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27 March 2019

We welcome the opportunity to provide input to the Financial Reporting Council (FRC) consultation on *UK Stewardship Code*.

As the Chief Executive Officer of Brunel Pension Partnership (Brunel), I present our views from the perspective of pension funds and their beneficiaries. Brunel brings together £30 billion investments of 10 like-minded Local Government Pensions Scheme funds which provide for around 700,000 pension beneficiaries.

In summary, we are strongly supportive of the FRC revision of the UK Stewardship Code and particularly commend the updated definition - **'Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.'**

We feel this definition is broad enough to encompass a range of stewardship models, applies globally, to all asset classes and does not limit accountability to certain parts of the investment chain. It recognises stewardship at the asset allocation level and not just about companies in which we invest. We welcome the explicit recognition of beneficiaries to whom we are accountable. The definition implicitly recognises that broader impacts on the economy and society will impact on investments, particularly for large, long-term asset owners such as ourselves. We feel this definition of stewardship resonates with our own stated values, particularly of **'investing for a world worth living in'** and the aim of our responsible investment strategy in that **"Brunel aims to deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society."**

[Responsible Investment \(RI\)](#) and [Responsible Stewardship](#) are part of our 12 investment principles. Our Stewardship Policy sets out our approach and underpins many of the comments made in response to the consultation. The key aspect of our **stewardship policy that it is considered across all asset classes**. Operationally each asset class will require its own approach and we recognise there will be some areas where there is minimal stewardship activity and requirements differ but we feel the broader point is that it should be considered.

We also commend the **explicit recognition of environmental, social and governance (ESG) factors, including climate change**. We are strong advocates of 'including climate change' as we recognise it as a systemic risk across all our investments and that its emphasis helps investors recognise the clear need to address the risks it creates. We welcome mention of the **Task Force Climate-related Financial Disclosures (TCFD)** in the consultation document but feel it could be referenced more extensively in the guidance to the code itself. Such a reference would be of considerable assistance to investors.

We strongly advocate for all investors to undertake robust stewardship, via one model or another. We would support moving to a position, in time, where there is an expectation that **all investors who operate as fiduciaries** (perhaps over a sensible agreed threshold) **must 'comply or explain'** to the UK Stewardship Code. We note that the Local Government Pension Scheme (LGPS) currently operate under such an expectation set by the guidance issued by the Secretary of State of the Ministry of Housing, Communities and Local Government (MHCLG).

That said, whilst we agree with the spirit of all the elements of the revised UK Stewardship Code, we are concerned that as currently set out it can feel quite overwhelming, particularly to smaller or resource constrained asset owners. We have proposed in our detailed response areas where the language could be changed to **make it more inclusive and ensure any investor could comply with the spirit of the principles**, for example using an outsource and oversight model which would limit the internal resource requirements, but still deliver an appropriate level of stewardship.

The new code will be a **massive step forward but also a step up in resource implications**. Whilst we support the appropriate resourcing of stewardship, we are concerned that it will dissuade more investors, particularly asset owners, from signing up. We would support an expectation by the FRC that full compliance and by extension resources can be built up over a few years.

In considering how the FRC can ensure the UK Stewardship Code delivers on its purpose we are keen to see the UK Stewardship Code and good standard of compliance **promoted and reinforced by other policy makers and regulators** in the UK, including but not limited, to Department of Work and Pensions (DWP), MHCLG, Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and The Pensions Regulator (TPR).

We would be delighted to follow-up on any of the comments made in our response and provide further support to the review. Please contact our Chief Responsible Investment officer, Faith Ward on [faith.ward@brunelpp.org.uk](mailto:faith.ward@brunelpp.org.uk).

Regards

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Signed by Dawn Turner  
CEO, Brunel Pension Partnership Ltd

## UK Stewardship Consultation Questions

**Q1. Do the proposed Sections cover the core areas of stewardship responsibility? Please indicate what, if any, core stewardship responsibilities should be added or strengthened in the proposed Principles and Provisions.**

Yes. The draft is well constructed and has incorporated several progressive features including:

- Expanding the scope beyond listed equities
- Mirroring the corporate governance code
- Including reference to investment decisions, not just post-investment activities
- Activities and outcomes focus
- Focus on purpose, culture and values

The service providers element needs more work, particularly in the guidance so that the expectations of different providers can be fleshed out. For example, consultants supporting manager selection and monitoring. We recommend the work of the AMNT <https://amnt.org/wp-content/uploads/2018/12/FINAL-investment-consultant-December-2018-report.pdf> and imminent work by the PRI to assist in the development of the minimum stewardship requirements for investment consultants.

