Tyne and Wear Pension Fund

Statement of Compliance with the UK Stewardship Code

June 2017

Introduction

The Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. It is published by the Financial Reporting Council, an organisation responsible for promoting high quality corporate governance and reporting to foster investment.

This Statement of Compliance describes the approach of the Tyne and Wear Pension Fund (the Fund) to the seven principles of the Code and sets out our compliance with the code.

Principle 1

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

The Fund takes its responsibilities as a shareholder seriously, seeks to adhere to the Stewardship Code where possible, and expects its investment managers to do so too. The Fund does not have a Stewardship Policy document; instead, the Investment Strategy Statement and the Governance Compliance Statement describe the Fund's approach to stewardship.

The Fund believes that good corporate governance and the informed use of voting rights are an integral part of the investment process that will improve the performance of the companies in which the Fund is invested.

Resources do not allow for a dedicated role to oversee the Fund's stewardship responsibilities. However, asset pooling arrangements are being implemented which will enable a more active approach in the future.

The day to day activity is delegated to the investment managers, subject to their policies having been approved by the Fund. However, the Fund retains the right to direct a manager in respect of an issue.

The policy towards UK quoted companies must take account of the principles contained in the UK Corporate Governance Code and the UK Stewardship Code. A manager should use its best efforts to apply the principles of the UK Stewardship Code to overseas holdings. Other national or international standards must also be taken into account.

The Fund not only applies the Code both through its investment managers it also applies it through its membership of the Local Authority Pension Fund Forum (LAPFF). This is a collaborative shareholder engagement group for Local Authority Pension Funds. Using these channels, the Fund seeks to improve long term share performance through investment in better governed companies. The ultimate aim is to improve the funding level of the Fund and to reduce the cost to stakeholders in the Local Government Pension Scheme.

The investment manager appointment process includes an assessment of the approach to discharging stewardship responsibilities, which is an integral part of the investment process. Managers are asked to include information on stewardship and engagement activity in quarterly reports to the Fund to facilitate monitoring. This is expected to include activity such as meetings with company management, meetings with non-executive directors and collaborating with other institutional shareholders. Regular meetings with managers include standing agenda items on stewardship to ensure understanding of the impact of these activities and that they are aligned with the engagement work done by the LAPFF.

On an exception basis, the Fund reports quarterly to the Pensions Committee on engagement work undertaken by the managers and the LAPFF. The Fund also attends the LAPFF Annual Conference and when appropriate LAPFF meetings to ensure a full understanding of, and input into, the engagement programme.

Voting is carried out by the investment managers based on these stewardship and engagement principles, and where appropriate, voting activity is discussed during the meetings. This includes issues where the LAPFF has provided voting recommendations.

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.

The Fund expects the investment managers it employs to have effective policies addressing conflicts of interest to facilitate transparency in decision making, and that these are all publically available on their respective websites. These are discussed prior to the appointment of a manager and are reviewed as part of the standard manager monitoring process.

The Pensions Committee and the Pension Board review the Fund's Conflicts of Interest Policy and Code of Conduct annually. These documents are available on the Fund's website. In addition, Members and Officers are required to declare any potential conflicts at the start of each meeting, and to record interests in a Register.

The risk of impact of a conflict of interest is assessed in relation to key decisions that are likely to be made in the year ahead. This assessment looks at any mitigations that should be put in place to either prevent the potential conflict from materialising or, if that's not possible, managing it in an appropriate way, for example abstaining from voting at meetings.

Principle 3

Institutional investors should monitor their investee companies.

Using the voting policies and working through the investment managers and the LAPFF, the Fund can use its rights as an owner to encourage companies to act more responsibly and improve practices. All managers are required to consider how environmental, social and governance factors might impact the sustainability of these investee companies, and therefore long term share performance.

The day-to-day responsibility for managing assets is delegated to the Fund's external investment managers where monitoring and engagement is expected. Managers are asked to include information on stewardship and engagement activity in their quarterly reports, to allow the Fund to monitor the work and its impact. The Fund has regular meetings with managers where stewardship and engagement activities are standing items on the agenda.

The Fund receives the Alerts Service from the LAPFF which highlights governance issues of concern and informs voting decisions. Where the LAPFF raises issue of concern the Fund liaises with its managers to discuss these issues and determine how to progress. The Fund retains the right to direct a manager on any issue.

