

Vote Reporting Group
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Sent via email: VoteReportingGroup@fca.org.uk

Dear team,

Railpen response | Vote Reporting: A consultation and discussion paper from the Vote Reporting Group

About Railpen

Railpen is the trading name of Railway Pension Investments Limited, which is authorised and regulated by the Financial Conduct Authority (FCA). Railpen acts as the investment manager for the railways pension schemes and is responsible for c. £34 billion of assets on behalf of over 350,000 members.

Sustainable Ownership is Railpen's approach to integrating sustainability considerations across the investments it manages on behalf of members. Railpen's work is enabled by the Trustee's related investment belief: "Incorporating and acting upon climate risk and other environmental, social and governance factors is a significant driver of investment outcomes and part of our fiduciary duty."

Unlike many UK Defined Benefit (DB) schemes, the railways pension schemes include several open DB sections, which means that the Trustee expects to be paying the pension of an eighteen-year-old who is in their first job today out to 2100 and beyond. Our investment time horizon is, accordingly, very long and Railpen was an early pioneer in UK corporate governance, being one of the first UK investors to publish its global voting policy and corporate governance framework in 1992 and having continued to do so since.

We believe that a vote is a powerful stewardship tool, expressing an investor's public support for – or sanction of – a company's behaviour. Railpen therefore makes and implements voting decisions itself across the majority of its listed equity holdings. This includes for those portfolios we manage internally, as well as through segregated mandates with external managers. We have also negotiated the ability to exercise votes across a large proportion of our holdings in externally managed pooled funds.

Our response to this consultation therefore builds upon our experience at two levels: as an organisation that considers the available proxy research and source documentation for an upcoming vote, makes the voting decision, articulates the rationale and then reports to its Client (the Trustee); but also as an asset owner which delegates the implementation of some of its voting decisions to an external asset manager, and which is reliant upon high-quality vote reporting to enable us not only to meet our own regulatory reporting requirements, but also to assess the thoughtfulness of our manager's approach to voting (and engagement).

We have also actively participated in the Vote Reporting Group's (VRG's) work, including as co-chair of Sub-Group 1. We have appreciated the opportunity to contribute to this important and timely initiative, which we think has the capacity to fundamentally improve the ability of asset owners to engage with – and challenge, where necessary – their managers on the voting approach and activities undertaken on members' behalf. Our congratulations to the FCA team, as well as the Chair, for all their hard work on this template, which we believe represents a decisive step forward.

Our response

We are highly supportive of the Vote Reporting Group's proposed template and approach. We think that the current approach strikes the appropriate balance between ensuring managers provide useful, timely information to their clients and that they are not placed under an disproportionate additional burden in doing so.

However, our sense is that asset managers have not historically invested sufficiently in their voting and overall stewardship monitoring, tracking and reporting capabilities. This has meant they have then struggled to meet the challenges of recent market developments that require them to produce more reporting for their clients and be held to higher standards for their stewardship work. We would urge the VRG and FCA to continue to take a robust approach that recognises the importance of high-quality voting information to pension schemes and, ultimately, member outcomes.

Although we support, as drafted, the vast majority of the VRG's approach and template, we have offered some reflections on particular aspects, which we hope will be helpful.

The template

We believe that the fields by and large will support asset managers to provide, in a cost-proportionate way, the most useful information to asset owners. Specific reflections are as follows:

- Principles (criteria) for providing a rationale/ 'Most Significant Votes'. For us, the rationale provided by our asset manager on certain key votes is one of the best ways for us to understand how thoughtful and meaningful their approach to voting is. However, we recognise that the best and most insightful rationales require a certain amount of manual input. We therefore agree with the principle that this higher level of information should only be provided once a vote meets certain criteria.

We would suggest that an additional criterion/principle to be added to the list around "Vote that aligns with clients' definition of 'most significant votes'¹. This could be based upon what a manager understands of its clients' views on important topics or resolutions/companies. This is not necessarily completely captured within the current list of principles.

