



Co-operative Pension Scheme (Pace)

# Statement on the UK Stewardship Code



# Introduction

The Co-operative Pension Scheme (Pace) is a UK-registered pension scheme with both defined benefit and defined contribution assets held on behalf of members by PACE Trustees Limited (the Trustee).

This statement has been prepared by the Trustee of Pace to set out the policies and practices by which we seek to comply with the principles of the Financial Reporting Council's UK Stewardship Code (the Code). The code sets out a number of areas of good practice which the Financial Reporting Council (FRC), the UK's independent regulator responsible for promoting high quality corporate governance and reporting, believes institutional investors like Pace should aspire to. The code specifically relates to UK equity investments, although the Trustee believes that the principles are applicable across all of the Scheme's investments.

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

As the Trustee, we exercise our stewardship responsibilities in the best interests of all the members of Pace. We operate an Investment Committee which is responsible for the development and operation of Pace's investment policy for the defined benefit section, and a Defined Contribution Committee who perform the same role for the Scheme's defined contribution section (Pace DC). Responsibility for the day to day management of assets is delegated to our appointed investment managers, and their approach to implementing responsible investment principles is monitored by the Investment Committee (see Principle 3).

We encourage our appointed investment managers to commit to the stewardship code. Our managers have their own policies to demonstrate how they monitor and engage with the companies in which they invest, to protect and enhance value to clients. Links to their policies, where these are publicly available, can be found in Appendix 1.

We believe it is important to inform our members how we invest in order to show that Pace is exercising its responsibilities as an asset owner effectively. Our Responsible Investment Policy is publicly available on the Pace website, and we also disclose the following documents:

- Pace's Statement of Investment Principles (SIP);
- The Scheme's annual report and accounts;
- A summary of voting records and of any investee company engagement activities; and
- This statement on the UK Stewardship Code.

## **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.**

We have a clear procedure for identifying and managing conflicts of interest which may arise from time to time. The Trustee Board meets at least quarterly, and in advance of each meeting Trustee Directors are asked to consider if they have:

- Any material personal interest in the outcome of any discussions on the agenda;
- Any involvement in negotiating on funding or on any other matter on behalf of the Co-operative Group or the Co-operative Bank;
- Any knowledge acquired from another role which would materially impact on decision-making, and which may not be shared with the Board; and
- Any difficulties in treating discussions as confidential.

Potential conflicts of interest are managed by obtaining appropriate legal advice where necessary, with full disclosure being made within minutes of meetings.

### **Principle 3: Institutional investors should monitor their investee companies.**

Each investment manager's approach to incorporating environmental, social and governance (ESG) issues into their investment process is discussed at regular Manager Implementation and Monitoring Committee (MMIC) meetings and performance review presentations.

Furthermore, our investment adviser assigns a rating to each manager according to the extent to which ESG issues and active ownership practices are integrated into their investment processes. The investment adviser's ESG-related ratings are reported to the Investment Committee and MMIC each quarter, and are used as a factor in manager evaluation and selection.

Investment managers' statements of compliance with the UK Stewardship Code, and whether they are signatories to the United Nations-backed Principles for Responsible Investment (UNPRI), are also factors in manager evaluation and selection.

While we don't expect to encounter inside information internally or externally, we work with our advisers to ensure that appointed investment managers have policies to mitigate any risks from encountering inside information.

### **Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.**

Following changes to reduce risk in its investment strategy in late 2017, the defined benefit section of Pace no longer invests in company shares (either directly or through pooled funds); options available to members of the defined contribution section include passive equity investments provided through pooled funds.

Nevertheless we have acknowledged the importance of considering ESG factors in investment decision-making and reserve the right to use a more direct engagement approach with investment managers and investee companies. In such situations, we may:

- Work with investment managers and other institutions to engage with companies; and
- Contact investee companies directly or through our investment managers.

As mentioned in Principle 1, the responsibility for day-to-day engagement with invested companies is delegated to the Scheme's investment managers, including the escalation of engagement and reviewing its effectiveness. For some managers, their policies for such activities are disclosed in their own statement of compliance with the UK Stewardship Code.

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

We believe that by working collaboratively with other institutional shareholders and networks such as The UK Sustainable Investment and Finance Association (UKSIF), we can increase our influence and more efficiently achieve our stated objectives.

We review annually whether Pace should become a signatory to the United Nations-supported Principles of Responsible Investment (UNPRI) initiative and become involved in its collaborative work streams. We also consider investment managers' membership of the UNPRI as a factor in manager evaluation and selection. All ten of our current investment managers are signatories to the UNPRI.

The Scheme's contact for enquiries relating to collective engagement is James Giles, Pension Investment and Risk Manager, via [staffpensions@coop.co.uk](mailto:staffpensions@coop.co.uk).

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

As noted above, the defined benefit section of Pace no longer directly invests in company shares and therefore does not hold investments with attaching voting rights; however, Pace has previously held these investments, and may do so in the future. We do not generally advise how managers should vote on the equities they hold on behalf of either the defined benefit or defined contribution sections of Pace. The Investment Committee does look at the voting policies in use by our investment managers if relevant, and we reserve the right to override investment managers' voting policies if we believe that they do not reflect our views and beliefs.

As part of our annual Responsible Investment Report, we disclose a summary of voting activities for the defined benefit section every year on the Pace website.

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

In addition to Principle 6 above, we provide a summary of any investee company engagement activities on the Pace website each year.

Where investment managers do not have a voting record to report on, we expect them to provide a general engagement report which will be referenced in our Responsible Investment Report.

We also receive regular engagement activity reports, quarterly voting information and annual AAF 01/06 assurance statements from the Scheme's external investment managers.

# Appendix 1

## Our managers' statements of compliance with the UK Stewardship Code

### **BlackRock Investment Management:**

<https://www.blackrock.com/corporate/en-hk/literature/fact-sheet/blk-responsible-investment-statementoncompliance-uk-stewardshipcode.pdf>

### **Insight Investment:**

<https://www.insightinvestment.com/globalassets/documents/responsible-investment/stewardship-code/stewardship-code.pdf>

### **Legal & General Investment Management:**

[http://www.lgim.com/files/\\_document-library/capabilities/uk-stewardship-code.pdf](http://www.lgim.com/files/_document-library/capabilities/uk-stewardship-code.pdf)

### **M&G Investments:**

<https://www.mandg.com/about-us/responsible-investment/equities/uk-stewardship-code/>

### **Mercer Ltd:**

<https://www.delegated-solutions.mercer.com/content/dam/mercerc-subdomains/delegated-solutions/attachments/ieuk/mercerc-dse-uk-stewardship-code-statement-2016.pdf>

### **Royal London Asset Management:**

<https://www.rlam.co.uk/Documents-RLAM/Sustainable%20Investing/53887%20Stewardship%20Statement%202019.pdf>