LONDON BOROUGH OF CAMDEN	**WARD:** ALL
REPORT TITLE: STEWARDSHIP CODE	
REPORT OF: EXECUTIVE DIRECTOR CORPORATE SERVICES	
FOR SUBMISSION TO: PENSION COMMITTEE	**DATE:** 30 AUGUST 2017

SUMMARY OF REPORT:

This report introduces the Stewardship Code and its key concepts and requirements. It recommends that the Pension Fund becomes a signatory. A draft statement of compliance is included in Appendix A.

Local Government Act 1972 – Access to Information
No documents requiring to be listed were used in the preparation of this report:

Contact Officer: Nigel Mascarenhas
Head of Treasury and Financial Transactions
Finance
Corporate Services
Crowndale Centre
218 Eversholt Street
London. NW1 1BD

Telephone 0207 974 1904
Email nigel.mascarenhas@camden.gov.uk

RECOMMENDATIONS:

The Committee is asked to agree to become a signatory of the Stewardship Code and agree the draft statement set out in Appendix A.

Signed by

Agreed by the Deputy Director of Finance & Procurement

Date **……………16/06/2017………..**

1. INTRODUCTION

1.1. The Financial Reporting Council promotes high quality corporate governance and reporting to foster investment. It delivers its key objectives by publishing the UK Corporate Governance Code, and encourages engagement between investors and Boards through the Stewardship Code (https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Stewardship-Code-September-2012.pdf). First published in July 2010, the Code was last revised in September 2012.

1.2. The guidance for the new Investment Strategy Statements (which recently superseded the Statement of Investment Principles) requires administering authorities to become signatories to the Stewardship Code. Regulation 7(2)(f) requires every administering authority to formulate a policy that increases awareness and promotes engagement to reflect their stewardship responsibilities.

1.3. The long-term investment interests of administering authorities are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

1.4. Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration. Engagement by administering authorities is purposeful and can identify problems through continuing dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

1.5. 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.

1.6. In publicly listed companies, responsibility for stewardship is shared. The primary responsibility rests with the board of the company, which oversees the actions of its management. Investors in the company also play an important role in holding the board to account for the fulfilment of its responsibilities.

1.7. The UK Corporate Governance Code identifies the principles that underlie an effective board. The UK Stewardship Code sets out the principles of effective stewardship by investors. In so doing, the Code assists institutional investors better to exercise their stewardship responsibilities via a ‘comply or explain’ system.

1.8. The FRC sets out that for investors, stewardship is more than just voting. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

1.9. The FRC recognises that asset owners (including pension funds like ours) set the tone for stewardship and influence behavioural changes that lead to better stewardship by asset managers and companies. They also recognise that asset managers, with day-to-day responsibility for managing investments, are well positioned to influence companies' long-term performance through stewardship.

1.10. The Code is directed in the first instance to institutional investors, by which is meant asset owners and asset managers with equity holdings in UK listed companies. Institutional investors may choose to outsource to external service providers some of the activities associated with stewardship. However, they cannot delegate their responsibility for stewardship. They remain responsible for ensuring those activities are carried out in a manner consistent with their own approach to stewardship.

1.11. Signatories of the Code are expected to publish on their website a statement that:

- describes how the signatory has applied each of the seven principles of the Code and discloses the specific information requested in the guidance to the principles (known as '*Comply*'); or
- if one or more of the principles have not been applied or the specific information requested in the guidance has not been disclosed, explains why the signatory has not complied with those elements of the Code (known as '*Explain*').

1.12. Asset owners' commitment to the Code may include engaging directly with companies or indirectly through the mandates given to asset managers. They should clearly communicate their policies on stewardship to their managers. Asset owners should seek to hold their managers to account for their stewardship activities. The FRC sets out that, in doing so, they better fulfil their duty to their beneficiaries to exercise stewardship over their assets.

1.13. The FRC encourages service providers to disclose how they carry out the wishes of their clients with respect to each principle of the Code that is relevant to their activities. All of the Fund's equity managers have signed up to the Code and publish statements on their websites.

