

10 steps to adopting Red Lines

1.

Initial Research

Re-read the clause on responsible investment contained within your Statement of Investment Principles (“SIP”) to review your pension scheme’s current position on responsible investment and whether it has adopted any policy or has delegated it to the fund managers. If your scheme has a policy, review it to establish whether this covers environmental, social and corporate governance with regard to the UK companies in which you invest, or whether it is limited for example just to corporate governance.

If your scheme already votes its holdings in segregated funds, what is the situation regarding any investments in pooled funds?

2.

Circulate the Red Lines to Trustees

If you feel that the Red Lines would be appropriate to your scheme, circulate them to your fellow trustees and discuss with them. This may be particularly appropriate if you invest in pooled funds.

3.

Put Red Lines on the agenda

Circulate the Red Lines to appropriate advisers and request Red Line Voting to be put onto the agenda of your next pension scheme board meeting/ investment committee as appropriate.

5.

Make a decision

The meeting decides whether to adopt/recommend adoption of the Red Lines with appropriate input from professional advisers.

4.

Hold a Red Lines presentation

Discuss at the meeting. You may wish to use our Red Line Voting presentation, which you can access by downloading it here:

www.redlinevoting.org/download-red-lines/

6.

Amend the responsible investment clause of your SIP

The scheme’s appropriate professional advisers will probably advise that it is necessary to amend the responsible investment clause of your SIP. A pension scheme that has no responsible investment policy may currently have a clause similar to this:

“The policy of the Trustees is not to take social, environmental or ethical considerations into account to any extent in the selection, retention or realisation of investments, and they have no policy in regard to the exercise of the rights attaching to the investments held by them or on their behalf.”

Or it may make an open-ended delegation of voting and engagement to asset managers:

“The Trustees’ policy is to leave to the discretion of the investment managers to whom they have delegated their investment powers both the extent to which social, environmental or ethical considerations are taken into account in the selection, retention or realisation of investments, and the manner in which the voting rights attaching to the investments should be exercised.”

A clause which we believe may be suitable for a scheme that has adopted Red Lines might be along these lines:

“It is the policy of the Trustees to arrange for those to whom their investment powers are delegated under section 34 of the Pensions Act 1995 to take into account social, environmental and ethical considerations to the extent that these are judged to affect the financial performance of the scheme’s funds. It is the policy of the Trustees that the voting and other rights attaching to the investments are exercised in line with those considerations and, in particular, that votes should be cast in accordance with the Red Line Voting Instructions adopted from time to time by the Trustees, a current list of which is annexed to this Statement but does not form part of it.”

N.B. The use of the word “ethical” here reflects the current language of the statutory regulation governing SIPs and does not commit the trustees or their managers to the sort of screening of shares to which in its literature AMNT gives the name “ethical investment”. Red Line Voting is not concerned with stock selection or ethical investing unrelated to financial factors.

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7.

Instruct the scheme's fund managers

The Trustee Board will send an instruction to the scheme's fund managers. The following illustrative draft letter from a Trustee Board to an asset manager is intended to show the points that would need to be addressed:

"The Trustees of [*Name of Scheme*] have acknowledged the conclusion of the Law Commission's 2014 *Report on Fiduciary Duties of Investment Intermediaries* that trustees should take into account environmental, social or governance (ESG) issues that are financially material to their investments.

Accordingly the Trustees have adopted environmental, social and corporate governance Red Lines developed by the Association of Member Nominated Trustees for 2016, with regard to the UK companies in which you invest on the Scheme's behalf.

We have adopted all [*of those Red Lines or the following Red Lines – specify –*], as published at [www.redlinevoting.org].

These Red Lines indicate the standards of policy and conduct which we expect UK listed companies to attain while we are associated with them. We envisage that you will in many cases engage with these companies with a view to holding them to those standards. In the event, however, that any of the Red Line Voting Instructions we have adopted is triggered by the non-compliance of any company with those standards, we instruct you to arrange

that the voting rights that attach to the number of voting shares in that company held for the benefit of ourselves as Trustees be exercised in conformity with that instruction.

Notwithstanding any such instruction, if in any particular case you judge that it is in our interests and in the interests of the sponsors and beneficiaries of our scheme that such a vote should not be cast, you may act in accordance with that judgment. If you do so, we instruct you to explain to us in writing the basis on which you formed your judgment in each such case.

We would also expect you to tell us what Red Line Voting Instructions have been triggered. (For the avoidance of doubt, we do not instruct you to vote as a matter of course in favour of propositions where no Red Line Voting Instruction would lead to you to vote against.)

We shall expect to receive these reports [*at least half yearly or in accordance with your normal reporting schedule*].

We should wish these instructions to operate as soon as possible and in any event from no later than two months from today."

This will need to be tailored to the detailed circumstances of course. In some cases it may be appropriate for the trustees to transmit their instructions through an adviser.

8.

Going public with Red Lines

The trustees may decide to make public their adoption of the Red Lines and show which Red Lines they have adopted, if not all.

9.

Red Line reports

As indicated in the illustrative draft letter above, the trustees should receive regular reports from their fund managers about how they have implemented your Red Line Voting instructions. Managers' reports should be half-yearly or have the same regularity as their existing reports on their responsible investment activities. They should focus primarily on where managers have voted contrary to a Red Line instruction and why; and secondarily on where they have voted against a company position in accordance with a Red Line instruction and why. The trustees should review these reports and take up with the managers any concerns over the voting actions that they may have.

10.

Follow up

After adopting Red Line Voting, please let us know that you have done so: this is important in helping us to monitor the take-up of the Red Lines. Also, if your scheme is not a signatory to the Financial Reporting Council's UK Stewardship Code, you could sign up with confidence: it is at www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx. Doing so is free.



An initiative brought to you by:

Association of Member Nominated Trustees