PENSIONS AND LIFETIME SAVINGS ASSOCIATION

November 2015

PENSIONS AND LIFETIME SAVINGS ASSOCIATION STEWARDSHIP SURVEY 2016

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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EXECUTIVE SUMMARY

The 2015 Stewardship Survey of UK pension funds found a general recognition of the importance of stewardship, with a heightened interest in Environmental, Social and Governance (ESG) issues. Across multiple areas, levels of engagement with stewardship issues have increased, sometimes dramatically, in the space of only a few years

At the same time respondents felt that their remained room for further progress. Fewer than a third of respondents said that their investment consultants had raised issues of stewardship with them. While there was general satisfaction with asset managers' approach to stewardship, few respondents declared themselves 'very satisfied' with reporting, or able to 'strongly agree' that institutional investors were active enough stewards.

The heightened recognition of the importance of good stewardship reflects the growing interest in stewardship and ESG issues amongst investment analysts and researchers, while the fact that prominent ESG failures –most obviously at Volkswagen – still occur perhaps shows that more needs to be done. Further integration of stewardship issues into investment decisions and ongoing engagement with investee companies will be a key challenge for pension funds and their investment advisers and managers in 2016.

KEY FINDINGS

- **Stewardship principles**
  - 98% of respondents agreed that pension funds have stewardship responsibilities, up from 94% in 2014
  - 93% agreed that ESG factors are material to investment returns, up from 81% in 2013

- **Stewardship policies**
  - 72% of respondents were signatories to the stewardship code, with a further 10% intending to sign within the next 12 months
  - Just 29% of investment consultants raised stewardship during discussions with respondents
  - 73% of respondents include stewardship responsibilities in their Statement of Investment Principles (SIPs) while 67% include an approach to ESG issues

- **Stewardship practices**
  - 37% of respondents regularly discuss stewardship issues at trustee meetings, while a further 31% discuss it on an annual basis.

- The number of respondents exercising voting rights has increased over the past four years, but 37% still don't disclose their voting records and 56% contract voting rights out to their asset managers

- **Asset Managers and Stewardship**
  - 93% of respondents agree that asset managers are equipped to add value to investments through engagement with investee companies.
  - 94% said that they took stewardship activities and policies into account when selecting asset managers or planned to do so in future. Only 6% said stewardship was not relevant to asset manager selection.
  - 50% say that differing approaches to stewardship influences asset manager selection across all asset classes and 68% set out specific stewardship expectations in their mandates for managers, up from just 38% two years ago

- **Asset Manager practices**
  - Over two thirds of respondents said they had seen evidence of asset managers influencing changes to board composition and executive pay.
  - Just under half of respondents said managers had influenced social practices and just over half environmental practices – so there appears to be slightly less engagement with 'E' and 'S' than 'G'
  - 66% of respondents agreed that institutional investors (including pension funds, as well as asset managers) had been 'active enough' stewards of investee companies, but of this 66%, only 8% strongly agreed
  - It was a similar story with stewardship reporting - 81% said that they were satisfied with their asset managers reporting, but only 9% were 'very satisfied'. 55% recommended better integration of stewardship and investment matters as a means of improvement.

INTRODUCTION

THE STEWARDSHIP SURVEY

Since 2004, the Pensions and Lifetime Savings Association (formerly the National Association of Pension Funds), has conducted an annual survey on stewardship and engagement. The survey asks UK pension funds how they engage with their investments in order to ensure that they achieve the best possible returns, in a responsible and sustainable manner that accords with the interests of their beneficiaries.

A confluence of factors has brought stewardship issues to the forefront of debate in 2015, not just in the investment community but in wider economic and policy circles. The trillions of pounds worth of investments owned by pension funds have a major effect on UK-wide and global challenges, including economic growth, climate change mitigation, reduction in inequality and productivity improvement. As a key component of an accountability chain, running from companies to boards to asset managers and consultants and ultimately to the individual beneficiaries, pressure from pension funds is key to ensuring that investments ultimately generate a worthwhile return for savers – and also contribute to building the kind of economy and society that they would want to live in.

This survey seeks to understand the way that pension funds fulfil this responsibility, and the challenges they face in doing so.

2015 – THE YEAR OF ESG?

A November 2015 report published by Barclays was only the latest piece of research to show that integrating Environmental, Social and Governance (ESG) factors into investment decisions resulted in improved returns to investors.[1] Analysts found that corporate bonds with a high ESG score – and indeed a high score in each individual aspect of ESG – tended to outperform their peers.[2]

2015 has brought this aspect of investment stewardship into sharp focus, particularly as a result of the emissions test-cheating scandal at Volkswagen. At one point it looked as if this ESG failure threatened the very existence of the company –a report from Credit Suisse in October 2015 estimated a potential cost to the company of $87 billion, highlighting the material importance to investors of ensuring diligent stewardship of their investments.[3]

While the Volkswagen scandal has understandably shone a spotlight on the German model of corporate governance, it should also be a warning signal for UK investors. ESG failures have affected companies headquartered in this country – and indeed they continue to do so.

[1] Financial Times, *Nothin' but a G thang*, November 26 2015 via http://ftalphaville.ft.com/2015/11/26/2145911/nothing-but-a-g-thang/
[2] ibid
[3] CNN Money, *Volkswagen scandal may cost up to $87 billion*, October 2 2015 via http://money.cnn.com/2015/10/02/news/companies/volkswagen-scandal-bp-credit-suisse/

As of November 2015, the Anglo-Australian mining company BHP Billiton was facing a $5 billion lawsuit for damages caused by a burst dam at a jointly-owned mine in Brazil.[4] Companies such as BP and Lonmin and a number of UK banks have also been hit by well-documented recent ESG disasters in recent years.

While some might view these issues as marginal, they cannot count UK regulators amongst their number. Bank of England Governor Mark Carney has warned of the potential economic instability arising from climate change, while the Financial Reporting Council has undertaken a major study of UK corporate culture.[5] If their remarks reflect a heightened concern across policymakers regarding environmental and social issues, then this has implications for investors with a poor record in either regard.

2015 has also seen the global 'divestment movement' gather momentum, with the launch of the Guardian newspaper's 'Keep it in the Ground' campaign in the UK, and a number of (largely symbolic) announcements by University endowments that they will remove fossil fuels from their investment portfolios. In addition to Carney, other mainstream investors, commentators and policymakers have become increasingly vocal about the serious risk that the threat of climate change poses, in different ways, to sectors ranging from fossil fuels to insurance.

While the 'S' in ESG has perhaps been neglected in comparison to environmental and governance concerns, the publication of our *Where is the Workforce in Corporate Rerporting* paper July 2015 coincided with a rising interest in the impact of companies' social and employment records on their long-term prospects.[6]

The paper highlighted the importance of the composition, stability, skills-base and engagement of workers to a company's success (or otherwise) at a time when social issues including the 'living wage' and the treatment of workers were being hotly debated at company AGMs and in street protests around the world. In the US, for example, fast food workers went on strikes in 270 cities in November 2015.[7] In the UK, trade unions and campaign groups have successfully petitioned restaurant chains over their tipping policies.[8]

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[4] Reuters, *European shares fall; BHP Billiton, Delta Lloyd weigh*, November 30 2015 via http://uk.reuters.com/article/2015/11/30/europe-stocks-idUKL8N13P14H20151130

[5] See Bank of England, *Breaking the tragedy of the horizon - climate change and financial stability – speech by Mark Carney*, September 29 2015 via http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx and Financial Reporting Council, *Culture Project,* via https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/Culture-Project.aspx

[6] Pensions and Lifetime Svaings Association, *Where's the workforce in Corporate Reporting*, 2015 via http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/0439-Where-is-the-workforce-in-corporate-reporting-An-NAPF-discussion-paper.aspx

[7] Independent, *Fast-Food workers strike in 270 cities to demand a $15 minimum wage*, November 10 2015 via http://www.independent.co.uk/news/world/americas/fast-food-workers-strike-in-270-cities-to-demand-a-15-minimum-wage-a6728716.html

[8] For example, see 38 Degrees, *Stop Las Iguanas paying their staff to work,* September 29 2015 via https://you.38degrees.org.uk/petitions/stop-las-iguanas-forcing-their-staff-to-pay-to-work or Unite, *Pizza*

In Germany, the change in Lufthansa's share price in 2015 was lagging the wider DAX index as of November of that year by 20 percentage points after the firm was hit by a series of punishing strikes.[9] The disruption arising from these kinds of campaigns and industrial disputes has the potential to have a major impact on returns to investors.

ASSET-OWNER AND MANAGER ENGAGEMENT

Within this context of potentially fatal threats to long-established business models reliant on poor ESG performance, interest in ESG should not just be seen as a secondary or ethical concern, but as an integral issue for investors. This has major implications for investment strategies and investors' engagement with investee companies. The case for heightened level of stewardship seems more powerful than ever.

At the same time, however, the pensions sector is undergoing an era of profound change of its own, resulting from changes in life expectancy and major policy reforms. Therefore, it would be unsurprising if stewardship and ESG were not considered to be top priorities for fund administrators relative to – for example – major deficit challenges; the workload deriving from auto-enrolment; or the massive 'freedom and choice' changes to the way consumers access their pension.

As such, the issue of stewardship applies to pension funds' oversight of the asset managers they employ to invest on their behalf, not just the companies they invest in. To this end, our stewardship survey also contains a number of questions dealing with selection, monitoring and reviewing of asset managers.

THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION'S WORK ON STEWARDSHIP

For our part, the Pensions and Lifetime Savings Association, has commissioned the Sustainalytics consultancy to carry out a review of the materiality of ESG issues to typical Defined Contribution Schemes. This research will be published on our website in early 2016.

Our '*Where's the workforce in corporate reporting*' paper is available online via http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/0439-Where-is-the-workforce-in-corporate-reporting-An-NAPF-discussion-paper.aspx . We are currently convening a series of seminars discussing its conclusions and looking at ways to implement its call for better reporting of companies' prospects and performance in relation to human capital.

In 2013, we also established a new page on our website, Stewardship Central (http://www.plsa.co.uk/stewardship) designed to bring together various tools to help pension funds to understand the approaches of different asset managers to stewardship and more effectively question them about their activities.

Express stop pinching staff tips via https://campaign.goingtowork.org.uk/petitions/pizza-express-stop-pinching-staff-tips-scrap-the-8-admin-fee-on-credit-card-tips-now

[9] Financial Times, *Lufthansa's longest strike takes its toll*, November 13 2015 via http://www.ft.com/cms/s/0/39a27e8a-8a09-11e5-9f8c-a8d619fa707c.html#axzz3t0KxpPUR

In particular, the NAPF Stewardship Disclosure Framework provides greater transparency around the stewardship policies and activities of those asset managers who are signatories to the UK Stewardship Code. The framework comprises a template document filled in by the asset managers themselves, and allows them to present in their own words a clearer picture of how their approach to stewardship and ESG intends to enhance and protect value for their clients.

72 asset managers have now filled in a Stewardship Disclosure Framework. Again, they are publicly available for review via our website at http://www.plsa.co.uk/PolicyandResearch/Corporate-Governance/Stewardship/Stewardship-disclosure-framework.aspx

The Frameworks have in-turn informed our Stewardship Accountability Forums. These events provide pension funds with the opportunity to follow up on the information provided in the frameworks in person, via hour-long Q&A sessions, hosted at our offices. Since they began in late 2014, nine asset managers with total pension fund assets under management of around £2 trillion have participated in a Stewardship Accountability Forum.

All these initiatives are supported by the stewardship survey, which aims to explore how pension funds understand their stewardship responsibilities; how these responsibilities are carried out; and where they need support in order to ensure that their investments reflect the long-term interests of beneficiaries.

The survey continues to identify significant challenges facing pension funds over stewardship and ESG and areas where more support and advice is needed, but also an increasing recognition of the importance of these issues across nearly all respondents.

