



South Tyneside Council

Local Pension Board

Date: 4th July 2024

Stewardship Code Report (for information and discussion)

Report of the Head of Pensions

Purpose of Report

1. This report updates the Board on the submission of the Fund's Stewardship Code Report for 2023/24.
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 help improve the risk adjusted returns.
4. 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.
5. 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 was required to be published.
6. In 2023, the Fund prepared and submitted its first Stewardship Code Report under the new Code, and this was subsequently approved by the FRC. The Fund has been able to refer to itself as a signatory to the UK Stewardship Code and use the Stewardship Code logo in its publications for the last year.
7. As stated above, applications to the FRC are needed on an annual basis and Officers have therefore been working on the submission for 2023/24. Hymans Robertson has been supporting this submission. This report updates the Board on the submission for 2023/24.

Summary of the Code Principles

8. The Stewardship Code has twelve Principles, and the Fund needs to produce a Stewardship Report each year which explains how it has applied the Code to its investment assets.
9. 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.
10. The twelve 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.

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- Engagement – methods of engagement, collaboration and escalation activities.
 - Exercising rights and responsibilities – expectations set for investment managers.
11. The Stewardship Report needs to include evidence and examples of the activities under each Principle to demonstrate compliance.

Preparation of the 2023/24 Stewardship Report

12. 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 2024. Following that, the finalised version was discussed and noted by the Investment Committee in June 2024.
13. The approach taken to the preparation of the report was to use last year's submission as the starting point, but to update relevant sections and to incorporate the constructive feedback received from the FRC last year.
14. The report was submitted to the FRC at the end of May 2024, 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.
15. The final report includes a number of examples gathered from the investment managers, including Border to Coast, of engagement activity with individual companies and consolidates the voting records at AGMs for the Fund by each investment manager.
16. 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.
17. 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.
18. It is expected to be 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. However, having the opportunity to build on FRC feedback from last year's successful application is a strong positive.

Recommendation

19. The Board is recommended to note the report.

Reason for Recommendation

20. To develop the Funds approach to managing ESG and Climate Change Risks and to meet the requirements of the Stewardship Code.

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