

THE STANDARD RAISING
**PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION**

PENSION SCHEME IMPLEMENTATION GUIDANCE

VOTE REPORTING TEMPLATE FOR ASSET OWNERS



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INTRODUCTION

Although good stewardship of assets extends beyond voting, the PLSA believes that effective use of a vote to demonstrate support for, or to sanction, a company on its approach and behaviour is a vital tool for investors.¹ Even where trustees have investments in pooled arrangements as opposed to segregated mandates, there are still ways in which they can influence their managers on their voting behaviour.²

Recent changes to the law³ mean trustees of both DB-only and DC/hybrid schemes are now required to produce annual Implementation Statements describing how (and the extent to which) their policies on exercising rights (including voting rights) and undertaking engagement in respect of their investments have been followed during the year.⁴ These disclosures will include describing the voting behaviour by trustees themselves, as well as by those voting on their behalf (including the most significant votes and the use of any proxy voting services). To produce this, trustees may need voting information from their equity managers,⁵ as well as managers who hold equities as part of a multi-asset fund (or hold other assets with attached voting rights, such as some private market assets). We clarify throughout this document key points and mechanisms for trustees' engagement, influence and (where applicable) challenge of their managers on voting, across different investment arrangements.

These new regulations require that trustees' voting behaviour disclosures must relate back to their own portfolio. However, asset managers are currently only required to produce a "general description" of their voting and engagement behaviour – likely to happen at a firm-wide level rather than at the mandate/fund-level which trustees need.⁶ Trustees will also want the voting information from their managers to be presented in a way which allows them to compare the information when, for example, deciding which were the "most significant votes" were cast and which aligns with their own stewardship policy.

This is why the PLSA has worked with its cross-industry Voting and Implementation Statement Working Group (VISWG) and Stakeholder Group to produce a first version Vote Reporting Template which asset managers are encouraged to fill in to provide this information to pension scheme trustees.

¹ We cover the role which effective exercise of a vote can play in ensuring effective scheme stewardship of assets in much greater depth in our *PLSA Stewardship Guide and Voting Guidelines 2020*.

² The PLSA has produced several guides outlining how trustees and scheme investment decision-makers can do this, including *Engaging the Engagers*.

³ Please see the *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019*.

⁴ Please see Annex 2 for a summary of the relevant regulatory background.

⁵ The trustees may cast votes themselves.

⁶ The relevant rules for asset managers are COBS 2.2B.7B and for platform providers SYSC 3.4.7B(2). In addition to a general description of voting behaviour, an explanation of the most significant votes and reporting on the use of the services of proxy advisers, firms must (subject to not disclosing votes which are insignificant) disclose how it has cast votes in the general meetings of companies in which it holds shares. Please also see our *Vote Reporting Template – Guidance for Asset Managers* for further explanation around the duties placed on asset managers under the Second Shareholder Rights Directive.

Asset managers providing more consistent reporting to their clients at a mandate/fund level will in turn mean that:

- ▶ Trustees will be able to receive the information in the same format for every fund or mandate, which will make it easier to disclose this in a consistent format
- ▶ Trustees will have information on voting which is more “decision-useful”
- ▶ Trustees will be able to better compare the service and approach provided by different managers
- ▶ Trustees who are signatories to the UK Stewardship Code will be able to use these disclosures to help meet their reporting requirements.

ABOUT THIS GUIDANCE

This guidance sets out:

- ▶ An overview of the Vote Reporting Template
- ▶ Where the Template ‘fits in’ as part of the trustees’ broader work to scrutinise their managers’ voting behaviour undertaken on their behalf
- ▶ The steps trustees need to take before presenting the Template to managers
- ▶ What information trustees will get from the Template
- ▶ How to use this information.

It is designed to be used alongside our PLSA Implementation Statement Guidance, which includes a specific chapter on how to produce clear, effective and meaningful disclosures on voting behaviour in the Implementation Statement; this is the ‘next step’ which trustees need to take after reading this guidance and gathering the relevant information.

The PLSA has produced similar guidance for asset managers on how to fill out the Template⁷, and this may also be worthwhile for trustees and their advisers to read.

Although the primary purpose of following the guidance should be to ensure voting behaviour is consistent with the trustees’ investment objectives, we note that any significant decisions which are taken by trustees using the structure below could also be used in any descriptions of trustees’ voting behaviour in their Implementation Statements.

Please note: we have tested this template with asset managers and recognise that it will need to evolve as the market develops. Some managers’ systems and processes will require changes to be able to provide the information required for trustees to make their own regulatory disclosures, particularly in relation to the “most significant” votes on trustees’ behalf.

However: we think it remains worthwhile even at this stage to produce something ‘ready-made’ for trustees to ask their managers to fill out. As we make clear later in the guide, the Template is just one piece in the puzzle and we encourage trustees to consider how to use it as part of an overall strategy of seeking to engage with, influence and – where necessary – challenge their managers on their voting decisions and approach.

QUICK START VS. DEEPER DIVES

The main part of the document is designed to be a ‘quick start’ guide for trustees in facilitating the use of the Template with their asset managers.

⁷ Please see *Vote Reporting Template – Guidance for Asset Managers*

- ▶ We strongly recommend that trustees also read the Annexes as these do ‘deeper dives’ into issues such as:
- ▶ Regulatory background
- ▶ The detail of the Template
- ▶ Voting disclosures for non-listed equities
- ▶ The importance of (managing) voting conflicts

Although we anticipate that the Vote Reporting Template will evolve over time – this is just the ‘first version’ and the PLSA will consider how to build on this in future. We hope that this will provide a good starting point and additional tool in the dialogue between trustees and their managers on the voting behaviour and how they can work together to ensure effective scheme stewardship.

WHAT IS THE PLSA VOTE REPORTING TEMPLATE?

The Template is also not intended to be merely a one-way communication flow from fund manager to clients. Instead, trustees should use it to facilitate scrutiny and to create a more efficient and robust dialogue between trustees and their managers and advisers.

