

# UK Stewardship Code Compliance Statement



**CHESHIRE**  
PENSION FUND



**Derbyshire**  
Pension  
Fund



**Leicestershire County Council**  
Pension Fund



**Nottinghamshire**  
County Council



**SHROPSHIRE COUNTY**  
PENSION FUND

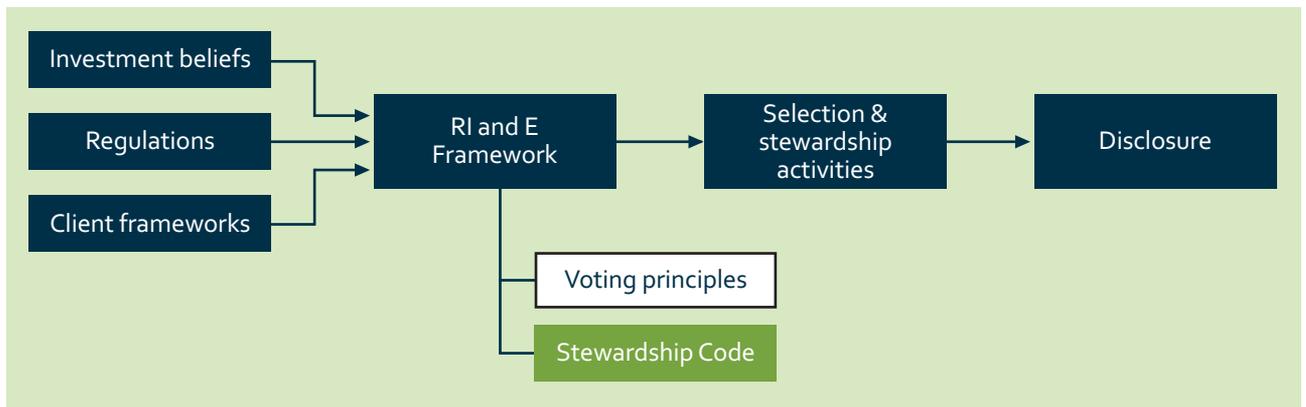


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## ABOUT THIS DOCUMENT

This document is LGPS Central Limited's ("the Company") UK Stewardship Code Compliance Statement. This document's objective is to disclose how the Company complies with the seven principles of the Financial Reporting Council's ("FRC") UK Stewardship Code ("the Code"). The Company fully supports the Code and has chosen to comply with (rather than explain non-compliance) each of the seven principles. Stewardship is one of the Company's three Responsible Investment ("RI") pillars, as detailed in the Company's Responsible Investment & Engagement Framework. The other pillars are *selection* (which refers to actions taken before the investment decision) and *transparency & disclosure*. This document is owned by the Company's Director of Responsible Investment & Engagement, and is implemented by the Investment Team, with ultimate responsibility resting with the Executive Committee. It is subject to annual review by the Board of the Company.

**Figure 1: The Stewardship Code Compliance Statement in context**



## WHAT WE MEAN BY RESPONSIBLE INVESTMENT AND STEWARDSHIP

The term 'responsible investment' refers to the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes. It has relevance both before and after the investment decision and is a core part of our fiduciary duty. It is distinct from 'ethical investment', which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.

We define the concept of stewardship in the same way as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code:

"Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings."

Please refer to the glossary for more definitions of terms.

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## INVESTMENT BELIEFS & RESPONSIBLE INVESTMENT BELIEFS

Using the Investment Strategy Statements of the Company's clients, we arrive at the following beliefs about responsible investment:

- **Long termism:**  
A long-term approach to investment will deliver better returns and the long-term nature of LGPS liabilities allows for a long-term investment horizon
- **Responsible investment:**  
Responsible investment is supportive of risk-adjusted returns over the long term, across all asset classes. Responsible investment should be integrated into the investment processes of the Company and its investment managers.
- **Diversification, risk management and stewardship:**  
Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well-diversified portfolios face systematic risk. Systematic risk can be mitigated over the long-term through widespread stewardship and industry participation.
- **Corporate governance and cognitive diversity:**  
Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision-making and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.
- **Fees and remuneration:**  
The management fees of investment managers and the remuneration policies of investee companies are of significance for the Company's clients, particularly in a low-return environment. Fees and remuneration should be aligned with the long-term interests of our clients, and value for money is more important than the simple minimisation of costs.
- **Risk and opportunity:**  
Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with the Company's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.
- **Climate change<sup>1</sup>:**  
Financial markets could be materially impacted by climate change and by the response of climate policy-makers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of like-minded investors where feasible.

