

**Report to:** Pension Board

**Date of meeting:** 17 June 2019

**By:** Chief Finance Officer

**Title:** UK Stewardship Code

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

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## **RECOMMENDATION**

**The Board is recommended to consider and comment on the contents of this report.**

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### **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. Because 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 Following the 5<sup>th</sup> November 2018 report to the Board, 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 by the FRC in July 2010, revised in September 2012 and again in 2018. It 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.

### **3. East Sussex Pension Fund - submission**

3.1 The Pension Committee agreed at its meeting on 26<sup>th</sup> November 2018 to publish a statement regarding the East Sussex Pension Fund's (ESPF) compliance with the FRC's UK Stewardship Code. A formal notification was submitted in December 2018 to the FRC that the Fund would like to become a signatory to the Code following FRC assessment of the ESPF Statement of Compliance.

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

3.3 On 2<sup>nd</sup> April 2019, the fund received a correspondence from the Corporate Governance Policy Advisor, Financial Reporting Council, that the ESPF statement meets the reporting expectations for Tier 1 – Asset Owner. Asset owner (e.g. ESPF) signatories are categorised in two tiers by the FRC. Tiering distinguishes between signatories who report well and display their commitment to stewardship, and those where reporting improvements are necessary. Those asset owners in Tier 1 are described as providing a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

3.4 The [FRC website](#) has been updated to include the ESPF within the Tier 1 Asset owner signatories/listing with a link to the [ESCC website](#).

#### **4. Pension Committee Approval**

4.1 The Committee at its 24<sup>th</sup> June 2019 meeting will be recommend to approve (including publication) the revised ESPF Statement of Compliance with the UK Stewardship Code for Institutional Investors, which is attached at Appendix 1.

#### **5. Conclusion and recommendations**

5.1 The ESPF supports the FRC Stewardship Code. 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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