

Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance

Part 1: Background

About this Guidance

1. It is important that trustees of all schemes understand and consider financially material Environmental, Social and Governance (ESG) factors and stewardship approaches in their investment decision making.
2. Trustees of occupational pension schemes with 100 or more members, that are required to prepare a Statement of Investment Principles (SIP)¹, are required to publicly state their policy on the exercise of the rights attaching to the investments, and on undertaking engagement activities in respect of the investments via the SIP², which they are required to publish so that the SIP is available free of charge to the public³. Trustees of such schemes are also required to report on how and the extent to which they have followed this policy during the scheme year and to describe the voting behaviour by, or on behalf of trustees, including the most significant votes cast, during the scheme year and state any use of the services of a proxy voter during that year via an annual published Implementation Statement (IS)⁴. Pension schemes subject to these requirements account for more than 99% of savers.

¹ See section 35 of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 (S.I. 2005/3378) (hereafter, the “Investment Regulations”), regulation 2.

² As above.

³ The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (S.I. 2013/2734) (hereafter, “the Disclosure Regulations”), regulation 29A(1), (1A), (2A)(a) and (2B)(a).

⁴ The Disclosure Regulations, regulation 12(5), 29A(1), (1A), (2A)(b) and (2B)(b) and Schedule 3, paragraph 30(1)(ca) and (1)(f).

3. In addition, where such schemes are defined contribution schemes or hybrid schemes providing defined contribution benefits the trustees of such schemes, subject to certain exceptions⁵, must publish a wider IS covering how and the extent to which they have followed policies in the whole of their SIP.
4. Subject to certain exceptions⁶, trustees or managers of occupational pension schemes that are defined contribution schemes or hybrid schemes providing defined contribution benefits are also required to prepare and publish a 'default SIP'⁷.
5. This Guidance focuses on the areas where existing policies and reporting appear to be weakest – stewardship and, to a lesser extent, consideration of financially material ESG factors and non-financial factors. Stewardship encompasses a range of activities: this Guidance focuses specifically on voting and engagement.
6. This Guidance refers to the UK Stewardship Code⁸ and indicates areas of potential alignment between the Implementation Statement requirements and the Stewardship Code principles. Trustees can use information in their Stewardship Code reports in the Implementation Statement, providing that information meets the legal requirements for the IS.

Legal status of this Guidance

7. This Guidance contains both statutory and non-statutory guidance. Paragraphs that are statutory guidance are prefaced with 'SG', for 'Statutory Guidance'⁹. Trustees must have regard to the paragraphs of this Guidance that are statutory guidance when complying with the Implementation Statement requirements in the Disclosure Regulations¹⁰ applicable to them, made under section 113(1) of the Pension Schemes Act 1993.

⁵ This requirement is applicable to 'relevant schemes' only, as defined in regulation 1(2) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") – that is, occupational pension schemes providing money purchase benefits other than: relevant small schemes (see regulation 1(2ZB) of the Administration Regulations), executive pension schemes (see regulation 1(2ZB) of the Administration Regulations), schemes that do not fall within paragraph 1 of Schedule 1 to the Disclosure Regulations, schemes which provide no money purchase benefits other than benefits which are attributable to additional voluntary contributions, and public service pension schemes that fall within paragraph (d) of the definition of "relevant scheme" in regulation 1(2) of the Administration Regulations.

⁶ This requirement is applicable to trustees or managers of "relevant schemes". See footnote 5.

⁷ See regulation 2A of the Investment Regulations and regulation 29A(1) and (2)(a) of the Disclosure Regulations.

⁸ [Stewardship-Code_Dec-19-Final-Corrected.pdf \(frc.org.uk\)](#)

⁹ Under section 113(2A) of the Pension Schemes Act 1993, trustees must have regard to statutory guidance issued by the Secretary of State when complying with requirements specified in regulations made under section 113.

¹⁰ See the Disclosure Regulations, regulation 12(1) and Schedule 3, paragraph 30(1)(ca) and (f).

8. All paragraphs without the 'SG' label are non-statutory guidance. The non-statutory guidance is intended to encourage good practice, but trustees are not obliged to take it into account.
9. The 'SG' labels are introduced from Part 2 of this Guidance onwards. The contents of Part 1 of this Guidance are statutory guidance when complying with the Implementation Statement requirements in the Disclosure Regulations referred to in paragraph 7. Otherwise, Part 1 is non-statutory guidance.
10. Signposting of alignment with the UK Stewardship Code is not imposing a requirement for schemes to align their disclosures; it is mentioned to support streamlined reporting.
11. The following table sets out which sections of the Guidance are statutory and non-statutory.

<p>Statutory Guidance</p>	<p>Parts and paragraph numbers</p> <p>Part 1: all paragraphs (in complying with the Implementation Statement requirements in the Disclosure Regulations referred to above).</p> <p>Part 2: paragraphs 21, 22, 24, 31, 35, 36, 37</p> <p>Part 3: paragraphs 67 to 76 (inclusive), 80, 82 to 94 (inclusive)</p> <p>Part 4: paragraphs 95 to 101 (inclusive), 104, 105, 106, 107, 108, 112, 113, 114, 115, 119, 120, 121, 124, 125, 126, 127, 128</p>
<p>Non-statutory guidance</p>	<p>Parts and paragraph numbers</p> <p>Part 1: all paragraphs (in respect of the parts of this guidance that are non-statutory)</p> <p>Part 2: paragraphs 20, 23, 25, 26, 27, 28, 29, 30, 32, 33, 34</p> <p>Part 3: paragraphs 38 to 66 (inclusive), 77, 78, 79, 81</p> <p>Part 4: paragraphs 102, 103, 109, 110, 111, 116, 117, 118, 122, 123</p>

‘Must’ vs ‘Should’ vs ‘May’

12. In this Guidance, activities will be described as things trustees either ‘should’ do, ‘could’ or ‘may’ choose to do, or ‘must’ do. What this means for the purposes of the Guidance is set out below:

Should – Where ‘should’ is used in relation to preparation of the IS, it is expected that trustees will follow the approach set out in the Guidance and if they choose to deviate from that approach, they should describe concisely the reasons for doing so in the relevant section of their Implementation Statement.

Could / may – Trustees can choose to follow the approach set out in the Guidance, and are encouraged to do so where possible, but if they choose not to they are not expected to explain their reasons in their Implementation Statement or elsewhere. In the Guidance this is also framed as ‘trustees are encouraged to’.

