City of Westminster

Statement of Investment Principles 2012
Superannuation Fund

Summary of Scheme and its Management

The Local Government Pension Scheme (LGPS) is one of the oldest public sector schemes in operation, having been established as a national scheme in 1922. There are about 1.6 million employees currently in the LGPS in England and Wales[1]; roughly 75% of the local government workforce[1]. They contribute to the LGPS via any one of the 89 regional pension funds spread across England and Wales[1].

The LGPS is managed by an administering authority (typically a county council or regional administrator) in accordance with regulations approved by Parliament. In Westminster's case this is the City of Westminster. Each administering authority is responsible for its own Fund, into which all contributions are paid. Rules by which the administering authorities must operate - the LGPS Regulations - are determined by the Government after consultation with representatives for both employees (trade unions) and employers (Local Government Association, Local Government Pensions Committee). The Scheme employers comprise the 378 local authorities in England and Wales[4], along with numerous Town, Parish and Community Councils.

Each LGPS administering authority pays its benefits from a dedicated pension fund. Both the scheme member and their employer pay into this fund in order to provide retirement benefits for the member once the member reaches retirement age (or earlier if the situation demands). These contributions paid into the scheme are invested in a variety of assets such as bonds and shares. By investing the contributions, the fund can build up enough assets to cover any payments it may be expected to make regarding its scheme members benefits. Please visit the website www.westminster.gov.uk for further information.

As at 31 March 2012, the net assets of the City of Westminster Superannuation Fund were valued at £705 million. The fund itself currently has 3,527 actively contributing members. Pensions are paid to 5,177 pensioners (and/or dependants) every month. There are 5,935 members with rights to deferred benefits.

The LGPS is contracted-out of the State Second Pension (S2P) and must, in general, provide benefits at least as good as most members would have received had they been members of S2P.

[1]Source: Local Government Association

FUND POLICIES
Statement of Investment Principles

1. Overall Responsibility

The Council is the designated statutory body responsible for administering the City of Westminster Superannuation Fund on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

This Statement of Investment Principles has been prepared in accordance with the requirements of Regulation 12 under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. It complies with guidance issued by the Secretary State and the Chartered Institute of Public Finance and Accountancy. Within this framework, the administering authority has adopted the six principles of best corporate governance practice issued by the Government following earlier consultation, a statement of compliance on which is set out below. These six principles supersede by updating and consolidating the earlier ten principles identified in the Myners Review of Institutional Investment in the UK.

The City Council is the Administering Authority and responsible for managing the Fund in accordance with the Regulations. The responsibility for the Fund's investments has been delegated to the Superannuation Committee, which meets at least four times a year and comprises six elected Members of the Council (including 1 minority party Member). Supporting the Committee are the Officers of the Council and one professional investment adviser.

The Lord Mayor, the Leader of the Council and the Leader of the Opposition are invited to attend as observers.

Representatives from the employees Union may also attend as observers and receive published Agenda.

2. Investment Objectives

The investment objectives are to maximise investment returns over the long term within specified risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income).

The aim of the Fund is to provide a pool of assets sufficient to meet the long-term pension and other benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for the members of the Fund.

The Fund should never fall below minimum funding levels as set out in the Funding Strategy Statement.

The Fund is a long term Fund; therefore the investment strategy should reflect this.

3. The Superannuation Committee

The terms of reference of the Superannuation Committee are:

To have responsibility for all aspects of the investment and other management of the Council's Superannuation Fund, including, but not limited to, the following matters:

1. To agree the investment strategy having regard to the advice of the Fund Managers and the independent adviser.

2. To monitor performance of the Fund and of the individual Fund Managers.

3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Custodians and Fund Advisers.

4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.

5. To approve and publish the pension fund annual report.

6. To prepare and publish a pension administration strategy.

7. To make an admission agreement with any admission body.

8. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.

9. To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.

10. To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council which fall within the remit of the Appointments Sub-Committee).

4. Investment Style and Management

The investment style is to appoint expert Fund Managers with a clear performance benchmark and place maximum accountability for performance against that benchmark on the Fund Manager.

