



## Pension Fund Committee

23 February 2022

<b>Title</b>	<b>Stewardship Code Update</b>
<b>Report of</b>	Executive Director of Resources (S151 officer)
<b>Wards</b>	N/A
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix A - Stewardship Code principles Appendix B - Actions to improve stewardship and engagement
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### Summary

The Committee has expressed an interest at becoming a signatory to the Stewardship Code. The paper sets out the actions required to meet the standards of the Code and also various alternatives that while not meeting Code standards would enhance current levels of stewardship

### Officers Recommendations

That the Pension Fund Committee select a preferred option from section 1.6.1 to 1.6.4 as the basis for future stewardship activity.

## 1. WHY THIS REPORT IS NEEDED

- 1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.
- 1.2 At the October 2021 Committee meeting a Hymans paper, Responsible Investment Project – part 1, was discussed. The paper considered the options for further action to meet the commitments made in the Investment Strategy Statement for Barnet to be a leading responsible investor fund. The recommendation from that meeting is that the Committee should identify the actions required to become a signatory to the UK Stewardship code. This paper considers the actions required to improve stewardship outcomes.

### UK Stewardship Code

- 1.3 The code defines stewardship as “the responsible allocation, management and oversight of capital to create long-term value ... leading to sustainable benefits for the economy, the environment and society”. In simple terms it is concerned with monitoring the corporates or projects in which we invest to ensure that good governance practices are followed and that significant business risks are managed. Key areas of stewardship are linked to the manner in which corporates deal with environmental, particularly climate change, and social factors in addition to governance.
- 1.4 Investors that have good stewardship practices understand through engagement the businesses in which they invest and the actions taken or omitted by management. Investors with weaker stewardship lack an understanding of when management depart from good practice or if corporate decisions detract from long-term value. Good stewardship is also concerned with communication with beneficiaries.
- 1.5 In appendix A, the requirements to become a signatory of the Stewardship Code are summarised and appendix B sets out the areas of departure from these requirements. It would be fair to say that areas of compliance with the code are limited and that a very significant change in approach to fund manager engagement and monitoring of underlying investments is required to become a signatory. In essence compliance is a question of devoting sufficient resources to understanding corporate behaviours. The current gaps with best practice and the actions required to address these are set out in the table below.

	Code Departure	Required Action
1.	Absence of Manager Monitoring by Committee and Officers – without active oversight opportunities to verify that actions taken by managers are consistent with our investment beliefs is limited.	As a minimum each fund / manager should be seen at least once a year by officers and once every three years by the PFC to enhance monitoring. In the case of LGIM and LCIV, they should be reviewed annually by both officers and Committee due to their prominence in the portfolio to discuss their engagement and monitoring of underlying corporates and in the case of LCIV, appointed managers.
2.	Engagement with funds / managers is unstructured and lacks any formal conclusions and areas for improvement. It was previously agreed that the focus of such meetings should be investment	In determining whether underlying corporates are being adequately monitored it is necessary to document our expectation at least at asset class level and potentially at mandate level as a basis for comparison. This will involve reviewing managers voting guidelines for consistency with

	process and in particular ESG integration and this would be aided by a checklist of questions.	LBBPF investment beliefs, voting patterns, including alignment with LAPFF recommendations and general level of stewardship engagement. Collaboration and escalation should be considered when evaluating fund / manager processes.
3.	Hymans' manager rating are presented and reviewed at quarterly meetings yet outside the appointment process there is little discussion on Hymans processes. Processes on which we rely should be periodically evaluated.	Officers to undertake an in-depth review of the Hymans manager review process, including RI rating, and report back on strengths and weaknesses to Committee.
4.	Undertake review of each fund managers and Hymans policy to deal with conflicts of interest.	To be undertaken by officers and reported to Committee.
5.	There is no current effective engagement with beneficiaries on stewardship or RI	Options include: Consult on the RI policy with employers, members and investment managers. Produce and publish on website an annual report on stewardship activity Publish voting record of the scheme's equity managers. Include stewardship activity on all member newsletters. Ask Local Pension Board for feedback on stewardship activities .
6.	Beyond LBB's membership of LAPFF, which is passive, there is no collaboration to influence corporates.	While direct collaboration to influence corporates is inconsistent with LBB resource levels, monitoring of managers should include willingness to collaborate with other asset owners / managers.
7.	There is an absence of reporting to LBBPF of managers votes for listed equities.	Voting records should be obtained, possibly published by LBB and reviewed for consistency with RI policies and recommendations of LAPFF. Managers should be challenged if not voting or if voting is inconsistent with expected standards of corporate governance.

### Options for Enhancing Stewardship Activity

1.6 The table above sets out the actions required to meet the standards required by the stewardship code. However, the Committee may be comfortable with alternative levels of stewardship and engagement that while falling short of Code standards provide sufficient assurance that adequate governance standards are adopted by appointed fund managers. Four options are summarised below. The Committee is asked to consider which option best fits with their RI ambitions. It is feasible to start with 1.6.2 and if productive extend to the other investment managers.