Must – This is a requirement imposed by legislation. Failure to meet the requirement may lead to enforcement action by The Pensions Regulator.

When this Guidance should be followed

13. Trustees of occupational pension schemes that are required to prepare an Implementation Statement are required to have regard to this Guidance, in the circumstances mentioned at paragraph 7 above. However, this Guidance only concerns Implementation Statements that trustees are required to prepare in respect of any scheme year ending on or after 1 October 2022. To the extent this Guidance is non-statutory, trustees are encouraged to consider this Guidance from the date of publication.

Expiry or review date

14. DWP will revisit the extent to which this Guidance is being followed and has helped trustees understand expectations around the SIP and IS in the second half of 2023. We will review requirements on disclosures on stewardship activities at the same time.

Audience

15. This Guidance is relevant to any scheme to which section 35 of the Pensions Act 1995 applies. It is also relevant to schemes that are required to produce a default

SIP¹¹. Trustees or managers of such schemes may also wish to use this guidance when preparing their default SIP.

16. Trustees of some schemes are not required to produce a SIP or IS. These schemes are specified in regulation 6 of the Investment Regulations and include:
- A scheme which has fewer than 100 members (this does not apply to a default SIP); or
 - A scheme which is established by or under an enactment (including a local Act) and is guaranteed by a public authority.

Compliance with this Guidance

17. For occupational pension schemes, The Pensions Regulator (TPR) monitors compliance with the legislation and provides guidance about what employers and people running schemes need to do. The Department for Work and Pensions (DWP) is responsible for answering questions about the policy intentions behind the legislation. Neither DWP nor TPR can provide a definitive interpretation of the legislation which is a matter for the courts.
18. Trustees and managers should consider the Regulations referred to in this Guidance to determine whether the requirements apply to them, taking advice where necessary. Where the requirements in the Disclosure Regulations referred to in paragraph 7 relating to the preparation of an IS apply, trustees should seek to demonstrate they have had regard to the Statutory Guidance contained within this document in complying with the requirements that apply to them, for example by providing reasons for any divergence where the guidance says that trustees 'should' do something.
19. Where trustees or managers do not comply with a relevant legislative requirement of the Investment Regulations or the Disclosure Regulations, including by virtue of a failure to have regard, or to have proper regard, to the Statutory Guidance contained within this document as applicable, The Pensions Regulator may take enforcement action which includes the possibility of a monetary penalty.

Part 2: Overview

The audience for the SIP and IS

20. The Pensions Regulator is the primary audience for the SIP and trustees are encouraged to write this document in plain English as far as possible, such that a

¹¹ Regulation 2A of the Investment Regulations.

reasonably engaged and informed member could interpret and understand the disclosures.

21. **SG** The Pensions Regulator is the primary audience for the IS and this document should be written in plain English as far as possible, such that a reasonably engaged and informed member could interpret and understand the disclosures.
22. **SG** In relation to the IS, for trustees who wish to incorporate or duplicate sections from their UK Stewardship Code report, this aligns with the expectation of the Financial Reporting Council that content should be understandable to a wide audience and those without a professional background in investment, stewardship or pensions.
23. Schemes are encouraged to consider producing member-facing summary versions of the IS (with signposting to the full document) if scheme-specific research has found that members are more likely to engage with a different style of communication, such as a summary version. Schemes could also consider doing so in respect of the SIP.
24. **SG** Trustees may wish to consider, when preparing the IS, whether there is any alignment with Principle 6 of the UK Stewardship Code:

Principle 6 asks signatories to take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

In scheme members' best interests

25. Trustees are subject to a duty to act in the “best interests” of beneficiaries. The “best interests” maxim serves to keep trustees’ focus firmly on the identity of those for whose benefit their powers are to be exercised and on the fact that, in exercising their powers, the trustees cannot simply exercise powers as they think fit.
26. The Investment Regulations require trustees, unless exempt, to invest scheme assets in scheme members’ and beneficiaries’ best interests¹². Recommendation 15 of the report from the 2020 Asset Management Taskforce¹³ recommended that: “UK pension schemes should be required to explain how their stewardship policies and activities are in scheme members’ best interests”.
27. When considering investment decisions/setting investment strategy, trustees should take into account all factors that are financially material to the performance of an investment. The Pensions Regulator provides guidance to

¹² Regulation 4(2) of the Investment Regulations.

¹³ [Asset Management Taskforce proof7.pdf \(theia.org\)](#)

help trustees of DC schemes identify and assess whether financial factors are material. For example, it says:

- “a relatively minor negative financial factor for the default fund or default arrangement may have an impact on a very high proportion of the scheme membership and may be of a material concern to you. On the other hand, a material negative financial factor for an additional self-select fund, in which only a handful of members are invested, will still be a significant issue to members impacted by it, and therefore will also be a material concern to you; and
- you may also need to consider the proportion of a fund that is owned by your scheme, particularly where you have been involved in its specific design. For instance, careful consideration may be needed in relation to the early days where the fund viability might be compromised by any meaningful disinvestment (for example a member transferring out), exposing remaining members to excessive costs or a sub-optimal investment strategy (possibly over-weight in the more illiquid elements of the portfolio); and
- determining what will constitute a financially material consideration will often involve professional judgement; and
- many members will be invested in the same fund for many years if not decades into the future. The ultimate benefits received by a member will largely depend on the performance of the fund. You are required to consider your policy on financially material considerations over the appropriate time horizon for your members.”¹⁴

28. Guidance for trustees on financial factors is also available in relation to DB schemes¹⁵.

29. Although ‘best interests’ is usually taken to mean the best financial interests of beneficiaries, the Law Commission has said that the law is sufficiently flexible to also allow non-financial concerns to be taken into account in certain circumstances¹⁶.

30. The line between financial and non-financial factors is not always clear. DWP encourages trustees, if it is practical to do so, to keep under review non-financial factors that may not immediately present as financially material but have the potential to become so, particularly for schemes with a long-term horizon.

31. **SG** In reporting on implementation of SIP policies in the IS, trustees could describe how implementation of policies has driven long-term value for beneficiaries.

¹⁴ [Investment DC pension schemes | The Pensions Regulator](#)

¹⁵ [Investing to fund DB | The Pensions Regulator](#)

¹⁶ See paragraph 6.101 of [Law Commission, “Fiduciary Duties of Investment Intermediaries”, 2014 \(HC 368\)](#).