Such a principle would further emphasise to asset managers that it is the clients who must decide what is 'Most Significant' (and where they are most likely to be keen to see a rationale). It would also incentivise further action by asset managers

¹ We would suggest that "clients" is further defined as "pension fund trustees, or their equivalent, or an Occupational Pension Scheme (OPS) firm or other fiduciary agent acting for an asset owner" or similar.

to ask their clients in advance of AGM season what their priorities are – something which is done to a variable extent across the management industry.

- Pre-disclosure and engagement activities. Our own experience demonstrates that some of the most impactful – in terms of effecting change at a portfolio company – voting activity happens when a vote is i) aligned with engagement and ii) pre-disclosed to the company in advance of the vote (and ideally in advance of the cut-off date). We believe that, where a vote meets any of the principles/criteria for a rationale to be provided, the template should include a ‘yes/no’ option as to whether the vote was pre-disclosed to the company and that the current list of engagement types is appropriate. This will be highly relevant information for asset owners to have and to support effective engagement and challenge with their asset managers.

The approach (wider aspects)

As with the template itself, the wider aspects of the template should primarily be guided by what is useful for asset owners as customers. Some additional reflections below:

- Frequency of reporting. We primarily need voting information and rationales at two points in the annual life-cycle of our engagement with managers. We need the information firstly a few months in advance of our own reporting requirements (the implementation statement, but also our Stewardship and TCFD reports). We also need the information in advance of any engagement with our asset managers – which happens on an at least annual basis – on their approach to stewardship and responsible investment.

Quarterly reporting would be useful in this respect, though we could also see a case for reporting twice a year (and in alignment with schemes’ own reporting requirements) but where additional information was provided in between at the client’s request.

We recognise that – given we only delegate any of our voting to one external manager – we are not the ‘usual’ scheme in this respect. Schemes using several managers and who direct none or very little of their voting may wish to see information more frequently.

- Guidance to the VRG template. From our own experience with the PLSA’s Vote Reporting Template, providing guidance on how to use the template and how to interpret the information received, not only to managers but also owners, is vital to avoid confusion. Particularly where, for instance, a voting decision is taken for reasons other than the obvious e.g. voting against Audit Committee members on climate accounting grounds.
- Creation of a public registry and opt-out for OPS firms. We are highly supportive of a public registry of voting information by asset managers. This would aid not just consumers, but also asset owners who would be able to compare and contrast their own asset managers with others as part of their regular monitoring. Currently, the only opportunity to receive this information is if the asset owner is undertaking a Request for Proposal (RfP), which happens relatively infrequently.

Although the most value would be achieved by a comprehensive registry of all votes undertaken, sufficient value would be gained from a public registry of those votes which have reached the hurdle for a rationale to be provided.

- We suggest an opt-out for OPS firms i.e. those in-house managers who have only one client – the Trustee – who are not open to providing services to other asset owners (as long as they already disclose their voting information online). Given that the work of the VRG aims to support OPS firms to report in line with the requirements from DWP themselves, there is no value in duplicating this. There is a precedent for opt-outs for OPS firms from other regulations for similar reasons, for instance the Competition and Market Authority’s (CMA’s) recommendations around investment consultants or the FCA’s requirements on Taskforce for Climate-related Financial Disclosures (TCFD) reporting for regulated firms.

To maximise the credibility of such a registry, we suggest that it is either owned/provided by the FCA or by another relevant regulator such as Financial Reporting Council (FRC) given their role in oversight of stewardship practices. Although we recognise that use of the template will be voluntary, we believe that this would be a powerful additional signal of the regulators’ commitment to good stewardship.

- Ownership and oversight of the template. We agree that ownership of the template should reside with industry, but ideally the group would also include representation from those regulators involved either as observers or participants in the Vote Reporting Group. This will be important to ensure credibility and incentivise uptake by asset managers and owners.

We also believe that the governance bodies involved in ownership of the template and oversight of implementation and future development should be asset owner led. This could occur through a mandated majority of asset owner practitioners and representatives on each of these bodies, or through each body having an asset owner or asset owner representative chair. This is necessary to ensure not only credibility and take-up of the template, but also to support future revisions and development of the template in a way that aligns with what clients (and those who are most closely aligned to the needs of the end beneficiary) might wish to see.

We hope the information contained within this response has been helpful. We welcome the opportunity to discuss these and other related issues further with the FCA.

Yours sincerely,

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