The Template takes the form of an Excel spreadsheet and asks managers (or platform providers) to fill in information about voting behaviour either at the fund- or mandate-level, depending on whether they are filling in the information from a pooled fund or segregated mandate perspective. This information should then be provided to the trustees and/or their advisers who will be able to help trustees assess and review the information, before deciding how they should disclose the data.

All implementation statements must contain a description of the voting behaviour by, or on behalf of, trustees (including the most significant votes cast). In many cases, for example where trustees invest through pooled funds or via fund platforms, the voting rights might be held by the fund rather than the trustee. However, such votes are still cast by the manager of the fund “on behalf of” the fund’s investors in a broader sense and the policy intent is therefore that such voting behaviour should be covered by the implementation statement. Trustees should assume that any regulatory approach will follow this principle.

Where investments are held through multiple layers (for example where trustees invest in funds of funds) it is reasonable for trustees to expect that managers operating such fund of funds are able to report on ultimate votes cast by underlying managers, as part of their own engagement activities and trustees should seek this information from their manager(s) for inclusion in their implementation statement.

There are two elements for managers to fill out. A summary of all the manager’s voting behaviour at the fund- or mandate-level and information on each of the 10 (at a minimum) “Most Significant Votes” – which will have been decided by the manager with reference to PLSA criteria⁸ (and any voting policies or issues highlighted by the trustees).

The templates are included in Annex 1. Some of the questions asked are as follows:

- ▶ Details around voting policies: e.g. description of the voting process, use of any proxy voting services
- ▶ Quantitative information for the fund or mandate: e.g., number of meetings eligible to vote at, number of votes cast in total, number of votes cast for/against/abstained, whether the manager voted contrary to the recommendation of any proxy advisor for each fund
- ▶ Details of the “most significant” votes cast for each fund (including rationale for the vote and outcome of the vote)
- ▶ Information on how the manager has managed and mitigated any stewardship conflicts.⁹

⁸ Please see Annex 4 for these criteria.

⁹ The PLSA has included conflicts in our templates because we are aware that currently there is variable level and quality of disclosure on conflicts from managers. Although managers will have a firm-wide approach to conflicts *generally*, there will be a specific range of stewardship-relevant conflicts which managers are asked to disclose. We explore this further on p 26.

WHAT DO TRUSTEES NEED TO DO BEFOREHAND?

Trustees need information from their managers to produce compliant – but also meaningful and relevant – voting behaviour disclosures in their Implementation Statements.

Although our Template is designed to make life easier for trustees in gathering relevant voting behaviour information, filtering out any voting ‘noise’, comparing (and influencing) asset manager approaches and producing disclosures which are meaningful and relevant, it is not designed to be used in isolation.

The PLSA has recently produced [practical guidance for trustees on how to produce their Implementation Statement](#), which includes a specific section on how – and what – to disclose on voting behaviour over the course of the year. We strongly encourage trustees to read this chapter first. Once this has been read, we think that the trustees should take the following steps in the run up to giving the template to their asset managers (further details below):

1. Ascertain which funds/mandates have voting opportunities
2. Understand their investment arrangements – and how this could influence voting
3. Agree the process for maximising influence
4. Communicate expectations to managers/platform providers
5. Ask managers to complete the Vote Reporting Template

After giving their template to asset managers, trustees should take the following steps to work with them to confirm and validate the collection of the information.

6. Assess and discuss any gaps in the information
7. Consider validation or assurance of data
8. Interpret the data

Managers will not necessarily be aware of their clients’ scheme year end dates, when clients will first ask them to disclose this information or, in some cases if invested via a platform, which clients hold which fund. As such, the sooner trustees start the process, the better.

WHAT HAPPENS ONCE YOU GET THE COMPLETED TEMPLATE?

Trustees should have already agreed timescales for reporting this information and they should also have a good idea of what information they will be able to expect from their managers.

If trustees are not able to get the relevant voting information from their managers or other service providers, they should include as much detail as they can in their Implementation Statement in these circumstances. Trustees should also explain what information is missing, why the information is missing and how they intend to rectify the situation.¹⁰

¹⁰ See *PLSA Implementation Statement Guidance* (July 2020). We understand that the Regulator’s response to any breaches of the legislation will depend on the particular facts of a specific case – and that it will adopt a reasonable approach in relation to any enforcement. TPR’s power to fine for such a breach will arise in circumstances where “there is no reasonable excuse”.

THE STEPS TRUSTEES NEED TO TAKE

After reading the PLSA Implementation Statement Guidance and agreeing the trustees' approach generally to implementation statements, trustees should:

1. Ascertain which funds/mandates have voting opportunities

The majority of voting activity will take place across listed equity, including listed equities held in multi-asset funds, but this is not the only asset class where voting opportunities may arise. Certain bonds, property and private equity may also have carried voting opportunities over the course of the year. Because in many cases these voting rights are triggered by a crisis or unusual circumstances, these votes may be of particular importance to value preservation.

2. Understand their investment arrangements – and how this impacts voting influence

Trustees will have different mechanisms for holding managers to account on voting depending on whether they hold assets in pooled or segregated arrangements, either directly or via a platform provider. They should discuss with their advisers and lawyers the precise nature of their investment arrangements, but we can generally say the following:

- ▶ Pooled funds: voting entitlements (where they arise) generally – although not exclusively – lie with the asset manager, as the legal owner of the securities in the fund.
- ▶ Platform provider: trustees' direct legal relationship is with the platform provider and not with the underlying managers themselves. The platform provider may retain the voting rights or, on occasion delegate them to the managers.
- ▶ Custodian arrangements: these may also have an impact depending on whether the underlying investments are held by a global custodian in a separate designation for the investment manager, or whether they are held in an 'omnibus' structure, mixed in with the assets of many other investors.

Trustees should ensure that they work with their advisers and managers to clarify roles, responsibilities and timescales for reporting.

Please also see Annex 3 for further details on some of the differences of approach required for schemes with investments in segregated mandates and those invested in more intermediated arrangements.

