

**PENSIONS AND  
LIFETIME SAVINGS  
ASSOCIATION**



# **PLSA IMPLEMENTATION STATEMENT GUIDANCE**



**JULY 2020**







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## ABOUT THE PLSA

Our mission is to help everyone achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

We represent the defined benefit, defined contribution, master trust and local authority pension schemes that together provide a retirement income to 20 million savers in the UK and invest £1 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs and others who play an influential role in the governance, investment, administration and management of people's financial futures.

## DISCLAIMER

This guide is for information only. It does not represent legal advice.



# CHAIR FOREWORD

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## LAURA MYERS (CHAIR OF WORKING GROUP AND MEMBER OF PLSA POLICY BOARD)



The recent changes to the *Occupational Pension Scheme (Investment) Regulations 2005* have put the onus on schemes to not only provide more details around how ESG considerations impact their investment decisions, but also to improve trustees' investment decision making and governance more generally.

These new regulations require schemes to make publicly available a Statement of Investment Principles (SIP) which sets out how trustees make strategic investment decisions, and an annual Implementation Statement which describes their voting and engagement behaviours and for DC/hybrid schemes also illustrates how their strategic aims have been enacted in practice. The rationale is to ensure that the SIP doesn't become just another bit of paper, and that there is an annual report by the trustees to show how the scheme's investment actions have lived up to their principles.

The Implementation Statement requirements are just one part of the rapidly increasing expectations from policy makers, regulators and members for schemes to do more to demonstrate transparency, public accountability and good corporate governance.

Taken together with the clear and growing interest from members in where their pensions are invested, the quality and long-term sustainability of investment decisions become even more important, as does how effectively trustees communicate their investment approaches to beneficiaries.

The PLSA believes that the Implementation Statement can be a useful tool for trustees to demonstrate the work that they are undertaking on members' behalf, as well as to reflect on areas for improvement or change.

We are conscious that the production of such Implementation Statements is new for trustees, which is why the Voting and Implementation Statement Working Group was set up earlier this year to help guide trustees through these new requirements and get to grips with these new reporting deadlines. I have been delighted to chair this group and my particular thanks go to Caroline Escott of the PLSA, and LCP's Claire Jones and Rebecca Green for all their hard work in pulling this guidance together.

This guide aims to cut through some of the confusion around Implementation Statements and give practical steps on how to collate this information and communicate it to stakeholders. It builds on previous PLSA guidance which provided accessible and practical support for schemes in getting to grips with responsible investment, engagement and stewardship policy and practice.

We believe that the principles underpinning the Implementation Statements will help focus schemes on their long-term investment goals. Getting these disclosures right will help schemes become more sustainable, improve stakeholder relations and ultimately make better investment decisions that have the interests of members and savers at their heart.

# INTRODUCTION

Good member outcomes require effective investment governance and decision-making. To support this, new requirements have recently been placed upon trustees by the Department for Work and Pensions (DWP)<sup>1</sup> which ask them to publicly disclose their Statement of Investment Principles (SIP), and state how these principles have been implemented. Since October 2019, the SIP must include the trustees' policies on financially material environmental, social and governance (ESG) factors. The requirements apply in full to schemes with DC benefits, with a sub-set of requirements applying to schemes that only provide DB benefits.

This guide provides practical support for trustees around the production of these “Implementation Statements”, including how the process of producing them can help to drive improvements in investment decision-making and governance. It builds upon the 2019 PLSA guide for trustees on the first phase of changes to the *Occupational Pension Schemes (Investment) Regulations 2005* but instead of focusing on responsible investment alone (consideration of ESG factors and stewardship), it covers the broader investment implementation disclosure aspects of these new statements. This includes how trustees have held their managers and advisers to account to achieve their scheme's investment objectives.

Our guide is intended to support all trustees, whilst recognising that schemes with investments in *pooled funds* will have different scope for influence compared to those with *segregated mandates* as well as the fact that trustees will have different objectives or level of resource available for producing their implementation statements.

## HOW TO USE THIS GUIDE

Producing public disclosures on how a scheme's investment *action* over the course of the previous year follows the investment *intent* as set out in their SIP is a new discipline for many schemes.

This guidance sets out:

- ▶ What the legislation requires (and by when). As well as our summary of key changes presented in Chapter 1, we encourage trustees to read through Annex 2, which provides further details on the regulations;
- ▶ Some high-level general principles for Implementation Statement content;
- ▶ A range of more detailed possible considerations for trustees when thinking about what to disclose with regard to *how* and to *what extent* their actions and decisions over the last year have enabled them to achieve the objectives set out in the SIP<sup>2</sup>;
- ▶ Specific considerations around voting behaviour disclosures in the statement; and
- ▶ Tips for investment (and responsible investment) communication.

<sup>1</sup> Arising from the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

<sup>2</sup> TPR has produced guidance on some of the responsible investment aspects of drafting Implementation Statements, and we would recommend reading this either before or in conjunction with using this guide. <https://www.thepensionsregulator.gov.uk/en/trustees/managing-dc-benefits/investment-guide-for-dc-pension-schemes->



The whole of the guidance applies to ‘relevant’ schemes with DC benefits (see Chapter 1). Only certain parts of it apply to schemes that just provide DB benefits. These are clearly indicated by shading relevant sections in **green**. However, the rest of the guidance may nonetheless be of interest to DB-only schemes. In particular, we would also recommend that DB schemes take the time to read through our communication tips both for investment generally, and on ESG and stewardship specifically.

Readers looking for an explanation of or refresher on responsible investment duties, consideration of ESG issues or the characteristics of stewardship and engagement more generally are encouraged to consult other PLSA guides on this subject<sup>3</sup>.

We recognise that each scheme will need to take the approach which best suits its resource and governance capacity. We are also conscious that this is a very new area for trustees and what good practice looks like will evolve over time.

We expect that this guide will need to be updated as markets evolve and as the concepts of good and best practice change but hope that this provides a starting point for schemes of all shapes and sizes.



<sup>3</sup> Please see Annex 1 for further reading..

# 1. WHAT TRUSTEES HAVE TO DO AND BY WHEN

This chapter provides an overview of the relevant requirements and deadlines for different scheme arrangements which arise from the *Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013* (henceforth known as “The Investment and Disclosure Regulations”) Further information is given in Annex 2.

The regulatory changes in 2018 introduced the concept of an annual Implementation Statement in which trustees set out how and the extent to which the SIP has been followed during the year. The legislative requirements apply in full to “relevant schemes”, with less extensive requirements applying to DB-only schemes, as shown later in this chapter. The requirements do not apply to schemes with fewer than 100 members.

## “RELEVANT SCHEMES”, DB-ONLY AND AVCS

### Relevant scheme<sup>4</sup>

The legislative definition of a “relevant scheme” is as follows:

“relevant scheme” means an occupational pension scheme which **provides money purchase benefits** other than:

- (a) an executive pension scheme (a scheme where a company is the only employer and the sole trustee; the members of which are either current or former directors of the company; and include at least one third of the current directors);
- (b) a relevant small scheme (a scheme with fewer than 12 members), where the members are all trustees, or directors of a corporate trustee);
- (c) a scheme that does not fall within paragraph 1 of Schedule 1 (description of schemes) to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (i.e. a scheme which is not an occupational scheme);
- (d) a public service pension scheme which—
  - (i) falls within regulation 4(2) of those Regulations (limitations on application to certain public service pension schemes); or
  - (ii) does not fall within regulation 4(2) of those Regulations but is a public service pension scheme within the meaning of the 2004 Act; or
- (e) a scheme which provides no money purchase benefits other than benefits which are attributable to additional voluntary contributions.

**As such, a defined benefit scheme with only AVCs would not be classed as a “relevant scheme.**

In this guide, we refer to occupational schemes which are not relevant schemes as “DB-only schemes”.

<sup>4</sup> [www.legislation.gov.uk/uksi/2015/879/regulation/14](http://www.legislation.gov.uk/uksi/2015/879/regulation/14)





Although Implementation Statement requirements initially only applied to trustees of “relevant schemes”, the 2019 changes to the Investment and Disclosure Regulations brought DB-only schemes (including those whose only money purchase benefits are AVCs) within scope both to publish their SIP and to produce an Implementation Statement. However, the content of DB-only schemes’ Implementation Statements is narrower, focusing on voting behaviour and the undertaking of engagement activities (stewardship policies) during the year.

