

**LGPS CENTRAL LIMITED**

**UK Stewardship Code 2020 - Briefing to Partner Funds**



**LGPS** Central Limited

**FOR PROFESSIONAL CLIENTS ONLY**

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## 1. About this briefing

The purpose of this document is to give an overview of the revised UK Stewardship Code and its 12 Principles, and how Partner Funds can expect to be assisted in order to report against the Code.

The document provides suggested points and materials our Clients may choose to reference in their stewardship reports where the questions relate to services undertaken by LGPS Central Limited (LGPS Central) on their behalf. It also indicates where building blocks exist within Clients' current reports and accounts, which can be expanded in order to comply with specific principles of the Code.

## 2. UK Stewardship Code 2020 (the Code)

### 2.1 Purpose and Principles of the Code

The UK Stewardship Code 2020 ('the Code') sets high expectations for how investors, and those that support them, invest and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. It is a set of 12 Principles for asset owners and asset managers, and a separate set of six Principles for service providers – investment consultants, proxy advisors, data providers and others.

The new Code took effect on 1 January 2020. The Financial Reporting Council (FRC) will begin accepting applications in Q1 2021. Asset owners wishing to be included on the first list of signatories will need to apply by 30 April 2021 for the period 1 January – 31 December 2020. Applicants that effectively evidence how they apply the Principles and meet the reporting expectations will be listed as signatories to the Code in the Summer 2021.

Stewardship is defined by the FRC as follows: *“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”*

The below 12 Principles apply to asset owners and asset managers. They are grouped under these headlines:

- Purpose and governance (Principles 1 – 5)
- Investment approach (Principles 6 – 8)
- Engagement (Principles 9 – 11)
- Exercising rights and responsibilities (Principle 12)

Principles of UK Stewardship Code 2020	
1.	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society
2.	Signatories' governance, resources and incentives support stewardship
3.	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first
4.	Signatories identify and respond to market-wide and systemic risks to promote well-functioning financial systems
5.	Signatories review their policies, assure their processes and assess the effectiveness of their activities
6.	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them
7.	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities
8.	Signatories monitor and hold to account managers and/or service providers
9.	Signatories engage with issuers to maintain or enhance the value of assets
10.	Signatories, where necessary, participate in collaborative engagement to influence issuers
11.	Signatories, where necessary, escalate stewardship activities to influence issuers
12.	Signatories actively exercise their rights and responsibilities

## 2.2 Key changes and objectives of the Code

The revised Code contains more stringent requirements to improve outcomes-based reporting. Responses should be relevant to the organisation's business operations and strategy, avoiding boilerplate submissions, and demonstrate that engagement across the organisation's value chain has achieved the intended objectives.

Key changes compared to the previous Stewardship Code are:

- 1 Promotes effective stewardship through reporting of outcomes

- 2 Takes account of ESG factors (e.g. climate change) and ensures investment decisions are aligned with needs of clients/beneficiaries
- 3 Requires organisations to have a purpose, investment beliefs, strategy and culture to enable them to practice stewardship – and for them to explain how they are demonstrating this commitment through appropriate governance, resourcing and staff incentives
- 4 Applies globally to investments made across all jurisdictions, not just the UK
- 5 Applies across all asset classes
- 6 Extends to cover asset owners, asset managers and service providers
- 7 “Apply and explain” approach – voluntary application, but subsequently monitored and enforced.
- 8 12 Principles instead of seven

The revised Code seeks to: align objectives and incentives across the investment community; widen the application of stewardship practices to all assets under management; encourage better communication to beneficiaries and clients; and systematically integrate stewardship, including environmental, social and governance issues, into investment decision making.

### 2.3 Key recommendations following FRC review of early reports

FRC carried out an early review of 21 responsible investment, active ownership and stewardship reports to assess how well signatories are addressing the 12 Principles of the new Code. The findings have been published in [a report](#) on FRC’s website.