The following table shows the current target Fund structure as of 31 March 2012:

	% of Fund
Passive	
UK Equity	16.9
Global Equity	20.6
Active	
Fixed Interest - Gilts	5.0
Fixed Interest – Non-Gilts	15.0
UK Equity	16.9
Global Equity	20.6

Specialists/Alternatives	
UK Property	5.0
Total	100.0

The proportion of the fund allocated to each specialist manager was determined with reference to the overall asset allocation specified in the Fund's customised benchmark. This benchmark was initially established in 2006. The target allocation to property was set in 2010 at approximately 5% to 7.5%. The Fund has in place a hedging policy for non-sterling investment set at 50%.

The number of managers appointed under the structure reflects the need to diversify by manager and the need to spread risk. The fund has appointed 6 fund managers with the following allocation breakdown as at 31 March 2012:

	Manager	% of Fund
Passive		
UK Equity	SSgA MPF UK Equities	15.5
Global Equity	SSgA MPF International Equities	14.2
Active		
Fixed Interest - Gilts	Insight Investment Management	5.1
Fixed Interest – Non-Gilts	Insight Investment Management	16.0
UK Equity	Majedie Asset Management	23.2
Global Equity	Newton Investment Management	21.0
Specialists/Alternatives		
UK Property	Hermes, L&G and West End of London Property Unit Trusts	5.0
Total		**100.0**

5. Policy on Kinds of Investment

The Superannuation Committee, having regard to funding levels, cash needs and risk tolerances, determines the overall Fund asset mix.

As at 31 March 2012, the asset allocation of the Fund was:

	Allocation %
Bonds	
Gilts	5.1
Corporate Bonds	16.0
Total Bonds	**21.1**
Property	5.0
UK Equity	38.6
Global and Overseas Equity	35.3
Total Equity	**73.9**

The Superannuation Committee is currently reviewing the suitability of the Fund's actual benchmark asset allocation.

Acceptable asset classes are

- UK equities
- UK fixed interest
- UK index linked gilts
- UK Property
- Overseas equities, major classes being
    - North America
    - Europe
    - Pacific Rim including Japan
    - Emerging Markets
- Global Bonds
- Overseas index linked stocks
- Unquoted securities via pooled funds
- Emerging market equities via pooled funds, unless specifically authorised
- Use of certain types of derivatives and other financial instruments is permitted
- Stock lending is subject to specific approval. No direct stock lending took place in 2011/12.

There are statutory limits on the proportion of the Fund that can invested in certain types of investment as determined by the Local Government Pension Scheme (Management and Investment of Funds Regulations) 1998 (as amended from time to time).

6. Investment Performance Targets and Benchmarks

The over-riding aim is to run the Pension Fund in accordance with relevant legislation and the following performance target:

"to outperform the Fund's benchmark performance".

Asset Class	Benchmark Allocation %	Permitted tolerance range %	Index
UK Equities	36	30 – 40	FTSE All Share
Overseas Equities			
US/North America	14	10 – 20	FTSE AW– North America
Europe	9	5 – 13	FTSE AW – Developed Europe
Japan	6	3 – 9	FTSE AW – Japan
Pacific Rim	3	0 – 5	FTSE AW– Asia Pacific excluding Japan
Emerging Markets	4	0 – 6	50% MSCI (Emerging Markets) 50% FTSE AW Emerging Markets
BONDS			
UK Fixed Interest Gilts	8	5 – 10	FTSE Actuaries Govt. All-Stock
Sterling non-Government Bonds	8	5 – 10	iBoxx Sterling Non Gilts 1-15 Years Index
Index-Linked Gilts	4	0 – 6	FTSE Actuaries Govt. I-L All-

			Stock
Property	8	0 – 12	IPD UK All Balanced Funds
Cash	0	0 – 5	LIBID 7 Day Rate

Note: Since the period under review, the Fund's asset allocation has changed to 65% equities: 20% bonds: 15% property.