**WHAT ARE DIFFERENT SCHEMES REQUIRED TO DO?**

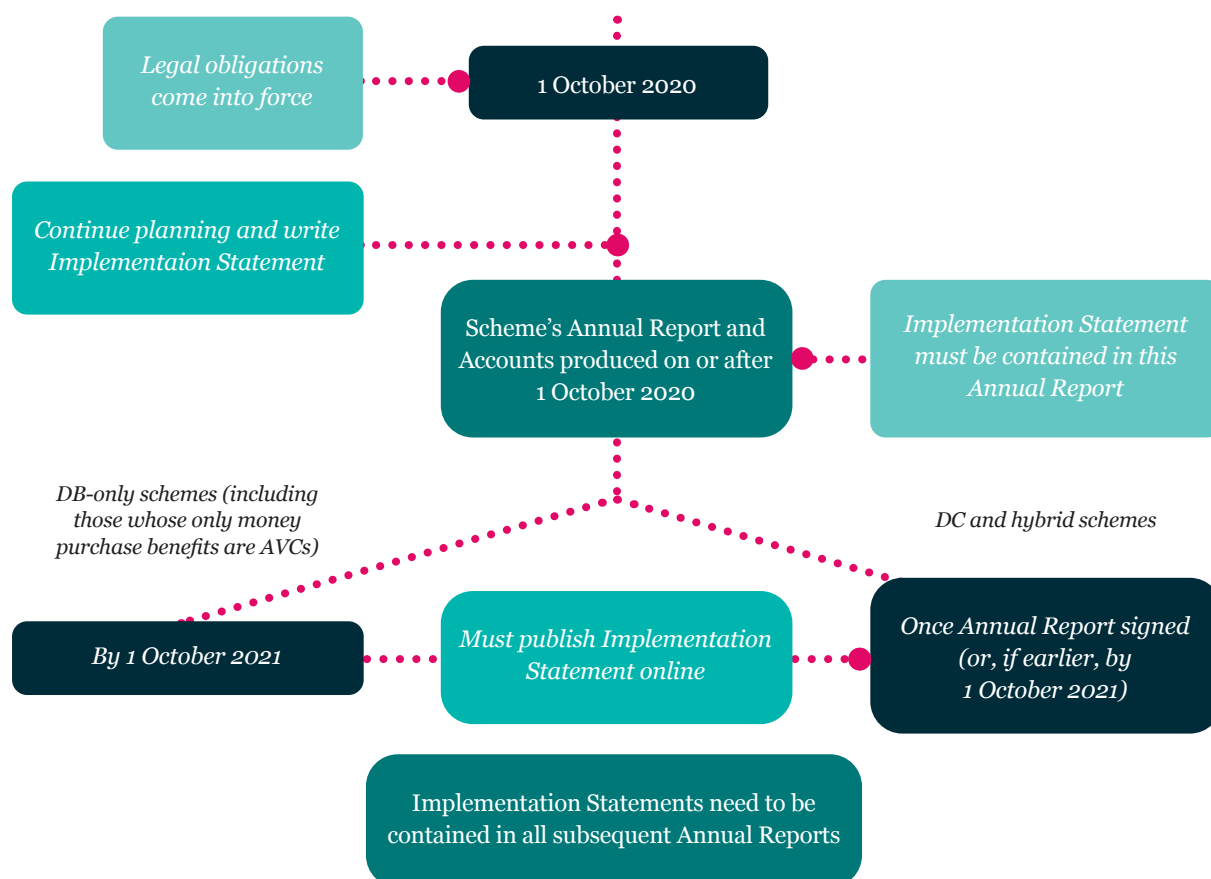
Schemes are required to produce annual statements, each one covering activity during a scheme year (i.e. for the same reporting period as the Annual scheme report and accounts).

<b>Reporting requirements</b>	<b>Relevant Scheme (DC or hybrid)</b>	<b>DB only</b>
Description of any review of the SIP during the period covered by the Statement including an explanation of any changes to the SIP. If the last review was not within the period covered by the Statement, include the date of last SIP review.	✓	✗
Details of how and the extent to which, in the opinion of the trustees, the SIP has been followed during the year.	✓	✓ in relation to voting and engagement only
Description of voting behaviour (including “most significant” votes by, or on behalf of, the trustee) and any use of a proxy voter during the year.	✓	✓

Note that, if an occupational pension scheme has both DB and DC benefits, the ‘relevant’ scheme requirements apply to the whole scheme, even if they are run as if they are separate schemes (e.g. with segregated sections). Hence such schemes are required to report on the implementation of their DB investment policies as well as their DC policies.

**BY WHEN ARE THEY REQUIRED TO DO IT?**

How the legislation applies, and the timing requirements, will vary depending on the nature of the scheme, when its year-end falls, and when the trustees finalise their report and accounts for the scheme. Trustees should take advice from their own advisers to ensure they understand the implications for their own scheme. However, the following decision tree sets out a broad view:



Source: ARC Pensions Law/River and Mercantile Solutions *New investment reporting rules for trustees: a practical guide to implementation statements* (May 2020). Does not constitute legal advice; specific advice should be taken.

## PUBLICATION

The legislation states that the Implementation Statement must be included in the Annual Report and Accounts and that it must also be made publicly available online<sup>5</sup>.

For relevant schemes, the online publication requirement will apply as soon as the accounts have been signed any time after 1 October 2020 (but in any event no later than 1 October 2021).

For DB-only schemes, the online publication requirement must be complied with by 1 October 2021, although trustees can make the implementation statement available online sooner if they wish in relation to any accounts signed before them. Please note that in either case:

<sup>5</sup> For relevant schemes, there is statutory guidance from the DWP that expands on the requirement for SIPs and Annual Chair's Statements to be made freely available online, including that they should be published in a manner which allows for the content to be indexed by search engines and that no password or personal information can be required to view the documents. In addition, members' annual benefit statements must include a specific web address for the various materials they are required to publish online.



► **This does not mean that the Annual Report and Accounts must be published online.** Regulation 29A of the Disclosure Regulations requires certain information to be published on a publicly available website. While some of this information might also appear as part of the Annual Report and Accounts, this does not change the scope of the Regulation<sup>6</sup>. Trustees may extract the Implementation Statement from the Annual Report and Accounts and publish only what is required – though it is open to them of course to publish the whole Report and Accounts.

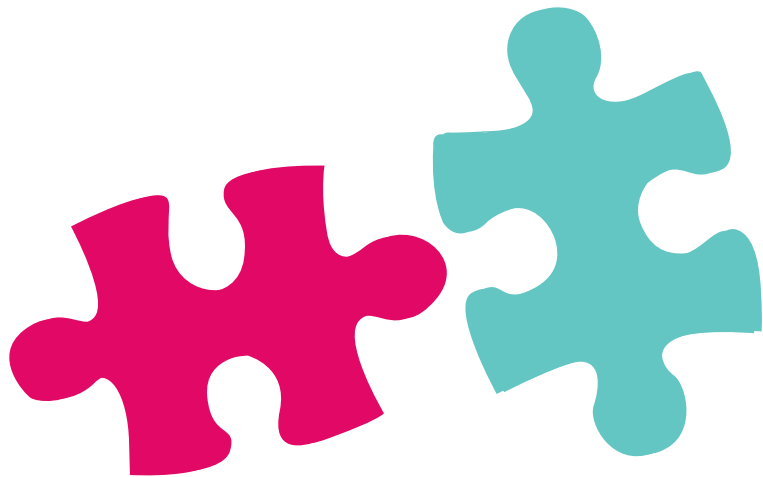
One of the questions the PLSA is also frequently asked regarding Implementation Statements is about the nature of penalties for any non-compliance. Unlike Chairs' Statements, which are subject to a mandatory penalty, Implementation Statements are subject to discretionary penalties under s168 of the 1993 Act and Regulation 5 of the Disclosure Regulations.

#### A NOTE ON THE RESOURCE REQUIREMENTS

Trustees should consider the time and resources required particularly in the first year, to ensure they are able to complete their Implementation Statement properly and in good time, especially since it must be made publicly available online and so may be scrutinised by members and other stakeholders.

To do this well will require planning and co-ordination, as there are several service providers you will need to ask either to provide information, or to review the final Implementation Statement<sup>7</sup>. Although you will have some of the information to hand, you will also very likely require additional conversations with your asset managers (including on voting data requests), and you may wish to have additional conversations with investment consultants, lawyers, auditors and potentially even designers or specialist communications experts.

Setting a timetable will be helpful to ensure the statutory deadlines are met and that service providers are given sufficient time to support you in producing the Implementation Statement.



<sup>6</sup> Please see the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [www.legislation.gov.uk/uksi/2013/2734/regulation/29A](http://www.legislation.gov.uk/uksi/2013/2734/regulation/29A) for full details

<sup>7</sup> Trustees may want to consider whether it is appropriate to seek specialist expertise (and indeed, this guidance should be read in conjunction with taking professional advice where possible).

## 2. HOW TO PREPARE THE IMPLEMENTATION STATEMENT

This section outlines what trustees should do both for the planning and the preparation of the Implementation Statement. It explains the steps and decisions trustees need to take.

Although different schemes will have different year-ends and different requirements – where some schemes may need to prepare Implementation Statements very soon after 1 October 2020 – it is advisable for all schemes to start asking their advisers and asset managers for the relevant information at the earliest opportunity, given that the first reporting period will already have begun for all schemes.

As the purpose of the Implementation Statement is for trustees to report on how they have followed, reviewed and changed the SIP during the scheme year, effective SIP compliance and governance will need greater focus on a regular basis to ensure relevant content.

We cover the precise steps which trustees should be taking in greater detail below, but in summary:

### **Planning the implementation statement**

1. Agree which deadlines are applicable to the scheme
2. Confirm which policies from the SIP are required to be covered by the implementation statement for the relevant period
3. Decide the purpose of, and audience for, the implementation statement
4. Agree the level of resource required
5. Agree the approach

### **Producing the implementation statement**

1. Identify the SIP(s) relevant to the reporting period
2. Decide which areas in the SIP will need to be reported against
3. Decide what information is needed, from whom and by when
4. Assemble and review information, and decide what is relevant
5. Review with relevant parties

## **PLANNING THE IMPLEMENTATION STATEMENT**

Trustees should take the following steps when planning their Implementation Statement disclosures.

### **STEP 1. Agree which deadlines are applicable to the scheme.**

- ▶ This means identifying your scheme year-end and then understanding in which Annual Report the first Implementation Statement needs to be included (see the decision tree on page 10).
- ▶ Trustees should then work back from the relevant accounting date<sup>8</sup> to ascertain when they need the necessary information and communicate their expectations – even if initially at a high-level – to their

<sup>8</sup> Bearing in mind that trustees are required to sign the annual report within seven months of the scheme year end.



managers, custodians, advisers, auditors, platform providers and others as early as possible. This will be particularly important over the first few years of compliance as service providers will be getting to grips with new data requests and the influx of requests from clients.