Anyone interested in further information about our work on stewardship should contact Luke Hildyard, our Stewardship and Corporate Governance Policy Lead via luke.hildyard@plsa.co.uk.

RESPONDENTS

60 UK pension funds with a total of at least £260 billion worth of assets under management. As one would expect the stakeholders most engaged with stewardship to engage with a survey such as this, the results should not be taken as representative of pension funds in the UK as a whole. However, we would expect best practice today to become increasingly standardised in future. Thus, the survey does offer an insight in to the direction of approach on stewardship for the entire sector over the coming years.

Figure 1: Public or private sector fund

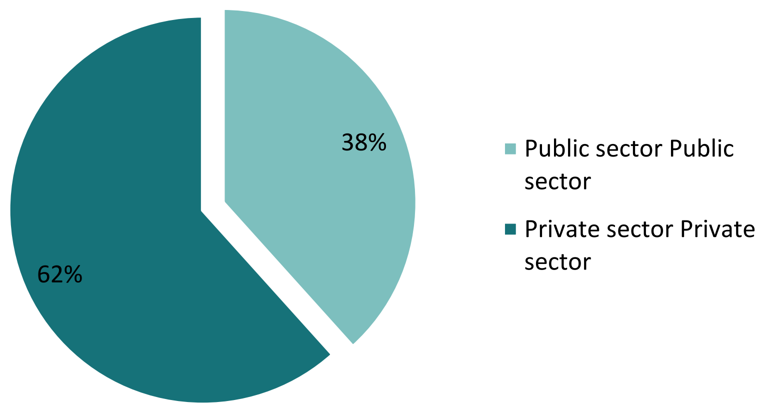
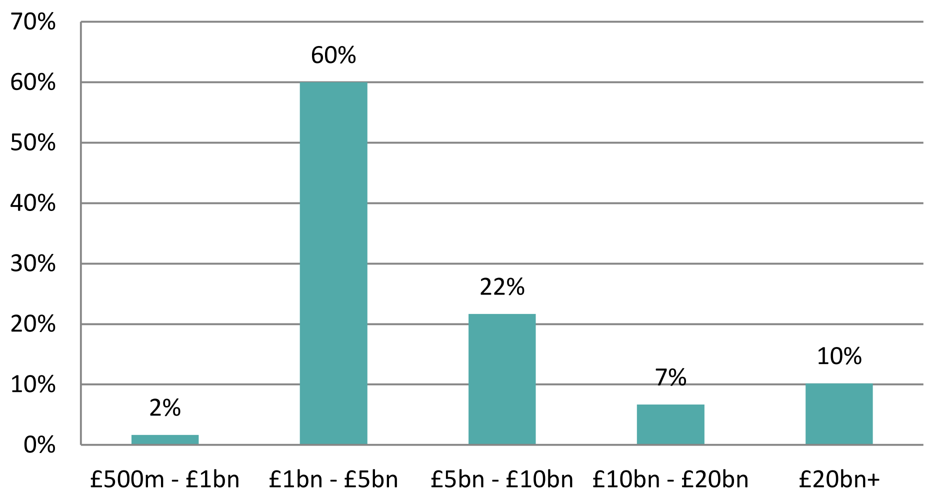


Figure 2: Value of assets under management (£m)



STEWARDSHIP PRINCIPLES

OVERVIEW

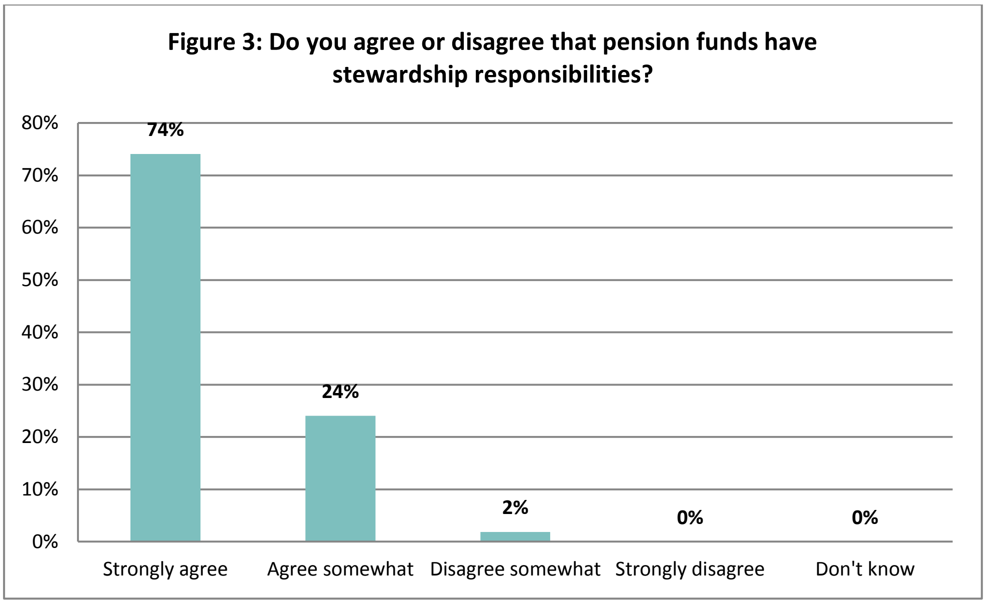
The survey first sets out how stewardship is understood and whether it is perceived to matter or apply to pension funds.

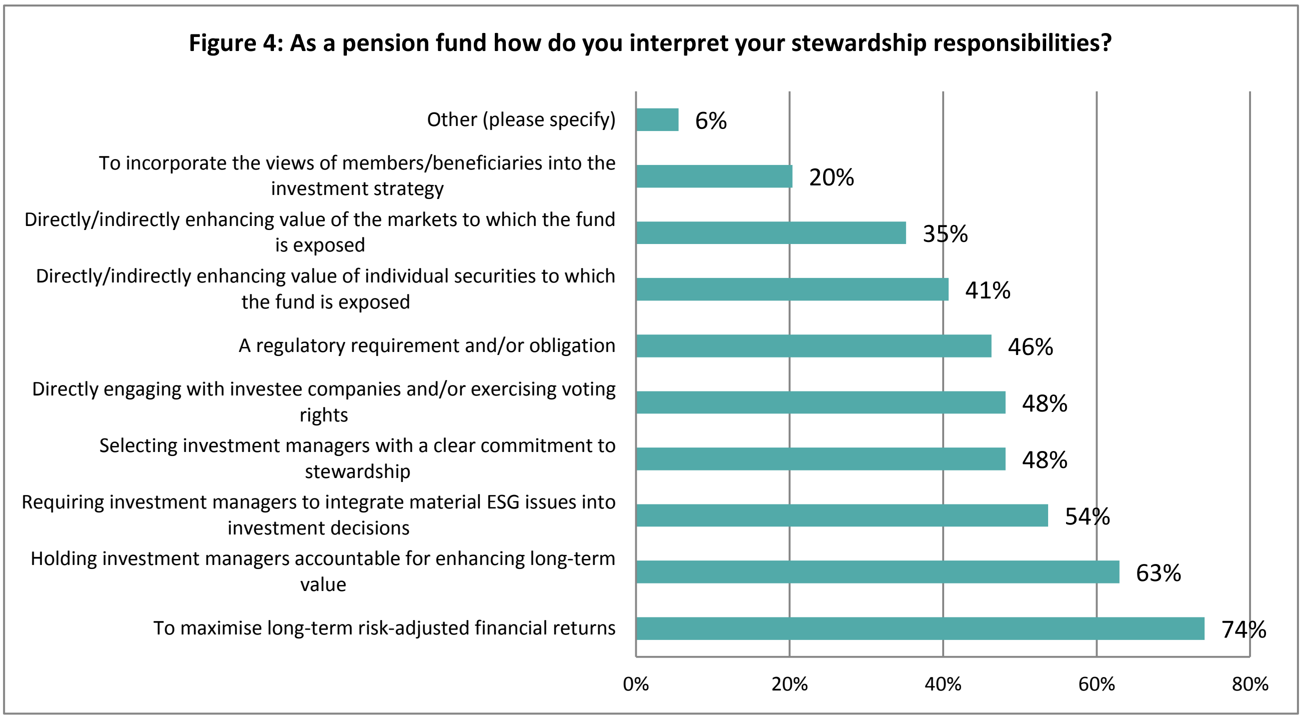
Respondents increasingly consider stewardship to be a relevant issue, and to accept responsibility for investment stewardship. This is generally seen to mean engaging with investments to maximise long-term risk adjusted returns to shareholders, but a majority also now think it means taking an active interest in issues such as ESG, the perceived materiality of which has increased over the past few years.

RECOGNISING RESPONSIBILITY

As with previous years, there is near universal agreement that pension funds have stewardship responsibilities. The total that agree or strongly agree is up to 98% from 94% last year.

Most funds see their stewardship responsibilities in terms of maximising long-term returns for beneficiaries, and more than half of respondents also take responsibility for holding investment managers to account and integrating ESG issues into investment decisions. Just 20% agreed that incorporating the views of the membership into investment decisions was part of their stewardship responsibilities. Given the efforts of campaigners to encourage supporters to try and influence their pension funds, this could emerge as a source of criticism and conflict for funds in the coming years. However, it should be emphasised that pension fund trustees' legal duty is to act in the best interest of their members, not necessarily to follow their instructions.





ESG AND ENGAGEMENT

93% of respondents now agree that ESG factors are material to their investment returns. This represents a sharp increase from the 81% who agreed that ESG issues were important in 2013, suggesting that in the aftermath of the Volkswagen scandal and the ongoing debate around factors such as climate risk or human capital, the profile of ESG issues is rising.

Figure 5: Do you agree or disagree that active consideration of environmental, social and governance (ESG) factors can have a material impact on risk-adjusted long-term investment returns?

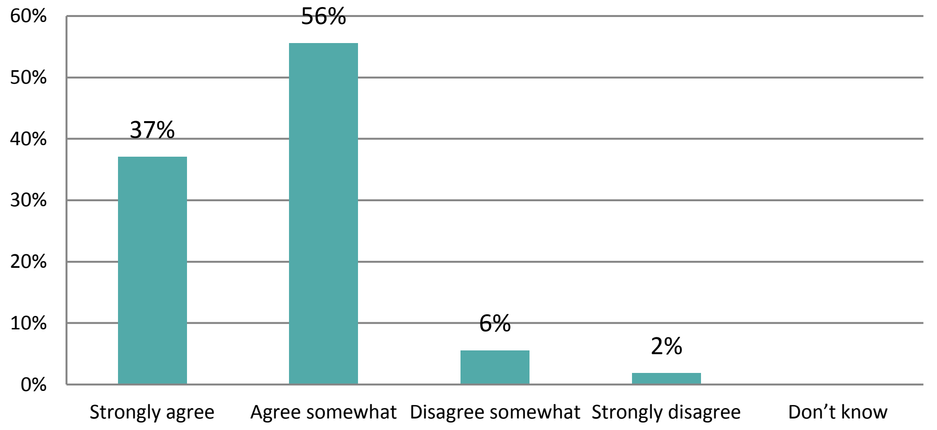
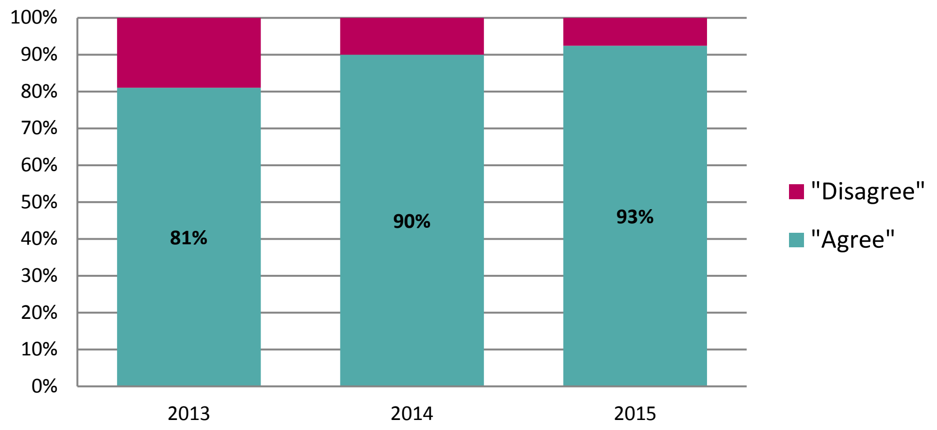


Figure 6: Do you agree or disagree that active consideration of environmental, social and governance (ESG) factors can have a material impact on risk-adjusted long-term investment returns?



