

Pension Fund Committee

Meeting to be held on 28 November 2014

Electoral Division affected: 'All'

UK Stewardship Code compliance

(Appendices 'A' and 'B' refer)

Contact for further information:

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Executive Summary

The Financial Reporting Council (FRC) strongly encourages all institutional investors to publish a statement on their website on the extent to which they have complied with the seven principles of the UK Stewardship Code. The Stewardship Code is principally aimed at asset managers, however other institutional investors, including pension funds, are encouraged to report under it, and it is considered best practice to do so.

Appendix A is a copy of the latest Stewardship Code.

In September 2013, the Pension Fund Committee approved the Fund's first statement of compliance with the Stewardship Code. This is subject to annual review, and accordingly Appendix B sets out the proposed Stewardship Code Compliance Statement for the Fund. The adoption of this statement and identified actions will ensure the Fund's compliance with the Code.

Recommendation

The Committee is requested to approve the Stewardship Code Compliance Statement for 2014.

Background and Advice

Following the financial crisis of 2008, one of the recommendations of the Walker Review of Corporate Governance of the UK Banking Industry was that the Financial Reporting Council (FRC) should have responsibility for a new Stewardship Code, setting out best practice in respect of investor engagement. This Code was to be based upon the Institutional Shareholders Committee (ISC) document – 'the Responsibilities of Institutional Shareholders and Agents.'

The FRC published its first version of the Stewardship Code in 2010, and subsequently updated it in September 2012. A copy of the Code is attached as Appendix A. It is expected that institutional investors publish a statement in respect of their adherence, or otherwise, to the Code in a way that mirrors 'comply or explain' statements made by companies under the Corporate Governance Code.

The FRC strongly encourages all institutional investors to publish a statement on their website on the extent to which they have complied with the seven principles of the Code. The Stewardship Code is principally aimed at asset managers, however other institutional investors, including pension funds, are encouraged to report under it, and it is considered best practice to do so.

The Principles of the Code are as follows:

So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should:

- 1. publicly disclose their policy on how they will discharge their stewardship responsibilities.*
- 2. have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.*
- 3. monitor their investee companies.*
- 4. establish clear guidelines on when and how they will escalate their stewardship activities.*
- 5. be willing to act collectively with other investors where appropriate.*
- 6. have a clear policy on voting and disclosure of voting activity.*
- 7. report periodically on their stewardship and voting activities.*

In September 2013, the Pension Fund Committee approved the Fund's first statement of compliance with the Stewardship Code. This is subject to annual review, and accordingly Appendix B is the proposed statement of compliance for 2014. There are no significant changes from that approved in 2013. The adoption of this statement and identified actions will ensure the Fund's compliance with the Code.

Consultations

N/A

Implications:

In approving a compliance statement, Lancashire County Pension Fund is demonstrating its commitment to the UK Stewardship Code and the promotion of behavioural changes that will lead to better corporate governance by asset managers and companies.

Risk management

Signing up to the Code demonstrates that the Pension Fund believes that companies should adhere to the highest standards of governance. By not doing so, the Fund's reputation may be weakened.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Directorate/Tel
Financial Reporting Council – UK Stewardship Code	2012	Andrew Fox/ County Treasurer's Directorate x35916

Reason for inclusion in Part II, if appropriate

N/A