

# **Statement of Compliance with UK Stewardship Code**

**August 2018**



# **Staffordshire Pension Fund Statement of compliance with the UK Stewardship Code (Published May 2018)**

## **Introduction**

The Staffordshire Pension Fund (“the Fund”) recognises its role as one of promoting best practice in stewardship, which is considered to be consistent with seeking long-term investment returns. The Fund is a signatory to the Financial Reporting Council’s (“FRC”) UK Stewardship Code.

The Fund’s Investment Strategy Statement<sup>1</sup> (“ISS”) states that the investment objective of the Fund is to achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding strategy objectives on an ongoing basis. One of the Fund’s investment beliefs is that responsible investment can enhance long term investment performance. As an externally-managed Fund, much of the day-to-day responsibilities for implementing stewardship are delegated to the Fund’s investment managers. Following LGPS asset pooling during 2018 and beyond, these delegations will pass to LGPS Central, the pool through which the Fund’s assets will be invested.

The Fund defines the concept of stewardship in the same way as the FRC:

“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.”

## **The Principles of the Code**

**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.**

**The Fund complies with this principle.**

Much of the day-to-day responsibility for the stewardship of assets is delegated to the Fund’s investment managers (“managers”) with oversight by officers of the Fund, the Pensions Panel and the Pensions Committee. As of 31 March 2018, all of the Fund’s equity managers were signatories of the UK Stewardship Code. All Managers are required to report on a quarterly basis to the Pensions Panel, including details of votes cast on corporate resolutions and company engagement for holdings in

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<sup>1</sup> <https://www.staffspf.org.uk/Finance-and-Investments/Statement-of-Investment-Principles/Investment-Strategy-Statement-ISS-April-2018.pdf>

relevant portfolios. On appointment, a copy of each manager's Responsible Investment policy is obtained and each such policy document is made available through the Corporate Governance and Responsible Investment section of the Fund's website. It is expected that managers will identify and deal appropriately with financially material RI risks and that engagement and voting functions will align with and support this process. The Fund is not prescriptive with respect to the RI approach employed by managers and expects instead that each manager will engage and vote in different ways and on different issues, appropriate to the mandate instructions and investment style. A key expectation is that managers are transparent with how they discharge their stewardship responsibilities.

Since 1 April 2013, the Fund has been a member of the Local Authority Pension Fund Forum ("LAPFF"). LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting social responsibility and high standards of corporate governance at the companies in which they invest. LAPFF also engages with companies on the Fund's behalf and issues voting alerts to the Fund. The Fund is a relatively active member of LAPFF but there are no representatives from the Fund on the LAPFF Executive at present. Representatives from the Fund attend the annual LAPFF conference and attend LAPFF business meetings as appropriate. The Pensions Panel receives a quarterly report detailing engagement undertaken by LAPFF. Further details of the how the Fund discharges its stewardship responsibilities can be found in the Fund's Investment Strategy Statement<sup>2</sup>.

Following the pooling of the Fund's assets into LGPS Central beginning autumn 2018, much of the day-to-day stewardship responsibilities will eventually pass to the pool, with oversight by officers of the Fund and members of the Pensions Committee. LGPS Central is a signatory to the UK Stewardship Code<sup>3</sup> and its Responsible Investment & Engagement Framework sets out its approach to stewardship<sup>4</sup>.

## **2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.**

**The Fund complies with this principle.**

With much of the day-to-day stewardship responsibilities being delegated to investment managers, the Fund expects its managers to have effective policies addressing potential conflicts of interest. External managers are assessed on potential conflicts of interests and their written policies at the evaluation and

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<sup>2</sup> <https://www.staffspf.org.uk/Finance-and-Investments/Statement-of-Investment-Principles/Investment-Strategy-Statement-ISS-April-2018.pdf>

<sup>3</sup> [https://www.frc.org.uk/getattachment/c819a6ad-8ad9-422d-85db-5cc2d400a40f/LGPS-Central-Ltd-Stewardship-Code-Statement-\(2018\).pdf](https://www.frc.org.uk/getattachment/c819a6ad-8ad9-422d-85db-5cc2d400a40f/LGPS-Central-Ltd-Stewardship-Code-Statement-(2018).pdf)

<sup>4</sup> <http://www.cheshirepensionfund.org/wp-content/uploads/2018/03/LGPS-Central-Responsible-Investment-and-Engagement-Framework.pdf>

appointment stage. Conflict of interest policies should be available on managers' websites for public scrutiny and the policy should be subject to regular review.

In respect of conflicts of interest within the Fund, there is a process in place whereby Pensions Panel and Pensions Committee members are required to make declarations of interest prior to each quarterly meeting. Any declarations are then disclosed to the public via the minutes of the Pensions Committee meeting which are hosted online.

### **3. Monitor their investee companies.**

**The Fund complies with this principle.**

Day-to-day responsibility for managing the Fund's assets is delegated to the Fund's appointed managers. As of 31 March 2018, each of the Fund's equity managers was a signatory to the Principles for Responsible Investment ("PRI"), whose first two principles address monitoring and active ownership. The Fund expects its managers to monitor companies, intervene where shareholder outcomes can be improved and report back regularly on activity undertaken. Responsibility for monitoring investee companies will gradually transfer to LGPS Central as it begins to manage assets on behalf of the Fund.

