

PENSION FUND COMMITTEE – 8 SEPTEMBER 2023
STEWARDSHIP CODE AND COMPANY ENGAGEMENT

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to

- a) endorse the Stewardship Report at Annex 1,**
- b) note the result of the application under the Stewardship Code and the resultant feedback, and**
- c) agree the actions set out in the report and identify any further actions necessary to further strength performance in this area.**

Introduction

1. At their last meeting in June, the Committee were informed that Officers had submitted an application under the Stewardship Code to the Financial Reporting Council. A copy of the Stewardship Report submitted as part of that application is contained as Annex 1 to this report.
2. At the end of August, the Financial Reporting Council (FRC) wrote to inform us that the application had been successful and the Oxfordshire Pension Fund will now be listed as a signatory under the UK Stewardship Code. This is clear recognition of the work we are undertaking in the responsible investment space and that we take our role as a responsible investor seriously.
3. As part of the results letter, the FRC provide a full analysis of whether we met, partially met or failed to achieve the expected standard for each of the 12 Principles under the Code, with feedback provided on each of the expectations underlying these principle. Where feedback is provided that the Fund failed to meet the required standard or only partially met the standard, the FRC expects the Fund to take the necessary actions to improve the position in advance of submitting a new report by 31 May 2024 to retain our position as a signatory to the Code.

Key Feedback on Stewardship Code Application

4. The letter from the FRC indicates that their approval of our application was borderline. This is not a significant surprise as the application was put together in the very limited time between the appointment of our new Responsible Investment Officer and the deadline for this year's application. Senior Officers made the decision not to delay the application for a further year, understanding

the feedback received from the FRC would enable an improved application to be submitted in 2024.

5. The application is assessed against 12 principles, each which have a number of underlying criteria. We are assessed as either meeting the criteria, partially meeting or failing to meet. The 12 principles and a summary of our assessment scores is set out in the table below:

Principle	Number of Criteria Met	Number of Criteria Partially Met	Number of Criteria Not Met
1. Purpose, Beliefs Strategy and Culture	5	0	0
2. Governance, Resources and Incentives	6	1	0
3. Management of conflicts of interests	2	0	1
4. Identification and response to market-wide and systemic risks	3	0	2
5. Review of policies, assurance of processes and assessment of effectiveness of activities	3	0	1
6. Taking account of client and beneficiary needs and communication of outcomes to them	5	2	3
7. Systematic integration of stewardship and investment	3	0	2
8. Monitoring and holding account of managers and service providers	0	2	0
9. Engagement with issuers to maintain value	3	0	0
10. Participation in collaborative engagements	1	1	0
11. Escalation of stewardship activities to influence issuers.	2	1	0
12. Active exercise of rights and responsibilities	3	0	4
Total Scores	36	7	13

6. As well as the assessment score against each individual criteria, the FRC also provided a summary assessment of the key areas for improvement. Across several of the principles, this summary assessment consistently welcomes the policy statements made by the Fund and the strength of the partnership work we are involved in but seeks more evidence of the role the Fund itself is playing in setting out its expectations to our partners and monitoring the work of these partners and assessing their effectiveness in delivering against our own objectives. Principle 12 which explores the extent to which signatories actively exercise their rights and responsibilities is seen as the weakest area.
7. There is a similar call for greater evidence on the direct work of the Fund in several areas, again with an emphasis as to how we monitor the effectiveness of our actions and assess our own contribution towards the desired outcomes.

8. The third main area covered within the summary assessment is in respect of our dealings with scheme members and other stakeholders under Principle 6. The FRC are looking for more evidence of how we have sought the views of stakeholders and taken these into account when determining future actions.
9. One of the key gaps Officers had themselves identified was the absence of an overall Responsible Investment Policy. We have a clear policy in respect of Climate Change but not the wider environmental, social and governance issues facing the Fund. In putting together the Stewardship Report, information had to be pulled from several disparate sources and a drawn together to present a comprehensive picture.
10. The first clear action to take forward the stewardship agenda is therefore seen to produce a comprehensive Responsible Investment Policy, which will set out our approach to the key ESG challenges facing the Fund and identify the key priorities the Fund wants to address in future engagement activity.
11. The production of such a comprehensive Policy document will also provide a strong basis for our engagement with Brunel and our other key stakeholders, both in terms of setting our expectations where they are undertaking activity on our behalf and in monitoring their subsequent performance. This will help address a number of the issues raised within the feedback from the FRC.
12. The other key initiative identified by Officers and the scheme member representatives on the Pension Board which directly contributes to addressing the gaps identified by the FRC, is an investment survey of scheme members. Officers have already contacted other Funds who have run similar surveys to seek to identify the approach and questions which help deliver an effective survey. This work will be taken forward with the support of the Board Members.
13. It is important to manage the timing of these two initiatives, such that the survey results can be taken into account in developing the final version of the new Responsible Investment Policy, and we can demonstrate how we have taken the views of scheme members into account in planning our future approach to responsible investment and engagement. The intention is to bring a first draft of the Responsible Investment Policy to the December meeting of this Committee, although it is likely that this draft will be subject to further consultation before final sign off at the March Committee meeting. It is intended to hold a workshop to which all members of the Committee and Board are invited as part of the approach to developing the initial draft.
14. It will also be important to agree the approach for monitoring the success of the implementation of the policy and how the policy is kept under regular review.
15. Other work that is currently on-going that will support future versions of the Stewardship Report include the discussions with Brunel about how they deliver against the Fund's Engagement Policy and the Chronos Engagement Policy which is enabling greater direct involvement with the engagement process with selected companies by Fund Officers.

Brunel's Responsible Investment and Stewardship Outcomes Summary Report

16. As noted above, one of the key areas where the FRC is looking for improvement is evidence of the Committee's own engagement in key stewardship activities and how it holds its partners to account for the work they do on behalf of the Fund.
17. It is therefore seen as important that the Committee review the key outcome reports produced by Brunel and others and review the extent that these reflect the priorities of the Fund itself, and that any actions have been effective in delivering against our key objectives.
18. As noted above, assessing the performance of Brunel is limited by the fact that the Fund has not set out clearly its own expectations and priorities in respect of the full range of responsible investment activities and its priorities within that. It can though in the meantime make an assessment of the extent that Brunel's activities and those of its key partner EOS Hermes have delivered against the objectives within Brunel's own policies.
19. The key outcome focussed report produced by Brunel is the Responsible Investment and Engagement Outcomes Annual Report. The summary version of this report is contained at Annex 2 to this report.
20. The summary report does set out the investment risks and key client priorities adopted by Brunel, and reports on the delivery of commitments against these priorities. The Committee should consider whether they are happy to adopt the current priorities or whether they wish to see changes in the priority areas going forward.
21. The area the Committee is best able to assess the performance of Brunel is Climate Change where we do have our own Policy Document and Targets to act as a benchmark. The report does cover some of the key data around emissions reductions but is perhaps light on progress against the annual 7% reduction target and how current engagement is targeted to support deliver of this target. Similarly, more information would be welcome on the engagement approach to companies not currently at TPI Level 4 or above on the Management Quality Score, with greater detail on the escalation process and timescales for delivery of the required changes.
22. Across the other priority areas, it is harder to assess the performance of Brunel as Brunel themselves have not specified quantitative targets they are seeking to hit (often because such metrics are not widely available). The report does though produce a number of qualitative measures and case studies which allows the Committee to assess the effectiveness of Brunel's activities. The Committee should consider the results they would expect to see against each of the priority areas, and include these in their own Responsible Investment Policy, to provide the benchmark against which Brunel and other partners can be assessed going forward.

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