The Sustainable Ownership Team,
RPMI Railpen,
7th Floor, Exchange House,
12 Exchange Square,
London, EC2A 2NY

Corporate Governance and Stewardship,
Financial Reporting Council,
8th Floor,
125 London Wall,
London.
EC2Y 5AS

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Via email: stewardshipcode@frc.org.uk

RPMI Railpen response to the proposed revisions to the UK Stewardship Code

We are writing to you on behalf of the Sustainable Ownership (SO) team of RPMI Railpen, who oversee the management of around £29bn on behalf of the Railways Pension Trustee Company Limited in the UK. We were one of the first asset owner signatories to the Financial Reporting Council (FRC)'s UK Stewardship Code in 2010, and are proud of our Tier 1 status.

The Railways Pension Trustee Company Limited and its subsidiary RPMI Railpen undertake responsibilities attributed to asset owners and asset managers, and we were pleased to see that the decision was made to recommend a single code with guidance specific to the signatories' role in the investment chain rather than separate codes for owners, managers and service providers.

We also applaud the expansion of the 2019 Code to include how financially-material environmental, social and governance considerations are incorporated in investment decision-making (Question 11.)

We welcome the opportunity to comment on the proposed revisions to the Code, and are warmly supportive of the proposed revisions. Regarding question 1, we welcome the broadened definition of stewardship itself. It aligns with how we assess material environmental, social and governance factors through four lenses, which include "the world our beneficiaries will retire into."

However, the current definition of stewardship activities is too narrow, and we would add engaging on public policy issues.

Additional detail could also be provided regarding the expectations for service providers, and the recent report by the AMNT may assist in the development of the minimum stewardship requirements for investment consultants. To answer Question 12, monitoring service providers, whether asset managers or third-party research providers, is clearly part of the responsibilities of a responsible active owner.

Reporting on these activities to members and broader stakeholders is important, and our SO Annual Report is available on our website. We support the proposal for a Policy and Practice Statement and an Annual Activities and Outcomes Report. We have included named contact points in our Stewardship Code disclosures since 2010, and welcome the encouragement the revised Code provides to all signatories to provide the same visible commitment.

It is positive that signatories to the 2012 Code will need to reapply to be a signatory under the 2019 Code, rather than being grandfathered in. It is to be hoped that all who do renew their status as a signatory do so fully aware of the increased expectations.

The split between “apply and explain” for the Principles and “comply and explain” for the Provisions is largely welcome (Question 3,) although the drafting seems to assume in certain places an investor with an active strategy in a listed equities portfolio. Aligning reporting requirements under the Code with existing frameworks, particularly the PRI’s Reporting Framework, which also integrates the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, could encourage a greater number of asset owners to commit to the Code.

Regarding the Guidance (Question 4,) the intention of “actively demonstrate” in Principle F could be clarified in the final drafting. Principles H and L would benefit from replacing “must” with “should,” and the guidance would be improved by explicitly asking signatories to explain how they select companies for engagement. It is also important to note that where there appears to be a significant risk to the long-term value of the investment, responsible stewardship can include selling shares in the company. Given the Code was last updated in 2012, the Guidance may be of greater value to signatories if it is updated on a more regular basis than the Code’s Principles and Provisions, and thus may have more utility if separated from the main body of the Code.

On implementation (Question 6,) we encourage the FRC to establish a Stewardship Reporting Lab to develop best practice in detailing stewardship outcomes, or to initiate a project on stewardship reporting within the Financial Reporting Lab. However the finalisation of monitoring arrangements (Question 7) would benefit from allowing the impact of the new DWP regulations and the revisions to the Shareholder Rights Directive (SRD II) to take effect in the UK market.

We support signatories disclosing their commitment to stewardship at an organisational level (Question 8,) but see compulsory disclosure at the fund level as unduly onerous (Question 10.) In practice investors will have a detailed due diligence questionnaire (DDQ) which needs to be completed as part of a manager appointment process. It is unrealistic to believe that an asset owner will appoint an external manager purely based on the text in their public UK Stewardship Code disclosure. Other sources which investors may consult include the disclosures against the Principles for Responsible Investment (PRI) framework, their existing responsible investment and voting policies and any news reports on controversies or personnel changes at the signatory.

We welcome incorporating stewardship beyond listed equity (Question 9,) which reflects how responsible investment has developed since the Code was initially launched. However greater detail on how that might be enacted (Question 15) risks being duplicative of the guidance already provided by the PRI and other investor associations.

Given the lack of traction for the Stewardship Supplement to AAF 01/06, the increased flexibility around assurance in the 2019 Code should encourage investors to review their approach and disclose to an appropriate degree.

If you would like to discuss any of the points raised in this letter, please contact us via SO@rpmi.co.uk.

With best regards,

Jocelyn Brown,

Senior Investment Manager,

RPMI Railpen