

Report to: Pension Committee

Date of meeting: 24 September 2018

By: Chief Finance Officer

Title: Annual review of the Fund's Environmental, Social and Corporate Governance (ESG) approach

Purpose: To consider an update on ESG and Low Carbon Approach for the Fund.

RECOMMENDATION -

The Committee is recommended to consider and comment on this report.

1. Background

1.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 require East Sussex Pension Fund's (the Fund) Investment Strategy Statement (ISS) to include a policy on how social, environmental or corporate governance considerations are taken into account; in the selection, non-selection, retention and realisation of investments.

1.2 The Fund is required to make the pursuit of a financial return its predominant concern as it has a fiduciary duty to its members to pay pension benefits. This principle is the leading focus of the Fund's investment strategy. The Fund may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme. This is only where the Fund has good reason to think that scheme members would support their decision.

1.3 This report provides an update on previous Committee recommendations on the approaches to mitigate risks posed by climate change/fossil fuels and to formulate a cost effective Ethical, Social and Governance (ESG) Policy.

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 reflecting on ways to increase the level of engagement on ESG issues in relation to the management of the Fund investments.

2.2 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.

2.3 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 have been updated with statements relating to ESG investment. The document has been included as an appendix to the Investment Strategy Statement (ISS), which will demonstrate a commitment to managing carbon risk and set targets that are both quantifiable and measurable where this is appropriate. <i>A revised Investment Strategy Statement ~(ISS) is on the Committee agenda for approval at this meeting.</i>
b.	Agree that the East Sussex Pension Fund	Officers are currently looking into how the Fund can commit to the UK Stewardship Code and becoming a signatory. The

	Committee Decision	Future Work and Updates
	should sign up to the UK Stewardship Code; and,	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 November 2018 meeting.</i>
c.	Analysis of the Fund's exposure to carbon risk within its equity holdings.	Completed by Trucost and outcome reported at the February 2018 Committee meeting.
d	Option of reallocating the Pension Fund's passive equity mandate.	Completed with a proportion of the Fund's passive equity mandate reallocated into the UBS climate aware rules-based portfolio.

3. Environmental, Social and Governance - Next Step

3.1 ESG update paper will be discussed at the September Committee meeting to agree other additional ESG areas of focus. There are a number of suggestions including -

- Review ESG related objectives and beliefs.
- Collaboration with the ACCESS Pool to help progress their ESG arrangements.
- Consider producing a Responsible Investment policy which is reviewed and published on an annual basis.
- Consider if the Fund wish to disclose results of the Fund's equity carbon footprint.
- Using the results of the carbon footprint to engage with, and challenge the Fund's managers with equity exposure.
- Training relating to the UN Sustainable Development Goals.

4. Conclusion and recommendations

4.1 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 continue to be undertaken over the coming months.

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BACKGROUND DOCUMENTS

None