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. The 2018 changes[1] to the Occupational Pension Schemes (Investment) Regulations 2005[2], mean 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. A failure to do this puts trustees at significant risk of breaching their legal duties.

2. Trustees of occupational pension schemes with 100 or more members 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. They do this via the Statement of Investment Principles (SIP)[3], which they are required to publish[4]. Trustees are also required to report on how and the extent to which they have followed this policy and on significant votes via an annual published Implementation Statement (IS)[5]. Pension schemes subject to these requirements account for more than 99% of savers.

---

[1] See the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (S.I. 2018/988).
[2] (S.I. 2005/3378), hereafter “the Investment Regulations”.
[3] See section 35 of the Pensions Act 1995 and the Investment Regulations 2005 and the Investment Regulations, regulation 2.
[4] The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (S.I. 2013/2734), regulation 29A(1), (2A) and (2B).
[5] The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, regulation 29A(2A)(b) and (2B)(b) and Schedule 3, paragraph 30(1)(ca) and (f). Hereafter, “the Disclosure Regulations”.

3. In addition, defined contribution schemes – and hybrid schemes with a defined contribution section – must publish a wider IS covering how and the extent to which they have followed policies in the whole of their SIP.

4. 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.

Legal status of this Guidance and when it should be followed

5. This Guidance contains both statutory and non-statutory guidance. Guidance on the IS is statutory guidance[6].

6. Trustees must have regard to the statutory sections of this Guidance when complying with the Implementation Statement requirements in the Disclosure Regulations[7], made under section 113(1) of the Pension Schemes Act 1993.

7. The following table sets out which sections of the Guidance are statutory and non-statutory.

Statutory Guidance	**Parts and paragraph numbers** Part 1: paragraphs 1-11. Part 2: paragraphs 12, 14,16-17 and 20-22. Part 3: paragraphs 27-29, 38, 45-53, 55-60 and 62-64 Part 4: paragraphs 67-75, 79-80, 85-89, 94-97 and 101-105.
Non-statutory guidance	**Parts and paragraph numbers** Part 2: paragraphs 13, 15 and 18-19. Part 3: 23-26, 30-37, 39-44, 54, 61 and 65-66 Part 4:76-78, 81-84, 90-93 and 98-100.

[6] Under s113(2A) of the Pension Schemes Act 1993, trustees must have regard to statutory guidance issued by the Secretary of State when complying with requirements relating to the implementation statement.
[7] See the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, regulation 29A(2A)(b) and (2B)(b) and Schedule 3, paragraph 30(1)(ca) and (f).

Expiry or review date

8. DWP will revisit the extent to which this Guidance is being followed and has helped trustees understand expectations around the SIP and IS – or whether a regulatory intervention is necessary – in the second half of 2023.

Audience

9. 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 SIP[8].

10. 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; 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

11. The Pensions Regulator (TPR) regulates compliance with the Disclosure Regulations and the Investment Regulations. Where trustees do not comply with the Regulations, TPR may impose a penalty.

Part 2: Overview

12. The Guidance sets out DWP's expectations in relation to the IS, that it should explain how trustees' actions were in members' best interests, and that trustees may use reporting from other disclosures, such as the UK Stewardship Code[9], where relevant.

13. The Guidance also sets out effective stewardship best practice, which trustees may wish to follow, in relation to the SIP.

[8] Reg 2A of the Investment Regulations 2005.
[9] https://www.frc.org.uk/investors/uk-stewardship-code

The audience

14. The IS should be presented in such a way that would allow a reasonably engaged and informed member to be able to interpret and understand trustees' disclosures, and raise concerns or queries where appropriate. TPR is another key audience for the IS.

15. Similarly, we encourage trustees to present the SIP in a way that would allow a reasonably engaged and informed member, and also the regulator, to be able to interpret and understand scheme policies.

In scheme members' best interests

16. In the IS, trustees should explain how their stewardship activities are in scheme members' and beneficiaries' best interests. This expectation applies to both the stewardship section (part 3) and the wider investment reporting sections (part 4) of the Guidance.