FRC made some observations which are useful to bear in mind when reporting against the 12 Principles:

- The review revealed good examples and case studies evidencing stewardship activities, with some reports identifying outcomes well, particularly in relation to engagement
- Better reporting makes good use of both quantitative and qualitative information
- Few reports consistently demonstrate the application of all the Principles or address all the reporting expectations.
- For all the Principles, reporting needs to improve by reflecting on effectiveness of approach, demonstrating continuous improvement and disclosing outcomes.
- Statements should be supported with specific evidence from the reporting period, and the rationale rather than just a general statement of approach
- The Code does not prescribe a single approach but encourages organisations to be transparent about what they do and why they do it

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- Reporting should clearly explain the organisation's purpose and beliefs and provide distinctive reporting that connects this to their stewardship practice during the reporting period.
- Reporting should address all asset classes and geographies
- Even if the stewardship approach differs or is not as developed in other asset classes, this should be explained rather than avoided.

Through conversation with the FRC, we have an informal agreement that LGPS Central as a Pool can provide guidance to Partner Funds for their reporting. The FRC stressed however that Partner Funds would need to use examples of stewardship also for legacy managers. Each organisation that reports needs to demonstrate its stewardship approach, which for Partner Funds applies both inside and outside of the Pool. For instance, explain what are your reporting needs vis-à-vis managers? How are you communicating those needs? What are the reporting mechanisms that ensure you receive stewardship-relevant information when you need it? There may be cases where it is not clear to an asset owner what approach to stewardship an asset manager has and/or what that manager is doing in terms of ESG integration and engagement. In such instances, the asset owner must as a minimum describe the processes that are ongoing or are being set up in order to develop appropriate manager selection and monitoring which encompass ESG integration and engagement.

The FRC does not necessarily expect an equally developed stewardship approach across all asset classes. But as with manager selection and monitoring, reporting against the Code needs to describe the approach, resourcing and monitoring that is in place for a given asset class and what next steps you might be taking to close potential gaps. The FRC would also like to see a description of interaction with beneficiaries. What are the vehicles for communication, and how is the Fund communicating about stewardship and engagement undertaken on beneficiaries' behalf?

It is optional whether an organisation reports against the Code's Principles on a stand-alone basis (e.g. an annual Stewardship Report) or whether the reporting is done in an integrated manner as part of the Annual Report (AR). If the reporting is done through the AR, it is advisable to provide at least a summary of stewardship efforts, which can be communicated to beneficiaries outside of a lengthy AR. The FRC accepts both calendar-year reporting and fiscal-year reporting against the Code. Organisations who wish to become early signatories to the Code need to apply by 30 April 2021.

### 3. Principle by Principle – indication of reporting expectations and LGPS Central assistance relative to each Principle

<b>Principle 1</b> Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	<b>Reporting Expectations</b>	<b>Activity and Outcomes</b>	<b>Proposed information and use of LGPS Central and/or stewardship provider reporting</b>
	Signatories should explain:  The purpose of the organisation and an outline of its culture, values, business model and strategy; and  Their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why	Activity: Signatories should explain what actions they have taken to ensure their investment beliefs, strategy and culture enable effective stewardship.  Outcome: Signatories should disclose: <ol style="list-style-type: none"> <li>1) How their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making; and</li> </ol>	AR and ISS <ul style="list-style-type: none"> <li>- State who the fund is for</li> <li>- Principle aims/objectives</li> <li>- RI and climate beliefs linked to investment beliefs</li> </ul> Climate Risk Report, TCFD report and Climate Strategy (plan for such, if in the making)

