

Report to: Pension Board
Date: 5 November 2018
By: Chief Finance Officer
Title of report: Financial Reporting Council - UK Stewardship Code
Purpose of report: To consider the proposal to publish a statement regarding the Fund's compliance with the Financial Reporting Council's UK Stewardship Code.

RECOMMENDATION -

The Board is recommended to consider and comment on the report.

1. Background

1.1 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The FRC promotes high standards of corporate governance through the UK Corporate Governance Code, which sets out standards of good practice in relation to leadership and effectiveness, accountability and relations with Shareholders. The Pension Fund considers these best practice standards when exercising its voting rights.

1.2 The Government and regulators, such as the FRC, have put increasing pressure on companies to raise their standards of governance. As a consequence of the global financial crisis, the focus has moved to long term institutional investors, including pension funds, with a strong encouragement that they act as responsible and engaged corporate owners.

1.3 This report provides an update and in line with the previous Committee recommendations on the approaches to mitigate risks posed by climate change/engagement and to formulate a cost effective Responsible Investment Policy.

2. Financial Reporting Council UK Stewardship Code

2.1 The UK Stewardship Code was first published in July 2010, revised in September 2012 and will be revised again in 2018 by the FRC and is designed to lay out the responsibilities of institutional investors as shareholders and provide guidance as to how these responsibilities might be met. Whilst it is aimed in the first instance at asset managers, particularly those regulated by the Financial Conduct Authority (FCA), pension fund trustees are strongly encouraged to report if and how, they have complied with the Code.

2.2 The Code is a set of best practice principles that are intended to set out both shareholder engagement with companies and the disclosure of such activity. It is intended that shareholders adhere to the principles with the same "comply or explain" approach used with the UK Corporate Governance Code for listed companies.

2.3 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require an administering authority of an Local Government Pension Scheme (LGPS) fund to include its policy on the exercise of the rights (including voting rights) attaching to investments in its Investment Strategy Statement ("ISS"). The Guidance on Preparing and Maintaining an Investment Strategy Statement from the Ministry of Housing, Communities and Local Government (MHCLG) includes a requirement for administering authorities to explain their policy on stewardship with reference to the Stewardship Code. Administering authorities are expected to become signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a "comply or explain" basis.

2.4 Institutional investors are encouraged to publish their Statement of Compliance with the Code on their website and also within their Annual Report and Accounts. In addition, notification of compliance should be provided to the FRC.

3. Pension Committee Approval

3.1 The Committee at its 26 November 2018 meeting will be requested to approve (including publication) the Pension Fund's Statement of Compliance with the UK Stewardship Code for Institutional Investors, which is attached at Appendix 1.

4. Conclusion and recommendations

4.1 The East Sussex Pension Fund supports the FRC Stewardship Code and seeks to apply the Principles in the Code to its investment activity. Although the Code is focused on the UK, the Fund seeks to apply the Principles of the Code to its non-UK investments subject to local practice and law.

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BACKGROUND DOCUMENTS

None