

MERSEYSIDE PENSION FUND

Statement of compliance with the U.K. Stewardship Code for Institutional Investors

Merseyside Pension Fund has a long-standing commitment to the values of stewardship, in relation to its conduct as an asset owner. It considers the responsibilities of stewardship to be part of its fiduciary duty to its stakeholders. In 2007, the Fund became a signatory to the United Nations Principles for Responsible Investment: stewardship is one of the cornerstones of the Fund's responsible investment policy.

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Merseyside Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too.

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and other agents and through membership of the Local Authority Pension Fund Forum (LAPFF) and other collaborative groups. The Fund makes this explicit in its Statement of Investment Principles and will, in time, directly refer to the Stewardship Code in Section 5 of the SIP, 'Responsible Ownership'.¹

The Fund has previously required its asset managers to state their approach to the ISC Code on the Responsibilities of Institutional Investors on a comply or explain basis. The Fund has also promoted adoption of the UNPRI as representing the highest standard of best practice of responsible ownership. The Fund's investment strategy seeks long-term returns from investing in equities and appoints asset managers who best reflect this long-termism in their investment philosophy and process.

The Fund does not delegate all responsibility for stewardship to its asset managers. It retains control of its voting policy, including where possible, over its underlying beneficial interests in pooled funds. The Fund retains a corporate governance and voting advisory and execution service (PIRC Ltd) to ensure that the maximum of its voting rights are exercised in support of high corporate governance standards.

¹ <http://mpfmembers.org.uk/content/statement-investment-principles>

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest, when it comes to matters of stewardship.

The Fund requires all those who are directly involved in its management and governance to disclose any interest in any company, or other entity, in which the Fund has an ownership interest.

Principle 3 – Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our equity holdings is delegated to our appointed asset managers. The Fund expects them to monitor companies, and intervene where necessary, and to report back regularly on activity undertaken. Quarterly review meetings with our asset managers are used to raise particular issues of note or concern.

In addition, the Fund receives an ‘Alerts’ service from LAPFF, which highlights corporate governance issues of concern at investee companies.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund’s asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

However, on occasion the Fund may itself choose to escalate activity, principally through engagement activity with LAPFF. When it believes it is warranted by the egregious conduct of a company board causing a loss of shareholder value, the Fund will seek redress by pursuing shareholder litigation, of whatever form and in whatever jurisdiction deemed suitable. The Fund considers this an appropriate tool for use by long-term shareholders to send a powerful message of reproach to a company’s directors and to the wider industry.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies. The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social and governance issues on behalf of its members.

On environmental issues in particular, the Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC). One of the core objectives of the IIGCC is to engage in dialogues with companies to standardize and improve disclosure on climate change and improve performance.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund has adopted as its voting policy the Global Shareholder Voting Guidelines of its voting agent, PIRC Ltd. The Fund commissions PIRC to provide detailed voting recommendations and to exercise all votes attaching to its UK equity holdings in accordance with these. PIRC's analysis includes consideration of company explanations of compliance with the Corporate Governance Code. Where practical, the Fund seeks to exercise its voting rights attaching to its non-UK equity holdings.

The Fund discloses summary level information on voting activity on its website, on a semi-annual basis. The Fund intends to disclose voting activity by company on its website in the near future.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

The Fund maintains a Responsible Investment section on its website. Annual reporting on stewardship activity, including voting and engagement work, has formed part of the report and accounts. In future, it is envisaged that the Fund will report through a Responsible Investment Review, which will also report on the stewardship activities of the Fund's asset managers.

About Merseyside Pension Fund:

Merseyside Pension Fund is the 5th largest fund in the Local Government Pension Scheme. It has assets under management of £4.6 billion, managed by a combination of an in-house team and external investment managers.