		2) an assessment of how effective they have been in serving the best interests of clients and beneficiaries	
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<b>Principle 2</b> Signatories' governance, resources and incentives support stewardship	<b>Reporting Expectations</b>	<b>Activity and Outcomes</b>	<b>Proposed information and use of LGPS Central and/or stewardship provider reporting</b>
	Signatories should explain how:  Governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach;  They have appropriately resourced stewardship activities, including: <ol style="list-style-type: none"> <li>1) their chosen organisational and workforce structures;</li> <li>2) their seniority, experience, qualifications, training and diversity;</li> </ol>	Outcome: Signatories should disclose: <ol style="list-style-type: none"> <li>1) how effective their chosen governance structures and processes have been in supporting stewardship; and</li> <li>2) how they may be improved</li> </ol>	Explain governance structures and processes to oversee effective stewardship including <ul style="list-style-type: none"> <li>- Resources allocated</li> <li>- Seniority, experience, qualifications, training and diversity</li> <li>- Investment in systems, processes, research and analysis</li> <li>- Use of third-party suppliers</li> </ul> Expand on LGPS Governance framework and how that provides a context for good stewardship Links to processes around SAA and setting of investment strategy, including reference to Climate



	<p>3) their investment in systems, processes, research and analysis;</p> <p>4) the extent to which service providers were used and the services they provided.</p>		<p>Strategy (in the making and/or planned)</p> <p>Investment consultant and other roles – detail their expertise</p> <p>Pension Committee and Pension Board roles – highlight (or add) oversight of Stewardship</p> <p>Include reference to training, carried out or planned, on RI, ESG integration, climate change</p> <p>Include link to LGPS Central’s website for <a href="#">RI&amp;E function</a> that supports Partner Fund stewardship across ESG integration, engagement and voting, RI &amp; E Framework (agreed among all PFs), current Stewardship Code statement (future Stewardship Report) and TCFD report</p> <p>Specific reference can be made to LGPS Central’s appointment of EOS to provide stewardship services across relevant asset classes</p> <p>Background on EOS and further detail on their services can be found in <a href="#">Stewardship services</a></p>
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			brochure and <a href="#">Engagement Plan</a> which can be linked to in responses. This includes details on the EOS team, approach to engagement and voting, and the influence that comes from combining each client’s assets with other institutional investors around the world – assets under advice (AUA) of approximately US\$1.1tn.
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<b>Principle 3</b> Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	<b>Reporting Expectations</b>	<b>Activity and Outcomes</b>	<b>Proposed information and use of LGPS Central and/or stewardship provider reporting</b>
	Signatories should disclose their conflicts policy and how this has been applied to stewardship.  In the FRC’s review of Early Reporting (Sep 2020) this principle was flagged as one that lacked good answers. Below is an indication of what the FRC is looking for:  <i>Better reporting included examples of potential conflicts, particularly where they highlighted how the conflicts were relevant to their particular</i>	Activity: Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.  Outcomes: Signatories should disclose examples of how they have addressed actual or potential conflicts	Examples – standard Conflicts of Interest (COI) for LGPS  If possible, draw out examples that specifically shows how cases relating to stewardship have been handled  Reference can be made to LGPS Central’s COI policy

	<p><i>organisation, taking into account their structure and operations. Addressing Principle 3 is supported by reporting that provides information about the ownership, governance and workforce structures, and the overall makeup of an organisation, including Principles 2 and 6.</i></p>		
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<p><b>Principle 4</b> Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.</p>	<p><b>Reporting Expectations</b></p>	<p><b>Activity and Outcomes</b></p>	<p><b>Proposed information and use of LGPS Central and/or stewardship provider reporting</b></p>
	<p>Signatories should explain:</p> <ol style="list-style-type: none"> <li>1) how they have identified and responded to market-wide and systemic risk(s), as appropriate;</li> <li>2) how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets;</li> <li>3) the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their</li> </ol>	<p>Outcomes: Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.</p>	<p>Breakdown of AUM</p> <p>Links to investment strategy section interest rates/currency/geo-political</p> <p>Links to Climate Risk Report and Climate Strategy (in the making)</p> <p>Process of identifying market-wide/systemic risks</p> <p>Memberships to external organisations</p> <p>Attendance and contributions to industry standards and events (LGC, PLSA, SAB, LAPFF)</p>

