

Pension Fund Committee

Decision to be taken by the Chair of the Pension Fund Committee in consultation with the Head of Fund - 29 September 2016

Electoral Division affected: None

Responsible Investment - Public Tiering of Signatories to the UK Stewardship Code

Contact for further information:

Abigail Leech, (01772) 530808, abigail.leech@lancashire.gov.uk
Head of Fund, Lancashire County Pension Fund

Executive Summary

The following report addresses the introduction of the public tiering of signatories to the UK Stewardship Code by the Financial Reporting Council (FRC) and the Fund's response to this.

Recommendation

The Chair of the Pension Fund Committee is asked to approve Lancashire County Pension Fund (LCPF) being temporarily delisted as a signatory to the UK Stewardship Code for a period of approximately 6 months pending the Fund's development of an Investment Strategy Statement (ISS).

Under the Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 all LGPS funds are required to publish an ISS by 1 April 2017.

Background and Advice

At its meeting on 15 September 2016 the Pension Fund Committee was asked to authorise the Chair of the Committee, in consultation with the Head of Fund, to approve a revised statement of compliance with the UK Stewardship Code. The FRC has introduced the public tiering of signatories to the Stewardship Code and set a deadline of 30 September 2016 for current signatories to refresh current statements in order to achieve Tier 1 status (fully meeting reporting expectations in relation to stewardship activities).

Since the Committee gave its agreement for a revised statement being approved by the Chair, circumstances have changed. Following feedback from the FRC in response to dialogue with them by LPPI's Responsible Investment Officer, the request now made of the Chair is for agreement to the Fund being temporarily

delisted as a signatory to the Stewardship Code until it has developed and published its first ISS.

The request to delist is not the retrograde step that it may at first appear but a pragmatic response to the difficulty faced when attempting to align three interconnected processes each with a different timescale namely:

- Producing a statement worthy of Tier 1 on how the Fund complies with the Stewardship Code when current arrangements are highly transitory;
- the implementation of new stewardship arrangements (including voting, engagement and litigation monitoring) to accommodate the imminent pooling of listed equities;
- Developing and publishing an ISS which will describe stewardship arrangements as they exist in April 2017 (after listed equities have pooled and contractual arrangements are operational)

With stewardship arrangements in the process of transition, any statement of compliance which captures the present position describes a halfway house between old and new which is confusing, will shortly be out of date and does not merit a Tier 1 assessment according to feedback received from the FRC. Conversely, a statement which reflects new arrangements not yet fully implemented is misleading until the arrangements come physically into force (with pooling) and misaligned with the Fund's Statement of Investment Principles. The FRC's deadline for signatories submitting a revised statement of compliance with the Stewardship Code unfortunately does not accommodate the timing of wider factors currently impacting stewardship arrangements as a result of the pooling pathway.

The difficult position faced by the Fund has been recognised by the FRC and is being viewed sympathetically. The FRC has suggested that LCPF may wish to temporarily suspend being a signatory to the Code until the new stewardship arrangements which accommodate asset pooling are in place and can be described in detail within a fully updated statement of compliance. The FRC are comfortable with this approach.

Asset Owners are not required to be signatories to the Stewardship Code but LCPF elected to be a voluntary signatory in reflection of its commitment to high standards of stewardship. Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which will come into force on 1 November 2016 all LGPS funds will now be required to become signatories to the Stewardship Code. The FRC is anticipating that other LGPS Funds will be in a similar position to LCPF and find it more appropriate to allow the stewardship arrangements which accompany their pooling model to be developed, agreed and put in place before they submit a compliance statement for assessment.

The delisting of the Fund would merely involve its name being removed from the FRC webpage as a current asset owner signatory. The Fund has the option to retain a statement of compliance on its website and to post an explanation for the temporary period of suspension. This could explain that the Fund has the support of the FRC for updating its statement to reflect new arrangements as a result of LGPS asset pooling.

Under Regulation 7 of the LGPS Investment Regulations 2016 every LGPS Fund must publish an ISS by 1 April 2017. Regulation 7f requires the ISS to include the Fund's policy on the exercise of the rights (including voting rights) attaching to investments. The Committee's development and publication of an ISS would be a helpful precursor to producing a revised statement of compliance with the Stewardship Code and could be the catalyst for a new statement being drafted approved and submitted to the FRC.

On the basis that delisting is an option which was suggested by the FRC and that it would be for a period of 6 months only during which new contractual arrangements for voting engagement and litigation under pooling will be implemented, it is recommended that the Fund is temporarily delisted as a signatory of the Stewardship Code. This approach is in preference to the alternative of submitting a revised statement of compliance by 30 September 2016 and having this publicly assessed as Tier 2. This would give an inaccurate account of the Fund's commitment to RI, misrepresent the robust arrangements being put into place by LPPI to support effective stewardship under pooling and require another refresh of the statement in April 2017 in order to ensure its alignment with the ISS.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Responsible investment practices underpin effective fulfilment of the Administering Authority's fiduciary responsibilities.

It is a key component of good governance that the Fund is an engaged and responsible investor committed to actions which are in the best long term interests of fund members and beneficiaries.

A temporary suspension of the Funds status as a signatory to the UK Stewardship Code could be perceived as a retrograde step unless appropriately explained to members and stakeholders as a decision taken to promote the quality and transparency of disclosure and something directly supported by the FRC.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
Report to Pension Fund Committee - 'Responsible Investment'	15 September 2016	Abigail Leech/(01772) 530808

Reason for inclusion in Part II, if appropriate

N/A

Decision Taken: Declaration

Chair of the Pension Fund Committee

Responsible Investment - Public Tiering of Signatories to the UK Stewardship Code

Original recommendation as set out in the report be supported

Yes

A handwritten signature in blue ink, appearing to read 'Ken R. ...', is written over a faint, light blue circular watermark or stamp.

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Chair of the Pension Fund Committee