17. The law is clear that assets must be invested in scheme members' and beneficiaries' best interests[10]. This is widely understood to be their financial best interests over the duration of the scheme. However, the law is sufficiently flexible to allow non-financial concerns to be taken into account, subject to the following two-stage test being met[11]:

    - Trustees should have good reason to think the scheme members would share the concern; and
    - The decision should not involve a risk of significant financial detriment to the fund.

18. Trustees may similarly want to consider both financial and non-financial matters in their stewardship activities.

19. Pension scheme trustees are encouraged to explain how their stewardship policies are in scheme members' and beneficiaries' best interests in the SIP.

Ownership of the documents

20. Trustees have responsibility for both the SIP and IS. Prior to preparing or revising a SIP, trustees must obtain and consider the written advice of a person who they reasonably believe to be qualified and to have the appropriate knowledge and experience of the management of the investments of such schemes. However, the trustees own the policies set out in the SIP and 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.

[10] Regulation 4(2) of the Investment Regulations.
[11] Law Commission, "Fiduciary Duties of Investment Intermediaries", 2014 (HC 368). See paragraph 6.34. DWP supports this two-stage test in its Government Response (see page 18, paragraph 28).

Streamlining reporting

21. The Guidance aims to provide clarity around schemes using sections of other disclosures, for example the UK Stewardship Code, for the purposes of the IS. The Guidance focuses on overlaps with the Stewardship Code and identifies where our expectation is that Stewardship Code disclosures can be used to provide greater context.

22. 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 prescribed[12]. 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.

Part 3: Stewardship, engagement and significant votes

23. 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 society[13].

24. Pension schemes are entrusted by savers to look after and enhance the value of their retirement savings. Some of the ways trustees can achieve this is to take an active role in the appointment of asset managers that invest on their behalf, on how assets are allocated and, to monitor, engage and where necessary, to intervene on matters which may affect the value of investments.

25. The issues upon which schemes may act as good stewards encompass – but are not limited to – environmental, social and governance factors. Trustees may also consider[14]:

    - the effective application of the UK Corporate Governance Code and other governance codes;
    - directors' duties, particularly those matters to which they should 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

[12] The Disclosure Regulations, Schedule 3, paragraph 30(1)(ca) and (f).
[13] "The UK Stewardship Code 2020", the Financial Reporting Council, page 4.
[14] "The UK Stewardship Code 2020", page 5.

- compliance with covenants and contracts.

26. 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.

The SIP

Trustees taking “ownership” of stewardship

27. Trustees must set out in their scheme’s SIP their policies on stewardship, including engagement and voting, as well as other considerations such as financially material ESG factors (covered in part 4). The SIP must be published.

28. DWP expects trustees to either set their own voting policy or if they have not set their own policy, acknowledge responsibility for the voting policies that asset managers implement on their behalf. Ultimately, trustees are encouraged to take ownership of the scheme’s stewardship policies. This means it is not enough for trustees to simply report that they have delegated stewardship to their asset managers.

29. 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”. Relevant persons “includes (but is not limited to) an issuer of debt or equity, an investment manager, another stakeholder or another holder of debt or equity” (regulation 2(4)). Trustees cannot, therefore, simply report that they delegate engagement with issuers of debt and equity to their investment managers. They need to also – for example – explain how they monitor and engage with the investment managers.

30. A good strategy could be for trustees to select what the schemes’ stewardship priorities are and summarise these 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.

31. What constitutes a stewardship “priority” 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, trustees’ analysis of their membership demographic and their scheme’s investment horizon, or the distribution of holdings invested across particular sectors or asset classes.

32. The stewardship priorities of investors across the market have evolved in recent years and may be expected to keep doing so. However, examples of stewardship priorities include climate change, biodiversity, board remuneration and modern slavery. Trustees will be influenced by risk/return outcomes for members 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 in which the scheme is invested.

33. Once trustees have selected the scheme's stewardship priorities, it is recommended that trustees identify whether there are any particular aspects beneath that priority, which are important to the scheme and members and beneficiaries. For example, if the stewardship priority is climate change, which points in relation to climate-related risks and opportunities are the scheme planning to engage and vote on, or select or encourage their asset managers to engage and vote on?