32. Pension scheme trustees are encouraged to explain how their stewardship policies are in scheme members' and beneficiaries' best interests in the SIP.
33. Trustees may wish to consider, when preparing the SIP, whether there is any alignment with Principle 1 of the UK Stewardship Code:

Principle 1 relates to 'Purpose and Governance': signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

This Principle includes the expectation that signatories should disclose an assessment of how effective they have been in serving the best interests of clients and beneficiaries.

Ownership of the documents

34. Trustees have responsibility for the SIP. Prior to preparing or revising a SIP, trustees must obtain and consider the written advice of a person who is reasonably believed by the trustees to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes¹⁷. However, the trustees own the policies set out in the SIP.
35. **SG** Trustees also have responsibility for the IS. They are not required to obtain or consider the advice of an adviser in preparing their IS. Trustees may choose to do so, but it is their choice.

Streamlining reporting

36. **SG** This Guidance aims to provide clarity around schemes using sections of other disclosures, for example disclosures made under the UK Stewardship Code¹⁸, for the purposes of the IS.
37. **SG** Trustees can include material from voluntary disclosures, such as Stewardship Code reports, in the IS but must adhere to the relevant legal requirements that are applicable (including in accordance with regulations 12 and 29A of the Disclosure Regulations 2013) and, as relevant, have regard to the relevant statutory guidance in doing so. Trustees must not simply cross-refer to existing disclosures, or annex existing disclosures to the IS and cross-refer to the annexed material in the IS, without also providing a statement in the IS which covers the matters prescribed¹⁹. Where trustees include information from other report(s) in the IS, they must ensure that the IS can be read and understood as a standalone document.

¹⁷ See section 35(3) of the Pensions Act 1995 and regulation 2(2)(a) of the Investment Regulations.

¹⁸ "[The UK Stewardship Code 2020](#)", the Financial Reporting Council.

¹⁹ The Disclosure Regulations, Schedule 3, paragraph 30(1)(ca) and (f).

Part 3: Stewardship, engagement, and significant votes

38. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society²⁰.

39. Some of the ways trustees can be responsible stewards in relation to the scheme's assets are:

- in the appointment of asset managers that invest on their behalf
- in how assets are allocated
- and in monitoring, engaging and where necessary, intervening on matters which may affect the value of investments.

40. The issues upon which schemes may act as good stewards encompass – but are not limited to – environmental, social and governance factors. When formulating a stewardship policy and covering that policy in the SIP, trustees may wish to consider how the companies they are invested in approach the following matters²¹:

- the effective application of the UK Corporate Governance Code and other governance codes;
- directors' duties, particularly those matters to which directors must have regard under section 172 of the Companies Act 2006;
- capital structure, risk, strategy and performance;
- diversity, remuneration and workforce interests;
- audit quality;
- environmental and social issues, including climate change; and
- compliance with covenants and contracts.

41. Stewardship covers not only listed equities, but also asset classes such as property, bonds, infrastructure and private equity. It covers assets invested both domestically and globally.

²⁰ [“The UK Stewardship Code 2020”](#), the Financial Reporting Council, page 4.

²¹ [“The UK Stewardship Code 2020”](#), page 5.

The SIP: trustees taking “ownership” of stewardship

42. Trustees must cover in their scheme’s SIP their policies on stewardship, including engagement and voting, as well as their policies in relation to other matters such as financially material ESG considerations (covered in Part 4 of this guidance). The SIP must be published.
43. DWP expects trustees to either set their own voting policy or if they have not set their own policy, explain in the SIP how they will monitor their asset manager’s voting policy. Ultimately, trustees are encouraged to take ownership of the scheme’s stewardship. This means trustees are discouraged from simply reporting that they have delegated stewardship to their asset managers.
44. Regulation 2(3)(c)(ii) of the Investment Regulations makes clear that the SIP must cover the trustees’ policy in relation to undertaking engagement activities in respect of investments including “methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters”. Relevant persons “includes (but is not limited to) an issuer of debt or equity, an investment manager, another stakeholder²² or another holder of debt or equity” (regulation 2(4)). Trustees cannot, therefore, simply state in the SIP that they delegate engagement with issuers of debt and equity to their investment managers. They need to also – for example – explain in the SIP how they will monitor and engage with the investment managers about relevant matters²³.
45. A good strategy could be for trustees to summarise the schemes’ stewardship priorities or themes in the SIP or provide links to their managers’ policies on those stewardship priorities if available. A good stewardship policy would cover both voting and engagement, but it is acknowledged that stewardship is broader than this.
46. What constitutes a stewardship priority or theme will vary from scheme to scheme. It will depend on factors like the trustees’ investment beliefs, their assessment of the risks to which the scheme is exposed, members’ and beneficiaries’ best interests, the scheme’s culture, values and business model, trustees’ analysis of their membership demographic and their scheme’s investment horizon, or the distribution of holdings invested across particular sectors or asset classes.
47. Trustees may wish to consider, when preparing the SIP, whether there is any alignment with Principle 1 of the UK Stewardship Code:

²² “Stakeholder” is defined in regulation 2(4) of the Investment Regulations as a person or a group of persons who has an interest in the issuer of debt or equity.

²³ “Relevant matters” is defined in regulation 2(4) of the Investment Regulations. This includes (but is not limited to) matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

Principle 1 asks signatories to explain not just their strategy but also their culture, values, and business model.

48. Stewardship priorities of investors across the market have evolved in recent years and may keep on doing so. Examples of stewardship priorities include climate change, biodiversity, board remuneration and modern slavery. Trustees will be influenced by risk/return outcomes for members and beneficiaries and may focus on different stewardship priorities to the ones listed in this Guidance. Stewardship priorities may need to reflect the extent of exposure and particular challenges of specific sectors and asset classes in which the scheme is invested.

49. Trustees may wish to consider, when preparing the SIP, whether there is any alignment with Principle 7 of the UK Stewardship Code:

Principle 7 asks signatories to integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

50. Once trustees have selected the scheme's stewardship priorities or themes, it is recommended that where practical to do so, trustees identify whether there are any particular aspects within that priority or theme which are important to the scheme and members and beneficiaries. Trustees are not expected to take non-financial factors into account but may wish to do so.

51. For example, if the stewardship priority is climate change, which points in relation to climate-related risks and opportunities are the trustees planning to engage and vote on, or select or encourage their asset managers to engage and vote on? The trustees may wish to include these details in the SIP.

52. Trustees may wish to consider, when preparing the SIP, whether there is any alignment with Principle 9 of the UK Stewardship Code:

Principle 9 asks signatories to explain how they have selected and prioritised engagement (for example, key issues and/or size of holding); and how they have developed well-informed and precise objectives for engagement with examples.

