

Report to: Pension Committee

Date of meeting: 27 November 2017

By: Chief Finance Officer

Title: Environmental, Social and Governance (ESG) – update

Purpose: To consider an update on Environmental, Social & Governance (ESG), and Low Carbon Approach for the Fund.

RECOMMENDATIONS -

The Committee is recommended to:

1. approve a revised East Sussex Pension Fund Investment Beliefs.
2. approve the cost (i.e., £10,000) of conducting/measuring the Fund carbon footprint.

1. Background

1.1 This report provides an update on recommendations at the Committee meeting held on 4 September 2017. At the meeting, the Committee discussed issues and approaches to mitigate risks posted by climate change/fossil fuels in order to formulate a cost effective Ethical, Social and Governance (ESG) Policy, and resolved to:

- a) Include within the Pension Fund Investment Beliefs, the following statements relating to ESG investment subject to refinement from Hymans Robertson:
 - Climate change presents a financial risk to the future investment returns from the Fund.
 - Close engagement with - and challenge to - the investment managers will improve understanding of these risks.
 - Individual stock selection decisions will be delegated to active managers but the Fund will retain the right to sell holdings in exceptional circumstances.
 - The Fund will aim to collaborate with other investors where this is expected to have a positive impact.
 - The nature of the underlying benchmark is an important consideration, most notably for passive mandates.
- b) Agree that the East Sussex Pension Fund should sign up to the UK Stewardship Code; and
- c) Request an analysis of the Fund’s exposure to carbon risk within its equity holdings.

2. ESG – Future Work on Recommendations

2.1 The Pension Committee has on a number of occasions considered its approach to responsible investment practices and also at ways to increase the level of engagement on environmental, social and governance issues in relation to the management of the Fund investments. The Fund itself is a member of the Local Authority Pension Fund Forum (LAPFF) and has used this primarily as a route to ensuring that the Fund’s voice is heard in conjunction with other investors. Like most LGPS funds, the Fund has preferred to use the route of engagement with its managers and companies rather than taking a particular stance of divesting in companies or market sectors, having considered the financial risks of such a course of action.

2.2 The decisions and indicative timescales for future work on recommendations are –

	Committee Decision	Future Work and Updates
a.	Include within the Pension Fund Investment Beliefs, statements relating to ESG investment.	The Pension Fund Investment Beliefs has been updated with statements relating to ESG investment. The document will be included as an appendix to the Investment Strategy Statement (ISS), which will demonstrate a commitment to managing

	Committee Decision	Future Work and Updates
		carbon risk and set targets that are both quantifiable and measurable where this is appropriate. <i>A revised Investment Beliefs (Appendix 1) is attached for the Committee approval and a revised ISS will be presented to committee at its February 2018 meeting.</i>
b.	Agree that the East Sussex Pension Fund should sign up to the UK Stewardship Code; and,	Officers are currently looking into how the Fund can commit to the UK Stewardship Code and become a signatory. The principal aim of the Code is to encourage institutional investors, who manage other people's money, to be active owners and engage with their investee companies so as to encourage them to act in the interests of their beneficiaries. The Fund need to comply with the seven principles of the Code. <i>The Statement of Compliance with the UK Stewardship Code report will be presented to the Committee for approval at its February 2018 meeting.</i>
c.	Analysis of the Fund's exposure to carbon risk within its equity holdings.	Officers are currently in discussion with Trucost, a specialist consultant that can conduct a carbon footprint of the Fund. The company is able to produce quality reporting with an aggregated report across all holdings and importantly to attend a Committee meeting to present and discuss the reports. The total cost for the above reports and their attendance at the meeting is estimated to be around £11,900 exc. VAT. Measuring emissions and climate risks in the portfolio will allow the Fund to establish a base of data from which to examine its investment assumptions and test investment processes. It will also enable the Fund to make an assessment on an ongoing basis as to how its exposure to climate change risks progresses over time. <i>This work is expected to start in the third quarter with the initial results available for the February 2018 Committee meeting.</i>
d	Option of reallocating the Pension Fund's passive equity mandate.	The new arrangement with the UBS Passive Investment management will consider a proportion of the Fund's passive equity mandate that will need to be reallocated into the UBS climate aware rules-based portfolio. Officers will work with the fund manager, investment adviser and investment consultant over the coming months to identify suitable approach and strategies.

3. Conclusion and recommendations

3.1 The cornerstone of the Fund's policy on ethical investment – as set out in its ISS – is its interpretation of the Fund fiduciary duty and legal position regarding its duty towards ethical investment. This is an area in which further work will be undertaken over the coming months. We have been in contact with a number of our managers to request more detailed reporting on environmental issues, engagement and voting patterns, which will be reported at future meetings.

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BACKGROUND DOCUMENTS: none