

Report to: Pension Committee

Date: 21 September 2020

By: Chief Financial Officer

Title of report: Responsible Investment Policy

Purpose of report: This report sets out the Statement of Responsible Investment Principles for the East Sussex Pension Fund.

RECOMMENDATION – The Pension Committee is recommended to:

- 1) approve the Statement of Responsible Investment Principles (Appendix 1);**
 - 2) agree to amend the Investment Strategy Statement for changes outlined in Paragraph 2.3. which are as a consequence of agreeing the Statement of Responsible Investment Principles, and receive an updated Investment Strategy Statement at the November Committee; and**
 - 3) consider the letter from Lewes District Council outlining the Notice of Motion from Lewes District Council regarding fossil fuel investments contained in Appendix 4, and agree the draft response contained in Appendix 5.**
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1. Background

1.1 The East Sussex Pension Fund (ESPF) Investment Strategy Statement is a statutory requirement codified in the Local Government Pension Scheme (Management and Investment of Funds) (England) Regulations 2016. The Statement of Responsible Investment Principles although not required by statute complements and amends the ESPF's Investment Strategy Statement and explains the Fund's approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment and Stewardship perspective.

1.2 In the last report to the Pension Committee, Officers outlined the need for a Responsible Investment Policy, hereafter referred to as the Statement of Responsible Investment Principles and received approval from Lothian Pension Committee to use and adapt their Statement of Responsible Investment Principles. Officers have adapted this to contextualise the ESPF approach, attached at Appendix 1.

1.3 Responsible Investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.

1.4 The Statement of Responsible Investment Principles will be subject to review by the Committee at least annually. The ESPF's ESG Working Group reviews and scrutinises

Responsible Investment issues and specific climate-related risks and opportunities at least quarterly. An example of the Responsible Investment and Climate Risk monitoring report is provided in Appendix 2. Given the work already commenced with Vigeo Eiris and the workstreams arising in transitioning companies to more sustainable pathways, the Fund will develop regular reporting of ESG and climate risk metrics to inform decision making and help assess and monitor progress towards our responsible investment objectives.

2. Statement of Responsible Investment Principles Objective

2.1 The objective of ESPF's Statement of Responsible Investment Principles is:

- to reduce the likelihood that ESG issues and climate risk will negatively impact asset values and returns;
- and inform stakeholders on the action ESPF is taking to address and manage ESG and climate risk issues.

2.2 This statement will evolve and change in keeping with progress and best practice. Notably, the ESPF is a signatory to the United Nations Principles for Responsible Investment (PRI), an organisation which supports and enables asset owners and asset managers to work collaboratively towards Responsible Investment (RI) best practice; and the Institutional Investors Group for Climate Change (IIGCC) and Climate Action 100+. As a signatory, the ESPF is committed to contribute to the development of a more sustainable global financial system.

2.3 As a consequence of agreeing the Statement of Responsible Investment Principles, the Investment Strategy Statement (ISS) (Appendix 3) is no longer consistent with the Committee's current beliefs. The agreement of the Statement of Responsible Investment Principles therefore necessitates a corresponding amendment to the ISS to include the Statement of Responsible Investment Principles as a new Appendix and, exclude all sections, appendices and paragraphs within the ISS which are no longer relevant or aligned to the Statement of Responsible Investment Principles. The following areas of the ISS are recommended for exclusion, these are:

- Page 7., "How social, environmental, or corporate governance considerations are taken into consideration in the selection / non selection, retention and realisation of investments;
- Appendix on Investment Beliefs; and,
- Responsible Investment Policy.

2.4 Officers recommend that a revised ISS is returned to the November meeting of the Committee for review and agreement.

2.5 The Fund is also mindful of the government consultation issued in March 2020, "Aligning Your Pension Scheme with TCFD Recommendations" which ended on 2 July 2020, and which includes recommendations within that consultation for asset managers to carry out climate scenario analysis in relation to portfolios which they administer on the Fund's behalf. The consultation will be considered in full within the ESG Working Group with any recommendations to further develop the Statement of Responsible Investment Principles reported back to the committee in due course.

3 Notice of Motion Lewes District City Council Cabinet

3.1 A letter has been received by the Chair of the Pension Committee outlining a Notice of Motion by the members of Lewes District Council requesting that the East Sussex Pension Fund take a number of actions regarding investments in fossil fuels, which is attached in Appendix 4. The Committee is asked to agree the draft response to this letter, a copy of which has been included in Appendix 5 for the Committee's consideration.

4 Conclusion and reasons for recommendation

4.1 The ESPF recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change and understands that the Paris Agreement is creating change that represents both significant risks to, and opportunities for, the Fund. Within this context, Good governance extends to governance at every stage of our investment process to influence sustainable, successful and suitable investments for members of the East Sussex Pension Fund.

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