53. Trustees are encouraged to briefly explain in their SIP why they have selected their stewardship priorities, with reference to why they believe these to be in members' best interests. This will help members understand what drives the scheme's stewardship agenda.

54. Trustees may find it helpful to look at existing resources to help with stewardship, such as the UK Stewardship Code signatory list and reports, the Pension and Lifetime Savings Association (PLSA)'s 2021 Stewardship and Voting Guidelines²⁴ and the Association of Member Nominated Trustees (AMNT)'s Red Lines Voting

²⁴ [Stewardship and Voting Guidelines 2021 \(plsa.co.uk\)](https://www.plsa.co.uk). The [PLSA's Stewardship Guide and Voting Guidelines 2020](#) is also useful because it touches more on the engagement aspect of stewardship.

Initiative²⁵. These could be used, for example, as a benchmark against which to hold asset managers to account.

The SIP: monitoring asset managers and engagement

55. Stewardship includes activities like considering the covenant terms that apply to bonds and rights attaching to private equity; but voting in particular is an important stewardship tool, and, under regulation 2(3)(c)(i) of the Investment Regulations, the SIP must cover the trustees' policy in relation to the exercise of voting rights attaching to the investments. Many pension schemes invest in pooled funds. In a pooled fund arrangement, the asset owner (the pension scheme's trustee body) does not directly own the shares but has an economic interest in the pooled fund.

56. There are reported problems with splitting the vote in pooled funds, including legal barriers in terms of ownership, IT and operational problems, a weakening of the asset manager's voice and regulatory barriers²⁶. However, the Taskforce on Pension Scheme Voting Implementation (TPSVI) has concluded that none of these problems appear material or insuperable²⁷. Trustees have several options to be actively engaged and advocate for the scheme's policies, even when invested in pooled funds, whether directly or via fund platforms. The following examples may be covered in the SIP:

²⁵ Association of Member Nominated Trustees, "The Red Lines Voting Instructions – Environmental, Social and Corporate Governance", (2021).

²⁶ [The report of the Taskforce on Pension Scheme Voting Implementation: Recommendations to Government, Regulators and Industry, September 2021](#). Page 17, paragraph 44.

²⁷Page 24, paragraph 62.

<p>Selecting and appointing asset and fiduciary managers</p>	<p>Asset manager / fiduciary manager selection and appointment is an ideal time for trustees to put questions to potential asset managers about stewardship.</p> <p>Before deciding which asset manager or fiduciary manager to appoint, trustees could carry out a detailed review of asset managers' voting/stewardship activities and outcomes to determine how well they align with the schemes' stewardship themes and priorities. Stewardship Code reporting, and better voting disclosure will help ensure good information is available. Proactive engagement/advice from investment consultants can also help.</p> <p>Trustees could also express their preferences regarding ESG and stewardship approaches with prospective asset managers, to check alignment. At the time the asset manager / service provider is selected, trustees are encouraged to ask whether they accept and are prepared to take into account expressions of wish or collective voting policies (see below).</p> <p>This aligns with the reporting expectations of Principle 7 of the Stewardship Code, under which "signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them".</p> <p>Trustees may include something about selecting and appointing asset and fiduciary managers in the SIP.</p>
<p>Setting an expression of wish</p>	<p>In a pooled fund arrangement, the asset owner does not directly own the shares in the fund – but the asset owner does have an interest in how the fund is managed.</p> <p>Trustees cannot direct asset managers to follow their scheme's voting policy. However, trustees can set an expression of wish. In the context of voting, an expression of wish is a request from an asset owner to their managers to vote on certain issues in a particular way.</p> <p>An expression of wish is distinct from client-directed voting. An expression of wish is not binding upon asset managers, and it is up to asset managers whether to take on board the expression of wish or not.</p> <p>Trustees can use the selection and appointment processes to probe whether their prospective asset manager is willing to accept requests to vote on certain matters in a particular way. Moreover, trustees can use the ongoing monitoring process to check that their asset managers hold true to any promises they make around taking expressions of wish into account.</p> <p>DWP sees no reason why trustees should not be able to set an expression of wish if trustees want to do so if it is aligned with their fiduciary duties. One example of this is the service offered by AMX and DWS²⁸ and we hope to see more asset managers offer this flexibility to their clients. Where trustees do set an expression of wish, they may explain what it entails in the SIP.</p>

<p>Collective voting policies</p>	<p>Trustees can use collective voting policies, like the AMNT’s Red Lines²⁹, a set of voting policies covering a wider range of environmental, social and governance issues.</p> <p>Those who adopt the Red Lines will ask their asset managers to comply with them. The asset managers are at liberty to vote contrary to those voting instructions if in their judgement it is more appropriate to do so, but if they do, they are expected by the asset owner(s) to explain why they did through appropriate reporting. Where collective voting policies are used, schemes are encouraged to incorporate these reporting requirements into their contractual arrangements.</p> <p>Collective voting policies may be explained in the SIP.</p>
<p>Asset manager engagement and monitoring</p>	<p>Schemes are encouraged to engage with asset managers at least annually to discuss voting policies and set out their viewpoints and issues of interest ahead of each voting season. This can be done individually or with other like-minded schemes.</p> <p>Trustees could check whether the asset manager’s voting behaviour to date has been aligned to the scheme’s stewardship policy, themes and priorities. If it hasn’t, the trustees could either implement an alternative mandate with that asset manager or decide to review or replace the asset manager(s). This aligns with Principle 8 of the Stewardship Code, which expects signatories to explain how they have monitored service providers to ensure services have been delivered to meet their needs.</p> <p>This may be explained in the SIP.</p>
<p>Collaborative investor initiatives</p>	<p>Trustees can join collaborative investor initiatives, such as Climate Action 100+, the Investor Forum or the Occupational Pensions Stewardship Council, which is a forum for pension schemes to share stewardship best practice and drive up standards. This aligns with Principle 4 of the Stewardship Code, which includes an expectation that signatories will explain how they have worked with other stakeholders to promote the continued improvement of the functioning of financial markets. This also aligns with Principle 10, under which signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf.</p> <p>Trustees may wish to explain, in the SIP, any collaborative initiatives they are involved in.</p>

57. Trustees are required to cover in their SIP their policy in relation to undertaking engagement activities in respect of the investments³⁰ (including the methods by which, and the circumstances under which, trustees would monitor and engage

²⁸ [Perspective: Pooled investors gain a vote | Features | IPE](#)

²⁹ AMNT Red Lines are developed solely for use with companies listed on the London Stock exchange.