Individual Fund managers have different outperformance targets that reflect the level of risk to be taken by each manager as summarised in the table below. Individual manager performance is measured with reference to the relevant portion of the benchmark, e.g. the UK equity managers are measured with reference to the FTSE All-Share index, and the relevant individual outperformance target.

Type of funds	Level of Risk	Target Return Out – Performance p.a.
Passive (index-tracker)	Low	0 – 0.5%
Active core	Medium	0.75 – 2.5%
Active regional specialists	High	3%
TOTAL	Medium	

7. Policy on Risk

Fund Managers are required to implement appropriate risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits.

8. Policy on Balance Between Different Kinds of Investment

The Council has set target asset allocation ranges for each kind of investment within the overall benchmark. Fund Managers must seek approval for any variation against their agreed strategy and are required to report quarterly their current country, sector or asset allocation positions, whichever is relevant.

9. Policy on Realisation on Investments

Fund Managers are required to maintain portfolios that consist of assets that are readily realisable. Any investment within an in-house or pooled fund, which is not readily tradable, requires specific approval.

10. Monitoring and Review

The target funding level is set triennially, consequent upon the actuarial review. The statutory requirement is to move towards 100% funding over a period of time, agreed with the Fund Actuary.

Investment strategy will be reviewed annually, with a major review taking place no later than every five years. The SIP will also be reviewed annually.

Investment management arrangements are monitored quarterly with a review ~~is~~ carried out at least every three years.

Investment management performance is reviewed annually upon receipt of the third-party performance information.

The individual manager's current activity and transactions are presented quarterly in discussion with the Superannuation Committee.

11. Ethical and Environment Investment

The Council wishes to have some influence on issues of environment or ethical concern with companies in which the Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council expects the Fund Managers to take note of the possibility that substantial ethical or environmental considerations may be among those bringing a particular investment decision into the "potentially contentious" category.

12. Corporate Governance

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles where possible. In practice, Managers are delegated authority to exercise the Fund's voting rights in this respect but are subject to monitoring through quarterly reporting of any action taken.

13. Custody

Managers are required to hold cash and stocks in an account managed by The Bank of New York Mellon, the Fund's independent global custodian, or by agreement otherwise as appropriate. The Fund aims to hold only a minimum working cash balance.

14. Administration

On behalf of the Council, the Chief Investment Officer is required to exercise continual monitoring of the managers' investment related actions and administration. This includes:

- maintaining the investment ledger and suitable accounting procedures for Fund assets
- preparing and submitting statistics quarterly for performance measurement independent of the managers
- preparing a quarterly report to Superannuation Committee and occasionally the Audit and Performance Committee
- preparing the audited annual report and accounts for employing bodies – in line with statutory deadlines

- publishing a report on the Council website that is available to stakeholders
- maintaining an up to date record of cash balances of the Fund to ensure surplus cash is invested promptly or that resources are available to meet the benefit outflow as it arises.

MYNERS INVESTMENT PRINCIPLES COMPLIANCE STATEMENT

Statutory Instrument 2002 No. 1852 requires that the Council, administering authority of the Pension Fund, publish details of the extent to which the Fund complies with the ten principles identified as indicators of best practice in the Myners Review of Institutional Investment.

In 2007 HM Treasury sponsored the NAPF to conduct a review of progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The resultant report 'Institutional Investment in the UK: Six years on' was followed by a wide consultation exercise culminating in the original ten principles being superseded by six new principles. The new principles were launched in October 2008 and HM Treasury and the Department for Work and Pensions jointly commissioned the Pension Regulator to oversee an Investment Governance Group given the task of implementing the new principles across all UK pension funds.

In 2001, a set of ten principles for Defined Benefit Pension Schemes was introduced as a voluntary code of best corporate governance practice following a review of institutional investment by Lord Myners. These became widely known as the Myners' Principles. In 2008, these principles were narrowed down to six following a review by the National Association of Pension Funds. This was followed by a Government consultation culminating in a required statement of the level of pension fund compliance with these new principles being incorporated into the regulations in 2010. The following summaries these principles and explains how the Council has complied with the principles.