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

35. Trustees may find it helpful to look at existing resources to help with stewardship, such as UK Stewardship Code signatory list and reports, the PLSA's 2021 Stewardship and Voting Guidelines[15] and the AMNT's Red Lines Voting Initiative[16]. These could be used, for example, as a benchmark against which to hold asset managers to account.

Holding asset managers to account

36. Stewardship includes activities like considering the terms of bonds, rights in private equity; but voting in particular is an important stewardship tool for investors. 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.

37. 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 barriers[17]. However, the Taskforce on Pension Scheme Voting Implementation concluded that none of these problems appear material or insuperable[18]. Trustees have a number of options to be actively engaged and advocate for the scheme's policies, even when invested in pooled funds, whether directly or via fund platforms:

[15] Stewardship and Voting Guidelines 2021 (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.
[16] Association of Member Nominated Trustees, "The Red Lines Voting Instructions – Environmental, Social and Corporate Governance", (2021).
[17] The report of the Taskforce on Pension Scheme Voting Implementation: Recommendations to Government, Regulators and Industry, September 2021. Page 17, paragraph 44.
[18] Page 24, paragraph 66.

Selecting and appointing asset managers	Asset manager selection and appointment is an ideal time for trustees to put questions to potential asset managers about stewardship. Before deciding which asset 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 priorities. Stewardship Code reporting, and better voting disclosure will help ensure good information is available. Proactive engagement / advice from investment consultants can also help. 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 follow expressions of wish or collective voting policies (see below).
Setting an expression of wish	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. Trustees cannot direct asset managers to follow their scheme's voting policy. Instead, trustees can set an expression of wish, a statement which sets out how they would like their scheme's voting policy to be followed. It is generally up to the asset manager to decide whether to follow that expressed wish. However, DWP sees no reason why trustees should not be able to set an expression of wish if trustees want to do so, as long as it is aligned with their fiduciary duties.
Collective voting policies	Trustees can use collective voting policies, like the Association of Member Nominated Trustees' Red Lines[19], a set of voting policies covering a wider range of environmental, social and governance issues. 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 do so do, but, if they do, they are expected by the asset owner(s) to explain why they did through appropriate reporting. Schemes are encouraged to incorporate these reporting requirements into their contractual arrangements.
Asset manager engagement and monitoring	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. Trustees could check whether the asset manager's voting behaviour to date has been aligned to the scheme's stewardship policy 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).
Collaborative investor initiatives	Trustees can join collaborative investor initiatives, such as Climate Action 100+, the Investor Forum or the Occupational Pensions Stewardship Council, a forum for pension schemes to share stewardship best practice and drive up standards.

Engagement

38. Trustees are required to set out in their SIP their policy in relation to undertaking engagement[20] with "relevant persons" about "relevant matters". "Relevant persons" includes "investment managers", also known as asset managers. Therefore, trustees must include in the SIP, what their policy is on engaging with asset managers. An issuer of debt or equity is also a "relevant person". Therefore, where schemes (trustees) hold assets directly, they must also set out their policies in relation to engagement with the issuers of those assets.

39. Many pension schemes will not carry out engagement with investee companies directly. Trustees are encouraged to 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.

40. 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 trustees' requirements. 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.

41. 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.

42. 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 AGMs, and "bespoke" and tailored two-way engagement. Each of these can be carried out individually or collaboratively[21].

43. Voting for a resolution that challenges a company to change its approach, will send a strong signal to the company and the sector as a whole of what is

[20] DWP's 2018 changes to the Investment Regulations 2005 broadened the scope of stewardship in the SIP to include engagement.
[21] The Investor Forum has developed a spectrum of different engagement strategies which trustees may find useful.

required to meet investors' expectations around the issue in question[22]. Voting and engagement can be used in conjunction with each other.

44. A good stewardship policy will include an escalation strategy, 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.