**STEP 2: Confirm which policies from the SIP are required to be covered by the implementation statement for the relevant period.**

- ▶ Trustees should be clear whether they are a DB-only scheme or a relevant scheme and the resulting scope of the implementation statement disclosures required (see table on p.10)
- ▶ Trustees may have updated or re-written the SIP during the course of a scheme year. Trustees should identify the periods during the scheme year covered by each version of the SIP to ensure that they are reporting against the policies applicable at the time.

**STEP 3. Decide the purpose of, and audience for, the Implementation Statement.**

- ▶ Trustees should consider what they aim to achieve with their Implementation Statements, beyond complying with the Investment Regulations. For example, the statements could provide an opportunity to review investment governance practices and whether the SIP itself needs to be clearer or more specific.
- ▶ Trustees should decide who is the primary audience and whether there are any secondary audiences. Trustees may also want to use the statements to consider whether changes are necessary, having reviewed actions to date.
  - ▶ The purpose of the statements will evolve over time but a scheme's members will be a key audience, given the policy intent of online publication. Please see *Chapter 6* for tips on how to communicate investment issues to members.
- ▶ As with SIPs, we anticipate a significant level of interest from policymakers, regulators and civil society groups in the content of schemes' Implementation Statements. Trustees should strike the right balance between communicating at a level of detail which they are comfortable with making public while also giving information which is relevant, succinct and clear.
  - ▶ Trustees should also agree what they think is the appropriate balance between narrative about their general approach and the use of concrete quantitative data as well as, real life examples and case studies (which we believe will underscore the actions that are at the heart of the Implementation Statement).
- ▶ Although not required under the regulations, trustees may want to consider whether their implementation statement might usefully contain any forward-looking information as well as serving its primary function as a record of the key investment milestones over the last year.

- ▶ DB-only schemes are only required to cover voting and engagement in their Implementation Statements. However, as part of the process, trustees of DB-only schemes may wish to consider the following:
  - ▶ Are there any other aspects of the scheme's investment approach and implementation which may be of interest and use to scheme members, or other stakeholders, which they want to publicly disclose?
  - ▶ What are the opportunities and risks in doing so?

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#### **STEP 4. Agree the level of resource required.**

This will need to be decided in conjunction with considering the trustee board’s objectives for their Implementation Statements. Trustees may have a range of objectives, one of which may be for example to produce a glossy statement that is easy for members to understand, and so decide they need additional resources.

- ▶ Trustees should consider how their assets are held, for example via a platform or through a *pooled vehicle*.
- ▶ Trustees may find it helpful to ask their advisers about useful and publicly available background information<sup>9</sup>.
- ▶ Trustees may consider that they need specialist advice on producing an Implementation Statement. This could include investment, legal or communications support, leveraging any available resources from the sponsor or data checks or validation from an independent/third-party provider.
- ▶ Where there is a significant level of intermediation - for instance in *pooled vehicles* - it will be important for trustees to consider the most effective available mechanisms for holding managers to account. Trustees are likely to need additional information from their managers on voting practices and votes cast during the year. They may need support in analysing this information, identifying the “most significant” votes and collating the information into a format suitable for publication.
- ▶ Trustee boards may want to think about the extent to which they wish to align disclosures with, or refer to, other leading industry frameworks such as the Financial Reporting Council’s (FRC’s) UK Stewardship Code, the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations or the Principles for Responsible Investment’s (PRI) signatory reporting framework.

**STEP 5. Agree the approach.** We think that trustees could usefully consider the following questions in their disclosures for each section of the statement:

- ▶ What was the investment-relevant decision that was made? What was the rationale and what action arose from this decision? Did it have a significant, ‘move the dial’ impact on investment outcomes?
- ▶ How was this decision or action aligned with the policies set out in the SIP? Which specific policy/policies or objective(s) does it relate to?
  - ▶ And how did it enable trustees to fulfil their legal duties when exercising their investment powers?
- ▶ To what extent did (or will) this decision or action help trustees achieve their investment objectives?
  - ▶ If it failed to do so to the extent which had been intended, what action will be taken in response?
- ▶ Is the language used clear, straightforward and accessible? Is there a (brief) case study which could be used to illustrate the action undertaken?

#### **PRODUCING THE IMPLEMENTATION STATEMENT**

There are several steps which trustees will need to take to produce the Implementation Statement.

Although we would consider the general approach outlined below to have some relevance to all trustees, those responsible for DB-only schemes will need to consider how they might take a proportionate approach.

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<sup>9</sup> Please see our Further Reading section in the Annex.



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### **STEP 1. Decide which areas in the SIP will need to be reported against**

- ▶ Ensure that the relevant logistical detail is covered. This will include:
  - ▶ When the SIP was last reviewed (and a description of the review, if one was undertaken over the last year);
  - ▶ An explanation of any changes and the reason for the changes.
- ▶ Identify which parts of the text are policies, as these are likely to be the parts on which the Implementation Statement needs to focus. Note any policies which require specific action by the trustees. If action is required during the year (such as an annual review of members' retirement behaviour), the statement must comment on the action taken, or if this action has not been undertaken, the reasons why.
- ▶ Consider any separate voting, stewardship or engagement policies, and the extent to which these will also be reported on.
  - ▶ Create a checklist of the areas to report and then cross-reference later Implementation Statement drafts to ensure that it covers the areas agreed.
  - ▶ Think about future-proofing: how can you forward plan and factor in any anticipated changes to the SIP, and how might this be approached in the next Implementation Statement?

### **STEP 2. Decide what information they need, from whom and by when**


- ▶ Once data is collated, trustees may well have some of the necessary information available in other reports such as the Chair's Statement, quarterly investment reports and management information (MI) or existing stewardship or responsible investment reports from managers. Please note: to keep the Implementation Statements succinct, we would recommend trustees consider to what extent they can signpost to other documents, though any particularly significant or 'move the dial' information should be included in its own right in the Implementation Statement itself.
- ▶ On voting behaviour specifically, we encourage trustees to send the PLSA Voting Template to their asset managers and ask them to fill it out<sup>10</sup>. This will help to ensure the information received is relevant and comparable.
- ▶ *Please note:* The ability of a manager (or other service provider) to respond to information requests, and the time they will require, will depend on their own systems and processes and the volume of requests received, so what information will be given and by when will need to be agreed early on.

### **STEP 3. Assemble and review information, and decide what is relevant<sup>11</sup>**

- ▶ Trustees should consider whether the information is relevant, and how it relates back to their investment policies and objectives.
- ▶ Trustees should assess which actions, activities and decisions have made, or are intended to make, the most difference in achieving the objectives set out in the SIP. For each of these actions, they should then consider *how* and to *what extent* this follows the SIP.

<sup>10</sup> Further details can be found in the section on Voting Behaviour but in brief: at present, the FCA requires asset managers to produce a "general description" of their voting and engagement behaviour – likely to happen at a firm-wide level. However, trustee boards need to report their voting behaviour at a scheme-level, which will require mandate-level or fund-level information. The voting template asks asset managers to present information to their clients in a relevant, consistent and comparable way. Please also see PLSA Voting Template 2020 (July 2020).

<sup>11</sup> Some schemes will have their own in-house team to do this, but we recognise that many will need external support from advisers. We encourage trustees to ask their advisers what activities they are undertaking regarding their own training and resourcing to support their clients on evolving areas such as the Implementation Statement.

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- ▶ Trustees should consider whether they have the necessary information to report on each section of their SIP.
  - ▶ On voting information: trustees should check that the data seems reasonable, complete and has been presented at a mandate or fund-level. Trustees should also consider whether their own understanding of a “most significant” vote aligns with the information provided by managers.

#### **STEP 4. Review with relevant parties**

- ▶ Trustees should ensure they leave enough time for review of the Implementation Statement, which may include input from different advisers.
- ▶ Trustees may also wish to review the statement from a (*member*) *communications* and *design* perspective<sup>12</sup>.

#### **WHAT HAPPENS IF WE CAN'T GET ALL THE VOTING INFORMATION IN TIME?**

If trustees have not been able to get the relevant information from their managers or other service providers, they should include as much detail as they can in their Implementation Statement in these circumstances. It will also likely be helpful for trustees to explain what information is missing, why the information is missing and how they intend to rectify the position.

Please note<sup>13</sup>: the legislation around the Implementation Statements is not the same as the original Chairs' Statement legislation and does not provide for an alternative that, if information cannot be obtained, trustees should disclose what they can and set out what they are doing to obtain the rest. Nonetheless, this seems to be a pragmatic approach for trustees to adopt if they can't get all the voting information in time. We understand the Regulator's response to any breaches of the implementation statement legislation will depend on the particular facts of a specific case, but that they will adopt a reasonable approach in relation to any enforcement. The Regulator's power to fine for such a breach will arise in circumstances where “there is no reasonable excuse”.

#### **LOOKING TO THE FUTURE**

We anticipate that the first Implementation Statements produced will require the most effort, in large part because the process of producing one will be new both to trustees and their service providers. In future years, trustees will also be able to access and learn from the Implementation Statements of others, as well as by looking to the research produced by academic and civil society organisations.

For future statements, we would recommend trustees implement a process whereby they document any relevant actions, decisions and changes throughout the year. For instance, trustees could incorporate an “Implementation Statement check” at the end of every meeting considering investment matters. This way the relevant information will be more easily accessible when the process of preparing the next statement commences.

Voting information for an Implementation Statement will be required from asset managers and trustees may want other information from their managers to support implementation of their SIP, for example on engagement activities<sup>14</sup>, ESG integration and portfolio turnover. Trustees should therefore also consider how they build out the quarterly Management Information (MI) reports that they will already be receiving to include Implementation Statement-relevant information.

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<sup>12</sup> Please also see Chapter 6 on investment communications.

<sup>13</sup> Managers have their own reporting requirements under the Second Shareholder Right Directive. We cover this further in our Vote Reporting Template - guidance for asset managers (August 2020).