Principle 1: Effective Decision-Making

Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

✓ ***Full compliance – a programme of training is in place for the Superannuation Committee members and Officers. The programme is supported by the Chief Operating Officer.***

Principle 2: Clear Objectives

An overall investment objective should be set for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

✓ ***Full compliance – the Fund's overall objectives are defined in the Statement of Investment Principles and the Funding Strategy Statement. These are directly linked to the findings of the triennial actuarial valuation. The next review will take place in late 2013.***

Principle 3: Risks and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

✓ ***Full compliance – a customised benchmark has been in place since 2006 and was recently reviewed and updated. In setting this benchmark, the Fund made certain financial assumptions, including a consideration of longevity risk and the strength of covenant of participating employers.***

Principle 4: Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.

✓ ***Full compliance – the Fund has explicitly considered investment benchmarks which the managers consider appropriate and has also considered active/passive split. Target performance and risk are explicitly included in manager contracts. Performance is actively monitored and reported.***

Principle 5: Responsible Ownership

Adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. Include a statement of their policy on responsible ownership in the statement of investment principles. Report periodically to scheme members on the discharge of such responsibilities.

✓ ***Full compliance – the Fund does not prescribe the Institutional Shareholders Committee Statement of Principles, but all managers are required to actively vote all holdings and report to the Committee or Officers as required. The Fund monitors voting by managers.***

Principle 6: Transparency and Reporting

Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Provide regular communication to scheme members in the form they consider most appropriate.

✓ ***Full compliance – the Fund publishes (in accordance with statute) a range of documents setting out its governance arrangements, communication policies with members and aims including a Communications Policy Statement, a Funding Strategy Statement, a Statement of Investment Principles and an Annual Report and Accounts.***

Contacts

Benefits and Contributions

Enquiries should be directed in writing to Pension Services at the following address:

Pensions Unit
London Pension Fund Authority,
Dexter House,
2 Royal Mint Court
London EC3N 4LP
Email: westminster@lpfa.org.uk

Further Information
Any enquiries about this Statement of Investment Principles should be addressed to

The Director of Corporate Finance and Investment
16th Floor,
Westminster City Hall
64 Victoria Street,
London SW1E 6QP

Accounts and Investments
Information regarding the accounts and investments can be obtained from The Director of Corporate Finance and Investment on 020 7641 1804. Information is also published on the Council's website: www.westminster.gov.uk

Pension Scheme Regulations
1997 Regulations S.I. 1997/1612
Copies may be obtained from:
The Stationery Office Ltd
2nd Floor, St Crispins
Duke Street
Norwich
NR3 1PD

Website:
www.opsi.gov.uk/si/si1997/19971612htm

Useful Addresses

The Pensions Advisory Service (TPAS)
11 Belgrave Road
London
SW1V 1RB
Tel. 0845 601 2923
e-mail: enquiries@pensionsadvisoryservice.org.uk

Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB
Tel. 0207 630 2200
e-mail:enquiries@pensions-ombudson.org.uk

Employee and Employer Guides

The Department for Community and Local Government has produced guides to the Pension Scheme Regulations. These are available on request from Pension Services.

National Website

www.lgps.org.uk

Glossary of Terms

Accruals Based Accounting
The most commonly used accounting method, which reports income when earned and expenses when incurred, as opposed to cash basis accounting, which reports income when received and expenses when paid.

Active Management
A style of management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or a combination of these). Compare with passive management.

Actuary
An independent consultant who advises the Council on the financial position of the Fund. See actuarial valuation.

Actuarial Valuation
This is an assessment done by an actuary, usually every three years. The actuary will work out how much money needs to be put into a pension fund to make sure pensions can be paid in the future.

Additional Voluntary Contribution (AVC)
An option available to individuals to secure additional pensions benefits by making regular payments in addition to the 5.5%-7.5% of basic earnings payable.

Admitted Bodies
Employers whose staff can become members of the Fund by virtue of an admission agreement made between the administering authority and the employer.

Annualised Return
The rate of return for any given period expressed as the equivalent average return per annum.

Asset Allocation
The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through tactical asset allocation decisions.