STEWARDSHIP POLICIES

OVERVIEW

Having looked at the principles of stewardship responsibility, the survey then asks if funds have specific policies to enact these principles and if so, what are they. A large majority of respondents have committed to The Stewardship Code and include stewardship policies – including specific policies on engagement, voting at AGMs and ESG – in their Statement of Investment Principles (SIPs).

More disconcertingly, most respondents said that their investment consultants, who might be expected to encourage a rigorous approach to stewardship, had not raised these issues in discussions. Where they had done so, commitment to the stewardship code, but also the inclusion of stewardship criteria within SIPs, were the most common recommendations.

THE STEWARDSHIP CODE

Signing up to the UK Stewardship Code is an important way for pension funds to demonstrate how they carry out their stewardship responsibilities in practice – by complying with the Code, funds are required to state how they abide by its seven principles of good investment practice.

THE STEWARDSHIP CODE

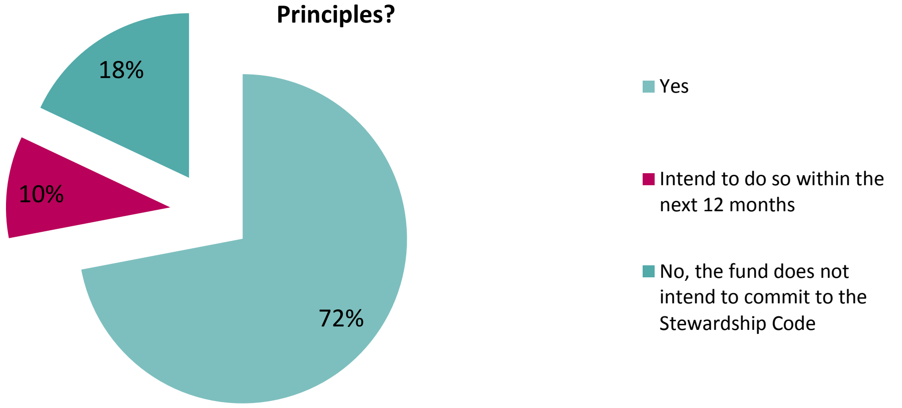
The Stewardship Code, introduced in 2010 and administered by the Financial Reporting Council, requires UK investors to comply with the seven following principles, or explain why they have failed to do so:

1) Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2) Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3) Monitor their investee companies.
4) Establish clear guidelines on when and how they will escalate their stewardship activities.
5) Be willing to act collectively with other investors where appropriate.
6) Have a clear policy on voting and disclosure of voting activity.
7) Report periodically on their stewardship and voting activities.

Investors are encouraged to publish a statement on their website, outlining how they have fulfilled these principles. The Code is not compulsory, but operates on a ‘comply or explain’ basis, similar to the UK Corporate Governance Code, for boards of UK listed companies. As of January 2015, there were 81 asset owners signed up to the code, with holdings in UK equities worth approximately £38 billion.

Over two thirds of respondents to our survey have signed up to the Code, with a further ten per cent of funds intending to do so in the coming year.

Figure 7: Has your fund formally committed to the Stewardship Code and its Principles?

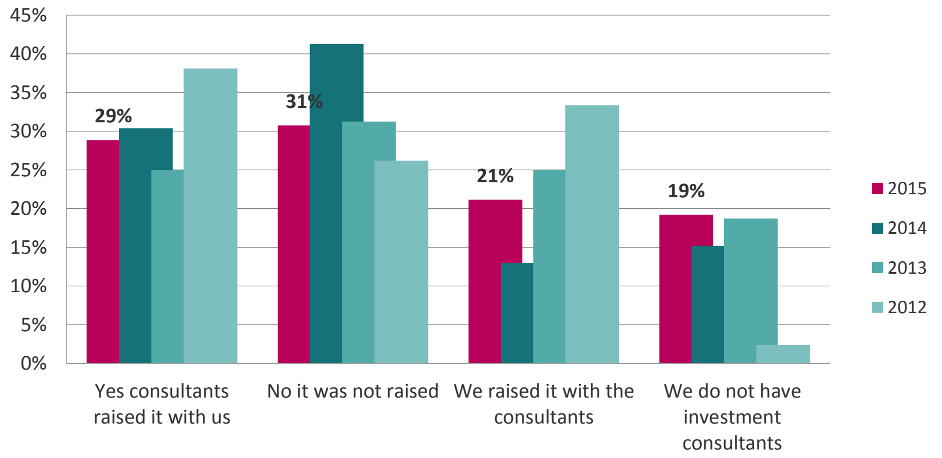


Most of those firms who have not yet signed the code suggested that more important priorities take precedence.

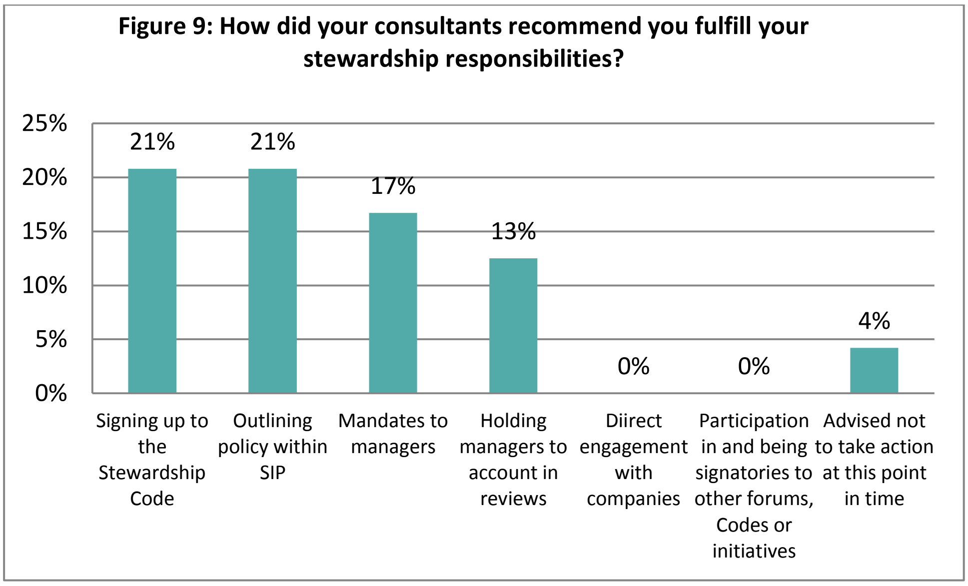
This does raise the concerning possibility that though pension funds overwhelmingly accept their stewardship responsibilities, they are overwhelmed with more immediate challenges and cannot properly engage with them.

Furthermore, fewer than a third of respondents (and fewer than in previous years) stated that their investment consultants raised stewardship issues with them in discussions. This is a worryingly low number, potentially meaning that some pension funds are perhaps lacking capacity to engage with these issues themselves and failing to get appropriate external advice.

Figure 8: Have your investment consultants raised stewardship issues in discussions with you?



Interestingly, a comparatively small number of those respondents that *had* discussed stewardship identified compliance with the Stewardship Code as the primary means of demonstrating good practice. Just as many respondents suggested that their consultants had recommended outlining their stewardship policies in their Statement of Investment Principles (SIPs) as a means of demonstrating how they fulfilled their stewardship responsibilities. Including stewardship requirements in the mandates provided to asset managers, or in ongoing assessment of managers' performance were also cited as a means of practicing effective stewardship.



INVESTMENT POLICIES

Substantial majorities of respondents stated that they exercise stewardship responsibilities by voting and engaging with their investments, and that their investment policy took into account ESG considerations. A majority also agreed that recognition of ESG considerations was compatible with their fiduciary duties. These specific policies are perhaps a more reliable indicator of stewardship engagement and responsibility than signing up to the broader principles included in the Code.

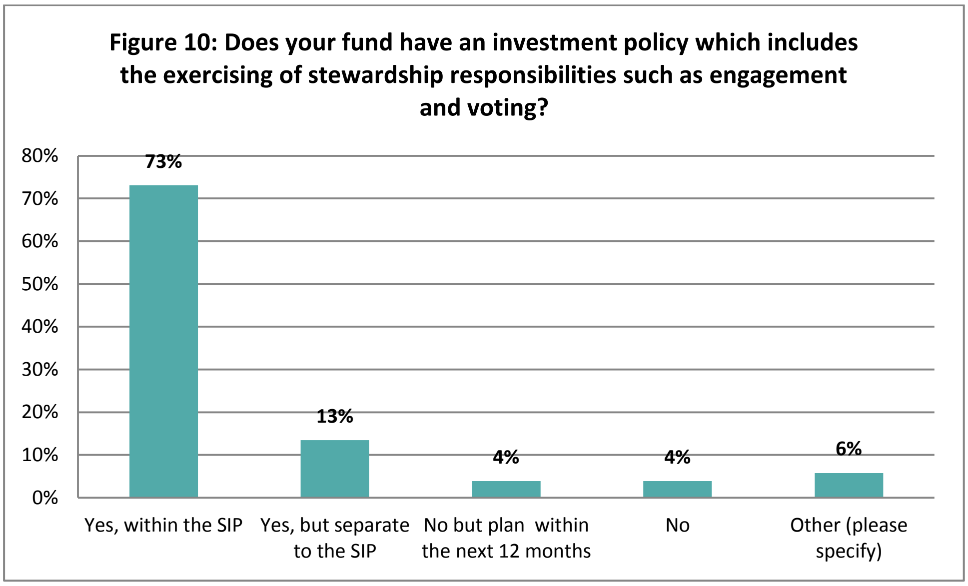


Figure 10: Does your fund have an investment policy which includes the exercising of stewardship responsibilities such as engagement and voting?
80%
70%
60%
50%
40%
30%
20%
10%
0%
73%
13%
4%
4%
6%
Yes, within the SIP
Yes, but separate to the SIP
No but plan within the next 12 months
No
Other (please specify)