<sup>14</sup> Recognising the stewardship is much broader than voting.





# 3. IMPLEMENTATION STATEMENT | GENERAL PRINCIPLES



This section covers some of the core, overarching principles which we believe every Implementation Statement should seek to follow and the kind of approach which should ensure statements are meaningful and relevant.

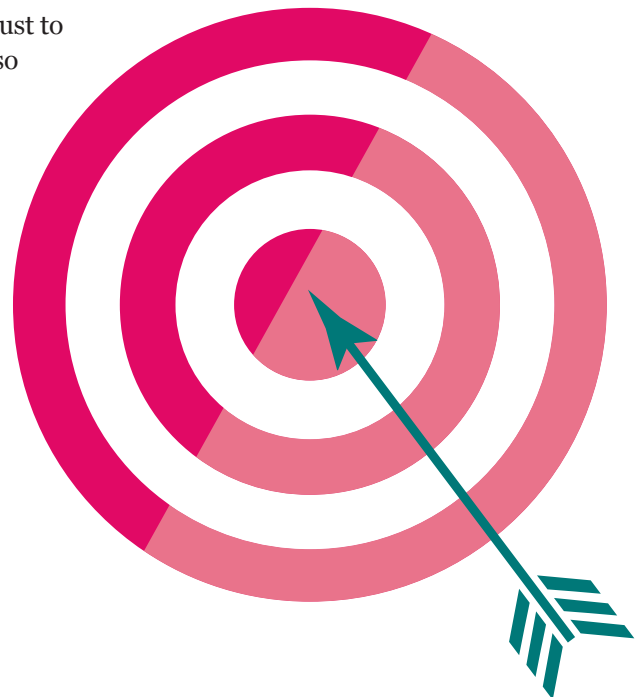
Regardless of the scheme’s governance and investment structure and approach, the PLSA believes that every Implementation Statement should follow these key rules:

- ✓ **It flows directly from the SIP<sup>15</sup>.** Any description of the exercise of trustee investment powers must be explained in the context of the trustees’ policies set out in their SIP (and any stated investment beliefs). So every action, case study and decision included in the Statement should be explicitly connected to the initial intent as set out in the SIP. This means that descriptions should be:
  - ▶ Specific to the implementation approach taken by the scheme itself, acknowledging the scheme-specific parameters which have influenced the approach e.g. direct relationships with managers, investment via pooled funds or the use of fund platforms.
  - ▶ Clearly linked back to investment objectives and policies and how actions align with the the trustee’s purpose in exercising the investment power including the interests of beneficiaries.
  - ▶ For DB-only schemes, the only relevant/required part of the SIP is the **stewardship policy**.
- ✓ **It is based around actions taken and decisions taken during the year.** There may be little change on certain matters – for instance, strategic asset allocation – over the course of that particular year. To avoid adding unnecessary length to the document, if there is no change in – or action taken on – the implementation of a particular policy then trustees should only cover this briefly. We do not think it is necessary to play “catch up” by providing a description of historic actions in the first year – although trustees may of course choose to do so, either here or elsewhere in their investment communications to members.
  - ▶ Please note: in one area (voting behaviour), trustees are reporting on broader voting and engagement behaviour during the year.
- ✓ **It focuses on those activities and decisions which have most “moved the dial”.** The best statements are likely to be focused, succinct and revolve around those decisions, actions and changes which have had or will have the most material impact in achieving the objectives (and following the policies) set out in the SIP.

<sup>15</sup> We are aware that there has been discussion around the level of disclosure required in the SIP itself. The Regulations say that the SIP must “cover” the trustees’ policies in relation to the kinds of investments, balance of investments, risk, return, ESG, non-financial matters, voting rights, stewardship and relationship with asset managers. It does not need to include the full underlying policies, but we would consider it to be additional best practice to include publicly available hyperlinks to these underlying policies.

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- ✓ **The level of detail is appropriate to the audience.** For example, there is a growing body of evidence to demonstrate the benefits of good communication on responsible investment in particular to beneficiaries<sup>16</sup>. However, instead of overburdening the Implementation Statement and turning it into a lengthy and inaccessible document, we would encourage trustees to consider other ways of communicating their broader approach to responsible investment to beneficiaries.
  - ✓ **It clearly articulates how trustees have sought to hold their service providers to account (engage, influence, challenge).** The approach taken will reflect scheme-specific circumstances, including the trustees' level of access to and influence with their various service providers. However, trustees of schemes which have extra levels of intermediation between the trustee board and the end investee company (those invested in pooled funds, for instance, or which use a platform provider or fiduciary manager) should describe how they have retained *ownership* for the investment approach taken and its outcomes.
    - ▶ In disclosing how they have held their managers to account, trustees could describe how they have *engaged with, influenced and challenged* their investment service providers where necessary during their ongoing oversight and assessment processes<sup>17</sup>.
    - ▶ Where assets are held in *segregated mandates*, trustees could also disclose how they have embedded their requirements in their service agreements and how they have checked these have been upheld.

**It provides a clear rationale for where implementation departed from the SIP.** Trustees are required not just to describe *how* their action followed their intent, but also to *what* extent. It is recognised that there will be instances where trustees were unable or chose not to follow their SIP – and these will need to be explained. We note that S36(5) in the Pensions Act 1995 requires trustees to give effect to the principles in the SIP so far as is reasonable and practicable.



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<sup>16</sup> Please see Chapter 6 investment and responsible investment communications.

<sup>17</sup> This aligns with Principle 8 in the Stewardship Code, which states that scheme signatories should explain how the services have been delivered to meet their needs, or where they have not been met, the action they have taken.



# 4. IMPLEMENTATION STATEMENT | WHAT TRUSTEES COULD DISCLOSE

Trustees should include the most material activities or changes across any of the different aspects of their investment in their Implementation Statement. However, the PLSA does not believe that every Implementation Statement needs to refer to every issue which we cover in this section. Instead, we provide here some useful considerations for trustee boards when thinking about the key actions or decisions taken over the course of the scheme year.

The steps trustees take on their investment implementation journey will vary, but we have structured this section to cover what we would consider a typical investment ‘journey’. We recognise that there will be practical differences for schemes with *segregated* mandates and those who are invested in *pooled* or other highly-intermediated arrangements and have sought to clarify some of the key considerations for different approaches throughout this section.

- ▶ Investment governance
- ▶ Approach to non-financial matters
- ▶ Strategic asset allocation
- ▶ Mandate parameters
- ▶ Manager selection, review and monitoring

## INVESTMENT GOVERNANCE

Trustees may find it helpful to disclose how the investment governance structure and processes have been followed, focusing on how they have supported the implementation of the trustees’ investment policies and any changes made during the year.

Trustees may wish to consider describing in their Implementation Statements how the current investment governance approach helps support their investment decision-making<sup>18</sup>. However, scheme governance arrangements may already be disclosed publicly elsewhere – such as the DC Chair’s Statement and trustees should consider any disclosures made available in these documents when thinking about producing their Implementation Statements, to ensure consistency and avoid duplication.

<sup>18</sup> We also note TPR’s continued focus on investment governance, including default fund governance in recent years.

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## THE TRUSTEE BOARD

Trustees may want to disclose what activities they have undertaken over the course of the last scheme year to ensure that the trustee board is as well-equipped as possible to effectively implement their investment strategy and policies in members' best interests. Some of the issues which trustees could consider covering in their disclosures include:

▶ **Governance structure and expertise<sup>19</sup>**

- ▶ How has the level and expertise of the trustee board on investment issues changed, if at all, over the last year – and if it has, what was the rationale and did it change in a way which helped you achieve your objectives?
- ▶ Have the areas on which you seek professional advice changed? If so, what was the rationale for doing so?
- ▶ Have there been any changes to your in-house team? Have you decided to have a dedicated responsible investment member of staff, or someone with explicit accountability for the responsible investment approach?
- ▶ Has there been any change to your use of investment sub-committees or other sub-committees? If any changes have been made, how have you ensured that the differing and respective roles and responsibilities of sub-committees, external advisers and specialists have been made clear?
- ▶ Trustees could also consider including a high-level description of key governance activities over the previous year, such as key agenda items discussed or any important external attendee or manager visits. This information will likely already be held by the scheme executive.

▶ **Trustee Knowledge and Understanding.**

Much of the information in this space will be contained in the TKU section of the Chair's Statement (for "relevant schemes"), but trustees could consider picking one or two of the most important investment-relevant developments over the previous year.

- ▶ What are the key training activities that the trustee board has undertaken over the last year? How did this better enable oversight and understanding of investment activities undertaken. What actions and decisions did this training support you in taking?
- ▶ Did you do a skills audit? What were the investment-relevant results and how did you seek to act upon any gaps?
- ▶ How have you approached any trustee recruitment which took place? How was this informed by the results of the skills audit, changes in the marketplace, or the need to achieve the objectives set out in your SIP? What steps did you take to try to ensure a diverse pool of candidates in your recruitment<sup>20</sup>?

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<sup>19</sup> This aligns with Principle 2 of the Stewardship Code, where signatories should explain how their governance structures, processes and resources have enabled effective stewardship.

<sup>20</sup> For further practical tips and guidance on how to recruit and retain a diverse trustee board – as well as the benefits of doing so – please see the PLSA's *Diversity and Inclusion Made Simple Guide* (March 2020).



