MEETING	**PENSIONS COMMITTEE**
DATE	**25 NOVEMBER 2011**
PURPOSE	**Until now there have been recommendations regarding governance of Pension Funds. From 2011/12 new requirements apply due to the Knowledge and Skills Framework and the Stewardship Code**
TITLE	**PENSION FUND GOVERNANCE**
AUTHOR	**DILWYN WILLIAMS, CORPORATE DIRECTOR**

1. Background

The Pension Fund has set out its governance arrangements in several documents as follows:

- Governance Policy Statement
- Governance Compliance Statement
- Investment Principles – Adherence to Myners Principles

These documents are all part of the Pension Fund Annual Report and set out the responsibilities for governance of the Fund and the ways in which the Pension fund is managed.

The Governance Compliance Statement is a set of statements of compliance against a set of best practice principles for scheme governance and stewardship.

Whilst the Pension Fund is fully compliant with the majority of these statements there are two areas where the Fund is only partly compliant. One is the representation of scheme members / committed bodies or lay members on the Committee. The second is the adoption of annual training plans for committee members. The matter of training for officers and members has been the subject of recent guidance from CIPFA.

2. Recent Developments

2.1 Knowledge and Skills Framework

2.1.1 Following publication of guidance on Pensions Finance Knowledge and Skills for Elected representatives, Non-Executive Members and Pensions Practitioners in the public sector CIPFA published in 2010, CIPFA published a Code of Practice on Public Sector Pensions Knowledge and Skills in September 2011.

The previous guidance was regarded as good practice which authorities should consider adopting, but the new Code is a requirement from 2011/12 onwards.

2.1.2 CIPFA recommends that public sector pension schemes adopt the following statement:

(i) This organisation adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

(ii) This organisation recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills.

(iii) Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

(iv) These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

(v) This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

(vi) This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Head of Finance, who will act in accordance with the organisation's policy statement and with CIPFA Standards of Professional Practice.

2.1.3 CIPFA recommends that an organisation adopt a knowledge and skills policy statement (as referred to in point (iii) above) as follows:

This organisation recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to utilise individuals who are both capable and experienced and it will provide training for staff and members of the pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

2.1.4 The knowledge and skills expected by the Framework are shown in Appendix A to this report.

2.1.5 The requirement to report on an annual basis can be satisfied by including information in the Pension Fund Annual Report. This disclosure should include

- How the frameworks have been applied
- What assessment of training needs has been undertaken
- What training has been delivered against identified training needs

2.1.6 The launch of the Code is timely as Lord Hutton recommended that "every public service pension scheme (and individual LGPS Fund) should have a properly constituted, trained and competent Pension Board".

2.1.7 Under current training arrangements all members of the Pensions Committee are required to attend a three day Trustee Training Fundamentals Course, after which they receive an "LGPS Fundamentals" training certificate. From time to time members are also sent on refresher courses and attend appropriate conferences on a rota basis. In addition, many of the reports to the Investment Panel present new information to officers and elected members and therefore contribute to their knowledge of investment matters.

2.1.8 Following adoption of the above statements the first step will be to undertake a training needs assessment. It is proposed that this be based on completion of a self-assessment questionnaire. The information received will be used to arrange any training required as identified by the questionnaire. Such training could involve internal training within existing meetings or in additional specific sessions and external courses as appropriate.

2.2 Stewardship Code

2.2.1 In July 2010 the Financial Reporting Council (FRC) published its UK Stewardship Code. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire.

2.2.2 The Code requires increased disclosure from institutional investors on a "comply or explain" basis. The disclosure by asset managers (investment managers) is published online and the responsibility for keeping the disclosures up to date lies with the managers.

2.2.3 The principles of the Code are that institutional investors should:

- Publicly disclose their policy on how they will discharge their stewardship responsibilities
- Have a robust policy on managing conflicts of interest in relationship to stewardship
- Monitor their investee companies
- Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value
- Be willing to act collectively with other investors where appropriate
- Have a clear policy on voting and disclosure of voting activity
- Report periodically on their stewardship and voting activitiy

2.2.4 The FRC has a list on its website of those investors that have published a statement of compliance or otherwise with the Code. The list includes our equity managers namely BlackRock, Capital International and Fidelity Investment Managers as well as Insight Investment and UBS Global Asset Management.

2.2.5 Whilst the Code is addressed primarily to institutional investors, the FRC makes specific mention of the impact that pension fund trustees, or pensions committees in the context of LGPS funds, have on the quality and quantity of engagement with investee companies. The FRC encourages pension funds to report if and how they have complied with the Code. A small number (12) of LGPS pension funds have published a statement of compliance with the Code to date.