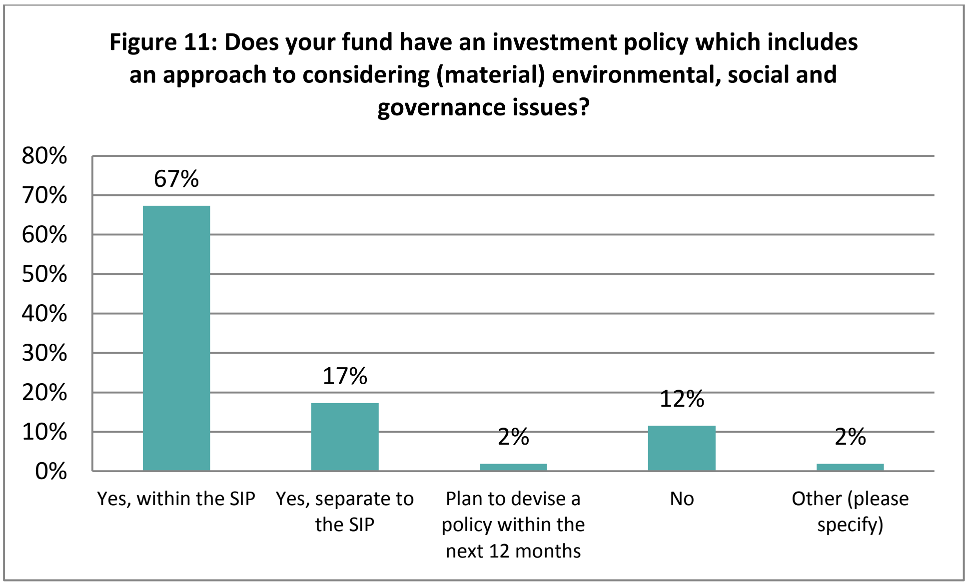
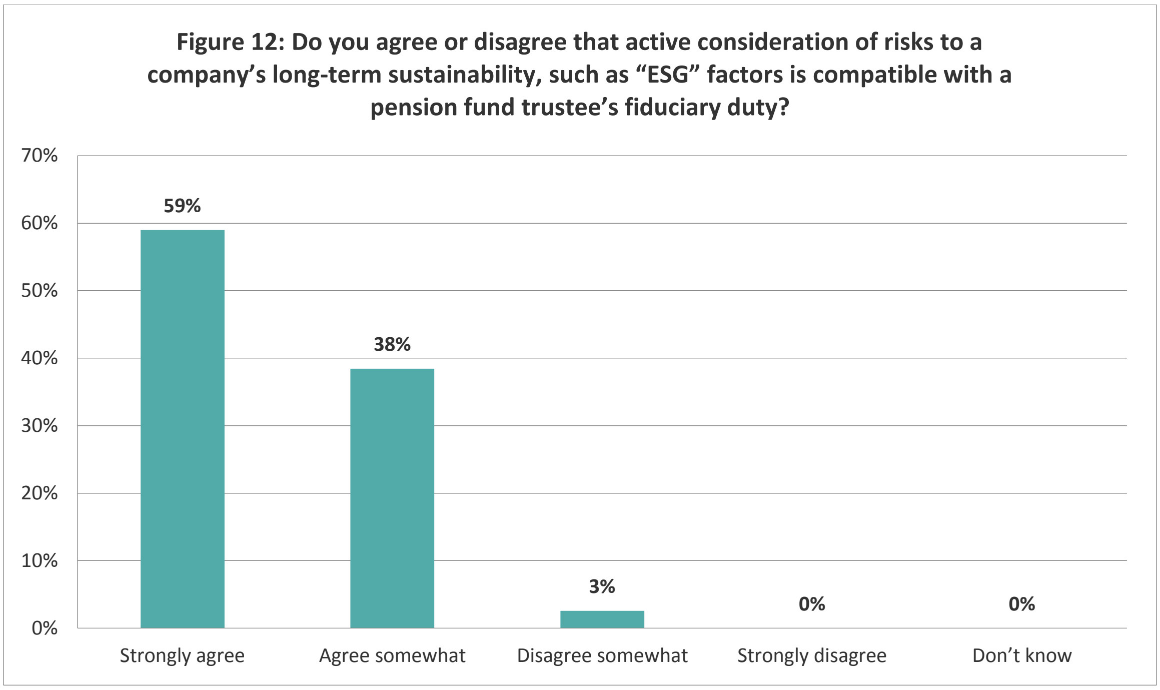


Figure 11: Does your fund have an investment policy which includes an approach to considering (material) environmental, social and governance issues?
80%
70%
60%
50%
40%
30%
20%
10%
0%
67%
17%
2%
12%
2%
Yes, within the SIP
Yes, separate to the SIP
Plan to devise a policy within the next 12 months
No
Other (please specify)



Cluster munitions were the only investment category that is explicitly screened as part of fund's investment strategy, and even in this case, the 10% of respondents to employ a screening policy seemed low. However, discussions with pension funds as part of the Pensions and Lifetime Savings Association Stewardship Advisory Group suggested that funds without an explicit policy in this area may still exclude investments in cluster munitions. This is an area that could merit further interrogation as part of the Stewardship Advisory Group's deliberations and in next year's survey.

Table 1: Does your fund have an active policy with respect to the below?

Answer Options	Yes	Yes we screen out of portfolio	No
Cluster munitions	4%	6%	90%
Tobacco	2%	0%	98%
Coal	2%	0%	98%
Fossil fuels	2%	0%	98%
Human rights	4%	0%	96%

These findings also perhaps represent a wider change in ESG strategies, repeatedly highlighted as part of our ongoing dialogue with both asset owners and asset managers. Based on the growing volume of research suggesting that a company's environmental and social record corresponds with its performance in conventional financial terms, investors have increasingly moved away from an approach based on screening 'sin stocks' such as those listed above, to integrating ESG scores into investment analysis and prioritising those companies with the best record.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

STEWARDSHIP IN ACTION

OVERVIEW

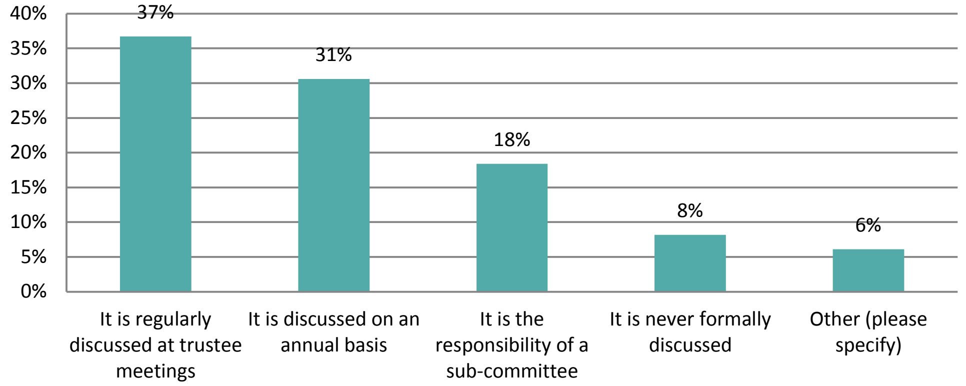
Respondents' views on the principles of stewardship and their specific policies in this area lead naturally onto the application of these policies. How do they work in practice?

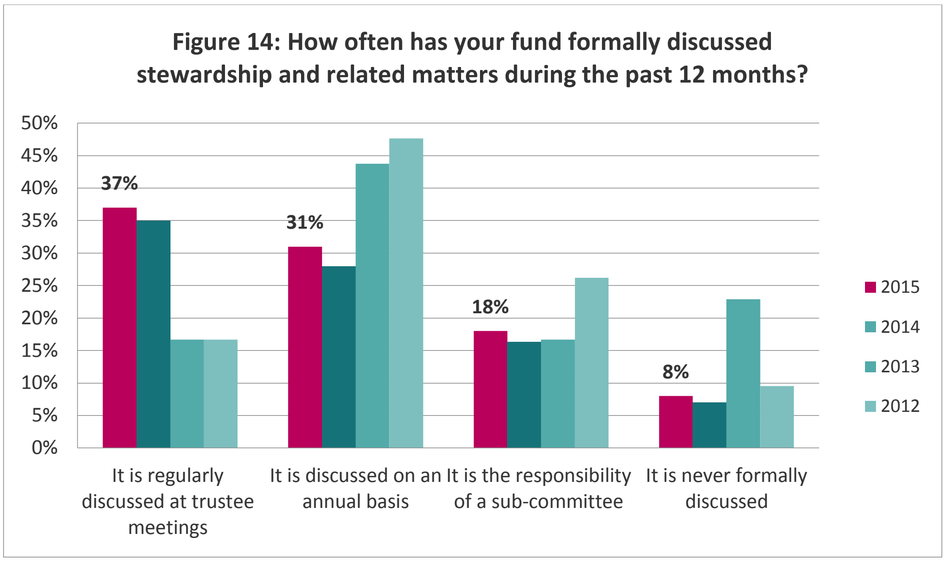
The survey found that funds are increasingly discussing stewardship internally, and most exercise voting rights. However, in most cases these voting rights are retained by their asset manager and very often not disclosed, even to beneficiaries.

DISCUSSIONS ON STEWARDSHIP

In addition to formal policies on stewardship, the amount of formal discussion time allocated to the subject is also an indicator of how seriously it is taken. 37% said it is regularly discussed at trustee meetings. This could be considered to be a low figure, but has improved a lot over the past four years, and might well be higher were it not for the many other issues facing pension funds resulting from regulatory and demographic change.

Figure 13: How often has your fund formally discussed responsible investment, stewardship and related matters during the past 12 months