We like the reference to “ESG factors including climate change” under Principle E. For consistency we think all references to ESG in the document should be accompanied by “including climate change”, for example in Provision 11.

Assessment and enforcement are described in the consultation questions but not in the Code document. We think some details of assessment and enforcement should be included on pages 4-5 of the Code.

We would also welcome further detail on how the FRC, or successor organisation, will assess whether the code is meeting its objectives.

**Q2. Do the Principles set sufficiently high expectations of effective stewardship for all signatories to the Code?**

Yes. Whilst we agree with the spirit of all the elements of the revised UK Stewardship Code, we are concerned that as currently set out it can feel quite overwhelming, particularly to smaller or resource constrained asset owners. We propose there is language that could be changed to make it more inclusive and ensure any investor could comply with the spirit of the principles.

Code (Annex A) p6: Provision 4 – implies that the steward expertise has to come from within the investor’s own workforce. We recognise that an investor who chooses an outsourced model must have enough expertise/ training to provide adequate oversight but feel the language of the actual provision needs to deemphasise the ‘own workforce’ element.

We propose the provision reads:

“signatories should ensure that those individuals who have stewardship responsibilities have the appropriate experience, qualifications and/or oversight to deliver their stewardship obligations”.

The guidance can then clarify that if an outsourced model is used the signatory must ensure that there is appropriate internal resource and training to ensure effective oversight.

This allows for an asset owner to delegate operational implementation of stewardship to an appropriate organisation with expertise and resources e.g. an LGPS asset pool. The same point can be made but with lesser concern on other provisions for various implementation models, whilst accepting the principle that stewardship ‘responsibility cannot be delegated’.

We strongly support the idea of reporting against the delivery of stewardship but again recommend flexibility. We would ask the FRC to consider a pilot project of a few current signatories to develop reporting, particularly for asset owners, and use this to develop supporting guidance specifically for reporting.

### **Q3. Do you support ‘apply and explain’ for the Principles and ‘comply or explain’ for the Provisions?**

Yes, the principles are written in a way where they have board applicability. Not all principles will be relevant to all signatories, so it is logical to allow flexibility under a ‘comply or explain’ basis.

### **Q4. How could the Guidance best support the Principles and Provisions? What else should be included?**

The Guidance needs more work to provide more support on the ‘how to’. We also support more guidance on other asset classes such as fixed interest and private markets. We would encourage references to best practice guidance produced by the BCVA and PRI. We are happy to share work we are developing in this area over time and hope other signatories can do likewise to facilitate sharing of best practice.

In some cases, the guidance offers little more to the reader than is already in the provision text. e.g. Provision 5, Provision 8, Provision 10, Provision 11, etc. More signposts to existing initiatives that drive best practice stewardship disclosure would be beneficial.

Notably absent is a reference to the TCFD recommendations in the guidance itself. For code signatories looking to disclose against Provision 3 (governance) or Provision 11 (ESG integration), a link to the TCFD recommendations in the guidance would be beneficial. While the TCFD recommendations might be replaced or developed in time, the Code’s guidance is flexible and can be updated by the FRC without consultation.

Whilst generally not prescriptive in of itself, there are provisions on asset owners where the language feels quite daunting. For example, code (Annex A), p7: Provision 13 As currently drafted, would place a great burden on asset owners to set criteria that we believe is unrealistic. We would recommend that this should have emphasis on communicating priorities linked to investment beliefs rather than specific criteria.

**Q5. Do you support the proposed approach to introduce an annual Activities and Outcomes Report? If so, what should signatories be expected to include in the report to enable the FRC to identify stewardship effectiveness?**

We are supportive of the proposal to an annual Activities and Outcomes Report. We ask the FRC to recognise the dependency of those asset owners who outsource to asset managers on the sourcing of the information needed to populate such reports. The standard of asset manager RI reporting to clients is variable at best, and with a few notable exceptions, can be quite poor. We would welcome support for improvements in the client reporting by asset managers be acknowledged in the provisions, in addition to the Activities and Outcomes Report.

We believe the overriding principle that guides the content of the report should be that it is useful and engaging and meets the needs of its stakeholders.

