

The Pensions Trust

Voting and Engagement Policy Document

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1. Introduction

- 1.1. The Pensions Trust is responsible for managing a wide variety of occupational pension schemes for more than 3500 charities and voluntary organisations. As well as being the administrator, it acts as trustee to all these schemes through its own corporate trustee – “Verity Trustees Limited”, Verity House, 6 Canal Wharf, Leeds, LS11 5BQ.
- 1.2. Verity Trustees Limited has a duty to act impartially in the best interests of all beneficiaries. The corporate trustee also has a duty of care to participating employers.
- 1.3. The Pensions Trust believes that sound voting and engagement policies are an essential part of being a trustee and they are of real benefit to both members and employers.
- 1.4. The Pensions Trust will regularly review these policies on the basis of what has been achieved, what still has to be achieved and whether additional areas need to be considered.
- 1.5. The Pensions Trust has asked its investment managers to follow voting policies consistent with the National Association of Pensions Fund’s Corporate Governance Policy and Voting Guidelines (November 2007) and OECD Principles of Corporate Governance (2004).
- 1.6. Where possible, The Pensions Trust will ask its investment managers to apply the Association of British Insurers (ABI) Guidelines on Environmental, Social and Governance (ESG) Matters.
- 1.7. This document focuses on the principles underlying the Trust’s policies as well as how the policies are implemented.

2. Investments - Policy for UK Registered Companies

2.1 Introduction

- 2.1.1. The Pensions Trust, as a substantial investor in UK Registered Companies (around £1.3bn in 2007), accepts its responsibilities as a shareholder and owner, whether that ownership is directly or indirectly held. This responsibility includes, ensuring where possible, that the companies in which it invests, are run by executive managers and directors in the best long term interests of shareholders. Sustainable long term financial success for the shareholders is the goal.
- 2.1.2. The Pensions Trust believes that companies concerned and involved with shareholders (where management of these companies is fully and properly accountable to the shareholders) are more likely to achieve superior long term returns than those without such involvement and accountability.
- 2.1.3. The Pensions Trust accepts that long term benefit is the goal and that this will mean from time to time, periods of short term disappointment.
- 2.1.4. The Pensions Trust's policies will be consistent with the following documents:
 - 2.1.4.1. The National Association of Pensions Funds (NAPF) Corporate Governance Policy and Voting Guidelines – November 2007
 - 2.1.4.2. The Financial Reporting Council (FRC) – The Combined Code on Corporate Governance – July 2003
 - 2.1.4.3. The FRC Review of the Combined Code: Report on the main findings of the Review – November 2007
 - 2.1.4.4. The Association of British Insurers (ABI) – Executive Remuneration – Guidelines on Policy and Practice – December 2007.
 - 2.1.4.5. Institutional Shareholders' Committee (ISC) – The Responsibilities of Institutional Shareholders – Statement of Principles – June 2007
 - 2.1.4.6. Pre-Emption Group (PEG) – Dis-applying Pre-Emption Rights – A statement of principles – May 2006

2.2. The underlying principles of The Pensions Trust's Voting and Engagement Policies are as follows :

- 2.2.1. The Pensions Trust robustly supports the Combined Code.
- 2.2.2. The welfare of pension fund investors is an economic and social benefit from which society as a whole derives value.
- 2.2.3. The welfare of pension fund investors is no different from the welfare of other long term investors and the alignment of interest is beneficial to wealth creation for all participants in society.
- 2.2.4. It should be clearly recognised that shareholders in aggregate are the owners of companies and that boards are their agents.
- 2.2.5. It is essential that shareholders as owners recognise that they have responsibilities to monitor and normally support the work of the management of the companies in which they invest.
- 2.2.6. One of the duties of owners is to allow company boards to manage the businesses which have been entrusted to their care without excessive interference.
- 2.2.7. It is the duty of boards, as the agents of the owners of the companies they manage, to set out their interpretation of the objectives, aspirations and culture of the company in order that the shareholders, as owners, can let it be known whether they share and accept these views.
- 2.2.8. The interests of management should be aligned with the long term interests of investors. This principle dictates that managers should hold shares long term in the business for which they are responsible.
- 2.2.9. At all times, the Board and management should be mindful of the wider perception of the company in society, bearing in mind that maximisation of short term gain in a manner which is deemed unacceptable by society as a whole, can seriously damage the long term prospects of a company.
- 2.2.10. The Pensions Trust considers the ownership rights of shareholders to be a principle of fundamental importance. For that reason, The Pensions Trust supports the principle of underlying pre-emption rights and will not countenance any material erosion of this principle unless a clear case is made for it being in the best interests of the owners of the company concerned.