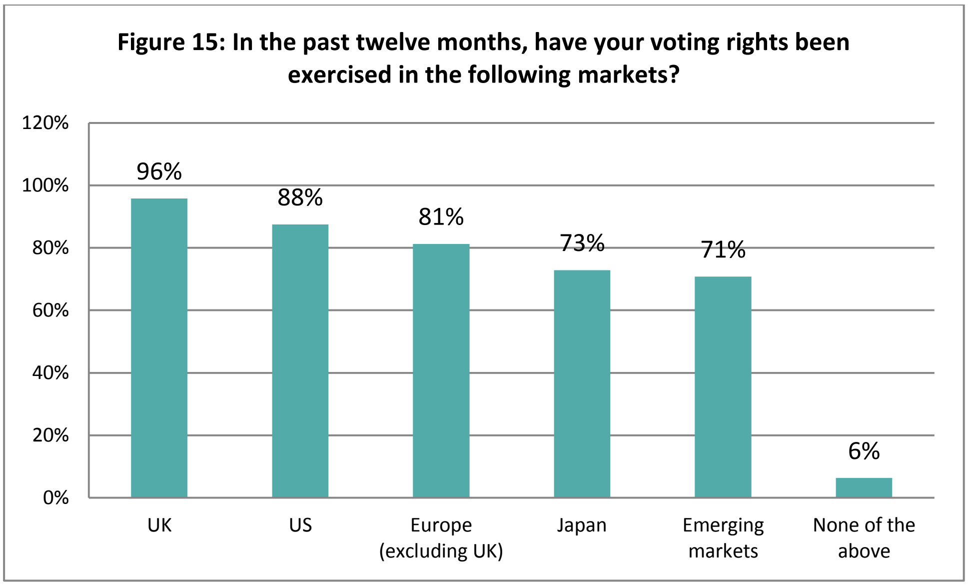


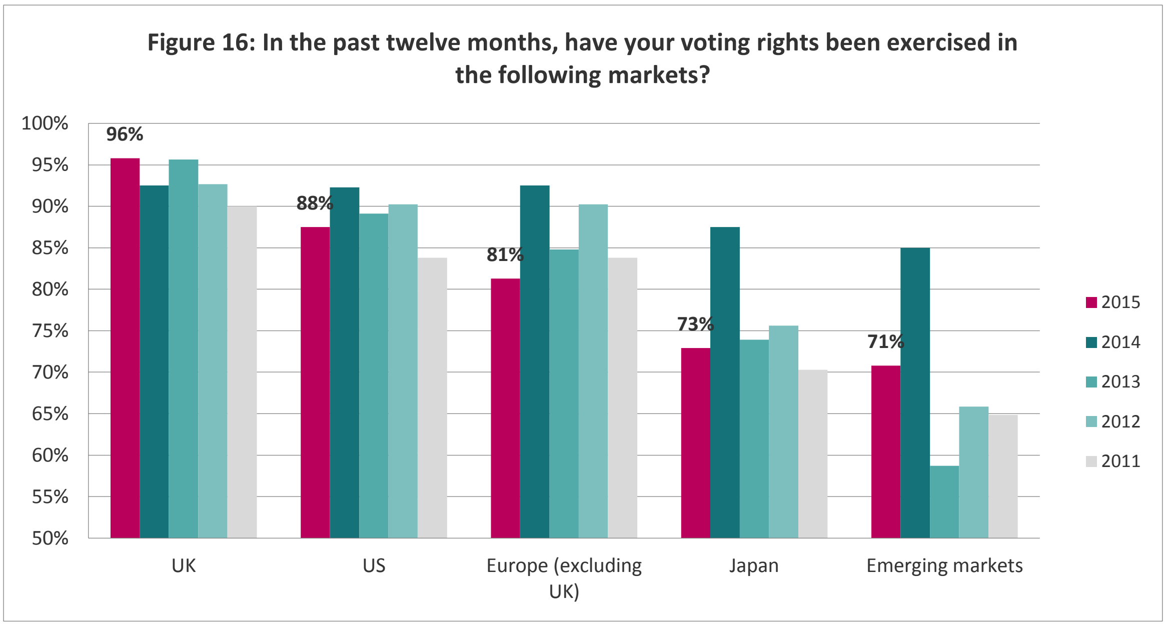


VOTING

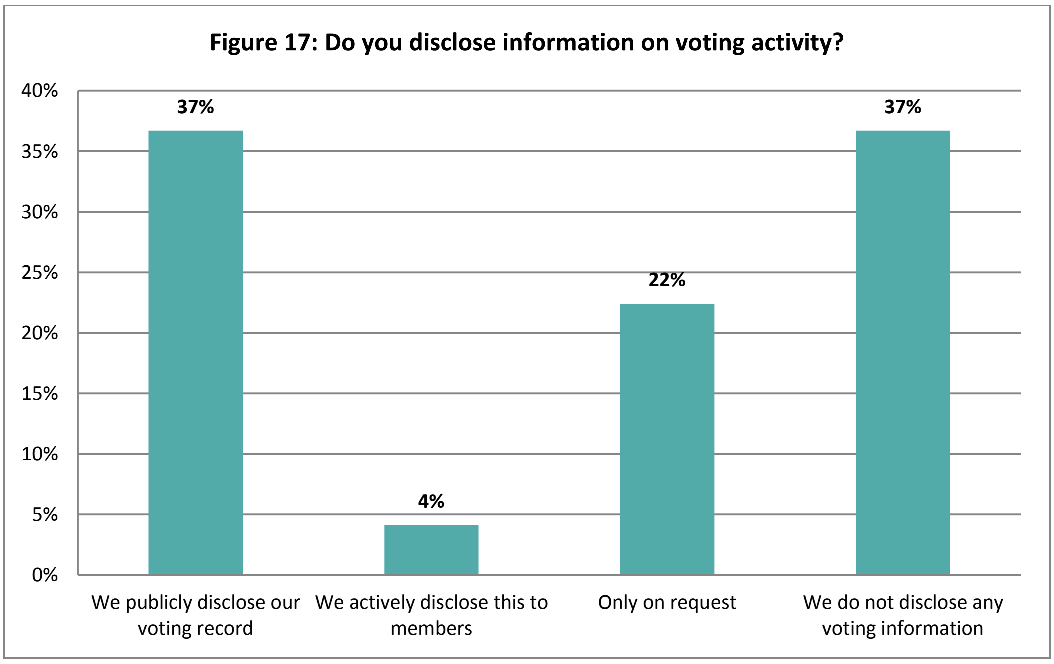
One of the most obvious ways of exerting influence over investee companies and putting stewardship policies and principles into practice is by voting at AGMs. While private engagement with the company is usually a preferred course of action, the AGM vote can force action on certain issues, such as executive pay, when dialogue fails and the investor does not wish to simply sell their shares in the company. Even when asset managers are unable to unite a majority of shareholders into opposing a company's policy, voting still sends a powerful message to the company board, and is a useful indicator of how determined funds are to fulfil their stewardship responsibilities.

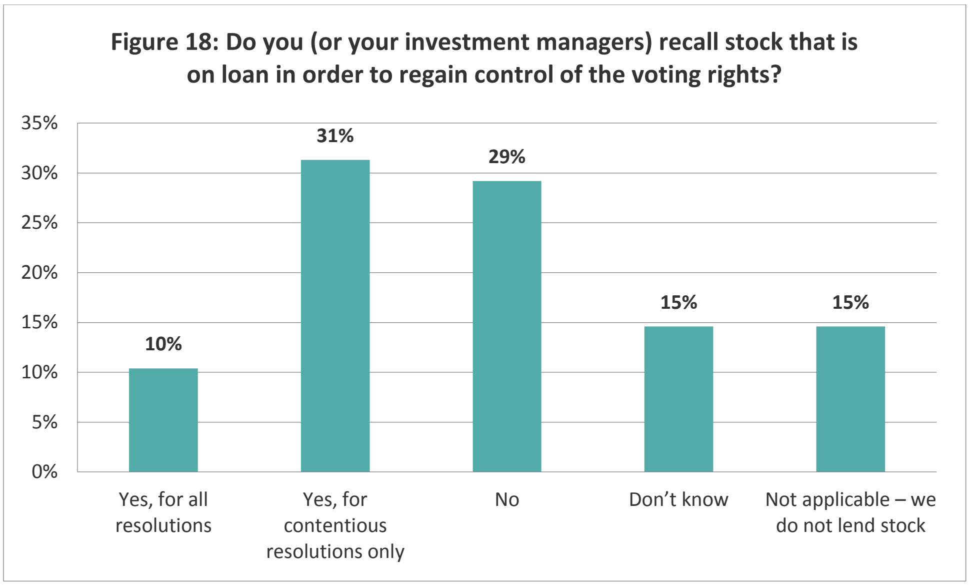
Almost all respondents exercised their voting rights in the UK, with slightly smaller but still high numbers voting in US, Europe, Japan and emerging markets. Again, this indicates an improving level of engagement over recent years.



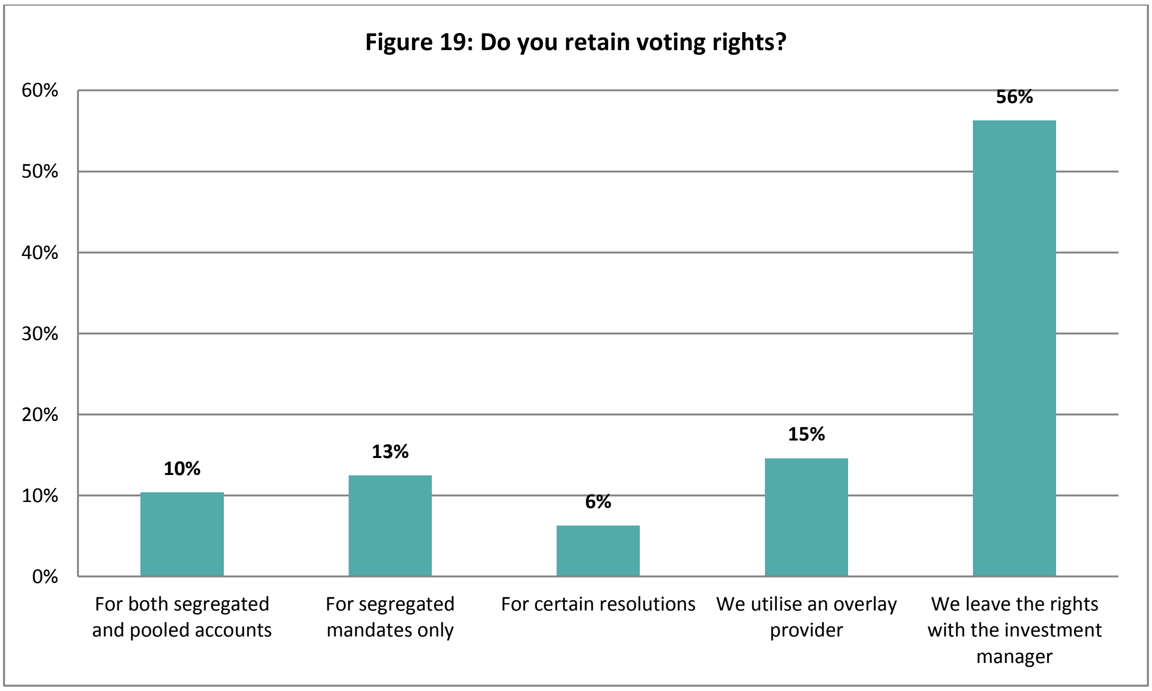


37% of respondents publicly disclose their voting records, while 22% disclose to fund members either actively or on request. 37% do not disclose any detail. Of those that lend stock, just under half of respondents say they recall it in order to vote on contentious AGM resolutions, and of those roughly a quarter always recall loaned stock in order to vote at AGMs.





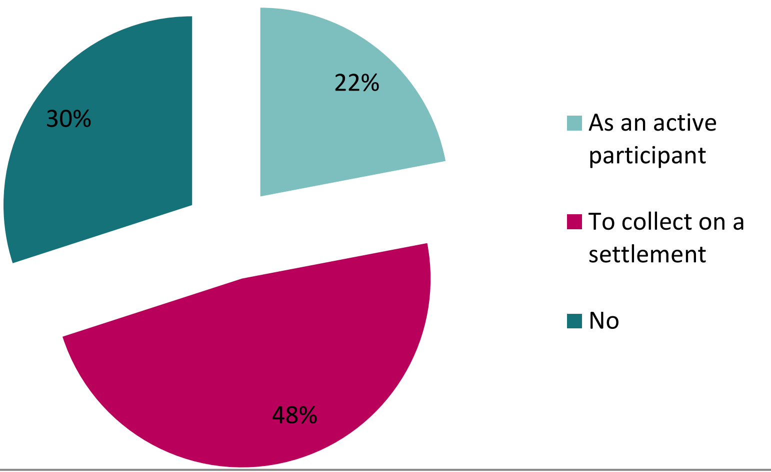
Of course, most assets owned by pension funds are invested by externally contracted asset managers and in many cases it is the asset managers rather than the pension funds who take responsibility for stewardship and engagement (this report will look at stewardship of asset managers in the next section). Over half of respondents said they also pass on voting responsibilities to their asset managers, while 15% said they retain voting rights but employ a voting overlay provider to advise their votes at AGMs. Of the remainder, 13 per cent do not vote on shares held in pooled accounts (those where their funds are combined with other investors') leaving just ten per cent who fully exercise all voting rights.



CLASS ACTIONS

One of the most drastic steps an investor can take is a class action in the event of wrongdoing by the investee company causing a financial loss to the investor. There have been a number of cases in recent years relating to malpractice by the banking industry, for example. Just under a quarter of respondents had actively participated in a class action – ie they were part of the initial legal claim alleging wrongdoing – while a further 48% collected on a settlement resulting from a class action.

Figure 20: In the past twelve months have you participated in a class action settlement?



ASSET MANAGERS AND STEWARDSHIP

OVERVIEW
Most of the assets held by UK pension funds are invested on their behalf by specialist investment managers.

Given that these companies manage the majority of UK pension funds' investments, they are also critical to ensuring it is subject to the appropriate levels of stewardship. As their clients, pension funds are in a position to exert pressure on them to engage with stewardship issues, and to encourage prioritisation of issues they consider to be particularly important.

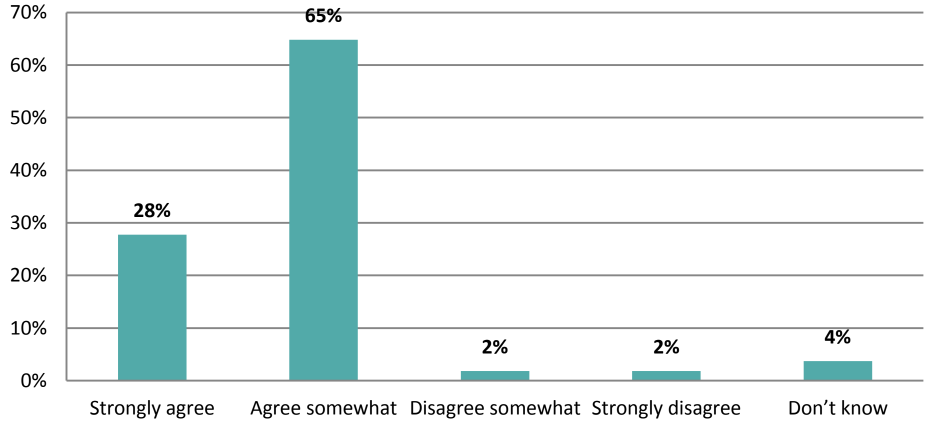
93% of respondents agreed that asset managers were equipped to add value to investments by engaging with investee companies and large majorities also said they took stewardship into account when selecting managers and outlining their mandates.

