enable more efficient investment structures to be constructed. Another reason has been the growing disillusionment with traditional active equity mandates which has led to trustees considering other ways to access active manager skills (e.g. hedge funds and unconstrained equities).

Question 16

To what extent are pension funds measuring and managing the characteristics and risks of their investments (eg duration, illiquidity, interest rate sensitivity and volatility) relative to the characteristics if their liabilities?

In general it is the larger funds that monitor and manage these with any degree of sophistication. Many of the smaller schemes will look at these issues only from time to time when a strategic asset review is in progress. We would expect to see further progress on this.

Question 17

A – Do you agree with the assessment of progress on Principle 4 (expert advice)? Has behaviour and practice changed as envisaged by the Principle?

Whilst we do not have any hard data on this we do believe there is an increasing trend to have separate tenders for actuarial and investment consulting work particularly among the larger organisations. Most smaller schemes still tend to opt for bundled services.

We have seen only a few instances of separate tenders for strategic asset allocation and manager selections.

B – What evidence do you have from your own organisation (or from those you represent) that behaviour and practice has changed, for example from survey data or other activities?

See above. This is based on our experience of the tenders we have seen over the last couple of years.

C – Given the changes in the pensions environment since 2001, is Principle 4 (expert advice) still appropriate?

We believe that this Principle is still appropriate although we would welcome the inclusion of recommendations of the Morris Review.

D – What changes to this Principle (if any) would be desirable to improve governance and investment decision making by trustees?

See above.

Question 18

Do you agree with the amendments to Principle 4 proposed by the Morris Review?

The amendments proposed by the Morris Report appear reasonable and we think it would be appropriate to include these amendments within the Principle.

Question 19

A – Do you agree with the assessment of progress on Principle 5 (explicit mandates)? Has behaviour and practice changed as envisaged by the Principle?

We believe that good progress has been made on this Principle. This has been helped by the change in the nature of many active equity mandates with much less focus on an index benchmark and more on absolute performance. However, most trustees would be opposed to any clause in an agreement that circumscribed the circumstances in which they could terminate a mandate. In any case, if a trustee board is determined to terminate a mandate it would probably be relatively easy to manufacture factors for sacking a manager even if the real reason centred solely on underperformance.

In our view trustees now have a much better understanding of the associated costs of their investments. This is a welcome development given the situation that existed prior to the publication of the Myners Report where many trustees would have been hard pressed to give a complete description of the costs they incurred in their investments.

B – What evidence do you have from your own organisation (or from those you represent) that behaviour and practice has changed, for example from survey data or other activities?

Most set of trustees have received training in costs and this led to some detailed discussions with managers concerning commission.

We have not seen any specific wording included in agreements stating that trustees will not terminate a mandate due to underperformance alone and believe that most trustees boards would be reluctant to have such wording included. As noted above we also doubt whether any such wording would be particularly effective.

However, in terms of unconstrained mandates many trustees boards do have a clear idea about the types of market conditions that favour certain styles of management and appropriate timescales over which performance should be assessed.

C – Given the changes in the pensions environment since 2001, is Principle 5 (explicit mandates) still appropriate?

We believe that this Principle remains appropriate.

D – What changes to this Principle (if any) would be desirable to improve governance and investment decision making by trustees?

We do not believe that any changes need to be made to these proposals.

Question 20

What evidence do you have from your own organisation (or from those you represent) that mandates are prematurely terminated for underperformance alone? Do you believe that the perception of this risk detrimentally influences fund manager performance? What changes to Principle 5 might address this.

The times when mandates are prematurely terminated for underperformance alone are relatively rare in our experience although there is no doubt that they do happen. It is more typical that other factors are present alongside any underperformance which leads trustees to lose confidence that the manager can performance well in the future. In our experience trustees can actually sometimes be over cautious and resist changing managers even when there is a good case to do so.

We are not a fund management organisation so cannot comment with any authority on whether manager performance is affected (either positively or negatively) by the perception of the risk of termination.

Question 21

A – Do you agree with the assessment of progress on Principle 6 (shareholder activism)? Has behaviour and practice changed as envisaged by the Principle?

