

Clwyd Pension Fund

Statement of Compliance with the FRC Stewardship Code

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

The Clwyd 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. In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and other agents and through membership of collaborative groups. The Fund makes this explicit through its [Responsible Investing](#) and [Sustainability Policies](#) which are contained within its [Investment Strategy Statement](#), and are attached as an Appendix to this Statement.

The Fund's investment strategy seeks long-term returns from investing in a highly diversified portfolio of assets and appoints asset managers who best reflect this long-term sustainability approach in their investment philosophy and process.

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.

Through its [Sustainability Policy](#), the Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest, when it comes to matters of stewardship. This is specifically covered in the first bullet point within the table summarising Investment Manager Selection and Contracts on Page 11. The Fund requires all those who are directly involved in its management and governance to disclose any interest in any company, or other entity, in which the Fund has an ownership interest.

In addition the Clwyd Pension Fund publishes its own [Conflicts of Interest Policy](#) on its website.

In summary the Policy applies to all those that interact with the Fund including, but not limited to, fund managers and advisers, and requires all those accepting any role covered by the Policy, to agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our equity holdings is delegated to the Fund's appointed asset managers. The Fund expects them to monitor companies, and intervene where necessary, and to report back regularly on activity undertaken. Regular review meetings with the Fund's asset managers provide an opportunity for particular company issues to be discussed. Under the Fund's [Sustainability Policy](#), managers are required to report any areas of concern.

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.

Whilst there is broad guidance in the Fund's [ISS](#) and [Sustainability Policy](#), as noted earlier 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.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.

The Fund is a member of the [Local Authority Pension Fund Forum \(LAPFF\)](#), which engages with companies on environmental, social and governance issues on behalf of its member authorities. The LAPFF is a signatory to the United Nations Principles for Responsible Investing.

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

Whilst all the Fund's holding are through pooled voting, it takes its voting responsibilities seriously and its voting policy is detailed as part of its [ISS](#) and in its [Sustainability Policy](#) document. Within this constraint, the Fund seeks to exercise the voting rights attaching to all its UK equity holdings and, where practical, its overseas stocks. A summary of manager voting is included in the Fund's [Annual Report](#).

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

The Fund reviews its ISS and [Sustainability Policy](#) document on an annual basis and publishes these both in the [Annual Report](#) and Accounts and on the Fund's web site. In addition, the activity undertaken by the LAPFF is reported to the Pension Fund Advisory Panel as are summary voting records from managers. All managers provide details of voting activity and a summary is provided in the Fund's [Annual Report](#).

Approved by the Clwyd Pension Fund Committee as part of the Investment Strategy Statement on 21 March 2017.

Appendix - Responsible Investing Policy

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to actively engage with companies, and to vote. Due to the Fund investing mainly in pooled funds it is not possible to impose the Fund's own voting policy, but on appointment the Fund ensures that the fund manager has voting guidelines in line with the Clwyd Fund's policies.

The Clwyd Pension Fund recognises that there is a link between good environmental, social, ethical and governance practices and long-term sustainable business profitability and in its investment strategy aims to place a strong focus on this. It is recognised that, whilst there are links, the three main sustainability areas, environmental, social and ethical, each raise their own issues, although the approaches and guidelines appropriate to each are similar.

As part of this the Fund, subject to fiduciary duties, makes selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry

The Fund regularly meets with existing and new managers to discuss opportunities within the environmental area.

At the strategic level, a manager's approach to identifying and managing RI risks and opportunities is evaluated as part of the tender process for appointing new managers. It is also incorporated into the on-going process of monitoring the investment managers' performance.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) whose primary aims are to seek improvements in the corporate governance of the companies in which member funds invest, and also to promote Socially Responsible Investment (SRI) on environmental issues and issues relating to overseas employment standards. This very much reflects the principles built into the Fund's own Sustainability Policy.

The Fund is also a member of the Pension and Lifetime Savings Association (PLSA) which also provides further guidance on Governance and Social Responsibility issues as well as the wider pension issues.