Reviewing reports from asset managers remains the most popular means of scrutinising stewardship, but the use of investment consultants is increasingly commonplace.

ASSET MANAGER CAPACITY

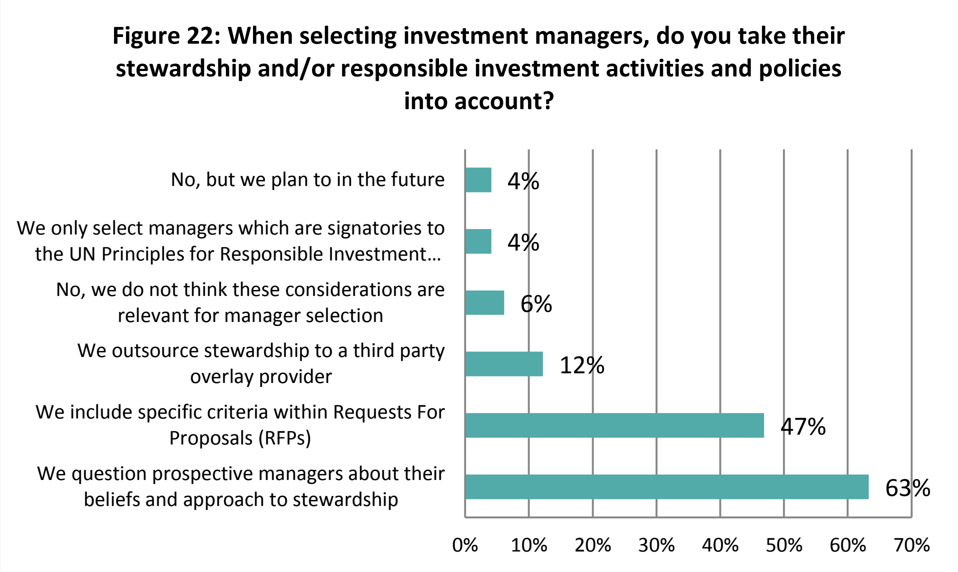
Importantly, pension funds agree that their asset managers are in a position to influence the value of their investments through their engagement with investee companies. It thus follows that this is an important part of the role that asset managers should be playing on behalf of their clients.

Figure 21: Do you agree or disagree that your investment managers are equipped to add value (or mitigate loss of value) to your fund through engagement with investee companies?

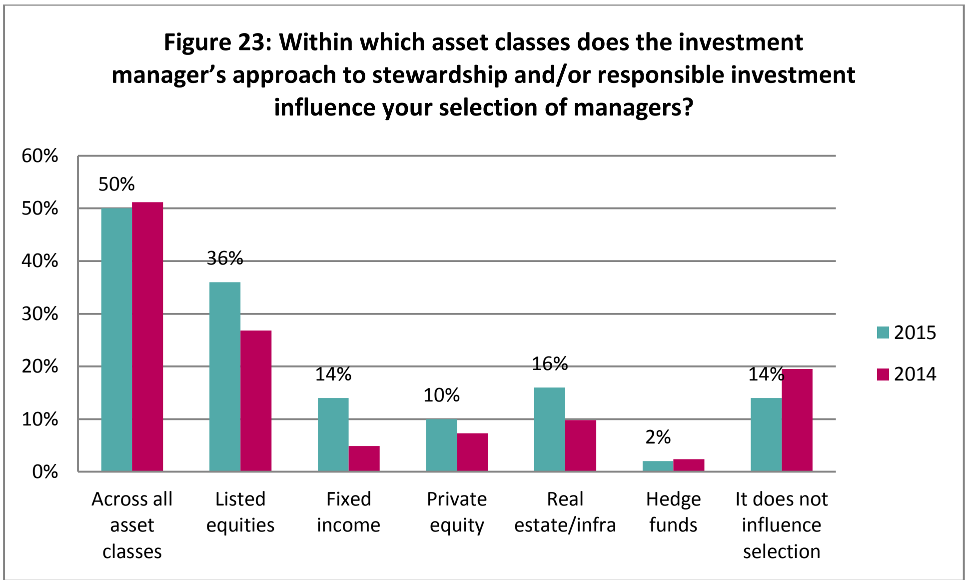


SELECTING MANAGERS

A majority of the respondents to our survey said they question potential asset managers about their approach to stewardship as part of the selection process, and nearly half said they include specific stewardship criteria in their 'Requests for Proposals' (RFPs). Only 6% said they did not consider these criteria relevant.



Stewardship criteria were considered more relevant to equities than to other asset classes, but half of respondents said that the manager's approach to stewardship influenced their selection across all asset classes.



68% of respondents said that they set out stewardship responsibilities in their mandates to their investment managers – a sizeable number in itself, but a remarkable increase from just 38% in 2013. It is too early to identify definitive trends from this evidence, but this may be of interest to asset managers in terms of thinking about how to win future business from pension funds - demonstrating serious engagement with investment stewardship could be advantageous.

Figure 24: Do you set out your expectations with respect to stewardship within the mandates you give to investment managers?

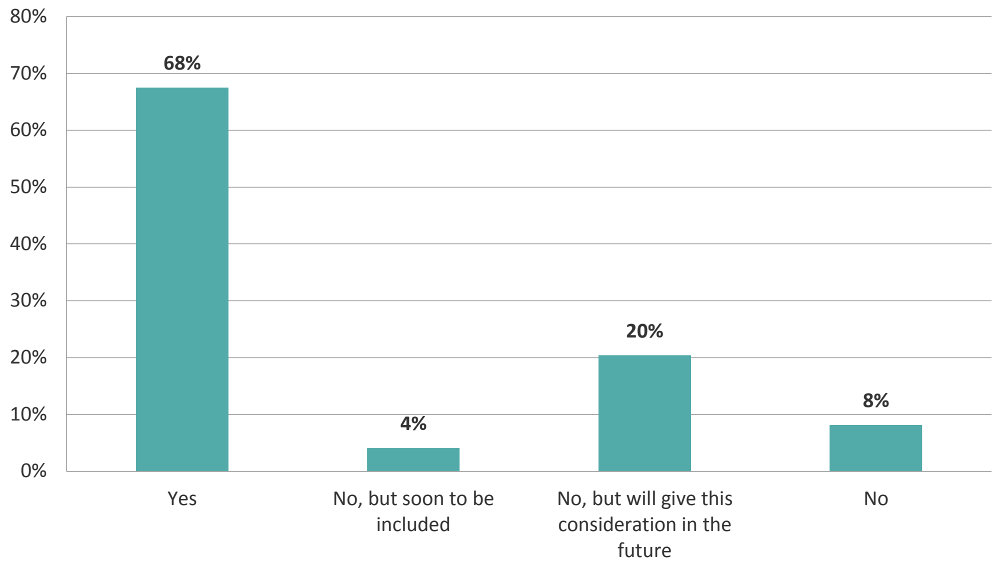
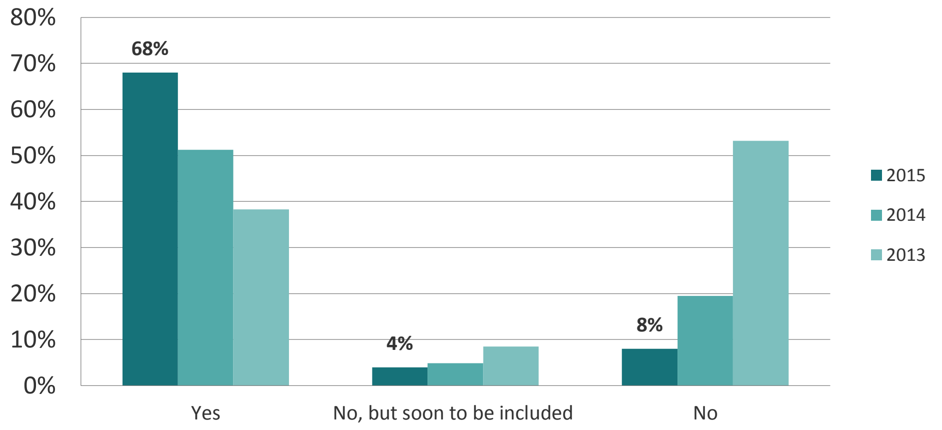
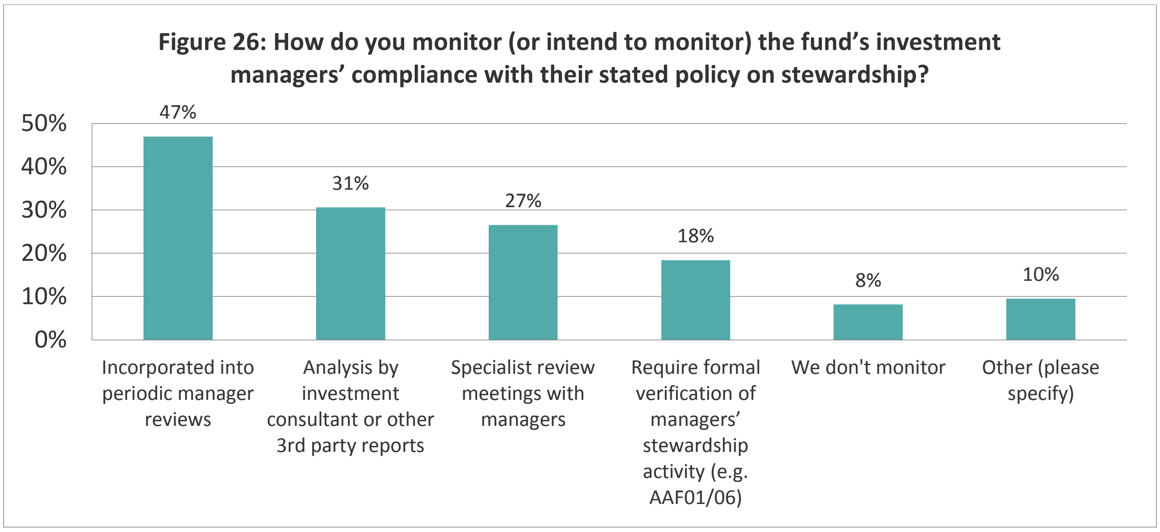


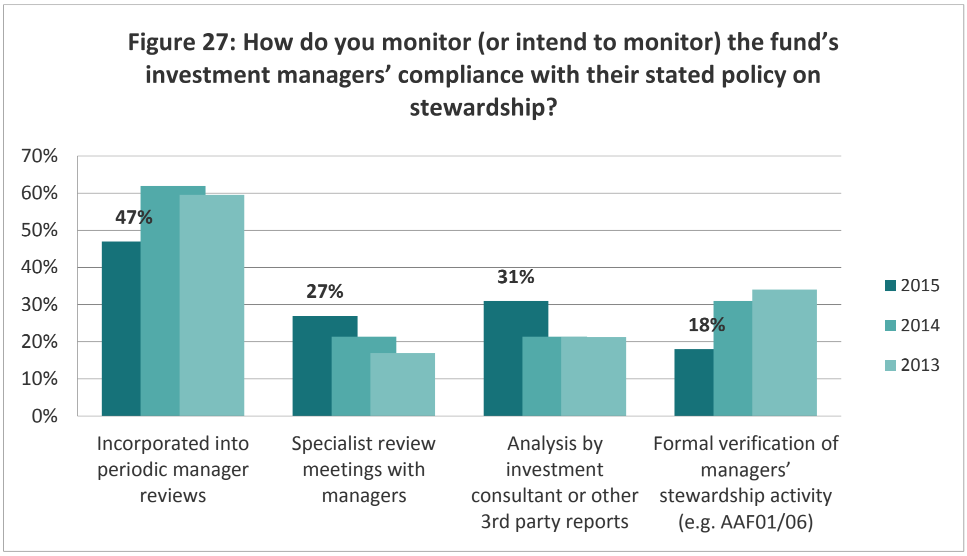
Figure 25: Do you set out your expectations with respect to stewardship within the mandates you give to investment managers?