3. Agree the process for maximising influence

Trustees are responsible for scheme investment decisions – and this includes the voting activities undertaken by the managers they appoint. Schemes with segregated arrangements will have the most opportunity to direct voting behaviour. However, trustees are not expected to take an in-depth and specific decision on how to vote on every resolution at every company in which they have

a holding – and if the scheme’s assets are invested in pooled arrangements or on a platform, they may not have the power to direct how individual votes are exercised.¹¹ Nonetheless, trustees invested in pooled arrangements still have avenues for engaging with and influencing their asset managers’ approach to voting – even if their governance budget is limited.

As with any other investment issues, trustees should clearly articulate their expectations on voting behaviour (and stewardship generally) to their asset managers and advisers. They should also think about how they will hold their managers and advisers to account. To do so, we would urge trustees to consider the following to help them maximise their influence over manager voting behaviour:

Build a voting policy

- ▶ Producing a voting policy¹² does not have to be a time- or resource- intensive exercise, and it can be helpful not only in providing a benchmark for measuring manager behaviour, but also as a ready-to-use tool for making trustees’ expectations clear to both prospective and current managers.
- ▶ The least resource-intensive way of doing so is to adopt, or build upon, generic Voting Guidelines which are already available. This includes the PLSA’s Stewardship Guidance and Voting Guidelines which are updated in Q1 each year and provide detailed guidance on how trustees (and their managers) should consider voting on specific issues and resolutions.¹³
- ▶ Trustees could also consider producing their own voting policy by working with their advisers, to consider what issues, companies, themes or geographies are most material for their fund – including explicit linkages to investment objectives and stewardship beliefs – and what this means for both their own voting disclosures and their expectations of their managers.
- ▶ Trustees may also want to consider how this aligns with new requirements to disclose asset manager arrangement policies in their Statement of Investment Principles (SIP) – this can be a useful additional tool in setting out trustees’ voting expectations with managers and to assist with the governance framework for producing the implementation statement.

Set/revise objectives for investment consultants

- ▶ Given the key role that investment advisers play in strategic asset allocation, manager selection and the request and evaluation of information from asset managers, it is important that trustees have an appropriate benchmark against which to measure their consultants on supporting the trustee board on stewardship (including voting) activity.

¹¹ Although we know of several managers who do allow client-directed voting in their pooled funds. We have long encouraged trustees in their manager selection process to ask whether the manager allows for this (for relevant mandates) and if not, what their approach to voting in pooled funds or discussion with clients is.

¹² Please see the PLSA’s *2020 Stewardship Guidance and Voting Guidelines* for much more detailed guidance on how to build a meaningful voting policy, and how it should fit in with the trustees’ approach to stewardship and engagement, as well as with trustees’ investment objectives.

¹³ We also encourage trustees to explore the AMNT’s *Red Line Voting Initiative*.

- ▶ The CMA's¹⁴ recent requirement for trustees to agree objectives for their investment consultants provide a useful additional tool. Trustees should incorporate specific consultant objectives around stewardship (and voting) and review them periodically.

Agree principles around “most significant” votes

- ▶ A key disclosure that trustees will have to make is on the “most significant” votes which have been cast on their behalf. Asset managers are currently debating what constitutes a “most significant” vote from their perspective but the votes that managers would select if asked to report on a “most significant” vote may not be the ones that trustees want disclosed to them. Trustees should therefore:
 - ▶ Agree with their advisers some high-level principles around what constitutes “most significant” (this will likely be heavily influenced by the trustees’ voting policy, where available). Please also see Annex 4 for details of the PLSA’s suggested criteria¹⁵ for “most significant” votes.
 - ▶ Document the rationale for their approach and the criteria used
 - ▶ Assess both their managers’ voting behaviour (and rationale) and their vote reporting, including where they have not reported against the scheme’s “most significant” votes or criteria.

Incorporate into manager selection

- ▶ The appointment process for a new manager is a vital opportunity for trustees to evaluate whether the manager’s voting policy (where relevant) aligns with their own, and to set requirements around voting disclosure.
- ▶ The due diligence process – from Request For Proposals (where used) to manager visits and discussions – should include questions around:
 - ▶ the approach to client-directed voting, or discussions with clients, in pooled funds
 - ▶ their approach to stock lending or recalling stock before a vote
 - ▶ their approach to management of stewardship conflicts
 - ▶ case studies of successful voting (and engagement)
 - ▶ approach across assets and geographiesand much more which is beyond the scope of this guidance but is explored in depth in other PLSA guides.¹⁶

We also encourage trustees to consider whether and how they can state their expectations regarding voting (and stewardship) across the contractual relationship with the manager¹⁷.

¹⁴ Please also see TPR’s draft guidance for trustees on setting objectives for their investment consultants.

¹⁵ Please see Annex 4 for possible criteria for schemes to use when thinking about their own definition of “most significant”. The PLSA is also considering whether there is value upon building on its annual *Voting Guidelines* by highlighting each year what we consider to be the most important votes taking place during the next AGM season.

¹⁶ *Engaging the Engagers, Stewardship guide and voting guidelines, PLSA Implementation Statement guidance.*

¹⁷ We encourage trustees to consider the ICGN’s *Model Mandate* work (written in 2012 but being reviewed in 2020) and the IA’s work on *Productivity Mandates* (ongoing).

During manager monitoring and review

- ▶ It is harder to backfill new expectations into an existing asset manager relationship. The first step could be to share the voting policy, views on “most significant votes” and other expectations with existing managers, then discussing how they fit with the manager’s own existing policy.
- ▶ This should lead to a clear understanding of what the manager should deliver, in terms of substance and reporting, and over what time period.
- ▶ We do not expect that an agreement with a manager might be automatically terminated solely on the basis of a disappointing voting policy or reporting approach, but this would be a reasonable decision for trustees to take – given the growing body of evidence of the materiality of stewardship to investment outcomes.

4. Communicate expectations to managers/platform providers

Manager selection and formal (or informal) manager review opportunities are excellent opportunities for influencing managers and communicating trustees’ expectations. The requirement for trustees to produce their Implementation Statements will present another avenue for discussion and communication. Once trustees have progressed through the steps above (with advisers, where relevant) they should begin the conversation with their managers.

