Brunel Pension Partnership Limited's response to UK Stewardship Code consultation

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Authorised and regulated by the Financial Conduct Authority No.790168

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About Brunel Pension Partnership (Brunel):

Brunel Pension Partnership is one of eight UK Local Government Pension Scheme (**LGPS**) pools. Our aim is to forge better futures by investing for a world worth living in.

We do this by making long-term, sustainable investments on behalf of our clients. We are proud to be a recognised leader in responsible investment, and a driving force behind structural change in the financial industry.

Within the Brunel pool, we collectively manage over 80% of the total assets and investments held by our clients, which currently sits above £40bn in AUM.

Effective stewardship of the assets we manage is a central component to our responsible investment strategy. We are a signatory and apply the UK Stewardship Code ('the code'). We are fully supportive of the development of global stewardship best practice that will enable effective oversight of all the companies in which we invest, including the exercise of our rights as a shareholder.

About this consultation

The FRC has released a consultation on the UK Stewardship Code ('the code'), setting out a revised code alongside proposals on the process for reporting.

The revisions set out in the consultation aim to ensure that the Code continues to drive effective stewardship by supporting high-quality disclosures, while reflecting evolving industry practices and maintaining its international standing, without imposing undue reporting burden on signatories.

Executive Summary

Brunel welcomes the opportunity to respond to the FRC's consultation on the revisions to the UK stewardship code. Over the years, the code has been instrumental in improving the quality and scale of stewardship reporting and enabled actors across the investment chain to remain accountable to clients and beneficiaries.

We have been strongly supportive of the 2020 code and the standards it embodies. In that spirit, we have engaged actively during multiple rounds of the consultation to ensure that the code remains a leading global standard.

We commend the FRC for prompt consideration of feedback to streamline the code and introduce measures that are likely to improve the readability and accessibility of signatory reports. We are supportive of the distinction between static and dynamic aspects of the report, incorporation of cross-referencing and clearer how to report prompts within the revisions. We have provided recommendations to ensure there are adequate safeguards to retain coherence and comprehensiveness of the reports.

We have also strongly recommended that the guidance, which will provide practical insights for reporting, is consulted on (not necessarily via a formal consultation), but with representatives of those for whom the report is targeted – beneficiaries, savers and clients. We are emphatic in our call to the FRC to ensure all the progress, and increase in the standard, that has been achieved in stewardship since the revised code is not undermined whilst supporting efforts to make reporting more focused and efficient.

We are deeply concerned about the changes to the definition of stewardship and query the necessity for such a foundational drift from the previous definition. The revised version may create several unintended consequences that make it challenging for asset owners to fulfil their roles as stewards.

- The flexibility of interpretation embedded in the definition will move us away from shared language and understanding around the purpose of stewardship within the investment community and relegate the consideration of systemic risks within stewardship decisions. The fragmentation of standards will arguably exacerbate misalignment around stewardship expectations between asset owners and managers, leading to additional oversight responsibilities for asset owners and more onerous reporting requirements on asset managers. This will diminish the value of the code itself.

- We believe that the removal of explicit reference to economy, environment and wider society in the headline definition is fundamentally misaligned with a broad array of initiatives that the UK government is promoting with the intention to build a coherent framework to deliver sustainable growth and a net-zero economy by 2050, for example, through its work around transition planning and taxonomies. Afterall, it is impossible to achieve improvements in addressing systemic risks within the economy without the support of financial institutions that steward companies towards responsible and resilient practices. The wrong direction of travel, as has been documented and scientifically evidenced, will have repercussions for market stability and beneficiary outcomes for savers.

- We also note that allowing 'sustainable value' to be defined at the discretion of a signatory is counter to the FCA's, and broader UK Government efforts to define the meaning and application of sustainability within finance. We believe that a divergence in approach across regulators sends mixed signals to the market and undermines the integrity of FCA's work to reduce the risks of misleading claims and to protect consumers.