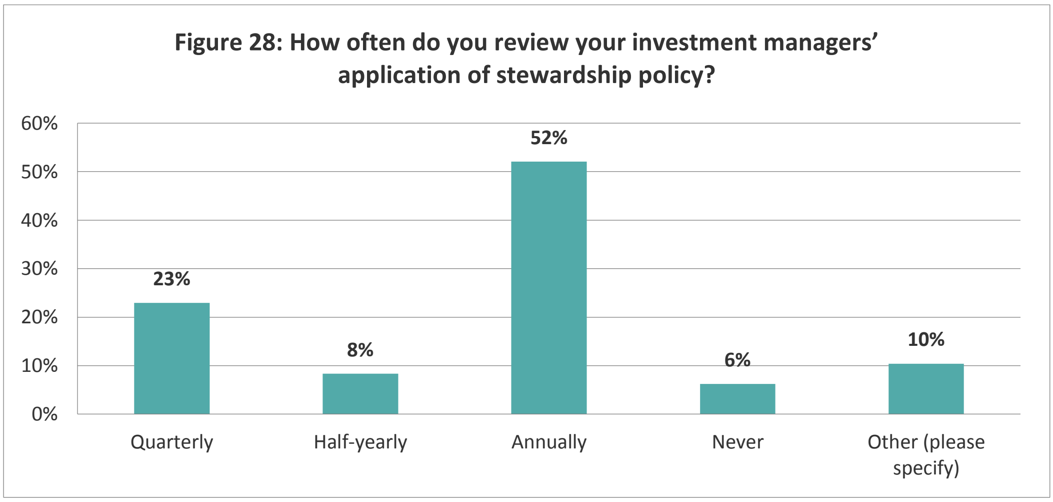


REVIEWING MANAGERS

Analysis of how funds subsequently monitor their managers' stewardship policies revealed a variety of different approaches. Nearly half of respondents incorporate stewardship into periodic reviews of their manager, but this number has fallen over the past three years, while the number of respondents employing specialist investment consultants to review stewardship issues has increased. Monitoring generally takes place on an annual basis, though 23% of respondents review their manager's application of the stewardship policy on a quarterly basis.







A majority of respondents said they had increased their stewardship monitoring activities this year, mostly by reviewing reporting and increasing the number of stewardship-related questions asked during reviews of their asset managers. Again, this reflects an encouraging trend of respondents reporting an increased level of stewardship scrutiny in recent years.

Figure 29: In the past year, what steps, if any, have you taken to increase scrutiny of your investment managers' stewardship activities?

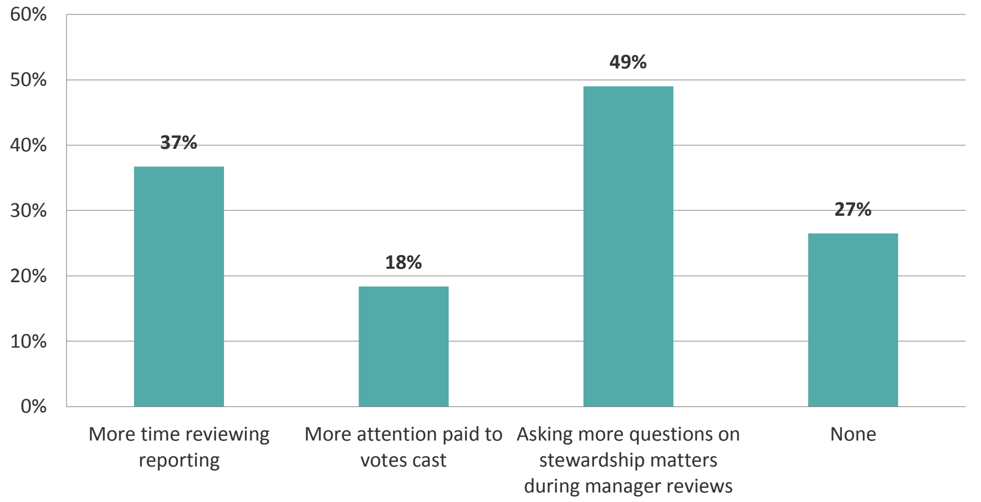
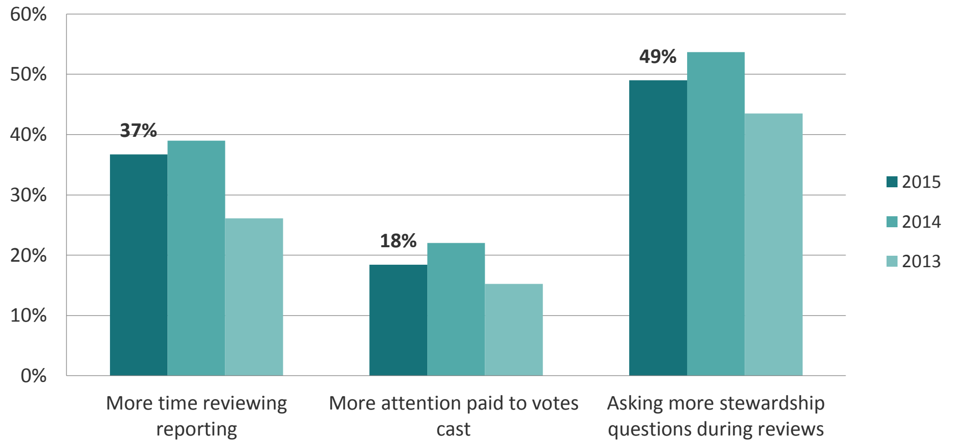


Figure 30: In the past year, what steps, if any, have you taken to increase scrutiny of your investment managers' stewardship activities?



ASSET MANAGER PRACTICES

OVERVIEW

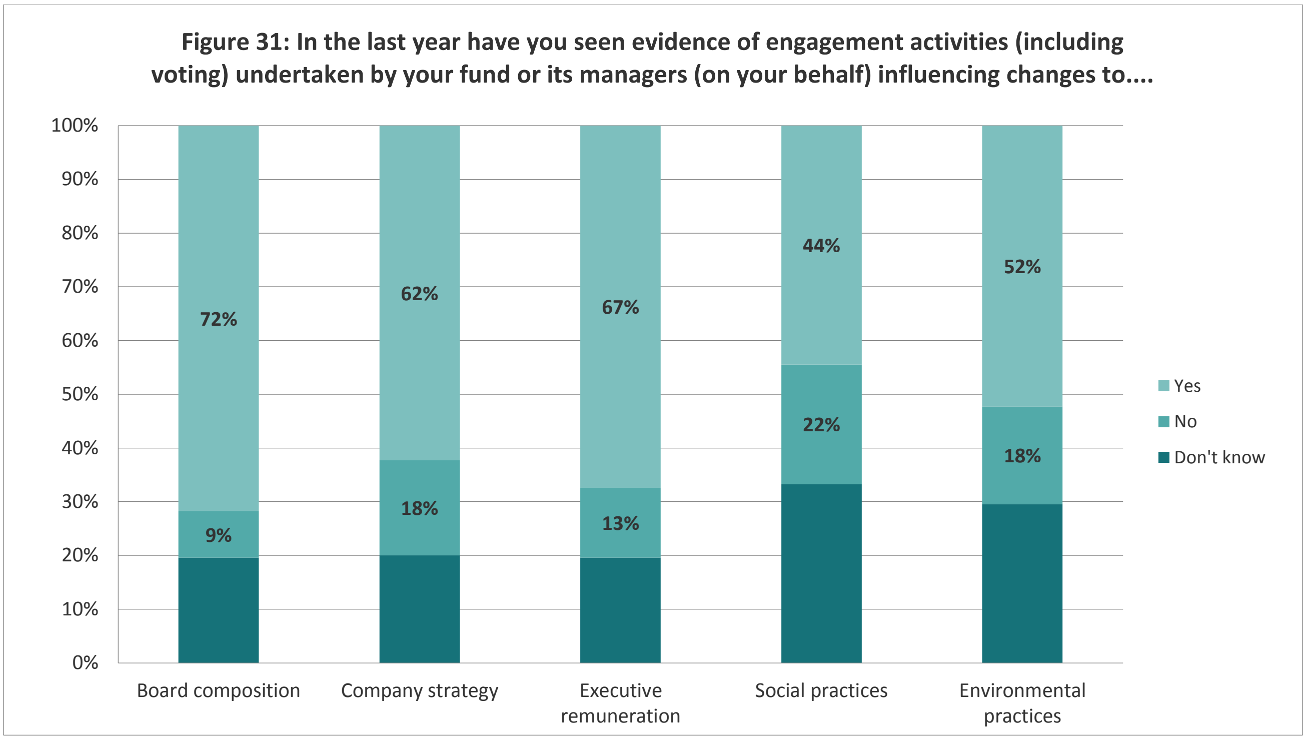
As with pension funds, it is useful, having looked at the *policies* that guide pension funds in their scrutiny of asset managers, to look at how this has shaped asset managers' stewardship practices – how actively have managers engaged with investee companies on issues such as executive pay, environmental impact or workers' rights, for example.

A majority of managers had engaged with investee companies over governance issues including board composition and executive pay, and around half on environmental and social issues. A slight majority of respondents were aware of asset managers working collaboratively with other investors to influence investees and over two thirds agreed that institutional investors (including pension funds as well as asset managers) played an active enough role in terms of stewardship, while 81% were satisfied with their asset managers' reporting.

However, fewer than one in ten strongly agreed that institutional investors were active enough stewards, or declared themselves 'strongly satisfied' with reporting.

