WRITTEN QUESTIONS PURSUANT TO STANDING ORDER 44

1. Question by Councillor O'Keeffe to the Chair of the Pension Committee

At the December 2019 Full Council meeting, Julia Hilton from Hastings asked the following supplementary question to a written question:

'According to the UN-backed Principles of Responsible Investment (PRI), which represents investors with $86 trillion of assets under management, the ever-worsening impacts of climate change are going to produce an inevitable policy response on the part of the world's governments. Indeed, they predict "an inevitable policy response by 2025 that will be forceful, abrupt and disorderly because of the delay …. creat[ing] considerably greater disruption than many investors and businesses are prepared for today."

'What consideration did this year's annual investment strategy review give to the possible impact on the Fund of such a policy response?'

She was told then (by the Pension Committee's Chair Gerard Fox) that she would receive a written answer to her question but has not received one.

What was the answer to her question?

Answer by the Chair of the Pension Committee

This year's annual investment strategy review was due to take place on the 13 July. Unfortunately, this specific review was not able to go ahead as planned due to the restrictions imposed by the current pandemic. It was instead replaced with a series of shorter meetings through two working groups, one focused specifically on ESG to ensure the Fund was on top to research and issues to then feed into the second larger Investment Strategy working group which looked at specific parts of the strategy these have taken place over the summer months and have been concluded at the pension committee's meeting on 21 September.

By taking this approach it enabled the Fund to fully understand the construction of and impact of various financial scenarios using an asset liability model (ALM) of the Fund including forceful, abrupt and disorderly policy responses. By adjusting the strategic asset allocation, the Fund was able to identify suitable changes that would best respond to these scenarios.

The results prompted the Committee to amend its equity structure to make it more resilient. The review has taken place which has resulted in the fund looking to subscribe 10% of its assets to impact active managers. With another 10% being subscribed to a passive like smart beta product that incorporates Environmental Social and Governance factors into its construction.

2. Question by Councillor O'Keeffe to the Chair of the Pension Committee

Looking forward, now that the East Sussex Pension Fund has joined the Principles for Responsible Investment (PRI), what steps will it be taking to address the clear and present financial danger highlighted by the PRI – a danger that may well arise even earlier now as a result of the COVID-19 pandemic?

Answer by the Chair of the Pension Committee

By signing up to the PRI the East Sussex Pension Fund has committed to the six principles of responsible investing as set out by the PRI these are:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

Each of these Principles were addressed in the Funds Statement of Responsible Investment Principles that was approved at the Pensions Committee meeting on 21 September 2020.

Principle 6 requires all signatory organisations report annually to the PRI on their responsible investment activity. It will be from this information that the PRI will monitor signatory progress against the minimum requirements as set out below:

- Formalised RI policy (or similar) or a policy that covers E/S/G issues covering >50% of AUM;
- Staff (internal or external) explicitly responsible for implementing responsible investment policy; and
- Senior level oversight of and accountability mechanisms for implementing responsible investment.

These requirements and indicators were selected because they are applicable to all types of signatories. ESPF already meets these requirements and will look to use the PRI reporting to enhance its high standards on responsible investment.

In addition to signing up to the PRI, ESPF has also joined the Institutional Investors Group on Climate Change (IIGCC) this is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low-carbon future. IIGCC has more than 190 members, mainly pension funds and asset managers, across 14 countries, with over €28 trillion in assets under management.

The IIGCC mission is to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors. IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change. Members consider it a fiduciary duty to ensure stranded asset risk or other losses from climate change are minimised and that opportunities presented by the transition to a low carbon economy – such as renewable energy, new technologies and energy efficiency – are maximised.

Further to enhance our response we have committed to the Climate Action 100+ initiative. Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition.