



## **EAST RIDING PENSION FUND**

### **Statement of Compliance with the UK Stewardship Code for Institutional Investors**

This statement of compliance is reviewed on an annual basis with the last review taking place in March 2016.

The East Riding Pension Fund supports the FRC Stewardship Code and, as part of its commitment to best practice, seeks to apply the Principles in the Code to its investment activity. Although the Code is focused on the UK, the Fund seeks to apply the Principles of the Code to its non-UK investments subject to local practice and law.

The management of the Fund's assets is split between the internal investment manager and Schroder Investment Management Limited. Schroder's Statement of Compliance with the UK Stewardship Code can be viewed at [www.frc.org.uk](http://www.frc.org.uk)

#### **Principle 1 – Institutional investors should publically disclose their policy on how they will discharge their stewardship responsibilities.**

The Fund takes its responsibilities as a shareholder seriously and seeks to adhere to the Principles of the Stewardship Code. It views stewardship as part of the responsibilities of share ownership, and, therefore, an integral part of the investment strategy. The Fund believes that active stewardship will help to deliver high standards of corporate governance which will contribute positively to business performance over time by:

- encouraging accountability between directors, shareholders, and other stakeholders;
- strengthening the integrity of relationships between these bodies; and
- improving transparency in the way companies are run.

In practice, the Fund's policy is to apply the Code through engagement with investee companies, the utilisation of its voting rights, an interpretation of best practice guidelines informed through the use of the Pensions Investment Research Consultants (PIRC) voting advisory service, existing arrangements with its external investment manager, and through membership of the Local Authority Pension Fund Forum (LAPFF).

Further details of PIRC's voting guidance is shown in the "UK Shareowner Voting Guidelines 2016" guidance document which is available at [www.pirc.co.uk](http://www.pirc.co.uk) and further information regarding the engagement activities of the LAPFF is available at [www.lapfforum.org](http://www.lapfforum.org).

The Pension Fund considers that social, environmental, and governance considerations can have a material impact on the value of its investments and should form part of its investment managers' investment processes.

Therefore, the Fund will take into account the guidance issued by LAPFF, which highlights corporate governance issues at investee companies and recommends appropriate voting action, and any other appropriate guidance and information, in determining any relevant social, environmental, or governance considerations when selecting, retaining, and realising any of its investments. However, the overriding objective for the Pensions Committee will be to discharge its fiduciary duty in managing the Fund's investments in the best interests of the scheme's beneficiaries.

The Fund's investment managers can exercise their discretion not to vote in accordance with best practice. Where this discretion is exercised, the rationale for this decision is reported to the Pensions Committee on a quarterly basis.

The exercise of any other rights attaching to a particular investment will be considered on a case by case basis.

In general, the Fund's engagement activities will be based on the importance of the issue, the materiality of the Fund's exposure to companies affected by the issue, and an assessment of the likelihood of success in the event of engagement.

The Pensions Committee reviews the Fund's corporate governance and voting activity and discusses the reasons for engagement, or lack of it, with its investment managers on a quarterly basis.

In addition, the Fund publishes summary details of corporate governance and voting activity in its Annual Report and Accounts.

**Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publically disclosed.**

East Riding of Yorkshire Council, the administering authority of the East Riding Pension Fund maintains and monitors a Register of Interests which is completed both by Members of the Pensions Committee and by the individual employees of the internal investment manager. [These are published on the Council's website and updated on a regular basis.](#)

In addition, Pension Committee members are required to make any declarations of interest prior to Committee meetings. These interests are disclosed in the Pension Fund's Annual Report and Accounts.

In accordance with the Fund's Compliance Manual, individual employees of the internal investment manager require permission from the Head of Investments or, in the Head of Finance case, the Head of Finance prior to investing in any applicable investments on a personal basis. Individual employees are also required to disclose their personal investments on an annual basis. [The Fund's Compliance Manual is an internal control document and it is not considered appropriate to disclose this publicly.](#)

The interests and investments of the Fund's independent advisor are disclosed to the Pensions Committee on a quarterly basis.

The external investment manager's policy on conflict of interests is disclosed in its Statement of Compliance with the UK Stewardship Code.

### **Principle 3 – Institutional Investors should monitor their investee companies.**

The Pensions Committee delegates responsibility for managing the Fund's assets to the Investment Managers, who are expected to monitor companies and intervene where necessary.

The Fund subscribes to the Pension Investment Research Consultants (PIRC) voting and advisory service which provides voting recommendations based on industry best practice and receives an "Alerts" service from the LAPFF which highlights corporate governance issues of concern at investee companies. However, the Fund's investment managers are not bound to exercise their vote in accordance with these recommendations.