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## PROCESSES AROUND MANAGING SCHEME INVESTMENTS

Key developments which trustees could consider including in their narrative include:

- ▶ **Approach to delegation and committee membership.**
  - ▶ Were any significant actions regarding delegation structure undertaken over the previous year? What was the rationale for doing so and what impact has any change had/will any change have?
  - ▶ Did the members of any investment-related committees change? If so, what were the reasons and how did you ensure an appropriate balance of skills and perspectives?
- ▶ **Any new policies or documentation.** Schemes with appropriate resource should consider producing separate/standalone policies on areas which they consider to be important – and which they can use as a benchmark against which to hold managers and advisers to account<sup>21</sup>. This could include a stewardship policy, a voting policy and a policy on their approach to climate risk. Even for trustees invested in *pooled funds*, it is worthwhile considering whether they want to add more granularity to their expectations of advisers and managers on certain issues, to be used as a tool in manager engagement and selection<sup>22</sup>.
  - ▶ Have you decided over the last year to produce a new policy on a particular investment issue? If so, what was the rationale for doing so, how did you develop the policy and how does it link back to SIP objectives? What, if any, external advice did you receive?
  - ▶ How have you ensured that any standalone policies are measurable or demonstrable? What are your monitoring arrangements for activity and outcomes against these policies?
  - ▶ What are the outcomes from your measurement or monitoring against these standalone policies?
- ▶ **Holding advisers and managers to account.** Trustees will have spent time thinking about the appropriate framework to help them monitor, review and challenge both external and, if relevant, in-house investment service providers<sup>23</sup>. Trustees are now expected to put in place objectives for investment consultants<sup>24</sup> so trustees may also want to consider disclosing how these objectives are intended to help them achieve their SIP objectives.

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<sup>21</sup> As they would with any other investment issue.

<sup>22</sup> Detailed guidance for trustees, including those invested in pooled funds, on how they might consider pulling together their own voting, stewardship and engagement policies can be found in the PLSA's 2020 Stewardship Guidance and Voting Guidelines.

<sup>23</sup> This is also a reporting requirement under Principles 7 and 8 of the Stewardship Code.

<sup>24</sup> Please see TPR's 2019 guidance on *Setting objectives for providers of investment consultancy services*.

- ▶ Have any changes been made to the Service Level Agreements (SLAs)<sup>25</sup> for your advisers or managers? If so, where and how were changes made, and what was the rationale for doing so? How did you ensure they linked back to your investment beliefs, objectives and policies?
- ▶ What specific objectives did you set for your investment consultants (possibly as part of the CMA objectives) and how did you monitor the outcomes? Did you include any explicit references to activities and expectations on responsible investment in your Investment Management Agreement (IMA)s or other legal documents for your managers?
- ▶ Were there any investment or investment governance issues where you sought to improve your service providers' practices? If so, how did you work with your advisers or managers to do so, escalating where appropriate? What was the outcome?

### **NON-FINANCIAL MATTERS**

The law is specific on the extent to which trustees can take non-financial matters (such as members' ethical views) into account in their investment decision-making. Trustees should take legal advice before doing so. However, where trustees have agreed a policy in their SIP which says they do take non-financial matters into account, trustees should describe how the policy has been implemented over the previous year, including any actions to gauge and reflect member views.

Since 1 October 2019, SIPs must state any trustee policies on the extent (if at all) to which non-financial matters (e.g. member ethical views) are taken into account in trustees' investment decision-making. It should be noted, however, that there is no obligation on trustees to take such non-financial matters into account and certain legal tests must be met before trustees are permitted to do so. This is a specialist area and we would urge trustees to seek legal advice on the specific actions being considered.

If schemes have set out a policy on non-financial matters in their SIP, then they should describe how that policy has been implemented. Some of the areas which trustees could consider covering in their disclosures include:

- ▶ **Member views**
  - ▶ Were any actions taken to gauge and consider member views, and if so, on which investment or ethical issues?
  - ▶ What decisions or actions – if any – were taken in response? If member views have not been fully reflected in investment decisions, what were the reasons for this (e.g. practical barriers, insufficient consensus)?

<sup>25</sup> We are conscious that trustees are unlikely to have revisited their objectives recently in light of Covid-19 resource issues, but the PLSA believes that trustee objectives for their consultants should constitute a key additional tool for schemes to scrutinise and benchmark their investment advisers. Trustees should consider how well their objectives ensure consultants will help them in: engaging with managers; obtaining disclosure of information; clarifying with managers how trustees expect them to align with their investment policies – including on responsible investment – and expectations around voting rights and engagement with underlying assets.





- ▶ To what extent has the consideration of E, S or G risks (such as climate change<sup>28</sup>) influenced any SAA decision? For instance, regarding the allocation to asset classes, geographies or sectors? Have any ESG opportunities been considered and acted upon by trustees in SAA decisions? What scenarios were used in making this assessment?
- ▶ To what extent has consideration of the trustees beliefs and policies around their approach to stewardship – including engagement, exercise of voting rights or divestment – influenced any decisions on SAA?

As responsible investment is a relatively new area for many trustees, we have highlighted some of the ways in which ESG integration and stewardship approaches can vary across asset classes in the following table.

As with any other investment belief or philosophy, the right balance should be struck between consistency of approach across asset classes and prioritisation (according to resources, constraints or timescales) of those asset classes where responsible investment may have greatest impact<sup>29</sup>. As the following table shows, it is not the case that effective stewardship can only take place across listed equities. Trustees should work with their advisers and managers to consider the approach which works best for their scheme.

	<b>MANDATE CHOICE</b>	<b>INVESTMENT INTEGRATION</b>	<b>ENGAGEMENT</b>
Passive/index tracking	Trustees should consider the index benchmark and any ESG tilts.	No/limited manager discretion in stock selection.	Managers can exert influence on companies through engagement and voting. There is also scope for influence on market-wide and system-wide issues.
Active equity	Trustees could invest in ESG-orientated mandates such as sustainable equity.	Managers should consider financially material ESG factors and their impact on future profitability in company evaluation. Traditionally, data availability and quality has limited the ability to do this in quantitative analysis, though this is changing.	Managers can exert influence on companies through engagement and voting.
Active fixed income	Some assets such as green bonds could be considered by trustees but likely as part of a broader mandate.	Managers should consider the potential for ESG risks to impact credit ratings and borrowers' future ability to make payments.	It is possible for managers to have engagement with borrowers on material
Real estate	Some real estate strategies could have E and /or S objectives, and appropriate assets may be targeted to achieve these.	Managers should consider material E&S risks during acquisition and development and manage resource use during occupation.	Managers can engage with tenants and the local community to address potential issues and drive change.

<sup>28</sup> Please see the draft guidance for asset owners from the *Pensions Climate Risk Industry Group (PCRIG)* (2020) for further information on how to consider climate risk in strategic asset allocation decisions.

<sup>29</sup> For the ways in which ESG integration, stewardship and engagement may vary across asset class, please see pp 8-9 of the joint PLSA/Investor Forum guidance *Engaging the Engagers: a practical toolkit for schemes to achieve effective stewardship through their managers* (2020).





	MANDATE CHOICE	INVESTMENT INTEGRATION	ENGAGEMENT
Infrastructure	Trustees can consider portfolios biased towards infrastructure that supports a sustainable future.	Managers should assess the physical and societal risks arising from infrastructure assets. Longevity of investment means that systemic issues need to be considered.	Managers can exert influence on underlying companies or asset management through governance and identified ESG risks are managed.
Private debt	Trustees could consider mandates that target lending at certain sustainable activities.	Managers should identify and seek mitigation of potential ESG risks during due diligence on loans.	Managers should have ongoing dialogue with borrowers to ensure that emerging and identified ESG risks are managed.
Private equity	Trustees can assess which companies the manager may target and the potential for unwanted or desired ESG exposure to arise.	The longevity of the investment means that systemic risks need to be considered. Managers should assess potential ESG risks during due diligence and ongoing ownership.	Managers would have expected to have a high level of influence over company management and ensure that governance structures are effective.

### MANDATE PARAMETERS

Trustees should disclose any major decisions and actions taken on the type of mandate and approach and how this has helped, or is expected to help, them achieve their investment policies and objectives.

Trustees may wish to demonstrate that they have carefully considered how they can best work to implement their policies and objectives across different mandates (e.g. asset class, investment strategy) and any decisions – and activities which arose from those decisions – which they took in order to do so.

Some of the areas which trustees could consider covering in their disclosures include:

- ▶ **Decisions around pooled funds vs segregated mandates**
  - ▶ Which, if any, of the following factors were taken into account in any decision, and how do these link back to investment objectives and beliefs: fund choice; size of mandate; diversification; level of costs; fee structure; level of influence and control over investment approach and decision-making – including stewardship, engagement, exercise of any voting rights and ability to incorporate non-financial factors?
- ▶ **Decisions around passive/index-based strategies or active strategies.**
  - ▶ Which, if any, of the following factors were taken into account in any major decision, and how do these link back to investment objectives and beliefs: assessment of likely future performance and market trends; level of costs; fee structure; approach to stewardship, engagement (or divestment); approach to ESG integration; assessment of historical performance; house style; asset mix; exposure to specific stocks?

- ▶ In making any decisions around index-based strategies, how did the trustees determine the index choice, engagement and voting approach? Are there any exclusions from the index chosen?
  - ▶ If a low carbon or ESG index has been chosen, how did the process or metrics used by the index provider to ensure the ongoing merit (in terms of carbon emissions or ESG scores) of the constituents of the index influence the decision?

### **Decisions around allocation of stewardship roles and responsibilities (segregated mandates)<sup>30</sup>**

- ▶ How did the trustees agree what standards to set for the fund manager with regard to stewardship responsibilities, including engagement and voting?
- ▶ How have the trustees determined what ownership rights and powers were to be held by the fund manager and which retained by the pension scheme e.g. rights to litigate as an investor, or securities lending activities?

#### **MANAGER SELECTION, REVIEW AND MONITORING**

Trustees may wish to disclose the approach taken to any manager selection exercises over the year, as well as any changes in the actions undertaken to review and monitor managers.

