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### **People's Partnership response to the UK Stewardship Code Consultation**

We welcome the opportunity to make a series of comments on the above consultation paper. We are grateful to the FRC for the opportunities to engage and we hope this will continue as the consultation responses are considered and the new Code is subsequently implemented.

At an overarching level, we remain concerned with the direction of travel in relation to the shareholder rights of UK investors. We acknowledge and accept that the Government is increasingly looking for the regulators to play an active role in stimulating growth. But as we have stated before, notably in our response to the listing rules reforms, we do not see economic growth and effective stewardship as mutually exclusive. It is vital that robust stewardship standards are maintained. Diluting effective corporate governance and stewardship standards does not guarantee growth and could actually inhibit it over the longer term. In the spirit of our listing rules response:

*It seems odd to us that, at the same time as government is encouraging the pensions sector to run towards particular asset classes, this consultation is considering weakening institutional investors' ability to act as effective stewards. We see these things as pulling in opposite directions. We see diversifying our asset allocation further<sup>1</sup> as easier if our ability to act as stewards of our investments is facilitated by a <strong stewardship regulatory framework>. We do not intend to give the impression that we do not support the government's wider policy objectives, we intend only to offer honest advice as to the impact of particular measures.*

Please find below our detailed responses to the consultation. We welcome discussion on any points; as such feel free to contact People's Partnership to discuss any questions or comments. Please direct your queries to Leanne Clements, Head of Responsible Investment ([leannecllements@peoplespartnership.co.uk](mailto:leannecllements@peoplespartnership.co.uk))

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<sup>1</sup> Which The People's Pension has already committed to doing: [The People's Pension targets investing up to £4 billion into private market assets | People's Partnership](#)

## About People's Partnership

People's Partnership provides The People's Pension, which is one of the largest independent master trusts in the UK, serving more than six million pension savers across the UK and managing £32bn in assets. As a business without shareholders, it reinvests its profits with the aim to help customers and achieve better financial outcomes for everyone. This allows us to:

- Provide straightforward and accessible products and services that can benefit everyone.
- Put customers at the heart of what we do and prioritise their needs ahead of making money.
- Build long term relationship with customers and earn their trust through living our values and vision.
- Improve our industry by championing better financial outcomes for people.

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## Key Highlights

Before we provide specific answers to the consultation questions, there are several key messages that we would like to highlight:

**We do not agree with the proposed changes to the definition of stewardship.** We expect the Code to explicitly recognise that societal and environmental dependencies are core to the definition of stewardship. At minimum, this should be included in any explanatory note but is best placed in the definition itself. The Stewardship Code is voluntary and as such, must continue to be a beacon of best practice. We urge the FRC to give due consideration to the asset owner voice, as owners of the mandates whose fiduciary duty is its beneficiaries' long term best interests, in this consultation.

**There is no “one size fits all” to a robust stewardship strategy for externally managed asset owners.** Whilst we understand the FRC's concerns regarding duplication and other factors, these concerns should not be addressed in the manner suggested in Question 4 and 5 collectively. The FRC should allow all investors the agency to decide which Principles to emphasize whilst retaining all of them for consideration and reporting. The FRC can then use their signatory assessment to address any material gaps in an asset owner's approach (e.g., an externally managed asset owner that does not report on fund manager monitoring).

**Public policy engagement should be explicitly mentioned within the Code.** Public policy engagement is a critical stewardship lever that plays an important part in the broader industry landscape around driving change forward and is often responsible for sea change in a sector or market when compared to company-specific engagement. This is particularly relevant for systemic risks such as climate change, which cannot be fully addressed from a risk management perspective through diversification and company engagement alone.

**We support the streamlining of disclosures** but recommend that escalation remain an important tool that is available and recognised within the Code as a separate Principle, even if escalation is ultimately not used. The proposed removal of the standalone Principle of escalation could be seen as indicative of a shift in the balance of power between asset owners and company management, which if true, would be concerning.

**We support the addition of reporting prompts and ability to reference publicly available information.** Reporting prompts should be clear and provide helpful context for investors, and we would prefer a consultation period prior to guidance being made official. Publicly available information should be hyperlinked within any stewardship report to allow for ease of access for readers. However, as there is a real risk that links may cease working/or get updated after the assessment - we recommend that a summary and salient aspects of the policy/document that is cross referenced is included in the stewardship report.

**Accompanying guidance is vital and must be consulted on.** Asset owners must be prioritised in this consultation process.

**Care should therefore be taken in introducing further significant changes given that all regulatory changes take time to bed in.** As the Stewardship Code already underwent significant changes in 2020, it is likely that only now will we be seeing signatories fully incorporating those developments in their daily practice.

**Q1. Do you support the revised definition of stewardship?**

No. We are strongly opposed to the revised definition of stewardship. We've outlined both our concerns and potential solutions below.

In upholding our beneficiaries' interests in line with our fiduciary duty, we, as asset owners must pay due attention to system level impacts alongside idiosyncratic risks within our portfolios. As universal owners, the language '*sustainable benefits for the economy, the environment and society*' is key to The People's Pension's investment approach and underpins its fiduciary duty to its beneficiaries. We have concerns that eliminating this language will roll back progress made through stewardship by the investment community on mispriced issues like climate change.

