MEETING	**PENSIONS COMMITTEE**
DATE	**22 MARCH 2013**
PURPOSE	**CONSIDER THE RESULTS OF THE TRIAL MEMBERSHIP OF LAPFF AND DECIDE ON MEMBERSHIP IN THE FUTURE** **ASK THE COMMITTEE TO APPROVE THE STATEMENT OF COMPLIANCE WITH THE STEWARDSHIP CODE**
TITLE	**PENSION FUND STEWARDSHIP**
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1. Background

At the meeting of the Pensions Committee on 25 November 2011, the introduction of the UK Stewardship Code was considered and the principle of publishing a statement of compliance with the Code was agreed. As part of that statement it is necessary to explain how the Pension Fund discharges its stewardship responsibilities.

The Committee also agreed that the Pension Fund should become a member of Local Authority Pension Fund Forum (LAPFF) in order to strengthen stewardship arrangements and to participate in actions taken by LAPFF on behalf of its members thus having greater influence as a group than when working as individual funds. The Committee agreed to membership on a trial basis with a report back by April 2013.

Reporting to the Committee on engagement of investment managers in their investee companies continues on an exception basis.

As previously reported to this Committee 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.

LAPFF currently has 55 local authority pension fund members including some of the largest funds in the UK. The subscription for 2012/13 was £8,460.

2. Benefits of Membership

Membership also includes access to the following resources:

- Annual conference
- LAPFF members website
- Quarterly members business meetings
- Quarterly engagement report
- Quarterly newsletter
- Model policies
- Responses to consultation documents

LAPFF is actively involved in seeking to influence companies on behalf of their Local Authority Pension Fund shareholders. Recent high profile cases include Marks and Spencer, Newscorp and Barclays Bank.

The annual conference is held in November and was attended by Caroline Roberts. The conference theme was Market Reform – What are Shareholders Responsibilities? It was attended by over 160 delegates and over 30 Pension Funds as well as representatives from investment managers. It attracted high profile speakers and provided the opportunity for learning from other funds. A brief summary of the event is included with this report as Appendix B.

Some large pension funds are members and take an active part in the forum. This enables members of other funds to benefit from their experience and expertise as well as contributing themselves. There is currently some good collaborative working between the eight Welsh pension funds but membership of this forum extends co-operation across the UK and specifically focuses on shareholder influence.

Quarterly business meetings cover any current issues in investment management and governance as well as consultation papers and responses to these matters. Draft responses to consultations are circulated to members for comment prior to submission. Each member is also encouraged to respond individually.

The influence of LAPFF is considerably greater than that of the member pension funds working independently and therefore has much greater influence and impact on the investee companies. This is clearly shown by the willingness of high profile companies which have been criticised by LAPFF in the past to work with them on corporate governance and social responsibility going forward.

As a result, I believe that the annual membership payment to LAPFF (£8,460) provides value for money for the fund, by making a difference in responsible investment issues.

3. Statement of Compliance with the Stewardship Code

A draft Statement of Compliance with the Stewardship Code is attached at Appendix A. The statement explains how the Pension Fund complies with the requirements of the Code. The statement has been drafted on the basis that membership of LAPFF continues.

Once the Statement of Compliance is approved it will be published on the Pension Fund website and on the Financial Reporting Council website.

4. Recommendations

(i) Belonging to LAPFF enables better scrutiny of management of the investments of the Pension Fund and provides an appropriate mechanism for learning from other funds and influencing corporate governance and social responsibility in investee companies. It is **recommended** that the Pension Fund continues with its membership of LAPFF.

(ii) It is **recommended** that the Statement of Compliance with the Stewardship Code be approved and published accordingly.

APPENDIX A

Gwynedd Pension Fund
Stewardship Code Statement

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Gwynedd Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral parth of the investment strategy.

In practice the fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pensions Committee members are required to make declarations of interest prior to committee meetings.

Principle 3 – Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our investments is delegated to our appointed asset managers and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports on voting and engagement activity are received by the Pensions Committee on a quarterly basis.

In addition, the Fund receives 'alerts' from the Local Authority Pension Fund Forum, which highlight corporate governance issues of concern and are considered accordingly.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

However, on occasion, the Fund may participate in escalation of issues, principally through engagement activity through the Local Authority Pension Fund Forum.