- 2.2.11. The Pensions Trust believes that the informed use of the vote is an obligation.
- 2.2.12. Engagement with companies is a necessary part of good ownership – companies should take great care to ensure that their messages are clearly understood by shareholders and that the concerns of the shareholders are clearly understood by the board.
- 2.2.13. The Pensions Trust expects boards to demonstrate that they have complied with the terms of the Combined Code by observing its requirements whenever appropriate.
- 2.2.14. In all the key areas of good practice (as opposed to explicit requirements) identified by the Combined Code, The Pensions Trust expects boards to state unequivocally in the Annual Report that they have met the standards and how they have done so. The absence of adequate information to reach an informed conclusion will lead The Pensions Trust to conclude that the required standards are not being met.
- 2.2.15. The role of the independent non-executive directors is a key protection for shareholders.
- 2.2.16. Whenever a significant change is made, The Pensions Trust expects the matter to be brought before the shareholders for a vote.
- 2.2.17. The balance and structure of the board are of crucial importance to The Pensions Trust, with the emphasis being on a unitary board with a healthy balance of executive directors and independent non-executive directors
- 2.2.18. The role of the company secretary, who is not an executive director, is crucial. The Pensions Trust expects the resignation of a non-executive director or of a company secretary to be properly announced together with an explanation.
- 2.2.19. The Pensions Trust expects the nomination committee to anticipate change by ensuring the proper planning of succession.
- 2.2.20. The remuneration committee has a particular responsibility to ensure that the executive directors and senior management are appropriately rewarded so that good people are retained but are not given perverse incentives which may endanger the business.

- 2.2.21. The audit committee has a very demanding brief and must be “staffed” solely by independent directors with sufficient relevant experience of business issues involving risk or inappropriate growth.

2.3. Implementing the Policy

- 2.3.1. The Pensions Trust will use its very best endeavours to exercise its rights to vote at company meetings by delegating voting activities to the investment managers employed by The Pensions Trust. This will apply to segregated mandates as well as pooled mandates.
- 2.3.2. In order to implement its policy, The Pensions Trust has adopted the NAPF Corporate Governance Policy and Voting Guidelines published in November 2007. This document is consistent with the documents outlined in paragraphs 2.1.4.2 to 2.1.4.6 inclusive.
- 2.3.3. By adopting the NAPF document, The Pensions Trust will ask all existing investment managers and all future investment managers to adopt the NAPF document on its behalf.
- 2.3.4. Each investment manager will exercise votes on behalf of The Pensions Trust fully in accordance with the NAPF Voting Guidelines. Where an investment manager does not vote in line with the Voting Guidelines, it will be reported to The Pension Trust’s Investment Committee who will discuss it with that investment manager at the next appropriate meeting. The Investment Committee may or may not approve the action taken by the investment manager. Such approval or otherwise will be recorded. However, The Pensions Trust recognises that in the majority of cases, where an investment manager does not follow the Voting Guidelines, it will be because that investment manager is taking a stronger position for the benefit of The Pensions Trust.
- 2.3.5. The Pensions Trust acknowledges that where shares it owns have been temporarily loaned to a third party, subject to adequate security, the votes to such shares whilst on loan cannot be exercised by The Pensions Trust. This will only apply when such shares are loaned at the same time as when a vote can be made.

