

Briefing note from the Chair of the Pension Committee

As Chair of the Pension Committee, I welcome the opportunity to debate this important subject. This is a very complex and interwoven issue, which does not admit simple responses.

The primary responsibility of the Pension Committee is to manage its **£3.6bn of investments** to ensure that the **75,000 members** of the East Sussex Local Government Pension Scheme receive their defined benefits, which are laid out in statute.

Over the last **36 months** the Pension Committee has spent a significant amount of its time embedding a strong ESG approach to a point where the Fund is considered a leader in this area. I would like to take this opportunity to highlight the areas that demonstrate this commitment:

- Our principle **Investment Beliefs** document incorporates a **Responsible Investment Policy** and ensures that the Fund recognizes the **impact of climate change**;
- We work with our Managers to ensure that they develop appropriate processes for addressing ESG matters;
- Our Fund Manager's reflect our ESG investment beliefs through voting at shareholder meetings and engagement to promote transition;
- From our analysis, the Fund's direct exposure to **fossil fuels is in the region of 4%. This is primarily to oil and gas, with negligible exposure to coal.** We anticipate that **this exposure will fall over the next 12 months**;
- The Fund made a specific decision to invest in **the UBS Climate Aware Fund** and the Fund will make further such investments when opportunities are identified;
- We were one of the first local authority funds to carbon footprint our portfolio;
- The Fund was an early signatory to the **UK's Stewardship Code** and promoted this adoption with all of its Fund Managers;
- We are a **member of LAPFF** and in 2018 were **shortlisted for the LAPFF Investment Awards Best Approach to ESG/Impact Investing**;
- Within the **ACCESS pool**, we are the lead authority in raising the profile of ESG, and have presented to the Joint Committee of **11 LGPS Funds with around £48bn under management**;
- The Pension Board and Committee receive regular Fund Manager presentations and training on ESG.

These examples demonstrate how much has been achieved.

Few can quarrel with the Environmental Economist Herman Daly's assertion that the Economy is a wholly owned subsidiary of the Environment. Most would agree that key planetary boundaries are being challenged. Everyone must accept the need for greater focus on preserving our natural capital and properly valuing the ecosystem services that flow from it, enhancing the quality of our lives and supporting our economy. All can agree that the prospect of 9.5 billion people living and consuming on the planet, requiring 30% more energy by 2050, presents a set of challenges and at times difficult choices and tradeoffs which will require sustainability transitions empowered by carbon taxes, with massive investment and deployment in renewables. The Committee recognizes, continues to monitor and act upon these challenges and opportunities.

A Pension fund comprised of 133 employers and 75,000 members, all with inevitably different views on ESG issues, has to:

- **Balance** the views of all stakeholders;
- **Accept** that there is necessarily more than one relevant approach to ESG;
- **Evaluate** its approaches from multiple perspectives to guard against unforeseen or adverse outcomes;
- **Elevate its duty to provide pensions which are affordable** over all other factors;
- **Uncertainty, Risk, effective diversification, income generation and opportunity** sit at the heart of its challenges;
- **ESPF's approach to investment risks is holistic** (monitoring overall portfolio risks), **rather than proscriptive** (back-seat driving what our appointed fund managers can do);
- Under the Committee and Pension Officer's stewardship the fund has grown in value from £2.8bn in 2016 to around £3.6bn today and **is better positioned to meet its pension obligations** than at the last triennial valuation.

In supporting the notice of motion, we welcome the opportunity to explore further how we steer a course through what are very complex issues.