

PENSIONS BOARD

5 OCTOBER 2022

UK STEWARDSHIP CODE 2021 SUBMISSION

Recommendation

- 1. The Chief Financial Officer recommends that the Board note the successful feedback from the Financial Reporting Council (FRC) for the Fund's 2021 Stewardship Code application submitted on the 30 April 2022.**

Purpose and Principles of the Code

2. 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.
3. 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.

Background and update

4. The Fund previously agreed its Stewardship Compliance Statement at Committee on the 28 November 2018 and became a signatory to the code. The Committee were informed at its March 2021 meeting that the UK Stewardship Code 2020 had been revised and had twelve principles.
5. The Fund submitted its 2020 application which was provided at the June 2021 Committee and received notification from the FRC (reported to the October Committee) that we (along with several LGPS funds) had been successful in becoming a signatory to the 2020 Stewardship Code, something which 64 organisations out of 189 organisations (including 147 asset managers, 28 asset owners including pension funds and insurers, and 14 service providers including data and information providers and investment consultants) applying to the Financial Reporting Council did not achieve. LGPS Central and West Midlands Pension Fund were also successful code signatories from the Pool.
6. The Fund submitted its 2021 (covering January to December 2021) application at the end of April 2022 and was provided to the meeting of the Board in June. The Fund received feedback on the 2 September 2022 that the Fund had been successful.
7. FRC have provided feedback on our submission stating that:

“We reviewed your report and assessed it against the Code in a way that is proportionate to your organisation’s size and type. This assessment was then reviewed to ensure it was fair and appropriate. A sample of reports reflecting a range of applicants was also reviewed by our panel of independent advisors to ensure consistency. From 2023, our assessment will place greater emphasis on reporting the activities and outcomes of stewardship undertaken directly or by others on your behalf, during the reporting period.

Your report

We have reviewed your new Stewardship Report and are pleased to see improvements in your reporting that addressed our feedback. Please address the areas identified below to remain a signatory in future.

For Principle 5, your report should explain why your approach to review and assurance is appropriate. For example, your report explains the use of an ESG Audit, however, better reporting would articulate why you have chosen this method of assurance. Your report should also explain how you have ensured your reporting is fair, balanced and understandable. For instance, your report could provide details about which individuals, teams or groups are responsible for ensuring your stewardship reporting is fair, balanced and understandable, and how this is considered.

For Principle 12, your report explains the expectations you have set your asset managers when exercising rights and responsibilities in listed equity and fixed income. However, your reporting could be improved by explaining the expectations you have set your asset managers to exercising rights and responsibilities in asset classes such as property and infrastructure.”

8. This report is asking the Board to note the application.

Contact Points

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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.