2.3.6. Each investment manager will provide an annual report to the Investment Committee:

- Confirming that it has observed the NAPF Voting Guidelines on behalf of the Pensions Trust subject to listed exceptions,
- Providing a list of all exceptions together with the reasons why. The exceptions will be marked either “approved” or “unapproved” by The Pensions Trust’s Investment Committee.

From time to time The Pensions Trust will ask an independent consultant to validate the annual returns produced by the investment managers.

2.3.7. Any investment manager who fails to comply with this policy will be required to give a full explanation to The Pensions Trust’s Investment Committee. Any explanation which is not considered to be satisfactory by the Investment Committee may result in that investment manager’s mandate being reviewed.

3. Investments - Policy for Non UK Registered Companies

3.1. Introduction

- 3.1.1. The Pensions Trust, as a substantial investor in Non UK Registered Companies (around £1.3bn in 2007), accepts its responsibilities as a shareholder and owner, whether that ownership be directly or indirectly held. This responsibility includes, ensuring where possible, that the companies in which it invests, are run by executive managers and directors in the best long term interests of shareholders. Long term financial success for the shareholders is the goal.
- 3.1.2. The Pensions Trust believes that companies, concerned and involved with shareholders, where management of these companies is fully and properly accountable to the shareholders, are more likely to achieve superior long term returns than those without such involvement and accountability.
- 3.1.3. The Pensions Trust accepts that long term benefit is the goal and that this will mean from time to time, periods of short term disappointment.
- 3.1.4. The Pensions Trust's policies will be consistent with the following documents:
 - 3.1.4.1. The International Corporate Governance Network (ICGN) statement on Institutional Shareholder Responsibilities – Dec 2003
 - 3.1.4.2. ICGN Statement on Global Corporate Governance Principles – July 2005
 - 3.1.4.3. OECD Principles of Corporate Governance - 2004

NB – The NAPF supports the OECD Corporate Governance Principles and the ICGN Statement on Global Corporate Governance Principles.

- 3.1.5. The Pensions Trust accepts that as a shareholder of non-UK Companies, the primary way of participating in their stewardship is through proxy voting. Accordingly, The Pensions Trust's investment managers will endeavour to lodge proxies at company general meetings, subject to excessive costs or administrative difficulties, in accordance with the principles outlined in this document. Companies, for their part, should promote good practice and system development in their own market, thus minimising the obstacles to shareholder voting.

3.2. The underlying principles of The Pensions Trust's Voting and Engagement Policies are as follows:

- 3.2.1. Corporate objective - The overriding objective of the company should be to optimise over time the returns to its shareholders. Where other considerations affect this objective, they should be clearly stated and disclosed. To achieve this objective, the company should endeavour to ensure the long term viability of its business, and to manage effectively its relationships with stakeholders.
- 3.2.2. Communication and reporting - Companies should disclose accurate, adequate and timely information, in particular meeting market guidelines where they exist, so as to allow investors to make informed decisions about the acquisition, ownership obligations and rights, and sale of shares
- 3.2.3. Voting rights - Companies' ordinary shares should be one vote for each share. Companies should act to ensure the owners' right to vote. Fiduciary investors have a responsibility to vote. Regulators and law should facilitate voting rights and timely disclosure of the levels of voting.
- 3.2.4. Corporate boards - The board of directors, or supervisory board, as an entity, and each of its members, as an individual, is a fiduciary for all shareholders, and should be accountable to the shareholder body as a whole. Each member should stand for election on a regular basis. Companies should disclose upon appointment to the board and thereafter in each annual report or proxy statement information on the identities, core competencies, professional or other backgrounds, factors affecting independence, and overall qualifications of board members and nominees so as to enable investors to weigh the value they add to the company. Information on the appointment procedure should also be disclosed annually. Boards should include a sufficient number of independent non-executive members with appropriate competencies. Responsibilities should include monitoring the performance of management, contributing effectively to the formulation of strategy and key committees of the board, and influencing the conduct of the board as a whole.