Brunel Pension Partnership

We strongly recommend that the FRC revise their approach and re-align the definition of stewardship to be consistent the wider UK regulatory and policy framework.

We have historically championed the code with our managers as well as other partners we work with. We would find it challenging to do so in the future if the definition of stewardship fails to adequately capture and represent asset owner expectations and end beneficiaries' long-term interests.

We are cognisant of the multiple demands on FRC and the need to balance different stakeholders' views. While asset owners may not make up the majority of FRC's stakeholder base, our legitimate concerns around the impact on alignment and accountability within the investment chain should prompt consideration of alternative proposals of the definition.

Please find below our detailed responses to the questions we have chosen to respond to. We welcome an open dialogue, so if you would like to contact Brunel to discuss any of the topics or points raised, please contact:

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Question 1: Do you support the revised definition of stewardship?

Brunel does not support the revised definition of stewardship. We believe it jeopardises the existing common view of what effective stewardship is and creates practical challenges for asset owners that are at the top of the investment chain.

We question the need to fundamentally revise the 2020 definition and ask why further guidance and clarification could not be issued to avoid misinterpretation of meaning and application. We would welcome further transparency around the feedback that has led to this revised definition – specifically around which types and how many stakeholders recommended a change to the 2020 definition.

We are concerned that the shift towards greater flexibility in the definition stands in stark contrast to the focus on coherence and consistency in regulatory changes put forward by the FCA. While such a change may serve the interests of some stakeholders, asset owners and ultimate beneficiaries will pay the price for lack of common understanding around stewardship expectations.

We also believe that relegating systemic issues within the definition, even if it is just in form and not in sprit, has serious consequences for how they are identified and assessed by the investment community. The stewardship code is not just a transparency tool, but a mechanism to strengthen accountability across the investment chain. Given the importance of the definition of stewardship in framing industry practice, we urge the FRC to exercise caution and consider the alternative definition that a large portion of the asset owner community is backing.

Further details regarding our views below.

Relegating systemic issues within the definition, even if it is just in form and not in sprit, has serious consequences for how they are identified and assessed by the investment community. We recommend that there is explicit reference to economy, environment and wider society in the definition of stewardship.

In upholding our clients and beneficiaries' interests in line with our fiduciary duty, we pay due attention to system level impacts alongside idiosyncratic risks within our portfolios. This is explicit in our expectations of how stewardship is implemented through our asset managers and service providers.

We are deeply concerned that the proposed definition is ambiguous in signalling the relevance of systemic factors in preserving and growing financial returns for beneficiaries. We believe the removal of explicit reference to 'economy, environment and wider society' in the headline definition could be perceived as a signal from the regulator that these issues are of reduced importance or 'optional' considerations.

This change is at odds with a broad array of initiatives the UK government is promoting with the intention to build a coherent framework to deliver sustainable growth and a net-zero economy by 2050 (for example, through its work around transition planning and taxonomies) and fundamentally misaligned with regulators' expectations on the role investors must play within the broader investment ecosystem to achieve climate and environmental objectives (as highlighted within UK's Green Finance Strategy (2023), the Transition Finance Market Review (2024) and the Financial Markets Law Committee paper on Trustees' duties (2024)).

However, as highlighted by the UK Government's Green Finance strategy "effective stewardship is crucial to the successful management of risks, opportunities and impacts presented by climate and environmental change". Afterall, it is impossible to achieve improvements in addressing systemic risks within the economy without the support of financial institutions that steward companies towards responsible and resilient practices. The wrong direction of travel, as has been documented and scientifically evidenced, will have repercussions for market stability and retirement outcomes for savers.

While there may be arguments that the inclusion of 'sustainable value' should mitigate this risk, we don't believe this to be the case due to the lack of shared understanding of the term within the industry. Despite the context provided in the supporting statement, it can be interpreted to mean 'enduring' or value derived from sustainability factors. Undoubtedly, these interpretations yield markedly different stewardship outcomes and create confusion in the market around expectations and service offerings.

