



UK Stewardship Code Statement

June 2019

Introduction

The East Sussex Pension Fund (the Fund) recognises that Environmental, Social and Corporate Governance ('ESG') issues can have a material impact on the long term performance of its investments. ESG issues can impact the Fund's returns and reputation. Given this, the Fund is committed to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations.

The Fund's Investment Strategy Statement ("ISS") states that the investment objective of the Fund is to achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding strategy objectives on an ongoing basis. One of the Fund's investment beliefs is that responsible investment can enhance long term investment performance.

The Fund recognises that through active shareholder engagement it can influence those companies it invested to improve their corporate behavior. Improvements made by these engagements can lead to an increase in the long term value of the Fund's investments. The fund believes that these can be maximized by collaborating with other like minded investors to increase the pressure for change and encourage improvements to be made.

The Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. The Fund defines the concept of stewardship in the same way as the Financial Reporting Council (FRC):

"Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings."

This Statement of Compliance describes the East Sussex Pension Fund approach to the seven principles of the Code and sets out our compliance with the code as follows –

How the East Sussex Pension Fund addresses the Stewardship Code principles

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

The East Sussex Pension Fund has a long-standing commitment to responsible share ownership. Stewardship is an integral part of share ownership and therefore of the investment code, and requires the same commitment from investment managers.

The Fund believes that investors with long term time horizons are more exposed to certain risks and requires that its investment managers are aware of and consider these when making investments. It is acknowledged that investment managers carry out detailed research on the prospects for individual companies and industries and have access to company management. The Committee meets with investment managers at their regular meetings and has the opportunity to discuss relevant developments in detail. All Managers are required to report on a quarterly basis to the Fund, including details of votes cast on corporate resolutions and company engagement for holdings in relevant portfolios. The Committee challenges managers to ensure these are being followed and that all relevant risks have been considered.

The practical application of the Fund's policy is achieved through a combination of activities including, but not limited to: dialogue and liaison with investment managers on key issues and through our membership of the Local Authority Pension Fund Forum (LAPFF). In addition to this Stewardship Code Statement, the Fund maintains an Investment Strategy Statement (ISS), which explains the Fund's investment beliefs in more detail and can be found [here](#).

The Committee believes that well managed companies provide long-term value creation and that the Fund's stakeholders will be beneficiaries of these companies as strong investment returns improve the Funds overall funding position, which keeps the pensions scheme affordable in terms of employer contribution rates.

The Fund has a responsibility to its membership to regularly engage with investment managers on their stewardship and it is expected to form part of their presentation(s) to the Fund. The Committee also uses its Investment Consultants Hymans Robertson to comment on the Fund's investment management and part of this focuses on their stewardship of our assets.

As a Local Government Pension Scheme (LGPS) the Fund was required to form an Investment Pool with other LGPS funds. The East Sussex Pension Fund chose to be a member of the ACCESS Pool more information on ACCESS can be found [here](#). Following the pooling of some of the Fund's assets into ACCESS Pool, the day-to-day stewardship responsibilities will pass to the Pool, with oversight by officers of the Fund and members of the Pensions Committee/Pension Board. The operator for the ACCESS Authorised Contractual Scheme (ACS) is a signatory to the UK Stewardship Code and its RI Framework sets out its approach to stewardship.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed

The Fund encourages investment managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Pension Committee members are required to act in accordance with the Constitution of East Sussex County Council which can be found [here](#). Part 5 of the Constitution, sets out the Codes and Protocols which members of the Pension Committee have to adhere too when making decisions on behalf of the Fund. The Pension Committee members are required to make declarations of interest prior to each quarterly meeting.

External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. Subsequent monitoring takes place by the Fund's investment consultant and independent advisor to protect the funds interests. The Funds' overriding obligation is to act in the best financial interests of the members, and the policy of constructive engagement with companies is consistent with the Funds' fiduciary responsibilities.

Principle 3 - Institutional investors should monitor their investee companies

Day-to-day responsibility for managing our equity holdings is delegated to our appointed fund managers. The Fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund has regular meetings with investment managers and will assess their effectiveness in their monitoring of investee companies as part of formal portfolio reviews either amongst fund officers or the Pension Committee. The Fund also receives quarterly reports from managers detailing their voting and engagement with companies, which are reported quarterly to the Pensions Committee.

As a member of LAPFF, the Fund also receives 'Alerts' relating to investee companies and participates in group engagement with companies.