The Fund regularly meets with managers and the monitoring of investee companies is discussed at these meetings. The Fund also receives quarterly reports from managers detailing their voting and engagement with companies. These are then reported quarterly to the Pensions Panel in a specific Responsible Investment report. Four of the Fund's five equity investment managers obtain independent assurance on voting or engagement processes – for example AAF 01/06; the other manager has a third party provider whose stewardship processes are audited.

As a member of LAPFF the Fund also receives 'Alerts' relating to investee companies and participates in group engagement with companies.

### **4. Establish clear guidelines on when and how they will escalate their stewardship activities.**

**The Fund complies with this principle.**

The day-to-day responsibility for engagement with investee companies is delegated to the Fund's managers. The individual managers have their own policies for escalation of stewardship activities which are published on their individual websites and statements of adherence to the UK Stewardship Code. These include engagement with companies, meetings with directors and board members and possible divestment if necessary. These policies are assessed as part of the manager appointment process and are discussed at meetings with managers. The Fund is satisfied with the adequacy of its managers' escalation guidelines.

The Fund can also escalate issues through LAPFF by supporting a shareholder resolution or by raising issues in the first instance. As part of its engagement process, LAPFF has guidelines on escalation which are available on its website.

## **5. Be willing to act collectively with other investors where appropriate.**

### **The Fund complies with this principle**

The Fund seeks to work collaboratively with other institutional investors in order to maximise the influence that it can have on individual companies. The Fund has been a member of LAPFF since April 2013 and intends to continue that relationship indefinitely. LAPFF engages with companies over environmental, social and governance issues on behalf of its members. The advantage of collective engagement is that there is greater leverage over the company due to the pooling of holdings. This will increase the individual power and influence of investors in order to push for change. Meetings may deal with company specific matters or broad industry concerns. Details of any collaborative engagement are brought to the attention of the Pensions Panel in the quarterly Responsible Investment report.

Over time, the majority of the Fund's assets will be pooled within LGPS Central. The 8 Partner Funds will be working together to reduce investment costs, increase investment capability and create a resource to access more asset classes. The Partner Funds within LGPS Central will also collaborate on RI activities through a unified RI & Engagement Framework. LGPS Central will engage with companies both directly and on a collaborative basis (for example through the PRI) increasing further the Fund's collaborative activities.

## **6. Have a clear policy on voting and disclosure of voting activity.**

### **The Fund complies with this principle.**

Voting is carried out by the Fund's managers as detailed in the Fund's Investment Strategy Statement<sup>5</sup>. Managers' RI, stewardship and governance policies are obtained on appointment and are published on the Fund's website. The Pensions Panel receives regular updates from managers on details of votes cast on corporate resolutions for holdings in relevant portfolios as part of their quarterly investment reports. It is expected that investment managers will vote all eligible shares in accordance with their approved stewardship policies. Any other points of interest are also highlighted as part of a separate RI report each quarter. Finally, a summary of voting carried out by managers is included in the Fund's Annual Report<sup>6</sup>.

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<sup>5</sup> <https://www.staffspf.org.uk/Finance-and-Investments/Statement-of-Investment-Principles/Investment-Strategy-Statement-ISS-April-2018.pdf>

<sup>6</sup> <https://www.staffspf.org.uk/Finance-and-Investments/Annual-Reports-and-Accounts/SPF-AnnRep-1617-webv2.pdf>

The Fund has a stock lending programme and lent stocks are recalled in order to execute shareholder voting rights if the issue is considered to be sufficiently material, with due consideration to the transaction costs involved.

LGPS Central has disclosed an RI & Engagement Framework<sup>7</sup> that includes clear commitments on shareholder voting, including the commitment to vote, as far as possible, in every invested market. LGPS Central will report on voting activities on a quarterly basis and will disclose on a vote-by-vote basis for all company resolutions through the LGPS Central website.

## **7. Report periodically on their stewardship and voting activities.**

**The Fund complies with this principle.**

An RI report is presented to the Pensions Panel every quarter, detailing a summary of proxy voting carried out by the Fund's managers on its behalf. Quarterly manager reports on voting and corporate engagement are received by the Fund. Two of the Fund's investment managers disclose their voting records on a vote by vote basis. The other three managers disclose detailed voting information on at least a quarterly basis.

Vote-by-vote disclosure:

[JP Morgan](#)

[Standard Life](#)

The Fund also receives quarterly LAPFF engagement reports, detailing its engagement with investee companies. Details from this report are included in the RI reports to the Pensions Panel.

LGPS Central will report on voting activities on a quarterly basis and will disclose on a vote-by-vote basis for all company resolutions through the LGPS Central website. LGPS Central will also report quarterly on other RI matters including engagement.

*If you have any comments on this Statement of Compliance with the UK Stewardship code or require any more information on the subjects contained within it, please contact:*

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<sup>7</sup> <http://www.cheshirepensionfund.org/wp-content/uploads/2018/03/LGPS-Central-Responsible-Investment-and-Engagement-Framework.pdf>