Effective manager selection and review is key for trustees both of schemes where the assets are in pooled funds and those which use *segregated* mandates. Those with *pooled* fund arrangements will have most leverage at the time of a manager selection, but should also seek to disclose how they have sought to engage with, influence and challenge managers within the parameters of the pooled investment arrangement over the course of the year.

*Please also see Annex 3 for a fuller list of the areas and issues which trustees may want to consider disclosing.*

Some of the areas which trustees could consider covering in their disclosures include:

- ▶ **Manager selection.** If the trustees have made a manager change over the year, the trustees should detail the process, selection criteria used and their subsequent approach to engagement, review and monitoring. They should also detail the rationale behind the approach.
  - ▶ How did the trustees' investment objectives and policies influence the design of the manager selection process (including any RFPs)? What information was requested and analysed from the manager? Did this cover the managers' investment process and philosophy, their investment team and past performance?
  - ▶ How did trustees compile the longlist? How was it whittled down to a shortlist? What criteria and information were used in making choices?

<sup>30</sup> We also recommend trustees consult the ICGN's 2012 *Model Mandate* work for specific suggestions in this regard. We note that the ICGN will be updating this piece of work for 2020.



- ▶ What criteria were used in coming to the final choice of manager? How do these link to achievement of investment objectives? Over what timescales will the manager's performance against these objectives be judged?
  - ▶ On what issues – if any – did the trustees choose to engage further with and, where necessary, challenge their managers (or advisers)?
  - ▶ For *pooled arrangements*, what role did the trustees' assessment of future influence on manager behaviour play in the decision?
  - ▶ How did responsible investment considerations influence the decision?
  - ▶ *Segregated mandates*: How have the trustees reflected their expectations through their legal contracts, such as the IMA, with the chosen asset manager?
- ▶ **Manager review and monitoring**
  - ▶ When were asset managers reviewed over the year? What kind of issues were covered e.g. manager performance against stated objectives; trustees' objective for using the mandate; peer comparison; costs and charges; portfolio turnover; responsible investment approach; manager voting and engagement activities? Were there any changes to the manager's investment approach and if so, why?
  - ▶ On what issues did the trustees seek to further engage with, influence and where necessary, challenge their managers?
  - ▶ If it was agreed that the manager had failed to meet its objectives (including on reporting), what action was taken? What steps were taken to reduce the risk of non-compliance reoccurring?
  - ▶ How was any platform provider reviewed? What questions were asked around its continued ability to oversee and get information from the underlying managers? How did trustees seek to engage, or influence and challenge where necessary?
- ▶ Did trustees proactively engage with (or challenge where necessary) managers on responsible investment issues – including consideration of ESG risks and opportunities, engagement and voting (where relevant)?
  - ▶ How was any **platform provider** reviewed? What questions were asked around its continued ability to oversee and get information from the underlying managers? How did trustees seek to engage, or influence and challenge where necessary?

## 5. VOTING DISCLOSURES IN THE IMPLEMENTATION STATEMENT

This section explores the issues around what trustees should be disclosing in their Implementation Statement on voting behaviour, including in relation to “most significant” votes. We encourage trustees to read this alongside our *Vote Reporting Template – Guidance for Asset Owners* and to ask their managers to use the *PLSA Vote Reporting Template* to provide information on their voting behaviour on the trustees’ behalf in a relevant, comparable and consistent way.

Trustees of both relevant schemes and DB-only schemes must disclose their approach to voting. They should not only explain how their policies have been amended and followed during the year, but also provide a description of the voting behaviour undertaken either directly or on their behalf. *Please see Annex 2 on regulatory context and further details about the legislative requirements.* We also recommend reading the more detailed summary in our *Vote Reporting Template – Guidance for Asset Owners*.

Trustees with assets held in both *segregated* and *pooled* arrangements will have different mechanisms for holding their managers to account on voting issues. We believe that it is still possible for those invested in pooled funds to exert their influence and seek to challenge their managers on their (engagement<sup>31</sup> and) voting activity<sup>32</sup>.

In the same way that trustees are not expected to take a view on each investment decision, trustees are not expected to take in-depth and specific decisions on how to vote on every resolution at every company in which they have a holding<sup>33</sup>. Indeed, trustees may not have the power to direct how individual votes are exercised if the scheme’s assets are invested in *pooled* arrangements or held on platforms. However, trustees remain responsible for the investment decisions they do make and this includes the selection, review and monitoring of the funds they are invested in and the managers they appoint. A key part of this is the voting activities undertaken by those funds/managers and trustees should seek to engage with, discuss and - where necessary - challenge the voting (and engagement) decisions of their managers and the managers of the funds the trustees are invested in.

We would, wherever possible, encourage trustees to build a voting policy using available guidelines

<sup>31</sup> Engagement is also a vital part of good stewardship, but to avoid duplication with the extensive guidance the PLSA has produced on engagement, we do not cover it in detail here. It is weaved through in earlier chapters and we also recommend reading our guides on *Engaging the Engagers* (with the Investor Forum, 2020) and our 2020 *Stewardship Guidance and Voting Guidelines*.

<sup>32</sup> There are a number of ways in which those in pooled arrangements can do so. This includes: asking the right questions at manager selection; ongoing monitoring and challenge of managers during the review process; understanding how the scheme’s advisers are exerting influence on behalf of their client base with the same holding; joining collaborative engagement efforts. We outline specific suggestions for activities in our 2020 joint PLSA/Investor Forum guidance *Engaging the Engagers: A practical toolkit for schemes to achieve effective stewardship through their managers*.

<sup>33</sup> We also acknowledge that even if schemes did have the requisite governance capacity to discuss every resolution, it would not be desirable for them to do given the cost-benefit analysis of discussing even those resolutions which are deemed more straightforward or trivial.



like the PLSA's *2020 Stewardship Guidance and Voting Guidelines* or the AMNT's *Red Lines Voting Initiative*, so that they use this as a benchmark against which to hold their managers to account.

In *pooled funds*, voting entitlements (where they arise) generally lie with the asset manager, as the legal owner of the securities in the fund. However, trustees will be making a decision on how stewardship, including votes will be exercised on their behalf in support of their investment and stewardship beliefs and objectives when choosing to appoint and retain managers. This serves to highlight the importance of an effective review process and for trustees to have a clear understanding of what they are looking for on stewardship and voting from the managers they appoint and retain<sup>34</sup>.

An additional situation to consider is where trustees use a *platform provider* to access funds. This is a common approach in relevant schemes. In this case the trustees' direct legal relationship is with the platform provider and not with the underlying asset managers themselves. The platform provider may retain the voting rights or delegate them to the underlying managers. The trustees should revisit the contracts that are in place with their platform provider to check whether they stipulate certain voting delegations and the extent to which the platform provider is amenable to client-directed voting.

Trustees should be clear about who 'owns' the vote in their particular investment arrangements and along their voting chain. Trustees should seek to understand where their responsibilities lie and their scope for influencing the vote. This should include agreeing and documenting the following steps:

- ▶ Who is responsible for exercising the rights. This includes:
  - ▶ Developing the voting policy
  - ▶ Vote decision (is it active or passive i.e. automated voting)
  - ▶ Vote execution i.e. the actual lodging of the vote decisions through the vote chain
  - ▶ Whether there is a process for recalling any stock lent<sup>35</sup> before the vote
  - ▶ Reporting on vote decisions
- ▶ How, if at all, trustees can direct, and how they can influence the voting decision and process
  - ▶ This could include formulating a specific voting policy to use as a mechanism for influencing in a consistent way and as a benchmark for measuring manager performance
- ▶ How each party is monitored, including use of Key Performance Indicators (KPIs)
- ▶ How - and specifically what - information is reported back to trustees

This guide is designed to be used alongside the PLSA's *Vote Reporting Template*, which will be published in Summer 2020 and which will provide managers with a client-relevant, consistent and comparable way of reporting their voting behaviour to pension schemes<sup>36</sup>.

34 Trustees should note that there is increased policymaker focus on the issue of client-directed voting in pooled funds, including the Law Commission's Intermediated Securities programme of work. It would be worthwhile for trustee boards to ensure they ask their legal and investment advisers for updates on developments in this space.

35 This is either in specific circumstances or for all votes. Questions should also be asked around who is responsible for initiating recalls. Further information on voting behaviour and expectations can be found in the PLSA's *Vote Reporting Template - guidance for pension schemes (August 2020)*.

36 Specific aspects of the new disclosures placed upon trustee boards relate to disclosure of voting behaviour, however most asset managers do not currently report information at the mandate- or fund-level which schemes will require to produce their own disclosures. Our Voting Template is designed to be used by asset managers to assist with this and we encourage asset owners to require their managers to use it. There will be separate guidance published for asset owners on use of the template.

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## DISCLOSURES ON VOTING BEHAVIOUR

Whereas other parts of the implementation statement disclosures may be consistent in subsequent statements, and over time might turn into a form of ‘exception only’ reporting, the disclosures around voting disclosures will need to be reported afresh in each statement. This is because the votes that trustees and/or their managers will exercise or influence will not be the same every year.

We recognise that voting opportunities may arise in other asset classes beyond public equities which will represent the majority of voting activity (for instance for certain bonds, property, private equity and multi-asset funds) – in these instances, trustees should be asking their managers - at a minimum - for narrative information and explanation from the relevant managers<sup>37</sup>.