The Clwyd Pension Fund has incorporated these areas and others into its Sustainability Policy (below).

Sustainability Policy

Definition

At its simplest, sustainability is about focusing attention on longer-term issues. More specifically for pension fund investors, it concerns delivering the long-term returns required to fund long-term liabilities by ensuring that the long-term risks inherent in investments are recognised and, where possible, addressed. These risks are many and varied but include environmental, social, ethical and governance issues.

Legal Framework, Constraints & Considerations

In framing a Sustainability Policy, the following are pertinent –

- There already exists a requirement for the Fund to include within its Investment Strategy Statement (ISS) details of its policy on social, ethical and environmental issues. This Sustainability Policy encompasses such issues and will be updated as required to take account of relevant new regulatory requirements.
- The Fund is required to fulfil its overriding fiduciary duty to focus as a primary consideration on financial performance and the maximisation of Fund returns, after taking full account of all existing and future financial risks. Such risks increasingly include sustainability issues.
- Whilst the financial criterion is maintained as a key investment decision criterion, this has now been broadened to include non-financial criteria, subject to certain caveats, and the Fund is required to give an explanation of the extent to which non-financial factors will be taken into account and its approach to social investments.
- The investment industry tends to focus on short term factors in terms of company interaction, shares prices and performance, and fund managers incentives tend to reflect this rather than being aligned with the longer-term objectives of pension fund investors.

Objective

Objective

Within the above legal framework, constraints and considerations, the Clwyd Pension Fund's objective aim will be to –

- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability;
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

United Nations Principles for Responsible Investing (UNPRI)

Given the constraints outlined above and particularly the pooled nature of many of the Fund's investments, it would be difficult for the Fund to become a formal signatory to the UNPRI.

United Nations Principles for Responsible Investing (UNPRI)

The Clwyd Pension Fund –

- Is committed to the principles underlying the United Nations Principles for Responsible Investing (UNPRI) and will be an active supporter of these;
- Will encourage its external managers to become signatories to the UNPRI.

The Fund Objective stated above already encompasses most of the UNPRI.

Application of Sustainability Principles

In order to achieve its stated objective, the Clwyd Pension Fund will apply a series of guidelines covering most aspects of pension fund investment under the following headings –

- Sustainability approach
- Investment strategy (UNPRI 1)
- Company engagement & voting (UNPRI 2)
- Investment management & performance monitoring (UNPRI 3)
- Investment manager selection & contracts (UNPRI 4)
- Collaboration (UNPRI 5)
- Reporting & disclosure (UNPRI 6)
- Review

The paragraphs below set out the Fund's thought processes in establishing such guidelines and detail the guidelines adopted as part of this Sustainability Policy document.

Sustainability Approach

In framing an approach to sustainability, the key focus has to be on the UNPRI principles 1 and 2 as these underlie most investment and governance processes. Sustainability-related issues have been considered on a regular basis for many years, with broad corporate governance policy guidelines in place from 1996. More recently these form part of the Fund's ISS and are reviewed annually.

The Clwyd Pension Fund approach has always been and continues to be based upon "active engagement". This involves the Fund's managers researching and forming a view on the sustainability credentials of companies, taking this into account in investment decisions and, where there are sustainability concerns, on environmental, social, ethical or governance grounds, engaging with companies to seek and achieve positive change.

Sustainability Approach

The Clwyd Pension Fund believes in an active engagement approach to the pursuit of its sustainability objectives and, on this broad basis, it –

- Will not adopt a negative approach to sustainability which involves screening and excluding investment opportunities;
- Will not invest in pooled vehicles constructed using this same approach;
- Will encourage its managers to adopt a long-term approach that involves working with companies to encourage improvement in all sustainability areas;
- Will monitor the performance of managers in pursuing such objectives;
- Will invest directly in specific vehicles and investment areas that clearly match its sustainability objectives.

