

Croydon Council

REPORT TO:	Local Pension Board 16 January 2020
SUBJECT:	Scheme Advisory Board - Responsible Investment Guidance Consultation
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
1. RECOMMENDATION	
1.1	To note this report.

2. EXECUTIVE SUMMARY

- 2.1 This report discusses “Responsible Investment Guidance Draft Part 1” published by the Scheme Advisory Board for consultation in November 2019. The full draft can be found here - <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/governance-and-administration-risks-in-public-service-pension-schemes-an-engagement-report>

3 DETAIL

- 3.1 At the meeting of the LGPS Scheme Advisory Board (the SAB) on 6 November 2019, approval was given for the first part of guidance on responsible investment (RI) to be published for consultation ending on 11th January 2020. The stated aim of this guidance is to *“help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG [Environmental, Social and Governance] policies as part of investment strategy statements.”* The SAB comments that there is no intention to prescribe the extent to which ESG policies must be adopted as this must remain a matter for local consideration and agreement in accordance with Ministry of Housing, Communities and Local Government statutory guidance.
- 3.2 The Board also agreed that work should commence on drafting part two of the guidance, the aim of which is to *“provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy.”*
- 3.3 As part of the consultation on Part One of the guidance, consultees were invited to submit details of case studies that evidence the successful adoption of ESG policies, in particular, those focused on the risks associated with climate change. Consultees are also invited to suggest other matters that should be included in the part two guidance.

- 3.4 The latest version of the Fund's Investment Strategy Statement was approved by the Pension Committee on 18 September 2018 and includes the following paragraphs on ESG considerations:

Environmental, Social and Corporate Governance (ESG)

6.1 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

6.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

6.3 The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments. The Fund will disinvest from existing fossil fuel investments in a prudent and sensible way that reflects the fiduciary responsibility due to stakeholders. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these issues. Examples of this approach include investing in renewable energy projects, screening out regional markets where there might be issues with modern slavery, and looking to explore opportunities to contribute to and invest in the Borough.

6.4 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

6.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

6.6 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.7 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

6.8 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

3.5 The Fund has been conscious of ESG considerations for many years and took the decision to disinvest in tobacco stocks over 20 years ago. It has always been conscious of the evolution of opinion on the part such matters can play in asset allocation policy. The Fund's policy has always been set in accordance with appropriate professional advice, and the then current legal interpretations and guidance and that remains the case to date.

3.6 The Board are invited to note this report.

4. DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the Report involve the processing of "personal data?"

No

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BACKGROUND DOCUMENTS:

None.