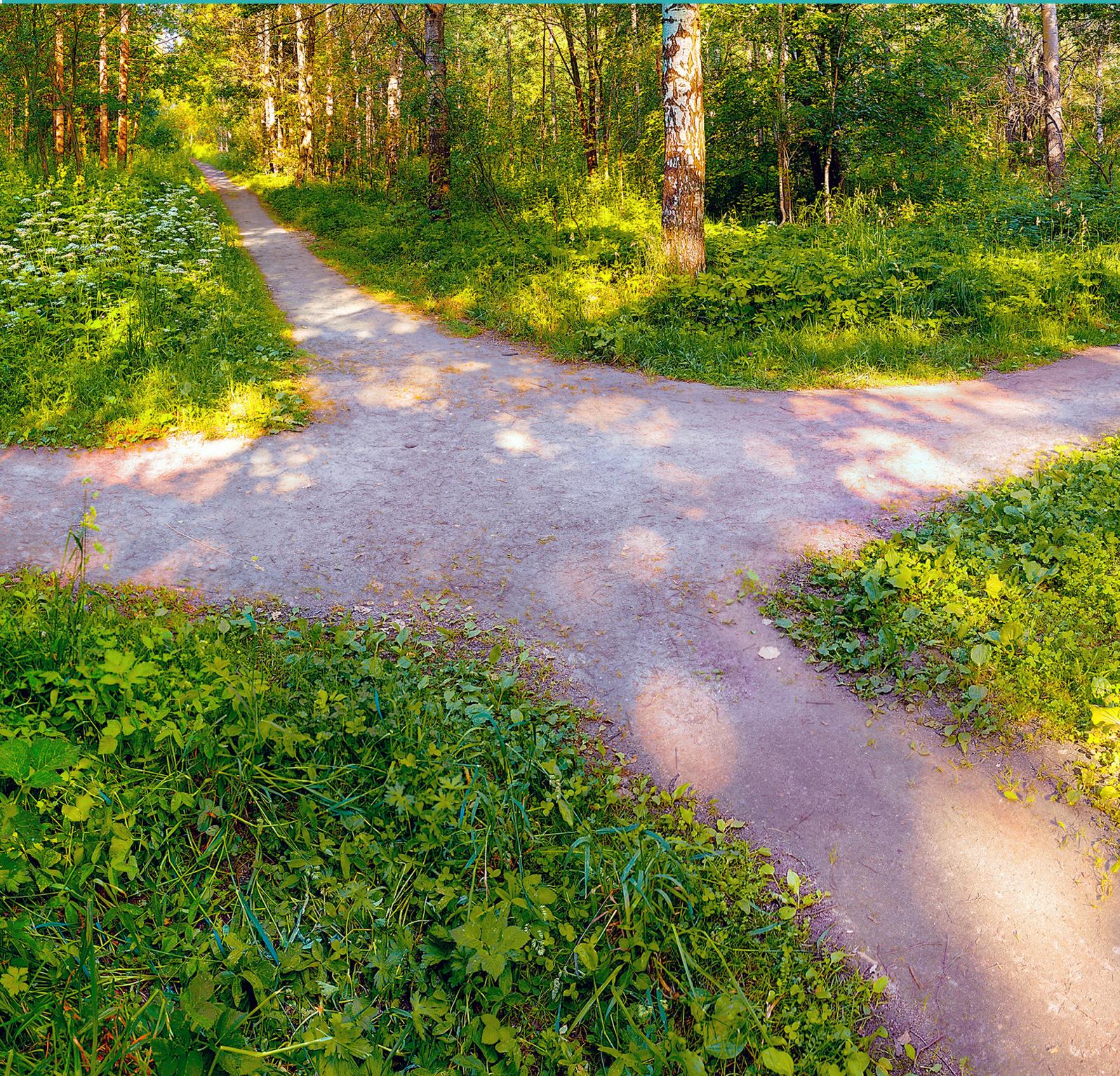


Driving change through the voting chain



About the Occupational Pensions Stewardship Council

The Occupational Pensions Stewardship Council (OPSC) promotes and facilitates high standards of stewardship of pensions assets. Selected members of the Council participated in this engagement initiative and membership of the Council should not necessarily be taken to indicate participation in this initiative. Find out more at <https://www.gov.uk/government/groups/occupational-pensions-stewardship-council>, and contact Lily Tomson and Veronika Starell on secretariat@pensionscouncil.org for more information.