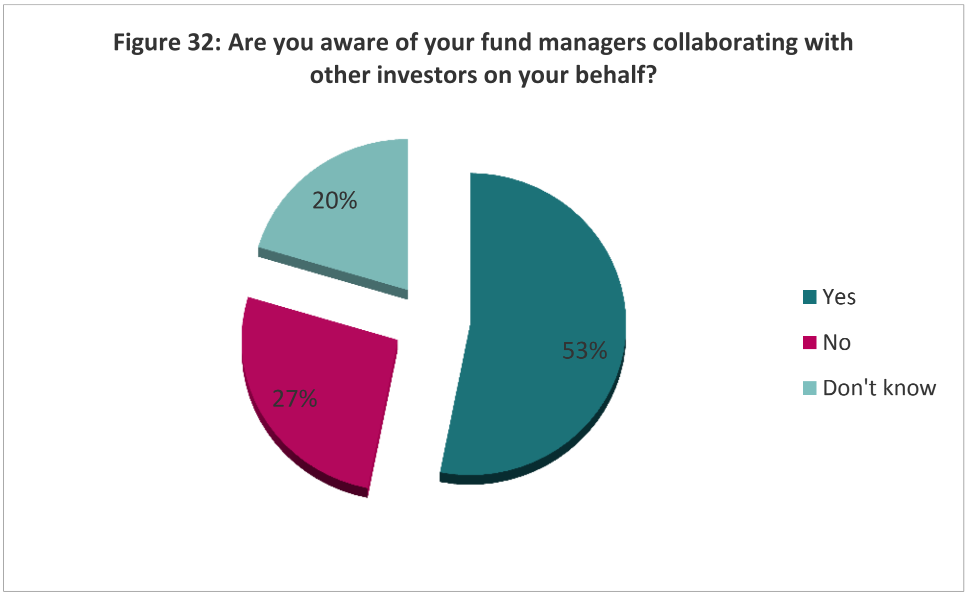
VOTING

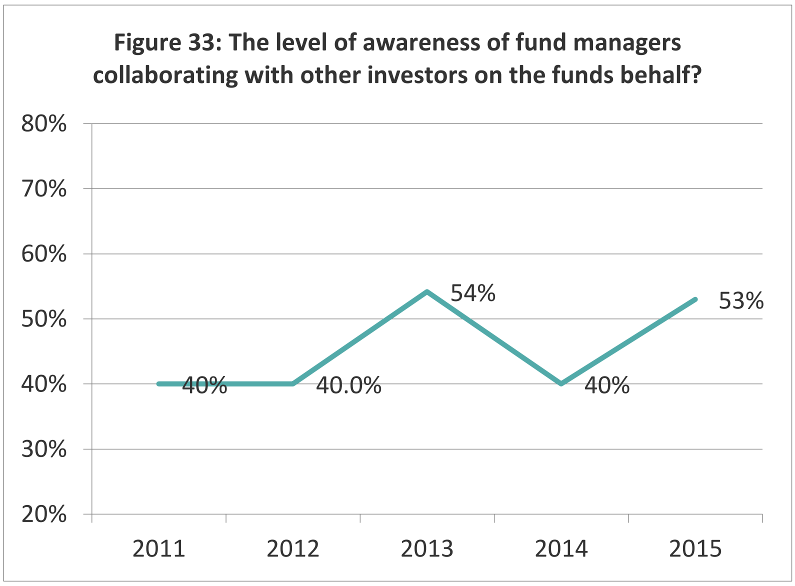
Nearly two thirds of representatives had seen evidence of engagement on 'governance' issues, such as strategy, board composition and executive remuneration. There was slightly less evidence of engagement on the 'E' and 'S' of ESG, with just under half of respondents reporting activity related to social issues and just over half on the environment.



COLLABORATION

Given that most individual institutional investors holding stakes in investee companies that are too small to exert a dominant interest, their capacity to influence and therefore the value of their engagement is limited without collaboration with others. Over half of respondents indicated that they were aware of their asset managers' working with other investors to achieve better returns for their clients. This is a promising finding, representing a slight improvement over the past four years, but also suggests there is still scope for further progress.





OVERALL PERFORMANCE

This conclusion is supported by the pension funds consensus on stewardship performance in general. This is by no means negative.

A total of 66% of respondents agree that institutional investors (encompassing both pension funds and asset managers) have 'played an active enough role as stewards of investee companies' against just 19% who disagree. This is a marked improvement, even when compared with 2013. When looking at how satisfied managers are with stewardship reporting from their asset manager, results were similar. 81% were satisfied compared to 15% who were not.

At the same time, however, just 8% strongly agreed that asset managers (and pension funds) were 'active enough' stewards, while only 9% said that they were 'very satisfied' with reporting.

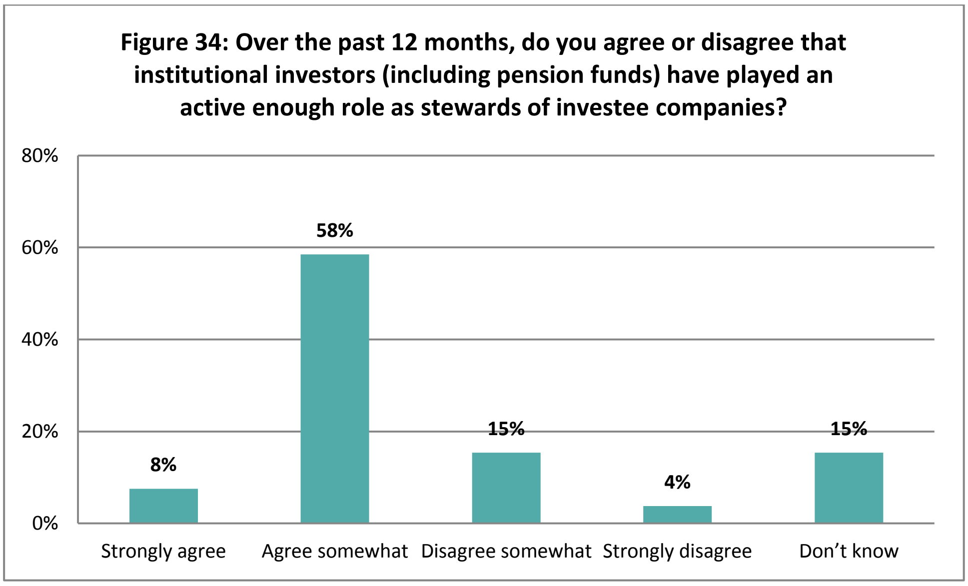


Figure 35: Proportion of funds agreeing that over the past 12 months institutional investors have played an active enough role as stewards of investee companies?

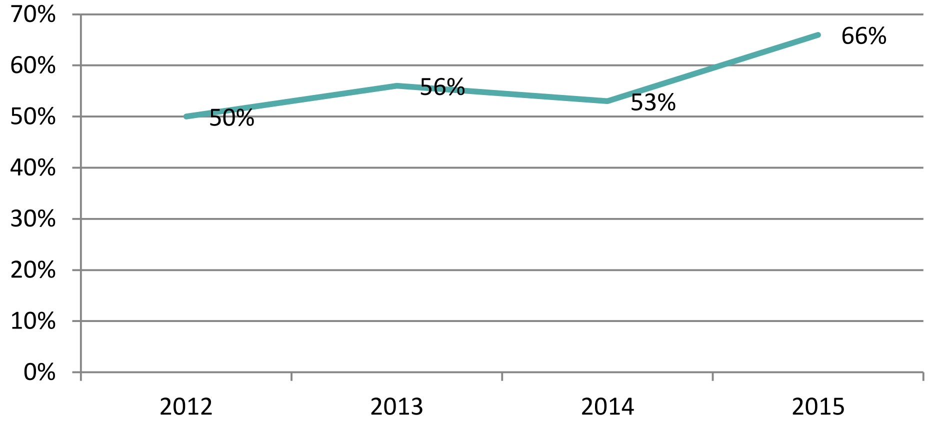
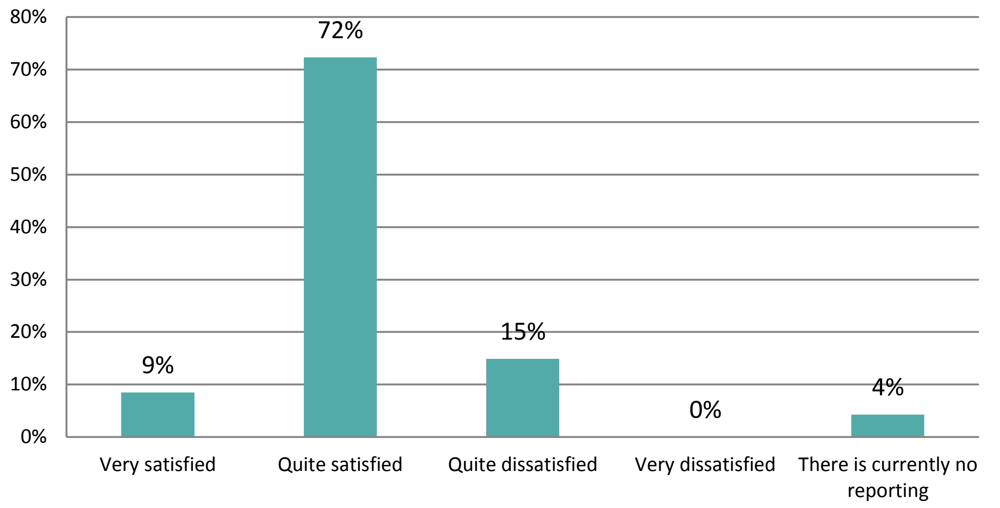


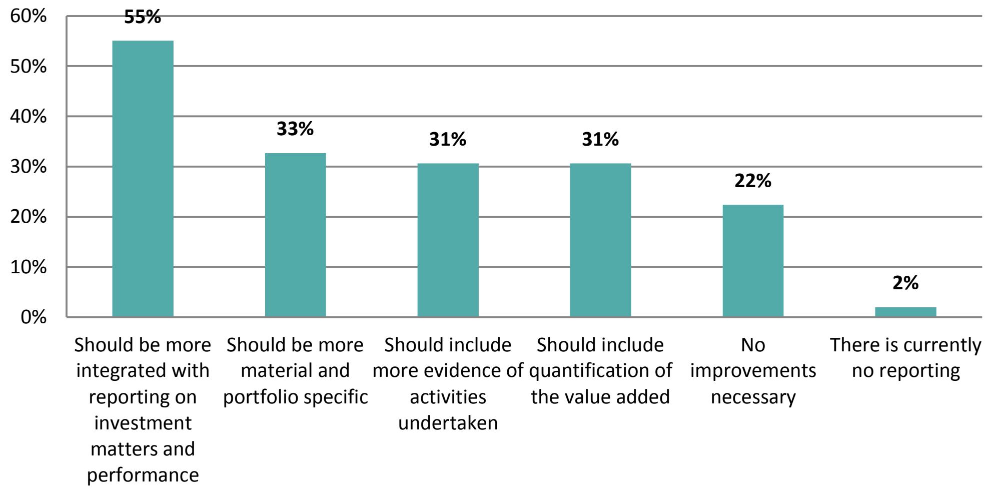
Figure 36: How satisfied or dissatisfied are you with the standard of stewardship reporting from your investment managers?



Survey responses suggest that improvements to reporting should focus on integrating stewardship into more general reporting on investment performance. Asset managers should also relate stewardship more directly to the portfolio in question as well as providing specific examples of stewardship activities and quantifying the difference they have made.

These findings, in particular, will guide our work at the Pensions and Lifetime Savings Association in supporting pension funds to access the information they need to engage with their investments and add value for their beneficiaries.

Figure 37: How, if at all, do you consider the reporting on stewardship and responsible investment matters by your investment managers should be improved?



CONCLUSION

The survey identifies both grounds for optimism and more work to be done.

In respect of the former, the near universal levels of recognition of the principle of stewardship and the widespread acceptance of the importance of ESG are encouraging.

In the case of questions that have been asked consistently as part of this annual survey, the increasing number of positive responses is perhaps a testimony to the success of initiatives such as the introduction of the Stewardship Code in 2010 or the Business and Regulatory Reform Act of 2013, which gave shareholders a binding vote on companies' executive pay policy.

Equally, shareholder activism campaigns, plus those directed at investors by the environmental movement and pay campaigners, have also played a role, together with voluntary codes such as the UN PRI and think-tanks or forums promoting responsible business.

At the same time, however, there are also findings that should prompt contemplation rather than congratulation. A large number of respondents are dis-inclined to engage with scheme members. Many employed investment consultants who failed to raise stewardship issues. While the majority agreed somewhat with the proposition that institutional investors played an active enough role as stewards of investee companies, fewer than one in ten agreed strongly.

Taken with the finding that 93% of respondents agreed that asset managers are equipped to add value to investments through engagement with investee companies, it thus follows that asset managers could generate a commercial advantage by enhancing the quality of stewardship. The findings on reporting suggest that better integration of stewardship with investment matters would be the most obvious means of doing so. For some asset managers this is already – to differing extents - common practice, but it is not yet universal. But taken together, the findings of this survey demonstrate a clear appetite for investment to turn good stewardship practice into fully integrated excellence.

So if 2015 was the year of ESG, could 2016 be a year of integration? This is the considerable challenge for asset owners and managers, regulators and indeed all other stakeholders interested in better governance and more successful, sustainable investments.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

APPENDIX