³⁰ DWP’s 2018 changes to the Investment Regulations 2005 broadened the scope of stewardship in the SIP to include engagement.

with “relevant persons” about “relevant matters”). “Relevant persons” includes “investment managers”, also known as asset managers and fiduciary managers. Therefore, trustees must cover in the SIP, what their policy is on engaging with asset managers about “relevant matters”³¹. An issuer of debt or equity is also a “relevant person”. Therefore, where schemes (trustees) hold assets directly, they must also cover their policies in relation to engagement with the issuers of those assets about “relevant matters”.

58. Many pension schemes will not carry out engagement with investee companies directly. In the SIP, trustees are encouraged to cover how they ensure that anyone conducting engagement activities on their behalf is aware of their approach to stewardship – including engagement - especially which ESG factors and other priorities the trustees believe should be a key focus for their scheme.
59. Trustees are encouraged to ask their asset managers questions about stewardship as part of the appointment process to check: a) how the manager sees stewardship and engagement, and b) whether the manager’s approach is aligned with the scheme’s approach to stewardship³². UK Stewardship Code reports are a good source of information about a manager’s approach to stewardship. The approach any individual manager takes to stewardship and engagement may evolve over time and trustees are encouraged to continue to ask asset managers questions about their approach to engagement, as part of the ongoing monitoring process. It is good practice for trustees to work with advisers to check the effectiveness of the asset manager’s approach to engagement.
60. Voting activity could be considered alongside trustees’ ongoing engagement and dialogue with asset managers and issuers and the broader stewardship strategy. There are different types of engagement activity: individual engagement is where the investors – including trustees – engage directly with issuers; collaborative engagement involves another level of interaction and collaboration with other investors.
61. There are also different approaches to engagement – “broadcast” approaches such as letters to multiple investee companies in one fell swoop, using “formal” forums such as company earnings calls and Annual General Meetings, and “bespoke” and tailored two-way engagement. Each of these can be carried out individually or collaboratively³³.

³¹ See footnote 23 on page 10.

³² Subparagraph (b) aligns with Principle 7 of the UK Stewardship Code 2020, which asks signatories to disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them.

³³The Investor Forum has developed a [spectrum of different engagement strategies](#) which trustees may find useful.

62. A good stewardship policy will include an escalation strategy³⁴, which helps trustees – and those acting on their behalf – convey expectations to companies about how they will amplify the exercise of rights including voting, engagement and other stewardship tools and activities where companies do not respond to the schemes’ stewardship efforts to date. It is up to individual schemes to decide what an effective escalation strategy looks like for them.

63. Trustees may wish to consider alignment with Principle 11 of the UK Stewardship Code when preparing the SIP:

Principle 11 asks signatories to, where necessary, escalate stewardship activities to influence issuers.

64. Voting and engagement can be used in conjunction with each other. Where engagement is well-received by the company, trustees could still consider using voting rights to send a signal to the company about what their expectations are.

The SIP: case study of an effective voting policy³⁵

65. We note that voting policies will differ and be more appropriate depending on the type of scheme and asset classes involved.

66. The following is an example of what a good voting policy might look like.

Voting policy on ESG³⁶	Factors that make this policy effective
<p><i>CLIMATE CHANGE AND TCFD REPORTING</i></p> <p>We expect companies to begin reporting climate governance, strategy, policies and performance against the TCFD’s disclosure framework. If companies do not meet this expectation, the scheme may take a number of actions including:</p> <ul style="list-style-type: none"> • Co-filing or supporting a shareholder resolution on the issue; • Voting against the company’s report and accounts; 	<p>The voting policy explicitly asks companies to adhere to the TCFD recommendations, rather than just asking what the companies are doing on TCFD.</p> <p>The policy then explicitly states what voting action may be taken, if the company does not align with the scheme’s stewardship policy.</p>

³⁴ Principle 11 of the UK Stewardship Code 2020 requires signatories, where necessary, to escalate stewardship activities to influence issuers.

³⁵ Good engagement policies would contain similar asks but also clearly set out a process for escalation, including voting and where appropriate disposal, in the event that the engagement is unsuccessful.

³⁶ Some aspects of these examples have been taken from actual policies.

- | | |
|---|--|
| <ul style="list-style-type: none"> • Voting against the reappointment of the Board Committee Chair responsible for climate change issues; • Voting against the Chair, reappointment of the auditor (where the auditor's report does not reference climate change), or the reappointment of the Audit Chair. | |
|---|--|

The Implementation Statement (IS)

67. **SG** The IS must state how, and the extent to which, in the opinion of the trustees, the policy covered in the SIP regarding the exercise of the rights (including voting rights) attaching to the investments and the undertaking of engagement activities in respect of the investments has been followed – how action has followed intent. The IS must also include a description of voting behaviour by, or on behalf of trustees (including the most significant votes cast by, or on behalf of, the trustees) during the year and state any use of a proxy voter during that year. There are some exemptions in respect of wholly-insured schemes³⁷. There are additional wider requirements for DC schemes or hybrid schemes with a DC section (excluding certain schemes³⁸): the IS must include details of how and the extent to which, in the opinion of the trustees, the SIP has been followed during the year.

The IS: engagement

68. **SG** Shareholder engagement is a key stewardship tool. Engagements can be concentrated in anticipation of the company's Annual General Meeting, but they also occur throughout the year. Engagements can take place over an extended period and effective engagement may involve revisiting the issue over several months or years, to work towards key milestones.

69. **SG** In the IS, trustees could consider including the following content on engagement, either in relation to the trustees or any asset manager acting on their behalf:

- details of the engagement objectives that have been set;
- examples of engagement³⁹ with asset managers and companies or other issuers, including the situation in which engagement took place, the process they followed and the outcome of the engagement;

³⁷ See paragraph 30(2) of Schedule 3 to the Disclosure Regulations.

³⁸ See footnote 5 of this guidance.

³⁹ See Principle 9 of the UK Stewardship Code for examples of engagement methods.

- examples of collaborative engagement⁴⁰;
- how engagement has differed for funds, assets, or geographies⁴¹;
- whether engagement has been escalated, and how, if it has not been initially effective;
- any use of fintech solutions to facilitate engagement.

70. **SG** Trustees can include other information in the IS about engagement, particularly information that is useful for members.

