

## APPENDIX C

### Shropshire County Pension Fund Statement of compliance with the UK Stewardship Code

Last updated 3 December 2019

#### Introduction

The Shropshire County Pension Fund (“the Fund”) recognises its role as one of promoting best practice in stewardship, which is considered to be consistent with seeking long-term, sustainable investment returns. The Fund is a signatory to the Financial Reporting Council’s (“FRC”) UK Stewardship Code.

The Fund’s Investment Strategy Statement<sup>1</sup> (“ISS”) states that the Fund’s primary long-term investment objective is to achieve and maintain a funding level at, or close to, 100% of the Fund’s estimated liabilities; and within this, to endeavour to maintain low and stable employers’ contribution rates. The Fund’s investment beliefs include that a long-term approach to investment will deliver better returns and that responsible investment (“RI”) can enhance long-term investment performance. As an externally-managed fund, much of the day-to-day responsibilities for implementing stewardship is delegated to the Fund’s investment managers. Over time some delegations will pass to LGPS Central Limited (LGPS Central”), the pool company through which the Fund’s assets will be invested. LGPS Central has been a signatory to the UK Stewardship Code since the company’s inception.

The Fund defines the concept of stewardship in the same way as the FRC:

“Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.”

The Fund welcomes the changes made to the Stewardship Code as of November 2019, taking effect on 1 January 2020, and will start reporting on outcomes under the new Code in 2021.

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<sup>1</sup> <https://shropshirecountypensionfund.co.uk/investments-and-governance/pensions-administration-strategy-statement/>

## **The Principles of the Code**

**So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should:**

**1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.**

**The Fund complies with this principle.**

Much of the day-to-day responsibility for the stewardship of assets is delegated to the Fund's investment managers ("managers") with oversight by officers of the Fund and ultimately the Pensions Committee. All the Fund's equity managers are signatories of the UK Stewardship Code (rated Tier 1) and signatories to the Principles for Responsible Investment ("PRI"). All managers are required to report on stewardship on a quarterly basis to the Pensions Committee, including details of votes cast on corporate resolutions. It is expected that managers will identify and deal appropriately with financially material RI risks, and that engagement and voting functions will align with and support this process. The Fund has reviewed and accepted the corporate governance policies of its investment manager(s) who exercise its voting rights. The Fund is not prescriptive with respect to the RI approach employed by managers and expects instead that each manager will engage and vote in different ways and on different issues, appropriate to the mandate instructions and investment style. A key expectation is that managers are transparent with how they discharge their stewardship responsibilities.

The Fund has appointed BMO Global Asset Management to provide a responsible engagement overlay on the Fund's UK equity portfolios. BMO enters into constructive discussions with companies on the Fund's behalf to put to them the case for improved financial returns through better management of the negative impacts they might have on the environment and society in general.

The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"). LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting social responsibility and high standards of corporate governance at the companies in which they invest. LAPFF also engages with companies on the Fund's behalf and issues voting alerts to the Fund. The Fund is a relatively active member of LAPFF but there are no representatives from the Fund on the LAPFF Executive at present. Representatives from the Fund attend the annual LAPFF conference and attend LAPFF business meetings as appropriate. LAPFF discloses a quarterly report detailing engagement undertaken during the period in review. Further details of the how the Fund discharges

its stewardship responsibilities can be found in the Fund's Investment Strategy Statement.

Following the pooling of the Fund's assets into LGPS Central, much of the day-to-day stewardship responsibilities will pass to the pool, with oversight by officers of the Fund and members of the Pensions Committee. LGPS Central is a signatory to the UK Stewardship Code and its Responsible Investment & Engagement Framework, which sets out its approach to stewardship, has been made publicly available<sup>2</sup>.

## **2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.**

**The Fund complies with this principle.**

With much of the day-to-day stewardship responsibilities being delegated to investment managers, the Fund expects its managers to have effective policies addressing potential conflicts of interest. External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. Conflict of interest policies should be available on managers' websites for public scrutiny and the policy should be subject to regular review.

In respect of conflicts of interest within the Fund, there is a process in place whereby Pensions Committee members are required to make declarations of interest prior to each quarterly meeting. Any declarations are then disclosed to the public via the minutes of the Pensions Committee meeting which are hosted online.

## **3. Monitor their investee companies.**

**The Fund complies with this principle.**

Day-to-day responsibility for managing the Fund's assets is delegated to appointed investment managers. All the Fund's equity managers are signatories to the PRI, whose first two principles address monitoring and active ownership. The Fund expects its managers to monitor companies, intervene where shareholder outcomes can be improved and report back regularly on activity undertaken. Some of the responsibility for monitoring investee companies has been transferred to LGPS Central. LGPS Central carries out engagements directly and in collaboration with peer investors, alongside engagement overlay services provided to LGPS Central by Hermes Equity Ownership Services.