Investment Strategy

The Clwyd Pension Fund recognises that there is a relationship between good environmental, social, ethical and governance practices and long-term sustainable business profitability and in its investment strategy aims to place a strong focus on this. It is recognised that, whilst there are links, the three main sustainability areas, environmental, social and ethical, each raise their own issues, although the approaches and guidelines appropriate to each are similar.

Environmental

The impact of poor environmental practices on profit sustainability is very clear. There are direct costs in terms of fines for pollution etc. and increasingly now for carbon-charging and waste disposal that can have major impacts on business models. In addition there are potential indirect costs from bad publicity and reputational risk. On the positive side, however, there are opportunities to promote sustainability through investment in new technologies aimed at cleaner solutions.

Social

This concerns areas such as employee relations, community relations and health & safety and again can lead to direct financial costs from health and safety breaches and strike action etc., as well as more subtle risks to company operations, reputation and long-term profitability.

Ethical

This is a difficult area as ethical views can vary considerably but there are some areas that are widely accepted for inclusion. These include supply chain issues that reflect potential breaches of human rights and especially the employment of children, bribery and corruption and operations in certain world areas such as Zimbabwe.

Investment Strategy

On forming and implementing its investment strategy, the Clwyd Pension Fund –

- Will encourage its managers to use their own resources or specifically-focused research agencies to identify at company level actual or potential financial risks attributable to sustainability issues – environmental, social or ethical;
- Will seek, through its managers, to engage with companies that have questionable environmental, social or ethical practices in order to seek improvements;
- Will seek, through its managers, to engage with companies that have a carbon-intensive or water-intensive focus in order to promote alternative approaches and longer-term reductions;
- Will encourage the adoption of the best environmental standards amongst its property and infrastructure managers;
- Will, subject to fiduciary duties, make selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry etc.

Company Engagement & Voting

Getting the Board right with the right behaviours and structures means that better decisions are more likely and this adds value over the longer-term. The Fund's former broad corporate governance policy guidelines, whilst touching upon environmental, social and ethical issues, were largely designed to address these Board factors and related voting issues. Myners' Principle 5 is also relevant here. This requires that trustees adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. The Institutional Limited Partners Association (ILPA) has authored the ILPA Private Equity Principles, a document that contains best practice concepts and that speaks to issues relating to the alignment of interest between general partners and limited partners, fund governance, transparency and reporting guidelines in order that these can be taken account of in their investment management decision-making processes.

In order to monitor the performance of external managers in terms of their degree of compliance with the guidelines and the performance of underlying investments with the Fund's sustainability objectives, there needs to be regular reporting and disclosure on sustainability issues, particularly areas of concern, as well as actions taken to address these.

Company Engagement & Voting

The Clwyd Fund –

- Will aim to comply with the Myners' Principle 5 on shareholder activism and become more engaged as an active investor, especially with companies where sustainability factors are a matter of concern;
- Will ensure that its managers adopt or ascertain their level of compliance with the ISC Statement of Principles on the responsibilities of shareholders/agents;
- Will ensure that its managers adopt or ascertain their level of compliance with the ILPA private equity principles;
- Will, wherever practical, exercise voting rights through its managers based upon the following broad criteria –
 - The prime consideration must be financial and the protection of the Fund's assets in the long term;
 - There should be a properly structured Board including an appropriate number of contributing independent non-executive directors;
 - Unless there are strong arguments to the contrary and adequate safeguards guidelines, no director should hold the posts of Chairman and Chief Executive at the same time or be in a position of unaccountability by virtue of having absolute control;
 - All Directors should be subject to at least three-yearly re-election;
 - In view of their stewardship role, non-executive directors should normally be independent in terms of other links to the company and other directorships;
 - The issue of shares with reduced or non-existent voting rights often disadvantages the majority of shareholders and should not normally be supported;
 - Existing shareholders in a company should have a right to subscribe for new equity capital raised by a company, normally in proportion to their existing share of the company's equity capital;
 - Unless financial criteria dictate otherwise, the general policy on take-over bids should be to support incumbent management in good standing;
 - Directors' remuneration packages in different companies should reflect relative performance taking business size and complexity into account;
 - A properly constituted Remuneration Committee is the best judge of what is necessary to recruit, train and motivate;
 - If not already in place, companies should be working towards one year fixed term contracts for executives;
 - There should be a properly constituted Audit Committee;
 - No return that is rightfully the Fund's should be diverted to political donations;
 - Charitable donations are acceptable if they are reasonable and have public relations values.
- Will periodically review these criteria and inform investment managers of changes, should there be any.

