The DCLG consultation on Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

Response by the Environment Agency Pension Fund (EAPF)

Important notice

This document is a response to the DCLG consultation on Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

This response to the consultation is undertaken on behalf the Pension Committee of the EAPF and in consultation with the administering authority, the Environment Agency. Any questions should be sent to dawn.turner@environment-agency.gov.uk.

FAO: LGPSReform@communities.gsi.gov.uk

Dear Sirs

We welcome the opportunity to respond to DCLG consultation on Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Environment Agency Active Pension Fund is a defined benefit Local Government Pension Scheme with over 23,000 members and assets of £2.6billion. It provides for the future pensions of its members working for Natural Resources Wales, Shared Services Connected Limited and Environment Agency. There is a 95 per cent participating rate of eligible members.

The Environment Agency Closed Pension Fund was created in 1989 as part of water privatization. Prior to 1989, the Water Authorities Superannuation Fund served the former Regional Water Authorities in England and Wales and other bodies. At privatisation the Fund's active members were transferred to other schemes, including what is now the Environment Agency Active Pension Fund. Only deferred and current pensioners were transferred into the Closed Fund. During the year the total number of current pensioners and deferred members fell to 16,289. As at 31 March 2015 the Fund's net assets were valued at £213m and the Fund's liabilities were £820m. The investment management of the assets are in two long dated gilts.

Our fiduciary duty is to act in the best long-term interest of our members and to do so, requires us to recognise that environmental, social and governance (ESG) issues can adversely impact on the Fund's financial performance and should be taken into account in the funding and investment strategies and throughout the funding and investment decision making process. In October 2015 we published our Policy to Address the Impacts of Climate Change which explicitly stated our belief that if we were not to consider ESG issues such as climate change, we would be in breach of our fiduciary duty.

We are strongly in favour of moving to fiduciary basis for the LGPS but are concerned that this sentiment is not consistently applied throughout the proposed investment regulations. Most specifically, we would welcome the Secretary of State's powers of intervention to be similarly framed, such that a fund's failure to demonstrate delivery of its fiduciary duty forms the rationale for intervention rather than a somewhat non-specific nature that it is currently drafted.

The primary issue for the Environment Agency Pension Fund is to acknowledge the different regulatory frameworks in which we operate and that we are pro-actively seeking solutions to enable participation in the asset pooling proposals. We answer the specific questions raised in the consultation below and would welcome a further conversation with the DCLG as its thinking develops in this area.

Yours sincerely

Dawn Turner

Head of Pension Fund Management

Environment Agency Pension Fund

dawn.turner@environment-agency.gov.uk

16 February 2016

Consultation response

Environment Agency Pension Fund situation

As regards the changes to the Investment Regulations which are intended to facilitate asset pooling, an important consideration for the EAPF is that the Environment Agency, as administering authority, is subject to a different legal framework to that of local authorities. This is because it is an agency body set up under statute and sponsored by a central government department. It is not a local authority. With respect to asset pooling, this is relevant because any delegation of power by the Environment Agency to make pension investments to an asset pooling operator must fall within its powers as set out in the relevant statute (the Environment Act 1995). Those statutory powers to delegate are more narrowly defined than the equivalent powers applying to local authorities. Also, unlike local authorities, the Environment Agency does not enjoy a general power of competence. In view of such challenges, the Environment Agency and its Pensions Committee are currently working on a pragmatic and legally robust solution which will permit the EAPF to participate in its chosen asset pool, notwithstanding the different legal framework to which it is subject."

Consultation questions response

Proposal 1: Adopting a local approach to investment

1. **Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities' investments are made prudently and having taken advice?**

   Whilst we are supportive of the deregulation and welcome the removal of the prescriptive schedules limiting types of investment, the regulation as proposed requires us to second guess the nature of the guidance (as yet unseen) in establishing whether there are sufficient requirements to ensure that authorities investments are being made prudently and will enable consistent interpretation across the LGPS. It is unsatisfactory to have regulations subject to general modification by guidance without further consultation or controls on that guidance. We propose that the regulations themselves should provide a sufficient fiduciary framework, under which the guidance can then provide specific clarification to aid consistent interpretation and for example provide more up to date examples of best practice.

