

**Report to:** Pension Committee

**Date of meeting:** 26 November 2018

**By:** Chief Finance Officer

**Title:** UK Stewardship Code

**Purpose:** To consider the proposal to publish a statement regarding the Fund's compliance with the Financial Reporting Council's UK Stewardship Code.

---

**RECOMMENDATIONS – The Committee is requested to approve –**

- 1. the proposed Pension Fund's Statement of Compliance with the UK Stewardship Code (Appendix 1);**
  - 2. the publication of the Fund Stewardship Code Compliance Statement;**
  - 3. that the Fund formally notifies the FRC of Code publication on the Council's website.**
- 

**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. The Principles of the Code is that institutional investors should:

- i. publicly disclose their policy on how they will discharge their stewardship responsibilities.
- ii. have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

- iii. monitor their investee companies.
- iv. establish clear guidelines on when and how they will escalate their stewardship activities.
- v. be willing to act collectively with other investors where appropriate.
- vi. have a clear policy on voting and disclosure of voting activity.
- vii. report periodically on their stewardship and voting activities.

2.3 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require an administering authority of a 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. Conclusion and recommendations**

3.1 The Committee is recommended to support the FRC Stewardship Code and apply the Principles in the Code to the East Sussex Pension Fund’s 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.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer: Ola Owolabi, Head of Pensions  
Tel. No. 01273 482017  
Email: [Ola.Owolabi@eastsussex.gov.uk](mailto:Ola.Owolabi@eastsussex.gov.uk)

### **BACKGROUND DOCUMENTS**

None