Case study of an effective voting policy[23]

Voting policy on ESG[24]	Factors that make this policy effective
CLIMATE CHANGE AND TCFD REPORTING 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: - Co-filing or supporting a shareholder resolution on the issue; - Voting against the company's report and accounts; - Voting against the reappointment of the Relevant 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 voting policy explicitly asks companies to adhere to the TCFD recommendations, rather than just asking what the companies are doing on TCFD. The policy then explicitly states what voting action may be taken, if the company does not align with the scheme's stewardship policy.

[22] Where companies are receptive to engagement, some asset owners and managers have withdrawn collaborative engagement tools, like shareholder resolutions. Evidence has also found that a number of asset managers continue to abstain or vote against climate critical resolutions, because of ongoing engagement with the company. See for instance [Voting-Matters-2020.pdf (shareaction.org)]

[23] 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.

[24] Some aspects of these examples have been taken from actual policies.

The Implementation Statement (IS)

45. The following paragraphs are Statutory Guidance.

46. The IS must state how the relevant policies in the SIP have been implemented – how action has followed intent. 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[25] and include a description of **voting behaviour**, including "most significant" votes by, or on behalf of, the trustees, and any use of a proxy voter during the year.

Engagement

47. In the IS, trustees should 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 engagement with companies / other issuers, including the situation in which engagement took place, the process they followed and the outcome;
- how engagement has been escalated if it has not been initially effective.

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

Overlaps with UK Stewardship Code[26] disclosures on engagement

49. Trustees can use information in the IS that they included in other reports, e.g. their UK Stewardship Code report, where it helps meet the legal requirements in relation to the IS. There is potential overlap between the following principles of the UK Stewardship Code and the content of the IS relating to engagement:

Principle 8 – Signatories monitor and hold to account managers and / or service providers

Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets

Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers

Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers

[25] For Defined Benefit schemes, this only needs to be in relation to voting and engagement.
[26] The UK Stewardship Code 2020, Financial Reporting Council (FRC).

Voting

50. When describing voting behaviour during the preceding scheme year, trustees should include relevant statistics to help describe voting behaviour and outcomes. A better IS will break voting statistics down into types of issue, including environmental, social and governance issues. Effective stewardship reporting also involves explaining the rationale for some or all voting decisions and explaining how this links to the scheme's stewardship priorities and / or voting policies. Voting rationale can help members understand *why* a vote was cast in a particular way. Providing voting rationale can also help challenge a company to change its approach (see paragraph 43).

51. Where trustees are not undertaking voting decisions themselves, they still have a responsibility to monitor their asset managers and service providers and, where appropriate, challenge them if they find performance unsatisfactory.

52. Where trustees have their own policy but voting on an investment is controlled by another person, they should explain in the IS whether that person has agreed to follow the trustees' voting policy. Where the person exercising voting rights on behalf of the trustees has not agreed to follow it, trustees should explain in the IS why that is the case and include any reasoning. Trustees may wish to use the PLSA Vote Reporting Template[27] 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. 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.

53. Trustees should indicate in the IS when they will have all the missing data and whether they intend to issue a revised IS, or whether the data is unlikely to make a material difference so the IS will not be updated. Trustees should indicate whether they have agreed with asset managers a process by which the data will be provided on a timely basis to enable the preparation of future statements.

54. Where UK-authorised asset managers have not provided voting information to trustees, they are encouraged to challenge this with their asset manager. UK authorised asset managers who manage investments for professional clients are required by the FCA Conduct of Business Sourcebook[28] to produce a statement of commitment to the UK Stewardship Code or explain their alternative investment strategy. Voting is an integral part of the Stewardship Code and Principle 6 clarifies that signatories (including asset managers) should "communicate to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided,

---

[27] Vote reporting template for pension scheme implementation statement - Guidance for Trustees (plsa.co.uk)
[28] FCA Conduct of Business Sourcebook, Chapter 2, Conduct of business obligations, 2.2.3.

methods and frequency of communication to enable them to fulfil their stewardship reporting requirements". 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.

55. The IS should include the details of any proxy adviser advising the trustees.

56. Where trustees use the voting policy of the asset manager, they should briefly summarise how the voting policy relates to the scheme's stewardship priorities and whether the asset manager's voting behaviour aligned with the scheme's stewardship priorities. Trustees should also briefly indicate how they engage with their asset managers on topics like material votes. Where the trustee has an expression of wish in relation to any particular investment held, they should indicate in the IS whether this has been followed.