Whilst we do not think that the original intention of the Principle (which we take to be enhanced trustee engagement in the companies they invest) has been achieved we believe there has been progress against the amended Principle with many managers subscribing to the ISC guidelines.

In any case other market influences are at work in the area of shareholder activism with much more activity in the Private Equity arena and also signs that certain types of hedge fund are committed to tackling underperforming management. It remains to be seen whether these will act to create genuine long term additional value or simply act as a transfer of existing wealth.

B – What evidence do you have from your own organisation (or those you represent) that behaviour and practice has changed, for example from survey data or other activities?

We have seen no evidence of a widespread increase in Trustees engaging with their corporate investments and believe that the resources simply do not exist for this to be a viable proposition for most trustee boards. However, there does appear to be some progress that fund management organisations are increasing their engagement if the exercise of voting rights is used as a proxy.

C – Given the changes in the pensions environment since 2001, is Principle 6 (shareholder activism) still appropriate?

Although we believe that proper scrutiny of the management by shareholders is vital we do not think it is practicable for most trustee boards to perform this function and in practice this is probably better delegated to fund managers (albeit with some guidelines from the trustee board). We await with interest the guidelines that are due to be published by the ISC later this year.

D – What changes to this Principle (if any) would be desirable to improve governance and investment decision making by trustees?

This is a difficult area as most trustee boards have effectively delegated this almost in its entirety to the investment managers. This is perhaps not unexpected given the changes made to the original Principle and the fact that the individuals best placed to engage with company management are likely to be found in the fund management/private equity/hedge fund industry.

We believe that other organisations are perhaps better placed to comment on this area.

Question 22

A – Do you agree with the assessment of progress on Principle 7 (appropriate benchmarks)? Has behaviour and practice changed as envisaged by the Principle?

Yes all the evidence of our own client and industry data supports this assessment.

B – What evidence do you have from your own organisation (or from those you represent) that behaviour and practice has changed, for example from survey data or other activities?

We have encouraged all of our clients to adopt scheme specific benchmarks that reflect the individual circumstances of their scheme. The vast majority of clients have done so.

C – Given the changes in the pensions environment since 2001, is Principle 7 (appropriate benchmarks) still appropriate?

We believe this still remains appropriate and is a natural follow on to Principles 2 and 3.

D – What changes to this Principle (if any) would be desirable to improve governance and investment decision making by trustees?

We do not believe that any changes are needed to this Principle.

Question 23

A – Do you agree with the assessment of progress on Principle 8 (performance measurement)? Has behaviour and practice changed as envisioned by the Principle?

We agree with the assessment of progress on this Principle. Some pension schemes have adopted a process for measuring the performance of their investment advisors and the performance of the trustee board but in many cases this remains a somewhat ad hoc process. We also have difficulties with the concept of self review whereby trustees are responsible for assessing their own performance.

As noted in the discussion paper there is no generally accepted methodology for performance measurement and it is difficult to devise objective measures for some aspects of advice. Although one can look at processes followed this may not have an explicit link to the quality of decisions taken which is the critical issue.

B – What evidence do you have from your own organisation (or from those you represent) that behaviour and practice has changed, for example from survey data or other activities?

We have seen little evidence of a wholesale change in behaviour as a result of this Principle.

C – Given the changes in the pensions environment since 2001, is Principle 8 (performance measurement) still appropriate?

We believe that the Principle is still relevant although implementation issues need to be addressed.

D – What changes to this Principle (if any) would be desirable to improve governance and investment decision making by trustees?

The people performing the measurement should be independent from those whose performance they are measuring if any degree of confidence is to be ascribed to the results. Also the measures used should in some way relate to the outcomes rather than simply the process followed.

However, we recognise that it is difficult to devise appropriate measurement criteria and that it may not be possible to develop a fully satisfactory methodology in this area.

Question 24

A – Do you agree with the assessment of progress on Principles 9 and 10 (transparency and regular reporting)? Has behaviour and practice changed as envisaged by the Principles?