## THE COMPANY'S APPROACH TO STEWARDSHIP

Using our clients' investment beliefs, the Company has designed a Responsible Investment & Engagement Framework with two aims: (1) primarily, to support the Company's investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry and raise standards across the marketplace. We intend to realise these aims through actions taken both before the investment decision (which we refer to as the *selection* of investments) and after the investment decision (the *stewardship* of investments). Actions will be taken with reference to an evidence base, using the best available objective data sets. The Company aims to be transparent to all stakeholders and accountable to our clients through regular disclosure of RI activities, using best-practice frameworks where appropriate. These ambitions yield the Company's three RI pillars: Selection, Stewardship and Transparency & Disclosure. The present document outlines the Company's stewardship pillar, with reference to the seven principles of the Code.

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<sup>1</sup>By highlighting climate change, rather than other RI risk factors, we are not asserting that climate risk has, for all assets, greater economic significance than other factors. Our motivation for referring specifically to climate change risk derives from our recognition that it is a risk factor of particular importance to a number of stakeholders, and we have communicated our investment beliefs about climate change for reasons of transparency.

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## UK STEWARDSHIP CODE

### **PRINCIPLE 1 – INSTITUTIONAL INVESTORS SHOULD PUBLICLY DISCLOSE THEIR POLICY ON HOW THEY WILL DISCHARGE THEIR STEWARDSHIP RESPONSIBILITIES.**

The Company fully follows this principle

#### **Overview**

The Company's Responsible Investment and Engagement Framework ("the Framework") is built upon three pillars: Selection, Stewardship and Transparency & Disclosure. In accordance with the pillars, the Company aims to be fully transparent with regards to the discharge of its stewardship responsibilities. From a policy perspective, the Company's approach to stewardship is detailed in this document and in its Framework.

#### **In Detail**

The Company's beliefs about responsible investment and stewardship are noted above. The exercise of the Company's stewardship rights is considered to be part of the Company's fiduciary responsibilities and consistent with the expectations of its clients and their regulatory context(s). The major components of the Company's approach to stewardship are provided in the Framework, and repeated here for convenience.

#### **Engagement with companies**

The Company engages directly with investee companies on RI issues with the objective of improving investment outcomes over the long term. The Company also engages through partnerships, in order to maximise the scale and effectiveness of the Company's engagement programme. The prioritisation of engagement themes or companies depends on economic significance, resourcing and likely significance for the majority of stakeholders. Further detail of the Company's approach to engagement is provided in the principles below. The Company expects UK companies to adhere to the UK Corporate Governance Code on a comply or explain basis, and expects non-UK companies to adhere to international corporate governance principles, whilst recognising local application and development. As noted below, the Company's approach to engagement includes escalation techniques (detailed under Principle 4 below) in order to achieve the main objectives.

#### **Shareholder voting**

The Company votes all eligible shares in accordance with its agreed voting policies. This includes the voting shares of portfolios managed externally where those funds are held in segregated accounts. Voting decisions will relate to engagements undertaken during the period in review and a vote might be used as an escalation step in an engagement process, as detailed below. Voting decisions are executed by third-party provider(s); the provider(s) also offer analysis and advice. Where the Company invests in externally managed pooled funds, the suitability of the manager's voting policy is assessed during due diligence, and ongoing disclosure is required. The Company will seek to co-file shareholder resolutions where beneficial to clients' long-term interests. The Company has a procedure to recall lent stock in order to vote on significant issues.

#### **Monitoring external managers**

External fund managers are monitored in order to ensure the ongoing application and efficacy of their approaches to RI and stewardship. Managers are expected to report to the Company on RI and engagement activities that support the objectives given in the investment mandate.

#### **Industry participation and collaboration**

Joining working groups, responding to consultations, dialogue with regulators and presenting at conferences are important features of the Company's stewardship approach. Industry participation allows the Company to represent the interests of its clients to a broad audience and, through joint action, supports investment outcomes over the long term. The Company will seek participation including active contribution where this serves the long-term interests of the Company's clients.

#### **Climate change and stewardship<sup>2</sup>**

Factors relating to climate change and the effects of climate policy response are managed within the Company's overarching RI & Engagement Framework. Financially material climate change factors are treated in the same way as other relevant RI factors, using selection and stewardship techniques, based on objective evidence sets. The Company engages investee companies on behalf of its clients to improve the disclosure, governance and management of the risks associated with climate change and climate policy response. The Company links its voting decisions to the outcomes of engagement and votes to support climate change shareholder resolutions where the resolutions support the long-term interests of clients. In order to garner broader support, the Company will in selected circumstances pre-declare its voting intention regarding a climate change resolution. The Company will seek to contribute to public policy either directly or through partnerships, and has indicated publicly its support for the Taskforce on Climate-related Financial Disclosures (TCFD). Through participation in industry fora, the Company raises awareness of the financial impacts of climate change and climate policy response using the latest available research to apply an evidence-based approach.

