

## BEDFORDSHIRE PENSION FUND

### Updated Statement of Compliance with the U.K. Stewardship Code for Institutional Investors

Bedfordshire Pension Fund has a long-standing commitment to the values of stewardship, in relation to its conduct as an asset owner. It considers the responsibilities of stewardship to be part of its fiduciary duty to its stakeholders.

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

Bedfordshire Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too.

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and other agents and through membership of collaborative groups. The Fund makes this explicit in its Statement of Investment Principles (SIP) and directly refers to the Stewardship Code in Section 6 of the SIP, 'Corporate Governance and Socially Responsible Investment'.

The Fund has previously required its asset managers to state their approach to the ISC (Institutional Shareholders Committee) Code on the Responsibilities of Institutional Investors on a comply or explain basis. The Fund's investment strategy seeks long-term returns from investing in equities and appoints asset managers who best reflect this long-termism in their investment philosophy and process.

The Fund does not delegate all responsibility for stewardship to its asset managers. It publishes within its SIP a Voting Policy that its asset managers are expected to follow.

The Fund publishes a section on its website dedicated to Responsible Investment. This includes the following:

- Listing of the Fund's Investments
- The Fund's Statement of Investment Principles (SIP)
- Statements of commitment to Responsible Investing Outcomes such as Paris Pledge for Action and Global Investor Statement on Climate Change
- Voting Reports
- Reports of lobbying groups of which the Fund is a member e.g. LAPFF

The Fund uses external Fund Managers to carry out its investment activities by allocating a proportion of its portfolio to different mandates. The Fund's Investment Advisor advises on the selection of Fund Managers and procurement is made with reference to the Public Contracts Regulations (2015)

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 encourages the asset managers it employs to have effective policies addressing potential conflicts of interest, when it comes to matters of stewardship. Actual, apparent or potential conflicts of interest should be clearly identified and where such conflicts exist, then the recommendation of a voting service provider should take precedence. Codes of Conduct, where they exist, should emphasise high ethical standards.

Conflicts policies should be clearly available on asset managers' websites for public scrutiny and the policy should be subject to regular review.

The Fund will review the Independent Internal Controls Document which is expected to be published on at least an annual basis. Management should address any exceptions that have been noted in the testing and how they expect to resolve them.

The Fund requires all those who are directly involved in its management and governance to disclose any interest in any company, or other entity, in which the Fund has an ownership interest. This falls within the administering authority's Code of Conduct for Officers, where all potential conflict of interests must be declared and registered on a Register of Interests. The Pensions Committee Chairman will take appropriate action when this turns into an actual conflict of interest to ensure that the decision making process is not affected.

Principle 3 – Institutional investors should monitor their investee companies

Day-to-day responsibility for managing equity holdings is delegated to appointed asset managers. The Fund expects asset managers to monitor companies, and intervene where necessary, and to report back regularly on activity undertaken. The Fund expects that asset managers provide a regular report on engagement activity and voting decisions. Quarterly review meetings with asset managers are used to raise particular issues of note or concern. All of the Fund's investments are currently in pooled investment vehicles.

In addition, the Fund receives an 'Alerts' service from the Local Authority Pension Fund Forum (LAPFF), which highlights corporate governance issues of concern at investee companies.

Effectiveness of each Fund Manager is assessed by their compliance with the Voting policy as laid out in the SIP. It is also measured by an assessment of how they compare to their original response to the investment mandate requirements. The Fund will use different targets and benchmarks to consider this depending on the type of portfolio.

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 asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. They should reflect the circumstances in which they would intervene and how they would escalate their actions. Leading asset managers will include the steps to be taken in engaging with companies, which ideally would be to make contact with the Board initially, and subsequently, if there is no response, collaborative engagement with other institutional investors.

Assessing the effectiveness of intervention should be based on clear objectives set at the start of an engagement. The Fund would expect to see that a Fund Manager is consistently reviewing progress against objectives and operates a lessons learned approach to improve future effectiveness

However, the Fund may itself choose to escalate activity, principally through engagement activity with LAPFF. When The Fund believes it is warranted by the egregious conduct of a company board causing a loss of shareholder value, the Fund will seek redress by pursuing shareholder litigation, of whatever form and in whatever jurisdiction deemed suitable. The Fund considers this an appropriate tool for use by long-term shareholders to send a powerful message of reproach to a company's directors and to the wider industry.