Principle 4 - Institutional investors should establish clear guidelines on where and how they will escalate their stewardship activities

East Sussex County Council (“the Council”) is the administering authority of the Fund and has a fiduciary duty to act in the best, long-term, interests of the Fund’s employers and scheme members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

Responsible Investment is a fundamental part of the Fund’s overarching investment strategy as set out in its Investment Strategy Statement which can be found [here](#). That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance (“ESG”) factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund’s approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

Responsibility for day-to-day interaction with companies is delegated to the Fund’s investment managers, including the escalation of engagement when necessary. We expect fund managers to disclose their policies and procedures for escalation in their own Stewardship Code statement. However, the fund could escalate through LAPFF by supporting a shareholder resolution. The Fund’s investment managers can escalate through engagement with the company management team, collaboration with other institutional shareholders, filing shareholder resolutions or ultimately selling the holding of company shares. Ultimately the investment manager will seek to add value to their clients through improved company share performance following such escalation.

Where Investment Managers are appointed by the Pool Operator, the Pool Operator is responsible for ensuring that this activity is evidenced.

The Fund also monitors and participates in class actions.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate

The Fund seeks to work collaboratively with like-minded institutional shareholders in order to maximise the influence that it can have on individual companies and would engage if it was felt that the fund and the wider Local Government Pension Scheme would benefit. This is achieved in a variety of ways including through our membership of the LAPFF and ad-hoc initiatives proposed by our investment managers or other advisors.

The Fund as a member of LAPFF intends to continue that relationship indefinitely. LAPFF engages with companies over environmental, social and governance issues on behalf of its members. The advantage of collective engagement is that there is greater leverage over the company due to the pooling of holdings. This will increase the individual power and influence of investors in order to push for change. Meetings may deal with company specific matters or broad industry concerns. Details of any collaborative engagement are brought to the attention of the Pensions Committee/Board through LAPFF newsletter/bulletin.

The majority of the Fund’s assets will be under the ACCESS Pool governance. The 11 ACCESS Funds will be working together to reduce investment costs, increase investment capability and create a resource to access more asset classes. The Funds within the ACCESS Pool will also collaborate on RI activities through a unified RI Framework. ACCESS will engage with companies on a collaborative basis through LAPFF and the PRI, increasing further the Fund’s collaborative activities.

The Fund's contact for any such issues is:

Ola Owolabi

Head of Pensions

Email: ola.owolabi@eastsussex.gov.uk

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity

The Fund has delegated the exercise of voting rights to its investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

The Fund expects the investment manager(s) to vote on all the shares they hold.

Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

The policy is reviewed at least annually by officers in order to take account of regulatory developments. In the event of any changes to the policy, a revised policy would be presented to the Pension Committee for discussion and approval.

Fund voting records can be found in our Annual Reports at:

https://www.eastsussex.gov.uk/media/11782/financial-report-and-accounts-2017_18.pdf

The Fund can take part in stock lending through its global custodian (Northern Trust). Stock can be recalled in the event of a company meeting if the investment manager wishes to vote.

Within segregated mandates, the fund has absolute discretion over whether stock lending is permitted. The Authority permits stock lending in their active mandates. The manager of pooled funds may undertake a certain amount of stock lending on behalf of unitholders in the fund. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. The fund has no direct control over stock lending in pooled funds.

The ACCESS Pool operator has an RI Framework and voting guidelines for investment managers, which recognises that as the Manager of the ACCESS LGPS it has a responsibility as a shareholder, and to its investors the ACCESS funds, to promote good corporate governance and management in the companies in which the Fund invests and it requires investment managers appointed to manage the Fund to exercise the voting rights attached to investments held in the Fund unless market circumstances make it impossible to do so. The document sets out guidelines to which the operator expects investment managers to have regard in the exercise of voting rights on behalf of the Fund however operator recognises that in certain cases there may be good reasons not to follow the guidelines set out in the document and in those circumstances the operator expects its investment managers to exercise their discretion having regard to the long-term interests of the shareholders in the Fund and the principles of good corporate governance. The operator requires investment managers to report on voting activity monthly and will disclose on a vote-by-vote basis for all company resolutions through the ACCESS Joint Committee and ACCESS website.

The operator expects that investment managers will be signatories to and comply with the Financial Reporting Council's Stewardship Code (the Code) and United Nations Principles of Responsible Investment (UNPRI).

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports annually on voting activity undertaken during the year in its Annual Report and accounts which can be found [here](#).

In the event of significant engagements through any given year the stewardship activity would be recorded in the fund's annual report.

External active managers do vote on behalf of the fund, however fund officers engage with the governance teams at the fund manager for discussions. Managers are required to report their stewardship activities to the Fund and to seek direction where required. As described above, each manager's approach is assessed by the Fund via each manager's written report, in monitoring meetings, and at Committee meetings. The Fund assesses the approaches taken by managers alongside each other and guidance provided by the LAPFF, for consistency and alignment of interests.

It is common practice for the Fund's managers to have their voting activities reviewed by the Committee. The Fund encourages the investment managers to consider and report the impact of engagement activity.