

**SUFFOLK PENSION FUND
INVESTMENT IN TOBACCO COMPANIES**

**INSTRUCTIONS TO COUNSEL TO ADVISE
ON THE PRINCIPLES AND PROCESSES
RELATING TO POSSIBLE
DISINVESTMENT
FROM TOBACCO FUNDS**

1. Introduction

- 1.1 You are instructed on behalf of Suffolk County Council as the administering authority for the Suffolk Pension Fund (the Fund) by Tim Earl, Head of Suffolk Legal.
- 1.2 You are asked to advise in relation to the Fund's consideration of potential disinvestment from tobacco holdings.

2. Enclosures

The following documents are attached to your instructions:

1. The Fund Committee's current investment strategy
2. A report to the Fund Committee dated 29 September 2014
3. A report to the Fund Committee dated 27 November 2014, together with the unconfirmed minutes of the meeting on 29 September 2014

3. Background

- 3.1 The Fund's current investment strategy contains no prohibition on holding shares in any company on the basis of ethical or social responsibility grounds. (See **enclosure 1**).
- 3.2 The Fund currently has direct investments in tobacco holdings worth in the region of £40,000,000. This represents approximately 2% of the Fund's total investments. The Fund also had, in September this year, indirect investments in tobacco companies of approximately £9 million.
- 3.3 On 17 July 2014, the County Council passed the following motion:-

"The Council hereby resolves to be a signatory to the Local Government Declaration on Tobacco Control, as endorsed by the Public Health Minister Jane Ellison MP and asks the Pension Fund Committee, having regard to its fiduciary duty and with the necessary agreement of other employers of the Pension Fund, to replace investments in tobacco with other holdings, which are considered comparable in terms of the balance of risk and return."
- 3.4 Since the decision on 17 July 2014, the Fund Committee has received two reports relating to the issues involved in any possible disinvestment from tobacco holdings. (See **enclosures 2 and 3**).

3.5 At its meeting on 27 November, the Fund Committee determined to seek legal advice on these issues.

4. Risk-Adjusted Return Analysis

4.1 The Fund Committee has received information from Alliance Bernstein, one of the Fund's investment managers, regarding the risk-adjusted return to the Fund on Alliance Bernstein's investments for the Fund in the period July 2005 to October 2014. Alliance Bernstein has a mandate to invest in UK equities, and represents 8% of the total Fund. The results are set out at Appendix 1 of the report at enclosure 3.

4.2 The analysis shows that tobacco investments have been the best performing investments in the UK in the analysed period, with a return/volatility rating of 1.17. Beverages are the next highest performing investment, with a rating of 1.12.

4.3 In addition, the Fund's two other active managers have provided Sharpe ratios for their current investments on behalf of the Fund. The Sharpe ratio shows how well the return of an asset compensates the investor for the risk taken in purchasing it. It uses a process of comparing assets against a common benchmark, to provide a Sharpe ratio. An asset with a higher Sharpe ratio provides a better return for the same risk, or the same return for a lower risk. The Sharpe ratio reported by these two active managers for all investments on behalf of the Fund stands at 0.34. They also report that if the same portfolio was held with tobacco stocks removed, the Sharpe ratio would fall to 0.30.

4.4 The Fund clearly has a duty to ensure that it has a diversity of investments. Similarly, past performance is not necessarily a determinant of future performance. There are potentially factors which mean that tobacco investments might not be as high performing in the future. For example, in western markets, the development of e-cigarettes may have an impact on these stocks, whilst in developing tobacco markets, greater regulation in the future may also impact on the strength of tobacco investments in the future.

4.5 However, the Fund's managers have indicated that they consider the removal of tobacco stocks from their portfolios is likely to be detrimental to the Fund's risk adjusted return, at least in the short term.

5. Advice Sought:

You are asked to advise in conference and then in writing on:

- 5.1 whether, given the information which the Fund Committee has received so far, the Fund Committee may lawfully determine in line with its fiduciary duties that it is appropriate to disinvest from tobacco holdings;
- 5.2 whether there is more information and if so, the nature of that information, which it would be advisable to obtain prior to making any decision on this issue;
- 5.3 if the Fund is minded to make a decision to disinvest, what consultation is required with employers and the structure this should take to ensure that it is undertaken in an appropriate manner;
- 5.4 whether there is any requirement to consult with scheme members in relation to any proposed decision;
- 5.5 any other factors that you consider material to the Fund Committee's considerations.

6. Further Information

If you have any questions or queries, please do not hesitate to contact Melissa Tills (Principal Commercial Solicitor) on 01473 264187.

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