

# Sixty second summary

## UK Stewardship Code and the LGPS

### Key messages

- The FRC has published the updated UK Stewardship Code which takes effect from 1 January 2020. The Code represents a new best practice standard for both asset owners and asset managers alike.
- Funds who want to remain or become signatories must publish a Stewardship Report, demonstrating compliance with the 12 principles of the Code by 31 March 2021.
- LGPS Funds should use the Code in conjunction with forthcoming SAB guidance as a basis for reviewing and strengthening their approach to responsible investment activity.

### Background

The FRC last week launched its updated UK Stewardship Code. The Code aims to improve stewardship practices, setting a substantially higher standard which reflects the changing expectations of investors since the Code's last revision in 2012. The requirements of the revised Code for asset owners and managers extend to establishing clear stewardship objectives, integrating stewardship in investment strategies, and adhering to clearer and more elaborate reporting requirements.

The Code comprises a set of 12 'apply and explain' Principles for asset managers and asset owners, and six Principles for service providers, including investment consultants.

### Key changes in the Code

- An **extended focus** that includes asset owners such as pension funds, and service providers including investment consultants and asset managers. The aim is to align the approach of the whole investment community with the interest of end-investors and beneficiaries.
- Annual reporting on stewardship activity and outcomes. Signatories' reports should demonstrate
  - what has been done in the previous year; and
  - what the outcome was;
  - the signatory's engagement with the assets they invest in;
  - the signatory's voting records;
  - how they have protected and enhanced the value of their investments.

This **greater transparency** will allow clients to see how their interests are being served.

- Signatories are expected to take **ESG factors, including climate change**, into account and to ensure their investment decisions are **aligned with the needs of their clients**. Signatories are expected to disclose the issues they prioritise for assessing investments prior to holding, and to monitor through holding and exiting. This should include the ESG issues of importance to them. This update parallels the recent changes to the Investment Regulations for Occupational Pension Schemes.

- Signatories are expected to **explain how stewardship has been exercised across asset classes** beyond listed equity such as fixed income, private equity and infrastructure, and in investments outside the UK.
- Signatories are required to **explain their organisation's purpose, investment beliefs, strategy and culture**, and how these enable them to practice stewardship. They are also expected to show how they are demonstrating this commitment through appropriate governance, resourcing and staff incentives.
- There is also an expectation within the new Code for signatories to work in a **collaborative** fashion with regulators and industry bodies to identify and respond to the risk of market and systemic failure. Signatories are expected to show how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets and outline the role they played in any relevant industry initiatives in which they participated.
- Signatories are expected to explain how they **escalate stewardship activities** where necessary.

### Next steps for signatories

The new Code takes effect from 1 January 2020. Organisations will remain signatories to the UK Stewardship Code until the first list of signatories to the 2020 Code is published. Existing signatories to the Code will be required to submit a Stewardship Report that meets the FRC's reporting expectations in the 2020 Code by 31 March 2021 to continue to be listed as signatories to the UK Stewardship Code. Reports must be signed off at a Board level, by Chair, Chief Executive or Chief Investment Officer.

### Our view

Responsible investment is an area of continually growing importance across our client base and we recognise that minimum standards together with best practice are being driven higher and the changes to the Code certainly achieve this. We believe that best practice in stewardship begins with strong governance structures and clearly defined objectives which are linked to the purpose of the organisation and reinforced through the culture and values of that organisation. The new Code promotes this, particularly in requiring Board level sign-off of reporting.

Current guidance for LGPS funds suggests that Funds should become signatories to the Stewardship Code. The strengthening of the Code will require Funds to increase both their responsible investment activity, but also to focus more clearly on how they report on this activity. Whilst there is currently no compulsion for Funds to act, Funds may want to use the framework of the new Code in conjunction with forthcoming SAB guidance as a basis for reviewing and updating their responsible investment policies.

Please contact your Hymans consultant for more information on how we can help.