

PENSIONS BOARD 20 OCTOBER 2021

Report title: UK Stewardship Code

Wards: All

Portfolio: Cabinet Member for Finance and Performance: Councillor Andy Wilson

Report Authorised by: Strategic Director for Finance and Investment: Fiona McDermott:

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REPORT SUMMARY

This report presents for review the Fund's draft submission to the revised 2020 UK Stewardship Code in line with the prior recommendation of the Committee to apply for signatory status. The draft document sets out the Fund's adherence to the twelve principles of the Code as applicable and outlines a proposed action plan in advance of the submission deadline of 31 October 2021.

FINANCE SUMMARY

There are no direct financial implications arising from the recommendations in this report.

RECOMMENDATIONS

1. That the Board review and provide feedback where relevant on the Fund's draft UK Stewardship Code report.

CONTEXT

- 1.1 In 2019 the Financial Reporting Council (FRC) published its revised 'UK Stewardship Code 2020', a set of twelve 'apply and explain' principles which set high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship can be defined as 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society'.
- 1.2 The Code applies to asset owners (e.g. pension schemes, local government pension pools and sovereign wealth funds), asset managers (i.e. those who manage assets on behalf of UK clients) and service providers (such as investment consultants or data/research providers that support asset owners and managers in their stewardship responsibilities). Signatories to the code are recognised as adhering to the highest standards of stewardship both in policy and practice; to become a signatory organisations must submit a Stewardship Report demonstrating application of the twelve principles over the previous twelve months and, if accepted, there is an annual reporting obligation to remain a signatory.
- 1.3 At the March 2021 meeting the Committee resolved that the Fund should seek to become one of the initial signatories to the new 2020 UK Stewardship Code, with a 31 October 2021 submission deadline for those organisations with a reporting year ending 31 March.

2 PROPOSALS AND REASONS

- 2.1 The first batch of 125 successful signatories to the new Code were published by the FRC in early September and included 90 asset managers, 23 asset owners and 12 service providers. However, a third of applicants (64 in total – 57 asset managers, 5 asset owners and 2 service providers) that applied to be signatories of the Code failed to pass the review process. Comments from the FRC suggested those failed applicants did not sufficiently evidence their approach, instead relying too heavily on policy statements; individual feedback was provided to applicants and each is allowed to submit an amended response in line with the submission deadlines.
- 2.2 Officers note that the London CIV were one of the initial approved signatories to the Code, as were the Fund's consultants Mercer. Of the Fund's investment managers, those not approved (or who did not submit a report) were JP Morgan, Insight, Adams Street, Churchill and Permira. The Fund states in its Investment Strategy Statement that it requires its fund managers to be signatories to the Code and, as such, officers will engage with these managers to understand their position.
- 2.3 The Fund's first draft Stewardship Report intended for submission to the FRC is attached at Appendix One. The report is set out according to the twelve principles of the Code as follows:

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS	
Purpose and Governance	
1	Purpose, Strategy and Culture
2	Governance, Resources and Incentives
3	Conflicts of Interest
4	Promoting Well-Functioning Markets
5	Review and Assurance
Investment Approach	
6	Client and Beneficiary Needs
7	Stewardship, Investment and ESG Integration
8	Monitoring, Managers and Service Providers
Engagement	
9	Engagement
10	Collaboration
11	Escalation
Exercising Rights and Responsibilities	
12	Exercising Rights and Responsibilities

- 2.4 The Fund's consultant provided several publicly available reports to refer to for guidance and have reviewed the draft submission, highlighting a number of areas where the submission is unlikely to pass the stringent criteria set by the FRC due to a lack of suitable evidence.
- 2.5 The Code sets a high standard for acceptance as a signatory which will likely be challenging for many smaller schemes to achieve, reflected by the absence of smaller pension schemes that have already applied and been accepted as a signatory.
- 2.6 Officers recommend that the Board review the attached submission and provide feedback where relevant. Given the submission deadline of the 31 October, any feedback from the Board as well as that received from the Fund's consultant will be used to make changes where possible to the current draft document.
- 2.7 Reports must be reviewed and approved by the Pensions Committee and signed by the Chair before submission. At its meeting on 6 October 2021 the Pensions Committee resolved that authority to approve the amended report be delegated to the Chair, to be actioned outside formal Committee but ahead of the 31 October deadline.
- 3 FINANCE**
- 3.1 There are no direct financial implications arising from the recommendations in this report.

4 LEGAL AND DEMOCRACY

4.1 The Lambeth Pension Fund is run in accordance with the Local Government Pension Scheme Regulations 2013 enacted along with other Regulations under the Superannuation Act 1972 and the Public Service Pension Act 2013, and is for the benefit of Council employees and outside organisations which have entered into an agreement with Lambeth to provide pensions for their staff.

4.2 The Pension Committee must be mindful of their fiduciary duty to obtain the best possible financial return on the investments it administers within the investment strategy framework.

4.3 There are no additional comments from Democratic Services.

5 CONSULTATION AND CO-PRODUCTION

5.1 The Fund's consultant, Mercer, were commissioned to provide support in preparing the Fund's submission by providing example reports as potential templates, reviewing the draft submission and offering feedback, and providing follow up support and guidance.

6 RISK MANAGEMENT

6.1 Investment decisions involve taking risks that Members of the Committee should always bear in mind. Generally, risk is taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more 'stable' investments before investors will buy them. Members must consider the risk/reward trade-off; generally, the higher the potential return expected the higher the associated risk. Members in their capacity as Trustees bear that risk.

7 EQUALITIES IMPACT ASSESSMENT

7.1 None for the purposes of this report.

8 COMMUNITY SAFETY

8.1 None for the purposes of this report.

9 ORGANISATIONAL IMPLICATIONS

Environmental

9.1 None for the purposes of this report.

Health

9.2 None for the purposes of this report.

Corporate Parenting

9.3 None for the purposes of this report.

Staffing and accommodation

9.4 None for the purposes of this report.

Responsible Procurement

9.5 None for the purposes of this report.

10 TIMETABLE FOR IMPLEMENTATION

10.1 Not Applicable.

AUDIT TRAIL				
Consultation				
Name/Position	Lambeth directorate/ division or partner	Date Sent	Date Received	Comments in para:
Councillor Andrew Wilson, Cabinet Member	Finance and Performance	20.09.2021	23.09.2021	
Fiona McDermott, Strategic Director	Finance and Investment	20.09.2021	23.09.2021	
Christina Thompson, Director of Finance	Finance and Investment	20.09.2021	20.09.2021	
Hamant Bharadia, Assistant Director of Finance	Finance and Investment	20.09.2021	23.09.2021	
Andrew Pavlou, Legal Services	Legal and Democratic Services	20.09.2021	21.09.2021	
Marianna Ritchie, Democratic Services	Legal and Democratic Services	20.09.2021	21.09.2021	
Mercer (External)	Consultant	20.09.2021	20.09.2021	

REPORT HISTORY	
Original discussion with Cabinet Member	N/A
Report deadline	15 September 2021
Date final report sent	23 September 2021
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	No
Date first appeared on forward plan	N/A
Key decision reasons	N/A
Background information	N/A
Appendices	<ul style="list-style-type: none">Appendix One – Lambeth Pension Fund Draft Stewardship Report