71. **SG** Trustees can include information in the IS from other reports, e.g. their UK Stewardship Code report, where it meets the legal requirements in relation to the IS. There is potential alignment between the following principles of the UK Stewardship Code and the content of the IS relating to engagement:

Principle 8 asks signatories to monitor and hold to account managers and / or service providers.

Principle 9 asks signatories to engage with issuers to maintain or enhance the value of assets.

Principle 10 asks signatories to, where necessary, participate in collaborative engagement to influence issuers.

Principle 11 asks signatories to, where necessary, escalate stewardship activities to influence issuers.

The IS: voting behaviour

72. **SG** Trustees must describe in the IS the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year. When describing voting behaviour during the preceding scheme year, in the IS, trustees should include relevant statistics to help describe voting behaviour and outcomes.

73. **SG** A better IS will break voting statistics down into types of issue, including environmental, social and governance issues.

74. **SG** Where trustees have their own policy but voting on an investment is controlled by another person (e.g. asset manager), trustees should explain in the IS whether the voting undertaken on their behalf was reflective of the scheme's voting policy. Where the person exercising voting rights on behalf of the trustees

⁴⁰ Principle 10 UK Stewardship Code.

⁴¹ This aligns with some of the reporting expectations of Principle 9 (UK Stewardship Code).

has not voted in a way that reflects the scheme's voting policy, the trustee should explain in the IS why that was the case and include any reasoning.

75. **SG** Trustees may wish to use the PLSA Vote Reporting Template⁴² to request voting data from asset managers or any other third-party making decisions on the trustees' behalf, to help understand how votes were exercised on their behalf, and why.
76. **SG** If asset managers, or any other third party making decisions on the trustees' behalf, are unable to give the trustees details of significant votes or other voting information in time for the publication of the IS, trustees should include as much detail as possible, including what information is missing and why the information is missing, for example, if it is missing because it was requested from asset managers but not provided.
77. Trustees are encouraged to indicate in the IS whether they have agreed with asset managers a process by which voting data will be provided on a timely basis to enable the preparation of future Implementation Statements.
78. Where UK-authorized asset managers have not provided voting information to trustees, trustees are encouraged to challenge this with their asset manager. UK-authorized asset managers who manage investments for professional clients are required by the Financial Conduct Authority's Conduct of Business Sourcebook to disclose clearly on their website, or if they do not have a website in another accessible form, the nature of their commitment to the UK Stewardship Code or, where they do not commit to the Code, to disclose their alternative investment strategy⁴³.
79. Voting is an integral part of the Stewardship Code. Under Principle 6 signatories (including asset managers) should explain in their Stewardship Code report "what they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided, methods and frequency of communication to enable them to fulfil their stewardship reporting requirements". Similarly, the 2021 report from the Taskforce on Pension Scheme Voting Implementation recommended that asset managers and their trade bodies sign up to the principle of answering all reasonable requests on their voting and stewardship activity. Trustees need voting information in order to fulfil their stewardship reporting (and IS reporting) and will be dependent at times on their asset managers for this information.
80. **SG** The IS must state any use of a proxy voter during the year⁴⁴.

⁴² [Vote reporting template for pension scheme implementation statement - Guidance for Trustees \(plsa.co.uk\)](https://plsa.co.uk)

⁴³ [FCA Conduct of Business Sourcebook](#), Chapter 2, Conduct of business obligations, 2.2.3.

⁴⁴ Subject to paragraph 30(2) of Schedule 3 to the Disclosure Regulations 2013, which contains an exemption for wholly-insured schemes.

81. Where trustees use the voting policy of the asset manager, they are encouraged to briefly summarise in the IS how the manager's voting policy relates to the scheme's stewardship priorities.
82. **SG** Where trustees use the voting policy of the asset manager, they should briefly summarise in the IS whether the asset manager's voting behaviour was aligned with the scheme's stewardship priorities.
83. **SG** Where the trustee has set an expression of wish on voting in relation to any particular investment held, they should indicate in the IS whether this has been taken into account by their asset manager, when describing voting behaviour.
84. **SG** Trustees can provide links to their managers' voting policies if applicable.
85. **SG** The IS is an opportunity for trustees to set out any steps they took to maximise influence over the way in which votes have been cast. Trustees should explain in the IS whether, and how, they made clear to their managers what they considered to be the most significant votes in advance of those votes being taken.

The IS: most significant votes

86. **SG** Tens of thousands of votes are cast during every AGM season but what constitutes a most significant vote will vary from scheme to scheme, in the same way that stewardship priorities will differ. Asset managers and trustees may also have different views regarding what constitutes a most significant vote for an investment within the scheme's portfolio.
87. **SG** It is likely and desirable that most significant votes are aligned with the scheme's stewardship priorities or themes. A thematic approach towards most significant votes allows trustees to consider the links between the schemes' stewardship priorities and voting behaviour. For example, if the stewardship priority is climate change, the most significant votes included in the IS could be related to that priority.
88. **SG** Where a thematic approach is taken to significant votes, trustees should include in the IS how the voting activity links to any stewardship priorities identified. A thematic approach to significant votes may be particularly relevant for schemes with highly diversified portfolios that are exposed to system-wide⁴⁵ or thematic risks such as global pandemics or climate change.
89. **SG** It is important to recognise that a vote could still be significant, even if it does not relate to a scheme's stewardship priorities / themes. For example, it may be deemed a most significant vote for a fund to vote against the re-election of a

⁴⁵ See Principle 4 of the UK Stewardship Code

director, or for a remuneration policy or report, even though these have not been issues identified as stewardship priorities or themes for the scheme.

90. **SG** Examples of significant votes could include:

THEMATIC APPROACH	
<i>Climate Change</i>	If a stewardship priority is climate change, a vote requiring publication of a business strategy that is aligned with the Paris Agreement on climate change could be most significant.
<i>Biodiversity</i>	There is a voting opportunity in private equity, infrastructure or other asset classes, relating to biodiversity priorities, to influence companies to address the impact of biodiversity loss.
<i>Modern Slavery</i>	The vote relates to identification and elimination of modern slavery in supply chains, which is one of the schemes' stewardship priorities.
OTHER SIGNIFICANT VOTES	
<i>Size of holding</i>	For example, a vote in companies where the pension scheme holds over 5%.
<i>Governance</i>	A vote against the Chair of the nomination committee where the board is not sufficiently diverse or a vote against a director who is not independent.
<i>Remuneration</i>	A vote against a remuneration report where executives are awarded bonuses despite missing targets.
<i>Financial outcomes</i>	For example, a vote which has the potential to substantially impact financial or stewardship outcomes, for example through over-leveraging the business or through implementing proposals that would weaken the corporate governance.

91. **SG** Trustees should include a brief reason in the IS for why a vote has been categorised as most significant. This can help with an understanding of the voting behaviour.

92. **SG** Trustees must report all the most significant votes in the IS. The IS should include a narrative explaining why each vote is significant, what the vote was, and why the scheme voted in the way it did. Trustees should include the following information in relation to the most significant votes:

- The company's name (unless there are particular sensitivities around disclosing this) and date of the vote(s).
- Why the trustee considers the vote to be most significant and if the vote relates to a stewardship priority / theme, which one?
- Approximate size of the scheme's/ mandate's holding as at the date of the vote (this could be as a percentage of the portfolio).
- A summary of the resolution.
- How the trustee, asset manager, or service provider voted.
- If the vote was against management, whether the intention was communicated to the company ahead of the vote.
- An explanation of the rationale for the voting decision, particularly where: there was a vote against the board; there were votes against shareholder resolutions; a vote was withheld; or the vote was not in line with voting policy.
- The outcome of the vote.
- Next steps, including whether the trustee / asset manager / service provider intends to escalate stewardship efforts.

93. **SG** Where the asset manager votes on the scheme's behalf, the trustee should decide which of those votes are most significant, and must include those in the IS.

94. **SG** In the IS, trustees can use information included in other reports, for example UK Stewardship Code reports, where that information meets the legal requirements in relation to the IS. For example, trustees may wish to consider, when preparing the IS, whether there is any alignment with Principle 12 of the UK Stewardship Code. This asks signatories to actively exercise their rights and responsibilities:

For listed equity assets, signatories should:

- disclose the proportion of shares that were voted in the past year and why;
- provide a link to their voting records, including votes withheld if applicable;

- explain their rationale for some or all voting decisions, particularly where:
 - *there was a vote against the board;*
 - *there were votes against shareholder resolutions;*
 - *a vote was withheld;*
 - *the vote was not in line with voting policy.*
- explain the extent to which voting decisions were executed by another entity, and how they have monitored any voting on their behalf; and
- explain how they have monitored what shares and voting rights they have.

For fixed income assets, signatories should explain their approach to:

- seeking amendments to terms and conditions in indentures or contracts;
- seeking access to information provided in trust deeds;
- impairment rights; and
- reviewing prospectus and transaction documents

Part 4: Other topics

The IS: reviewing and updating a SIP – content in the IS for DC and hybrid schemes

95. **SG** Under paragraph 30(1)(f)(ii)-(iv) of Schedule 3 to the Disclosure Regulations, where section 35 of the Pensions Act 1995 applies to DC schemes and hybrid schemes providing DC benefits, trustees of such schemes (subject to certain exceptions)⁴⁶ are obliged to describe in the IS any review of the SIP which has taken place during the year in accordance with regulation 2(1) of the Investment Regulations, and any other review of how the SIP has been met, to explain any change made to the SIP during the year and the reason for the change, and

⁴⁶ See footnote 5 on page 2.

where no review was undertaken during the year in accordance with regulation 2(1) of the Investment Regulations, give the date of the last review.

96. **SG** The information to be included in the IS to meet the obligations as above only needs to include key points.

97. **SG** No further explanation is required on the preparation and review of, or consultation on, the Statement of Investment Principles under paragraph 30(1)(f)(i) of Schedule 3.

98. **SG** Trustees may wish to consider, when preparing the IS, whether there is any alignment with Principle 5 of the UK Stewardship Code:

Principle 5 asks signatories to explain how they have reviewed their policies to ensure they enable effective stewardship.

The IS: compliance with requirements on choosing investments – content in the IS for DC and hybrid schemes

99. **SG** Where section 35 of the Pensions Act 1995 applies to DC schemes and hybrid schemes providing DC benefits, trustees of such schemes (subject to certain exceptions⁴⁷) must set out in the IS how, and the extent to which, in the opinion of the trustees, the SIP has been followed during the year. This includes their policy for securing compliance with the requirements imposed under section 36 of the Pensions Act 1995⁴⁸ on choosing investments.

100. **SG** Where this requirement applies, in any instance where trustees have not acted in line with their policy, they should set out the occasions and the reasons for this, and what action, if any, is planned or has already been taken to remedy the position.

101. **SG** In practice, trustees may choose to give this explanation, where applicable, by including in the IS the information required to be included in their investment report under paragraphs 30(1)(a) and (b) of Schedule 3 to the Disclosure Regulations.

⁴⁷ See footnote 5 on page 2.

⁴⁸ https://www.legislation.gov.uk/ukpga/1995/26/pdfs/ukpga_19950026_310319_en.pdf

The SIP: investment strategy – content in the SIP

102. Under regulation 2(3)(b)(i) to (v) of the Investment Regulations, a SIP must cover trustees' policies in relation to the kinds of investments to be held; the balance between different kinds of investments; risks (including the ways in which risks are to be measured and managed), the expected return on investments and the realisation of investments. Under regulation 2A(1)(b) of the Investment Regulations, a default SIP must also cover trustees' policies in relation to these matters in respect of the default arrangement.
103. Schemes are encouraged to ensure that content covering these policies is informative for the audience and does not just state that matters have been delegated to asset managers.

The IS: investment strategy – content in the IS for DC and hybrid schemes

104. **SG** Where section 35 of the Pensions Act 1995 applies to DC schemes and hybrid schemes providing DC benefits, trustees of such schemes (subject to certain exceptions⁴⁹) must set out in their IS how, and the extent to which, in the opinion of the trustees, the policies covered in the SIP that are referred to in regulation 2(3)(b)(i) to (v) in the Investment Regulations have been followed during the year.
105. **SG** These policies relate to the kinds of investments to be held; the balance between different kinds of investments; risks, including the ways in which risks are to be measured and managed; the expected return on investments; and the realisation of investments.
106. **SG** Trustees may wish to consider, when preparing the IS, whether there is any alignment with Principle 4 of the UK Stewardship Code:
- Paragraphs 104 and 105 have some alignment with Principle 4, which asks signatories to identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
107. **SG** Where the requirement referred to in paragraph 104 applies, in any instance where trustees have not acted in line with these policies, they should set out the occasions and the reasons for this, and whether action is necessary to remedy the situation.

⁴⁹ See footnote 5 on page 2.