2.2.6 The Pension Fund's Statement of Investment Principles includes a section on the exercise of voting rights attaching to investments as follows:

- The Committee believe that the adoption of good practice in corporate governance will improve the management of companies and thereby add long term shareholder value.
- The Committee expect the investment managers to make regular contact at senior executive levels with the companies in which the scheme's assets are invested, both as an important element of the investment process and to ensure good corporate governance.

- Investment managers have produced statements regarding their corporate governance policies which the Committee consider compatible with the requirements stated in para. 7.2. The Committee expects investment managers to act in accordance with their stated corporate governance policies.

- Voting actions will be reported on an exception basis to the Committee on a regular basis.

2.2.7 The following actions have been taken in respect of the Stewardship Code:

- Ensure that Gwynedd Pension Fund's investment managers have adopted the Code's principles

- Review of our managers' statements on compliance with the Stewardship Code

- Scrutiny of our equity managers' quarterly reporting on engagement

2.2.8 Consideration needs to be given to the reporting of managers engagement to the members of this Committee. This could be on an exception basis as at present or an annual basis based on the quarterly reports received from the equity managers.

2.2.9 There are a number of options available for monitoring and challenging investment managers:

(i) There are companies which specialise in monitoring and challenging investment managers engagement and voting in their investee companies. Such a company would lobby on behalf of the Pension Fund and report on a regular basis. These companies act for a number of different clients across the public and private sectors. Appointing such a company would be a fairly significant additional layer of fees for the Fund.

(ii) The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. The LAPFF brings together a number of local authority pension funds providing an opportunity for discussion of investment issues and shareholder action. The influence gained by such funds acting together as shareholders on issues of common concern has considerable potential in relation to companies where they invest. Membership is available for all local authority pension funds. This would be a local authority based way of influencing the corporate governance of the Fund's equity investments.

(iii) Monitoring investment managers could be undertaken internally and reliance would be placed on the investment managers to represent our interests as is currently the case. In practice large investment managers have voting policies and practices and will vote the same way on all their clients shares. This gives them considerable potential to influence the investee companies.

2.2.10 Gwynedd Pension Fund should consider publishing a statement of compliance with the Code.

2.2.11 Any changes required to the Statement of Investment Principles (SIP) and the Investment Principles – Adherence to Myners Principles as a result of adopting the Code will be made when the full review of the SIP is carried out and will be presented to this committee im March 2012.

3. Social, Environmental and Ethical Considerations

3.1 Part of good governance and stewardship is the consideration of social, environmental and ethical matters in the management of investee companies.

3.2 The Pension Fund's Statement of Investment Principles includes a section on social, environmental and ethical considerations as follows:

- With regard to socially responsible investment, the Committee is mindful of legal principles which are based on recent decisions in the courts and which apply to all pension schemes. In particular the administering authorities are not entitled to subordinate the interests of members to social, environmental and ethical demands. The financial performance of the Fund consistent with proper diversification and prudence, is paramount.
- The Committee have considered the extent to which social, environmental and ethical factors should be taken into account in the selection, retention and realisation of investments. They also recognise that these factors can also affect the return on investments.
- The Committee expects that the boards of companies in which the Pension Fund invests should pay due regard to social, environmental and ethical matters and thereby further long-term financial interests of the shareholders. The Committee looks to the directors of a company to manage that company's affairs taking proper account of the shareholder's long-term interests.
- The investment managers have produced statements of investment policy in relation to social, environmental and ethical considerations

which the Committee deem to be consistent with the aims outlined in para. 6.3. above. The Committee expects investment managers to act in accordance with their stated socially responsible investment policies.

- The Committee believe that this stance is consistent with the long-term objective of the scheme.
- The Committee will satisfy themselves annually that the investment managers are following this policy.

3.3 As part of the adoption of the Stewardship Code it is appropriate to include consideration of social, environmental and ethical matters in the scrutiny and reporting of equity managers engagement with investee companies.

4. Recommendations

4.1 Knowledge and Skills Framework

It is recommended that the Pensions Committee adopt the statements in paragraph 2.1.2 and 2.1.3 above and that a self-assessment questionnaire be circulated to members in order to establish any specific training requirements and develop an appropriate training programme going forward.

4.2 Stewardship Code

It is recommended that the Committee agree to the principle of publishing a statement of compliance with the Stewardship Code and adopt appropriate scrutiny and reporting of equity investment managers by choosing an option from paragraph 2.2.9 in order to achieve that aim.

A decision is also needed on whether the reporting to the Committee of investment managers engagement should be on an exceptional or an annual basis.

4.3 Social, Environmental and Ethical Considerations

It is recommended that the Committee agree to include social, environmental and ethical considerations in the appropriate scrutiny and reporting of equity managers.