UK Stewardship Code (2020) review – response to consultation

February 2025

Hymans Robertson LLP provides actuarial and investment advisory services to a range of asset owners, including public and private sector pension funds, both defined contribution and defined benefit, insurance companies, master trusts, charities and endowments. We've worked with several asset owners to support them in becoming signatories to the 2020 UK Stewardship Code. Moreover, we've been a Service Provider signatory to the Code since 2021.

As members of the Investment Consultants Sustainability Working Group (ICSWG), we've provided input to, and are supportive of, the ICSWG's collective response to the FRC's (Financial Reporting Council) consultation on the UK Stewardship Code, which can be found here. However, there are certain areas of this response that we would like to emphasise. We set out these additional comments below.

The definition of stewardship should not be weakened

The Code aims to set high standards for those investing money on behalf of UK savers and pensioners, and those that support them. Therefore, it's vital to define stewardship in a way that remains aspirational. As savers and investee companies operate in a broader ecosystem, affected by external factors, the FRC's proposal to remove reference to '...leading to wider benefits for environment and society' represents a weakening of the definition of stewardship and the outcomes it seeks to create. The addition of the word 'sustainable' does not fully capture this ambition.

While we agree that not all stewardship activity is expected to have a wider impact, we believe it's important to continue to acknowledge the potential impact of stewardship on external systems, including the financial system. We think a change to the current definition would provide sufficient flexibility in how this definition is interpreted, while not losing the overall ambition. To that end, we strongly support the ICSWG's proposed definition of stewardship, as set out below.

> 'Stewardship is the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries. Stewardship that supports sustainable, long-term returns may lead to wider benefits for the economy, the environment and society.'

Ensuring the principles of the Code focus on what outcomes are sought, and how these are consistent with the definition, supports effective reporting. While variations around this definition may also be considered by the FRC, we believe it vital to retain reference to the broader impacts of stewardship.

Regular reporting should focus on activity and outcomes

We welcome the FRC's efforts to reduce the overall reporting burden, which can impact the teams undertaking stewardship. As noted in the ICSWG response, we welcome the proposal not to report each year on principles that focus on signatory context, instead focusing on stewardship activity and outcomes. This helps to encourage both effective stewardship activity and reporting, rather than growing documents that provide a 'one-stop-shop' for all that is stewardship related.

Greater guidance for signatories on 'how to report' is valuable. Reporting should be straightforward and allow for greater disclosure where appropriate. It should focus on how signatories demonstrate the application of high standards across all stewardship activity, with a focus on clearly defined, value-enhancing (or risk-reducing) outcomes. Guidelines should be set out that encourage consistent reporting across peer groups – and navigate complexities or nuances – without unnecessarily reshaping the Code's principles.

Further fragmentation of the principles would be unwelcome

Greater recognition of different service providers is helpful, recognising that stewardship responsibilities differ across the investment value chain. This aids stakeholder communication and transparency, and importantly recognises that different stewards of capital have varying spheres of influence.

We believe the FRC should not seek to fragment the Code or its application further. This may lead to the Code becoming too narrow or inflexible in the face of an innovating and dynamic stewardship landscape.

Where the review proposed consolidation of some principles, we consider these changes to be broadly helpful. There will always be some overlap between principles, but those relating to escalation and collaboration may have encouraged reporting that was less meaningful, or failure to recognise the importance of integrated and long-term activity. Where guidance may be provided in the updated Code, it would be helpful to clarify that the application of escalation policy should be clearly set out under voting principles, while collaborative engagement efforts can serve as a means for addressing systemic risk.

The Code must continue to set high standards

The Code must continue to encourage high standards of stewardship activity, without setting out a single view of best practice or enforcing any single approach, as this may hinder innovation and/or reduce transparency. We encourage the FRC not to lower standards to increase the number of signatories disclosing against the Code.

We wish to highlight that where asset managers and companies face continued political pressures, the UK Stewardship Code should remain the benchmark against which they are judged. The Code encourages high standards for UK industry and all those who wish to hold themselves accountable to it.

We welcome a continued focus on outcomes and encourage the FRC to take further efforts in helping readers use the Code to understand differing levels of signatory ambition, to recognise alignment with their own views and to create accountability between signatories, their clients and beneficiaries.

This response represents the view of Hymans Robertson LLP. We're happy for our response to be quoted in a future response to the FRC issues.

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