Most notably, the flexibility in interpretation of the definition is counter to the efforts of the FCA and other regulators to bring greater consistency and clarity around sustainability in investments and prevent greenwashing. Indeed, 'sustainable' is a restricted term within the SDR regime. We believe that a divergence in approach across regulators sends mixed signals to the market and undermines the integrity of FCA's work to reduce the risks of misleading claims and protect consumers.

Therefore, we recommend that the definition spells out, without ambiguity, that investors must consider all relevant factors, including those that may have impacts on the economy, environment and society. That said, we agree with the FRC that individual investors should continue to determine *the extent* to which various factors inform asset allocation and stewardship decisions (including through a materiality assessment.

In the absence of this clarification, asset owners who take a 'universal owner' lens will likely be challenged in embedding adequate consideration of systemic factors in investment decision making, particularly where there is limited scope to modify existing mandates.

Divergent views on stewardship will diminish the value of the code

The revised definition creates a greater onus on asset owners to develop bespoke stewardship requirements for each mandate, as opposed to relying on a clear framework developed by the regulator. Different mandates introducing varying stewardship requirements could complicate how investment managers report their activities and how clients interpret these services.

This would not only fragment standards across the market but also create a shift towards the 'asset owner beware' model. The lack of a single view of the purpose of stewardship and what it entails will force asset owners to exercise much greater caution in using the signatory status to the code as a factor in the decision-making including manager selection and retention decisions.

These issues will no doubt, diminish the value of the code across the investment industry and detract from efforts towards common language within the asset owner and investment manager community.

The stewardship code has historically increased transparency standards and contributed to greater accountability across the investment chain. It has given asset owners confidence in the quality and credibility of disclosures from asset managers and assured end beneficiaries that asset owners are holding managers accountable for delivering stewardship in line with their expectations. We believe the revised definition could compromise the progress we have seen on both fronts.

Alternative proposal:

"Stewardship is the responsible allocation, management and oversight of capital, *having regard to dependencies and impacts on society and the environment, in order to* create long-term sustainable value for clients and beneficiaries."

To enable greater interoperability, we recommend a closer alignment to s172 of the UK Companies Act 2006. This will ensure that the definition acknowledges explicitly that some sustainability factors will be included in the long-term value for clients and beneficiaries – but eliminates points of contention that were noted in the consultation. We do recommend that these changes are made within the main text and not in the explanatory note which in our view will dilute the impact.

Question 2: Do you support the proposed approach to have disclosures related to policies and contextual information reported less frequently than annually? If yes, do you support the approach set out above?

Yes, Brunel is supportive of the approach to streamline reporting. We believe this provides an opportunity for signatories to summarise key developments in the report but offer more comprehensive and in-depth information on the website. This will also improve the range of information available to users.

As such, we think the FRC must clarify that the report is intended to serve beneficiary /clients' needs as opposed to meeting compliance requirements and they should be written as such. This will ensure that the content is included based on its usefulness to a reader, and relevance to the role of the signatory in the investment chain.

We agree that the 'policies and context' reporting should be provided annually (or hosted on website on an on-going basis), even if it is reviewed less frequently by the FRC. Annual updates ensure that the latest information is reflected in the disclosures, although it may dampen the impact of the proposed reductions to the reporting burden. If the FRC chooses to make this a triennial exercise, we strongly recommend that the introductory statement includes a brief synopsis of the policies and context section and any relevant updates, to ensure readability and coherence of the content within the report.

We support the clear wording of the 'how to report' prompts, which will help signatories meet the requirements confidently. This will also reduce organisations' concerns about removing less useful information from previous reports, due to potential impacts to their signatory status.

Question 3: Do you agree that the Code should offer 'how to report' prompts, supported by further guidance?