57. The IS is an opportunity for trustees to set out any steps they took to maximise influence over the way in which the vote has been cast. Trustees should explain 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.

58. It is DWP's expectation that the IS should explain how voting and engagement undertaken by trustees or by others on their behalf have been in the members' best interests (see part 2 above).

Voting behaviour and "most significant votes"

59. Tens of thousands of votes are cast during every AGM season. "Most significant votes" must be reported in the IS, 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.

60. Rather than looking at individual significant votes in isolation, it is more important for 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 should be related to that priority.

61. The most significant votes may be linked to one or more of the schemes' stewardship priorities. Trustees should include in the IS how voting activity – relating to "most significant votes" – links to any stewardship priorities identified. Examples of significant votes include:

Example of a stewardship priority	**Example of a most significant vote**
Climate Change	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.
Biodiversity	There is a voting opportunity in private equity, infrastructure or other asset classes, relating to biodiversity priorities.
Modern Slavery	The vote relates to a large holding in the fund / mandate, and that holding is also linked to modern slavery in supply chains, which is one of the schemes' stewardship priorities.

62. Trustees should include a brief reason in the IS for why a vote has been categorised as most significant. This can help the audience understand the voting behaviour.

63. Trustees must report all their "most significant votes" in the IS. It is expected that these votes will be linked to the scheme's stewardship priorities and 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. As a minimum, trustees should include the following information in relation to the "most significant votes":

- Which stewardship priority the vote was linked to.
- The company's name (unless there are particular sensitivities around disclosing this) and date of the vote(s).
- 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.
- Rationale for the voting decision.
- Outcome of the vote.
- Whether the trustee / asset manager / service provider intends to escalate stewardship efforts.

64. Where the asset manager votes on the scheme's behalf, the trustee should decide which of those votes are "most significant", and include them in the IS.

Overlaps with the UK Stewardship Code disclosures on voting

65. Trustees can use information included in other reports where it helps meet the legal requirements in relation to the IS.

66. There is potential overlap between the voting information required to be included in the IS and Principle 12 of the UK Stewardship Code, which is that “Signatories actively exercise their rights and responsibilities”.

Part 4: Other topics

Reviewing and updating a SIP – content in the IS for DC and hybrid schemes

67. This section is Statutory Guidance.

68. Under paragraph 30(1)(f)(ii)-(iv) of Schedule 3 to the Disclosure Regulations, trustees of DC and hybrid schemes are obliged to describe any review of the SIP which has taken place in accordance with regulation 2(1) of the Investment Regulations, explain any changes made to the SIP and the reason for them; and give the date of the last review if no review took place within the last year.

69. The information to be included in the IS to meet the obligations as above only needs to include key points on any review which has taken place in the past year. It is sufficient to describe that the review took place, when the review took place and the most significant changes, including brief reasons for any change.

70. 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.

Compliance with requirements on choosing investments – content in the IS for DC and hybrid schemes

71. This section is Statutory Guidance.

72. Trustees of DC and hybrid schemes must explain in their IS how, and the extent to which, 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 1995[29] on choosing investments.

73. In the IS, an affirmation that investments were chosen in line with section 36 of the Act would be sufficient but trustees may wish to include more detail.

74. 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 whether action is necessary to remedy the situation.

75. In practice, trustees may choose to give this explanation by including in their published 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.

Investment – content in the SIP

76. This section is non-statutory guidance.

77. Under regulation 2(3)(b)(i) to (v) of the Investment Regulations, trustees must set out in the SIP their policies in relation to the kinds, balance, risk, return and realisation of investments.

78. Schemes are encouraged to ensure that content on these policies is informative for the audience and does not just state that matters have been delegated to asset managers.

Investment – content in the IS for DC and hybrid schemes

79. This section is Statutory Guidance.

DC and hybrid schemes must set out in their IS how, and the extent to which, they have followed the policies in regulation 2(3)(b)(i) to (v) in the Investment Regulations. These policies relate to—

- the kinds of investments to be held; the balance between different kinds of investment risks, including the ways in which risks are to be measured and managed and; the expected return on investments.