Investment Management & Monitoring of Performance

Investment managers need to be made aware of the Fund's Sustainability Policy

Investment Management & Monitoring of Performance

The Clwyd Pension Fund –

- Will endeavour to ascertain the extent to which its fund managers are formal signatories to, support and comply with the UNPRI;
- Will encourage its fund managers to produce policy statements on sustainability issues and report formally on these.
- Will seek, through its managers, to ensure the full disclosure of environmental, social and ethical policies and practices by companies in which the Fund is invested;
- Will ask investment managers for statements on their degree of compliance with the ISC Statement of Principles on the responsibilities of shareholders and agents;
- Will request policy statements and practical evidence of the adoption of the best environmental standards amongst its property and infrastructure managers;
- Will ask private equity managers for statements on their degree of compliance with the ILPA private equity principles;
- Will ensure that investment managers regularly report records of voting on the Fund's investment and periodically produce statements on compliance or otherwise with the broad corporate governance elements of the Fund's Sustainability Policy;
- Will, subject to appropriate return targets, invest directly in funds focused upon environmental and social objectives.
- Will, where feasible, gather data on the environmental and social impact of these and other funds;
- Will assess the performance of managers both in terms of financial returns and on sustainability issues over a time frame that adequately reflects the Fund's sustainability objectives.

Investment Manager Selection & Contracts

The Fund's standard selection process for managers has always incorporated broad questions on sustainability issues but the main focus has been on investment philosophy, process, personnel and performance. Within this process, there has been some limited focus on sustainability inputs to investment decision-making but risk has tended to be quite narrowly defined and linked to shorter-term financial rather than longer-term sustainability considerations. As a result, sustainability has never been a main factor in the comparative assessment of managers prior to appointment or in the formal appointment process itself. This approach has now been reviewed with a view to incorporating into the selection and contracting process a far greater focus on sustainability issues.

Investment Manager Selection & Contracts

As an active part of this process, the Clwyd Pension Fund –

- Will require from potential managers formal statements of their objectives, policies and practices on sustainability and related factors;
- Will ascertain from potential managers the degree to which sustainability factors are taken into account in the investment decision-making process;
- Will seek from potential managers details and the level of in-house tools, agency inputs and other resources on sustainability factors used in their investment processes;
- Will review with potential managers the quality, integration and impact of such research on their investment processes and performance;
- Will ascertain the ability of potential managers to assess and quantify the environmental and social impact of their investments;
- Will consider the record of potential managers on active engagement with companies, voting and governance issues generally;
- Will, in the assessment of potential managers, give appropriate weight to all these sustainability and related factors;
- Will, where relevant and appropriate, build elements of the Fund's Sustainability Policy and detailed guidelines into investment management agreements.

Collaboration

The Clwyd Pension Fund is already a committed member of the Local Authority Pension Fund Forum (LAPFF), a body that seeks improvements in corporate governance, promotes socially responsible investing (SRI) and, with the Fund's active encouragement, is devoting considerable resources to environmental issues and climate change in particular. LAPFF is already a signatory to the UNPRI. The Fund has also had contact with other relevant bodies on sustainability issues both directly and through its managers.

Collaboration

The Clwyd Pension Fund –

- Will join and/or collaborate with organisations that are relevant to pursuit of the Fund's sustainability objectives;
- Will, subject to regulatory and operational constraints, seek relevant information from and share relevant information with such organisations in order to further the effective delivery of its Sustainability Policy.

