

Lancashire Local Pension Board

Meeting to be held on Tuesday, 14 July 2020

Electoral Division affected:
(All Divisions);

UK Stewardship Code Compliance

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Executive Summary

The Fund is committed to being a long term responsible investor and both complies with and follows the principles of the UK Stewardship Code and the UN-backed Principles of Responsible Investment.

This report reviews the current arrangements for Lancashire County Pension Fund's compliance of the UK Stewardship Code, with particular reference to the new revised UK Stewardship Code (2020), which came into force from January 2020.

Recommendation

The Board are asked to note the content of this report.

Background and Advice

Ultimate responsibility for the stewardship of the Pension Fund resides with Lancashire County Council as an Administering Authority, but pooling has involved delegating day to day decision-making and activities to Local Pension Partnership Investments (LPPI) which implement stewardship in practice. As a result, responsibility for the practical implementation of the Fund's approach to RI is devolved to the LPPI as the Fund's provider of investment management services.

Environmental Social and Corporate Governance (ESG) integration and the active use of ownership influence are integral to the investment management services provided by LPPI, which are delivered in accordance with an LPPI Responsible Investment Policy. It is an LPPI RI belief that ESG factors are relevant at every stage in the investment cycle - within investment strategy, investment selection and within the stewardship of assets in ownership. As part of a prudent approach which applies care, skill and diligence LPPI procedures ensure that ESG issues are routinely considered as part investment analysis, are incorporated into the due diligence leading to investment selection and continue to be monitored and reviewed as part of the active ownership of assets under management.

UK Stewardship Code (2020):

In October 2019 the Financial Reporting Council published the updated UK Stewardship Code (2020) which came into force from January 2020. A copy of the Code can be seen at: https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf

The Code comprises a set of 'apply and explain' principles for asset managers and asset owners (moving discernibly forward from the prior Code's comply or explain format) and sets a very high benchmark for potential signatories, requiring them to comply with 12 Principles and disclose on their actions and outcomes against these each year.

It is no longer sufficient to report the fact that appropriate policies and approaches are in place; the new Code requires up to date evidence of activity. This reflects the Financial Reporting Council's intention that the Code will be a basis for differentiating true stewardship best practice. Asset owners and asset managers who wish to be in the first cohort of prospective signatories assessed by the FRC had to submit their applications and detailed reporting between January and March 2021.

Current Position:

As a signatory to the previous Stewardship Code (2012) the Fund will continue to be listed as a signatory until the beginning of 2021, at which point it will either need to submit reporting and be assessed against the new Code or will cease to be listed as a Code signatory.

It is not currently a requirement for LGPS Funds to be Stewardship Code signatories. The requirement (conferred under DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement) is for Administering Authorities to "explain their policy on stewardship with reference to the Stewardship Code". This can be achieved without being a signatory so long as there is adequate disclosure about how the fund is aligned with the Code, something that can be explained through placing reliance on the policies and procedures in operation by LPPI.

The Pension Fund Committee on the 6th March 2020 agreed 'That the Fund does not become a signatory to the new UK Stewardship Code (2020) and instead recognise that the regulatory and stewardship requirements are met through the Local Pensions Partnership Investments being a signatory.'

Going Forward:

LPPI will be submitting reporting to the FRC during summer 2021 to become a signatory to the new Stewardship Code (2020). This disclosure would provide the basis upon which the fund could explain that its own compliance with the Code is through the stewardship activities of its provider, namely LPPI.

Additionally, and in line with code guidance, the Fund would continue with appropriate stewardship oversight, by receiving information on RI, investment decision-making, portfolio monitoring the actions of service providers, appropriate

engagement, collaborating with others and exercising ownership rights and responsibilities.

The fund has a Responsible Investment policy which sets out both priority areas and how they will be achieved. Effective stewardship is a fundamental part of the fund's responsible investment priorities. To this effect the fund will work closely with LPPI to learn from their experience of being a signatory of the revised stewardship code and determine at a future point (with information on the path taken by other LGPS funds) whether there was merit in being a signatory also.

Consultations

Frances Deakin the Head of Responsible Investment at the Local Pensions Partnership was consulted regarding this report.

Implications:

This item has the following implications, as indicated:

Risk management

It is an important 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.

The monitoring of investee companies and the promotion of good corporate governance practices can help to reduce the risk of unexpected losses arising as a result of poor over-sight and lack of independence.

Responsible investment practices underpin the fulfilment of the Funds fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by Local Pensions Partnership Investments.

Quarterly Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by Local Pensions Partnership Investments and enable the Committee to monitor the activities undertaken.

Involvement in a non-US type of "class action" may result in the recovery of losses incurred by the Fund but, should the claim be lost, the Fund may incur related costs which may not be known with certainty at the time of filing.

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

Paper	Date	Contact/Tel
N/A		
Reason for inclusion in Part II, if appropriate.		
N/A		