

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 11 September 2024
Report Subject	Stewardship Code Submission
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to ask the Committee to support the Clwyd Pension Fund's application to the Financial Reporting Council (FRC) to maintain signatory status of the 2020 Stewardship Code (the "Code").

The Fund became a signatory of the Code in February 2023 and retained signatory status in February 2024 following the October 2023 submission. The Fund is committed to reporting on the requirements of the Code, with the aim of maintaining signatory status each year.

The proposed submission demonstrates the work that has been conducted in respect of stewardship both in the past, and the commitments to continued progression in the future in areas such as listed assets and private markets.

Maintaining signatory of the Code aligns with the Fund's Responsible Investment Principles, recognising that transparency and accountability are important aspects of being a responsible investor and illustrates the Fund's beliefs and objectives surrounding environmental, social and governance (ESG) issues.

The FRC deadline for submission is 31 October 2024. The attached document is the 31 March 2024 submission working draft. This report continues to be worked on by officers and advisers. Although comprehensive, any thoughts and views from the Committee are welcome. Updates to the draft submission will continue to be made before the FRC deadline as certain sections (which have been highlighted) in the draft in appendix 1 are awaiting information.

Additionally, the FRC have recently announced five immediate changes to significantly reduce the reporting burden on existing signatories. These changes (as noted in section 1.04) will be considered for the 2024 submission.

RECOMMENDATIONS

1	That the Committee consider and comment on the contents of the draft submission.
2	That the Committee delegates responsibility for approving the final submission to the Head of Clwyd Pension Fund.

REPORT DETAILS

1.00	DRAFT STEWARDSHIP CODE SUBMISSION
1.01	<p>Background</p> <p>The purpose of this report is to ask the Committee to support the Clwyd Pension Fund’s third application to the Financial Reporting Council (FRC) to maintain signatory status of the UK Stewardship Code 2020 (the “Code”). The Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. 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.</p> <p>The Code applies to:</p> <ul style="list-style-type: none">• Asset owners such as pension schemes, insurers, foundations, endowments, local government pension funds and pools and sovereign wealth funds.• Asset managers who manage assets on behalf of UK clients or invest in UK assets.• Service providers such as investment consultants, proxy advisors, data and research providers that support asset owners and asset managers to exercise their stewardship responsibilities. <p>To become a signatory of the Code, applicants need to be able to demonstrate to FRC that they can meet these stewardship standards. Signatories are required to resubmit on an annual basis to continue to demonstrate compliance.</p> <p>The Fund was previously confirmed as a Tier One signatory to the 2012 Stewardship Code in March 2018. The Fund has been a signatory to the latest “2020 Code” since February 2023. The Fund is also pleased that the Wales Pension Partnership (“WPP”) is also a signatory of the Code.</p> <p>The Fund is committed to reviewing the requirements of the Code, including additional updates (such as incorporating the latest updates listed in section 1.04), with the aim of maintaining signatory status. The draft submission, which has been prepared for this purpose, is included in the Appendix. Being a signatory of the Code helps demonstrate to the Fund’s stakeholder and other interested parties that the Fund is committed to being a responsible investor.</p>
1.02	<p>Comply and Explain Principles</p> <p>The Code has twelve “comply and explain” principles, under four main sections. The draft submission demonstrates the Fund’s approach in relation to each of these principles. The twelve principles are:</p>

	<p><u>Purpose and governance</u></p> <ol style="list-style-type: none"> 1. Purpose, strategy and culture 2. Governance, resources and incentives 3. Conflicts of interest 4. Promoting well-functioning markets 5. Review and assurance <p><u>Investment approach</u></p> <ol style="list-style-type: none"> 6. Client and beneficiary needs 7. Stewardship, investment and ESG integration 8. Monitoring managers and service providers <p><u>Engagement</u></p> <ol style="list-style-type: none"> 9. Engagement 10. Collaboration 11. Escalation <p><u>Exercising rights and responsibilities</u></p> <ol style="list-style-type: none"> 12. Exercising rights and responsibilities
1.03	<p>Explanation of Main Sections</p> <p><i>Purpose and Governance</i></p> <p>This section outlines the Fund’s culture, values and investment beliefs that enable good stewardship to provide sustainable long-term benefits for all stakeholders. Also discussed in this section is how governance and assurance structures, and processes, enable the Fund to manage risks.</p> <p><i>Investment Approach</i></p> <p>This section discusses how the responsible investment beliefs are incorporated into the asset allocation to ensure that the Fund invests in a responsible and sustainable way, as well as ensuring it can pay benefits to its members as and when they fall due.</p> <p><i>Engagement</i></p> <p>This area demonstrates all aspects of engagement, including engagement of the underlying managers on behalf of the Fund, as well as engagement conducted on behalf of the Fund through pooled fund holdings with the WPP. WPP has appointed Robeco as its Voting and Engagement provider who assist in formulating and maintaining a voting policy and engagement principles that are in keeping with the LAPFF (Local Authority Pension Fund Forum). In addition, Robeco are responsible for implementing the voting policy and reporting on it.</p> <p>Several examples will be provided on engagement including an example of enhanced engagement, collaboration and escalation (information outstanding at the time of writing). This section also covers how the Fund and its officers engage within the wider market, as members/ affiliates of several boards and initiatives including but not limited to the LAPFF, Pensions and Lifetime Savings Association (PLSA) Local Authority Committee and Pensions for Purpose.</p>