Most of the schemes we advise have now adopted a strengthened Statement of Investment Principles that takes account of the recommendations of the Myners review. However, some trustee boards are reluctant to include projected investment returns given that these vary widely with market conditions and that decisions about strategy are usually made allowing for the risk as well as the expected return.

We are unable to comment fully on Principle 10 but note that the lack of progress on Principle 8 means that there cannot have been full progress on Principle 10.

B – What evidence do you have from your own organisation (or from those you represent) that behaviour and practice has changed, for example from survey data or other activities?

As noted above most of the schemes we advise have adopted Principle 9. We do not have the information to comment on the extent to which Principle 10 is adhered to.

C – Given the changes in the pensions environment since 2001, are principles 9 and 10 (transparency and regular reporting) still appropriate?

In our view the setting out of clear objectives is crucial for any pension scheme and it seems appropriate for the Statement of Investment Principles to be the vehicle for this. We therefore believe that Principle 9 is still relevant.

We are also of the view that regular reporting to members is vital especially against the current backdrop of press interest in pension schemes.

D – What changes to these Principles (if any) would be desirable to improve governance and investment decision making by trustees?

We welcome the recent requirement for setting out how trustees approach monitoring of risk but this requirement surely also extends to the monitoring of projected returns. In addition we believe it is the projected returns (and risk) relative to the liabilities that is the crucial issue. We recommend that this Principle modified on account of this and perhaps also to include the results of assessing the employers covenant given the impact this can have on suitable investment strategies.

Question 25

The framework to provide an independent compliance review (ICR) of progress against the Myners Principles is published here for the first time (Appendix 3). Would this framework be the most efficient way of monitoring progress? What are your responses to the questions in Appendix 3, on which comments are invited?

1 – The criteria for determining which schemes should be expected to commission a compliance report.

We believe the proposed criteria represent a reasonable starting point.

2 – Coverage of review report

We believe that the proposals are a reasonable compromise between scope/depth and cost. The real problem we have with the proposal is that, as the discussion paper makes clear, there will be no verification of whether processes or systems are delivering intended outcomes. Although this may be inevitable given the difficulties in measuring the outcomes it is still a weakness of the proposed approach.

3 – Extent of disclosure of the reviews findings and form in which it is provided to scheme members

Again we believe this represents a reasonable compromise. We believe that the forward looking approach is likely to be much better received by members than a simple statement of historical fact.

4 – Timing of the introduction, frequency and duration or review requirement

We believe that the approach recommended represents a reasonable balance between the cost and utility of the report.

5 – Appropriate qualifications and experience for the reviewer

We have no comments on this.

6 – Appropriate level of independence for triennial reviews and permissible level of connection for interim reviews

We have no further comments on this.

Question 26

A – What evidence do you have from your own organisation (or from those you represent) to assess progress on DC Principle 4 (Choice of Default Fund)?

For many schemes the default option takes the form of a lifestyle matrix whereby assets are invested wholly in equities for younger members and gradually transitioned into bonds and cash as the member reaches their selected retirement date. In some cases the default fund will take the form of a private fund combining funds from different managers. In this case the expected return will be related to a composite benchmark.

Members will be informed of the expected returns under the SMPI documents which they are issued with on an annual basis.

B – What evidence do you have from your own organisation (or from those you represent) that behaviour and practice has changed, for example from survey data and other activities?

We have noted that there has been little change in the proportion of DC schemes offering a default option. However, of the schemes which offer a default option, there has been a significant growth in the proportion of DC schemes using lifestyle.

C – Given the changes in the pensions environment since 2001, is DC Principle 4 (Choice of Default Fund) still appropriate?

As noted earlier we believe that there should be an additional requirement to provide the members with sufficient information that they are able to make an informed choice as to the funds which are suitable for them and an explanation of why the default fund may not be suitable for all of the members.

Question 27

Are there any other general points you would like to rise on the issues raised in this report or institutional investor governance that are not covered elsewhere in this Discussion Paper?

We have no further comments.

We hope you find the above comments helpful. If you wish to follow up any points please contact me on brian.st.john-hall@hewitt.com or 020 7939 4000.

Kind regards

Brian St. John Hall

Chairman of the Investment Committee, Association of Consulting Actuaries