<sup>2</sup>Please refer to the previous footnote for our reasons for highlighting climate change risk above other RI risks.

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## **PRINCIPLE 2 – INSTITUTIONAL INVESTORS SHOULD HAVE A ROBUST POLICY ON MANAGING CONFLICTS OF INTEREST IN RELATION TO STEWARDSHIP AND THIS POLICY SHOULD BE PUBLICLY DISCLOSED.**

The Company fully follows this principle

### **Overview**

Conflicts of interest, including those relating to matters of investment stewardship, are managed according to the Company's Conflicts Policy, which is made available to all clients and is included in the Firm's Policy Manual.

### **In Detail**

The Company has a Conflicts Policy which is made available to all clients as part of the take on process and when it has been materially changed. The policy addresses the requirements of the Markets in Financial Instruments Directive (MiFID) which include the following action for the purposes of managing conflicts of interest:

- a) firms must take all reasonable steps to identify and manage conflicts of interest between themselves and their clients, or between one client and another that arise in relation to the provision of investment and ancillary services
- b) firms must maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps designed to prevent conflicts of interest from adversely affecting the interests of the client
- c) where such measures are not sufficient to ensure, with reasonable confidence, that risks of damage to client interests will be prevented, the firm must clearly disclose the general nature/or sources of conflicts to the client before undertaking business on its behalf

The Company's policy also satisfies the requirements set out by the FCA in SYSC 4 & 10 in establishing effective frameworks to identify and control conflicts of interest.

The purpose of the policy is therefore to identify with reference to our business, the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more of our clients, and to set out the procedures to be followed and the measures adopted so that the Company can manage these conflicts. Aspects of relevance to the management of conflicts within the Company's stewardship activities include: personal account dealing, outside business interests, conflicts between internally and externally managed funds and conflicts between the clients. Appropriate procedures have been put in place to mitigate potential or actual conflicts. The Company's Board fully supports the development of a culture of conflict prevention and management at all levels of the organisation. This includes the following measures: annual training, annual review of the Conflicts Policy by the Board, inclusion of conflicts as an agenda item at Board meetings, mandatory disclosure by all relevant employees of any outside business interests and Conflicts of Interest Register maintained by the Company's Chief Compliance & Risk Officer.

## **PRINCIPLE 3 – INSTITUTIONAL INVESTORS SHOULD MONITOR THEIR INVESTEE COMPANIES.**

The Company fully follows this principle

### **Overview**

The Company monitors its investee companies where held in internally managed portfolios and expects its external fund managers to do the same. External fund managers report on a regular basis to the Company in respect of how stewardship activities have been discharged during the period in review. The Company conducts top-down and bottom-up engagement. Top-down engagement is where the Company identifies themes of economic significance and of likely relevance to a majority of stakeholders and pursues broad-based engagement usually in collaboration with like-minded investors or through partnerships. Bottom-up engagement is where the Company identifies specific, idiosyncratic issues at investee companies and enters a strategic dialogue with the company to improve any identified weaknesses. These processes apply to all major asset classes and are global in remit. Escalation techniques are used in line with Principle 4 below.

### **In Detail**

Please refer to our compliance with Principle 1.

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**PRINCIPLE 4 – INSTITUTIONAL INVESTORS SHOULD ESTABLISH CLEAR GUIDELINES AS TO WHEN AND HOW THEY WILL ESCALATE THEIR ACTIVITIES AS A METHOD OF PROTECTING AND ENHANCING SHAREHOLDER VALUE.**

The Company fully follows this principle

**Overview**

As detailed above, the Company engages with companies on a range of issues including but not limited to governance, climate change, employment standards, tax practices, board composition, human rights, employment practices and human capital management, social risk, reputational risk. Unsatisfactory corporate responses could lead to escalation, as detailed below.

**In Detail**

A decision to escalate, and the form or sequence of subsequent escalation is particular to the engagement in question. The most effective means of escalation varies from one engagement to another. Examples (in no particular order) of how the Company might escalate include:

- Additional meetings with the management or the directors of an investee company
- Escalating the dialogue from the executive to the board of directors or from one board member to a more amenable board member
- Attendance and raising questions at the company AGM
- Collaboration with fellow investors
- Letter issuance
- Collaborative engagement with other partnership organisations
- Voting against management, e.g. against the annual report, the appointment of directors or the auditors
- Co-filing shareholder resolutions
- Engaging major proxy advisors
- Dialogue with index providers or listing authorities
- Litigation

The Company reports on its stewardship activities on a quarterly basis. This includes the status of engagements with respect to their stage of escalation.