Principle 5 – Institutional investors should be willing to act collectively with other investors as appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

In respect of shareholder voting, the Fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets.

Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code.

Regular reports are received from the asset managers on how votes have been cast and controversial issues can be discussed at panel meetings.

The Fund does not currently disclose any voting data.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities

The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report.

APPENDIX B

17TH ANNUAL LAPFF CONFERENCE
MARKET REFORM
WHAT ARE SHAREHOLDERS RESPONSIBILITES?

The first day of this year's LAPFF conference started with a presentation by Robert Swannell, chair of Marks & Spencer. Since LAPFF's high-profile engagement with the company in 2009, the Forum has built a good relationship with the company, and Robert has played a key role in this. He spoke highly of LAPFF's approach to engagement, which he said he thought was very much in the spirit of the Kay Review. He also talked about the famous M&S Plan A, and how sustainability made economic sense as much as moral and ethical sense.

In the next session, former Greggs managing director Sir Michael Darrington, Deborah Gilshan from Railpen and Ashley Hamilton from PIRC discussed the perennial governance concern of executive pay. There was a clear consensus that executive pay is both too complex and too high, and the motivational value of incentive schemes was questioned.

After the break, attention turned to the recent Shareholder Spring, with presentations from CCLA's Helen Wildsmith, Daniel Summerfield from USS, Robert Talbut from Royal London and LAPFF executive member Peter Brayshaw. The panel had mixed views on whether there really had been a fundamental shift in investor behaviour, but there was a clear desire to build on this year's AGM season. Expect to see more shareholder activism in 2013!

Immediately before lunch Jim O'Loughlin spoke about the Forum's new report People and Investment Value. The report is intended to shift investor discussions away from a simple focus on performance pay for directors onto a consideration of how companies get the best out of all their employees – to everyones benefit.

Over the last hear and a half LAPFF has engaged with a number of listed media companies about standards and ethics, with greatest focus on News Corp. This are was the topic of the first session after lunch. Julie Tanner from Christian Brothers Investment Services, with whom the Forum co-filed a resolution to News Corp's 2012 AGM, spoke about her recent experience of engagement. LAPFF chair Ian Greenwood ran through the Forum's recent work with News Corp, and Patrick Daniels from Robbins Geller Rudman and Dowd talked about some of the past challenges to the press in the US, and how News Corp was positioning itself against shareholder litigation.

After the afternoon break, PIRC's Tim Bush, Cormac Butler from Ardmore Derivatives and Natasha Landell-Mills from USS talked about reputational, ethical and accounting issues at the banks. All the speakers warned about the damaging affect of IFRS on banks in the UK and Ireland and how this had obscured the extent of their losses. However it was also clear that both the Irish central bank and the Bank of England had identified the

problem. In addition it looks likely that auditors of the failed banks will face challenges in the future.
To finish off the day, Bob Holloway from the Department for Communities and Local Government (DCLG) provided an update on the LGPS, which was followed by a lively Q&A session.

Friday morning started with a discussion of how local authority pension funds can contribute to the UK economic recovery and presentations were given by Paul Hackett from The Smith Institute, Cllr Kieran Quinn, Chair of Greater Manchester Pension Fund on the Manchester housing project and Luke Fletcher of Bates Wells and Braithwaite on the legal issues. All speakers emphasised the need for the Pension Fund to assess any potential project in terms of investment risk and return rather than its social impact. The 'ethical tie-breaker' guideline was explained, where two projects are assessed with the same risk and return then ethical or locality matters could then be used as the deciding factor. It was also noted that it is not the Pension Fund's place to look for projects but to assess any investment proposals presented.

This was followed by a very entertaining talk from Michael Woodford on his experience as CEO at Olympus and his dismissal when he discovererd serious fraud within the company, estimated at $1.7billion over twenty years, including dealings with the Yakuza crime syndicate. The time he was allocated was not sufficient to tell the whole story but he was available to sign copies of his new book, 'Exposure' where the full story is told!
The final session was a presentation by John Kay on the Kay review which focussed on trust and confidence in investee companies as well as the incentives for good performance. The following panel discussion between Amra Balic from BlackRock, Mark Fawcett from NEST and Janet Williamson from the TUC focussed on the relationships between investors and their fund managers in relation to stewardship and came to the conclusion that both the investors and managers need to up their game.