

## **Stewardship**

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Board be asked:

1. To note that the Devon Pension Fund has been accredited by the Financial Reporting Council as a signatory to the UK Stewardship Code 2020.
2. To comment on the proposed survey of pension fund members of their views of the Fund's investment policies.

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### **1. Introduction**

- 1.1 The Devon Pension Fund has a fiduciary duty to achieve an investment return at an acceptable level of risk, in order to meet its liabilities to pay pension benefits over the long term, and thereby serve the interests of its current and future beneficiaries. These interests are served by the Fund acting as a responsible asset owner.
- 1.2 The Fund's approach to stewardship and engagement is set out in its Investment Strategy Statement (ISS). The results of stewardship and engagement activity are reported to the Committee on a quarterly basis, and included in the Fund's Annual Report.
- 1.3 This report sets out how the Fund's stewardship meets the requirements of the UK Stewardship Code 2020 and also proposes that a survey of fund members be undertaken to feed into the Fund's policies on stewardship and climate change.

### **2. UK Stewardship Code 2020**

- 2.1 The Fund was previously accredited as a tier 1 signatory to the UK Stewardship Code. A new revised version of the code was published by the Financial Reporting Council (FRC) in 2020. The UK Stewardship Code 2020 (the Code) set higher stewardship standards for asset owners and asset managers, and for service providers that support them. The Code comprises a set of 'apply and explain' principles for asset managers and asset owners, and a separate set of principles for service providers.

- 2.2 The accreditation of the signatories to the previous version of the code lapsed with the publication of the 2020 Code. Asset owners and managers would have to demonstrate that they met the higher standards of the revised Code in order to be accredited as signatories.
- 2.3 A copy of the Devon Pension Fund Annual Report was provided to the FRC in October 2021. In March 2022, we were informed that we had met the expected standard of reporting in 2021 and would be listed as a signatory to the Code. As a signatory to the code, we are able to use the new UK Stewardship Code logo on Devon Fund material where appropriate.
- 2.4 While the stewardship reporting within the Fund Annual Report met the standard to become a signatory, and it demonstrated promising reporting, it was on the borderline of successful reporting. To remain a signatory, the Fund will need to submit the 2021/22 Annual Report by 31 October 2022, having addressed the areas identified in the FRC's feedback. A copy of the feedback is attached at Appendix 1 to this report.
- 2.5 Officers will look to address the gaps identified when the 2021/22 Annual Report is put together. In most cases the relevant activities have been undertaken or the processes are in place, the gap is in ensuring the effective reporting of those activities and processes.

### **3. Fund Member Survey**

- 3.1 Principle 6 of the Code, states that signatories should take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them. The Annual Consultative Meeting held in February each year and the information provided on the Fund website were outlined in the Annual Report as a key part of how the Fund communicates with fund members.
- 3.2 However, the FRC identified gaps in this area, and it is suggested that one way to address those gaps would be to undertake a survey of members' views on the Fund's investment policies. Suggestions that the Fund should do more to consult with fund members have come from a number of places over the last few months and were voiced at the Annual Consultative Meeting in February, so a survey would also respond to those requests.
- 3.3 Other LGPS funds have undertaken member surveys in the recent past, including the Cornwall and Wiltshire Pension Funds. Officers have reviewed the surveys undertaken by other funds and have put together the draft survey attached at Appendix 2 to this report.
- 3.4 The intention would be to put the survey on the Devon Fund website. We would then send out a notification email to all the Devon fund members who have signed up to member self-service. In addition, fund employers will be asked to advertise the survey to their staff. This should reach the vast majority of pension fund members.
- 3.5 This report provides the opportunity for the Pension Board to comment on the proposed survey before it is taken to the Investment and Pension Fund Committee on 17 June for approval.

- 3.6 When the survey has closed, the results will be compiled and a report presented to the Investment and Pension Fund Committee, which can then discuss what action is required in response to the survey results.

Angie Sinclair  
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972:  
List of Background Papers: Nil  
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## Stewardship Report Feedback

While your Stewardship Report has met the standard to become a signatory this year, and it demonstrated promising reporting, it was on the borderline of successful reporting. Please address the areas identified in this feedback and the following table to remain a signatory in future.

