HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	3 September 2019
Title:	UK Stewardship Code
Report From:	*Director of Corporate Resources – Corporate Services*

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Purpose of this Report

1. This report provides information on signing the UK Stewardship Code.

Recommendations

2. That the RI sub-committee recommends to the Pension Fund Panel and Board that Hampshire Pension Fund signs the UK Stewardship Code.

Executive Summary

3. The UK Stewardship Code is published by the Financial Reporting Council (FRC). The last version was published in 2012. In January 2019 the FRC published a consultation on updates to the Stewardship Code. The Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

4. Since December 2010 all UK-authorised Asset Managers are required under the FCA's Conduct of Business Rules to produce a statement of commitment to the UK Stewardship Code or explain why it is not appropriate to their business model. The FRC also encourages all institutional investors, such as the Pension Fund, to report if and how they have complied with the Code. 32 of the 89 LGPS funds in England and Wales have signed up to and reported their compliance against the Code (shown in Appendix 1). The FRC divides signatories between those it assessed as having ‘reported well against the code and demonstrated their commitment to stewardship’ (Tier 1) and those where ‘reporting improvements are necessary’ (Tier 2).

UK Stewardship Code 2012 version

5. There are seven principles of the Code that aims ‘to protect and enhance the value that accrues to ultimate beneficiaries’. The principles are set out below along with a summary of the Pension Fund’s current compliance. Except for having a policy for managing conflicts of interest in relation to stewardship, the Pension Fund is either complying with the principles of the Code or will comply as a result of the new activity and reporting to the RI sub-committee.

	Principle		**Status**
1	Publicly disclose their policy on how they will discharge their stewardship responsibilities.	✓	The Fund’s updated RI policy describes its approach to stewardship
2	Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.	x	Would need to be developed
3	Monitor their investee companies.	✓	Companies are monitored through the reporting and scrutiny of the Pension Fund officers and Panel and Board
4	Establish clear guidelines on when and how they will escalate their stewardship activities.	✓	The RI sub-committee’s terms of reference include to ‘review investment managers’ company engagement and voting decisions and when necessary engage directly and indirectly with investment managers (and where possible directly with companies the Pension Fund is invested in) to make representations concerning ESG as appropriate’
5	Be willing to act collectively with other investors where appropriate.	✓	Through investment pooling with ACCEESS, Hampshire has a greater weight of influence in terms of overall shareholding. The Pension Fund would also be open to approaches to act collectively from any other investors.
6	Have a clear policy on voting and disclosure of voting activity.	✓	The voting policy is part of the RI policy and voting activity is reported to the RI sub-committee

Principle		Status	
7	Report periodically on their stewardship and voting activities.	✓	Stewardship and voting activity will form part of the Fund’s annual RI report

2019 consultation on amendments to the Stewardship Code

6. The consultation in early 2019 proposed amendments to the Code’s principles and new provisions for signatories to demonstrate how they are implementing the principles, which are shown in Appendix 2. The updated principles and provisions provide a more detailed framework for how stewardship is demonstrated. The Pension Fund should still be able to comply with the proposed principles with minor updates to its RI policy, such as adding a section on managing conflicts of interest and by using the principles as a basis for the intended annual RI report.

Requirements of signatories

7. There is no annual fee for being a UK Stewardship code signatory. The FRC expects signatories of the Code to publish on their website a statement that:

    - describes how the signatory has applied each of the seven principles of the Code and discloses the specific information requested in the guidance to the principles; or
    - if one or more of the principles have not been applied or the specific information requested in the guidance has not been disclosed, explains why the signatory has not complied with those elements of the Code.

8. The 2019 consultation on changes to the Code added a further requirement, that:

    - provides an evaluation of how well stewardship objectives have been met and the outcomes achieved.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Extract of Stewardship Code signatories

Tier 1

Avon
Bedfordshire
Clwyd
Cumbria
Derbyshire
Devon
East Riding
East Sussex
Environment Agency
Greater Manchester
Lancashire
Lincolnshire
London Borough of Camden
London Borough of Hackney
London Borough of Haringey
London Pension Fund Authority
North Yorkshire
Staffordshire
South Yorkshire
Tyne and Weir
Warwickshire
West Midlands
West Yorkshire
Wiltshire
Worcester

Board to Coast Pension Partnership
LGPS Central
Local Pensions Partnership
London CIV

Tier 2

Devon
Gwynedd
London Borough of Bexley
London Borough of Ealing
London Borough of Hillingdon
Merseyside
Somerset

Proposed updated UK Stewardship Code principles and provisions

1 Purpose, Objective and Governance

Principles

A. Signatories must develop their organisational purpose and disclose how their purpose, strategy, values and culture enable them to fulfil their stewardship objectives.
B. Signatories must develop and disclose their stewardship approach and objectives, and how they serve the interests of clients and beneficiaries.
C. Signatories' governance, processes, resources and remuneration must support the delivery of their stewardship objectives.
D. Signatories must establish policies to manage conflicts of interest, which put the interests of beneficiaries and/or clients first.

