

PART C

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APPENDICES TO RULES FOR  
OCCUPATIONAL RETIREMENT SCHEMES

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## APPENDIX 13

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(SLC 1.2.8 of Part B of the Pension Rules for Occupational Retirement Schemes)

### ENCOURAGEMENT OF LONG-TERM SHAREHOLDER ENGAGEMENT

#### Application

- 1.1 This Appendix shall apply to:
- (a) an Occupational Retirement Scheme, where such scheme invests directly or through an Investment Manager in shares traded on a regulated market; and
  - (b) an Investment Manager, licensed under the Act to carry out investment management services for an Occupational Retirement Scheme, investing in shares traded on a regulated market.

#### Scope

- 1.2 This Appendix takes into account some of the requirements laid down in [Directive \(EU\) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement](#).

#### Definitions

- 1.3 For the purposes of this Annex;
- “proxy advisor” means a legal person that analyses, on professional and commercial basis, the corporate disclosure and where relevant, other information of listed companies with a view to informing investors’ voting decisions by providing research, advice or voting recommendations that relate to the exercise of voting rights.

#### Engagement policy

- 1.4 Subject to paragraph 1.7, an Occupational Retirement Scheme and an Investment Manager, shall develop and publicly disclose an engagement policy describing how such Scheme and Investment Manager:
- (a) integrates the shareholder engagement in its investment strategy;
  - (b) monitors the investee company on relevant matters, including:

- (i) strategy;
  - (ii) financial and non-financial performance and risk;
  - (iii) capital structure; and
  - (iv) social, environmental impact and corporate governance;
- (c) conducts dialogues with investee companies;
- (d) exercises voting rights and other rights attached to shares;
- (e) cooperates with other shareholders;
- (f) communicates with relevant stakeholders of the investee companies; and
- (g) manages actual and potential conflicts of interests in relation to their engagement.
- 1.5 Subject to paragraph 1.7, an Occupational Retirement Scheme and an Investment Manager, shall publicly disclose, on an annual basis, how such engagement policy has been implemented, including:
- (a) a general description of voting behaviour;
  - (b) an explanation of the most significant votes, and;
- (a) the use of the services of proxy advisors.
- 1.6 For the purposes of paragraph 1.5, an Occupational Retirement Scheme and an Investment Manager, shall publicly disclose how votes have been cast in the general meetings of companies in which they hold shares. Such disclosure may exclude votes that are insignificant due to the subject matter of the vote or the size of the holding in the company.
- 1.7 Where the Occupational Retirement Scheme or the Investment Manager chooses not to comply with one or more of the requirements listed in paragraphs 1.4 to 1.6, they shall publicly disclose a clear and reasoned explanation as to why they have chosen not to comply with one or more of those requirements.

- 1.8 An Occupational Retirement Scheme or the Investment Manager shall make available the information referred to in paragraph 1.4 to 1.6 free of charge on the Scheme's website.
- 1.9 Where an Investment Manager of an Occupational Retirement Scheme implements the engagement policy, including voting, on behalf of such Scheme, such Scheme shall make a reference as to where such voting information has been published by the Investment Manager.

*Conflicts of interests with regard to engagement activities*

- 1.10 An Occupational Retirement Scheme and an Investment Manager shall describe in its engagement policy how it identifies and manages any conflict of interest in relation to its engagement activities, irrespective of whether they arise in the Occupational Retirement Scheme or in the Investment Manager.

*Investment strategy of an occupational retirement scheme and arrangements with investment managers*

- 1.11 An Occupational Retirement Scheme shall publicly disclose how the main elements of their equity investment strategy are consistent with the profile and duration of their liabilities, in particular long-term liabilities, and how they contribute to the medium to long-term performance of their assets.
- 1.12 Where an Investment Manager invests on behalf of an Occupational Retirement Scheme, whether on a discretionary basis or through a collective investment undertaking, such Scheme shall publicly disclose the following information regarding its arrangement with its Investment Manager:
- (a) how the arrangement with the Investment Manager incentivises the Investment Manager to align its investment strategy and decisions with the profile and duration of the liabilities of the Scheme, in particular long-term liabilities;
  - (b) how that arrangement incentivises the Investment Manager to make investment decisions based on assessments of medium to long-term financial and non-financial performance of the investee company, and to engage with investee companies in order to improve their performance in the medium to long-term;
  - (c) how the method and time horizon of the evaluation of the Investment Manager's performance and the remuneration for investment management services are in line with the profile and duration of liabilities of the Scheme, in particular long-term liabilities, taking into account its absolute long-term performance;

- (d) how the Scheme monitors portfolio turnover costs incurred by the Investment Manager and how it defines and monitors a targeted portfolio turnover or turnover range; and
  - (e) the duration of the arrangement with the Investment Manager.
- 1.13 Where the arrangement with the Investment Manager does not contain one or more of the elements referred to in paragraph 1.12, such Scheme shall give a clear and reasoned explanation why this is the case.
- 1.14 An Occupational Retirement Scheme shall make available the information referred to in paragraphs 1.11 and 1.12:
- (a) free of charge, on the scheme's website; and
  - (b) be updated annually, unless there is no material change.

#### *Transparency of Investment Managers*

- 1.15 An Investment Manager shall disclose, on an annual basis, to the Occupational Retirement Scheme with whom it has entered into the arrangements referred to in paragraphs 1.11 to 1.13 how the investment strategy of the Investment Manager and implementation thereof complies with that arrangements and contributes to the medium to long-term performance of the assets of the Scheme.
- 1.16 The disclosures referred to in paragraph 1.15 shall include reporting on:
- (a) the key material medium to long-term risks associated with the investments;
  - (b) portfolio composition;
  - (c) turnover and turnover costs;
  - (d) the use of proxy advisors for the purpose of engagement activities;
  - (e) the Investment Manager's policy on securities lending and how that policy is applied to support the Investment Manager's engagement activities, if applicable, particularly at the time of the general meeting of the investee companies; and
  - (f) whether and, if so, how, the Investment Manager makes investment decisions based on evaluation of medium to long-term performance of the investee company, including non-financial performance; and
  - (g) whether and if so, which conflicts of interests have arisen in connection with engagement activities and how the Investment Manager has dealt with these conflicts.
- 1.17 The information referred to in paragraphs 1.15 and 1.16 shall be disclosed together with the audited financial statements prepared by the Investment Manager.

- 1.18 Where the information referred to in paragraphs 1.15 and 1.16 above is already publicly available, the Investment Manager is not required to provide the information to the Occupational Retirement Scheme directly.