We strongly recommend that the FRC does not get drawn into providing templates as we believe this will lead to 'filling in the blanks' as this will fail to deliver on our recommendation above that each report should think about its readers – clients, beneficiaries and other stakeholders - focusing on what they want first and foremost. This would necessitate signatories exploring what those needs are.

Another guiding principle is that the report should provide assurance that the signatory has delivered across all its stewardship obligations – so needs to be comprehensive in coverage but need not contain lots of unnecessary detail. We would recommend such detail can be signposted in other available documents e.g. individual voting decisions, detailed technical guidelines and other supporting policies. We would also recommend the FRC are clearer that matters need only be reported once, even if the evidence supports several principles or provisions. One example is securities lending, which is referred to in number of areas.

The PRI Transparency Report can be used to support the disclosures by providing access to detailed information, but in its current form would not meet our guiding principle of being accessible (as in interesting and engaging to read).

Furthermore, we would encourage an approach that is inclusive and flexible. For example, it would be appropriate in our view for those operating within a 'collective model' to use a report produced on behalf of several signatories, for example an LGPS Asset Pool.

Whilst strongly supporting transparency and the disclosure of voting records, we advocate that simple coding of a rationale can be enough for large, diverse share holdings. More detailed rationale should be disclosed for significant votes. We would recommend this is covered in the annual Activities and Outcomes report.

The FRC need to be clearer in the expression of provisions/ guidance that could be interpreted as more onerous than it was intended. For example, Code (Annex A), p18: Guidance under Provision 26 – explaining rationale for every vote against. What this means in practice must be contextualised by the quantum of voting undertaken. We also challenge that votes 'For' are as much in need of explanation as those against, particularly where there has been controversy.

We welcome the emphasis on the voting reports that are accessible and informative.

**Q6. Do you agree with the proposed schedule for implementation of the 2019 Code and requirements to provide a Policy and Practice Statement, and an annual Activities and Outcomes Report?**

Yes, but have recommended a pilot project to develop more detailed supporting guidance. Although we are strongly against the FRC being drawn into developing a 'check list' of requirements.

**Q7. Do the proposed revisions to the Code and reporting requirements address the Kingman Review recommendations? Does the FRC require further powers to make the Code effective and, if so, what should those be?**

The current code is a significant step forward from the previous version. However, there is much more to be done to ensure the code delivers on the outcomes it seeks – to “deliver sustainable value for beneficiaries, the economy and society” – without signatories there is little sustainable value. The new code will be a massive step forward but also a step up in resource implications. Whilst we support the appropriate resourcing of stewardship we are concerned that it will dissuade more investors, particularly asset owners, from signing up. We would support an expectation by the FRC that full compliance and by extension resources can be built up over a few years.

We would support moving to a position, in time, where there is an expectation that all investors who operate as fiduciaries (perhaps over a sensible agreed threshold) have to 'comply or explain' to the UK Stewardship Code. We note that the Local Government Pension Scheme (LGPS) currently operate under such an expectation set by the guidance issued by the Secretary of State of the Ministry of Housing, Communities and Local Government (MHCLG).

We are keen to see the UK Stewardship Code and good standard of compliance promoted and reinforced by other policy makers and regulators in the UK, including but not limited, to Department of Work and Pensions (DWP), MHCLG, Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and The Pensions Regulator (TPR).

**Q8. Do you agree that signatories should be required to disclose their organisational purpose, values, strategy and culture?**

Yes. We think this is helpful context for stakeholder, particularly beneficiaries so they can assess if there is any gap between 'organisational purpose, values, strategy and culture' and the organisation's stewardship activities.

**Q9. The draft 2019 Code incorporates stewardship beyond listed equity. Should the Provisions and Guidance be further expanded to better reflect other asset classes? If so, please indicate how?**

Yes. We would propose the FRC, draw on the work of the PRI, UKSIF, IIGCC, PLSA, BVCA and other such organisations, and draws up a list of guidance documents that is held on the FRC website as a separate document that can be regularly updated. The FRC has advisory groups which would be well placed to support the development and maintenance of such guidance.

**Q10. Does the proposed Provision 1 provide sufficient transparency to clients and beneficiaries as to how stewardship practices may differ across funds? Should signatories be expected to list the extent to which the stewardship approach applies against all funds?**

Yes and Yes. It is important that signatories are very clear to their clients how their funds are stewarded. The issue with not doing so is that clients and beneficiaries could be misled. That said, the focus should be on material areas of difference in the approach. For example, a collective engagement report detailing the work across several listed equity funds is appropriate, even if every engagement case study is relevant to that particular fund. We would welcome support for improvements in the client reporting by asset managers be acknowledged in the provisions, in addition to the Activities and Outcomes Report.