We are an asset owner that leverages external asset managers for all our investments, and as such, have relied on the UK Stewardship Code as a minimum requirement for our managers because of the high standards set by the Code. The proposed changes to the Code dilute the requirements for asset managers and other stakeholders. This will introduce potential disparities in reporting and practice that will undermine the value of the Code and introduce additional burdens to asset owners when assessing potential asset managers.

We instead suggest that, if the FRC feels the definition needs revision to allow for more flexibility, this could be resolved by changing the definition so that it reads:

*'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.'*

Another potential solution would be to embed the language from Section 172 of the UK Companies Act 2006 within the definition. Section 172 outlines how directors consider '*the impact of the company's operations on the community and the environment*'. This addition could serve to outline to investors and other stakeholders that all material factors, including societal and environmental dependencies, play a crucial role in stewardship and ultimately strengthens alignment between company and investor expectations.

We are mindful of the FRC's need to balance different stakeholders' views and that asset owners may not make up the majority of FRC's stakeholder base. However, as owners of the mandates with the fiduciary duty to address beneficiaries' long term best interests, we urge the FRC to give due consideration to alternative proposals of the definition put forth by the asset owner community.

**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?**

Yes. We support the proposed changes to the disclosures required for stewardship reporting. The initial and subsequent triannual formal approval of disclosure and report, and in the interim years, disclosure of only outcomes and substantial changes, allows investors to assess asset manager and asset owner stewardship activities while simultaneously reducing the repetitive reporting burden. It also aligns with the broader UK market approach on policy and implementation as reflected in the remuneration policy votes that are also triannual with annual implementation disclosure. We emphasise that this change should be accompanied by clear prompts on how to report (Q3), allowing signatories to be able to meet any changed requirements.

More broadly, the FRC should clarify that the report is intended to primarily serve beneficiary /client needs as opposed to meeting compliance requirements and should be written with that need in mind. This will ensure that the content is created based on its usefulness for the user and showcases how each entity fulfils its role in the investment chain.

**Q3. Do you agree that the Code should offer 'how to report' prompts, supported by further guidance?**

Yes. We generally support the 'how to report' prompts, but stress that these prompts and ensuing guidance should not be seen as a 'check box' exercise, and merely as a high-level guide to ensure consistent, comparable reporting across asset managers, asset owners, and other stakeholders. We do not want to see boiler plate language used and this should be underscored in any guidance and subsequent reporting analysis/scoring/report approval provided by the FRC.

While this is not currently under consideration by the FRC, we would like to see proposed guidance set to consultation so potential and current signatories can provide points for practical consideration based on their experience of reporting and working with other actors in the investment chain. In addition, a lack of consultation on accompanying guidance could result in a lack of industry buy-in which will have a detrimental impact on use of the guidance and, as a result, the quality of reporting.

**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?**

No. We disagree in part with the proposed updates, specifically regarding Principles 3 and 4 applying only to those who manage assets directly.

Ultimately, there is no "one size fits all" approach to stewardship within the externally managed asset owner community – e.g., some asset owners do undertake their own company engagement and thus would want the opportunity to disclose this information to their beneficiaries in their Stewardship Code reporting. Therefore, we believe that the

Principles should not be subdivided by the FRC, but rather left to the individual asset owners and their own operating models.

This gives space for effective stewardship to drive which Principles they wish to emphasise and the ones that they don't in their own stewardship reporting. We understand the issue that the FRC wishes in part to address (improved reporting by externally managed asset owners on fund manager selection, appointment and monitoring), however in our view, this is not the vehicle by which this should be done.

The FRC should predominantly address this issue through its signatory assessment, and the bar that externally managed asset owners need to reach in order to be considered Stewardship Code signatories. Accompanying guidance (with an appropriate consultation period) would also be helpful.

While those with internal assets should absolutely disclose engagement and voting efforts, those with externally managed assets should also understand and disclose, for example:

- How aligned the stewardship efforts of their fund managers are to their own responsible investment (including stewardship/voting) policies. For example, did they develop their own voting policy, and why or why not?
- Under what circumstances (and at what level of involvement) does the externally managed asset owner participate in company engagements and the rationale therein?
- Does the underlying asset owner also participate in collaborative or industry engagement and under what circumstances/level of involvement (same as for company engagement)?
- It also appears that the proposed new Stewardship Code has removed reference for asset manager signatories to report on how aligned their investment and stewardship policies are to their clients' policies and replaced with arguably more diluted language. We believe that this is an important reporting requirement to better allow asset owners to undertake this alignment analysis and therefore the legacy language should remain.

Even though assets can be managed externally, the underlying owner of the assets should still have a stewardship programme for engagement, voting, and escalation efforts and oversight that can be reported on, especially where they are larger in size.

We agree with the point on duplication of case studies within asset owner and fund manager disclosures – we would only support this duplication if the asset owner signatory appropriately defended their inclusion by stating how these case studies align with their own stewardship priorities. The problem that needs to be solved for is not duplication, but rather the motivation for the duplication. Ultimately, it should be the asset owner that drives the case study inclusion process, not the fund managers.