Exercising rights and responsibilities

This area demonstrates how the Fund has delegated voting rights of all pooled assets to the WPP, who utilise the appointment of Robeco (Voting and Engagement provider) to engage on their behalf. The Fund also delegates voting rights of its underlying Tactical Asset Allocation (“TAA”) holdings to the underlying managers such as Legal & General, where relevant.

This section also explains voting policy and voting areas, as well as providing several examples of voting and engagement which Robeco and the underlying managers of the TAA Portfolio have taken on behalf of the Fund. Engagement and voting examples included in the report focus on areas such as, but not limited to:

- Carbon emission reduction targets
- Human rights
- Board composition
- Climate transition

Although exercising rights and responsibilities is typically more developed for listed equity managers, the Fund’s expectations regarding engagement for other asset class managers is discussed in this section.

1.04

FRC Updates to the Code - 2024

In July 2024, the FRC announced revisions to the UK Stewardship Code application process and committed to five priority areas of review. The five themes in the new phase of the Code’s revision are as follows:

- 1. Purpose:** *The FRC will consider all stakeholder views and set out its expectation of what defines effective stewardship, what this looks like in practice, and how reporting against the Code can help to deliver this.*
- 2. Principles:** *The FRC is considering what reporting will be necessary to deliver on a renewed purpose of the Code.*
- 3. Proxy Advisors:** *The FRC will carefully consider how the Code might support greater transparency of their activities.*
- 4. Process:** *The FRC will take forward proposals to reduce the reporting burden currently associated with being a Code signatory and ensure that information included in reports is useful and accessible to all underlying investors and other stakeholders.*
- 5. Positioning:** *The FRC is working closely with other regulators such as the DWP, TPR and the FCA to support clarity in understanding the revised Code and its successful implementation. The Code will continue to support the objectives of those other regulators to avoid any confusion and duplication that signatories may encounter.*

	<p>In addition to the above themes, and in line with theme 4 (Process), the FRC made 5 immediate changes to reduce the burden on existing signatories, these changes will:</p> <ul style="list-style-type: none"> • Remove the requirement to annually disclose all ‘Context’ reporting expectations, except for new reports or material changes. • Remove the requirement to annually disclose against ‘Activity’ and ‘Outcome’ reporting expectations for some Principles. • Explicitly allow use of content from previous reporting and cross-referencing of such reports. • Set clear expectations of what is considered an ‘outcome’ for stewardship purposes. • Emphasise the ability to report against Principle 10, collaborative engagement, and Principle 11, escalation ‘where necessary’. <p>‘Context’, ‘Activity’ and ‘Outcome’ are all reporting expectations for each principle.</p> <p>These changes are applied to this year’s application window and are aimed at streamlining reporting and provide flexibility for signatories. The FRC is engaging with stakeholders through public consultation and focused engagement sessions to ensure alignment with the UK’s investment stewardship ecosystem.</p> <p><i>Source: FRC announces significant update to the UK Stewardship Code</i></p>
1.05	<p>Key points to note for 31 March 2024 submission</p> <p>The Fund has followed the spirit of the Code for several years and this submission is a continuation of its dedication to demonstrate the stewardship activities of the Fund over the 12 months to 31 March 2024.</p> <p>Key areas of submission and activities undertaken over the year to 31 March 2024 include:</p> <ul style="list-style-type: none"> • Overview of the Responsible Investment Policy in place and the latest additions to the policy (including the exclusions policy) • Overview of the governance framework and parties in place for effective stewardship of the Fund including Fund and WPP structures • How the Fund manages conflicts of interest and any potential conflicts during the period • Overview of how the Fund manages risks including its Risk Management Policy and risk register • Summary of Fund policies and sub-groups that support the Fund in its activities • How the Fund serves its beneficiaries through its activities • Detailed member and investment strategy summaries, including split of pooled and non-pooled assets

