



South Tyneside Council

Local Pension Board

Date: 20th October 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.

Contact Officer: Paul McCann, Head of Pensions

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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 to help improve risk adjusted returns. The Fund had 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 LGPS funds have successfully submitted Stewardship Reports, this is an area where Tyne and Wear has been lagging behind its peers. As Board 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 was reflected in the Fund's Risk Register where reputational risk for ESG matters had been flagged as being "high risk". The driver for this "high risk" was 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 Tyne and Wear Pension 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.

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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. A Stewardship Report needs 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 was open to asset owners making a new submission. This included 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 and a final copy of the report was shared with the Board at its meeting in July.

Preparation of the Stewardship Report

16. Officers worked with Hymans Robertson to prepare 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 report was circulated to members of the Local Pension Board in advance of the July meeting and published on the Fund's website.
 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 AGM's 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.

Response from the Financial Reporting Council (FRC)

21. In late August 2023, the Fund received a response to its Stewardship Code application advising the Fund that it had been successful. The Fund can now refer to itself as a signatory to the UK Stewardship Code and can use the Stewardship Code logo in its publications.
22. The letter includes feedback on the Fund's Stewardship Report based upon their assessment of our Report against the Code and includes a comment against each of 12 Principles.
23. Overall, the feedback is positive and states the Report is clear and mostly explains our approach to stewardship across the range of assets in which we invest. The feedback also includes some areas to consider for future reports including providing more explanation on how we set expectations for engagement with our managers and a summary of the voting policy and how this has been monitored for each manager. This feedback will be incorporated into the Fund's report for 2023/24.
24. To remain a signatory to the Code, the Fund will be required to submit a new report by 31 May 2024 for the year 2023/24. This report should seek to address the feedback received for this year's report. A report will be brought to March Pensions Committee meeting on this.

Conclusion

25. The Fund has been successful in its application to become a signatory to the UK Stewardship Code. This is great news and directly mitigates what had previously been classed as a "high risk".

26. The Stewardship Report is available on the Fund's website.
27. A Stewardship Report must be submitted to the FRC annually for approval to maintain compliance with the Code. The deadline for 2023/24 will be the end of May 2024.

Recommendation

28. 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