108. **SG** In practice, trustees may choose to give this explanation, where applicable, by including in the IS the information required to be included in their investment report under paragraphs 30(1)(a) and (b) of Schedule 3 to the Disclosure Regulations.

The SIP: financially material considerations (including ESG and climate change) – content in the SIP

109. Under regulation 2(3)(b)(vi) of the Investment Regulations a SIP must cover the trustees' policy in relation to financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments. Under regulation 2A(1)(b) of the Investment Regulations, a default SIP must cover the trustees' or managers' policy in relation to these matters in respect of the default arrangement.

110. Trustees are encouraged to identify and report in the SIP which financially material risks and opportunities particularly affect their investments. This helps trustees to set some baseline expectations when engaging with others, particularly asset managers.

111. Trustees are encouraged to explain in the SIP how they ensure that their policies in relation to financially material considerations are aligned with the approaches of their asset managers. When selecting asset managers, trustees could ask potential asset managers whether they are signatories of the UK Stewardship Code.

The IS: financially material considerations (including ESG and climate change) – content in the IS for DC and hybrid schemes

112. **SG** Where section 35 of the Pensions Act 1995 applies to DC schemes and hybrid schemes providing DC benefits, trustees of such schemes (subject to certain exceptions⁵⁰) must set out in the IS how, and the extent to which, in the opinion of the trustees, the policies in their SIP in relation to financially material considerations (including ESG considerations, including climate change) have been followed during the year.

⁵⁰ See footnote 5 on page 2.

113. **SG** Where this requirement applies, the IS should outline how these considerations were taken into account in the selection, retention and realisation of investments.
114. **SG** Signatories to the UK Stewardship Code may wish to include relevant content from their Stewardship Code reports, providing that information meets the legal requirements of the IS.
115. **SG** Trustees may wish to consider, when preparing the IS, whether there is any alignment with Principle 7 of the UK Stewardship Code:

Principle 7 asks signatories to systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

The SIP: non-financial matters – content in the SIP

116. Under regulation 2(3)(b)(vii) of the Investment Regulations a SIP must cover the trustees' policy in relation to the extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments. Under regulation 2A(1)(b) of the Investment Regulations, a default SIP must cover the trustees' or managers' policy in relation to these matters in respect of the default arrangement. Non-financial matters are defined in regulation 2(4) of the Investment Regulations as "the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the trust scheme".
117. While trustees are not required to take account of non-financial matters, trustees or managers of relevant multi-employer schemes are required to make arrangements to encourage members of the scheme, or their representatives, to make their views on matters relating to the scheme known to the trustees or managers⁵¹. This could include views about its investments and its stewardship.
118. Trustees of other schemes are encouraged to have a mechanism by which members may express views about the consideration of non-financial matters in the selection, retention and realisation of investments, including about stewardship. This is particularly the case where savers directly bear the financial risk, as in DC schemes, DC sections of dual-section hybrid schemes, some mixed benefit hybrid schemes and cost sharing schemes. In relation to

⁵¹ [Regulation 29 of the Occupational Pension Schemes \(Scheme Administration\) Regulations 1996. Regulation 1\(2\) of those Regulations defines 'relevant multi-employer scheme'.](#)

investments, trustees are encouraged to make it possible for savers to express views on both self-select options and any default arrangements.

The IS: non-financial matters – content in the IS for DC and hybrid schemes

119. **SG** Where section 35 of the Pensions Act 1995 applies to DC schemes and hybrid schemes providing DC benefits, trustees of such schemes (subject to certain exceptions⁵²) must set out in their IS how, and the extent to which, in their opinion, their policy covered in the SIP in relation to the extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments has been followed during the year.
120. **SG** In the IS, trustees subject to this requirement should explain what actions, if any, they have taken in relation to the selection, retention and realisation of investments, as a result of member and beneficiary views.
121. **SG** They can use information included in other reports, including their UK Stewardship Code report, providing that information meets the legal requirements in relation to the IS.

The SIP: arrangements with asset managers – content in the SIP

122. Under regulation 2(3)(d) of the Investment Regulations, the SIP must cover the trustees' policies in relation to arrangements with asset managers, setting out the following, on a "comply or explain basis":
- i. how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with trustees' policies⁵³;
 - ii. how that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term;
 - iii. how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies⁵⁴;

⁵² See footnote 5 page 2.

⁵³ These are the policies mentioned in regulation 2(3)(b) of the Investment Regulations.

⁵⁴ These are the policies mentioned in regulation 2(3)(b) of the Investment Regulations.

- iv. how the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range (where standardised cost reporting templates are used with asset managers, such as the CTI template⁵⁵ we encourage trustees to make reference to this); and
 - v. the duration of the arrangement with the asset manager⁵⁶.
123. We would also encourage any policies for the retention or removal of asset managers to be included in the SIP.

The IS: arrangements with asset managers – content in the IS for DC and hybrid schemes

124. **SG** Where section 35 of the Pensions Act 1995 applies to DC schemes and hybrid schemes providing DC benefits, trustees of such schemes (subject to certain exceptions⁵⁷) must set out in the IS how, and the extent to which, in the opinion of the trustees, their policies covered in the SIP in relation to arrangements with asset managers have been followed during the year.
125. **SG** Where this requirement applies, the IS should explain to the extent these are covered in the trustee's policy, how mandates have integrated stewardship in the investment time horizons, and what monitoring has been carried out to ensure that assets have been managed in alignment with the time horizons of the scheme.
126. **SG** Where the requirement referred to in paragraph 124 applies, trustees may wish to note in the IS how long the current managers of main sections and popular defaults have been in place as well as any target portfolio turnovers and whether these were achieved. The details of the portfolio turnovers costs in relation to the main sections and popular defaults can be given via a link to the Chair's Statement.
127. **SG** Signatories to the UK Stewardship Code may wish to include information from their Stewardship Code reports as part of their IS reporting, providing the information meets the legal requirements of the IS.
128. **SG** Trustees may wish to consider, when preparing the IS, whether there is any alignment with Principles 7 and 8 of the UK Stewardship Code:

⁵⁵ PLSA Cost Transparency Initiative available at [Cost Transparency Initiative \(plsa.co.uk\)](https://www.plsa.co.uk)

⁵⁶ Under regulation 2A(1)(b) of the Investment Regulations, a default SIP must cover the trustees' or managers' policy on these matters, in respect of the default arrangement, if the scheme has 100 or more members.

⁵⁷ See footnote 5, page 2.

Principle 7 asks signatories to systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Principle 8 asks signatories to monitor and hold to account managers and / or service providers.