**PRINCIPLE 5 – INSTITUTIONAL INVESTORS SHOULD BE WILLING TO ACT COLLECTIVELY WITH OTHER INVESTORS WHERE APPROPRIATE.**

The Company fully follows this principle

**Overview**

The Company believes that collaboration with other investors is likely to increase its impact when engaging with companies, fund managers, regulatory bodies and other stakeholders. The Company will, however, act alone on corporate engagement where relevant.

**In Detail**

Please refer also to our compliance with Principle 1.

Collaboration with other investors is undertaken on a case by case basis and depends on which investors happen to be invested with the Company in the same company, fund, or other vehicle. With respect to collaboration through partnership organisations, the Company is currently a member or supporter of the following organisations<sup>3</sup>:

- 30% Club Investor Group
- British Private Equity and Venture Capital Association (BVCA)
- CDP
- Institutional Investor Group on Climate Change (IIGCC)
- International Corporate Governance Network (ICGN)
- Principles for Responsible Investment (PRI)
- Transition Pathway Initiative (TPI)

<sup>3</sup>Subject to approval by the Company's Board and by the membership organisations themselves.

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In addition, the Company seeks participation, including active contribution, in semi-permanent working groups where this serves the long-term interests of the Company's clients. The Company has indicated strong support for the Taskforce on Climate-related Financial Disclosures (TCFD).

The Company's memberships are subject to regular review.

#### **PRINCIPLE 6 – INSTITUTIONAL INVESTORS SHOULD HAVE A CLEAR POLICY ON VOTING AND DISCLOSURE OF VOTING ACTIVITY.**

**The Company fully follows this principle**

##### **Overview & In Detail**

Please refer also to our compliance with Principle 1, which is not repeated here to avoid duplication. The Company's policy on the disclosure of its voting activity is described under Principle 7. The Company's voting policy for assets held within its Authorised Contractual Scheme (ACS) is disclosed on the Company's website<sup>4</sup>.

#### **PRINCIPLE 7 – INSTITUTIONAL INVESTORS SHOULD REPORT PERIODICALLY ON THEIR STEWARDSHIP AND VOTING ACTIVITIES.**

**The Company fully follows this principle**

##### **Overview & In Detail**

The Company aims to report its RI and engagement activities in a manner deemed to be best-practice. This includes quarterly disclosures that demonstrate to its stakeholders how this framework has been applied in practice. The Company supports the statutory annual reporting requirements of its local authority pension fund clients.

As a signatory to the Principles for Responsible Investment, the Company discloses a Transparency Report on an annual basis and this includes details of certain aspects of the Company's voting activities.

The Company reports on its voting activity on a quarterly and an annual basis. For votes cast within the Company's ACS, the Company's voting decisions are disclosed on a vote-by-vote basis for full transparency.

At the present time the Company's proxy research provider has been awarded "Tier 1" (best practice) status by the FRC for compliance with the UK Stewardship Code. In addition, the provider is signed up to the Best Practice Principles for Proxy Advisers. The provider is regulated by the Financial Conduct Authority.

<sup>4</sup>[www.lgpscentral.co.uk](http://www.lgpscentral.co.uk)

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## GLOSSARY OF TERMS

**Divestment/exclusion/negative screening:** the exclusion, usually on moral grounds, of particular types of investments, possibly affecting in a negative way the risk-return profile of a portfolio

**Engagement:** dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

**ESG factors:** determinants of an investment's likely risk or return that relate to issues associated with the environment, society or corporate governance

**Ethical investment:** an approach to investment where the moral persuasions of an organisation take primacy over investment considerations

**Non-financial factors:** determinants of an investment's likely risk or return that cannot be, or cannot straightforwardly be, given a monetary value for insertion into an organisation's financial statements

**Responsible Investment/RI:** the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes both before and after the investment decision

**Responsible Investment factor/RI factor:** an aspect of an investment which relates to environmental, social or corporate governance issues

**Social investing/social impact investing:** investments that seek to achieve a positive social impact in addition to a financial return

**Stewardship:** the promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

**Voting:** the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

### About LGPS Central Limited

LGPS Central Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No: 10425159. Registered Office: Mander House, Mander Centre, Wolverhampton, WV1 3NB.