We recognise that trustees in segregated mandates will have scope for greater influence than those in pooled or intermediated arrangements. However, we are aware that some schemes invested in pooled funds have successfully influenced manager behaviour on voting and engagement simply by ‘asking the question’ and then challenging their managers accordingly and consistently (instead of raising as a ‘one-off’ with no follow-up or agreed timetable for review and discussion).

5. Ask managers to complete the vote reporting template

Trustees will get the most value out of the Template if all of their asset managers use it to report the information, as it will allow for easier comparison of voting approaches and behaviour.

Trustees should, as with any other investment issue, be clear about why and how they need this information presented at a fund- or mandate-level and their own legal responsibilities. However, we also acknowledge that most managers will need to overhaul their systems and processes to get this information to trustees in the right format – which will take time. Trustees should balance their responsibility to act as a demanding client while allowing managers some flexibility and space to adapt – at least in the first year.

Trustees should also ensure that they give their managers any additional information that they will need to complete the template. This includes the trustees’ SIP, any standalone voting, stewardship or engagement documents, as well as any required information about the value of trustees’ assets in the strategy or fund at the relevant period end (if this information is not already held by the manager).

Trustees should have already agreed timescales for reporting this information and they should also have a good idea of what information they will be able to expect from their managers.

If trustees are not able to get the relevant voting information from their managers or other service providers, they should include as much detail as they can in their Implementation Statement in these circumstances. Trustees should also explain what information is missing, why the information is missing and how they intend to rectify the situation¹⁸.

Once trustees have received the completed Templates, they should consider taking the following steps:

6. Assess and discuss any gaps in information

It will be important for trustees and their advisers to quickly gauge what information is missing (this will be particularly key in the first year) and discuss any gaps with their managers. Bearing in mind the regulatory requirements and expectations of trustees, they should engage further and challenge where necessary.

7. Consider validation or assurance of data

This could be through reviewing the responses in the Template with the trustees' usual or specialist advisers, or schemes with significant resources could consider third party data sources against which to check the data given. There are points which trustees should particularly consider:

- ▶ Standard data checks such as checking that: all of the information requested has been provided; the data has been provided on the correct fund as some managers have very similar funds; the number of AGMs is consistent with the number of holdings; the dates of the votes are applicable to your scheme year.

8. Interpret the data

Although using our Vote Reporting Template – and setting clear expectations on managers from the outset – will reduce much of the burden of sifting through overwhelming amounts of information by trustees, trustees will still need to work with their advisers to assess and interpret the data given. A non-exhaustive list of issues trustees should consider includes:

- ▶ **The proportion of votes exercised.** Although there may be technical and practical reasons why managers are unable to exercise all votes, particularly in some jurisdictions, it is typical for

¹⁸ We discuss this further in our *PLSA Implementation Statement Guidance* (July 2020) but we understand that the Regulator's response to any breaches of the implementation statement legislation will depend on the particular facts of a specific case – and that they will adopt a reasonable approach in relation to any enforcement. TPR's power to fine for such a breach will arise in circumstances where "there is no reasonable excuse".

over 95% of votes to be exercised. Trustees should probe the reasons if voting levels fall short of expectations

- ▶ **The proportion of votes against management.** Although it is tempting to think “voting against management = good”, “voting for management = bad”, the reality may be more nuanced. For instance, active managers may be more inclined towards supporting a company overseen by a board and management that they have actively chosen to invest in and may believe that they can be more effective through dialogue than through the binary mechanism of a vote. In most passive mandates, however, managers cannot make an active decision to divest. Where managers have low proportions of votes against management, trustees should enquire more closely on voting behaviour. This may include looking beyond asset managers’ chosen case studies to press on the rationale for voting decisions on trustees’ own significant votes.
- ▶ **The proportion of votes contrary to the recommendation of proxy voting advisory services.** Asset managers may use a range of research services to inform their assessment process but should ultimately use their own judgement based on their knowledge of the company, engagement process and the outcomes they are seeking to achieve on clients’ behalf. For example, voting contrary to the advice of a proxy advisory service may well be a sign of good process and intelligent thought applied to the vote decision that is tailored to a company’s individual circumstances. However, trustees may be wary of situations where the vote contrary to advice coincides with a conflict of interest faced by the fund manager.
- ▶ **The manager has not engaged or communicated with the company before voting against management.** Voting decisions should be made in the context of a managers’ ongoing communication with the company and after consideration of any progress made. To use voting as an effective route to influence will likely require some form of engagement or communication from the manager.¹⁹ A vote ‘in isolation’ without any rationale given to the company beforehand will be unlikely to change minds or behaviour.
- ▶ **Information on conflicts.** The quality and level of information and transparency around managers’ approach to, and management of, stewardship conflicts varies widely. Trustees will naturally be alive to the impact and implications of conflicts of interest from their own experience of scheme governance and will therefore understand the serious impediment that poorly-managed conflicts pose to managers’ ability to act in the best interests of their clients. Trustees should scrutinise both the information given – including that it pertains to stewardship specifically,²⁰ and is not just the firm’s overall conflicts management policy – and the responsiveness of the manager in providing it.

¹⁹ There are a number of different ways in which engagement, either individual or collaborative, can take place. We cover this in much greater detail in the joint PLSA/Investor Forum Guidance *Engaging the Engagers: A practical toolkit for achieving good stewardship outcomes through your asset managers* (June 2020).

²⁰ A stewardship-related policy on conflicts will be different from a firm’s broader conflicts policy as conflicts may arise in additional forms for a manager’s engagement and voting activities.

- ▶ **Approach to stock-lending.** When securities are lent, the manager loses the voting rights attached. Given that much lending occurs around the time of AGMs (for dividend-related reasons) this can mean managers lose voting influence. Some managers recall all stock in order to vote, some ensure that they always retain a proportion of their holding so that they can express their views through voting, while others will recall only on an ad hoc basis where they deem the vote particularly important. Managers should be expected to have a considered process for recalling stock lent and be transparent about their approach.