	<p>effectiveness, with examples; and</p> <p>4) how they have aligned their investments accordingly.</p>		<p>LGPS Central will provide narrative that covers the pool’s industry engagements (including committee roles with TPI, IIGCC, CA100+, PRI etc) on behalf of Partner Funds</p> <p>Link to LGPS Central’s Quarterly Stewardship Reports 2019-20 (Section 5) and to <a href="#">consultation responses</a>.</p> <p>Reference can be made to EOS who, on behalf of clients, regularly engage with a wide range of stakeholders, including government authorities, trade bodies, unions, investors and NGOs, to best identify and respond to market-wide and systemic risks. EOS is involved in We are involved in a number of regional and industry initiatives (PRI), Climate Action 100+, Institutional Investors Group on Climate Change, Asia Investor Group on Climate Change, Ceres, International Corporate Governance Network (ICGN), Council of Institutional Investors, Eumedion, Focusing Capital on The Long Term,</p>
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			Corporate Governance Forum and Investor Forum.
<b>Principle 5</b> Signatories review their policies, assure their processes and assess the effectiveness of their activities.	<b>Reporting Expectations</b>	<b>Activity and Outcomes</b>	<b>Proposed information and use of LGPS Central and/or stewardship provider reporting</b>
	Signatories should explain: <ol style="list-style-type: none"> <li>1) how they have reviewed their policies to ensure they enable effective stewardship;</li> <li>2) what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach; and</li> <li>3) how they have ensured their stewardship reporting is fair, balanced and understandable.</li> </ol>	Outcome: Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes.	If LGPS Central has provided assistance in drafting/reviewing RI investment beliefs, RI policies – it could be mentioned here  Four core stewardship themes have been identified across Partner Funds as key priority areas for engagement during 2020 – 2023 (climate change, responsible tax behaviour, plastic pollution, tech sector risks)  What next – areas for focus and improvement, e.g. establishment of separate Climate Strategy  Quarterly PAF RI WG meetings allow for information-sharing and debate/checks on LGPSC’s provision of RI services.  LGPS Central can provide narrative on AFF controls carried out during reporting period, <i>LGPS Central has carried out AAF controls of the</i>

			<p><i>investment operations during the reporting year. These controls include testing of the accuracy of RI data and implementation of RI processes in relation to our voting policy, voting implementation, and accuracy of voting data. In addition to the AAF controls, we carry out quarterly internal quality controls of engagement and voting data before this is shared with our Partner Funds through Quarterly Stewardship Reports (excerpt from LGPS Central's report to PRI for calendar year 2019)</i></p> <p>EOS has its voting process independently assured on an annual basis.</p>
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<b>Principle 6</b> Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	<b>Reporting Expectations</b>	<b>Activity and Outcomes</b>	<b>Proposed information and use of LGPS Central and/or stewardship provider reporting</b>
	The size and profile of their membership, including number of members in the scheme and the average age of members;	<p>Activity:</p> <p>Signatories should explain</p> <ol style="list-style-type: none"> <li>1) how they have sought beneficiaries' views (where they have done so) and the</li> </ol>	<p>Link to Communications Policy Statement</p> <p>Employers forums/AGMs</p> <p>Newsletters</p> <p>Website</p>

	<p>The length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why;</p>	<p>reason for their chosen approach; and</p> <ol style="list-style-type: none"> <li>2) how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon</li> </ol> <p>Outcomes: Signatories should explain:</p> <ol style="list-style-type: none"> <li>1) how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries;</li> <li>2) how they have taken account of the views of beneficiaries where sought, and what actions they have taken as a result;</li> </ol>	<p>FOI</p> <p>Member surveys, if conducted</p>
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<b>Principle 7</b> Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	<b>Reporting Expectations</b>	<b>Activity and Outcomes</b>	<b>Proposed information and use of LGPS Central and/or stewardship provider reporting</b>
	Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them.	<b>Activity:</b> Signatories should explain <ol style="list-style-type: none"> <li>1) the processes they have used to: integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of beneficiaries; and</li> <li>2) Ensure service providers have received clear actionable support for ESG integration</li> </ol> <b>Outcomes:</b> Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries	We will provide narrative on: <ol style="list-style-type: none"> <li>1) LGPS Central's RI Integrated Status for all ACS Funds prior to launch and during lifespan of asset</li> <li>2) LGPS Central's monitoring of managers' ESG integration and engagement</li> <li>3) LGPS Central's support through Climate Risk Monitoring Service (CRR, TCFD and Climate Strategy development)</li> </ol>



