

## **PENSIONS COMMITTEE**

### **29 JUNE 2021**

## **UK STEWARDSHIP CODE 2020**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that the Committee notes and comments on the requirements for the revised UK Stewardship Code and Worcestershire Pension Fund's submission (Exempt Appendix).**

### **Background and update**

2. 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 was on a voluntary basis.
3. The Fund previously agreed its Stewardship Compliance Statement at Pensions Committee on the 28 November 2018 and became a signatory to the code.
4. Pensions Committee have been informed in previous updates that the UK Stewardship code 2020 has been revised and has twelve principles.

### **Purpose and Principles of the Code**

5. The UK Stewardship Code 2020 ('the Code') sets high expectations for how investors, and those that support them, invest, and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. It is a set of 12 Principles for asset owners and asset managers, and a separate set of six Principles for service providers – investment consultants, proxy advisors, data providers and others.
6. The new Code took effect on 1 January 2020. The Financial Reporting Council (FRC) accepted applications in Q1 2021 and Asset owners wishing to be included on the first list of signatories needed to apply by 30 April 2021 for the period 1 January – 31 December 2020. Applicants that effectively evidence how they apply the Principles and meet the reporting expectations will be listed as signatories to the Code in the Summer 2021.
7. Stewardship is defined by the FRC as follows: *“Stewardship is 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.”*
8. The below 12 Principles apply to asset owners and asset managers. They are grouped under these headlines:

- Purpose and governance (Principles 1 – 5)
  - Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society
  - Signatories’ governance, resources, and incentives support stewardship
  - Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first
  - Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
  - Signatories review their policies, assure their processes, and assess the effectiveness of their activities
- Investment approach (Principles 6 – 8)
  - Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them
  - Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities
  - Signatories monitor and hold to account managers and/or service providers
- Engagement (Principles 9 – 11)
  - Signatories engage with issuers to maintain or enhance the value of assets
  - Signatories, where necessary, participate in collaborative engagement to influence issuers
  - Signatories, where necessary escalate stewardship activities to influence issuers.
- Exercising rights and responsibilities (Principle 12)

### **Worcestershire Pension Fund Submission**

9. LGPS Central have provided support and advice to those Partner funds who wished to submit in the first tranche. After consultation and feedback from the Chair of Pensions committee, Chief Financial Officer and the Fund’s Investment Advisor the Fund submitted their application on the 30 April 2021 (see Appendix 1). LGPS Central and West Midlands Pension Fund also submitted their application. The FRC are expecting to provide a ‘Yes or No’ as to whether the application has been successful during July 2021.

**10. Please note that the Appendix contains exempt information (on salmon pages) and should members wish to discuss the information included in this Appendix**

**they would need to consider passing the appropriate resolution and moving into exempt session**

### **Supporting Information**

Appendix - Application to FRC for signatory status to the UK Stewardship Code 2020  
**(Exempt on salmon pages)**

### **Contact Points**

#### Specific Contact Points for this report

Rob Wilson  
Pensions Investment & Treasury Management Manager  
Tel: 01905 846908  
Email: [RWilson2@worcestershire.gov.uk](mailto:RWilson2@worcestershire.gov.uk)

### **Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer), there are no background papers relating to the subject matter of this report.