

Report to: Pension Committee

Date of meeting: 22 June 2020

By: Chief Financial Officer

Title: Report on the Full Council Notice of Motion on Environmental, Social, Governance

Purpose: This report covers the review of the Environmental, Social and Governance (ESG) arrangements of the East Sussex Pension Fund, conducted by PIRC. Responding to the notice of motion passed by East Sussex County Council.

RECOMMENDATION – The Committee is recommended to note this report.

1. Background

1.1 At Full Council on 15 October 2019, the County Council received the following petition:

Divest the East Sussex Pension Fund from fossil fuels.

Investments in fossil fuels (oil, coal and gas) are damaging the balance of our climate and pose serious financial risks to investors, including many local pension holders.

Over 1,100 institutions, representing over \$9.9 trillion in assets, have already committed to divest (i.e. move their money away) from fossil fuel companies.

We the undersigned call on East Sussex County Council to follow their lead and divest the East Sussex Pension Fund from its holdings in fossil fuel companies.

1.2 Following the debate, a Motion was passed to:

1. recognise the concerns raised through the petition;
2. note that the East Sussex Pension Fund is already recognized as having a strong approach to socially and environmentally responsible investment with a below benchmark exposure to both carbon and fossil fuels; and
3. request that the Pension Committee asks its investment consultants to undertake a further investigation, with particular focus on the long term risks and opportunities to the Fund associated with climate change, and report back to the Committee on how, in the light of its need to fulfil its obligations to all pension scheme employers and members, it might further integrate ESG considerations including those relating to its approach to fossil fuel exposure, into its investment strategy.

1.3 The Pension Committee considered this motion at its meeting on 25 November 2019. The Committee expressed the desire to investigate the potential to appoint an independent Environmental, Social and Governance (ESG) Consultant to provide a different perspective on integrating ESG considerations.

2. Summary of Conclusions

2.1 After a procurement process an ESG specialist PIRC was appointed. with a brief to conduct a review of the approach and practices adopted in managing ESG issues arising from the investment strategy of the East Sussex Pension Fund. The report is at Appendix 1. A summary of the conclusions are provided below:

1. East Sussex Pension Fund currently complies with all statutory regulations and relevant guidance with regard to its environmental, social and governance (ESG) obligations.
2. The Fund is considered a leader on ESG by its peers in the ACCESS asset pool and has made more progress than the average Local Government Pension Scheme (LGPS) fund in responding to ESG issues.
3. There is a clear awareness of the Fund's fiduciary duties and the need to act in the best interests of the Fund's members. The governance arrangements including the Local Pension Board and new working groups provide a reasonable challenge to the Fund's officers and advisers.
4. Over the past 18 Months the Fund has made significant progress in gaining a better understanding and knowledge of a range of ESG issues and specifically climate change which has led to actions including a carbon footprint assessment and the production of an ESG Statement.
5. Within the Fund's current work plan, the Fund has identified areas it needs to address and develop including meeting the new Stewardship Code Principles and preparing a response to the Task Force for Climate Related Financial Disclosures. These will put the Fund into a strong position for its investment response to ESG matters and climate change.
6. The progress of the ACCESS pool and a requirement to agree with other pool funds on a range of issues has led to considerable discussion and delays to the Fund's ESG ambitions.
7. The Fund has recently approved a business plan and is in the process of recruiting to a number of senior posts which should address some of the resourcing deficiencies which have hindered the Fund's progress on prioritising and addressing ESG issues. Completing the ESG projects set out in the business plan will put the Fund in a strong position but will require significant project management skills to be certain of achieving the outcomes set in the plan.
8. The voting records from the Fund's equity managers have been collated and reported against the ACCESS voting guidelines. However, it is unclear what priorities the Fund is seeking to address through its ownership rights and the ACCESS guidelines are limited in their scope and hence are unlikely to match the Fund's ambitions around ESG and climate change.
9. The Fund has been a member of the Local Authority Pension Fund Forum (LAPFF) since 2014 and reports on LAPFF activity to the Committee and within its annual report. Despite officers attending some business meetings, the Fund has not played a significant role in shaping LAPFF policy and with the ambitions of the Fund around ESG this could be an opportunity to demonstrate leadership and escalate its own priorities.
10. The Fund has a laudable ambition to develop a sustainable investment strategy and has moved one portfolio into a low-carbon benchmark but has also recognised the limitations of benchmark indices and is considering how to progress into Impact/Sustainable investing
11. The Fund has received ongoing criticism from external pressure groups on its response to climate change. Fund and working group members and representatives have clearly been

building a good understanding of the issues to develop the Fund's response. Other funds in similar circumstances have reviewed and expanded their communications strategy as seen by the content of their websites and newsletters. As demonstrated by some other funds, the regular use of a member survey on ESG issues facilitates interaction with a range of stakeholders and would provide the Fund with clarity and evidence of external views which it can then address.

2.2 LGPS funds spend varying amounts of time addressing ESG matters. Obviously, those that commit the most resources will have a greater breadth and depth to their policies, strategies and activities. This leads to some best practice activity being difficult for smaller funds to achieve with more limited resources. Even the largest of funds cannot address all ESG issues and need to prioritise what is important to them once they have met regulatory requirements.

3. Conclusion and reasons for recommendation

3.1 The PRIC report makes 16 recommendations. These will be considered by the Committee and reported back at its meeting on 22 September 2020.

3.2 It is recognised that Fund has already identified and progressed a number of actions in response to the challenge of ESG, including

- To commission a carbon measurement service to undertake review of the Fund,
- Work with ACCESS to provide an ESG policy for the pool,
- Building upon our leadership within ACCESS on ESG Issues to move the Pool to a more sustainable investment platform,
- Signed up to the PRI and IIGCC.

3.3 The Pension Committee is recommended to note this report.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Michelle King, Interim Head of Pensions
Tel. No. 01273 482017
Email: Michelle.King@eastsussex.gov.uk