



Pensions for Purpose Limited

London, 19 February 2025

Response to UK stewardship code consultation

Introduction

Pensions for Purpose is a trade association representing a diverse range of stakeholders in the UK's financial industry, including asset managers, pension funds, endowments, foundations, charities, consultants, lawyers and advisers.

Our mission is to encourage the flow of capital towards sustainable and impact investing through education and engagement with industry stakeholders and policymakers. Since its inception, Pensions for Purpose has served as a hub for knowledge-sharing, advocacy and the integration of sustainable investment practices into decision-making across institutional investors, all while supporting robust financial performance.

This document sets out our response to the UK stewardship code consultation published in November 2024.

Response to consultation

Please note:

1. Stakeholder information is included in the appendix to this letter.
2. We have removed the questions to which we have no comment from this document.

Question:

Q1. Do you support the revised definition of stewardship?

The 2020 code defined stewardship as ‘the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society’

We propose the following revised definition, accompanied by supporting language: ‘Stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries.’

Answer:

No, we do not support the revised definition of stewardship. We believe the current definition should remain in place.

The removal of ‘society’ and ‘the environment’ from the definition weakens the essential connection between the financial sector and the real world. Finance does not operate in isolation; acknowledging its broader impacts is critical to managing the negative externalities of investment. Over the long-term horizon that applies to pension scheme savers, environmental and social factors represent significant financial risks. This concept – where environmental and social risks directly influence financial performance – should be clearly embedded in the definition of stewardship.

Savers and beneficiaries expect their investments to generate sustainable benefits for both society and the environment, as these factors underpin stable financial systems and long-term value creation. The revised definition represents a backwards step, as it implicitly suggests that environmental and social factors are not financially material. In reality, these considerations are integral to responsible investment practices. The stewardship code should not merely reflect the minimum expectations of fiduciary duty; it should set a higher standard. Rather than weakening the link between sustainability and financial materiality, the FRC should be reinforcing it.

Furthermore, the revised definition omits any reference to economic benefits, despite the government's focus on economic growth and its view of financial services as a driver of that growth. Recent regulatory changes, such as amendments to listing rules and the corporate governance code, have increased risks for investors by reducing certain protections. In this context, a strong and effective stewardship code is more important than ever.

As the Chancellor seeks to encourage greater investment of UK pension assets into the domestic economy, asset owners must have confidence that their managers are practising high-quality stewardship to manage risk and enhance long-term value. Maintaining robust stewardship standards – including the retention of the 2020 definition – is essential to fostering trust and attracting long-term investment in the UK market.

Recommendation:

The FRC should retain the existing definition of stewardship in the 2020 stewardship code, ensuring that stewardship continues to be framed within the broader context of societal, environmental, and economic impact. Additionally, the FRC should explicitly acknowledge the link between high stewardship standards, inward investment, and economic growth.

The FRC should explicitly acknowledge the link between high stewardship standards, inwards investment into the UK, and economic growth and retain the existing definition of stewardship used in the 2020 stewardship code.

Question:

Q2. 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?

Answer:

Yes, we are comfortable with this proposal as we believe it will make the reporting process less onerous while still being useful.

Question:

Q3. Do you agree that the code should offer ‘how to report’ prompts, supported by further guidance?

Answer:

Yes, this will likely be helpful for signatories when producing their reports.

Question:

Q4. 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 which are only applied by those who invest through external managers?

Yes, this is a sensible approach given the nature of stewardship will likely vary depending on how assets are accessed. However, it is important this is considered carefully and principles are not excluded where they remain relevant.

Question:

Q7. Do the streamlined principles capture relevant activities for effective stewardship for all signatories to the code?

Answer:

We are concerned about the following proposed changes to streamline the principles:

I. Removal of the principle on escalation:

The consultation paper proposes to remove the principle on escalation in its entirety. In practice, engagement with companies can often be a ‘tea and biscuits’ affair, when there is no escalation strategy. Escalation helps to attach consequences to a company that fails to properly respond to investor concerns.

Despite this, the FRC argues the principle should be removed and escalation should be undertaken ‘whenever necessary’ to achieve stewardship objectives rather than being seen as ‘an end in and of itself’. Again, it is unclear why this clarification, alongside the existing overarching principle that the code ‘does not prescribe a single approach to effective stewardship’, is not enough to set the record straight for signatories.

In our view, the FRC should retain the principle on escalation.

II. Merging the principles on collaboration and engagement:

The FRC has proposed that the principles on engagement and collaborative engagement be merged. In July, the FRC published specific commentary on collaborative engagement and publicly restated that ‘Principles relating to collaboration and escalation only need to be exercised where necessary’. We are concerned, taken in tandem, these steps send a clear signal the FRC is deprioritising collaborative engagement.

While collective action is not always necessary or possible, it is an essential element of an investor’s stewardship toolkit. A manager which never engages collaboratively is much less likely to be influential and to deliver real world change. Collaborative engagement should form a key part of all investors’ response to limited resources, particularly in the light of major global sustainability challenges. Again, we note the code is voluntary and

non-prescriptive, so no manager is compelled to deliver any individual element of it. The merging of the principles is, in our opinion, short-sighted and unnecessary.

The FRC should retain the existing standalone Principle on Collaborative Engagement rather than merge it with the Principle on Engagement.

Question:

Q8. 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?

Answer:

We are comfortable with this proposal, but would recommend more co-ordination between different regulatory and reporting bodies so all relevant reporting is housed in the same place. We believe action should drive reporting, to ensure it is decision-useful and does not become an onerous governance burden.

Question:

Q9. Do you agree with the proposed schedule for implementation of the updated code?

Answer:

We are comfortable with the proposed timings.

[Response continues on next page]

APPENDIX

Stakeholder information

Pensions for Purpose is a membership organisation representing a diverse range of stakeholders in the UK's financial industry, including asset managers, pension funds, endowments, foundations, charities, consultants, lawyers and advisers.

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