Trustees should, in their Implementation Statements, cover:

- ▶ How the trustees’ equity holdings are structured.
- ▶ How the way in which the investment arrangements are structured affect trustees’ scope and ability to engage with managers and influence managers’ voting approach
  - ▶ Whether trustees have a legal right to the underlying votes in the existing investment arrangement structure, which could include:
    - ▶ *Segregated* mandates in segregated custody accounts
    - ▶ *Segregated* mandates in pooled custody accounts
    - ▶ *Pooled* mandates in segregated custody accounts
    - ▶ *Pooled* mandates in pooled custody accounts
    - ▶ Via-platform investments
- ▶ Which funds hold equities (these should be listed)
- ▶ A description of the voting process in the scheme or its underlying funds, including to what extent did the trustees or managers use the recommendations of proxy voting advisory services to inform their voting decisions?
- ▶ An overview of the votes cast during the year, e.g. the number of votes available, the number exercised, the number that were cast for and against, and the number of abstentions (votes withheld).
- ▶ A description of their view as to the “most significant” votes cast during the year and the managers’ rationale for their inclusion as significant..

Most schemes will have equity holdings in a number of funds. It will often be inappropriate to ‘aggregate’ the voting information up to a portfolio or scheme-level. Instead, we expect many schemes will be producing a table of summary voting information and metrics for each fund. A useful tool for doing so could be the *PLSA’s Vote Reporting Template*.

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<sup>37</sup> We explore the issue of voting in private assets in greater depth in our *Vote Reporting Template – Guidance for Asset Owners* (August 2020).



Where schemes have a large number of funds that hold equities, for example due to an extensive self-select range, trustees may decide to limit their disclosures to the most material funds<sup>38</sup>. The disclosure requirements relate to voting behaviour **during the year**, so this may include information in relation to funds that the scheme no longer held at the year end.

This should be included alongside a description of how the scheme criteria was used to determine the “most significant votes” for the scheme and where this differed from the rationale provided by the managers.

Trustees should also consider covering in their disclosures:

- ▶ Has a decision been taken by the scheme to formulate its own voting or securities lending policy or benchmark? If so, what efforts have been made to engage with managers around the policy?
- ▶ What steps did trustees take to try to influence the way in which votes were cast on their behalf, both in general and in relation to specific topics or votes?
- ▶ *Segregated mandates*: If the scheme has a securities lending programme, have the trustees instructed their lending agent (typically the scheme’s custodian) to recall assets on loan for the purposes of voting?
- ▶ What were the criteria the trustees used to define “most significant<sup>39</sup>”? How do these criteria relate to the voting policy, if any, or to the stewardship or investment strategy and objectives?
  - ▶ *Pooled funds*: if the manager has a securities lending programme, has the manager clearly communicated whether there is a process in place to recall assets out on loan for the purposes of voting, or for any other reason?
  - ▶ How do these criteria change, if at all, across geography or size?
  - ▶ The extent to which these criteria relate to member views<sup>40</sup>?
- ▶ Within the relevant parameters (e.g. *pooled or segregated*), what steps were taken to try to maximise influence over the way in which the vote has been cast? How did the trustees make clear to their managers and advisers what they considered to be the “most significant” votes? And at what stage of the manager selection (where relevant), monitoring or review process?
- ▶ What questions were raised over the course of the year about managers’ approach to conflicts of interest<sup>41</sup>? Were the trustees happy with the response given? If not, what course of action the trustees decide to take?
- ▶ Any decisions to sign up to, or take part in, collaborative investor engagement initiatives such as Climate Action 100+.

38 The regulations are open on this point and we would recommend trustees speak to their advisers. However, we think that some useful criteria for determining materiality (as it were) could include: where the fund operates a number of different lifestyle strategies where take-up is spread across these rather than concentrated in a single default lifestyle strategy; where there is a particularly high take-up of one or more self-select funds; where a fund has been marketed as having a particular or heightened approach to engagement (perhaps an ethical or sustainable fund).

39 Please see *Vote Reporting Template: Guidance for asset owners* for further information.

40 TPR’s *Communicating and Reporting* guidance ([www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dccommguide.ashx](http://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dccommguide.ashx)) on a number of different ways in which schemes can gain information about member views, including through engagement with the MNT, surveying the membership, holding focus groups or inferring from public opinion polls. Please also see Chapter 4 on “non-financial matters”.

41 This aligns with Principle 3 of the Stewardship Code, where asset managers are required to disclose any instances of actual or potential conflicts related to stewardship.

## 6. KEY CONSIDERATIONS FOR INVESTMENT COMMUNICATIONS

This section provides suggestions and considerations for trustees on their broader investment communications, recognising the challenges inherent in succinct and accessible communication of what are complex issues, but noting that the Implementation Statements will be of interest to beneficiaries, as well as policymakers and civil society groups.

With a growing number of campaigns<sup>42</sup> aimed at encouraging scheme members to ask pension schemes how their savings are invested, it is more vital than ever that trustees clearly communicate on investment issues to beneficiaries.

On responsible investment issues in particular, there is a growing body of evidence<sup>43</sup> to demonstrate the potential benefits of talking to members about the scheme's responsible investment activities.

### INVESTMENT COMMUNICATION | TOP TIPS

- ✓ **Clean up your data.** As for everything else, having good quality information on everything from member behaviour to correct postal addresses, email addresses and phone numbers is vital. You may also want to consider how to track engagement and what information you can glean from current member behaviour in terms of how they prefer to receive their (investment) information.
  - ▶ Please note that member preferences on receiving information may have changed in the wake of Covid-19 given the general shift towards greater use of more online services.
  - ▶ You may also want to consider hosting all of your investment-relevant disclosures in one place, including both the Statement of Investment Principles and the Implementation Statement.
- ✓ **Decide one way of telling your story and stick to it.** Be consistent both in the story you are telling and the language you use to tell it. Use terms consistently and do not worry if that means repeating them.
- ✓ **Use different ways of getting the information out there.** If you are consistent with your story and your language, it will help members for you to use every channel available to you. Members will may switch back and forth between different ways of consuming information.

<sup>42</sup> See, for instance, the recent *Make My Money Matter* campaign, as well as *Risking More Than Your Money* from ClientEarth.

<sup>43</sup> See, for instance, NEST's *Building New Norms* 2018 research, ShareAction's *Pensions for the Next Generation* report or Franklin Templeton Investment's *The Power of Emotions* research.





- ✓ **Don't underestimate the journey from 'savings' to 'investment'**. Research shows<sup>44</sup> that many members do not realise that their pension 'savings' are, in fact, investments. Trustees should consider taking time to plan their investment communications strategy and considering how to communicate the bigger picture on 'savings are investments' before taking steps to communicate on specific investment issues.
- ✓ **Give everyone the big picture, then zoom in to tailor it as much as you can.** Everyone needs to know the context of what's going on, but then it will be confusing if the detail that follows does not apply to them. Be clear to each segment of your audience about what is relevant to them – and do not go into detail on the parts that are not.
- ✓ **Consider how open you want to be on longer-term plans.** Most investment communication is backward-looking, giving information on past performance, costs and approach. Although not required under the new disclosure regulations, trustees may want to consider disclosing their future approach and longer-term plans. Doing so could give savers an indication of the scheme's vision and strategy, but messaging would need to be at a level which would ensure trustees could adapt their approach to take account of future developments and minimise the risk of disappointing (and consequently disengaging) members.



✓ **Talk like a human.** You can probably spot industry jargon and know to try to avoid it or explain it. But also, beware of using an overly formal tone. Using members' own language helps bring them into the conversation. It helps them feel more confident about a subject they might have found intimidating or alien in the past. So, use words that resonate with them – *let them know* (don't *notify* them). *Help* them (don't *offer assistance*). Use the active voice – it puts people into your writing and makes it clear who has been doing what. And use short sentences.

✓ **Take a two-way approach.** Good communication is not a one-way broadcast, but rather a dialogue between the scheme and beneficiaries. Members should be given a way to talk to the trustees about their questions and concerns. In any responses, trustees should demonstrate that they are listening – and could even present examples of real-life member questions in an online FAQs document, as well as ensuring that answers are given in the language members have used in the question. Doing this well could help build trust between schemes and their members.

44 *Navigating ESG: A Practical Guide* (Defined Contribution Investment Forum, 2018)

## DB-ONLY SCHEMES

Although the bearer of the investment risk differs between DB and DC arrangements, effective communication to members on investment matters is important for all schemes particularly in the wake of the pension freedoms and increased scam activity. DB-only schemes did not come under the same 2018 public disclosure requirements as relevant schemes, but as noted previously the 2019 changes to the Investment and Disclosure Regulations mean they must now publish Implementation Statements on discrete aspects of their investment approach (namely implementation of their voting and engagement policies and a description of their voting behaviour).

It is up to these schemes to consider whether they might wish to go any further. We are aware that some DB-only schemes with significant governance capacity and capability are in fact considering publishing Implementation Statements for the whole SIP.

We would also recommend that DB-only schemes – and particularly LGPS funds, given the public nature of their work – take the time to read through our communication tips both for investment generally, and on ESG and stewardship specifically.

## COMMUNICATING ON RESPONSIBLE INVESTMENT

The PLSA believes that compelling, relevant communication on issues which members care about, including responsible investment topics, can help make someone's pension savings seem “real” in a way that a dry discussion about security of assets or shortfall risk does not.

We are aware that there is a nervousness amongst trustees and managers<sup>45</sup> about the often binary nature of public debates on responsible investment. Where schemes have taken the time to proactively communicate what they are doing to, for example, manage the risks associated with climate change or improve labour practices in investee companies, this has often been conducive to building a collaborative relationship with key stakeholders.

## RESPONSIBLE INVESTMENT COMMUNICATION<sup>46</sup> | TOP TIPS

- ✓ **Consider the full range of communication mechanisms.** Although a well-crafted Implementation Statement will be useful for members in understanding their schemes' responsible investment approach, cramming too much information into the statement will put off readers. There are other communication mechanisms available including:
  - ▶ **The Chair's Statement** – including any accompanying webinars or documents;
  - ▶ **Annual Benefit Statements** – some schemes are considering communicating environmental, social or governance information alongside the usual benefit calculations and figures;
  - ▶ **Fund information sheets** – DC schemes could consider incorporating responsible investment information as standard across all their different fund information sheets, and not just for the ethical or sustainable self-select option;
  - ▶ **Member portals** – where a scheme has a website or member-specific online portal, they could consider having a dedicated responsible investment 'hub'.

