

Parliamentary Contributory Pension Fund

Voting and Engagement Policy

June 2017

Contents

- 1. Introduction**
- 2. Statement of Responsible Investment**
- 3. Voting Policy**
- 4. Engagement Policy**

Introduction

The Trustees recognise that Environmental, Social and Corporate Governance ("ESG") issues can impact the Fund's returns. The day to day management of the Fund is delegated to professional fund managers. However, the Trustees aim to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers.

The purpose of this document is to set out the Trustees' policy on voting and engagement.

To guide them in the strategic management of the Fund's assets and to control the various risks to which the Fund is exposed, the Trustees have adopted a Statement of Investment Principles (SIP). Regular meetings are held with the Fund managers where they are expected to provide a summary of actions they have taken or are taking to consider ESG factors on a day to day basis.

The Trustees, together with their investment consultants, will undertake regular analysis to highlight where ESG risks lie within the portfolio, they will also review the Fund's engagement policy annually at the same time as reviewing their Statement of investment principles. A report on the Fund's Stewardship and Governance activities including voting and engagement undertaken on behalf of the Fund will be included in the Annual Report issued to all members of the Fund. To maintain transparency and accountability to stakeholders, the Fund will disclose its top 20 equity holdings annually.

The Trustees have agreed a series of beliefs which have been incorporated into their SIP. These beliefs strengthen their position in regard to considering ESG factors and provide a framework for their engagement through their Fund managers. A key belief is:

Belief: Environmental, social and corporate governance ('ESG') issues can have a material impact on the long term performance of its investments

The Trustees Statement of Investment Principles is published on the website at <http://www.mypcpfpension.co.uk/investments>

Statement of Responsible Investment

The Trustees' Responsible Investment statement confirms the Trustees' intention to act as a responsible and active investor/owner through considered voting of share and engaging with investee company management as part of the investment process.

The Trustees consider the Fund's approach to responsible investment in two key areas:

Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.

Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The following principles set out the Fund's approach:

- The Trustees recognise that their duty is to act in the best financial interests of the Fund's beneficiaries.
- The Trustees believe that ESG issues can have a material impact on the long term performance of its investments.
- The Trustees encourage engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value.
- The Fund's investment managers are expected to take account of ESG-related risks and issues as part of their investment analysis and decision-making process. Further, the Fund's investment managers are expected to incorporate reporting on ESG-related issues into their regular reporting. This includes information on voting and engagement, in addition to details on how they are assessing and managing ESG-related risks in their respective mandates.
- The Trustees aim to be aware of, and monitor, financially material ESG-related risks and issues through its investment managers, by reviewing each individual manager's activities in relation to ESG issues including climate change on an ongoing basis through regular reporting. The Trustees will encourage their investment managers to develop their reporting on emergent ESG risks over time. This could include, but is not limited to climate change, water scarcity and inequality.
- The Fund and all of its investment managers are signatories to the FRC's UK Stewardship Code, the Fund's statement in compliance with the Code is shown here: www.mypcpcfension.co.uk/investments. The Trustees monitor the investment managers' compliance with the UK Stewardship Code and their track record of engaging with companies on issues such as climate change risk, fossil fuels and broader ESG issues on an ongoing basis.
- All of the Fund's investment managers are signatories to the Principles of Responsible Investment ("PRI"). The Trustees monitor the investment managers' compliance with the PRI.

Voting Policy

The Trustees work closely with the Fund's investment managers to help support good corporate behaviour. Having a policy enables the Trustees to document their position and expectations for their fund managers and to hold our managers accountable for the decisions they make.

Furthermore, the Trustees are a signatory to the FRC's UK Stewardship Code and are therefore committed to having a clear policy on voting (Principle 6).

1. The Trustees have reviewed the voting guidelines issued by the Institutional Shareholder Services (ISS) and believe that these represent good voting practice. The Trustees have therefore adopted the ISS voting guidelines as the basis by which they will judge their active managers, with segregated mandates, voting policies and voting activities. The ISS guidelines can be found here <https://www.issgovernance.com/file/policy/2017-2016-uk-ireland-proxy-voting-guidelines.pdf>
2. The Trustees have reviewed their current active segregated investment managers' voting policies against the ISS voting guidelines. Where a manager does not vote in line with the ISS guidelines; this will be reported to the Trustees.
3. The Trustees review their passive manager's voting guidelines on a regular basis to determine its appropriateness for the Fund.
4. All managers (active and passive) are expected to report their voting records on a quarterly basis. The Trustees require that their active managers provide an explanation where votes have not been cast in accordance with the Fund's policy. The Trustees will review managers' voting activities on a regular basis.
5. The Trustees are committed to disclosing voting records to the Fund's membership on a regular basis through the PCPF website.
6. In making any future equity manager appointments, the Trustees will assess the managers voting policy as part of the due diligence process and will instruct the appointed manager accordingly.

Engagement Policy

The Trustees believe that successful engagement with investee companies can protect and enhance the long-term value of the Fund's investments. The Trustees consider that, in most cases, its managers will be best placed to engage with investee company management.

The Fund's investments are held either directly or through pooled arrangements and both active and passive strategies are pursued. The Trustees recognise that in practice the means of their engagement with ESG issues will vary depending on how the assets are held and managed.

Trustees believe that all engagements should be made to achieve a particular goal. They will therefore require their investment managers to be able to report on the objectives set and consequent success/failure of any engagement activity.

1. Investment managers are expected to have clear robust Stewardship and ESG policies which detail the principles by which they actively engage with companies. The Trustees require their investment managers to report on all engagement activity on a quarterly basis. The Trustees will publish a summary of engagement activity undertaken by their managers on an annual basis.
2. In appointing new Managers, the Trustees will;
 - Require Managers to act consistently with the Fund's ESG policy.
 - Consider ESG issues in setting benchmarks, performance criteria and manager remuneration.
3. The Trustees will ask their equity investment managers to report on their engagement activity on a quarterly basis and where possible this will be published on the Fund's website.
4. The Trustees will encourage their investment managers to actively participate in collaborative engagements with other fund managers and organisations where this is deemed to be in the best interests of the Fund.
5. The Trustees' investment consultant is required to provide input and analysis to assist the Trustees in assessing their managers' performance on engagement activities.