HOW TO PRESENT THE DATA

If not already done so, we strongly encourage trustees to read the PLSA Implementation Statement Guidance (and particularly Chapter 5 on Voting Disclosures in the Implementation Statement). This covers exactly what trustees should disclose, as well as what they could disclose.

Additional points to consider in terms of presentation of information from the Vote Reporting Template:

- ▶ Combining voting statistics from different mandates, which may have very different numbers or value of holdings, or be managed by firms with different voting practices, may not be meaningful. Schemes may therefore wish to present data separately for each mandate.
- ▶ When looking across the “most significant votes” from all your asset managers and thinking about which to prioritise, you may wish to refer back to:
 - ▶ The SIP, including your investment objectives and voting policies
 - ▶ Any separate policies on voting, stewardship or engagement policy
 - ▶ Documented criteria for “most significant votes”
 - ▶ Any survey of member views which indicates topics of particular concern
 - ▶ The relative size of scheme holdings in the companies involved – taking account of the size of the mandates and the companies’ weights within them
- ▶ Think about what may be most important to disclose in your first Implementation Statement, and then how it might evolve with more information over time
- ▶ For trustees with significant resource: you may find that you hold a company in more than one mandate; where you receive a vote for that company reported as “most significant” for one mandate and not under the others, you may think about whether there needs to be a direct comparative process: asking Manager A whether how they voted on the resolutions that Manager B considered significant, and vice versa.
- ▶ The impact of comparative analysis on key areas of scheme or regulatory focus, such as managing climate risk, is likely to be particularly beneficial.²¹

²¹ <https://www.thepensionsregulator.gov.uk/en/trustees/managing-dc-benefits/investment-guide-for-dc-pension-schemes->

ANNEX 1 | VOTING TEMPLATES

VOTING QUESTIONNAIRE	RESPONSE	POINTS TO CONSIDER WHEN RESPONDING
Scheme Name		To be completed by the trustees
Employer name		To be completed by the trustees
Investment Manager name		To be completed by the trustees
Fund name		To be completed trustees and should not be changed by the manager
Amended Fund Name (if different to the above)		To be completed by managers if they have a different name to the above fund name
Scheme year end date		To be completed by the trustees
Start of Reporting Period		To be completed by the trustees. This is normally the start of the scheme year, or the inception date in the Fund / mandate if later.
End of Reporting Period		To be completed by the trustees. This is normally the end of the scheme year, or entire redemption date from the Fund / mandate if earlier.

The following sections should be completed at the fund/mandate (if segregated) level

FUND/MANDATE INFORMATION	RESPONSE	ADDITIONAL COMMENTS
What is the Fund's Legal Entity Identifier (LEI) (if applicable)		
What is the Fund's International Securities Identification Number (ISIN) (if applicable)		
What was the total size of the fund/mandate as at the end of the Reporting Period?		
Total size of Scheme assets invested in the fund/mandate as at the end of the Reporting Period (if known)?		

FUND/MANDATE INFORMATION	RESPONSE	ADDITIONAL COMMENTS
What was the number of equity holdings in the fund/mandate as at the end of the Reporting period?		

VOTING POLICIES	RESPONSE	ADDITIONAL COMMENTS
What is your policy on consulting with clients before voting?		
Please provide an overview of your process for deciding how to vote.		
How, if at all, have you made use of proxy voting services?		
What process did you follow for determining the “most significant” votes?		
Did any of your “most significant” votes breach the client’s voting policy (where relevant)?	[Y/N]	
If ‘Y’ to the above. Please explain where this happened and the rationale for the action taken.		

VOTING POLICIES	RESPONSE	ADDITIONAL COMMENTS
<p>Are you currently affected by any of the following five conflicts, or any other conflicts, across any of your holdings?</p> <p>1) The asset management firm overall has an apparent client-relationship conflict e.g. the manager provides significant products or services to a company in which they also have an equity or bond holding;</p> <p>2) Senior staff at the asset management firm hold roles (e.g. as a member of the Board) at a company in which the asset management firm has equity or bond holdings</p> <p>3) The asset management firm's stewardship staff have a personal relationship with relevant individuals (e.g. on the Board or the company secretariat) at a company in which the firm has an equity or bond holding</p> <p>4) There is a situation where the interests of different clients diverge. An example of this could be a takeover, where one set of clients is exposed to the target and another set is exposed to the acquirer</p> <p>5) There are differences between the stewardship policies of managers and their clients</p>		
Please include here any additional comments which you believe are relevant to your voting activities or processes		

VOTING STATISTICS (APPLICABLE TO THE SCHEME'S REPORTING PERIOD)	RESPONSE	ADDITIONAL COMMENTS	POINTS TO CONSIDER WHEN RESPONDING
How many meetings were you eligible to vote at?			
How many resolutions were you eligible to vote on?			
What % of resolutions did you vote on for which you were eligible?			
Of the resolutions on which you voted, what % did you vote with management?			
Of the resolutions on which you voted, what % did you vote against management?			

Of the resolutions on which you voted, what % did you abstain from voting?			The totals of these 3 questions should add up to 100%.
In what % of meetings, for which you did vote, did you vote at least once against management?			
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?			
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)			

Most Significant Votes

IN RELATION TO THE FUND NAMED ABOVE, WHICH 10 VOTES (AT A MINIMUM) DURING THE REPORTING PERIOD DO YOU CONSIDER TO BE MOST SIGNIFICANT FOR THE SCHEME?	VOTE 1	VOTE 2	VOTE 3	VOTE 4	VOTE 5	VOTE 6	VOTE 7	VOTE 8	VOTE 9	VOTE 10
Company name										
Date of vote										
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)										
Summary of the resolution										
How you voted										
Where you voted against management, did you communicate your intent to the company ahead of the vote?										
Rationale for the voting decision										
Outcome of the vote										

IN RELATION TO THE FUND NAMED ABOVE, WHICH 10 VOTES (AT A MINIMUM) DURING THE REPORTING PERIOD DO YOU CONSIDER TO BE MOST SIGNIFICANT FOR THE SCHEME?	VOTE 1	VOTE 2	VOTE 3	VOTE 4	VOTE 5	VOTE 6	VOTE 7	VOTE 8	VOTE 9	VOTE 10
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?										
On which criteria have you assessed this vote to be "most significant"?										

