

## ITEM No ...19.....

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE  
& PENSION BOARD – 8 MARCH 2021**

**REPORT ON: UK STEWARDSHIP CODE**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 83-2021**

### **1 PURPOSE OF REPORT**

This report sets out the revision to the UK Stewardship Code.

### **2 RECOMMENDATION**

The Sub-Committee is asked to note the contents of the report.

### **3 FINANCIAL IMPLICATIONS**

None

### **4 BACKGROUND**

The Financial Reporting Council (FRC) published an updated UK Stewardship Code which took effect from 1 January 2020. The Code represents a new best practice standard for asset owners and asset managers, with the aim of improving stewardship practices, and setting a higher standard reflective of the changing expectations of investors since the Code's last revision in 2012. The requirements of the revised Code for asset owners and managers extend to establishing clear stewardship objectives, integrating stewardship in investment strategies, and adhering to clearer and more elaborate reporting requirements.

The first submissions to the 2020 Code will occur in Q1 2021, and the first round of signatories are expected to be announced by the FRC in Summer 2021. As existing signatories to the previous code, all of the Fund's investment managers are aspiring to be in this first round of signatories, and are required to submit a Stewardship Report that meets the FRC's reporting expectations in the 2020 Code by 31 March 2021 in order to continue to be listed as signatories to the UK Stewardship Code. These reports must be signed off at a Board level, by Chair, Chief Executive or Chief Investment Officer.

LGPS funds are not required by the code to be signatories, but the membership of all investment managers will strengthen responsible investment activities, and will enable clearer focus on reporting, using the code requirements as a basis for reviewing responsible investment policies.

### **5 KEY CHANGES TO THE 2012 CODE**

The requirements of the revised Code require signatories to have clear stewardship objectives, integrating stewardship in investment strategies, and adherence to clearer and more elaborate reporting requirements.

- The extended focus aims to align the approach of the whole investment community with the interest of end-investors and beneficiaries.
- Requires annual reporting on stewardship activity and outcomes, with signatories' reports demonstrating the following to provide greater transparency:
  - activities in previous year, and their outcome;
  - engagement with the assets they invest in;
  - voting records;

- how they have protected and enhanced the value of their investments.
- Signatories are expected to take ESG factors, including climate change, into account and to ensure their investment decisions are aligned with the needs of their clients. Signatories are expected to disclose the issues that they prioritise for assessing investments prior to holding, and to monitor through holding and exiting. This should include the ESG issues of importance to them.
- Signatories are expected to explain how stewardship has been exercised across asset classes beyond listed equity such as fixed income, private equity and infrastructure, and in investments outside the UK.
- Signatories are required to explain their organisation’s purpose, investment beliefs, strategy and culture, and how these enable them to practice stewardship. They are also expected to show how they are demonstrating this commitment through appropriate governance, resourcing and staff incentives.
- There is also an expectation within the new Code for signatories to work in a collaborative fashion with regulators and industry bodies to identify and respond to the risk of market and systemic failure. Signatories are expected to show how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets and outline the role they played in any relevant industry initiatives in which they participated.
- Signatories are expected to explain how they escalate stewardship activities where necessary.

## 6 PRINCIPLES OF THE CODE

The revised code comprises of a set of 12 ‘apply and explain’ Principles for asset managers and owners, and six Principles for service providers, including investment consultants. The following table provides detail:

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS			
Purpose and governance	Investment approach	Engagement	Responsibilities
1. Purpose, strategy and culture	6. Client and beneficiary needs	9. Engagement	12. Exercising rights and responsibilities
2. Governance, resources and incentives	7. Stewardship, investment and ESG integration	10. Collaboration	
3. Conflicts of interest	8. Monitoring managers and service providers	11. Escalation	
4. Promoting well-functioning markets			
5. Review and assurance			
PRINCIPLES FOR SERVICE PROVIDERS (e.g. Investment Consultants)			
1. Purpose, strategy and culture		4. Promoting well-functioning markets	
2. Governance, resources and incentives		5. Supporting client’s stewardship	
3. Conflicts of interest		6. Review and assurance	

## 7 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

**8 CONSULTATIONS**

The Chief Executive and the Head of Democratic and Legal Services have been consulted in the preparation of this report.

**9 BACKGROUND PAPERS**

None

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**9 February 2021**