Baillie Gifford	https://www.bailliegifford.com/institutional-investor/uk/literature-library/corporate-governance/compliance-with-the-uk-stewardship-code/

Harris http://www.harrisassoc.com/Harris-Associates-Files/About-Us/PDFs/HarrisAssociatesLPUKStewardshipCodeStatementDecember2016.pdf

Legal and General http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwiVz8yO5r3UAhUMCcAKHVWqDsMQFggkMAA&url=http%3A%2F%2Fwww.lgim.com%2Flibrary%2Fcapabilities%2FUK_Stewardship_Code.pdf&usg=AFQjCNGcBNvjn0kM-k47qgLubinG3E6DcA&sig2=b4oKIqw2ADkGyDyfhGwcsQ

Baillie Gifford and Legal and General have both been awarded ‘Tier 1’ status which means the FRC has determined they ‘provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.’

1.14. Signatories are encouraged to review their policy statements annually, and update them where necessary to reflect changes in actual practice.

1.15. The Financial Conduct Authority requires any firm authorised to manage investments for professional clients to disclose “the nature of their commitment” to the Code and, where they do not commit to the Code, to set out their alternative investment strategy (under Conduct of Business Rule 2.2.31).

1.16. The principles of the Stewardship Code set out that 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.

1.17. The FRC publishes guidance on these principles and this has been used to draft our statement included in Appendix A.

1.18. Once Pension Committee has agreed the statement next steps are to publish our statement of compliance in Appendix A on our website and notify the FRC. The FRC will assess our statement and make a judgement on its quality and tier our statement as either tier 1 or 2. Tier 1 statements reflect greater relevance to the Code's requirements.

2. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

2.1. Becoming signatories to the UK Stewardship Code should lead to better corporate governance and ultimately better alignment to the Fund's objectives and better run companies which in turn should improve returns.

3. LEGAL COMMENTS OF THE BOROUGH SOLICITOR

3.1. The Borough Solicitor has been consulted and has no comments to add to the report.

APPENDICES

APPENDIX A – LONDON BOROUGH OF CAMDEN PENSION FUND STEWARDSHIP CODE

LONDON BOROUGH OF CAMDEN PENSION FUND STEWARDSHIP CODE – STATEMENT OF COMPLIANCE

Principle 1
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Investment Strategy Statement sets out the Fund's approach to corporate governance and stewardship.

The Pension Fund is bound by law in respect of Socially Responsible Investment (SRI) policy. The Fund should, in all circumstances, act in the best financial interests of the members of the Fund. Where this primary consideration is not prejudiced, Investment Managers are expected to have active regard to the impact that SRI issues might have on the returns of companies in which they invest on the Fund's behalf.

The Fund believes that 'robust' engagement with companies is a better approach than placing restrictions on particular types of investment. It also believes that companies conforming to high ethical and social standards will produce shareholder returns that are at least comparable to those produced by other companies.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF was formed in 1990 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the long-term investment interests of local authority pension funds by promoting the highest standards of corporate governance, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's 72 members currently have combined assets of over £200 billion.

The LAPFF engages over a range of issues including: climate change, employment standards, human rights, governance, board composition, tax, environmental risk, remuneration, reputational risk, supply chain management and finance and accounting issues amongst others.

The 2016 LAPFF Annual Report, summarising activity and highlighting the organisation's achievements can be found via the following link: http://www.lapfforum.org/publications/annual-reports/.

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition, the Pensions Committee undertakes training on a regular basis and this will include on training and information sessions on matters of social, environmental and corporate governance. In December 2015 the Fund held a Socially Responsible Investment training seminar which brought together its fund managers and other experts to present work in this area and contribute to the debate at Camden.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other appropriate relevant parties.

In the past, the Fund’s Chair of the Pension Committee has been a member of the LAPFF executive committee and has engaged with company board members and attended AGMs to address governance concerns and support the work of the LAPFF on behalf of all member funds.

This Fund firmly believes that the long-term investment interests of the Fund are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which we invest. Poor governance can negatively impact shareholder value.

Stewardship aims to promote long-term success of companies in order to benefit shareholders as well as other stakeholders. Stewardship involves monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance. This includes culture and remuneration.

