

**PENSIONS COMMITTEE**  
**28 NOVEMBER 2018****STEWARDSHIP COMPLIANCE STATEMENT**

---

**Recommendation**

1. **The Chief Financial Officer recommends that:**
  - a) **The Stewardship Compliance Statement be reviewed and agreed;**
  - b) **The Responsible Investment activities be noted; and**
  - c) **The key areas of the LAPFF quarterly engagement report be included in the Committees future pensions investment updates.**

**Background**

1. The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council (FRC) strongly encouraged best practice in respect of investor engagement. The expectation was that institutional investors should publish a statement in respect of their adherence to the Code. Compliance with the Code is currently on a voluntary basis.
2. The Fund is not currently a signatory of the FRC Stewardship Code, but has now provided the Stewardship Compliance Statement (attached as an Appendix) for consideration and review by Committee. If agreed this will be added to the Investment Strategy Statement in future.
3. As part of this report it is also worth highlighting the Funds Responsible Investment principles which are detailed within its 2018 Investment Strategy Statement

**Responsible Investment (RI) Activities**

4. The Fund adopts a policy of risk monitoring and engagement with companies with sub-optimal governance of financially material Responsible Investment (RI) issues, in order to positively influence company behaviour and enhance shareholder value; influence that would be lost through a divestment approach. The Fund extends this principle of “engagement for positive change” to the due diligence, appointment and monitoring of external fund managers.

***RI integration***

5. The Fund believes that effective management of financially material RI risks should support the Fund’s requirement to protect returns over the long term. Investment managers will seek to incorporate RI into their investment process. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them.

6. The Fund considers RI to be relevant to the performance of the entire Fund across asset classes. There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

7. The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long term growth.

### ***Engagement versus Exclusion***

8. Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. The Fund adopts a policy of risk monitoring and engagement with companies with sub-optimal governance of financially material RI issues, in order to positively influence company behaviour and enhance shareholder value; influence that would be lost through a divestment approach. The Fund extends this principle of "engagement for positive change" to the due diligence, appointment and monitoring of external fund managers.

9. The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. To this end, the Fund uses its membership of the Local Authority Pension Fund Forum (LAPFF) to assist it in pursuing engagement activities.

10. The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 79 public sector pension funds and five pools in the UK with combined assets of over £230 billion.

11. Through LAPFF, the Fund engaged with 63 companies during the quarter on issues ranging from employment standards to Sustainable Development Goals and shareholder rights. Most engagements concerned shareholders rights. One engagement led to a substantial improvement and four engagements led to a moderate / small improvement. Most engagements were conducted by meetings with specialist staff or the company Chair. The issues are set out in the Quarterly Engagement Report which is available on LAPFF's website: [lapff qrtly-engagement-reports](#).

12. The key areas of the LAPFF quarterly engagement report will be included in the Committee's future pension's investment updates.

### **Voting**

13. Where practical, the Fund aims to vote in every single market in which it invests in alignment with corporate governance best practice guidelines. In the interests of sending a consistent signal to investee companies, the Fund has decided to delegate responsibility to its external Investment Managers for analysis of governance issues and executing its proxy voting rights across all markets in which it invests. At the present time, the Fund believes that the advantage of a consistent signal outweighs the inherent disadvantages to disconnecting the voting function from the investment and engagement decisions of external fund managers.

## **Stewardship in Investment Pooling**

14. As part of LGPS Central we are actively exploring opportunities to enhance our stewardship activities. More information is on the LGPS website. One of the principal benefits, achieved through scale and resources arising from pooling are the improved implementation of responsible investment and stewardship. Through its *Responsible Investment & Engagement Framework* and its Statement of Compliance with the UK Stewardship Code, LGPS Central is able to help implement the Fund's own *Responsible Investment Framework*. LGPS Central issues Quarterly Stewardship Reports to demonstrate progress on matters of investment stewardship.

## **Contact Points**

### County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

### Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

Tel: 01905 846908

Email: [RWilson2@worcestershire.gov.uk](mailto:RWilson2@worcestershire.gov.uk)

## **Supporting Information**

- The Stewardship Compliance Statement (Appendix)

## **Background Papers**

In the opinion of the proper officer (in this case the Chief Finance Officer) the following are the background papers relating to the subject matter of this report:

Investment Strategy Statement 2018