Your reporting on stewardship could benefit from the inclusion of an overview or short overall explanation of Devon County Council Pensions Fund's stewardship model, including the Fund's relationship with your pool, how stewardship activities are carried out (through the pool, additional third-party providers and other managers) to help make the rest of the reporting on Devon County Council Pensions Fund's stewardship easier to follow for readers.

Under Principle 3, conflicts of interest, though you reference conflicts of interest linked to stewardship, and indicate the expectations you have set for your service providers (including your pool and other managers) on their conflicts of interest policies, your report should give some explanation of the conflicts of interest related to stewardship that you consider and manage. Your report should explain how Devon County Council Pensions Fund have identified and managed any instances of actual or potential conflicts of interest related to stewardship, during the reporting period. Your report should also disclose examples of how these have been addressed.

In some areas, your report could provide a clearer link to stewardship, as opposed to your general operations. For example, in Principle 5, review and assurance, your reporting should be clearer on you review your stewardship policies and procedures related to stewardship, more specifically. This also applies for assurance.

For Principle 8, monitoring managers and service providers, while your report includes a clear assessment of your satisfaction with your pool, Brunel's, stewardship policies, better reporting would indicate that they have met your needs over the reporting year, regarding their activity and the outcomes, rather than on policy alone. Your report could also indicate whether other service providers (such as other managers, or your investment consultant) have met your needs.

For Principle 10, collaborative engagement, though your report includes any examples from your managers and pool on your behalf, your reporting could be clearer about Devon County Council Pensions Fund's direct role and contribution or whether this is done through third parties.

For exercising rights and responsibilities (Principle 12), your report does include some examples of resolutions voted on your behalf, but this should also include the rationale behind the decision. Better reporting on these examples should:

- provide information on whether the resolution passed or failed (including percentages)
- explain what the response was to the resolution from the issuer and other shareholders
- include a reflection on the impact that the vote had on the company
- explain if the organisation reached its goals

• describe further steps to be taken in the future if not satisfied with the result.

In addition, though your report includes an explanation of exercising rights and responsibilities in fixed income, better reporting would also include an example.

**Principle 1 – Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.**

|   |                                                                                                                                                |
|---|------------------------------------------------------------------------------------------------------------------------------------------------|
| ✓ | Signatories should explain the purpose of the organisation and an outline of its culture, values, business model and strategy                  |
| ✓ | Signatories should explain their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why         |
| ✓ | Signatories should explain what actions they have taken to ensure their investment beliefs, strategy, and culture enable effective stewardship |
| ✓ | Signatories should disclose how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making    |
| ✓ | Signatories should disclose an assessment of how effective they have been in serving the best interests of clients and beneficiaries.          |

**Principle 2 – Signatories’ governance, resources and incentives support stewardship.**

|   |                                                                                                                                                                                                                     |
|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ✓ | Signatories should explain how their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach. |
| ✓ | Signatories should explain how they have appropriately resourced stewardship activities, including their chosen organisational and workforce structures                                                             |
| ✓ | Signatories should explain how they have appropriately resourced stewardship activities, including their seniority, experience, qualifications, training and diversity                                              |
| ✗ | Signatories should explain how they have appropriately resourced stewardship activities, including their investment in systems, processes, research and analysis                                                    |
| ✓ | Signatories should explain how they have appropriately resourced stewardship activities, including the extent to which service providers were used and the services they provided                                   |
| ✓ | Signatories should explain how any performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision-making                                              |
| ✗ | Signatories should disclose how effective their chosen governance structures and processes have been in supporting stewardship; and Signatories should disclose how they may be improved                            |

**Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.**

|   |                                                                                                                                        |
|---|----------------------------------------------------------------------------------------------------------------------------------------|
| ✓ | Signatories should disclose their conflicts policy and how this has been applied to stewardship                                        |
| ✗ | Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship. |
| ✗ | Signatories should disclose examples of how they have addressed actual or potential conflicts                                          |

#### **Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.**

|   |                                                                                                                                                                                                                 |
|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ✓ | Signatories should explain how they have identified and responded to market-wide and systemic risk(s), as appropriate.                                                                                          |
| ✓ | Signatories should explain how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets.                                                               |
| ✗ | Signatories should explain the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples. |
| ✓ | Signatories should explain how they have aligned their investments accordingly.                                                                                                                                 |
| ✓ | Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.                              |

