

Suffolk Pension Fund Committee

Report Title:	Environmental Social & Governance Engagement
Meeting Date:	28 November 2016
Chairman:	Councillor Andrew Reid
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Brief summary of report

1. This report provides the Pension Fund Committee with an overview of the environmental, social and governance engagement carried out by its investment managers and a summary of the new regulatory requirements to be included in the Investment Strategy Statement.

Action recommended

2. The Committee is asked to consider the information provided and decide if there are alternative forms of engagement the Fund would like to pursue.

Reason for recommendation

3. The Pension Fund is required to include a policy in the new Investment Strategy Statement on how it considers environmental, social and corporate governance factors when making investment decisions.

Alternative options

4. There are no alternative options.

Main body of report

5. On 23 September 2016, new Regulations affecting the management and investment of Local Government Pension Scheme (LGPS) funds in England and Wales were laid before Parliament. The Regulations came into force on 1 November 2016 but give administering authorities until 1 April 2017 to publish their first Investment Strategy Statement (ISS) in accordance with the new rules.
6. The Pension Fund is required to disclose in its ISS 'the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments'.
7. When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This

approach is the standard that those responsible for making investment decisions must operate.

8. Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it. The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors over the long term.
9. However, the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.
10. Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.
11. Investments that deliver social impact as well as a financial return are often described as “social investments”. In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Summary of requirements

12. In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority:-
 - i. Must take proper advice
 - ii. Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors
 - iii. Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments
 - iv. Should not pursue policies that are contrary to UK foreign policy or UK defence policy
 - v. Should explain their approach to social investments

Current Policy

13. The Pension Fund Committee has always considered that the primary responsibility of the Committee is to ensure that the long-term return from its

investments is sufficient to meet the Fund's liabilities and that the selection of investments should be undertaken to achieve the best financial return for the Fund, subject to an appropriate level of risk. It has not placed any requirements on the Fund's investment managers in the selection or retention of investments by reference to environmental, social or ethical criteria. All investments that are made for the Fund comply with the legal and regulatory requirements that apply to the local government pension scheme and UK Foreign and Defence policies

14. The issue of fiduciary duty and environmental, social and governance (ESG) considerations in the investment process has been a subject of renewed attention over the last two years. The Local Government Association (LGA) on behalf of the LGPS Shadow Scheme Advisory Board retained legal advice regarding the inclusion of ESG considerations in investment decision making. Further, the UK Government recently asked the Law Commission to review the legal concept of fiduciary duty as it relates to the above remit.
15. The Fund's risk investment strategy is entirely consistent with its fiduciary obligations as it aims to integrate financially material ESG issues into its investment approach.
16. Although the Committee does not impose any restrictions on the fund managers, the managers do engage with the organisations that they invest in on the Fund's behalf primarily to protect the investments value through good governance, minimising reputational damage and ensuring regulatory requirements are met. A summary of the ESG principles and work carried out by the investment managers is set out in **Appendix 1**.
17. The Pension Fund has a voting policy which seeks to protect and enhance the value of its shareholdings in UK companies by promoting good practice in the corporate governance and management of those companies and receives a report on the voting activity on a quarterly basis.
18. In addition, some of the non-investment organisations that the Pension Fund engage with also undertake ESG such as the Pensions and Lifetime Savings Association (PLSA formerly NAPF) and Pensions Investment Research Consultants (PIRC).
19. The Pension Fund is also a member of the Local Authority Pension Fund Form (LAPFF) whose mission is to protect the long term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. A copy of the organisation's latest quarterly engagement report is attached as **Appendix 2**.

Sources of further information

- a) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016 No. 946).