Find out more about the voting letter engagement here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1057341/occupational-pensions-stewardship-council-voting-practice-engagement-summary.pdf

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Introduction

Occupational pension schemes are increasingly aware of the power of voting as part of their stewardship obligations, and the challenges of developing a strong approach to communicating their priorities along often long and complex engagement chains. This led 17 members of the Occupational Pensions Stewardship Council representing over £500bn in assets to investigate approaches taken by their asset managers and the wider sector.

Background

The Taskforce on Pension Scheme Voting Implementation was set up by the Minister for Pensions and Financial Inclusion in December 2020 to address problems in the voting of equity shares by pension schemes. It reflects the importance of voting in broader stewardship.

The taskforce has focused on how to facilitate more and better quality voting by occupational pension schemes by encouraging them to set voting policies and by making recommendations that will support the changes in behaviours needed from service providers to meet this objective. In their September 2021 report, the taskforce recommended that all fund managers should voluntarily offer pooled fund investors the opportunity to set expressions of wish on request.

In their recent consultation, *Climate and investment reporting: setting expectations and empowering savers – consultation on policy, regulations and guidance*¹, the Department for Work and Pensions consulted on new statutory and non-statutory guidance which seeks to provide the clarity trustees have requested around stewardship, including voting and engagement. To fulfil their duties, asset owners will need information from asset managers.

The campaign

It is this backdrop that led members of the Occupational Pensions Stewardship Council to write to 44 asset managers with questions on their approach to client-led voting in December 2021.

The letter signatories asked asset managers the following questions to understand their approach and current offering to clients.

1. Will you enable clients to share a voting policy?
2. Will you report and/or communicate areas of misalignment between clients' voting policies and your own?
3. Will you facilitate client-led voting in pooled funds?
4. Where clients do not have a formal 'expression of wish' or a 'voting policy/guideline', will you facilitate forward looking discussions on your voting intentions on pre-selected resolutions/significant votes?
5. Will you allow clients to override any specific votes?

1 [Climate and investment reporting: setting expectations and empowering savers – consultation on policy, regulations and guidance - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/climate-and-investment-reporting-setting-expectations-and-empowering-savers-consultation-on-policy-regulations-and-guidance)

The pension funds participating in this engagement were keen to explore asset managers' views on asset owners being more involved in the voting process considering the changing regulatory environment and increased attention on responsible investment implementation. Out of a total of 44 letters we received 37 responses which have been analysed and resulted in the findings below.

Voting in practice

Some asset owners have set up structures which allow them to manage their voting through segregated mandates and the support of proxy voting agencies. This approach is only accessible for a small number of asset owners with certain structures. The majority of asset owners do not have the resource and/or structure to direct voting and therefore delegate their voting to their asset managers. Delegation should allow for meaningful engagement and give asset owners the ability to input on high profile votes. It is this section of the market we are most interested in.

We believe asset managers, in most part, are best placed to carry out the mechanics of voting shares on their clients' behalf. They are also well-positioned to achieve continuity between engagement activity and voting behaviour.

However, we expect that asset managers work to ensure better and more open, honest communication with clients about voting.

This may include taking into account clients' voting policies, and communicating back areas of misalignment in a timely manner. Given the direction of travel, it also means being open to, and facilitating, voting on specific resolutions according to the client's expressed view.

Responsible investment approaches vary, and we feel voting in pooled funds can also be interpreted differently by stakeholders in the market. We acknowledge that there will be a range of approaches to satisfy different asset owner and asset manager relationships.

Expression of Wish

When we reviewed the responses, we noted some confusion from asset managers on what 'Expression of Wish' meant. Some asset managers felt it meant clients directing voting themselves and others confused it with member preferences, which is a linked but a separate consideration.