#### **Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.**

|   |                                                                                                                                                                                                   |
|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ✓ | Signatories should explain how they have reviewed their policies to ensure they enable effective stewardship                                                                                      |
| ✗ | Signatories should explain what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach |
| ✗ | Signatories should explain how they have ensured their stewardship reporting is fair, balanced and understandable                                                                                 |
| ✗ | Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes                                                             |

#### **Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.**

|   |                                                                                                                                                                                                     |
|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ✓ | Signatories should disclose the approximate breakdown of the scheme(s) structure i.e. whether the scheme is a master trust, occupational pension fund, defined benefit or defined contribution etc. |
| ✓ | Signatories should disclose the approximate breakdown of the size and profile of their membership, including number of members in the scheme and the average age of members                         |
| ✗ | Signatories should disclose the approximate breakdown of assets under management across asset classes and geographies                                                                               |
| ✗ | Signatories should disclose the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why                              |

|                                                                                                                                                                                                             |                                                                                                                                                                                                                                                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ✘                                                                                                                                                                                                           | Signatories should explain how they have sought beneficiaries' views (where they have done so) and the reason for their chosen approach                                                                                                              |
| ✓                                                                                                                                                                                                           | Signatories should explain how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon                                                                                      |
| ✓                                                                                                                                                                                                           | Signatories should explain what they have communicated to beneficiaries about their stewardship and investment activities and outcomes to meet beneficiary needs, including the type of information provided, methods and frequency of communication |
| ✘                                                                                                                                                                                                           | Signatories should explain how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries                                                                                                 |
| ✘                                                                                                                                                                                                           | Signatories should explain how they have taken account of the views of beneficiaries where sought, and what actions they have taken as a result                                                                                                      |
| ✓                                                                                                                                                                                                           | Signatories should explain where their managers have not followed their stewardship and investment policies, and the reason for this                                                                                                                 |
| <b>Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.</b> |                                                                                                                                                                                                                                                      |
| ✓                                                                                                                                                                                                           | Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include ESG issues of importance to them.                                              |
| ✓                                                                                                                                                                                                           | Signatories should explain how integration of stewardship and investment has differed for funds, asset classes and geographies                                                                                                                       |
| ✓                                                                                                                                                                                                           | Signatories should explain how they have ensured tenders have included a requirement to integrate stewardship and investment, including material ESG issues                                                                                          |
| ✓                                                                                                                                                                                                           | Signatories should explain how they have ensured the design and award of mandates included requirements to integrate stewardship and investment to align with the investment time horizons of beneficiaries                                          |
| ✓                                                                                                                                                                                                           | Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries    |
| <b>Principle 8 – Signatories monitor and hold to account managers and/or service providers.</b>                                                                                                             |                                                                                                                                                                                                                                                      |
| ✓                                                                                                                                                                                                           | Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.                                                                                                                     |
| ✓                                                                                                                                                                                                           | Signatories should explain how the services have been delivered to meet their needs                                                                                                                                                                  |
| ✓                                                                                                                                                                                                           | Signatories should explain the action they have taken where signatories' expectations of their managers and/or service providers have not been met                                                                                                   |
| <b>Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.</b>                                                                                                            |                                                                                                                                                                                                                                                      |