Brunel agrees with proposed structure. The 'how to report' prompts are clear, to the point and reduce the risk of misinterpretation or concern that a reporting requirement has not been met.

We expect the guidance document will complement the prompts with detailed insights specific to different asset classes, industry practice and what good looks like. We foresee that the guidance will significantly impact the scope and quality of disclosures, as some of the more substantive reporting requirements previously categorized under 'outcomes' will now be included in the guidance. Consequently, there will be an increased reliance on the guidance to prevent boilerplate reporting and facilitate meaningful disclosures. We are therefore concerned that it is not subject to consultation, and strongly recommend the use of reference group to ensure the intended outcomes.

We think it is important that potential and current signatories can feed into the guidance and provide practical input, based on their experience of reporting and working across the investment chain. Given the tight timeframes for adoption of the new code, we would recommend that a representative advisory council is set up and tasked with providing feedback on the initial guidance and developments thereafter. Alternatively, the FRC can seek regular feedback through roundtables, in a similar format as during the consultation.

Question 4: Do you agree that the updated Code for Asset Owners and Asset Managers should have some Principles that are applied only by those who manage assets directly, and some that are only applied by those who invest through external managers?

Brunel is in partial agreement that the code should distinguish between asset owners that manage their assets externally versus internally. However, care must be taken to embed a certain level of nuance. Signatories should be able to decide (and justify) which principles best apply to them based on their unique arrangements with third parties, considering for example, the nature of the underlying strategies, arrangements on engagement and control over voting rights.

It is important that the code does not inadvertently create an expectation that asset owners should not be engaging directly.

While Brunel invests through external managers, we also undertake direct engagement with companies and through our service provider. So, regardless of the threshold that has been set, we would be inclined to report on the principles that apply to both categories.

While we agree with the point on duplication of case studies within asset owner and asset manager disclosures, we believe that the onus should be on asset owners to demonstrate how the case studies they use, support their stewardship strategy.

We still find it valuable to use case studies within disclosures as they serve a number of purposes, namely:

- communication with clients and underlying beneficiaries around the key topics and companies of focus from a stewardship perspective
- highlighting good practice/ areas to celebrate and showcase when it comes to our asset managers' stewardship activities that are aligned with and complementary to our stewardship efforts
- making the report engaging and interesting for our end beneficiaries

Therefore, we recommend that there is flexibility in allowing asset owners to report on multiple dimensions of their activities, directly and through their partners.

Question 5: Do the Principles of the updated Code better reflect the different ways that stewardship is exercised between those who invest directly, and those who invest through third parties?

Please see our answer to question 4.

Question 6: Do you agree that the updated Service Providers' Code should have some Principles that are applied only by proxy advisors, and some that are only applied by investment consultants?

Yes, Brunel is supportive of the proposed differentiation. However, it is concerning that the reference to identifying and responding to systemic risks is only included in the principles for investment consultants. We recommend that the FRC extends this principle to proxy advisors, given their role in shaping corporate governance and influencing investor voting on issues that can have systemic implications.

Question 7: Do the streamlined Principles capture relevant activities for effective stewardship for all signatories to the Code?

Brunel is supportive of the approach to streamlining the principles. We have suggested below a few areas where the principles can be enhanced. Some of these points could also be incorporated in the guidance.

- Purpose and values – we would recommend retaining reference to purpose, culture and values of signatories in addition to investment beliefs within these disclosures as they provide valuable insights that may not be captured by reporting elsewhere.
- Client engagement – we would recommend introducing a requirement for signatories to report on how clients'/ beneficiaries' views have been incorporated, not just that engagement has been conducted
- Resourcing - it would be good to get insights on whether the level of resourcing (not just headcount but also in terms of skillsets and expertise, analytics and relevant systems) is considered effective in achieving stewardship objectives that the organisations have set out – not just reference to high level stats and bios.
- Sign off and assurance - we would also welcome retaining reference to sign off processes and (optional) assurance processes within the governance section.
- Integration of stewardship – the working relationship between stewardship and investment functions and how the information flows through the different teams (across asset classes) has an impact on effectiveness of

stewardship. While the revised code requires disclosure in the form of specific examples, it will be more useful to see an overview of the process set out.

