

## **Policy on Socially Responsible Investment, The Exercise of Rights and Corporate Governance**

**Approved by Pensions Committee on 3rd June 2008**

### **Introduction**

1. This document sets out the Fund's policy on Socially Responsible Investment, the Exercise of Rights and Corporate Governance.
2. The Pensions Committee reviews the policy annually, or more frequently if required.
3. The Committee provides copies of this document to the Fund's investment managers, who are required to follow the principles that it sets out and to report showing how they have done so.

### **Development of a Manager's Policy**

4. Each manager must prepare and implement a policy on Socially Responsible Investment, corporate governance and the principles that govern the way in which voting rights are exercised.
5. If a manager's policy is inconsistent with the requirements set out in this document, the issues will be discussed with the manager and an approach will be agreed.
6. Each manager must continue to develop its policy and report change as soon as practicable.

### **Socially Responsible Investment**

7. Responsibility for the selection, retention and realisation of investments is delegated to the managers, who are required to act within specified guidelines and restrictions.
8. The extent to which social, environmental or ethical considerations are taken into account in this decision is at the discretion of each manager.
9. However, active managers must take such considerations into account where they may have a financial impact on a portfolio.
10. Part of the Fund's assets are invested on a passive basis. The passive manager is not required to take account of such considerations in the selection, retention and realisation of investments.
11. Each manager is urged to pursue a policy of engagement with companies and to take account of such considerations in its corporate governance and voting policy.

## **Rights Attaching to Investments**

12. Responsibility for the exercising of rights, including voting rights, attaching to investments is delegated to the managers.

## **Corporate Governance**

13. The policy towards U.K. quoted companies should take account of the principles contained in the Combined Code and of the guidance offered by relevant organisations, including that contained in “The Responsibilities of Institutional Shareholders and Agents – Statement of Principles”, that was first prepared by the Institutional Shareholders Committee in 2002 and then updated in 2005.

14. The policy towards companies outside the U.K. should take account of the practices of the home nation.

15. The policy towards unquoted companies should be consistent with the approach adopted for quoted companies, to the extent that this is practicable.

## **Voting Rights**

16. Voting rights should be exercised in an informed manner. Therefore, in general, the managers are most appropriately placed to undertake this task.

17. Voting rights are regarded as an asset that needs managing with the same duty of care as any other asset. Exercising the rights attached to shares is essential to protect the interests of the organisations participating in the Fund and the beneficiaries of the Fund.

18. Whilst it has not been made compulsory for the managers to vote, they are strongly urged to do so.

19. Voting rights must be exercised in a manner that establishes a consistent approach to both routine and exceptional issues in order that company directors fully understand the manager’s views and intentions.

20. Whilst the responsibility is delegated to each manager to exercise voting rights in accordance with its own policy, the Committee retains the right to direct each manager in respect of any issue.

21. Prior to voting, each manager is required to use reasonable endeavours to consider whether, in their opinion, any issue could become controversial for the Fund or the organisations participating in the Fund. If this is the case, the issue should be referred to the Fund's officers for discussion and possibly direction. It is considered that this will happen infrequently. Whilst each manager should exercise their own discretion as to what may fall into this category, examples may be

- Where the manager intends to vote against directors on a major issue
- Matters affecting the local economy.
- Political donations.

### **Review and Reporting Arrangements**

22. Each manager's policy will be reviewed and its impact monitored on a regular basis.

23. Policy changes must be reported as soon as practicable.

24. Each manager must provide a quarterly report that sets out how its policies have been implemented.

25. The quarterly report must include

- The proportion and numbers of votes which were cast.
- A summary and explanation of instances where:
  - Voting rights were exercised in a manner that was inconsistent with the normal policy.
  - Voting rights were exercised against management.
  - The manager abstained from voting.
  - Voting rights were not exercised.