   <u>Section 7. (1)</u>
   Therefore Regulation 7 (1) and 7 (2) should be merged so that the opening sentence reads;

   > ***"An Authority must, after taking proper advice, formulate an investment strategy which must include;***

   (Followed by the (a)-(g) list currently in 7(2), possible amended)"

   <u>Section 7. (2)</u>
   Then include a new Regulation 7 (2) which then states:

   > ***"the Investment Strategy Statement should be in accordance with guidance issued by the Secretary of State that provides further detail and clarification on the regulations, which aid consistent interpretation."***

We propose that the investment strategy statement should start with the requirement to set out high level principles which set the context for the investment strategy, an example is provided in Annex A (Environment Agency Pension Fund (Active) Statement of Investment Principles). This is increasingly viewed as best practice and has been adopted by most large institutional investors (both public and private sector).

With specific reference to regulations – Regulations, 7. (2) (a) states

(2) The authority's investment strategy must include —
(a) A requirement to invest fund money in a wide variety of investments;

We note that this would cause an issue with the Environment Agency Closed Fund whose assets comprise of two long dated gilts (therefore not wide variety of investments) however perfectly fit for purpose. We therefore propose that the wording is amended to read;

(2) The authority's investment strategy must include —
(a) The authority's approach to the requirement of diversification of investments informed by the nature of their liabilities.

With specific reference to 7. (2) (e), we believe the 'or' should be replaced by an 'and' as it is standard in the investment industry to consider environmental, social and governance (ESG) issues, not either or. We would further recommend the use of the term responsible investment (RI). RI should be defined in the terms as "Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems" (source United Nations Principles for Responsible investment.)

We would welcome a stronger statement relating to fiduciary duty within the investment regulations reflecting the Law Commission's recommendations that clearly illustrated that many ESG issues have financial impacts and are not 'non-financial', indeed in October 2015 we published our Policy to Address the Impacts of Climate Change which explicitly stated our belief that if we were not to consider ESG issues such as climate change, we would be in breach of our fiduciary duty.

The regulation should therefore read;

(e) the authority's policy on responsible investment (RI), detailing how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

We would further propose that an additional requirement is added relating specifically to best practice in Stewardship, but recognising both rapid developments in global stewardship and the international investments that the requirement should read;

(g) the authority's policy to comply with recognised national and global standards of good stewardship.

We propose that the guidance should be updated to reflect developments in this area, but initially should reference the UK Stewardship Code. Already the Japanese Stewardship Code has moved the best practice in stewardship forward by including requirements for skills and knowledge and it is likely that global stewardship code will emerge in the near future. As LGPS funds invest globally then it is sensible to meet global best practice. The Environment Agency Pension Fund has developed a global Stewardship Compliance statement (Annex B) published in our 2014/15 Annual Report and Financial Statements.

We propose that an expert working group, comprising of LGPS practitioners, supports the development of the guidance and that it is issued for consultation to ensure the capturing and exchange of best practice.

In the spirit of appropriate implementation of clauses (e), (f) and (g), we recommend that the guidance require funds to:

- have a policy concerning RI factors and publish how this policy is applied to their investment processes.
- understand and monitor the RI impacts arising from their investment activity.
- demonstrate how they have been appropriately advised by relevant RI expertise.
- disclose the actions they take to promote RI activity in their investment strategies and how they have also used their influence and worked with other investors.

We note the role of the National LGPS Frameworks in providing a 'Stewardship framework' which will support the funds in the implementation of the investment regulations. We would welcome the cross reference in the 'new guidance' to maximise the cost and effectiveness of the implementation of the regulations.

<u>Section 7.(3)</u>

We reference to the current clause 7.(3), we propose amending the text to read:

> ***"Funds should state their target asset allocation ranges for each asset class and their policy for dealing with deviation from these ranges",***

as the current term 'maximum allocation' is not practical as it would allow a fund to state 100% as a maximum for all asset classes.

2. Are there any specific issues that should be reinstated? Please explain why?

We recommend that each fund is required to make a statement that it complies with the Myners Principles (and therefore leave with the internal governance and audit process to verify the statement) but are not required to provide detailed compliance statement.

3. Is six months the appropriate period for the transitional arrangements to remain in place?

We are supportive of proposal for a six months transitional arrangement.

4. Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

We would propose that the regulations in word and practice mirror those applied to occupational pension schemes, the wording from *Pensions (Investment) Occupational Pension Scheme SI 2005/3378 Regulations 2005*, is detailed below

(8) Investment in derivative instruments may be made only in so far as they–

(a) contribute to a reduction of risks; or

(b) facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk),

and any such investment must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

...

(11) In this regulation– [...] "derivative instrument" includes any of the instruments listed in paragraphs (4) to (10) of Section C of Annex 1 to Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments (a);

Proposal 2: Introducing a safeguard - Secretary of State power of intervention

5. Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?

The proposed power is excessively wide in scope and should be more tightly defined. The key criteria should be that the Secretary of State should consider that the investment strategy is potentially in breach of the Fund's fiduciary duty, rather than potentially a technical breach of as yet unknown guidance.

Any interventions should be supported by expert opinion. Any experts consulted must be independent professional, experienced in investment and appropriately authorised to provide investment advice on institutional business.

The intervention guidance make it clear that the Secretary of State power applies to administering authorities coming under the DCLG.

We would welcome that the sources of evidence including "**significant concerns clearly stated** in one or more" rather than just stating evidence from an actuary report/ Pensions Board/ etc, even if that report did not raise concerns in of itself. Other sources which could be include;

- Report from the Pensions Regulator
- Auditors report
- Pension Ombudsman
- Substantially poor returns relative to other funds with comparable funding levels and funding strategies
- Direct whistle-blowing complaints

We would expect the regulations to set out the process by which intervention is undertaken each intermediate step prior to direct action. We anticipate these would include a timely forewarning to the fund to take action within a set time period.

We also flag concerns regarding the Local Government Pension Scheme: Investment Reform Criteria and Guidance section.

> ***3.40 The Government's intention is to issue guidance to authorities to clarify that such considerations should not result in policies which pursue municipal boycotts, divestments and sanctions, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. Investment policies should not be used to give effect to municipal foreign or munitions policies that run contrary to Government policy.***

Whilst acknowledging the guidance is not subject formally to the consultation, we flag that robust investment decision making is long term and risk based and are applied over long term frames than electoral cycles. We believe that there are some benefits to be gained from clear direction from Government in liaison with LGPS Scheme Advisory Board, on more long term issues, for example where the UK Government has signed specific conventions e.g. Convention on Cluster Munitions which the UK ratified in 2010. However, we express considerable caution that the guidance should not be politically motivated and should be signed off by the LGPS Scheme Advisory Board, advised by the investment sub-group whose role is to consider ESG risk areas.

We reiterate our previous points that a robust fiduciary framework, operated such that it reflects the Law Commission's recommendations, ensures that funds make decisions in the long term best interests of their members. Any guidance should explicitly allow policies that allow for a fiduciary approach, for example the EAPF commitment to Policy to Address the Impacts of Climate Change.

We would also flag this section in the guidance.

> ***3.43 As set out in the July Budget 2015 announcement, the Government wants to see authorities bring forward proposals to reform the way their pension scheme investments are made to deliver long-term savings for local taxpayers. Authorities are invited to consider how they might best deliver value for money, minimising fees while maximising overall investment returns.***

We request that the term 'risk adjusted' is inserted into statements consistently when using the phrase "maximising overall investment returns." We are more broadly concerned that balance of risk and return is often lost in the debate on the reform of the LGPS, which is selectively focused on a few components of what effective and efficient pension fund management, most acutely the focus on fees rather than returns (net of fees). Risk - identification, management and monitoring are critical to robust pension fund management and should not be overlooked.

6. Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?

As the process and timeframes are not specified, then it is difficult to comment. We would propose an initial response timeframe of 60 days allowing for committee cycle and enabling full internal consultation and approval.

7. Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

The current regulations are too broadly defined as to what intervention can occur and provide little assurance on the 'proportionate intervention'. We reiterate our proposal that we would welcome the Secretary of State's powers of intervention to be framed in terms of fiduciary duty, such that a fund's failure to demonstrate delivery of its fiduciary duty forms the rationale for intervention. Any interventions should be supported by expert opinion. Any experts consulted must be independent professional, experienced in investment and appropriately authorised to provide investment advice on institutional business.

8. Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

We reiterate our earlier statement that as the regulations are too broadly defined providing too much flexibility for Secretary of State intervention we would welcome tightening of the drafting - focusing on fiduciary duty and including safeguards against unwarranted intervention, particularly where such intervention may be perceived as politically motivated, rather than based on robust investment fundamentals. Any interventions should be supported by expert opinion. Any experts consulted must be independent professional, experienced in investment and appropriately authorised to provide investment advice on institutional business.

Further information

We are open and transparent in how we invest and what we invest in, and there is a wealth of information available at **www.eapf.org.uk** where you will also find our Annual Report and Financial Statements.

Annex A – Statement of Investment Principles

The Environment Agency Active Pension Fund (the Fund or 'EAPF') is a funded, final salary (defined benefit) pension scheme with over 23,000 members and assets of £2.66bn as at 31 March 2015. Full details of the Environment Agency Pension Fund and our activities can be found on **www.eapf.org.uk**

This Statement sets out the principles and basic framework that govern our process for investing the assets of the Environment Agency Active Pension Fund as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This Statement was made and approved by the Environment Agency Pension Fund Pensions Committee on 16 June 2015, after taking advice from its investment staff, investment consultants, independent investment adviser and consulting actuary.

We will refer to this Statement when making investment decisions to ensure they are consistent with these principles. As set out in the regulations, the Pensions Committee will review the Statement from time to time, but at least every three years following the triennial valuation of the Fund.

The Statement should be read and implemented in conjunction with the Fund's Funding Strategy Statement, Pensions Committee Governance Policy Statement, Conflicts of Interest Policy, Responsible Investment Policy and statement of compliance to the UK Stewardship Code. These provide and state our more detailed requirements and supplementary guidance on these specific topics for our external fund managers. It is also supplemented by the contents of our investment management agreements for each investment mandate. Details of the investment and performance objectives for each mandate are published in our annual report and financial statements.

Fund governance: Investment

The EAPF Governance Policy Statement sets out how the Fund is governed and the role of the Pension Committee, Pension Board and the Investment Sub Committee and Environment Agency officers with respect to investment matters. The Environment Agency Board appoints the Pensions Committee and delegates' responsibility for compliance with legislation and best practice, overall strategic asset allocation, investment policy, budgets and the appointment of fund managers and investment advisors. The Environment Agency Board approves the annual report and accounts of the Fund, which includes the policies under which the Fund is governed.

The Investment Sub-Committee normally consists of seven representatives of the Pensions Committee and receives advice from professional investment officers, specialist investment consultants, an independent investment adviser, the Fund's actuary, and other professional advisers as required.

The Investment Sub-Committee has received delegated responsibility to prepare and recommend the investment strategy to the Pensions Committee and, within the context of the agreed investment strategy, to decide on the structure of mandates and their specification, to appoint fund managers, to monitor the performance of fund managers, and to terminate or alter mandates.

We have delegated day-to-day management of the Funds asset's to a number of Fund Managers. They have full discretion to manage their portfolios subject to their investment management agreements with the EAPF and to compliance with the Fund's policies including this SIP. We do not seek to direct the managers on individual investment decisions.

We have appointed a performance measurer independent of the fund managers to calculate risk and return measures for each manager and the Fund overall. We have also appointed a global custodian who is responsible for the safe-keeping of the directly-held assets of the Fund and who works in close liaison with each fund manager.

The Fund's actuary is responsible for performing a formal valuation of the Fund every three years in order to assess the extent to which the assets cover accrued liabilities in order to inform the development of an appropriate Funding Strategy Statement. The Funding Strategy takes account of, and informs the development of, investment strategy and this SIP.

In all matters, our fiduciary obligations to Fund members are paramount, and neither the Fund's committees nor the Fund's officers would take any action which would be in conflict with these obligations. Similarly, fund managers are required to invest in the best interest of the Fund.

High Level Investment Principles

The EAPF is an open, defined-benefit pension fund with strong employer backing, positive cash-flows and pension obligations stretching to the end of this century. In setting our investment strategy we seek to balance twin objectives: first, to achieve sufficient long-term returns for the scheme to be affordable, second, to keep the contribution rate as stable as possible. To achieve this, the fund needs to invest in assets which differ in return characteristics from our pension liabilities. These investment principles provide high level guidance on how we seek to meet these objectives and manage the risks arising from the differences between assets and liabilities.