ANNEX 2 | REGULATORY BACKGROUND

The 2019 changes to the Occupational Pension Schemes (Investment) Regulations 2005 and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013²² set out new disclosure requirements for private sector scheme trustees in relation to their investment strategy, approach to stewardship and arrangements between asset owners and asset managers.²³ They are:

- ▶ **Policy regarding asset manager arrangements.** By 1 October 2020, trustees will be required to have a policy on the arrangements that they have with their asset managers and include this in their SIP. These policies must cover how the arrangements in place facilitate alignment between the managers' actions and the trustees' investment approach in relation to, amongst other things: investment strategy, decision-making, issuer engagement, performance evaluation and remuneration. They must also explain how the manager is incentivised to make decisions that focus on medium-to-long term performance, set out the duration of the arrangement and explain how the trustees monitor portfolio turnover costs. Trustees may need input from advisers and managers to help formulate and further these policies.

- ▶ **Report on manager voting and engagement activities.** From 1 October 2020, pension scheme trustees will have to include a statement in their annual report and accounts and on their website which demonstrates how their policies on exercising rights (including voting rights) and undertaking engagement activities have been followed during the year.²⁴ They will also have to describe the voting behaviour by them, or on their behalf, during the year (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year.
 - ▶ The references to a year are in respect of the "scheme year" applicable to the pension scheme in question.
 - ▶ As a result, trustees will need information on the votes cast on their behalf at least annually to comply with their statutory requirements (and their fiduciary duty).
 - ▶ Review of voting information by managers should become a key feature of trustees' monitoring activities. In our view, trustees should take a keen interest in voting and engagement policies when going through a manager selection exercise, as well as in the monitoring and review of their managers.

²² Please see: *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019*

²³ Managers have their own new reporting duties under the FCA's equivalent transposition of the EU's Second Shareholder Rights Directive (SRD II). Further details can be found in our *Vote Reporting Template – Guidance for Asset Managers*.

²⁴ The regulations have additional reporting and disclosure requirements for DC and Hybrid schemes which trustees should observe.

VOTING OPPORTUNITIES BEYOND LISTED EQUITIES – REGULATORY EXPECTATIONS

Multi-asset funds

The legislation above applies to any voting rights. As such, trustees are also required to report on votes cast on the applicable underlying holdings within multi-asset funds.

Beyond listed equities

The legislation above does not make any distinction between public and private assets when it comes to the requirement to disclose voting behaviour, and neither does the legislation requiring disclosure of voting policies. There may also be instances for some asset classes²⁵ beyond traditional private equity where significant votes can arise in relation to these holdings as well.

By its very nature, voting in relation to private market assets tends to occur when the votes are significant.²⁶ As such, non-listed equity managers should be able to provide a narrative commentary – at a minimum – to trustees where there were significant engagement activities over the year and to set out any instances where significant votes were cast.

²⁵ Examples of some of these asset classes are: fixed income (public and private), property, renewables, distressed debt, infrastructure.

²⁶ For instance: private equity – the manager is a co-owner and there is a vote to sell an asset, or whether to refinance or sell component parts of the business; property – votes on rental deferrals or concessions; conversion rights or debt options in the event of default for infrastructure or renewables.

ANNEX 3 | SEGREGATED OR INTERMEDIATED ARRANGEMENTS

The UK investment chain is highly intermediated but the PLSA does not believe that the level of information required by trustees on how votes are exercised on their behalf should change significantly depending on the degree of intermediation.

Trustees should make sure they work with their legal and investment advisers, as well as their managers, to understand precisely who ‘owns’ the vote, who in the governance structure is legally responsible for making the voting decision, and how they should maximise their influence over the voting policies and the decisions made on their behalf.

The following is a non-exhaustive list of some possible considerations for trustees with different investment arrangements to consider.

Trustees should be aware that asset managers will likely be providing voting data in a new and different way as a result of the new regulations and this will initially pose challenges for them. However, should trustees feel that their managers are failing to take what would be considered reasonable steps to providing them with relevant data, they should take this into account in their review and retention decisions.

POOLED FUNDS

It is estimated that around 39% of private sector UK scheme assets – and the majority of DC assets – are invested in pooled arrangements,²⁷ primarily through an entity-pooling approach, such as a collective investment scheme. This pool of assets has a separate legal personality of its own and therefore while a participating investor may retain the beneficial ownership, they do not own the legal entitlement to the underlying portfolio of securities. The trustees’ rights will typically pertain only to owning units in the pool.

This currently makes the ability to exercise influence over how a vote is cast on a particular issue more complicated. However, it is a common misperception that trustees therefore cannot exercise any influence over the general voting approach of their managers. There are a couple of key issues – and opportunities for exercising influence, perhaps the most important of which is during the manager selection or any formal review process – which we would encourage trustees to consider below.

The PLSA considers it good practice for managers to have a process for considering their clients’ views in their voting policy and behaviour. This approach is supported by the FRC’s Stewardship Code, Principle 6, which requires signatories to explain how they have sought and received clients’ views and the reason for their chosen approach, as well as how assets have been managed in alignment with clients’ stewardship and investment policies.

