

Application of the UK Stewardship Code by NAPF Trustee Limited

NAPF Employee Benefits Scheme

and

NAPF Defined Contribution Scheme

The Financial Reporting Council (FRC) published the UK Stewardship Code (the Code) in July 2010, and the Code came into effect on 30 September 2010. The purpose of the Code is to enhance the quality of engagement between institutional investors and investee companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. Although the primary focus of the Code is on the investment managers who act on behalf of asset owners, the owners themselves (such as pension funds) are also encouraged to sign up to the Code.

NAPF Trustee Limited is Trustee of the NAPF Employee Benefits Scheme and the NAPF Defined Contribution Scheme and strongly supports the Stewardship Code. It applies the seven Principles of the Code as outlined in the attached NAPF Stewardship Code Implementation Questionnaire for Pension Funds.

The Schemes' sponsoring employer, The National Association of Pension Funds Limited (NAPF), has also publicly declared its strong support of the Code. The NAPF has undertaken a number of activities to promote the Code and assist pension funds to discharge their stewardship responsibilities.

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Stewardship Code Implementation Questionnaire for Pension Funds

Contact details	
Fund Name:	NAPF Employee Benefits Scheme and NAPF Defined Contribution Scheme (NAPF Trustee Limited)
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Principle 1:	Institutional investors should publicly disclose their policy on how they will discharge their Stewardship duties.
Question 1:	<p>Has the fund chosen to commit to the UK Stewardship Code?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If you answer NO, please explain why and/or explain any alternative investment strategy (as may be required under the FSA rules):</p> <p><i>This is the end of the questionnaire for those funds who have chosen not to commit to the UK Stewardship Code does.</i></p>
Question 2:	<p>Which approach has the fund adopted for stewardship?</p> <p><input checked="" type="checkbox"/> The delegated model (delegated to asset managers) <input type="checkbox"/> The in-house model (managed internally) <input type="checkbox"/> The outsourced model (using a third-party specialist service) <input type="checkbox"/> A hybrid approach (partly internally managed and partly outsourced)</p> <p><i>Please give details of your approach:</i></p> <p>Please see comments under Principle 1, Comments.</p>
Question 3:	<p>Has the fund agreed and published a policy on how it will discharge its stewardship responsibilities?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> Agreed, but not yet published <input checked="" type="checkbox"/> The fund intends to use this completed questionnaire and the associated statement as its initial policy on stewardship <input type="checkbox"/> No – please explain why:</p> <p><i>Please add additional comments about the fund's policy:</i></p>
Question 4:	<p>If applicable, where has the fund published (or where does it intend to publish) its policy on stewardship? Please select all that apply.</p> <p><input type="checkbox"/> Fund website <input type="checkbox"/> Annual report <input type="checkbox"/> Statement of Investment Principles <input checked="" type="checkbox"/> Other – please specify: Trustees intend to publish the policy on the NAPF website <input type="checkbox"/> Not applicable</p>

Question 5:	<p>To which asset classes does the fund's policy on stewardship apply?</p> <p><input checked="" type="checkbox"/> Listed UK equities</p> <p><input checked="" type="checkbox"/> Listed international equities</p> <p><input checked="" type="checkbox"/> Bonds and other fixed income investments</p> <p><input type="checkbox"/> Property</p> <p><input type="checkbox"/> Alternative assets</p> <p><input type="checkbox"/> Other – please specify:</p> <p><i>Please add any comments about the way in which stewardship is applied to various asset classes:</i></p>
Comments:	<p>Please add further comments on how your scheme applies Principle 1:</p> <p>NAPF Trustee Limited's policy is to apply the Stewardship Code through its contracts with external investment managers.</p> <p>NAPF Trustee Limited is not authorised by the FSA to make direct investments on behalf of the two Schemes and therefore the discharge of stewardship responsibilities is delegated to its external investment managers.</p> <p>NAPF Trustee Limited will regularly review the statements of application of the Stewardship Code made by its external investment managers, and the implementation of the Code will be reviewed by the Trustees.</p>

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.
Question 1:	<p>Does the fund have a process for managing conflicts of interest which is publicly disclosed?</p> <p><input type="checkbox"/> Yes (please cite where it is disclosed)</p> <p><input type="checkbox"/> No, but it is available on request</p> <p><input checked="" type="checkbox"/> No</p>
Question 2:	<p>Does the fund monitor its external asset managers' process for managing conflicts of interest?</p> <p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p><input type="checkbox"/> Not applicable (no external asset managers)</p>
Question 3:	<p>Does the fund monitor its asset consultant's process for managing conflicts of interest?</p> <p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p><input type="checkbox"/> Not applicable (no asset consultant)</p>
Question 4:	<p>If the fund answered NO to any of the above questions, please explain why:</p> <p>These issues are to be raised for discussion at the next meeting of NAPF Trustee Limited.</p>
Comments:	<p>Please add further comments on how your scheme applies Principle 2:</p> <p>NAPF Trustee Limited encourages its external investment managers to have effective policies addressing potential conflicts of interest in matters of stewardship. These policies are to be reviewed by the Trustees.</p>

Principle 3:	Institutional investors should monitor their investee companies.
Question 1:	The fund monitors its investee companies by: <input type="checkbox"/> Undertaking direct engagement with companies <input checked="" type="checkbox"/> Outsourcing monitoring to asset managers <input type="checkbox"/> Outsourcing to another third party <input type="checkbox"/> Passive monitoring (eg through online media alerts) <input type="checkbox"/> The fund does not monitor investee companies
Question 2:	If the fund outsources the monitoring of investee companies, please explain the extent to which the fund oversees this process: The Trustees examine the reports provided to them by the investment managers.
Question 3:	If the fund does not monitor its investee companies in any way, please explain why:
Comments:	Please add further comments on how your scheme applies Principle 3: NAPF Trustee Limited is not authorised by the FSA to make direct investments. Therefore, day to day management of the Schemes' equity holdings is delegated to the external investment managers appointed by the Trustees. NAPF Trustee Limited expects external investment managers to monitor companies and intervene when necessary. NAPF Trustee Limited expects managers to report back regularly on activity undertaken.