'Expression of Wish' has so far been defined as "please vote this way on certain issues"². It isn't a formal requirement and isn't written into contracts.

Instead, it is a form of communication, similar to sharing a policy or client preference, which we would expect asset managers to consider.

We have developed the following table to demonstrate the range of approaches under an 'Expression of Wish' framework. Most asset owners will likely sit on the left-hand side, 'Tell'; for them is a way to express their opinion, which could be through a policy or by highlighting a few stewardship themes. The middle section, 'Discuss', is about having meaningful conversations on voting where asset owners' views are considered. We completely understand that proxy voting season is an intense and busy time and would not expect managers to submit significant resource to additional conversations. Instead, we expect that managers carve out some time during client meetings to talk about a handful of significant votes which are coming up. Equally, asset owners have a role to play in making an effort to get the topic on meeting agendas.

The right-hand side 'Act' represents a more developed approach between an asset manager and asset owner. In this case the asset manager accepts the scheme policy by allowing the client to override votes and/or creates functionality for the asset owner to directly implement their policy.

Expression of Wish		TELL: "Hear wishes"	DISCUSS: "Discuss wishes"	ACT: "Follow wishes"
Voting policy across funds		Receive and acknowledge scheme voting policy	Report divergence in policy	Accept and implement scheme policy
Voting practice for significant votes	Before vote	Indicate intentions	Discuss intentions	Allow override
	After vote	Publish votes	Report divergence of votes with client policy	Publish votes and highlight divergence where possible

2 [The report of the Taskforce on Pension Scheme Voting Implementation: Recommendations to government, regulators and industry - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/672222/The-report-of-the-Taskforce-on-Pension-Scheme-Voting-Implementation-Recommendations-to-government-regulators-and-industry.pdf)

The findings

We are pleased to see asset managers' openness to considering client voting in pooled funds. While only two of our respondents had formally implemented alternative approaches, the majority demonstrated openness to exploring how to engage with clients better and working out what could work for the relationship.

We have organised our findings to correspond with the range of approaches to Expression of Wish.

1. Tell – “Hear wishes”

- All asset managers said they disclose information on their voting policy and voting records.
- All asset managers also said they are engaging with clients on voting priorities in segregated funds and the vast majority (62%) of respondents extended this to clients in pooled funds.
- 18 (49%) asset managers said they will enable clients to share their voting policy.

It is positive that half of the respondents are open to receiving clients' voting policies and we hope that this will encourage asset owners to share their policies and priorities with their asset manager.

Timely and thorough reporting on voting is key for asset owners to decipher whether they agree with their asset managers' approach.

While policies can provide a useful overview, the increase in the number of a case by case resolutions which are considered individually requires more detailed reporting.

Robeco publish a yearly *Proxy Voting Season Overview*³ which provides detailed examples on a range of votes, including rationales and background. The combination of narrative across a range of topics such as climate, board composition and executive remuneration is paired with numerous examples of company votes. This provides real insight and evidence for asset owners into not only the asset manager's approach but how they action their policy. This type of disclosure supports clients in understanding asset managers' rationales and learning more about the voting process. The report also evidences examples when Robeco have co-filed resolutions, demonstrating an active role in stewardship.

2. Discuss - "Discuss wishes"

- Disappointingly, 13 (35%) asset managers said they were not open to forward looking discussions with clients on voting. However, 9 (24%) said they were able to facilitate forward looking discussions and a further 6 (16%) said they were exploring the possibility.
- Though 8 (22%) asset managers flagged low client demand in this area, several raised the opposite view, mentioning that they have seen an increased interest and that they are looking into solutions to meet this growing demand.

The frequency and format of these forward-looking conversations also differs, as well as the degree to which client views on voting would be considered or implemented.

- 15 of the respondents (41%) say they leave it up to clients to identify discrepancies between the asset manager policies and their own, while 13 (35%) say they themselves are able to report this to clients if requested.

There is significant demand for more information and engagement on voting by asset owners.

Most asset owners aren't looking to control voting but would like better reporting and communication at a minimum.