Reporting & Disclosure

The Clwyd Pension Fund Annual Report already includes copies of various regulatory documents, including various policy statements and the Fund's ISS. The latter includes details of the Fund's current policy statements on social, environmental and ethical considerations and corporate governance issues. The Annual Report is circulated widely and all these documents are also published on the Fund's website. It is already accepted that approaches on sustainability and other policy areas tend to evolve and develop over time. It is essential therefore to keep policies and practices under continual review so as to improve their efficacy.

Reporting & Disclosure

The Clwyd Pension Fund –

- Will, through its quarterly meeting procedure, report regularly and as appropriate on relevant sustainability issues;
- Will, periodically, report formally on managers' level of compliance with the its Sustainability Policy, progress made in the year and areas where further progress needs to be made;
- Will, once a year, review its Sustainability Policy in the light of best practice and agree any proposed changes through its governance procedure;
- Will circulate this revised document to relevant bodies and particularly its managers;
- Will incorporate this revised document into its ISS and publish its contents both in the Annual Report and on its website.

UK Stewardship Code

The Financial Reporting Council (FRC) first published the UK Stewardship Code in 2010, and revised it in 2012. The Code aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Since December 2010 all UK-authorized Asset Managers are required by the Financial Conduct Authority to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model.

The Stewardship Code has seven principles, and the ISS guidance requires that administering authorities become signatories to the Code, and state how they implement the principles on a “comply or explain” basis.

The Fund is not currently a signatory to the Code, however the principles are followed, where appropriate, and there are plans to become a signatory in time. The compliance position is shown in Appendix 2.

In practice the Fund’s policy is to apply the Code both through its arrangements with its asset managers and through membership of the LAPFF. In the future as a member of the WALES Pool, the Committee expects that both the Pool and the underlying fund managers to comply with the Stewardship Code.

Social investments

The Government guidance also addresses the issue of “social investments”; meaning those that deliver a social impact as well as a financial return. The Government considers that social investments are appropriate for LGPS funds where either the social impact is simply in addition to the financial return. It also considers that investments where some part of the financial return is forgone in order to generate the social impact are also appropriate, where the administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Much of the Fund’s approach is set out in the Sustainability Policy contained earlier in the document, but a specific response to this issue is set out below.

Approach

The Clwyd Pension Fund is a strong believer in sustainability across all areas, including environmental, social and governance, and fully embodies these non-financial factors in its decision-making and monitoring processes. More specifically, it –

- Will endeavour to ascertain the extent to which potential fund managers are formal signatories to, support and comply with the UNPRI and seek to ensure full disclosure of the environmental, social and ethical policies and practices of such managers;
- Will, as part of its appointment process, give full consideration to a manager's philosophy, people and investment process, as well as its track record in terms of financial returns;
- Will give an appropriate weight to all such non-financial factors, including a manager's environmental, social and governance standing, as part of its decision-making process;
- Will encourage existing and long-standing managers to adopt the best environmental, social and governance standards and monitor progress, as appropriate;
- Will, subject to fiduciary considerations, make selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry etc.
- Will, subject to fiduciary considerations, make selective investments in managers with a social and environment impact focus whose aim is to “do good as well as doing well commercially”.
- Will look for investment opportunities across all sectors that offer potential for catalysing economic growth, particularly in deprived areas.

Impact

The Clwyd Pension Fund is eager to ascertain the impact of such this approach and is eager to assess and quantify, where feasible, the outcomes from its investments. More specifically, it -

- Will monitor the performance of managers in pursuing such objectives and specifically seek information on relevant environmental and social factors at all meetings with them;
- Will encourage managers to assess and quantify, where feasible, the impact of such factors in terms of employment, health and well-being and education and training, environmental impact and regeneration etc.
- Will monitor the outcome data of managers investing directly in companies and areas that match the Fund's environmental and social objectives.

Approved by the Clwyd Pension Fund Committee as part of the Investment Strategy Statement on 21 March 2017.