We understand that proposed Principle 5 (legacy Principle 8), dealing with selection and oversight of external managers, is applicable mainly to asset owners whose assets are externally managed. We provide additional commentary on the importance of this Principle in the next response.

**Q5. 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?**

*The response to this question should be read in conjunction with Q4, notably those remarks highlighted in red font.*

No. We do not believe the updated code better reflects this when differentiating between internal and external assets.

We understand why the FRC has reservations, especially around the duplicative nature of some of the disclosure and the lack of differentiation between internally and externally managed assets. Based on the roundtable discussions with the FRC, we also have sympathy for the FRC's concerns about the lack of disclosures from the externally managed asset owner community around fund manager selection, appointment and ongoing monitoring, which we would consider to be one of, if not the primary, stewardship lever that an externally managed asset owner has.

However, this is not solved by some of the proposed updates to the Code. Both asset owners and asset managers should use the Principles in the Code to provide meaningful context to their activities and oversight.

A report that emphasises the effort and detail that supports each individual organisation's stewardship efforts, with a focus on the execution against strategy and themes, would be more meaningful and provide more effective reporting.

This could be achieved by setting definitions as to what a meaningful or contentious vote is (for example, a significant holding, an example of vote escalation, the use of a watchlist to highlight votes important to an organisation's theme, etc) that would reduce duplication or regurgitation of asset management votes and provide more insightful context into the implementation of individual stewardship programmes. Potential signatories should be able to tie their stewardship programmes back to their thematic and strategic priorities, with voting examples bespoke to this.

Furthermore, those with externally managed assets should pay close attention to legacy Principle 8 (proposed Principle 5). Instead of changing the current Principles, greater emphasis should be placed on asset owners whose assets are managed externally under this Principle, which allows things like high-profile or contentious votes to support the broader narrative instead of being the entire narrative.

There should be robust disclosure on fund managers' due diligence and whether their actions do or do not align with the asset owner's strategy, thematic priorities and ultimately their expectations (this would also apply to other third party external providers where applicable such as index and data providers, proxy advisors, investment consultants and so on). We understand this approach may make some investment actors uncomfortable, as it may expose deficiencies in process and oversight, but this accountability allows all parties to better see past flowery language and prevarication.

It is important that we work together as an industry to appropriately balance asset owners being held publicly accountable for robust oversight of fund managers (and other third party external providers) whilst taking into account issues of confidentiality and the spirit of partnership that should exist between asset owners and their external providers. The public acknowledgement of positive engagement with fund managers is very important, but this needs to be considered against the equal importance of highlighting areas of improvement, even if fund managers are not explicitly named as part of that process in the interests of confidentiality. Improvement areas that represent wider industry barriers to progress are particularly important to highlight to the market.

**Q6. 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?**

Broadly yes but with caveats. While we are generally supportive of the updated Principles for service providers, we are concerned that the updates have removed reference to identifying and responding to systemic risks as it relates to proxy advisors. Given their outsized role in the market through proxy recommendations, we expect proxy advisors to take this into account throughout their research process and recommendation generation. We recommend this language be kept in place.

**Q7. Do the streamlined Principles capture relevant activities for effective stewardship for all signatories to the Code?**

Broadly yes, but with caveats. We are supportive of the consideration of the changes to streamline the Principles, however, escalation now appears to be viewed mainly in the form of voting escalation. We would therefore ask that a separate indicator be included on disclosure of a framework on escalation that clarifies when specific levers are being used. The proposed removal of the standalone Principle of escalation could be seen as indicative of a shift in the balance of power between asset owners and company management, which if true, would be concerning.

Escalation is also the best way to demonstrate instances where progress with specific issuers cannot be made and further steps are taken. We emphasise that escalation should be assessed in terms of both engagement and voting, investors should disclose under both proposed Principle 3 and 4 accordingly, and the FRC should provide guidance to this effect.

We do not disagree with the combination of Principles 9 and 10 as long as the FRC provides guidance that collaborative engagement is an effective and sometimes necessary tool used by investors to achieve change at issuers and that investors should continue to participate in collaborative initiatives and report out on those efforts as part of a well-rounded engagement programme.

We also note that regulatory and other public policy advocacy is another important stewardship lever available to investors, and this should be included within stewardship Principles that apply across all investment stakeholders. Where a signatory does not utilise industry engagement, it should be explained in any reporting.

**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?**

Yes. We agree that signatories should be able to cross-reference external information as part of reporting. This will help streamline stewardship reports and avoid duplication of information. It should be required that all references to external documents be given hyperlinks within the stewardship reporting for ease of access. However, as there is a real risk that links may cease working/or get updated after the assessment - we recommend that a summary and salient aspects of the policy/document that is cross referenced is included in the stewardship report.

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

Yes, we agree with the proposed implementation schedule, with the following caveats:

- There is sufficient time to allow for asset owner consultation around guidance as highlighted in this consultation response
- Consideration should be given to introducing a pilot year to enable signatories to get comfortable with reporting.