The Fund regards the exercise of voting rights attaching to investments as of great importance. The Fund has appointed Corporate Governance Advisors PIRC to ensure that voting rights are used in the most advantageous way. PIRC are employed to ensure that the Fund’s voting policy is enacted for company shares held by the Fund in the UK and overseas. PIRC has been awarded ‘Tier 1’ status by the FRC which means they are deemed to ‘provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.' The voting policy has been drawn up in collaboration with advisors PIRC, and is reviewed and agreed annually by the Pension Committee. The last set of voting policies were agreed by the Committee in March 2017.

During 2016 the Fund voted on almost 12,000 resolutions at 817 meetings. The majority of the meetings were in the UK (85%) but the Fund also cast votes in Europe, North America and worldwide.

The Fund voted for 74% of all resolutions. The Fund opposed 53% of remuneration report resolutions and also voted against 75% of remuneration policies. The Fund also supported less than half of all directors who sought election.

The Fund has voting policies on a range of issues and votes on a wide range of issues ranging from board elections, capital structures, corporate actions, dividend policies, meeting related matters, donations, remuneration, shareholder resolutions, shareholder rights, and audit issues.

Issues of particular focus for the Fund in 2017 are Board diversity and women directors, remuneration policy, and audit (including non-audit work and tenure). The Fund is part of the London Collective Investment Vehicle which is an asset pool for all 33 London LGPS funds. They have their own Statement of Compliance for sub-funds offered under their management. Currently the Fund is invested in one of these sub-funds but in future as pooling grows and more assets are invested under their management this will grow.

Principle 2
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

The Pension Fund takes conflicts of interest seriously. The Pension Committee is responsible for the governance and strategy of the Pension Fund. Members of the Committee are subject to strict rules on disclosure of pecuniary and non- pecuniary interests and are asked to make public declarations.

Any Member who has a disclosable pecuniary interest in any matter to be, or being, considered at a committee meeting must, while any discussion or vote takes place in which by the operation of the Member Code of Conduct they cannot participate or vote, leave the room where the said meeting is taking place for the duration of both the discussion and vote.

In the spirit of openness Members are encouraged to disclose any other interest on a matter being, or to be considered, at a meeting or informal meeting, which a member of the public with knowledge of the relevant facts, would reasonably regard to be so significant that it would materially impact upon their judgement of the public interest, and such declarations should:

i. include the nature and extent of your interest;

ii. state whether or not you consider that they impact upon your ability to participate or further participate in any discussion of the matter at the meeting or participate in any vote or further vote on the matter at the meeting.

Should a Member consider that the nature of the interest does adversely impact upon their ability to participate then they should remove themselves from the room for the duration of the matter's consideration, take no part in the discussion or decision-making, or otherwise in any way seek to influence the matter.

The Borough Solicitor maintains a Register of Members' interests (both pecuniary and non-pecuniary) and this is publicly available on the Council's website and for inspection in person.

The Pension Board has oversight of the proper administration of the Pension Committee and is also covered by a conflicts of interest and other policies.

The Pension Fund Report and Accounts also includes a statement on related party transactions.

All of the Fund's investment managers are expected to maintain policies on conflicts of interest and report these to us where they exist. The Financial Conduct Authority requires designated investment businesses to manage conflicts of interests fairly. When a firm has, or may have, a conflict of interest between itself and its customer, or between customers, the firm must manage the conflict in line with arrangements set out in the FCA's Conduct of Business Sourcebook (COBS 7.1). The firm must ensure fair treatment of its client and disclose conflicts to customers. It may demonstrate fairness by reliance on a policy of independence that sets out the steps it has taken to deal with the conflict. It may also put in place internal arrangements to deal with the conflict such as Chinese walls or it may decline to act for its customer.

Principle 3
Institutional investors should monitor their investee companies.

The Fund is required by Regulation to monitor its investment managers on a quarterly basis. Pension Committee receives detailed quarterly reports at each of its meetings on manager performance. This includes analysis of performance in absolute and relative terms. Performance is reviewed with regard to financial and other risks with include environment, social and governance issues. The Fund also meets investment managers on a regular basis. These are closed meetings and give Pension Committee members, officers and advisors the opportunity to review performance and risks.

The Fund delegates day-to-day responsibility for management and investment of funds to its investment managers. The Fund places a responsibility on investment managers to ensure appropriate due diligence of each investment, whether current or prospective and that good governance is factored in.