²⁷ <https://www.ons.gov.uk/economy/investmentpensionsandtrusts/articles/ukpensionsurveys/redevelopmentand2019results>

- ▶ Some managers allow client-directed voting in their pooled funds. During the manager selection process, trustees should ask managers whether they offer client-directed voting in their pooled funds.
- ▶ Some managers have formal (or informal) discussions with clients around their voting and engagement approach. We would expect trustees to consider in a manager selection process whether the potential manager's formal voting and engagement policies, and their broader approach, align with their own. They should ask whether the manager has a process or framework for seeking their clients' views on voting and engagement, and how often – and if not, why not, and how they intend to meet the requirements of the Stewardship Code. More generally, trustees should take opportunities to discuss voting and engagement with their managers when these arise.
- ▶ Trustees should explicitly clarify their expectations around voting behaviour and approach in their legal contracts. This includes through side letters as well as in any other Service Level Agreements (SLAs). Trustees should also consider corresponding/additional targets and SLAs for the investment advisers who support them on stewardship and voting. Trustees should also agree the voting information and funds on which reporting is due, including the reporting period and frequency. This information should be informed by the specific circumstances. For example:
 - ▶ A DC scheme with 95% of assets invested in the default arrangement may feel it is appropriate to request data solely on the default arrangement funds. However, if a significant proportion of beneficiaries are invested in one or more self-select funds, the trustees may also wish to review data on these funds.
 - ▶ A scheme may also consider requesting voting behaviour on any ethical or sustainable self-select funds, recognising that beneficiaries who have opted to be in one of these funds will be particularly interested in this information.
- ▶ Trustees should ask about their manager's approach to stock lending. Please see the PLSA's 2020 Stewardship Guidance and Voting Guidelines for further details. Although the trustees will not be able to control the securities lending arrangements in pooled funds, trustees should conduct the appropriate due diligence and monitoring of their asset managers' securities lending approach.
- ▶ Trustees should always 'ask the question'. We understand from trustees that, where they have sought to challenge their manager's approach to voting on a particular issue – such as climate change – in a pooled fund they have had some success in changing the approach. We recognise that some trustees and their advisers will have more leverage with their managers than others,

but trustees should – as with any other material issue which impacts member outcomes – challenge where they have particular concerns²⁸.

SEGREGATED MANDATES

Schemes invested in segregated mandates will retain the legal ownership of the underlying securities and will therefore have more influence over how votes are cast and over the manager's securities lending activities. They are also able to explicitly clarify related expectations in the Investment Management Agreement (IMA). A number of the principles and issues outlined above for pooled fund investors also apply to segregated mandates, but there are some further points worth highlighting:

- ▶ Trustees should ensure they feel comfortable their vote has been cast appropriately. Segregated accounts have more parties and responsibilities involved, and it will be important for trustees to check that their vote has reached the issuer. It is also the case that global markets may have different rules on split voting and use of abstentions, as well as different legal and practical timescales involved.
- ▶ Expectations must be clarified in the IMA. This includes voting reporting dates and timescales, as well as reporting format and frequency. It will be particularly important for time-lags to be captured in the IMA. Trustees may require that some or all votes are cast in alignment with their policies as a contractual condition.

FIDUCIARY MANAGEMENT

We would expect the fiduciary manager to obtain the necessary information from the underlying managers on behalf of the trustees. Depending on the terms of their arrangement with the trustees, the fiduciary manager may just pass this information to the trustees, or they may first collate information across the scheme's funds and form a view on the subset of significant votes to be reported.

Fiduciary managers should ensure that they make clear to both prospective and, at regular intervals, their current clients where they direct how votes are exercised instead of delegating this to the underlying managers. In these cases, it will be the fiduciary manager rather than any underlying managers who is the source of the voting information that trustees are required to disclose.

Similar considerations to those set out above for fund managers apply to the appointment of fiduciary managers in relation to stewardship, voting and vote reporting, especially where the fiduciary manager is proposing to direct voting.

²⁸ For those schemes with less governance capacity or lower AUM, we would encourage them to collaborate with other schemes – either through the collaborative forums provided by organisations such as the PLSA, the Investor Forum, LAPFF and others, or through exploring AMNT's *Red Line Voting Initiative*.

ASSETS HELD ON A PLATFORM

As with fiduciary managers, platform providers may direct how votes are exercised instead of delegating this to the underlying managers.

Trustees will be required to produce annual voting behaviour disclosures regardless of how their scheme's assets are held. As trustees do not have direct contractual arrangements with the underlying managers when the assets are held on a platform, and those managers often do not know which schemes are invested in their funds via the platform, it is likely that the platform provider will need to obtain voting information on behalf of the trustees. This can be done by the platform provider asking the managers to complete the PLSA Voting Information Template for the relevant period.

ANNEX 4 | PLSA CRITERIA FOR “MOST SIGNIFICANT” VOTES

Asset managers are currently trying to get to grips with the meaning of “most significant” and are using a wide variety of criteria to do so. Given that asset managers are exercising votes on behalf of their clients, the PLSA expects that the views of the asset owner community generally – and client interest specifically – should be taken into account.

Given the likelihood that asset managers and their clients will have different perspectives regarding what constitutes a “most significant vote” for a scheme’s portfolio, the PLSA and our cross-industry Voting and Implementation Statement Working Group (VISWG) suggest that the following criteria should be used by managers.

Please note: we would expect client interest or policies on particular issues, themes or companies²⁹ to be the primary determinant of a manager’s approach to disclosing their “most significant votes” to schemes. We note that Principle 6 in the 2020 UK Stewardship Code creates the presumption that asset managers will align their approach with the objectives of their clients, on an “Apply and Explain” basis. We think that it is good practice for managers of pooled funds to consider having a process for consulting with clients, or mechanisms for seeking client views on issues and voting approach. We would also expect the fund manager to disclose where the vote breaches the client’s voting policy on the issue, particularly if the manager was aware of the voting policy in advance of the vote.

Other criteria for both managers and trustees to consider (both pooled and segregated):

- ▶ Whether/where trustees have indicated a particular interest in the vote. Trustees – particularly those invested in segregated mandates – should expect that where they have raised their interest in a company, a theme, or have explicit expectations outlined in a voting policy (or their IMA, or other relevant documents) that will be taken into account by managers. While this is particularly pertinent for segregated mandates, the PLSA believes that it is good practice for managers of pooled funds as well as segregated mandates to consider having a process for consulting with clients, or mechanisms for regularly seeking client views on issues or the managers’ voting approach and policy.
- ▶ Potential impact on financial outcome. This would include votes which the manager considers might have a material impact on future company performance, for example approval of a merger or a requirement to publish a business strategy that is aligned with the Paris Agreement on climate change.
- ▶ Potential impact on stewardship outcome. This could include any decision which may reduce the investor voice (e.g. around shareholder rights), such as a debt for equity swap, management buyout of a significant share of equity, a downgrading of voting rights.
- ▶ Size of holding in the fund/mandate. Please note that we would not expect this to be the only significant determinant used by managers in any explanation, rather this should be an additional factor.