Resources do not allow for a dedicated role to monitor investee companies. However, asset pooling arrangements are being implemented which will enable a more active approach in the future.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

As stated above, responsibility for day-to-day interaction with companies is delegated to the Fund's managers. This includes the escalation of engagement where necessary. The guidelines for such activities are expected to be disclosed in the managers' statement of adherence to the Stewardship Code.

The policies on engagement and escalation are assessed prior to appointing a manager, and activity is reviewed as part of the quarterly manager monitoring process. Escalation activity includes meetings with company management, meetings with non-executive directors, collaborating with other institutional shareholders, submitting resolutions at institutional meetings, and in extreme cases, disinvestment.

Where appropriate, the Fund may escalate activity through the LAPFF and its work programme. This may involve co-signing shareholder resolutions or publically supporting them.

Working alongside LAPFF is PIRC (Pensions & Investment Research Consultants) which provides voting recommendations based on a set of principles aimed at mitigating risks in investor portfolios across environmental, social and governance issues. Where issues of particular interest are raised by these organisations, the Fund discusses with its managers their approach to engagement with the relevant companies. Examples where issues have been escalated include remuneration policies where they out of line with company profitability, and company stances on climate change, particularly with regard to the 2015 Paris climate change conference and the challenge to limit global warming.

The Fund also monitors and participates in class actions. To assist with this process the Fund contracts with RGRD (Robbins Geller Rudman & Dowd), and Grant & Eisenhofer, two US law firms specialising in class action litigation. The Pensions Committee has approved a Class Action Protocol which sets out the approach to participating in class action cases. This protocol includes the approach as a lead plaintiff, a role which the Fund has taken on a number of times.

Principle 5

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

The Fund works collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund achieves this through membership of the LAPFF which engages with companies on environmental, social and governance issues on behalf of its members.

The LAPFF agrees planned work programmes each year which are discussed and approved at LAPFF meetings. The Fund reviews the work programme and puts forward its views to steer the programme, where appropriate.

Monitoring and engagement is also delegated to the Fund’s managers as described above. The managers’ policy and the engagement activity undertaken by them is periodically reviewed and assessed throughout the cycle of regular update meetings.

The development of pooling arrangements will include an approach to collective arrangements with partner funds, through aligning responsible investment policies and taking action with one voice rather than individually.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activities.

Responsibility for the exercise of voting rights is delegated to the managers, based on their policies which have been approved by the Fund. However, the Fund retains the right to direct a manager in respect of an issue. These policies are based on the best practice principles for governance in the UK and overseas.

A manager is required to vote the Fund's shares wherever it is practical to do so, and in a manner that establishes a consistent approach to issues so that companies fully understands the managers' views and intentions. Votes are cast on approximately 99.9% of resolutions, with reasons for non-voting detailed in the Fund's Annual Report.

The desired approach is that shareholder resolutions will be aligned with the interests of the Fund and its managers, influenced by engagement activity where appropriate, and will be supported. When this engagement activity does not facilitate the alignment of interests, the manager will either abstain or vote against the boards resolutions. The managers are expected to inform companies of their intentions not to support resolutions and the reasons why.

The majority of the Fund's managers disclose their voting records. Due to the complexity of arrangements it is not practical to provide this information on the Fund's website. The Fund is working towards comprehensive disclosure of voting records for all managers and expects to achieve this once pooling arrangements are in effect. In the interim, an analysis of voting is included in the Fund's Annual Report and Accounts.

The Fund's engagement with the LAPFF provides an additional reference point for voting intentions, and is incorporated into discussions on voting activity with the Fund's managers.

The Fund has a stock lending programme in place and may also participate in programmes arranged by its managers. Where the Fund wishes to exercise its voting rights on contentious issues, stock is recalled.

Principle 7

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

The Fund's Annual Report includes a section on stewardship activities and an analysis of voting records for the year. This includes details of key engagement activity undertaken through the LAPFF, and by the Fund's managers, and is available on the Fund's website.

Managers are required to report their stewardship activities to the Fund and to seek direction where required. As described above, each manager's approach is assessed by the Fund via each manager's written report, in monitoring meetings, and at Committee meetings. The Fund assesses the approaches taken by managers alongside each other and guidance provided by the LAPFF, for consistency and alignment of interests.

It is common practice for the Fund’s managers to have their voting activities either independently reviewed or to receive independent advice on voting resolutions.