The Fund uses an Independent Investment Adviser to support its work and she also regularly reviews the performance of investment managers and provides notes to officers and members on matters discussed.

The Fund is also a member of the LAPFF whose mission is to protect long-term investment interests of UK local authority pension funds by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

LAPFF provides a forum for information exchange and discussion on investment issues and commissions research and policy analysis on common issues. Each quarter LAPFF issue an engagement report updating on activity including topics covered, types of engagement and outcomes. It also presents progress on key campaigns and highlights media attention.

The Forum’s work involves ensuring that companies have the right policies and people in place to create value for shareholders over the long term. They look at issues such as climate change and employment standards as well as more traditional topics such as corporate governance and executive remuneration.

The Fund is mindful of the transition to a low carbon economy and efforts to limit global temperature rises to 2 degrees. Furthermore, it is worried that companies involved with fossil fuel extraction may suffer stranded assets. As a shareholder we need to be able to identify the risks that an energy transition poses to our investments by engaging with management. Key issues are whether company planning assumptions are prudent, where its assets are on the industry cost curve and how sensitive assets are to movements in oil prices. The Fund will measure its carbon footprint to understand how its underlying investments are impacted by greenhouse gases.

Principle 4
Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The Fund’s voting policy is very detailed and published each February or March ahead of the voting season. This dictates how the Fund’s proxy voting provider, PIRC, votes. The Fund only exercises For or Oppose votes. It does not abstain as it sees this as a wasted opportunity and so will oppose a resolution even if the recommended action is to abstain.

Escalation primarily takes place via LAPFF involvement and collective engagement. Recent campaigns have involved strategic resilience of carbon extraction companies, executive remuneration, zero-hour contracts, tax avoidance, reliable accounts and tobacco.

The LAPFF issues a quarterly statement setting out the type of engagement activity that has taken place and this can be in the form of letters, AGM attendance, meetings with companies or policy makers or issuing voting alerts to member funds. Issues to be engaged on are decided at quarterly business meetings of LAPFF member funds in the context of the annual workplan agreed by members.

Principle 5
Institutional investors should be willing to act collectively with other investors where appropriate.

LAPFF brings together a diverse range of 72 public sector pension funds in the UK with combined assets of over £200 billion. Through LAPFF and its participation in the 'Aiming for A' initiative, we have also co-filed (or publicly declared our voting intention where we held the stock) shareholder resolutions on strategic resilience at carbon intensive companies. These were for Shell and BP's 2015 AGMs and Anglo-American, Glencore and Rio Tinto's 2016 AGMs. We have also acted on voting alerts on other US companies with similar resolutions.

The committee takes very seriously the need to keep up to date with the changing world of local authority pensions and endeavours to establish a regular training and learning schedule. A Socially Responsible Investment Event organised in December 2015 drew on the expertise of our investment managers and ESG professionals and was a particular highlight.

Many of the Committee Members regularly attend training on governance issues including attendance at the LAPFF annual conference, London CIV seminars and other governance events.

Principle 6
Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund has a clear voting policy which is reviewed and agreed in February ahead of the voting season. The Fund employs a corporate governance advisor, PIRC, to review company voting resolutions and execute the proxy votes of the Fund in accordance with its policy.

The voting policy also takes account of voting alerts issued by the Local Authority Pension Fund Forum (LAPFF), of which the Fund is an active member.

Each quarter the Pension Committee receives a report on engagement which updates on the LAPFF work, and also shows Camden Pension Fund holdings against major campaigns. This report also discloses the companies at which Camden voted during the quarter.

Principle 7
Institutional investors should report periodically on their stewardship and voting activities.

The Fund periodically reviews its stewardship and voting activities and this usually coincides with the contract procurement strategy for corporate governance services. Each year before agreeing the voting policy for the forthcoming year the Fund spends time reviewing its previous year's policy. This review considers how voting rights have been exercised in terms of resolutions and meetings voted at, an analysis by category of vote (e.g. board, corporate actions, remuneration etc), geographical breakdown. This also presents current issues with each category and presents an outlook for the forthcoming year.

For further information on Camden's Pension Fund's Statement of Compliance or for parties interested in collective engagement please speak to Nigel Mascarenhas, Head of Treasury and Financial Transactions (nigel.mascarenhas@camden.gov.uk).