East Sussex Pension Fund

Responsible Investment

- William Marshall
- Paul Potter

- 8 February 2016

HYMANS ROBERTSON

What is responsible investment?

*"Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of **environmental, social and governance factors**, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems."*

UNPRI (UN Principles for Responsible Investment), What is responsible investment?

What are ESG factors?

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Climate Change	Stakeholder relations	Board Structure
Resource scarcity	Supply Chains	Accounting & Audit
Water Availability	Working Conditions	Executive remuneration
Greenhouse Gas emissions	Diversity issues	Bribery & Corruption
Pollution	Health & Safety	Shareholder rights
Energy efficiency	Population Growth	Transparency

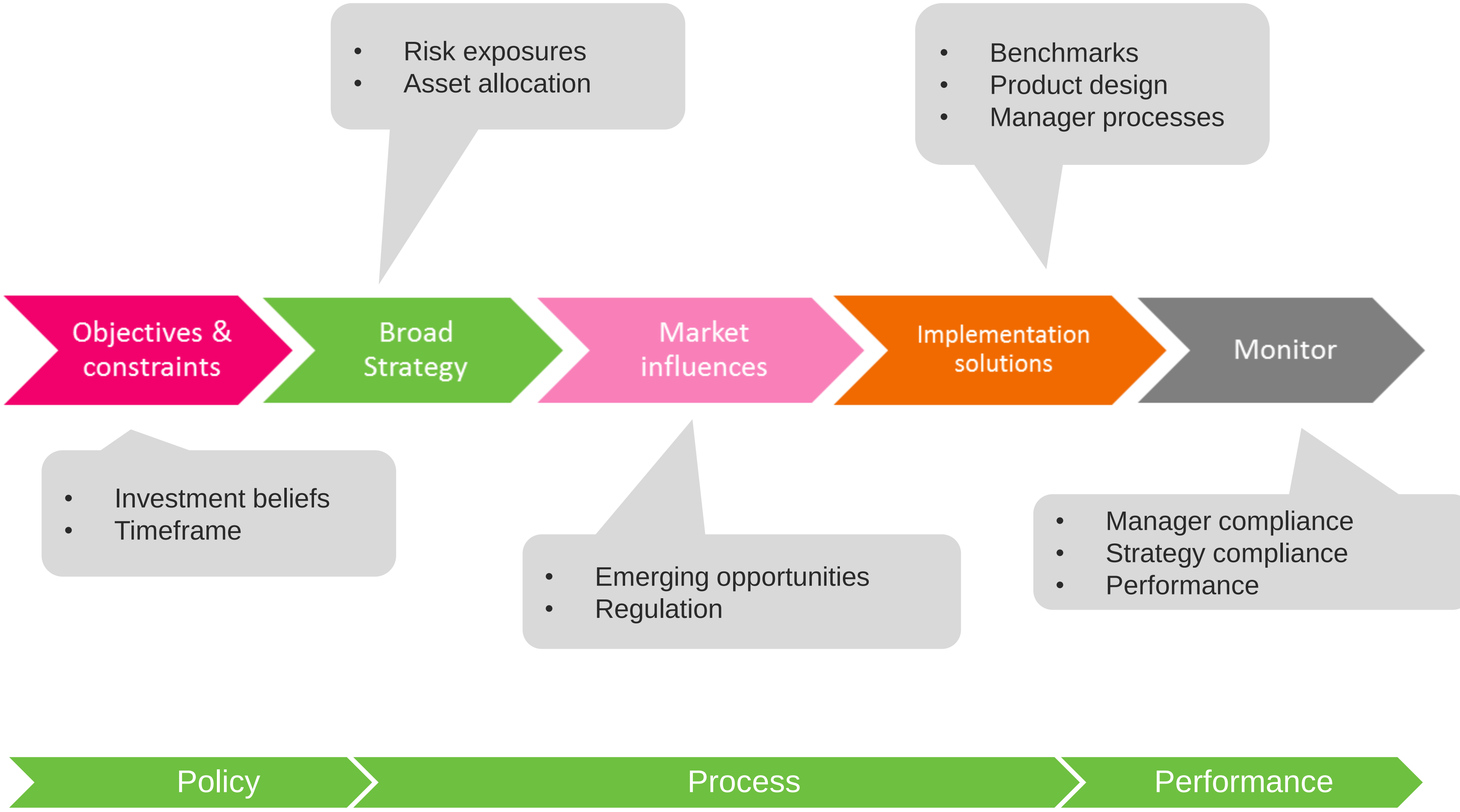
Differentiate between systemic and operational risks

Timeframe matters

Systemic risks:
Potential long term impact, but can be influenced by shorter term changes

Operational risks:
Potential shorter-term impact

What can you do, and when?