One response was particularly interesting and noteworthy: one asset manager is considering setting up an annual forum for their clients to discuss voting policies and their development ahead of each voting season. This would allow investors to assess whether they agree with

3 <https://www.robeco.com/docm/docu-0921-robeco-proxy-voting-season-overview.pdf>

their manager and their approach and judgments. This forum and processes around it will also allow all investors to share their voting policies and issues or positions of particular interest. We also wonder whether demand is always reaching asset managers given the number of intermediaries which will often speak to asset managers on behalf of numerous clients and trustees.

Earlier this year Schroders announced their voting intentions at oil and gas majors⁴ as well as Alphabet, Amazon and Meta⁵. Asset managers often appear reluctant to discuss voting intentions, citing the decision ‘coming down to the wire’ and risks regarding market fluctuations. However, increasingly managers are starting to disclose a small number votes and we welcome the transparency from these managers and encourage other asset managers to pre-disclose votes where possible.

We welcome a proactive approach from asset managers. Not all asset owners will want to vote themselves, especially when asset managers have a leading voting approach. It would be vital that these reports are made tangible with real-life examples to ensure clients understand the votes and their implications.

3. Act - “Follow wishes”

- For segregated mandates, 18 (49%) of asset managers allowed their clients to implement their own voting policies but only 2 (5%) allowed it in pooled funds, with a further 4 considering it.
- 9 (24%) asset managers were actively looking into client-led voting. A further 11 (30%) were considering it and mentioned that they would let client demand and industry developments steer how they approach this in the future (several mentioning that market practice and industry-wide solutions would need to be developed to allow for this to be automated and scalable – for consistency, accuracy, and efficiency).
- The responses regarding overriding of votes were less clear. It appeared that asset managers only formally allowed for overriding in segregated funds where the asset owner controlled voting. It appears that overriding is currently less established as an option for asset owners.

4 [Schroders urges oil & gas majors to publish climate targets consistent with Paris Agreement - Media Relations - Schroders](#)

5 [Schroders supports workers’ rights and digital rights at upcoming AGMs - Media Relations - Schroders](#)

Client-directed voting was the most contentious area in the answers provided by asset managers. It is important to acknowledge where the appeal for more influence on voting comes from. Asset owners are passionate about delivering strong outcomes for their members and under regulatory pressure regarding their responsible investment credentials. Therefore, when the voting of their asset managers is misaligned with their own beliefs it becomes an area of frustration. In addition some asset owners experience their asset managers voting in different ways with opposite rationales for their decisions, thus nullifying the influence a pension fund could otherwise have.

Asset managers therefore have an opportunity to improve their voting practices and work more closely with their clients to deliver this.

However, where views differ significantly and consistently over time, asset owners' choice is to look to direct voting themselves or look for a new asset manager with views more aligned to their own.

BlackRock have set up infrastructure to allow their asset owner clients to choose from a range of third-party proxy voting policies by Institutional Shareholder Services (ISS), in order to direct their voting in their pooled funds. It is the first step by any major asset manager to provide asset owners the opportunity to use their votes. It will also allow some clients the option to cast a direct vote on individual resolutions or companies of their choice using BlackRock's voting infrastructure. BlackRock has said it continues to work on expanding the offering to all types of clients. Through this development BlackRock have proven that the infrastructure exists and clients are able to vote in pooled funds.

Over the last few years pension master trust Nest have been working with their asset manager UBS (who manage their global developed equities) on a more collaborative voting arrangement. Nest offer constructive challenge if their views differ with UBS on certain votes to maintain oversight and ensure votes are being fully considered. They have also secured an agreement with UBS, where they are able to override certain votes on issues they feel are strongly at odds with their members' interests. This is evidence of a collaborative arrangement which can work for both asset manager and asset owner.

Conclusions and recommendations

We hope that the findings demonstrate that there is movement in the voting space and asset owners should feel more empowered to engage their asset managers on their voting options.

We encourage asset managers to engage their clients and ask about their voting preferences. There is no 'one size fits all', but it is clear that asset owners want more of a say when it comes to voting and at a minimum this should start with better and more proactive communication.