Provisions

1. Signatories should clearly disclose if, and how, stewardship policies and practices differ across asset allocation.
2. Signatories should explain what activities they undertake to interact with other stakeholders and exercise their role as stewards of the market.
3. Signatories should have appropriate governance policies and/or structures to enable the delivery of their stewardship obligations.
4. Signatories should ensure their workforce has appropriate experience, qualifications and/or oversight to deliver their stewardship obligations.
5. Signatories should explain how they ensure the organisation has appropriate incentives in place for the delivery of the investment strategy and stewardship objectives.
6. Signatories should explicitly state their stewardship objectives and their expectations of stewardship activities when inviting tenders, selecting service providers and designing mandates.
7. Signatories should disclose their conflicts of interest policy and how it has been applied.
8. Signatories should disclose how they review and assure their stewardship objectives, and policies, processes, activities and reported outcomes.

2 Investment Approach

Principles

E. Signatories must integrate stewardship with their investment approach and demonstrate how they take into account material ESG factors, including climate change.
F. Signatories must actively demonstrate how prospective and current investments are aligned with their stewardship approach.

Provisions

9. Signatories should disclose the structures and processes they have in place to ensure that information gathered through stewardship activities is factored directly into investment decision-making.
10. Signatories should state their investment time horizon.

11. Signatories should ensure that the investment and stewardship mandates that they issue appropriately reflect the investment time horizon of their beneficiaries and demonstrate how they take ESG issues into account.
12. Signatories should disclose their investment beliefs.
13. Signatories should provide clear and actionable criteria for managers to assess assets against, including prior to investment, to ensure they are appropriate investments to make in accordance with their investment and stewardship strategy.

3 Active Monitoring

Principles

G. Signatories must actively monitor the performance of the assets for which they are responsible and/or the managers and service providers that they use.

Provisions

14. Signatories should actively monitor issues that may impact the value of assets held over the investment time horizon of beneficiaries and/or clients, identify key priorities, and use this information to inform their stewardship activities and communication with managers and/or service providers.
15. Signatories should actively monitor asset managers to ensure that assets managed on their behalf are aligned with their investment and stewardship policies.
16. Signatories should actively monitor service providers to ensure that their services enable effective stewardship.

4 Constructive engagement and clear communication

H. Signatories must undertake constructive engagement to maintain or enhance the value of assets.
I. Signatories must communicate clearly with clients and beneficiaries.

Provisions

17. Signatories should establish and publicly disclose an engagement policy.
18. Signatories should describe how they integrate engagement into their investment strategy.
19. Signatories should describe what methods they use for engagement, and escalation if required, to enhance the value of assets.
20. Signatories should state the extent to which they participate in collaborative engagement.
21. Signatories should disclose engagement activity undertaken on their behalf and communicate to beneficiaries about how they have fulfilled their stewardship responsibilities.
22. Signatories should describe how they take account of beneficiaries' needs and the extent to which they seek to engage with beneficiaries to understand their views.

5 Exercise rights and responsibilities

Principles

J. Signatories must actively exercise their rights and responsibilities.

Provisions

23. Signatories should explain how they exercise ownership rights across different markets and asset classes.
24. Signatories should indicate which, if any, proxy voting adviser(s) they use, the scope of services procured and how advice/information received is used as part of the signatories' stewardship activities.
25. Signatories should explain their policy on voting shares in listed assets, including:
    - the extent to which the fund sets its own voting policies;
    - the extent to which voting decisions are executed by another entity;
    - how they monitor service providers' voting on their behalf;
    - how the asset owner monitors the voting rights it has;
    - the funds' approach to stock lending and recalling lent stock for voting;
    - votes withheld if applicable.
26. Signatories should disclose their voting records.
27. Signatories should explain their policy on bond engagement, including the extent to which they engage pre- and post-issuance of bonds.