**Q11. Is it appropriate to ask asset owners and asset managers to disclose their investment beliefs? Will this provide meaningful insight to beneficiaries, clients or prospective clients?**

Yes and Yes.

**Q12. Does Section 3 set a sufficiently high expectation on signatories to monitor the agents that operate on their behalf?**

Yes, although again we reiterate our point about ensuring signatories can use several stewardship models to deliver on those obligations and the detail outlined.

**Q13. Do you support the Code's use of 'collaborative engagement' rather than the term 'collective engagement'? If not, please explain your reasons.**

Yes. We are happy with the use of 'collaborative engagement' as it implies a level of consensus in the engagement objectives. Collective does not have the same meaning.

**Q14. Should there be a mechanism for investors to escalate concerns about an investee company in confidence? What might the benefits be?**

In principle the ability to report concerns to a regulator could provide a useful escalation mechanism for investors. However, the regulator would need to give careful consideration to what it does with the information once received and what expectations that might create.

**Q15. Should Section 5 be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity?**

Yes, see our response to question 9.

**Q16. Do the Service Provider Principles and Provisions set sufficiently high expectations of practice and reporting? How else could the Code encourage accurate and high-quality service provision where issues currently exist?**

No. We recommend that the provision for service providers is "In the context of their business model and the activities undertaken, service providers should explain how they support their clients in the delivery of all the principles and provisions outlined in the code". In other words, they should also have to cover everything. Further guidance is needed to set out the minimum expectations for different sort of activities. For example, manager selection, manager monitoring, investment beliefs, trustee training etc, etc.

We recommend the work of the AMNT <https://amnt.org/wp-content/uploads/2018/12/FINAL-investment-consultant-December-2018-report.pdf> and imminent work by the PRI to assist in the development of the minimum stewardship requirements for investment consultants.

## Detailed feedback

Consultation document, p13: paragraph 60 could be edited and inserted into the Code p5

Consultation document, p17: question 9 – could add in the Guidance links to good practice developed by other organisations, e.g. BVCA RI Advisory Group and PRI PE monitoring guidelines.

Code (Annex A), p1: reference to ESG factors should say “including climate change”.

Code (Annex A), p3: reference to annual reports – the signposts to other reports may include quarterly disclosures.

Code (Annex A), p3: I like this definition of asset owners. It is not the same as the definition on p20, which is less suitable. It would be good to have the p3 definition in both cases.

Code (Annex A), p4-5: should include here details of the FRC checking your Policy and Practices Statement and of the assessment of the Outcomes Reports.

### Principle 1:

Code (Annex A), p6: Provision 2, guidance on what stakeholder means.

Code (Annex A), p6: Provision 3 – not sure how this is different to Principle C. This should explicitly link to the risk framework. This helps to interweave stewardship and the TPR governance framework.

### Principle 2:

Code (Annex A), p7: Principle F – to whom should this be demonstrated?

Code (Annex A), p7: Provision 10 - This needs to note that there could be a variety of timeframes relating to different aspects of investment beliefs and stewardship.

Code (Annex A), p7: Provision 11 should say “ESG factors including climate change” for consistency with Principle E.

Code (Annex A), p7: Provision 12 for asset owners could have guidance that links to TPR because this guidance on investment beliefs includes example beliefs relating specifically to climate change.

Code (Annex A), p7: Provision 13 as currently drafted would place a great burden on asset owners to set criteria that is unrealistic. Recommend that this should have emphasis on communicating priorities linked to investment beliefs rather than specific criteria.

Add provision for asset managers that they provide detail on the capacity for pro-rata voting in pooled instruments.

**Principle 3:**

Code (Annex A), p8: Provision 14 - This needs to note that there could be a variety of timeframes relating to different aspects of investment beliefs and stewardship.

Code (Annex A), p8: Provision 15 – This needs to allow for various implementation models, whilst accepting the principles that stewardship ‘responsibility cannot be delegated’.

**Principle 4:**

Code (Annex A), p9: Provision 21 (Asset managers) – would include a requirement to report back to clients on how/ what they have done.

**Principle 5:**

Code (Annex A), p10: Provision 27 feels like it should belong in Section 4.