- We are long term investors: we invest in productive assets that contribute to economic activity, such as equities, bonds and real assets, and thereby aim to earn a sustainable and sufficient return on our investments.
- We are responsible investors: we believe that we will overall generate better returns by investing in companies and assets that contribute to the long term sustainable success of society.
- We adopt best practice fund governance with appropriate prioritisation, decision making at the right level, and internal accountability.
- We make our decisions based on extensive expertise: trained and insightful committee members; experienced and professional officers; and high quality, knowledgeable advisors.
- We take an evidence and research based approach to investment: continually learning and reappraising from academic research, investment professionals, and our peers, and seek continual development in our understanding of investment.
- We are prepared to be innovative and demonstrate thought leadership in investment, within the requirement of prudence and our fiduciary duty.
- We will make our investments work as hard as possible to meet our objectives: we recognise the importance of getting the right asset allocation, but also the value of getting the right structure and managers within asset classes. While we take account of market and economic levels in our decision making, we avoid making decisions on purely a short term basis.
- We will be comprehensive in our consideration of risk, and efficient in where we take risk: we will base our assessment of risk on our liabilities and contributions; consider financial and non financial risk as appropriate; diversify risk as much as possible, but also recognise the limits of that diversification – as long term investors we accept that our investment success depends substantially on the sustainable growth of the economy.
- We will exercise responsible stewardship of the assets we hold, and act as a responsible voice in the broader investment community.
- We will seek the most cost-effective solutions to achieving our objectives and implementing these principles: we recognise the impact of costs on the Fund, but we are prepared to pay for active management and other services when we believe that the costs incurred are likely to be justified by the benefits.
- We believe in the importance of being transparent and accountable, to ensure correct decisions are taken and to minimise risk. This applies both in our own operations, those we work with, and our investments
- We will collaborate with others whenever possible, to share ideas and best practice; to improve effectiveness and to minimise costs.

Annex B – Stewardship Compliance Statement

Environment Agency Active Pension Fund (EAPF) is fully committed to responsible investment. We believe there is a considerable body of evidence that well governed companies produces better and more sustainable returns than poorly governed companies. We also think investors, including pension fund managers and shareholders, could influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

We are global investors and apply our principles of good stewardship globally, whilst recognizing the need for local market considerations in its application. Reflecting on this we have summarised of our compliance with the various codes and principles relating to good stewardship, including those published in the UK, Japan, Malaysia, South Africa (CRISA), Italy, Canada (CCGG), Switzerland, the Netherlands and Code for External Governance for the European Union (EFAMA). Where practical we have provided mapping linking the principles to the compliance statement below.

Policy Commitment	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities. UK principle 1 Japan principle 1 Malaysian 1 CRISA 5 EFAMA 1 Italy 1	Our Stewardship responsibilities extend over all the assets held by the Fund. The EAPF has a comprehensive suite of published policy documents which define how we discharge our Stewardship responsibilities, including but not limited to our **Statement of Investment Principles**, **Responsible Investment Policy** and our **Voting policy**. All new Investment Management Agreements (IMAs) include requirements to observe the FRC's UK Corporate Governance Code and UK Stewardship Code. We do not undertake any stock lending.	Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities. We have a dedicated area of the website on our **Stewardship** activities which is updated regularly. Roles and responsibilities with respect to the discharge of Stewardship activities are set out in our **Responsible Investment Policy.**
Conflict of Interest	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed. UK principle 2 Japan principle 2 Malaysian 4 CRISA 4	We have a comprehensive Conflicts of Interest Policy. Our policy is part of our overarching **Governance Policy.** A public register of Pension Committee members' declaration of interests is also maintained and audited annually.	Declaration of conflict of interests is a standing agenda item at the start of all Pensions Committee and Investment Sub-Group meetings. The need to avoid conflicts of interest is also highlighted in our Investment management agreements (IMAs) and contracts with external parties.
Corporate engagement	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should monitor their investee companies. Orientation to sustainable growth. UK principle 3 Japan principle 3 Malaysian 2 CRISA 2	As investors we own a portion of the companies we invest in. We can use our rights as owners to encourage companies to act more responsibly and improve their practices. In addition to the requirement for all our managers to consider how environmental, social and	Monitoring of specific investee companies is detailed in our quarterly reports and discussed at each fund manager review meeting. Each quarter we publish a

