



South Tyneside Council

Local Pension Board

Date: 5th July 2023

Stewardship Code Report (for information and discussion)

Report of the Head of Pensions

Purpose of Report

1. This report sets out the requirements of the Stewardship Code and outlines the status of the Fund with regard to compliance for 2022/23.
2. The Board is recommended to note the report.

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Background

3. The Stewardship Code was first introduced in the UK in 2010 by the Financial Reporting Council (FRC). This had the objective of enhancing the quality of engagement between asset owners and help improve the risk adjusted returns. The Fund has been a signatory to the Code since it was first introduced and in 2017, when there was revision to the Code, was assessed by the FRC as having achieved Tier 1 compliance, which was the highest level of compliance at that time.
4. In January 2020, the FRC once again reviewed the Stewardship Code. For funds to achieve compliance now requires an annual Stewardship Report to be produced for full year reporting periods starting after the review date of January 2020. Whilst the Code took effect from 1 January 2020, there was no formal deadline before which a Stewardship Report is required to be published.
5. Whilst a number of funds have successfully submitted Stewardship Reports, this is an area where the Fund is lagging behind its peers. As Committee members will be aware, the Fund has focussed considerable resources on climate change in recent years, but this has come at a cost in other areas, including stewardship. This is reflected in the Fund's Risk Register where reputational risk for ESG matters is flagged as being "high risk". The driver for this "high risk" is the lack of an approved Stewardship Report for the Fund.
6. The new Code comprises a set of 'comply or explain' principles for asset managers and asset owners. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.
7. The Code previously only related to listed equities, but has now been extended to all asset classes, including fixed income, property and private markets. The Fund will need to consider how it can exercise stewardship effectively in these asset classes.
8. For the Fund this means reflecting on the role of the investment managers, Border to Coast and the Local Authority Pension Fund Forum (LAPFF) who all undertake stewardship responsibilities on the Fund's behalf.

Summary of the Code Principles

9. The new Code has twelve principles, and the Fund will need to produce a Stewardship Report each year which explains how it has applied the Code to its investment assets. The Stewardship Report must be approved by the Committee each year and published on the Fund's website.

10. The Fund cannot delegate its stewardship responsibilities to third parties and must demonstrate, through investment decision making and monitoring, how it holds its investment managers accountable on collaboration, engagement and voting rights.
11. The Principles are divided into four areas:
 - Purpose and Governance – covering investment beliefs, strategy, policies and governance arrangements.
 - Investment Approach – prioritising ESG issues and monitoring investment managers.
 - Engagement – methods of engagement, collaboration and escalation activities.
 - Exercising rights and responsibilities – expectations set for investment managers.
12. The Stewardship Report will need to include evidence and examples of the activities under each Principle to demonstrate compliance.

Approach to Compliance

13. The process to achieve compliance with the Stewardship Code is to submit a Stewardship Report to the FRC on an annual basis. There are usually two windows in the year when these reports can be submitted. However, in 2023, only the first window is open to funds making a new submission. This includes the Fund. The deadline to submit a report for 2022/23 was the end of May 2023.
14. In order to progress this piece of work, Hymans Robertson were commissioned to work with Officers to draft the Stewardship Report outlining the Fund's approach to responsible investment and stewardship issues.
15. A report was brought to the Pension Committee meeting in March setting out the approach to preparing a Stewardship Code Report. Delegated approval was given to submit the Stewardship Code to the FRC by the end of May 2023, with a final copy of the report to be shared with the Committee at its meeting in June.

Preparation of the Stewardship Report

16. Officers have been working with Hymans Robertson who have now prepared the Stewardship Report. A draft version of the report was discussed with the Investment Panel at its meeting in May 2023.

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17. The report was submitted to the FRC at the end of May 2023, in line with the prescribed deadline. A copy of the Fund's report can be found at: [Stewardship Code - Tyne and Wear Pension Fund \(twpf.info\)](https://www.twpf.info)
 18. The final report includes a number of examples gathered from the investment managers, including Border to Coast, of engagement activity with individual companies and also consolidates the voting records at AGMs for the Fund by each investment manager.
 19. The report also draws out our Investment Beliefs and key policy documents to demonstrate how we incorporate responsible investment into investment decisions and the overall investment strategy.
 20. Much of the Stewardship Report explains how the Fund exercises oversight of its investment managers and other service providers, to ensure its policies and expectations around responsible investment are being monitored and delivered.
 21. It is expected it will take around 2-3 months before the Fund is informed whether our Stewardship Report is compliant with the Code. Experiences from investment managers and other LGPS Funds suggests around a third of submissions are unsuccessful. There is also a greater level of expectation and scrutiny on larger pension funds, such as Tyne and Wear, so there is no guarantee the Stewardship Report will be successful this year.

Conclusion

22. The Fund is not able to claim compliance against the Stewardship Code until it is able to produce an annual report on its stewardship activities, which is approved by the FRC. To rectify this position, the Fund has prepared and submitted a Stewardship Report for the financial year ended 31st March 2023 to the FRC.
23. The Stewardship Report was submitted under delegated approval given at the March Pensions Committee meeting, with the final version of the report presented to Committee in June 2023.
24. Based upon the experience of the Officers and Hymans Robertson, the Stewardship Report should include sufficient detail to meet the FRC requirements to become a signatory to the Code. This, however, cannot be guaranteed and the Board will be kept informed of developments.

Recommendation

25. The Board is recommended to note the report.

Stewardship Code Report

The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

Background Paper	File Ref:	File Location
Managers' Monitoring Files		Investments Office, South Shields Town Hall