Our Responsible Investment beliefs

Sustainable Investment

- ESG factors can affect corporate performance over the long term
- Trustees need to weigh up the benefits for their membership
- Ethical investment is different to sustainable investment

Governance & Stewardship

- Engaging with companies can improve practices
- Investment managers should comply with the FRC's Stewardship Code

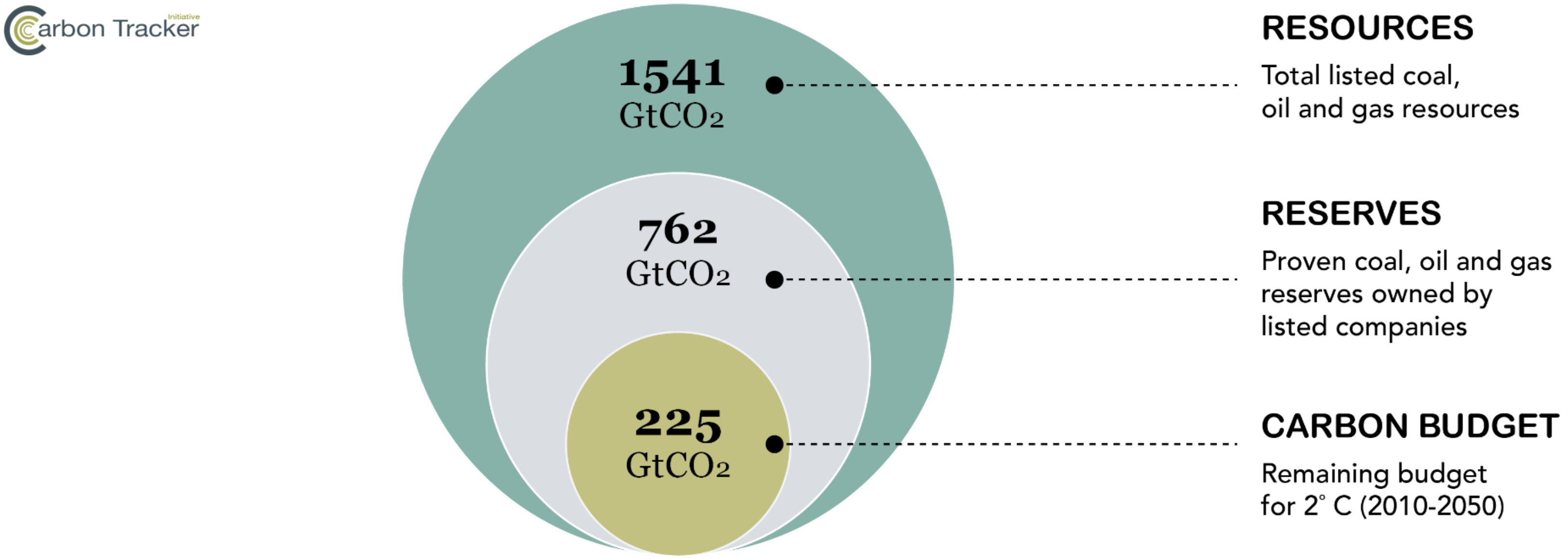
Managing Responsible Investment Practices

- Investment managers are often best placed to manage Responsible Investment practices
- Trustees should agree and communicate their approach to Responsible Investment
  - Minimum - Statement of Investment Principles

What can you do?

What	Potential Action
Responsible Investment (RI) checklist	Identify all potential areas that RI can have an impact, and agree policy
Responsible Investment Beliefs	Articulate approach to RI and views on climate change, divestment etc.
Statement of Investment Principles	Set out policy on ESG; sets benchmark by which you should be judged
Risk register	Identify and set out impact of RI, especially longer term, systemic risks on the Fund
Training	High level background on RI issues Issue-specific training.

Example - climate change and the carbon bubble



- If we stay within the carbon budget, some fossil fuel reserves will have to stay in the ground and have no value: “Stranded assets”
- UK target to cut carbon emissions by at least 80% of 1990 levels by 2050.
- COP21 (Paris, December 2015): Limit temperature rise to 2% up to 2100.
- Will pension funds have a fiduciary duty to tackle climate change?

Example - what could you do?

HYMANS ROBERTSON

1. Understand what could be affected by a low carbon economy
2. Understand how carbon risk could affect investments
3. Understand their carbon footprint and impact on future investment returns, risks and opportunities
4. Take action to manage carbon risk

Divest	• Remove exposure to potentially compromised investments • Strong lobby from organisations such as 350.org • Focus only on equities?
Tilt	• Ex-fossil fuels indices offers an option for passive investors • Can bias portfolios positively
Engage	• Asset ownership conveys responsibilities on investors • Engagement can influence corporate behaviour • Will we see more active investors in future?

5. Challenge managers on how they factor in the risks/opportunities (dealing with obsolescence is not new)

If it can be measured, it can be managed

Thank you

Any questions?