



## Regulatory and Other Committee

### Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	<b>Pensions Committee</b>
Date:	<b>06 October 2016</b>
Subject:	<b>Pension Fund Policies - Stewardship Code Statement</b>

#### Summary:

This report brings to the Committee the Fund's updated Stewardship Code Statement for review, following the implementation of tiering by the Financial Reporting Council (FRC).

#### Recommendation(s):

That the Committee agree the amended statement.

#### Background

1. Under the various Local Government Pension Scheme Regulations, the Pensions Committee, as the Administering Authority of the Lincolnshire Pension Scheme, is required to produce and maintain a number of key policy documents. Policies are brought to the Committee annually, and the last comprehensive review of all such policies was in July 2016. The Stewardship Code Statement was not brought to the July Committee as amendments were required to meet a new tiering system introduced by the Financial Reporting Council (FRC). This paper brings the amended Statement for approval.
2. The Stewardship Code Statement sets out how the Lincolnshire Pension Fund complies with the FRC's UK Stewardship Code. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire and operates on a 'comply or explain' basis.
3. The FRC reviewed all stewardship code statements published and found that there were inconsistencies in the reporting of stewardship practices across the market. The FRC assessed more than 300 statements to

understand how each signatory approaches the recommendations set out in the code and have assessed them against two tiers:

- Tier 1 - those that meet reporting expectations, including clear and meaningful explanations for non-compliance. Asset managers in Tier 1 will have provided further evidence of their approach to conflicts of interest, engagement and the resourcing and integration of stewardship; and
  - Tier 2 – those that do not currently meet these expectations.
4. The FRC set a deadline of September 23<sup>rd</sup> (extended from the original deadline of 19<sup>th</sup> August) for resubmissions of statements before publishing the tiering results.
  5. The FRC wrote to the Fund in June and reported that the original assessment of Lincolnshire's published Stewardship Code Statement was assessed to be tier 2, as were most LGPS Fund's statements. The FRC also provided information identifying where the statement could be improved, to assist the Fund in improving its rating. The letter and the good practice information are shown at appendix B.
  6. Officers rewrote the Statement (attached at appendix A), taking account of the points raised by the FRC, and sent it back to the FRC for comments ahead of the deadline of 23<sup>rd</sup> September. Initial comments from the FRC are that the Lincolnshire Statement would now meet the Tier 1 assessment level.
  7. The Committee is asked to approve the statement, which will then be published in accordance with the Code requirements.

## **Conclusion**

8. Following the changes by the FRC to the requirements of the Stewardship Code Statement, the Lincolnshire Fund's Statement has been updated and is appended to this report for review and approval by the Pensions Committee. The expectation is that this will now be assessed as a Tier 1 statement.

## **Consultation**

### **a) Policy Proofing Actions Required**

n/a

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Stewardship Code Statement
Appendix B	FRC letter and Good Practice Information

## Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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