- Engagement – we would recommend that FRC sets out in the guidance what constitutes engagement so the reporting against principle 3 remains consistent in the market. We also think that the description of prioritisation should be extended to assets (i.e. which issuers were prioritised, for example on a particular theme and what were the underlying considerations). Furthermore, we would also like to see more guidance around reporting of the results related to engagement (tracking progress, responding to challenges and selected escalation mechanisms including voting) and how they feed into an understanding that the stewardship process has been sound and effective.
- Voting decisions – there is a how to report prompt that is about providing rationale on votes. We would like this to be made more specific to cover reporting in relation to significant votes or those that have been considered contentious.
- Escalation – escalation takes many forms, and it should be up to investors to determine when they take what forms of escalation. However, it is useful for us asset owners to see a framework that underpins escalation to ascertain the organisational approach and when a specific lever isn't a preferred lever and any differentiation across products that needs to be highlighted. We don't believe this is adequately captured in any of the principles. We also think more clarity needs to be provided on 'explain if any of the votes were part of an escalation process'. Depending on the extent of escalation mechanisms outlined in voting guidelines, there would be a lot of information to report on, under this criterion. Therefore, perhaps, insights around whether escalations have been effective would be more useful.
- Selection and oversight of external managers – FRC should clarify that asset owners are required to demonstrate how they monitor managers to ensure alignment. In addition, it would be useful to have reporting requirements to showcase success and improvements in asset manager performance based on dialogue, in addition to demonstrating escalations. This creates a positive incentive to align expectations in the market.

- Systemic risks – to avoid doubt that signatories would be required to report on all risks, we'd recommend that there is an explicit requirement to explain the prioritisation and consideration of systemic risks that are most relevant to the business model and investments in specific asset classes. It should also be made explicit that activities addressing systemic risks are not limited to issuer level engagement – in fact, signatories should be asked to provide details of what methods of engagement have been used to reduce systemic risks or improve system stability.
- Public policy engagement - engagement with policymakers and other key stakeholders is an area of increasing importance in the investor stewardship toolkit. Akin to our expectations for companies, we expect our managers to indicate their overall approach to public policy advocacy and any impediments to conducting it in different operating environments. As an asset owner, this enables us to identify any divergences in policy positions that may undermine our beneficiaries' best interests. We would recommend including a specific criterion to incorporate this.

Question 8: Should signatories be able to reference publicly available external information as part of their Stewardship Code reporting, recognising this means Stewardship Code reports will no longer operate as a standalone source of information?

Brunel is very supportive of the proposals with respect to cross-referencing. However, there is a risk that links may stop working overtime. We recommend that links must be accompanied by a summary of the linked document so it would still be readable as a stand-alone document. We would also reference the guardrails for cross referencing set out in ISSB S1, that may help ensure that published reports remain cohesive and cross-referenced documents remain additional.

We also strongly encourage the publication of stewardship reports in machine-readable formats. First, enabling accessibility ensures that beneficiaries who rely on text-to-speech tools or other assistive technologies—particularly those with visual impairments—can engage with the content. Second, with the rapid evolution of AI and data analytics, providing stewardship reports in machine-readable formats greatly facilitates data extraction and analysis, leading to more robust insights and informed decision-making.

Question 9: Do you agree with the proposed schedule for implementation of the updated Code?

Brunel does not have any concerns regarding the timeline. We would recommend introducing a pilot year to enable signatories to get comfortable with the new reporting requirements.

Other comments

We would also welcome from FRC, further clarity around the process of assessment when the updated code is launched.