#### 1.6.1 Continued reliance on Hymans Roberson

Currently comfort on stewardship and engagement standards adopted by fund managers is provided by the Hymans RI ratings contained within the quarterly performance reports.

Hymans have a dedicated research team that regularly reviews investment manager processes and are well placed to identify their strengths and weaknesses and provide feedback to the managers. The Committee may be content with additional assurance on the Hymans processes and the ratings given to Barnet's appointed managers as discussed in table (3) above, including periodic attendance at Committee by the Hymans manager research team. One weakness of this approach is that Hymans RI ratings will not be based on the Committees investment beliefs and may miss departures from the Committee's view of best practice.

#### 1.6.2 Enhanced monitoring of LGIM and LCIV

In addition to 1.6.1 the Committee could focus the actions set out in the table (1, 2, 4, 6 & 7) on LGIM and LCIV as the two managers of listed equities. Equity is the asset class that has the most influence of corporate standards e.g. voting rights and is the obvious place to concentrate limited resources. Beneficiary engagement would be as in 1.6.3.

#### 1.6.3 Full manager monitoring with limited beneficiary engagement

Extent actions in table (1,2, 4, 6 and 7) to all managers but with beneficiary engagement limited to providing periodic information on the extent of engagement and no publication of voting records. Feedback from other schemes is that member engagement is time consuming and rarely attracts much interest from the membership. Should any member raise an issue that officers can't address this would be brought to the attention of the Committee.

#### 1.6.4 Full Compliance with Code

Take all the actions set out in the table, which will extent 1.6.3 to cover full beneficiary engagement and publication of votes cast on our behalf..

1.7 Implementing 1.6.2. will involve sending a questionnaire and meeting with LGIM and LCIV to monitor their voting decisions, engagement, Code compliance, and integration of material financial factors into decision-making. Summarised responses will be brought to the Committee. Based on results, this approach can be extended to other managers as per 1.6.3.

1.8 In tandem with the above it is proposed that the Committee review their investment beliefs later in 2022 as these form the basis of our stewardship expectations.

1.9 None of these actions is outside the capability of London Borough of Barnet. Options 1.6.1 or 1.6.2 can be undertaken with current resources levels; meaning Committee time and numbers of officers. Moving to 1.6.3 and 1.6.4 will require both more Committee time and some additional officer resources. A phased approach is recommended to enable the Committee to gain comfort on the new processes.

1.10 Whichever approach is adopted, it is recommended that a stewardship report is issues annually that follows the layout of the code even if the report is not used to support a code signatory application.

## 2. REASONS FOR RECOMMENDATIONS

- 2.1 The Committee has set out an ambition to become a leading responsible investor having recognised that well run companies are expected to deliver superior returns. This paper provides options to implement that ambition.

### **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 The various alternatives are discussed in section 1.6 of the paper.

### **4. POST DECISION IMPLEMENTATION**

- 4.1 Officers will implement the agreed actions and provide regular updates to the Committee, including altering as appropriate the Committee workplan.

### **5. IMPLICATIONS OF DECISION**

#### **5.1 Corporate Priorities and Performance**

- 5.1.1 The Committee supports the delivery of the Council's strategic objectives and priorities, as expressed through the Barnet Plan 2021-2025, to be an efficient and effective Council through managing our finances and contracts robustly, by assisting in maintaining the integrity of the Pension Fund by monitoring the investments and administration of the Pension Fund.

#### **5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

- 5.2.1 The additional resource requirement for options 1.6.3 & 1.6.4 have not yet been identified. However, these will be insignificant in the context of the scheme and it's projected returns and be expected through encouragement of best practice to enhance the outcomes.

#### **5.3 Social Value**

- 5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

- 5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

- 5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

- 5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

#### **5.4 Legal and Constitutional References**

5.4.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review and if necessary, revise the investment strategy.

5.4.2 The Council's Constitution – Article 7 – states that the Pension Fund Committee has responsibility for all aspects of the governance, investment and administration of LB Barnet Pension Fund.

## **5.5 Risk Management**

5.5.1 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

## **5.6 Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

## **5.7 Corporate Parenting**

5.7.1 Not applicable in the context of this report.

## **5.8 Consultation and Engagement**

5.8.1 Not applicable.

## **5.9 Insight**

5.9.1 Not applicable

## **6. ENVIRONMENTAL IMPACT**

6.1 The paper discusses Responsible Investing and the actions required to meet regulatory requirements and best practice in this area.

## **7. BACKGROUND PAPERS**

Responsible investment and the stewardship code have been discussed at earlier Committee meetings.

Investment Strategy, agenda item 16, Pension Fund Committee 28 October 2021

<https://barnet.moderngov.co.uk/ieListDocuments.aspx?Cid=191&Mid=10918&Ver=4>

Responsible Investing and Climate Change, agenda item 12, Pension Fund Committee 24 February 2021

[Agenda for Pension Fund Committee on Wednesday 24th February, 2021, 6.00 pm \(moderngov.co.uk\)](#)