Whilst not an exhaustive list, issues that may precede escalation of engagement activity would include:

- Concerns over remuneration packages
- Board structure
- Management succession
- Loss of confidence in management
- Acquisitions or disposals

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

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that 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. Bedfordshire Pension Fund strives to provide active leadership within LAPFF and currently the Chairman of Bedfordshire Pension Fund, Councillor Doug McMurdo is a member of the LAPFF Executive. 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.

On environmental issues in particular, the Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC). One of the core objectives of the IIGCC is to engage in dialogues with companies to standardize and improve disclosure on climate change and improve performance.

The Fund will work collaboratively with other Local Government Pension Scheme (LGPS) Funds on issues relating to public sector regulations especially and as part of the Border to Coast Pensions Partnership (BCPP) will act as a member of that group where appropriate. BCPP comprises the Funds of Cumbria, East Riding, Lincolnshire, Surrey, Tyne and Wear, Warwickshire, Bedfordshire, South Yorkshire Transport, South Yorkshire, North Yorkshire, Northumberland, Teesside and Durham.

The main officer contact for collaborative purposes is Geoff Reader, Head of Pensions, who can be contacted on 01234 228562 or on email at [geoff.reader@bedford.gov.uk](mailto:geoff.reader@bedford.gov.uk)

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

The Fund has its voting policy detailed as part of its SIP. This voting policy applies to all of its UK holdings under the Code and where practical, the Fund seeks to mirror this with its non-UK equity holdings. The Fund views stewardship as part of the responsibilities of share ownership, and, therefore, an integral part of the investment strategy. As an active shareholder the Fund will seek to use its own efforts, its Fund Managers and alliances with other investors to promote the standards of best practice as set out in the Fund's policies.

Voting policies are aligned with its views on best practice as set out in fund's ESG policies. In practice, investment managers have delegated authority to exercise the Funds' voting rights in line with the fund's corporate governance policy. The Fund managers/proxy agencies are responsible for reporting, on a quarterly basis, a statement of voting instruction submitted to Company meetings on behalf of the Fund and any significant company issues, if any, which arose during the quarter. Voting decisions are published on the Fund's website which can be found [here](#). Engagement with investee companies is undertaken to encourage accountability between directors, shareholders, and other stakeholders to strengthen the integrity of relationships between these bodies, and improve board transparency in the way companies are run. This includes engagement to ensure companies are minimising the risks and maximising the opportunities presented by climate change and climate policy

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members and membership of the Institutional Investors Group on Climate Change, which has an aim to encourage companies and markets in which its members invest to address any material risks and opportunities to their businesses associated with climate change. The Fund also monitors and receives reports back on engagement activity undertaken by its Asset Managers.

The Fund's SIP contains an Appendix 1 which clearly states its Voting Policy in detail on Directors' Contracts, Share Options or Incentive Schemes, Internal Committees and Other Issues. A link to this is [here](#).

As stated in its SIP the Pension Fund does not currently allow stocklending in its segregated accounts although it may occur in pooled investments.

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

The Fund maintains a Responsible Investment section on its website. This can be found [here](#). Annual reporting on stewardship activity has formed part of the report and accounts. In future the annual report will include information about the Fund's voting and engagement work.

The Fund expects Fund Managers to incorporate independent assurance within its Assurance Reports on Internal Controls of Service Organisations and to be made available to third parties. Guidance from the Institute of Chartered Accountants of England and Wales (ICAEW) on this clearly states that Reporting Accountants should be able to provide assurance against Principles 1,2,4,6 and 7 as they can be objectively verified. Principles 3 and 5 are not considered "objectively verifiable ". If this is not available, then an internal audit review would be considered the most appropriate way of ensuring that the Stewardship Code is fully observed.

Date Agreed: 20 September 2016