

REPORT FOR: Pension Board

Date of Meeting: 22 March 2016

Subject: **Information Report** – Environmental, Social and Governance Issues in Pension Fund Investment

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Appendix 1 – UN PRI and UK Stewardship Code
Appendix 2 – Submissions received from Fund Managers.

Section 1 – Summary

The report sets out the responses received to requests made to the Fund managers in relation to the Pension Fund Committee's consideration at their last meeting of the Environmental, Social and Governance (ESG) Issues. As requested by the Pension Fund Committee, the Board is asked to consider the need for admitted bodies to be involved in consideration of the importance of ESG issues and to what extent the views of the beneficiaries and representatives of beneficiaries should be taken into account.

FOR INFORMATION

Section 2 – Report

1. At their meeting on 25 November 2015 the Pension Fund Committee received a report discussing Environmental, Social and Governance Issues and Pension Fund Investment and resolved that:

(1) investment managers and Aon Hewitt, Council's Investment Adviser, be asked to advise whether they had signed up to UN Principles for Responsible Investment (PRI);

(2) investment managers and Aon Hewitt, Council's Investment Adviser, be asked to confirm that they had signed up to "The UK Stewardship Code" and to provide reports on their engagement and voting actions;

(3) in the light of the responses received to resolutions (1) and (2) above, the Fund consider further whether to sign up to "The UK Stewardship Code" in its own right following the receipt of a further report setting out any conditions in relation to appendix 3 of the report and concerns about creating an infrastructure dependent on resolutions (1) and (2) above;

(4) the Fund take a more active involvement in the Local Authority Pension Fund Forum by attending meetings at a Member or officer level and by more specifically associating itself with various initiatives;

(5) within the Statement of Investment Principles the current paragraph on "social, environmental or ethical considerations" be amended in accordance with paragraph 27 of the report and those made at the meeting, as follows:

"The Council recognises that it has a paramount duty to seek to obtain the best possible return on the Fund's investments taking into account a properly considered level of risk. As a general principle it considers that the long-term financial performance of a country/asset in which it invests is likely to be enhanced if good practice is followed in environmental, social and governance activities.

All the Fund's investments are managed by external fund managers mostly within pooled funds. Currently, one is passively managed and one is specifically invested in emerging markets. The Council recognises the constraints inherent in this policy. Nevertheless it expects its external fund managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of countries and assets in which they invest.

The Council expects its external fund managers to have signed up to "The UK Stewardship Code" and to report regularly on their compliance with the Code and other relevant environmental, social and governance principles."

- (6) the Pension Board be requested to consider the need for admitted bodies to be involved in consideration of the importance of ESG issues and to what extent the views of the beneficiaries and representatives of beneficiaries should be taken into account.
2. This report addresses resolutions (1) and (2) and Appendix 1 details the two sets of principles.
 3. All the Fund managers except Record Currency were approached and all have responded with the following results:

Aviva

Aviva have provided a large amount of information regarding 'Responsible Investment' but this largely relates to their equity mandates and not specifically to the Fund's property mandate.

Further discussions with Aviva are to take place but they have stated the following in regard to their Global Real Estate Division

- *ESG is embedded in our direct portfolios and pooled funds (who subscribe to GRESB)*
- *ESG is a key element of our indirect real estate strategy and investment process*

BlackRock

BlackRock have confirmed that they have signed up to the UN PRI and their current position regarding each of the principles within the UK Stewardship code is attached in a 2 page document in appendix 2.

A summary of their position is 'As a fiduciary asset manager, BlackRock's pursuit of good corporate governance stems from our responsibility to protect and enhance the economic value of the companies in which we invest on behalf of our clients. Encouraging the highest standards of board leadership and executive management in these companies is central to achieving that goal. That is why we have created one of the largest Corporate Governance and Responsible Investment (CGRI) teams in the industry to engage with the management of companies in which we invest and help us deliver long-term value to our clients. BlackRock believes it complies with the majority of recommendations of the UK Stewardship Code. We have set out below our approach to the key recommendations and explained our reasons for taking a different approach to that proposed in the Code where relevant'.