|                                                                                                                   |                                                                                                                                                                                            |
|-------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ✓                                                                                                                 | Signatories should explain the expectations they have set for others that engage on their behalf                                                                                           |
| ✓                                                                                                                 | Signatories should explain how they have developed well-informed and precise objectives for engagement with examples                                                                       |
| ✓                                                                                                                 | Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.                      |
| <b>Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.</b> |                                                                                                                                                                                            |
| ✗                                                                                                                 | Signatories should disclose what collaborative engagements they have participated in and why, including those undertaken directly or by others on their behalf.                            |
| ✓                                                                                                                 | Signatories should describe the outcomes of collaborative engagement.                                                                                                                      |
| <b>Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.</b>         |                                                                                                                                                                                            |
| ✓                                                                                                                 | Signatories should explain the expectations they have set for asset managers that escalate stewardship activities on their behalf                                                          |
| ✓                                                                                                                 | Signatories should explain when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples                            |
| ✓                                                                                                                 | Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf                                                                             |
| <b>Principle 12 – Signatories actively exercise their rights and responsibilities.</b>                            |                                                                                                                                                                                            |
| ✓                                                                                                                 | Signatories should state the expectations they have set for asset managers that exercise rights and responsibilities on their behalf                                                       |
| ✓                                                                                                                 | For listed equity assets signatories should disclose their voting policy, including any house policies and the extent to which funds set their own policies                                |
| ✗                                                                                                                 | For listed equity assets, signatories should explain their rationale for some or all voting decisions                                                                                      |
| ✗                                                                                                                 | For listed equity assets, signatories should explain the extent to which voting decision were executed by another entity, and how they have monitored any voting decisions on their behalf |
| ✓                                                                                                                 | For listed equity assets, signatories should explain how they have monitored what shares and voting rights they have                                                                       |
| ✗                                                                                                                 | For fixed income assets, signatories should explain their approach to seeking amendments to terms and conditions in indentures or contracts                                                |
| ✓                                                                                                                 | For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months                                                    |



# Devon Pension Fund - Member Survey

\* Required

## About You

These details are required to confirm membership of the Fund, and to categorise responses. All individual responses will be kept confidential

1. Name \*

2. National Insurance Number

3. Date of Birth \*



Format: M/d/yyyy

4. What type of member are you? \*

- Active (currently paying contributions to the Fund)
- Pensioner (currently receiving pension)
- Deferred (no longer contributing but not yet retired)

## Investment Strategy - your views

Please rate each of the following, in terms of importance to you, in how the Devon Pension Fund manages its investments (1 = No importance, 2 = Minor Importance, 3 = Fairly Important, 4 = Significant Importance, 5 = Very important)

5. Maximising investment return at an appropriate level of risk

1 2 3 4 5

6. Investing in companies that are seeking to transition their business in response to climate change

1 2 3 4 5

7. Reducing the carbon footprint of the Fund's investments

1 2 3 4 5

8. Divesting from companies with reserves of fossil fuels

1 2 3 4 5

9. Engaging with companies on a wide range of responsible investment issues, e.g. climate change, human rights, social impact, employment standards, diversity of company board, etc.

1 2 3 4 5

10. Keeping down the management fees paid to the fund management companies who manage the Devon Pension Fund's investments.

1 2 3 4 5

11. Maintaining a specific investment allocation in the United Kingdom as opposed to global investments

1 2 3 4 5

12. Please rank the above issues in order of importance to you (1= most important, 2 = next most important, etc.)

Maximising investment return at an appropriate level of risk

Investing in companies that are seeking to transition their business in response to climate change

Reducing the carbon footprint of the Fund's investments

Divesting from companies with reserves of fossil fuels

Engaging with companies on a wide range of responsible investment issues, e.g. climate change, human rights, social impact, employment standards, diversity of company board, etc.

Keeping down the management fees paid to the fund management companies who manage the Devon Pension Fund's investments.

Maintaining a specific investment allocation in the United Kingdom as opposed to global investments

## Awareness and Interest

Please rate each of the following, in terms of your awareness and interest (1 = No interest/awareness, 2 = Little interest/awareness, 3 = Some interest/awareness, 4 = Significant interest/awareness, 5 = Strong interest/awareness)

13. What level of interest do you have in how the Pension Fund invests the money held to pay the pensions?

- 1 2 3 4 5

14. Are you aware of the Fund's policies on addressing climate change through its investments?

- 1 2 3 4 5

15. Have you seen the Devon Pension Fund Annual Report 2020/21, including the sections on investment performance, stewardship and climate change?

- 1 2 3 4 5

16. Are you aware of the Fund's website - [www.devonpensionfund.org.uk](http://www.devonpensionfund.org.uk) (<http://www.devonpensionfund.org.uk>) ?

- 1 2 3 4 5

17. Were you aware of the Devon Pension Fund Annual Consultative Meeting for pension fund members, held in February

- Yes, I attended (in person or on-line)  
 Yes, I didn't attend but have looked at the recording and/or presentations on the website  
 Yes, I was aware but could not attend  
 Yes, I was aware, but not interested in attending  
 No, I was not aware

18. Do you have any further comments you wish to make on the Devon Pension Fund's investment policies?

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