

SURREY COUNTY COUNCIL**PENSION FUND BOARD****DATE: 13 FEBRUARY 2013****LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE****SUBJECT: RESPONSIBLE INVESTMENT AND STEWARDSHIP POLICY****SUMMARY OF ISSUE:**

Shareholders have a clear interest in promoting the long term success of the companies in which they invest. As the ultimate owners of those companies, there is a clear incentive to vote the shares in a constructive way with the companies' long-term sustainability the ultimate objective. This paper will recommend that the Pension Fund take responsibility for the voting of its shares according to its own Responsible Investment and Stewardship Policy, a draft of which is attached to the paper.

RECOMMENDATIONS:

It is recommended that:

1. The Pension Fund Board approve and adopt the voting templates and the revised Responsible Investment and Stewardship Policy, shown in Annexes 1 and 2.

REASON FOR RECOMMENDATIONS:

It is regarded as best practice and in the interests of the pension fund for the Pension Fund Board to assume full responsibility for responsible investment practices and work to a sound responsible investment and stewardship policy.

DETAILS:**Background**

- 1 The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholder owners and an implicit fiduciary duty of pension fund trustees and investment managers to whom they may delegate this function.
- 2 Such a responsibility requires the adoption of an approved policy and the advice of a consultant skilled in this particular field.

Company Engagement

- 3 Despite the considerable efforts made by many UK pension funds, the perception remain that funds are failing in overseeing the activities of their investment managers and other agents to whom most delegate the responsibility for company engagement and share voting.

- 4 Effective engagement with companies on issues ranging from strategy and performance to risk and corporate governance can:
- protect funds against reputational risk;
 - play a key role in controlling investment risk;
 - help safeguard the fund against potential destruction in shareholder value.
- 5 The Surrey Pension Fund has long been a member of the Local Authority Pension Fund Forum (LAPFF), a membership group that represents 66 out of the 99 LGPS funds in the UK. The LAPFF has campaigned on many corporate governance issues and is recognised as an effective group in achieving its aims with regard to proper corporate standards within the companies it owns as a group. The Chairman of the Surrey Pension Fund Board was voted onto the LAPFF Executive in elections held on 21 January 2015.
- 6 Whilst this has gone a long way to achieving effective corporate standards in UK companies, there is a lot more that can be done by individual LGPS funds with regard to the individual companies that their portfolios hold.

Stewardship Code

- 7 The Stewardship Code is a set of principles or guidelines released in 2010 by the Financial Reporting Council (FRC), directed at institutional investors who own shares in UK listed companies (“quoted companies”). Its principal aim is to encourage institutional investors, who manage other people's money, to be active owners and engage with their investee companies so as to encourage them to act in the interests of their beneficiaries. The Pension Fund Board adopted The Stewardship Code and approved the Fund’s commitment to the Code on 20 September 2013.

Share Voting

- 8 The Pension Fund adopting the Stewardship Code has fulfilled its role as an active shareholder through its active voting of the shares it owns. Share voting and company engagement has required officers to keep on top of a number of issues, such as:
- establishing governance preferences as owners of companies in which the fund is invested;
 - tracking when corporate meetings are to take place;
 - identifying contentious issues with companies in the portfolio;
 - liaising with Board members on contentious issues;
 - ensuring that voting preferences are expressed at the meeting;

- 9 Such complexity has been assisted with the services of an external consultant to advise on both share voting and the whole spectrum of company corporate governance. Manifest was appointed in 2013 and has demonstrated expertise in this specialised area.

Responsible and Stewardship Policy

- 10 In order to vote the Fund's shares efficiently, the Board approved a Responsible Investment and Stewardship Policy on 31 May 2013. The Financial Reporting Council (FRC) has recently completed its two-yearly review of changes to the UK Corporate Governance Code. This review followed earlier consultations on directors' remuneration, risk management, internal control and the going concern basis of accounting.
- 11 The Fund's corporate governance consultant, Manifest, has drafted revised voting templates. These are shown as Annex 1. As a result of the revised Code, a revised share voting policy needs to be considered and approved by the Board. The revised Policy is shown as Annex 2.
- 12 The Pension Fund Board is invited to review the revised policy shown in Annex 2 and suggest any changes as appropriate.

CONSULTATION:

- 13 The Chairman elect of the Pension Fund Board has been consulted on the revised policy and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

- 14 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 15 There are no financial and value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

- 16 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed revised voting policy offers an effective framework for the sound stewardship of the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 17 The legal context is set out in paragraph 1 of the report.

EQUALITIES AND DIVERSITY

- 18 The approval of a Responsible Investment and Stewardship Policy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

19 There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT:

20 The following next steps are planned:

- Approval of the revised Policy.
- Continuation of the quarterly reports to the Board on share voting.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Board Chairman

Annexes:

Responsible Investment and Stewardship Policy

Sources/background papers:

None