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.
Question 1:	Does the fund have its own policy or guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value? <input type="checkbox"/> Yes – please cite if/where it is disclosed: <input type="checkbox"/> No <input checked="" type="checkbox"/> Not applicable (this function is outsourced to the asset manager)
Question 2:	Does the fund have a clear understanding of its asset managers' guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not applicable (no external asset managers)
Question 3:	If the fund answered NO to any of the above questions, please explain why:
Comments:	Please add further comments on how your scheme applies Principle 4: Similarly to Principle 3, NAPF Trustee Limited outsources the responsibility for day to day interaction with investee companies to external investment managers. This includes the escalation of engagement where necessary. NAPF Trustee Limited expects its investment managers to disclose their guidelines for such activities in their own statements of adherence to the Stewardship Code.

Principle 5:	Institutional investors should be willing to act collectively with other investors where appropriate.
Question 1:	Does the fund support the principle of collective engagement? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Question 2:	Does the fund itself undertake collective engagement? <input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> This function is outsourced to the asset manager <input type="checkbox"/> This function is outsourced to a third party
Question 3:	Does the fund monitor its managers' use of collective engagement? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not applicable If YES , please give brief details of the fund's monitoring process: The Trustees review the reports provided by the investment managers.
Question 4:	If you answered NO to any of the above questions, please explain why:
Comments:	Please add further comments on how your scheme applies Principle 5: NAPF Trustee Limited encourages its external investment managers to act collectively with other investors as necessary. NAPF Trustee Limited is also willing to engage collectively with other asset owners where a need arises. The schemes' sponsoring employer, NAPF, will actively facilitate collective investor engagement where this is deemed necessary.

Principle 6:	Institutional investors should have a clear policy on voting and disclosure of voting activity.
Question 1:	Does the fund have its own voting policy? <input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> This function is outsourced to asset managers
Question 2:	Does the fund publicly disclose its voting policy? <input type="checkbox"/> Yes – please cite where it is disclosed: <input type="checkbox"/> No <input checked="" type="checkbox"/> Not applicable, this function is outsourced
Question 3:	If the fund answered NO to Question 1 or Question 2, please explain why:
Question 4:	Does the fund delegate any voting to its asset managers? <input checked="" type="checkbox"/> Yes, all voting is delegated to asset managers <input type="checkbox"/> Yes, some voting is delegated to asset managers <input type="checkbox"/> This function is outsourced to the proxy voting agency or another third party <input type="checkbox"/> No
Question 5:	Where the fund outsources voting to its asset managers, does the fund monitor the voting activity of its managers? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Question 6:	Does the fund publicly disclose its voting activity? <input type="checkbox"/> Yes – please cite where it is disclosed: <input type="checkbox"/> Not currently, but intends to do so – please note from when: <input type="checkbox"/> No <input checked="" type="checkbox"/> Not applicable, this function is outsourced
Question 7:	If the fund answered NO to Question 5 or Question 6, please explain why:
Comments:	Please add further comments on how your scheme applies Principle 6: NAPF Trustee Limited has delegated all its voting activity to external investment managers. NAPF Trustee Limited requires its external investment managers to report regularly to the Trustees and summary voting information is reviewed by the Trustees in the context of wider scheme governance.

Principle 7:	Institutional investors should report periodically on their stewardship and voting activities.
Question 1:	Does the fund review its internal and/or external asset managers' stewardship reports and if so how often? <input checked="" type="checkbox"/> Yes, Quarterly <input type="checkbox"/> Yes, Annually <input type="checkbox"/> Yes, Every 2 – 3 years <input type="checkbox"/> No, Never
Question 2:	Does the fund make such reports available to members? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> Yes, on request <input type="checkbox"/> No
Question 3:	Does the fund make these publicly available? <input type="checkbox"/> Yes – please cite where it is disclosed: <input checked="" type="checkbox"/> No
Question 4:	Will the fund require verification of the asset managers' stewardship activities? <input checked="" type="checkbox"/> Yes, will require formal certification (eg SAS70 or AAF01/06) of asset managers' activities <input type="checkbox"/> Yes, will require internal audit (but not formal certification) of asset managers' activities <input type="checkbox"/> No, verification will not be required
Question 5:	If the fund answered NO to any of the above questions, please explain why:
Comments:	Please add further comments on how your scheme applies Principle 7: NAPF Trustee Limited will provide reports on stewardship and voting activity undertaken by external investment managers to scheme members at their request. NAPF Trustee Limited believes that the use of AAF01/06 or SAS70 reporting can provide a useful independent audit of external investment managers' voting and engagement processes. Such reports are requested from investment managers and are reviewed by the Trustees.