

Pension Fund Committee

7 March 2017

The UK Stewardship Code and Local Authority Pension Fund Forum (LAPFF) Membership



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Purpose of the Report

1. To recommend to that the Pension Fund works with its investment advisor and fund managers to ensure it can become a signatory to the UK Stewardship Code. As part of this process it is also recommended that the Pension Fund pays an annual subscription to become a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative shareholder engagement group for local authority pension funds.

Background

2. It is widely acknowledged that the long-term interests of investors are enhanced by high standards of corporate governance and responsibility in the companies they are invested in. Conversely, poor corporate governance can impact negatively on shareholder value.
3. The Government's Guidance on Preparing and Maintaining an Investment Strategy Statement includes the following comments on the importance of Pension Funds engaging with the companies they invest in:

“Engagement enables administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and corporate governance issues.

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code.

Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis.”

The UK Stewardship Code

4. The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. It comprises the following seven principles which signatories to the Code are asked to explain how they will comply with:

“So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should:

- 1) publicly disclose their policy on how they will discharge their stewardship responsibilities.
 - 2) have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
 - 3) monitor their investee companies.
 - 4) establish clear guidelines on when and how they will escalate their stewardship activities.
 - 5) be willing to act collectively with other investors where appropriate.
 - 6) have a clear policy on voting and disclosure of voting activity.
 - 7) report periodically on their stewardship and voting activities.”
5. The Council, as administering authority to the Pension Fund is required to commit to become a signatory to the UK Stewardship Code, and this is referred to within the Investment Strategy Statement included within agenda item 7.

Local Authority Pension Fund Forum

6. The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of local authority pension funds and membership is open to all Local Government Pension Scheme (LGPS) funds. The Forum
- Seeks to protect and enhance the value of members shareholdings by optimising LA pension funds’ influence as shareholders on ESG (environmental, social and governance issues) and thereby to promote Corporate Social Responsibility (CSR) and high standards of Corporate Governance
 - Facilitates commissioning of research and policy analysis of issues more effectively than individual members
 - Provides a forum for consultation on shareholder initiatives
 - Provides a forum for information exchange and discussion about any investment issues
 - Provides a forum to consider issues of common interest to all pension fund administrators and trustees.
7. The Forum has 4 business meetings a year plus an AGM and an annual conference with each member fund having one vote at meetings. LAPFF contracts PIRC (Pensions Investment Research Consultants) to supply technical research, advice and assistance on all matters relating to best practice in corporate governance and corporate social responsibility. It also

employs a part-time Forum Officer (a former City/County Treasurer) to assist with the promotion of its activities.

8. The Forum currently has 72 local authority members including all eleven other funds in the Border to Coast Pensions Partnership.
9. LAPFF member funds now control assets of around £180 billion. The annual cost of membership would be the annual subscription of £8,460 or £8,250 pa for a three year membership. (This subscription has been held at the same level for the past seven years as more funds have joined the Forum – LAPFF membership has increased by 200% since 2003.
10. Benefits of membership would include:-
 - Supporting shareholder value through engagement and activism on issues relating to ESG issues.
 - Strength in numbers when engaging with companies at the highest level (i.e. Chairperson or other senior board members)
 - Collective and more cost effective approach to research
 - Saving of officer time and cost in researching issues
 - Sharing research costs with 72 Forum member funds
 - Providing a Forum for discussion of any related local government pension fund issue
 - Opportunities for networking with colleagues from all parts of UK and all types of authority
 - Facilitating collaboration with other major institutional investor groups both nationally and internationally.

Membership of LAPFF would further demonstrate the Pension Fund's commitment to socially responsible investment and the promotion of high standards of corporate social responsibility (on environmental, social and governance issues etc) and re-enforce our aim to maximise shareholder value. It would also help demonstrate compliance with the principles of the UK Stewardship Code.

Recommendation

11. Members are asked to agree that the Pensions Manager works with the Pension Fund's investment advisor and fund managers to ensure the Pension Fund can become a signatory to the UK Stewardship Code.
12. Members are asked to agree that the Pension Fund pays an annual subscription to become a member of the Local Authority Pension Fund Forum.

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