<sup>45</sup> It is arguable that discussing investment in the 'real economy' such as in infrastructure or in 'known brands' could also resonate with beneficiaries.

<sup>46</sup> We would also encourage trustees to read Quietroom/NEST's 2019 piece *Be Brave! Communicating on responsible investment*.



- ▶ **A separate responsible investment report** – this could be signposted on a prominent part of the website and include practical examples and case studies; and
- ▶ **Trustee roadshows** – trustees and employers could consider hosting (virtual) roadshows for beneficiaries specifically on investment or responsible investment issues.
- ✓ **Link back to member concerns.** Even where an investment decision has been made because of financially material considerations (as opposed to member views on the issue), communicating the scheme’s approach on a subject the trustees know to be of concern to members can help make disclosure more impactful.
- ✓ **Highlight the scheme’s role as an engaged of assets.** This includes talking about engagement across assets (including any votes at investee company AGMs) and how the scheme and its chosen managers have engaged in purposeful dialogue to improve corporate behaviour in members’ best interests. Telling a compelling engagement story can help take the heat out of debates centred around divestment.
- ✓ **Use specific examples that members will be able to picture.** You could even use a picture of the real project that you are discussing alongside concise, jargon-free case studies which use the same language which members would use in a conversation. Try to avoid the stock photo clichés. Using examples which demonstrate continuous improvement is also beneficial in highlighting the scheme’s role as a long-term investor.



# CONCLUSIONS

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Policymakers, the public and scheme members will be paying close attention to the content of schemes' Implementation Statements, so it is vital that trustee boards take the time to produce relevant, succinct and meaningful statements which clearly outline how key activities and decisions have helped trustees achieve their investment objectives (and where not, what steps will be taken to remedy this).

The regulatory framework around scheme disclosures on investment issues, and the avenues schemes have for influencing investment (and particularly voting) decisions undertaken on their behalf will continue to change. Some of the developments to keep an eye out on include:

- ▶ **The Law Commission's *Intermediated Securities* programme of work**
- ▶ **Taskforce on Climate-Related Financial Disclosures (TCFD) - aligned mandatory reporting requirements for large asset owners**
- ▶ **HM Treasury's Asset Management Taskforce work on stewardship**
- ▶ **The EU's Sustainable Finance initiative**

Covid-19 is also encouraging schemes to radically rethink their use of technology to communicate with their members – as well as having a number of investment and investment governance implications.

What constitutes best practice on investment disclosures – including the Implementation Statement – will rapidly change as the market develops. We welcome the commitment of schemes to producing documents which are not just compliant, but also provide useful and engaging information to members.



# ANNEX 1 – 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)*
- ▶ *Vote Reporting Template (PLSA, forthcoming)*
- ▶ *Vote Reporting Template: Guidance for Asset Owners (PLSA, forthcoming)*



# ANNEX 2 | REGULATORY FRAMEWORK

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## THE 2018 CHANGES TO THE INVESTMENT REGULATIONS

The 2018 regulatory updates meant that trustees must state in their SIP:

- ▶ How financially material considerations (including, but not limited to, ESG considerations including climate change), over the time horizon of the scheme, are taken into account in the selection, retention and realisation of investments;
- ▶ The extent (if at all) that non-financial matters (e.g. members' ethical views) are taken into account<sup>47</sup>;
- ▶ Engagement and voting policies – including details on monitoring and engaging with 'relevant persons' on 'relevant matters'<sup>48</sup>. This includes engagement with managers employed by the trustees.

These obligations are applicable to all pension schemes with 100 or more members. Relevant schemes with fewer than 100 members are required to have a default SIP covering only the first two sets of policies. *Please note:* schemes with fewer than 100 members will need a default SIP but they do not need an Implementation Statement.

For relevant schemes, the 2018 regulatory updates also introduced:

- ▶ a requirement to publish the SIP on a publicly available website by 1 October 2019; and
- ▶ the new requirement to prepare an annual implementation statement setting out, amongst other things, how the SIP has been followed over the year, also to be published on a publicly available website (see Chapter 1).

## THE 2019 CHANGES TO THE INVESTMENT REGULATIONS

These changes were made in order to implement the European Union's amended Shareholder Rights Directive II (SRD II), requiring further detail on trustees' stewardship policies to be added to pension scheme SIPs by 1 October 2020.

Under the new legislation, trustees will be required – in addition to those requirements under the 2018 changes above – to explain their arrangements with asset managers in their SIPs, including how they incentivise their appointed investment managers to align investment strategy with the trustees' policies and to make investment decisions based on long-term performance.

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<sup>47</sup> TPR's [guidance](#) refers to "the extent (if at all) to which members' views on non-financial matters (including ethical views, views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the trust scheme) are taken into account in the selection, retention and realisation of investments."

<sup>48</sup> The regulations define 'relevant persons' as including, but not limited to, issuers of debt or equity, their investment managers, other holders of debt or equity, and (from 1 October 2020) other stakeholders. 'Relevant matters' include including, but not limited to, matters concerning issuers of debt or equity, including their performance, strategy, risks, social and environmental impact, corporate governance, and (from 1 October 2020) capital structure and management of actual or potential conflicts of interest.



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The other requirements are:

- ▶ DB-only schemes have to publish their SIPs on a publicly available website by 1 October 2020.
- ▶ From 1 October 2021, trustees of DB-only schemes will also be required to produce annual Implementation Statements on their engagement<sup>49</sup> and voting practices (see Chapter 1 for the timing requirements) and to publish these on a publicly available website by 1 October 2021. The statements will cover the implementation of their policies pertaining to the exercise of rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of these investments.
- ▶ Trustees of all schemes also have to include disclosures on voting behaviour in their Implementation Statements which will need to include details on the “most significant” votes cast by them, or on their behalf, by their investment managers during the year.

The scope of this guide is narrower than the full 2018 and 2019 regulatory changes, focusing on the Implementation Statement requirements.



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<sup>49</sup> Please see the PLSA/Investor Forum guidance Engaging the Engagers for practical tips on how to achieve good engagement through your asset managers.

# **ANNEX 3 – FULL LIST | MANAGER SELECTION, MONITORING AND REVIEW**

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## **MANAGER SELECTION**

- ▶ How did the trustees' investment objectives and policies influence the design of the RFPs? What information was requested and analysed from the manager? Did this cover the managers' investment process and philosophy, their investment team and past performance?
- ▶ How, if at all, did the trustees' approach to responsible investment influence the design of the RFP? Were questions asked on any of the following:
  - ▶ Governance, capacity and stewardship or voting policy?
  - ▶ Approach to ESG integration?
  - ▶ Level of stewardship and engagement undertaken, including the provision of specific and relevant examples?
  - ▶ Examples of collaboration with others and/or market-level or systems-level work?
  - ▶ Reporting and transparency, including around management of conflicts?
  - ▶ Approach to voting disclosures (where relevant)? This could include their willingness to use the PLSA's Voting Template. It could also include process for consideration of client views in pooled funds.
  - ▶ Whether they are signatories to the UK Stewardship Code?
- ▶ How did trustees compile the longlist? What criteria and what information (both publicly available and more bespoke) were used in making choices?
  - ▶ How did they explicitly clarify their expectations on manager performance and scoring against these criteria in the objectives for/discussion with consultants and other advisers?
  - ▶ Were there any areas on which trustees challenged the consultants and advisers (regarding longlist and the rationale)?
    - ▶ Did these areas include manager approach to responsible investment, including ESG integration, stewardship, engagement or voting (where relevant)?
- ▶ What criteria were used in whittling down the longlist to a shortlist?
  - ▶ What meetings were held and with which parts of the manager team?
  - ▶ How do those criteria link back to the trustees' investment objectives and policies?





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- ▶ What criteria were used in coming to the final choice of manager? And how do these link back to achievement of investment objectives? Over what timescales will the manager's performance against these objectives be judged?
    - ▶ On what issues – if any – did the trustees choose to engage further with and, where necessary, challenge their managers (or advisers)?
  - ▶ How, if at all, did responsible investment considerations influence the decision?
  - ▶ *Segregated mandates*: How have the trustees reflected their expectations through their legal contracts, such as the IMA, with the chosen asset manager?

## MONITORING AND REVIEW

- ▶ When were asset managers reviewed over the year? What kind of issues were covered e.g. manager performance against stated objectives; trustees' objective for using the mandate; peer comparison; costs and charges; portfolio turnover; responsible investment approach? What was agreed in terms of timescales and frequency for different reports? Were there any changes to the managers' investment approach? Were there any changes to the team responsible for operating the strategy?
- ▶ When assessing the managers' fees against its peers, did this provide an opportunity to renegotiate fees?
- ▶ If it was agreed that the manager had failed to meet its objectives (including on timescales and reporting), what action was taken? What steps were taken to reduce the risk of non-compliance reoccurring?
- ▶ Were there any changes in monitoring and review of relevant managers' approach to responsible investment including their voting policy
- ▶ Did trustees ask managers for any information on the following: changes to the manager's responsible investment and voting policies, staff or approach; provision of fund/mandate-specific case studies; engagement or voting case studies; public policy or collaborative engagement activities; approach to identifying and managing conflicts of interest, including case studies?
- ▶ Were there any changes with the fund/mandate itself, e.g. was trading in the fund/mandate suspended at all over the period?
- ▶ What areas were identified for challenge? If there was dissatisfaction with the explanation provided by asset managers, what actions were taken? Did the trustees set expectations for asset managers to escalate on their behalf?