²⁹ See [Build a voting policy](#).

- ▶ Whether the vote was high-profile or controversial. This could be judged using any or all of the following: a significant level of opposition from investors to the company resolution; a significant level of support for an investor resolution; level of media interest; level of political or regulatory interest; level of industry debate.
- ▶ Where the manager was subject to a conflict of interest. Please see p26 on the importance of effective and transparent management of any stewardship or voting conflicts.
- ▶ Any vote in non-listed equity asset classes. Where there is a voting opportunity in private equity, infrastructure or other asset classes – it is very likely that by its nature alone, it will be a significant vote. Please also see Annex 4 for further details.

Additional considerations for segregated mandates include:

- ▶ Existing trustee policies and information. This should include the trustees' SIP as well as any standalone stewardship, engagement or voting policies.
- ▶ Consultation and discussion with client. It is possible that a theme, issue or company which was not previously considered important by the client has risen up the scheme agenda by the time voting discussions and decisions need to be taken.

ANNEX 5 | THE IMPORTANCE OF (STEWARDSHIP) CONFLICT IDENTIFICATION AND MANAGEMENT

Asset managers are required to disclose their policy on conflicts of interest³⁰ and how this has been applied in the context of their voting and engagement behaviour in both Principle 3 of the UK Stewardship Code and the Principles for Responsible Investment (PRI) reporting.

This is important information and good disclosures are necessary for trustees to be able to ascertain how well the manager is able to align its interests with those of its clients when it comes to undertaking effective stewardship (for example engagement and voting).

Stewardship conflicts can arise in different ways, but trustees should be aware of the following sources of conflict:

- ▶ The asset management firm overall has an apparent client-relationship conflict e.g. the manager provides significant products or services to the company in which they also have an equity or bond holding
- ▶ Senior staff at the asset management firm hold roles at a company, e.g. as a member of the Board, in which the asset management firm has an equity or bond holding
- ▶ The asset management firm's stewardship staff have a personal relationship with relevant individuals at a company in which there is also an equity or bond holding
- ▶ There is a situation where the interests of different clients diverge. An example of this could be a takeover, where one set of clients is exposed to the target and another set is exposed to the acquirer
- ▶ There are differences between the stewardship policies of managers and their client(s).

Should the manager consider that any of their voting activities on behalf of trustees are subject to any of the conflicts above – or any other conflicts – then they should disclose on which companies or resolutions these conflicts have arisen. They should also describe whether and how they have managed the conflict and the outcome from doing so. There should be a presumption that any vote in relation to a conflict is a “significant” vote and therefore gives rise to detailed disclosure expectations.

In our accompanying Vote Reporting guide for Implementation Statements for asset managers, we have encouraged managers to proactively communicate as early as possible to their clients whether there are likely to be any conflicts, or more broadly any restrictions placed upon them by, for instance, their securities lending policies and approach to recalling stock before votes.

³⁰ *Please note:* a stewardship-related policy on conflicts will be different from a firm's broader conflicts policy as conflicts may arise in additional forms for a manager's engagement and voting activities.

ANNEX 6 | FURTHER READING

- ❖ Active Ownership 2.0: the Evolution Stewardship Urgently Needs (PRI, 2020)
- ❖ AGM Annual Voting Review (PLSA 2020)
- ❖ Aligning your pension scheme with the TCFD recommendations (Pensions Climate Risk Industry Group, 2020)
- ❖ Engaging the Engagers: How to achieve effective stewardship outcomes through your asset managers (PLSA/Investor Forum, 2020)
- ❖ ESG and Stewardship: A practical guide to trustee duties (PLSA, 2019)
- ❖ ESG Made Simple Guide (PLSA, 2019)
- ❖ Investment Association Responsible Investment Framework (IA, 2019)
- ❖ Model Mandate (ICGN, 2012 - soon to be updated)
- ❖ Red Line Voting Initiative (AMNT - ongoing)
- ❖ Stewardship Disclosure Framework (PLSA, forthcoming)
- ❖ Stewardship Guidance and Voting Guidelines 2020 (PLSA, 2020)

ACKNOWLEDGMENTS

The PLSA would like to thank all the members of the Voting and Implementation Statements Working Group (VISWG) who contributed their time, expertise and enthusiasm to the production of this guide.

- ▶ Laura Myers (LCP, VISWG Chair)
- ▶ Claire Jones (LCP)
- ▶ Rebecca Green (seconded to the PLSA, LCP)
- ▶ Chris Anker (Columbia Threadneedle Investments)
- ▶ Jocelyn Brown (T. Rowe Price)
- ▶ Anna Copestake (ARC Pensions Law)
- ▶ Naomi L'Estrange (20-20 Trustees)
- ▶ Simon Jones (Hymans Robertson)
- ▶ Elspeth McKinnon (The Cheviot Trust)
- ▶ Stuart O'Brien (Sackers)
- ▶ Chris Reilly (The People's Pension)
- ▶ Colin Richardson (PTL)
- ▶ Sheila Stefani (Church of England Pension Board)
- ▶ Owen Thorne (Merseyside Pension Fund)

We are also grateful to members of our PLSA Policy Board and Advisory Groups, as well as to our Stakeholder Group: John Belgrove (Aon), Kate Brett (Mercer), Claudia Chapman (FRC), Leanne Clements (AMNT), Joe Craig (Quietroom), David Crum (Minerva Analytics), Joanne Etherton (ClientEarth), David Farrar (DWP), Cosmo Gibson (FCA), Adam Gillett (Willis Towers Watson), Robert Holloway (LGA), Melanie Jarman (TPR), Michael Jones (Pinsent Masons), Amanda Latham (Barnett Waddingham) and Sarah Woodfield (the Investment Association (IA)).

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