Attribution
Used to explain the differences between a portfolio's return and a benchmark return. Two main factors contribute to this difference: asset allocation strategy and stock selection.

Balanced Management
The fund manager invests in a range of asset classes, as defined by a fund's benchmark.

Benchmark
A yardstick against which the investment policy or performance of a fund manager can be compared. The Surrey Fund's benchmark is customised, meaning that it is tailored to the Fund's liability profile.

Bond
A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

Book cost
The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from market value.

Broker
An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

Commission
A service charge assessed by an agent in return for arranging the purchase of sale of a security or real estate. The commission must be fair and reasonable, considering all the relevant factors of the transaction. (Underwriting commission)

Corporate Bond
A debt security issued by a corporation, as opposed to those issued by the government.

Corporate Governance
The system by which companies are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

Creditors
Amounts owed by the pension fund.

Custody
Safe-keeping of securities by a financial institution. The custodian keeps a record of the client's investments and may also collect services such as performance measurement.

Debtors
Amounts owed to the pension fund

Derivative
Used to describe a specialist financial instrument such as options or futures contracts. Financial instruments are agreements to buy or sell something, under terms laid out in a contract.

Diversification
A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimise the impact of any one security on overall portfolio performance.

Dividend
Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

Dividend Yield
An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share.

Emerging Markets
There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

Equity
Stock or any other security representing an ownership interest.

Ex-dividend
Purchase of shares without entitlement to current dividends. This entitlement remains with the seller of the shares.

Ex-post
A term that refers to past events or actual returns. Often used in relation to tracking error.

Final Salary Scheme
An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

Fixed interest
A loan with an interest rate that will remain at a predetermined rate for the entire term of the loan. See bond.

FTSE All-Share
An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.

Funding Level
A comparison of a scheme's assets and liabilities.

Futures Contract
A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and seller must follow the contract by law.

Gilts
The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

Hedge
Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as futures contract.

Index Linked
A bond which pays a coupon that varies according to some underlying index, usually the Consumer Price Index.

LGPS
Local Government Pension Scheme.

LSE
London Stock Exchange

Mandate
The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

Market Value
A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.

Option
The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

Passive Management
A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index. Compare with active management.

Pension Fund
A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement.

Private Equity
When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. Also know as development capital.

Property Unit Trusts
Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties.

Resolution Bodies
Scheme employers with the power to decide if an employee or group of employees can join the scheme.

Return
Synonymous with profit, be it income received, capital gain or inco9me and capital gain in combination. Usually expressed as a percentage of the nominal value of the asset.

Risk
The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

Scheme Employers
Local authorities and other similar bodies whose staff automatically qualify to become members of the pension fund.

Security
An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity. Socially Responsible Investment (SRI) Investments or funds containing stock in companies whose activities are considered ethical.

Specialist Manager
A fund management arrangement whereby a number of different managers each concentrate on a different asset class. A specialist fund manager is concerned primarily with stock selection within the specialist asset class. Asset allocation decisions are made by the Superannuation Committee, their consultant or by a specialist tactical asset allocation manager (or combination of the three).

Stock
A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or equity.

Stock Selection
The process of deciding which stocks to buy within an asset class.

Tracking Error
An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking.

Transaction Costs
Those costs associated with managing a portfolio, notably brokerage costs and taxes.

Transfer Value
The amount transferred to/from another pension fund should a member change employment. The amount transferred relates to the current value of past contributions.

Transition
To move from one set of investment managers to another.

Underwriting
The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt).

Unit Trust
A pooled fund in which investors can buy and sell units on an ongoing basis.

Unlisted Security
A security which is not traded on an exchange.

Unquoted Security
A share which is dealt in the market but which is not subject to any listing requirements and is given no official status.

Unrealised Gains/ (losses)
The increase/ (decrease) at year-end in the market value of investments held by the fund since the date of their purchase.

Yield
The rate of income generated from a stock in the form of dividends, or the effective rate of interest paid on a bond, calculated by the coupon rate dividend by the bond's market price. Furthermore, for any investment, yield is the annual rate of return expressed as a percentage.