	<ul style="list-style-type: none"> • Summary of investments made during the period in the Local/ Impact private market investments • Overview of how the Fund systematically integrates stewardship and investment (including ESG) • Overview of the Communications Strategy • Discussion of how the Fund monitors its underlying managers and service providers • Overview of the process undertaken by the Fund to engage with private market managers, including the Fund’s monitoring template • Detailed examples of collaboration, engagement and escalation (note information is outstanding in some areas as the WPP and managers continue to provide further examples) • Detailed breakdown of voting information for listed assets undertaken on behalf of the Fund during the period.
1.06	<p>Addressing FRC feedback</p> <p>Feedback from the FRC from last year’s submission has been reviewed and updates have been made where possible to incorporate further changes. Feedback was limited given the strength of the report, however the information below highlights some of the additions made as a result of the feedback:</p> <ul style="list-style-type: none"> • Improved description of how the Fund evaluates its effectiveness in serving the beneficiary’s best interest • Explanation of how the Fund’s governance structures and processes supported the stewardship of the Fund • Details of how the Fund engaged with managers on their fossil fuel exposures during the period • Expansion of how rights and responsibilities have been exercised on the Fund’s behalf; it will be noted that fixed income is limited given there are no voting rights within this asset class
1.07	<p>Deadline for submission</p> <p>The deadline for this year’s submission is 31 October 2024. This report attached to the Appendix is the current working draft and although comprehensive, any thoughts and views from the Committee are welcome.</p> <p>The Committee are asked to consider and comment on the contents of the draft submission and delegate responsibility for approving the final submission to the Head of Clwyd Pension Fund.</p>

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	<p>This report addresses some risks identified in the Fund’s Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> Funding and Investment risks: F1, F4, F8, I1, I2 and I3

5.00	APPENDICES
5.01	Appendix 1 – Draft Clwyd Pension Fund submission for Stewardship Code

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>CPF – Stewardship Report – 1 April 2022 to 31 March 2024</p> <p>Contact Officer: Philip Latham, Head of Clwyd Pension Fund Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) Actuarial Valuation - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.</p> <p>(b) Administering authority or scheme manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) AP – Advisory Panel – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor.</p> <p>(d) Clwyd Pension Fund (the “Fund”) – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region.</p>

- (e) **Clwyd Pension Fund Committee (the “Committee”)** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.
- (f) **Chartered Institute of Public Finance and Accountancy (CIPFA)** – UK based accountancy membership and standard setting body.
- (g) **Ministry of Housing, Communities and Local Government (MHCLG)** – the government department responsible for the LGPS legislation. (Previously DLUHC – Department for Levelling Up Housing and Communities).
- (h) **Funding Strategy Statement (FSS)** – the main document that outlines how we will manage employers’ contributions to the Fund.
- (i) **Funding & Risk Management Group (FRMG)** - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.
- (j) **Financial Reporting Council (FRC)** – regulates auditors, accountants and actuaries, and sets the UK’s Corporate Governance and Stewardship Codes.
- (k) **Investment Strategy Statement (ISS)** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
- (l) **Local Authority Pension Fund Forum (LAPFF)** – is both an engagement partner and forum for member funds to share insights and best practice and to identify opportunities. Promoting specific investment interests of local authority pension funds as asset owners
- (m) **Local Government Pension Scheme (LGPS)** – the national scheme, which Clwyd Pension Fund is part of.
- (n) **Markets in financial instruments directive II (MiFID II)** – a European Union (EU) regulatory framework designed to regulate financial markets and institutions and improve protections for investors. It aims to standardise practises across the EU.
- (o) **Pensions and Lifetime Savings Association (PLSA)** – a trade association for those involved in designing, operating, advising and investing in all aspects of workplace pensions.
- (p) **Pensions for Purpose** – exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment.
- (q) **Private Market Investments** – Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments.

- (r) **Scheme Actuary** - A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.
- (s) **Stewardship** – 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.
- (t) **Sustainable Finance Disclosure Regulation (SFDR)** - Imposes mandatory ESG disclosure obligations for asset managers and other financial market participants (FMP). SFDR aims to bring a level playing field for FMP and financial advisors on transparency in relation to sustainability risks the consideration of adverse sustainability impacts in their investment processes and the provision of sustainability-related information with respect to financial products.
- (u) **Society of Local Authority Chief Executives (SOLACE)** - A leading members' network for local authority government and public sector professionals through the UK.
- (v) **Tactical Asset Allocation Group (TAAG)** – a group consisting of The Clwyd Pension Fund Manager and consultants from Mercer, the Fund Consultant.
- (w) **Task Force on Climate Related Financial Disclosures (TCFD)** - TCFD recommendations provide guidance to all market participants on the disclosure of information on the financial implications of climate-related risks and opportunities so that they can be integrated into business and investment decisions.
- (x) **Taskforce on Nature Related Financial Disclosures (TNFD)** - Builds upon TCFD but acting on behalf of nature. It is a nature-related framework to drive better understanding and reporting of nature-related risks and opportunities.
- (y) **UK Stewardship Code 2020** – set of high standards for those investing money on behalf of UK savers and pensioners, and those that support them.
- (z) **UN Principles for Responsible Investment (PRI)** – international organisation that works to promote the incorporation of ESG factors into all decision-making processes, seeking to build a more sustainable financial system.
- (aa) **Wales Pension Partnership (WPP)** – a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of the eight national Local Government Pension pools. WPP was established in 2017.

A full glossary of Investments terms can be accessed via the following link.
<https://www.schroders.com/en/global/individual/investment-glossary/>