
REVIEW OF UK STEWARDSHIP CODE (2020)

Report by Director – Finance & Corporate Governance

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

16 September 2021

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to review the Stewardship Code 2020 with a view to Scottish Borders Council Pension becoming a signatory further demonstrate sound management and governance of the Fund.**
- 1.2 The Stewardship Code is not a statutory requirement however both the UK Ministry of Housing, Communities & Local Government and the TPR recommends that administering authorities of LGPS funds should become signatories to the code.
- 1.3 The code is not prescriptive in its reporting format or content but does require the submission to demonstrate how the Fund to demonstrate how it has applied the set of 12 principles are shown in para 4.3.
- 1.4 To allow the Fund to evidence it has fully met the requirements of the Code there are some key actions required to be undertaken. These actions are shown in para 4.6 with completion dates.
- 1.5 The completion of the required actions will allow the Fund to make an application submission in the next round of submission in October 2022 based on the 2021/22 Annual Accounts and report.
- 1.6 The Fund currently requires its Fund Managers to be signatories of the United Nations Principles for Responsible Investment (UNPRI). The Fund could also require its Managers to become signatories of the Stewardship Code. Currently 70% of the funds invested are with Managers who are signatories.

2 RECOMMENDATIONS

2.1 It is recommend that the Committee:-

- a) Approves in principle the Pension Fund becoming signatories to the Code;**

b) Approves the required actions detailed in para 4.6;

c) Agrees an application be prepared for submission in October 2022; and

d) Approves the requirement for Fund Managers to be signatories to the Code.

3 BACKGROUND

- 3.1 The Scottish Borders Council Pension Fund (the Fund) is Part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council (the Administering Authority). The Fund is administered in accordance with the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015.
- 3.2 The legislation referred to above identifies that The Pension Regulator (TPR) has oversight of the Fund and requires compliance with TPR's requirements.

4 UK STEWARDSHIP CODE 2020

- 4.1 The UK Stewardship Code sets high standards for those investing on behalf of UK savers and pensioners. The Code represents a new best practice standard for asset owners and asset managers, with the aim of improving stewardship practices, and setting higher standards reflective of the changing expectations of investors since the Code's last revision in 2012. The requirements of the revised Code for asset owners and managers extend to establishing clear stewardship objectives, integrating stewardship in investment strategies, and adhering to clearer and more comprehensive reporting requirements.
- 4.2 LGPS funds are not required by the code of practice, or by any legislation, to be signatories to the Stewardship code 2020; however, both the UK Ministry of Housing, Communities & Local Government and the TPR recommends that administering authorities of LGPS funds should become signatories to the code.
- 4.3 The code comprises of a set of 12 "apply and explain" principles which are shown in the table below

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS			
Purpose and governance	Investment approach	Engagement	Responsibilities
1. Purpose, strategy and culture	6. Client and beneficiary needs	9. Engagement	12. Exercising rights and responsibilities
2. Governance, resources and incentives	7. Stewardship, investment and ESG integration	10. Collaboration	
3. Conflicts of interest	8. Monitoring managers and service providers	11. Escalation	
4. Promoting well-functioning markets			
5. Review and assurance			

- 4.4 The Code does not prescribe a single approach but does require signatories to have clear stewardship objectives that integrate stewardship in investment strategies, and adhere to clear reporting requirements. The main areas of reporting are detailed below:-

- Requires annual reporting on stewardship activity and outcomes, with signatories' reports demonstrating the following to provide greater transparency:

- activities in previous year, and their outcome;
 - engagement with the assets they invest in;
 - voting records;
 - how they have protected and enhanced the value of their investments.
- Signatories are expected to take ESG factors, including climate change, into account and to ensure their investment decisions are aligned with the needs of members and for asset managers their clients. Signatories are expected to disclose the issues that they prioritise for assessing investments prior to holding, and to monitor through holding and exiting. This should include the ESG issues of importance to them.
 - Signatories are expected to explain how stewardship has been exercised across asset classes beyond listed equity investments such as fixed income, private equity, infrastructure, and in investments outside the UK.
 - Signatories are required to explain their organisation’s purpose, investment beliefs, strategy and culture, and how these enable them to demonstrate sound stewardship. They are also expected to show how they are demonstrating this commitment through appropriate governance, resourcing and staff incentives.
 - There is also an expectation within the new Code for signatories to work in a collaborative fashion with regulators and industry bodies to identify and respond to the risk of market and systemic failure. Signatories are expected to show how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets and outline the role they played in any relevant industry initiatives in which they participated.
 - Signatories are expected to explain how they escalate stewardship activities where necessary.

