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| <b>GOVERNANCE ISSUES</b> |  |
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| <i>Contact Officers</i> | Ken Chisholm |
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| <i>Papers with this report</i> | None |
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## SUMMARY

This report is to provide an update on Pension Fund Governance issues. Item 1 on member development was held over from the June Committee.

## RECOMMENDATIONS

- 1. That Members discuss and agree an approach to member development**
- 2. Approve the revisions to the Statement of Investment Principles**
- 3. Members agree to sign up to the Financial Reporting Council Stewardship Code and include a reference to the code in new mandates**

## INFORMATION

### 1. Member Development

In June 2009, Pensions Committee agreed to a proposal on Member development proposed by Cllr Markham to commit to a target of 3 days (21 Hours) per year. A copy of that proposal is attached for reference.

To assist with improving governance and to identify training needs, we purchased a subscription to the Knowledge and Skills Framework, with the aim of members using this framework to assess their knowledge, identify gaps and to feed this back to officers to enable suitable further training and development events to be arranged. Access to the framework is through the website, to which all Members have been given access. The website contains a large store of information on all aspects of the scheme and has been developed by experts to contain all the basic knowledge required to undertake proper governance of the fund.

To date there has been very limited feedback from Members on their use of this site or the identification of any training needs. We are therefore asking that members discuss how they wish to move this forward.

- Have members used the knowledge & skills website? Are there difficulties with the site?
- Would hard copies of the material be more suitable?
- If Members conclude that the Knowledge and Skills Framework is an acceptable vehicle for developing and maintaining member knowledge, a development programme could be produced, which will suggest how to best utilise the Knowledge and Skills Framework between committee meetings, so that feedback can be reported or discussed at the next Pensions Committee meeting.
- Alternatively, if the Knowledge and Skills Framework does not meet Members requirements, then an alternative arrangement would have to be identified and members will need to agree how to progress this.

## **2. Statement of Investment Principles (SolP) Update**

The Statement of Investment Principles has been updated to remove Goldman Sachs Asset Management throughout the document following their termination and the subsequent addition of JP Morgan following their appointment. Committee are asked to approve these revisions.

## **3. Financial Reporting Council – Stewardship Code**

One of the outcomes of the financial crisis in 2008 has been to seek to improve the extent and effectiveness of shareholder engagement with companies. One of the recommendations of the Walker Review was that the Financial Reporting Council (FRC) should have responsibility for a new Stewardship Code, setting out best practice in respect of investor engagement and for promoting high quality corporate governance.

The Stewardship Code published in July 2010 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. Engagement includes pursuing purposeful dialogue on strategy, performance and the management of risk, as well as on issues that are the immediate subject of votes at general meetings.

The Code is addressed in the first instance to firms who manage assets on behalf of institutional shareholders such as pension funds, insurance companies, investment trusts and other collective investment vehicles. The FRC expects those firms to disclose on their websites how they have applied the Code, and the FSA has announced that all UK-authorized Asset Managers will need to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model from 6 December 2010.

However the responsibility for monitoring company performance does not rest with fund managers alone. Pension funds can do so either directly or indirectly through the mandates given to fund managers. Their actions can have a significant impact on the quality and quantity of engagement with UK companies. The FRC therefore encourages all institutional investors to report if and how they have complied with the Code.

The Code sets out good practice on engagement with investee companies, to which the FRC believes institutional investors should aspire. It provides an opportunity to build a critical mass of UK and overseas investors committed to the high quality dialogue with companies needed to underpin good governance.

As asset owners the Fund is required undertake a number of obligation which include:

- To prepare and publish a statement on the seven principles included within the code and how it complies with each.
- Include a reference to the code in new mandates
- Hold fund managers to account by asking them to report on their activities in this area.

In terms of these requirements the fund already complies with the majority of the obligations. Firstly in December 2010 a statement was published as part of the Statement of Investment Principles regarding compliance with the principles (see appendix 3). Secondly the fund asks that managers provide information on their engagement activities on a quarterly basis and their feedback is reported committee. Where the fund does not currently comply is in terms of a reference to the code in new mandates.

To allow the fund to add its support to the code and become a signatory the fund will need to agree to include a reference to the code in new mandates going forward.

## **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising directly from the report

## **LEGAL IMPLICATIONS**

The SolP report complies with regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which came into force on 1<sup>st</sup> January 2010.

## **PROPOSAL**

Following a discussion on Member Training and Development at Pensions Committee in March, Cllr Markham has tabled the following proposal for discussion and possible adoption by Committee as a training and development plan.

## **MEMBER DEVELOPMENT**

1. The value of continual enhancement of knowledge about matters relating to their role on the Pensions Committee has been fully accepted by Members.
2. An annual target of three days training (21 hours) per year is considered to be acceptable for committee Members.
3. Substitutes are also expected to enhance their knowledge and a target of one days training (7 hours) per year is considered to be acceptable
4. It will be up to each Member to determine the gaps in their knowledge and the sources they wish to use in developing their skills.
5. The following sources are considered relevant:
  - Attendance at full committee meetings (comparable to 4 hours per meeting)
  - Attendance at briefing meetings with officers, fund managers and other invited speakers (comparable to 2 hours per meeting)
  - Internal seminars on pension related subjects (comparable to 3 hours per meeting)
  - Attendance at relevant external conferences (comparable to 7 hours per day, per event)
  - Relevant reading material i.e. reports from advisors, fund managers and other sources, pension and financial related magazines and conference delegate packs obtained by fellow Members or officers (up to a maximum 12 hours per year)
  - On-line and power point presentations (comparable to 1 hour per presentation)
6. Officers will be responsible for keeping a record of attendance at meetings and conferences. Members should keep them advised as to time spent on other activities.
7. Officers will continue to inform Members as to relevant meetings and events and of relevant reading material held at the Civic Centre and available to Members.