EFAMA 2 CCGG 1 Italy 2	governance factors might impact companies sustainability, we have a target to maintain our investment of 25% of the Funds assets in clean and sustainable companies by 2020.	report on our website on the engagement and voting activity undertaken by **Hermes EOS.** A dedicated Responsible Investment report is presented to our quarterly Investment Group and summarised in Pensions Committee reports.
Enhancing value & integration	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value. Common understanding to solve problems. Incorporating corporate governance and sustainability considerations UK principle 4 Japan principle 4 CRISA 1 EFAMA 3 CCGG 3 Italy 3	Our **Responsible Investment Policy** and details our engagement policies. We review each manager's policies on engagement and escalation prior to appointment and during regular review meetings with our fund managers we review their engagement activity and support the planned escalation of activity.	A public report on engagement activity undertaken on our behalf by Hermes EOS (external engagement provider) is available on our website. We identify engagement plans with each active equity manager on an annual basis. We analyse our own portfolio looking at ESG risks to shareholder value and work with our fund managers to address those issues in their activities.
Working with others	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should be willing to act collectively with other investors where appropriate. UK principle 5 CRISA 3 EFAMA 4 Italy 3	As investors, we own a portion of the companies we invest in. We can use our rights as owners to encourage companies to act more responsibly and improve their practices. Acting collectively with other asset owners increases the effectiveness of the engagement. We actively work with other pension funds, asset managers and other organisations to promote responsible investment. These include, but are not limited to, the UNPRI, IIGCC, NAPF and UKSIF.	All our managers work collaboratively with other parties. Collaborative engagements, research and advocacy work is detailed in our quarterly and Annual Report and Financial Statements to our Investment Group, Pensions Committee and beneficiaries.
Monitoring and engaging with regulators and policy makers CCGG 4	Our direct engagement is focused on working with regulators, other institutional investors and services providers to the financial industry.	Engagement activity with regulators includes responding to public consultations both individually and collectively through industry groups as well as support of public advocacy events.
Voting	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should have	We detail on what basis our votes are	We vote directly on

a clear policy on voting and disclosure of voting activity. The policy should be designed to contribute to sustainable growth on investee companies. UK principle 6 Japan principle 5 Malaysian 6 EFAMA 5 CCGG 2 Italy 5	cast and the guidelines we direct our managers to use in our Responsible Investment Policy. We publish specific guidelines on our Voting on Environmental Issues and publish all the votes on environmental resolutions. All our equity manager have voting polices and most are publicly available. Similarly, our larger managers publish voting records on their website and others on request.	**environmental resolutions.** Reports on these votes are available on our website. Information on the voting undertaken on our behalf by Hermes EOS (overlay on our passive index funds) is also available on our website.
Reporting	**Our Fund fully follows this principle:**	**And in practice:**
Institutional investors should report periodically on their stewardship and voting activities. This report should include voting and be shared with clients and beneficiaries. UK principle 7 Japan principle 6 EFAMA 6 CCGG 5 Italy 6	We include a comprehensive annual review of our activities in our Annual Report and Financial Statements and member communications.	Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities Public Engagement Reports are updated quarterly on our website. We require all our managers to provide us with annual assurance on internal controls and compliance through international standard or a UK framework such as AAF01/06.
Skills and knowledge		
To contribute positively, Institutional investors should have in-depth knowledge of the investee companies and their business environment with the skills and resources needed. Japan principle 7	We believe in being an active owner. We do this directly, through our managers or through specialist service providers. We have dedicated internal resource for Responsible Investment strategy, policy and oversight. In-depth of knowledge of investee companies is delegated to the mangers that select and monitor the companies on a day-to-day basis.	The capability and performance of each manager, in assessing environmental, social and governance factors of investee companies and their business environment, is a key component of our selection and retention criteria. Monitoring of fund manager performance is reviewed and reported regularly to Investment Sub-committee and forms part of formal annual review of each manager.

Approved by the Pensions Committee on 16 June 2015 and will be reviewed in 2016.