4.5 The application process to becoming a signatory is for the Stewardship report to be submitted for review. The first round of applications closed on 31 March 2021 and the next window is shown in the table below. The submitted reports are evaluated and organisations who are successful are notified prior to the list of signatories being published. Unsuccessful applicants will be notified privately and given feedback and may reapply the following year.

Reporting period	1 st application deadline	Last application deadline
1 Jan to 31 Dec	30 April	31 October
1 April to 31 March	31 October	30 April
1 July to 30 June	31 October	30 April

4.6 The Pension Fund demonstrates on an annual basis strong Governance and management of it’s investment and administrative activities. There are however some additional areas when Scottish Borders Council Pension Fund needs to improve and enhance its activities to ensure the information and

standards required by the Stewardship Code can be robustly evidenced. The key areas requiring further work are shown below.

Task	Action	Timeline
Revision of ESG Policy	ESG workshop held 23 August and revised policy to be agreed 16 September 2021	To be approved 16 Sept 2021
ESG Impact assessment/Monitoring reporting	Agree methodology and collection of data from managers	To be agreed as part of ESG policy review for approval on 16 Sept 2021
Engagement monitoring	Annual report of detailing the extent of voting and engagement adherence to SIP and the voting and engagement undertaken by Managers over the period	Work to be scoped with view to first report being presented to Committee June 2022

- 4.7 It is recommended the Fund becomes signatories of the Code but due to the actions required to meet the full standards required that an application be deferred until the next round of applications. This will allow the Fund to undertake the actions required to allow a robust submission to be made. The submission would be based on the information from 1 April 2021 to 31 March 2022 and would be submitted in October 2022.
- 4.8 The Fund currently requires its Fund Managers to be signatories of the United Nations Principles for Responsible Investment (UNPRI) which assists the Fund in demonstrating it invests in ways that take due cognisance of sustainability. The Fund could also require its Managers to become signatories of the Stewardship Code, and in this regard it should be noted that currently 70% of the funds invested are with Managers who are signatories.

5 IMPLICATIONS

5.1 Financial

The additional reporting and monitoring requirements identified may require the Fund to engage additional external resources. The level, and therefore cost, of this is currently unknown but will be reported to Committee once the detail is available.

5.2 Risk and Mitigations

This report recommends the strengthening of the governance framework of the management and operation of the Pension Fund and reflects compliance with the best practice recommendations. There are no additional risks identified from the recommendations in the report.

5.3 **Integrated Impact Assessment**

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

5.4 **Sustainable Development Goals**

There are no direct impacts from this report on the sustainable development goals of the Council. The recommendation however within the report will ensure the monitoring and reporting of the Fund against the goals are enhanced.

5.5 **Climate Change**

There are no direct climate change impacts as a result of this report. The recommendation however within the report will ensure the appropriate focus, including the monitoring and reporting, of investments on the Fund's activities is maintained in future.

5.6 **Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 **Data Protection Impact Statement**

There are no personal data implications arising from the proposals contained in this report.

5.8 **Changes to Scheme of Administration or Scheme of Delegation**

You should identify any changes which are required to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals in your report. If there are no changes to be made, then say so. If changes are required then this will require Council approval.

6 CONSULTATION

- 6.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director – People Performance & Change, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

David Robertson

Director – Finance & Corporate Governance

Signature

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Background Papers: Previous Minute Reference:

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pension & Investment Team can also give information on other language translations as well as providing additional copies.

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