80. The IS should state whether these policies have been adhered to and, where this is not the case, the reasons why not, including explaining what action, if any, the trustees propose to take or have taken to remedy the position.

[29] https://www.legislation.gov.uk/ukpga/1995/26/pdfs/ukpga_19950026_310319_en.pdf

Financially material considerations (including ESG and climate change) – content in the SIP

81. This section is non-statutory guidance.

82. Regulation 2(3)(b)(vi) of the Investment Regulations requires trustees to set out their 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.

83. We encourage trustees to set investment beliefs (including in relation to financially material ESG matters). Trustees are also encouraged to identify and report which ESG risks and opportunities particularly affect their investments. This helps trustees to set some baseline expectations when engaging with others, particularly asset managers.

84. Trustees are encouraged to explain how they ensure that their policies in relation to financially material factors (including ESG and climate change) are aligned with the approaches of their asset managers. Trustees are also encouraged to state whether mandates contain requirements to integrate ESG considerations into investment decisions. They are also encouraged to set out minimum standards for tenders. For example, trustees could ask potential asset managers whether they are signatories of the UK Stewardship Code.

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

85. This section is Statutory Guidance.

86. Trustees of DC and hybrid schemes must set out in their IS how they have followed the policies in their SIP relation to financially material factors (including ESG and climate change).

87. The IS should outline how these matters were taken into account in the selection, retention and realisation of investments.

88. Trustees should explain in the IS how the implementation of SIP policies in relation to financially material factors (including ESG and climate change) was in members' interests.

89. Signatories to the UK Stewardship Code may wish to include content from their disclosures in relation to Principle 7: "Signatories systematically integrate

stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities”.

Non-financial matters – content in the SIP

90. This section is non-statutory guidance.

91. Regulation 2(3)(b)(vii) of the Investment Regulations requires trustees to set out in their SIP their 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. Non-financial matters are defined in regulation 2(4) 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”.

92. While trustees are not required to take account of non-financial matters, trustees of relevant multi-employer schemes are required[30] to have a mechanism by which members can express views about the scheme. This includes views about its investments and its stewardship.

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

Non-financial matters – content in the IS for DC and hybrid schemes

94. This section is Statutory Guidance.

95. Trustees of DC and hybrid schemes must set out in their IS how they have followed their policy on non-financial factors.

96. Trustees should explain what actions, if any, they have taken as a result of views expressed by members in relation to the selection, retention and realisation of investments. Trustees should explain how this is in the members’ interests. They

[30] Regulation 29 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

may additionally explain what actions they have taken in relation to members' views on stewardship and how this is in the members' interests.

97. Trustees can use information included in other reports, including their UK Stewardship Code report, where it helps the trustees meet legal requirements in relation to the IS. There is potential overlap here with Principle 6: "Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them".

Arrangements with asset managers – content in the SIP

98. This section is non-statutory guidance.

99. The SIP must include – on a "comply or explain basis" – the trustees' policies in relation to arrangements with asset managers, setting out:

i. how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with trustees' policies[31];
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' policies;
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 template[32] we encourage trustees to make reference to this); and
v. the duration of the arrangement with the asset manager.

100. We would also encourage any policies for the retention or removal of asset managers to be included.

[31] These are the policies mentioned in regulation 2(3)(b) of the Investment Regulations.
[32] PLSA Cost Transparency Initiative available at Cost Transparency Initiative (plsa.co.uk)

Arrangements with asset managers – content in the IS for DC and hybrid schemes

101. This section is Statutory Guidance.

102. Trustees of DC and hybrid schemes must set out in the IS how and the extent to which they followed their policies in relation to arrangements with asset managers.

103. The IS should explain how mandates integrate 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.

104. Trustees may wish to note 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.

105. Signatories to the UK Stewardship Code may be able to include some of the same information as part of their reporting. There is potential overlap with Principle 7 of the Stewardship Code and Principle 8:

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

Principle 8 – Signatories monitor and hold to account managers and / or service providers