



Co-operative Pension Scheme (Pace)

Statement on the UK Stewardship Code

Introduction

The Co-operative Pension Scheme (Pace) is a UK registered pension scheme with assets held on behalf of members by PACE Trustees Limited (“the Trustee”). This statement has been prepared by the Trustee of Pace to set out the policies and practices by which we seek to comply with the principles of the Financial Reporting Council’s UK Stewardship Code (“the Code”). The code sets out a number of areas of good practice which the Financial Reporting Council (“FRC”), the UK’s independent regulator responsible for promoting high quality corporate governance and reporting, believes institutional investors like Pace should aspire to.

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

As the Trustee, we exercise our stewardship responsibilities in the best interests of all the members of Pace. We operate an Investment Committee which is responsible for the development and operation of Pace’s investment policy. Responsibility for the day to day management of assets is delegated to our appointed investment managers, and their approach to implementing responsible investment principles is monitored by the Investment Committee (see Principle 3).

In addition, in 2016 we formed a Manager Review Committee (“MRC”), jointly with other Co-op pension schemes, to improve the efficiency and quality of the monitoring of our appointed investment managers. The MRC focuses on the detailed consideration of investment manager-related items across the Co-op’s Trustee Boards and meets with managers regularly.

We encourage our appointed investment managers to commit to the stewardship code. Our managers have their own policies to demonstrate how they monitor and engage with the companies in which they invest, to protect and enhance value to clients. Links to their policies, where these are publicly available, can be found in Appendix 1.

We believe it is important to inform our members how we invest in order to show the Scheme is exercising its responsibilities as an asset owner effectively. Our Responsible Investment Policy is publicly available on the Scheme’s website, www.pensions.coop and we also disclose the following documents:

- Pace’s Statement of Investment Principles (“SIP”);
- The Scheme’s annual report and accounts;
- A summary of voting records and of any investee company engagement activities; and,
- This statement on compliance with the UK Stewardship Code.

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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.

We have a clear procedure for identifying and managing conflicts of interest which may arise from time to time. The Trustee Board meets at least quarterly, and in advance of each meeting Trustee Directors are asked to consider if they have:

- Any material personal interest in the outcome of any discussions on the agenda;
- Any involvement in negotiating on funding or on any other matter on behalf of the Co-op;
- Any knowledge acquired from another role which would materially impact on decision-making, and which may not be shared with the Board; and,
- Any difficulties in treating discussions as confidential.

Potential conflicts of interest are managed by obtaining appropriate legal advice where necessary, with full disclosure being made within minutes of meetings.

Principle 3: Institutional investors should monitor their investee companies.

Each investment managers' approach to incorporating environmental, social and governance ("ESG") issues into their investment process is discussed at regular MRC meetings and performance review presentations.

Furthermore, our investment adviser assigns a rating to each manager according to the extent to which ESG issues and active ownership practices are integrated into their investment processes. The investment adviser's ESG related ratings are reported to the Investment Committee and MRC each quarter, and are used as a factor in manager evaluation and selection.

Investment managers' statements of compliance with the UK Stewardship Code, and whether they are signatories to the United Nations-backed Principles for Responsible Investment (UNPRI), are also factors in manager evaluation and selection.

While we don't expect to encounter inside information internally or externally, we work with our investment adviser to monitor appointed investment managers closely, ensuring that they have strict policies in place to mitigate any risks from encountering inside information.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

Pace only has limited equity exposure following changes to the investment strategy made in 2016, and no direct investments in shares where Pace is the legal owner (as opposed to through a pooled fund).

Nevertheless we have acknowledged the importance of considering ESG factors in investment decision-making and reserve the right to use a more direct engagement approach with investment managers and investee companies. In such situations, we may:

- Instruct investment managers to vote proxies in a given way;

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- Work with other institutions to engage with companies; and,
- Contact investee companies directly or through our investment managers.

As mentioned in Principle 1, the responsibility for day to day engagement with invested companies is delegated to the Scheme's investment managers, including the escalation of engagement and reviewing its effectiveness. For some managers, their policies for such activities are disclosed in their own statement of compliance with the UK Stewardship Code.

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

We believe that by working collaboratively with other institutional shareholders and networks such as The UK Sustainable Investment and Finance Association ("UKSIF"), we can increase our influence and more efficiently achieve our stated objectives.

We review annually whether Pace should become a signatory to the United Nations-supported Principles of Responsible Investment ("UNPRI") initiative and become involved in its collaborative work streams. We also consider investment managers' membership of the UNPRI as a factor in manager evaluation and selection. 11 of our 12 current investment managers are signatories to the UNPRI.

The Scheme's contact for enquiries relating to collective engagement is James Giles, Pension Investment and Risk Manager, via staffpensions@coop.co.uk.

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

We do not generally advise how investment managers should vote proxies on the equities they hold on behalf of the Scheme. The Investment Committee does look at the voting policies in use by our investment managers, and we reserve the right to override investment managers' voting policies if we believe that they do not reflect our views and beliefs.

As part of our annual Responsible Investment report, we disclose a summary of voting activities every year on the Scheme's website. Legal & General Asset Management ("LGIM"), our passive equity manager, aims to vote for all UK shares it holds where it has authority to do so, and also in Developed Markets and some Emerging Markets. They believe that voting is a fundamental tool to signal support or emphasise concerns with management actions, and a valuable method for promoting good corporate governance. LGIM aim to keep abstentions to a minimum. They use voting research from ISS and IVIS, and voting decisions incorporate their own in-house research analysis and engagement activities. LGIM publishes voting records for larger markets monthly on its website, and reports voting records in more detail to Pace on a quarterly basis.

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

In addition to Principle 6 above, we provide a summary of any investee company engagement activities on the Scheme's website each year.

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While not all appointed investment managers have a voting record to report on, they are expected to create a general engagement report which can be found on their websites.

We also receive regular engagement activity reports, quarterly voting information and annual AAF 01/06 assurance statements from the Scheme's external investment managers.

Revised by the Co-operative Pension Scheme (Pace) in September 2017.

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Our managers' statements of compliance with the UK Stewardship Code

BlackRock Investment Management:

<https://www.blackrock.com/corporate/en-hk/literature/fact-sheet/blk-responsible-investment-statementoncompliance-uk-stewardshipcode.pdf>

Insight Investment:

<http://www.insightinvestment.com/responsible-investment/>

Intermediate Capital Group:

<http://www.icgam.com/shareholders/Pages/UK-Stewardship-Code.aspx>

Legal & General Investment Management:

http://www.lgim.com/library/capabilities/UK_Stewardship_Code.pdf

M&G Investments:

<http://www.mandg.com/corporate/about-mg/responsible-investment/the-uk-stewardship-code/>

Mercer Ltd:

<https://www.delegated-solutions.mercer.com/content/dam/mercerc-subdomains/delegated-solutions/attachments/ieuk/mercerc-dse-uk-stewardship-code-statement-2016.pdf>

Royal London Asset Management:

<https://www.rlam.co.uk/Documents-RLAM/Sustainable%20Investing/Stewardship%20Code%20StatementNovember%202014.pdf>

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