

**SURREY COUNTY COUNCIL**

**PENSION FUND BOARD**

**DATE: 31 MAY 2013**

**LEAD OFFICER: SHEILA LITTLE, CHIEF FINANCE OFFICER**

**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 attached Responsible Investment and Stewardship Policy, shown in Annex 1.
2. The Pension Fund Board approve the appointment of an external governance consultant and instruct officers to commence a procurement process to achieve this.

#### **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 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 60 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.
- 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 In light of recent revisions to the Stewardship Code and the increasing political focus on the issue, the time is right for pension funds to review their approach to stewardship, and question as to whether they could be more effective, and consider how they should adopt the Stewardship Code requirements.
- 8 Whilst the issue of the Pension Fund adopting the Stewardship Code will be the subject of a separate report to the Pension Fund Board, the prospect of the Pension Fund fulfilling its role as an active shareholder through its share voting should be addressed.

## **Share Voting**

- 9 Share voting and company engagement can be a complex, time consuming and tricky process to organise successfully. It means keeping on top of a number of issues, such as:
  - tracking when corporate meetings are to take place;
  - identifying contentious issues with companies in the portfolio;
  - ensuring that voting preferences are expressed at the meeting;
  - establishing governance preferences as owners of companies in which the fund is invested.

- 10 Such complexity will require the services of an external consultant to advise on both share voting and the whole spectrum of company corporate governance. It is considered that the global custodian would not have sufficient expertise in this specialised area. Such an appointment is estimated to cost in the region of £10,000 per annum.

#### **Appointment of a Governance Consultant**

- 11 With regard to the Surrey Pension Fund's approach to best practice in corporate governance, there are excellent external providers in the market place who offer consultancy services with regard to governance and share voting, taking into account the latest best practice. Such consultants will help to ensure the Fund's stewardship policy reflects the most up-to-date standards and ensure that officers learn of the latest developments and can reflect these developments in the Fund's share voting policy and the SIP.
- 12 It is recommended that the Fund appoint such an expert advisor.

#### **Responsible and Stewardship Policy**

- 13 Officers have drafted a Responsible Investment and Stewardship Policy, shown in Annex 1.
- 14 The Pension Fund Board is invited to review the policy and suggest any changes as appropriate.

#### **CONSULTATION:**

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

#### **RISK MANAGEMENT AND IMPLICATIONS:**

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

#### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

- 17 The cost (estimated at around £10,000 per annum) of the proposed consultant will be funded from the administrative expenses of the pension fund.

#### **CHIEF FINANCE OFFICER COMMENTARY**

- 18 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 policy offers an effective framework for the sound stewardship of the pension fund.

#### **LEGAL IMPLICATIONS – MONITORING OFFICER**

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

## **EQUALITIES AND DIVERSITY**

- 20 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**

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

## **WHAT HAPPENS NEXT:**

- 22 The following next steps are planned:
- Approval of the Policy.
  - Commence the procurement process.
  - Report to the next Board meeting.

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### **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

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