<b>Principle 8</b> Signatories monitor and hold to account managers and/or service providers.	<b>Reporting Expectations</b>	<b>Activity and Outcomes</b>	<b>Where information can be found and use of LGPS Central and/or stewardship provider reporting</b>
	Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.	Outcome: Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.	Legacy manager oversight – ISS  Managers/consultants/pension lawyers/independent advisers  LGPS Central to provide narrative on Central’s monitoring of managers’ ESG integration and stewardship

<b>Principle 9</b> Signatories engage with issuers to maintain or enhance the value of assets.	<b>Reporting Expectations</b>	<b>Activity and Outcomes</b>	<b>Where information can be found and use of LGPS Central and/or stewardship provider reporting</b>
	Signatories should explain the expectations they have set for others that engage on their behalf and how.	Outcomes: Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.	LGPS Central will provide narrative for <ul style="list-style-type: none"> <li>- Direct and collaborative engagement activities and outcomes during the reporting period (<a href="#">QSR</a>)</li> <li>- Engagement activities and outcomes through EOS (including <a href="#">case studies</a>)</li> </ul>

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			<p>Engagement activities carried out by legacy managers</p> <p>FRC advises that Partner Funds should provide one non-pool example</p>
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<p><b>Principle 10</b> Signatories, where necessary, participate in collaborative engagement to influence issuers.</p>	<p><b>Reporting Expectations</b></p>	<p><b>Activity and Outcomes</b></p>	<p><b>Where information can be found and use of LGPS Central and/or stewardship provider reporting</b></p>
	<p>Signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf.</p>	<p>Outcomes: Signatories should describe the outcomes of collaborative engagement</p>	<p>LGPSC will provide narrative for key priority initiatives that relate to core stewardship themes (climate change, responsible tax behaviour, plastic pollution and tech sector risks) identified by Partner Funds.</p> <p>This can be supplemented with stewardship EOS' participation in collaborative initiatives on LGPSC's and PF's behalf.</p> <p>FRC advises that Partner Funds should provide one non-pool example</p>

<b>Principle 11</b> Signatories, where necessary escalate stewardship activities to influence issuers.	<b>Reporting Expectations</b>	<b>Activity and Outcomes</b>	<b>Where information can be found            and use of LGPS Central and/or            stewardship provider reporting</b>
	Signatories should explain the expectations they have set for asset managers that escalate stewardship activities on their behalf	Outcomes: Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf.	<p>LGPSC will provide narrative for examples of escalation, typically related to core engagements on the four stewardship themes (climate change, responsible tax behaviour, plastic pollution and tech sector risks) identified by Partner Funds.</p> <p>This can be supplemented with engagement escalation examples through EOS (see narrative in <a href="#">public report</a>)</p> <p>FRC advises that Partner Funds should provide one non-pool example</p>

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<b>Principle 12</b> Signatories actively exercise their rights and responsibilities.	<b>Reporting Expectations</b>	<b>Activity and Outcomes</b>	<b>Where information can be found and use of LGPS Central and/or stewardship provider reporting</b>
	Signatories should state the expectations they have set for asset managers that exercise rights and responsibilities on their behalf.	Outcomes: For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months.	Reference <a href="#">LGPSC's Voting Principles</a> set and approved by all Partner Funds, as well as vote-by-vote disclosure for ACS funds (as relevant).  Quarterly engagement and voting updates from LGPS Central, including <a href="#">voting statistics</a>  Engagement and voting cases for specific ACS funds in Level 2 and 3 reports  LAPFF Voting Recommendations, supplemented by LGPSC Voting Briefings  FRC advises that Partner Funds should provide one non-pool example

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All information is prepared as of 22.12.2020

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