The Fund regularly meets with managers and the monitoring of investee companies is discussed at these meetings. The Fund also receives quarterly reports from managers detailing their voting and engagement with companies. These are then

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<sup>2</sup> <https://www.lgpscentral.co.uk/wp-content/uploads/2019/03/UK-Stewardship-Code-Compliance-Statement.pdf>

reported quarterly to the Pensions Committee in a specific Responsible Investment report. Two of the Fund's five equity managers are known to obtain independent assurance on voting or engagement processes – for example AAF 01/06; the other managers have internal assurance processes. LGPS Central publishes quarterly stewardship reports with details on voting and engagement with companies, and on broader engagement with standard setters and policy makers on material ESG factors.

As mentioned under Principle 1 above, the Fund has appointed BMO Global Asset Management to engage with companies on behalf of the Fund on financially relevant RI issues and the results of these activities are disclosed quarterly.

As a member of LAPFF the Fund also receives 'Alerts' relating to investee companies and participates in group engagement with companies.

#### **4. Establish clear guidelines on when and how they will escalate their stewardship activities.**

**The Fund complies with this principle.**

The day-to-day responsibility for engagement with investee companies is delegated to the Fund's managers. The individual managers have their own policies for escalation of stewardship activities which are published on their individual websites and statements of adherence to the UK Stewardship Code. These include engagement with companies, meetings with directors and board members and possible divestment if necessary. These policies are assessed as part of the manager appointment process and are discussed at meetings with managers. The Fund is satisfied with the adequacy of its managers' escalation guidelines.

The Fund can also escalate issues through LAPFF by supporting a shareholder resolution or by raising issues in the first instance. As part of its engagement process, LAPFF has guidelines on escalation which are available on its website.

#### **5. Be willing to act collectively with other investors where appropriate.**

**The Fund complies with this principle**

The Fund seeks to work collaboratively with other institutional investors in order to maximise the influence that it can have on individual companies. The Fund is a current member of LAPFF, which engages with companies over environmental, social and governance issues on behalf of its members. The advantage of collective engagement is that there is greater leverage over the company due to the pooling of holdings. This will increase the individual power and influence of investors in order to push for change. Meetings may deal with company specific matters or broad industry

concerns. Details of material collaborative engagements are brought to the attention of the Pensions Committee in quarterly reports.

Some of the Fund's assets will be pooled within LGPS Central, and this pooling process will continue through a phased process. The eight Partner Funds of LGPS Central are working together to reduce investment costs, increase investment capability and create a resource to access more asset classes. The Partner Funds within LGPS Central collaborate on RI activities through a unified Responsible Investment & Engagement Framework. LGPS Central engages with companies on a collaborative basis through LAPFF, the PRI, Climate Action 100+ and other key investor initiatives increasing further the Fund's collaborative activities.

## **6. Have a clear policy on voting and disclosure of voting activity.**

**The Fund complies with this principle.**

Voting is carried out by the Fund's managers as detailed in the Fund's Investment Strategy Statement. Managers' stewardship and governance policies are obtained on appointment and the Fund has reviewed and accepted these policies. The Pensions Committee receives quarterly updates from managers on details of votes cast on corporate resolutions for holdings in relevant portfolios as part of their quarterly investment reports. These reports are disclosed on the Fund's website and in most cases the manager's disclosure is on a vote-by-vote basis. It is expected that investment managers will vote all eligible shares in accordance with their approved stewardship policies. Finally, a summary of voting carried out by managers is included in the Fund's Annual Report<sup>3</sup>.

The Fund has a stock lending programme and lent stocks are recalled in order to execute shareholder voting rights if the issue is considered to be sufficiently material.

LGPS Central has published Voting Principles<sup>4</sup> stating the company's expectations on core corporate governance issues like board composition and fair remuneration. LGPS Central will take a case-by-case approach to shareholder resolutions on for instance proxy access, climate change, human rights and more, supporting resolutions that on balance are in line with the long-term economic interests of stakeholders and that help make boards of directors accountable to shareholders.

LGPS Central reports on voting activities on a quarterly basis and discloses on a vote-by-vote basis for all company resolutions through the LGPS Central website.

## **7. Report periodically on their stewardship and voting activities.**

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<sup>3</sup> <https://shropshirecountypensionfund.co.uk/investments-and-governance/annual-report-pensions-annual-meeting/>

<sup>4</sup> <https://www.lgpscentral.co.uk/responsible-investment/>

**The Fund complies with this principle.**

A corporate governance report is presented to the Pensions Committee every quarter, detailing the proxy voting carried out by the Fund's managers on its behalf. In most cases the disclosure is done on a vote-by-vote basis. In some cases a detailed explanation of the rationale for significant voting decisions is provided.

The Fund also receives quarterly LAPFF engagement reports, detailing its engagement with investee companies. Details from this report are included in reports to the Pension's Committee as relevant.

LGPS Central reports on voting activities on a quarterly basis and discloses on a vote-by-vote basis for all company resolutions through the LGPS Central website. LGPS Central also reports quarterly on other RI matters including engagement with companies, standards setters and policy makers on material ESG issues.

For further information about this statement please contact Justin Bridges, Head of Treasury & Pensions.