GMO

GMO have provided two short documents entitled 'GMO Statement Regarding ESG' and GMO UK Ltd Statement of Policy on the Principles of the UK Stewardship Code which are included within Appendix 2

As regards UN PRI, whilst in their covering email they state they are actively pursuing signing up to these principles, they explain their current stance as follows:

'GMO has carefully reviewed the UNPRI and determined not to sign the Principles at this stage. The main rationale for this decision is that we believe that certain of the Principles would conflict with and/or distract GMO from its primary objective of delivering the best risk-adjusted returns to each of its clients. While ESG issues, as such, are not formally part of our investment objectives, certain elements of our security analysis and investment processes may be consistent with managing ESG issues'

Their views on the Stewardship code are *'As an investment manager employing mainly quantitative techniques in our investment strategies we tend not to participate with the collective engagement of companies'*

Insight

Insight have provided a 74 page document entitled 'Putting Principles Into Practice - Insight's Annual Report on Responsible Investment 2014'

The have stated that *'It confirms that Insight have indeed renewed our commitment to the UN PRI, to which we were a founding signatory, and also the Financial Reporting Council's UK Stewardship Code'*

The report goes into detail as follows:

- Responsible Investment At Insight
- How Insight Meets Its Commitments
- Responsible Investment Activities In 2014
- How Insight Implements Its Responsible Investment Policy
- The Responsibilities Of Investors
- Is Responsible Investment Ethical?
- Social Capital And Responsible Investment
- Managing Environmental Risks In Portfolios

Longview

Longview, in their covering email state 'I can however confirm that Longview Partners is a signatory to the United Nations Principles for Responsible Investment and also fully supports and is committed to the UK Stewardship Code'

Longview have also confirmed their compliance with the UK Stewardship Code and have provided a detailed report as included in the Appendix 2.

They have also provided a report detailing their engagement meetings with various companies/institutions.

Oldfields

Oldfields have provided three short documents entitled 'Statement of compliance with the UK Stewardship Code,' 'Environmental, Social, Governance Q&A' and 'Proxy voting and engagement report – 2015', the first two of which are included in Appendix 2.

Within these documents and their covering email Oldfields state:

'In the ESG Q&A we explain why we are not currently a signatory to the UNPRI. We are essentially in favour but we don't believe the infrastructure is in place to handle collective engagement. We have spoken with the ABI, the FRC and the UK Investor Forum on this subject, hoping that the necessary protection and processes can be put in place so we can confidently collaborate with other investors and if so, we would become a signatory.'

'We are not currently a UN PRI signatory, as we are not yet comfortable that Principle 5 (working together to enhance effectiveness in implementing the Principles) has the necessary infrastructure and protections we think necessary. We have held numerous conversations with the Financial Reporting Council in the UK on this issue and have made clear our concerns about engaging or collaborating with other managers when it is not clear whether they have long or short positions. However, we have recently joined the Investor Forum, hoping this can provide the platform for the kind of collective efforts the PRI promotes.'

Pantheon

Pantheon have provided a customised response included within Appendix 2. Their answers to the specific questions are as follows:

Pantheon is a signatory of the Principles for Responsible Investment (PRI) and has used these principles as a framework to develop its ESG policy across all its investment activities. Pantheon was also a founding member of the PRI Private Equity Steering Committee and only withdrew in 2014 due to a maximum tenure being exceeded. Pantheon has remained involved in sub-committees and continues to assist the PRI with logistics and speakers at conferences.

Although Pantheon has not yet signed up to the UK Stewardship Code, the principles contained within the UK Stewardship Code are akin to Pantheon's ongoing active engagement with the managers in which we invest. Effective post-investment care and the maintenance of close relationships are important to maximize the value of Pantheon's fund investments, protect client interests and to evaluate the investment activity within each fund. Our active involvement on Advisory Boards of the funds in which we invest, as well as our policy on voting, is outlined below.

As a PRI signatory, Pantheon has committed to follow a policy of active ownership, requiring us to vote on all matters. In private equity, voting may take place on any number of governance, legal or investment matters and therefore each voting matter is considered on a case by case basis. For this reason, Pantheon does not have an internal reference guide to cover all voting matters.

Standard Life

In their covering email Standard life advised as follows:

'Standard Life Investments is a signatory to both the UK Stewardship Code and UN Principles for Responsible Investment (UNPRI). Voting activity on all the companies we invest in are all published and updated regularly on the Governance & Stewardship section of our website'

In their 24 page Governance & Stewardship Review 2014 there are detailed sections on engagement and global voting.

State Street

State Street have provided the following link to a large amount of information including their statement on the UK Stewardship Code.

<https://www.ssga.com/eu/gb/pension-investor/en/products-capabilities/capabilities/corporate-governance-and-voting-policy.html>

Their compliance with the Stewardship Code is included within Appendix 2 and the rest of their submission is being reviewed.

4. As requested by the Committee, the Board is asked to consider the need for admitted bodies to be involved in consideration of the importance of ESG issues and to what extent the views of the beneficiaries and representatives of beneficiaries should be taken into account.

Financial Implications

5. Whilst the attitude of Fund managers to ESG issues can have a significant impact on the performance of the Fund there are no financial implications arising from this report.

Risk Management Implications

6. The risks arising from the management and investment of funds are included in the Pension Fund risk register.

Equalities implications

7. There are no direct equalities implications arising from this report.

Council Priorities

8. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name Dawn Calvert Director of Finance

Date: 25 February 2016

Ward Councillors notified: NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

