

PENSION BOARD
9 MARCH 2020**NEW UK STEWARDSHIP CODE**

Recommendations

1. **The Chief Financial Officer recommends that the Pension Board considers and advises the Pension Committee:**
 - (a) **On the new Stewardship Code published by the Financial Reporting Council (FRC) on the 24 October 2019 (Appendix 1); and**
 - (b) **The expected areas to be covered when reporting to comply with the Stewardship Code (Appendix 2)**

Background and Purpose

2. The purpose of this report is to update the Pension Board on the new UK Stewardship code that was published by the Financial Reporting Council (FRC) on the 24 October 2019. This provided a substantial and ambitious revision to the UK Stewardship Code (Appendix 1).
3. Worcestershire Pension Fund (WPF) is a current signatory of the existing Stewardship Code. The new Code substantially raises expectations for how money is invested on behalf of UK savers and pensioners. The new Code establishes a clear benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. Key changes include: -
 - Focus on activities & outcomes, not policy: currently Code signatories publish a policy statement on their approach to stewardship. Under the 2020 Code, no policy statement is required. Signatories will be required to report on stewardship activities & outcomes instead
 - More ambitious, more detailed: the previous Code had seven 'comply or explain' principles. The new Code has 12 'apply and explain' principles, with 16 pages of Reporting Expectations. It's more thoughtful as well, for example asset owners are required to explain how stewardship activities are consistent with liabilities (i.e. long term)
 - All asset classes included: the 2012 version focussed on engaging and voting at UK equities, whereas the scope of the 2020 Code includes bonds and alternatives too
 - Capital allocation, not just post-investment activity: the 2012 Code focussed on what happens after you've invested. For example, there were two principles just on shareholder voting. The new Code re-defines 'stewardship' to include the capital allocation decision too.

Actions required for Code signatories:

4. Signatories to the 2012 Code will have their status frozen between 1 January and 31 March 2021. After that, the 2012 Code signatories list will be removed from the FRC website.
5. Those intending to remain or become Code signatories need to report on stewardship outcomes in Q1 2021 at the earliest. (Owing to lags in data availability, we know that some LGPS funds and pools will be unlikely to report until Q2 (April to June) 2021. Thereafter, Code signatories must report annually. The FRC will not consider quarterly reporting.
6. Following the publication of our stewardship report which will need to cover the areas detailed in appendix 2, the FRC will assess its adequacy and will publish WPF having become a Code signatory.
7. During 2020, it is recommended that Code signatories align their Responsible Investment strategies to prepare for the more detailed reporting required under the 2020 Code.

Support from LGPS Central

8. The new Code takes effect from the 1 January 2020 and we will be working alongside LGPS Central who are providing support to all the pooling partner funds to help them update their respective Stewardship Code statements.
9. We will report back to the Board on the progress and the final updates to the Stewardship Code.

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Supporting Information

- Appendix 1 - New UK Stewardship Code
- Appendix 2 - Expected areas to be covered when reporting to comply with the code.

Background Papers

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

December 2019 Pensions Committee paper on the changes to the Stewardship code included in the Pension Investment update report.