- 3.2.5. Corporate remuneration policies - Remuneration of company directors or supervisory board members and key executives should be aligned with the interests of shareholders. Companies should disclose in annual report or proxy statement the board's policies on remuneration, and, preferably, the remuneration break up of the individual board members and top executives so that investors can judge whether company pay policies and practices meet that standard. Broad based share ownership plans or other profit sharing programs are effective market mechanisms that promote employee participation.
- 3.2.6. Strategic focus - Major strategic modifications to the core business of a company should not be made without prior shareholder approval of the proposed modification. Equally, major corporate changes which in substance or effect, materially dilute the equity or erode the economic interests or share ownership rights of existing shareholders should not be made without prior shareholder approval of the proposed change. Shareholders should be given sufficient information about any such proposal, sufficiently early, to allow them to make an informed judgement and exercise their voting rights.
- 3.2.7. Operating performance - Corporate governance practices should focus board attention on optimising over time the company's operating performance.
- 3.2.8. Shareholder returns - Corporate governance practices should also focus board attention on optimising over time the returns to shareholders.
- 3.2.9. Corporate citizenship - Companies should adhere to all applicable laws of the jurisdiction in which they operate. Boards that strive for active co-operation between companies and stakeholders will be most likely to create wealth, employment and sustainable economies. They should disclose their policies on issues involving stakeholders, for example workplace and environmental matters.
- 3.2.10. Corporate governance implementation - Where codes of best corporate governance practice exists, they should be applied pragmatically. Where they do not yet exist, investors and others should endeavour to develop them. Corporate governance issues between shareholders, the board and management should be pursued by dialogue and, where appropriate, with government and regulatory representatives as well as other concerned bodies, so as to resolve disputes, if possible, through negotiation, mediation or arbitration. Where those means fail, more forceful actions should be possible. For instance, investors should have the right to sponsor resolutions or convene extraordinary meetings.

3.3. Implementing the policy.

- 3.3.1. The Pensions Trust's investment managers will give due consideration to the specific circumstances of individual companies and the local laws in which they operate, adopting a pragmatic approach where appropriate, fully in line with the following documents:
- 3.3.1.1. The International Corporate Governance Network (ICGN) Statement on Institutional Shareholder Responsibilities – December 2003.
 - 3.3.1.2. The ICGN Statement on Global Corporate Governance Principles - July 2005.
 - 3.3.1.3. The OECD Principles of Corporate Governance 2004.
- 3.3.2. The Pensions Trust accepts that as a shareholder of non-UK Companies, the primary way of participating in their stewardship is through proxy voting. Accordingly, The Pensions Trust's investment managers will endeavour to lodge proxies at company general meetings, subject to excessive costs or administrative difficulties, in accordance with the principles outlined in this document. Companies, for their part, should promote good practice and system development in their own market, thus minimising the obstacles to shareholder voting.
- 3.3.3. Each investment manager will exercise votes/proxy votes on behalf of The Pensions Trust fully in accordance with the documents 3.3.1.1 to 3.3.1.3 above. Where an investment manager does not vote in line with these principles, it will be reported to The Pension Trust's Investment Committee who will discuss it with that investment manager at the next appropriate meeting. The Investment Committee may or may not approve the action taken by the investment manager. Such approval or otherwise will be recorded.
- 3.3.4. The Pensions Trust acknowledges that where shares, owned by The Pensions Trust, have been temporarily loaned to a third party subject to adequate security, the votes to such shares whilst on loan, cannot be exercised by The Pensions Trust. This will only apply when such shares are loaned at the same time as when a vote can be made.

3.3.5. Each investment manager will provide an annual report to the Investment Committee:

- Confirming that it has observed the principles set out in this document and used their votes in support of better compliance with them.
- Providing a list of all exceptions will be provided at the same time setting out the reasons for each exception. The exceptions will be marked either “approved” or “unapproved” by The Pensions Trust’s Investment Committee.

From time to time The Pensions Trust will ask an independent consultant to validate the annual returns produced by the investment managers.

3.3.6 Any investment manager who fails to comply with this policy will be required to give a full explanation to The Pensions Trust’s Investment Committee. Any explanation which is not considered to be satisfactory by the Investment Committee could result in that Investment Manger’s mandate being reviewed.