
REVIEW OF UK STEWARDSHIP CODE (2021)

Report by Acting Chief Finance Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

15 September 2022

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to review and approve the Stewardship Code application for submission by 31 October.**
- 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. The Committee agreed on 15th Sept 2021 that the Fund should apply to become signatories.
- 1.3 An application to become a signatory was submitted to the Financial Reporting Council (FRC) in October 2021 reflecting the Funds activities for 2020 but was unsuccessful. The feedback received however was positive and provided guidance of the areas where future applications could be improved on to improve the chances of a successful application.
- 1.4 The feedback provided by FRC has been reviewed and incorporated into a draft application for 2021 contained in Appendix 1.
- 1.5 The Local Authority Pension Fund Forum (LAPFF) is a established organisation representing 85 LGPS funds and 6 LGPS pools across the UK. Membership of LAPFF would enhance the engagement activities of the Fund. A summary of the benefits of joining LAPFF are contained in Appendix 2

2 RECOMMENDATIONS

- 2.1 It is recommend that the Committee:**
 - (a) Approves the proposed application for the Fund to become a signatory to the Stewardship code contained in Appendix 1**
 - (b) Agrees the submission to Financial Reporting Council and**
 - (c) Agrees membership of the Fund to LAPFF**

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 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 Committee agreed on 15th September 2021 that the Fund should look to become a signatory and a submission was made to FRC on 29th October 2021. The submission included key areas the Fund had to progress and these are contained in the table below.

| Task | Action | update |
|--|--|-------------|
| Revision of ESG Policy | ESG workshop held 23 August and revised policy to be agree 16 September 2021 | completed |
| ESG Impact assessment/Monitoring reporting | Agree methodology and collection of data from managers | In progress |
| 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 | In progress |

- 4.6 The Fund was unsuccessful in its submission but received very positive feedback from FRC. This feedback and the work completed to date has been incorporated into the draft submission contained in Appendix 1
- 4.7 The submission contains some key actions the Fund has identified for future improvement which will ensure the Fund fully meets the standards required. These are detailed in the table below
- Enhanced reporting metrics of the approved Responsible Investment Policy and implementation of TCFD reporting
 - Increased of Communication with members
 - Implementation of TPR's Single Code
 - Review work undertaken by LAPFF and consider joining
 - Improve monitoring of managers voting and engagement activities.
 - Agree an escalation policy for managers.

5 ENGAGEMENT - LAPFF

- 5.1 Robust engagement is core to the strong stewardship of the Funds investments. Due to the size and resources of the Fund the ability to actively engage and ability to encourage change is limited.
- 5.2 Currently the Fund looks for engagement activities to be undertaken by its Fund managers. For the segregated funds held by Baillie Gifford the Fund is able to demonstrate engagement activities but there is not the same level of transparency for the pooled funds and for the illiquid assets the Fund is currently invested in.
- 5.3 The Fund has by becoming a support of Climate Action 100+ provided which allows the fund to demonstrate collaborative working to ensure companies are encouraged to improve their carbon emissions.
- 5.4 The Local Authority Pension Fund Forum (LAPFF) is an established organisation which represents £350bn of local authority pensions by promoting the highest standards of corporate governance and corporate responsibility. The LAPFF engages directly with company chairs and boards to affect change at investee companies. Information on the activities undertaken recent are available via the link [here](#) below and information on the benefits of joining LAPFF are shown in Appendix 2

6 IMPLICATIONS

6.1 Financial

- (a) 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.
- (b) Membership of LAPFF is currently £10,050 per annum which would be pro-rated for part year dependant on date of joining. This cost would be fully funded by the Pension Fund.

6.2 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.

6.3 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.

6.4 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.

6.5 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.

6.6 Rural Proofing

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

6.7 Data Protection Impact Statement

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

6.8 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.

7 CONSULTATION

7.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

**Suzy Douglas
Acting Chief Finance Officer**

Signature

Author(s)

| Name | Designation and Contact Number |
|-------------|--|
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Background Papers: Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board – 15 Sept 2021

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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