Issues on which the Fund has chosen to engage on in the recent past include:

- Directors remuneration
- Separation of the roles of Chairman and Chief Executive
- Independence of non-executive directors
- Supply chain management
- Environmental factors including carbon risk
- Labour relations
- Auditor rotation

The Fund is of the opinion that its corporate governance activities are significantly more effective if they are part of a larger group of like-minded investors, such as the LAPFF. The Fund is a supporter of the LAPFF's work but is unable to commit resources to take a more active role in LAPFF's engagement over and above its current membership role.

The external investment manager discharges its corporate governance responsibilities in accordance with its Investment and Corporate Governance Policy, which is also based on industry best practice.

The Fund's investment managers present reports on their voting activity on a quarterly basis to the Pensions Committee which are then subject to challenge and debate. The Pensions Committee also receives regular reports summarising the issues being raised by LAPFF and its current areas of focus, with companies in which the Fund has current ownership specifically highlighted, which further informs this process.

The Fund's investment managers can exercise their discretion not to vote in accordance with industry best practice. Where this discretion is exercised, the rationale for this decision is reported to the Pensions Committee on a quarterly basis.

The Fund's investment managers may choose to be made insiders in a particular company for a short period of time. In these instances, no transactions are permitted to be made from the point of disclosure until the information has been disclosed to the wider market. The specific restrictions are disclosed in the Fund's investment managers' compliance documents. As stated

above, the Fund's internal investment manager's Compliance Manual is considered to be a private document that will not be disclosed publicly.

**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.**

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's Investment Managers, including the escalation of engagement when necessary.

Where special situations arise which are not covered by the Fund's corporate governance strategy or where the policy is unclear, the Investment Managers will consult with the Director of Corporate Resources.

Although willing to act alone, as the Fund typically holds a very small percentage of equity in individual companies, there are strong reasons to collaborate with other asset owners in order to present a stronger case. The Fund utilises its membership of the LAPFF, which co-ordinates collaborative engagement with companies, regulators and policymakers to protect and enhance shareholder value, in order to maximise its influence.

If deemed appropriate, the Fund will participate in shareholder litigation.

Any such actions and subsequent outcomes are reported to the Pensions Committee in order to monitor activity and assess effectiveness.

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

Collaborative engagement is a key part of a responsible investment strategy and the Fund will seek to work collectively with other institutional shareholders in order to maximise the influence it can have on individual companies.

The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social, and governance issues on behalf of its members, and also its relationship with the external investment manager.

The Fund will also consider collaborating with other investors if it is considered to be appropriate and interested parties should contact the Fund's Head of Investments, Mark Lyon if they would like to discuss this further.

The external investment manager's policy on collaborative engagement is disclosed in its Statement of Compliance with the UK Stewardship Code.

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

The Fund views its voting rights as a valuable instrument to:

- protect shareholder rights;
- minimise risk to companies from corporate governance failure;

- enhance long term value; and
- encourage corporate social responsibility.

As such, the Fund seeks to exercise all voting rights attaching to its investments, where practical.

Whilst it is the Fund's intention to follow the principles of UK corporate governance best practice, the Fund will interpret the application of these principles according to its own views of best practice. There are also other issues outside of these principles on which the Fund will take a view.

As a general rule, the Fund will vote in favour of resolutions which are in line with the UK Corporate Governance Code or comply with best practice. The Fund will vote against resolutions which do not meet these guidelines, or which represent a serious breach of best practice, or which will have a negative impact on shareholders rights. The Fund may abstain on resolutions which may have an adverse impact on shareholder rights, or represent a less significant breach of these guidelines, or where the issue is being raised for the first time with a company. The specific voting outcome will depend on the particular circumstances of the company and the types of resolution on the meeting agenda.

The external investment manager is responsible for the exercise of voting rights attaching to investments that are managed by them on behalf of the Fund. The external investment manager will vote in accordance with its "Investment and Corporate Governance" policy which is available at [www.schroders.com](http://www.schroders.com).

Reports summarising the Fund's voting activity are presented to the Pensions Committee on a quarterly basis, and the Fund publishes summary details of voting activity in its Annual Report and Accounts. The Fund has chosen not to disclose its full voting record as it does not consider that this will add any value to an external parties understanding of its corporate governance and voting policy and practices. However, the Fund is required to respond to a formal request for information via the Freedom of Information Act 2000.

The Fund engages in stock lending and seeks to recall stock on loan prior to a shareholder vote if it is deemed to be cost effective, suitable and practical. Examples of this will include resolutions that are not considered to be in accordance with the UK Corporate Governance Code or where the Fund has a material holding and could potentially influence the outcome of the vote.

#### **Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.**

The Pensions Committee reviews a detailed corporate governance and voting report, which includes the voting activity of both the internal and external investment managers, on a quarterly basis.

In addition:

- The Administering Authority publishes the agendas and minutes of Pension Committee Meetings on its website – [www.eastriding.gov.uk](http://www.eastriding.gov.uk).

- The Fund publishes details of its stewardship and voting activities in its Annual Report and Accounts. This includes summary details of voting activity, and activity undertaken through the LAPFF as well as other collaborative engagement.