

Topic Scoping Document

Review Topic: The Surrey Local Government Pension Scheme (LGPS) Fund: Investments and Environmental, Social and Governance Compliance

Relevant background

The Department for Communities and Local Government (DCLG) published new statutory guidance in September 2016 regarding the preparation and maintenance of an investment strategy statement for all LGPS funds.

In compliance with this guidance and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Surrey LGPS is preparing an investment strategy statement that builds on and will replace its current statement of investment principles.

The regulations state that the investment strategy statement must include:

“The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;”

This statement must be in place by 1 April 2017. It is a requirement that this strategy is then reviewed at least once every three years, though facets of policy and its application may be reviewed on a more regular basis, according to the discretion of fund.

Why this is a scrutiny item

The role of social, environmental or corporate governance considerations in pensions' investments has been the subject of significant national and local debate in previous years.

National campaigns have seen pressure groups raise questions about investments in "sin" stocks and fossil fuels, both of which are perceived by some members of the public as questionable.

This debate must be balanced against the fiduciary duty the Fund has to its employers and members, as well as the need to comply with the regulatory framework in which pension investments operate.

The Law Commission conducted a review of the fiduciary duties of investment intermediaries in 2014. This review stated: "Environmental, social, and governance issues may have a direct relationship to the economic value of the plan's investment."

This has seen these issues becoming a greater consideration for those seeking to make responsible investments, with an emphasis on demonstrating how far these environmental, social or governance factors influence investment decisions.

This must also be set in the context of the work of the Task Force on Climate Related Financial Disclosures, which is reviewing how the financial markets respond to the long-term risks and opportunities posed by climate change.

The Chairmen of the Surrey Pension Fund Committee and the Local Pension Board have agreed that the Board would benefit from examining how the new statement takes into consideration environmental, social or corporate governance considerations, with a particular focus on the environmental considerations, and how it complies with the new guidance and regulations.

What question is the Board aiming to answer?

How will the Surrey LGPS Fund take in consideration environmental, social and corporate governance factors in its investment strategy statement?

How will the Surrey LGPS Fund monitor and report the extent to which environmental, social and corporate governance considerations influence its investment strategy?

What consideration has been given to the impact of the recommendations made by the Task Force on Climate Related Financial Disclosures?

Aim

To ensure Fund compliance with the new regulations

To evidence that the Board and Committee are giving due consideration to emerging policy and regulatory requirements

To increase member and employer awareness as to the how the Fund meets its fiduciary duties.

To ensure the Fund has taken into consideration the risks and opportunities faced by the impacts of climate change, and how this influences its investment strategy.

Objectives

In the next three months the Board will:

- review the draft investment strategy statement
- establish how the Fund will evidence the environmental, social and corporate governance factors (ESG) have been taken into consideration in the statement
- make recommendations to the Pension Fund Committee as appropriate
- review the final investment strategy statement and recommend a framework to the support the Board and Committee in monitoring how the Fund complies with is ESG policy.

Scope (within / out of)In scope

The draft investment strategy statement

Out of scope

Individual investment decisions made on behalf of the Fund

Outcomes for the Fund / Benefits

This work will support the compliance of the Fund in its regulatory framework. It benefits both members and employers by ensuring robust scrutiny and governance mechanisms are in place for the Fund.

It will also serve to inform members and employers as to how the Fund meets its fiduciary duties for the benefit of the long-term sustainability of the Fund.

Proposed work plan

It is important to clearly allocate who is responsible for the work, to ensure that officers can plan the resources needed to support the Board.

Timescale	Task	Responsible
25 January 2017	ESG Workshop for Board to: <ul style="list-style-type: none"> • Discuss current ESG context and background • Consider draft Investment Strategy Statement 	Neil Mason/Phil Triggs
10 February 2017	Investment Strategy Statement considered by Pension Committee	Phil Triggs
15 March 2017	Board review the final investment strategy statement and recommend a monitoring framework to the Pension Committee	Neil Mason
Local Election 2017		
June 2017	<p>Checkpoint review to confirm the following draft aims and objectives of further review:</p> <p><u>Aim</u></p> <ul style="list-style-type: none"> • To consider the risks and opportunities faced by the impacts of climate change, and how this influences the Funds' Investment Strategy Statement. <p><u>Objective</u></p> <ul style="list-style-type: none"> • To evidence the Fund complies with the relevant regulatory framework, and that ESG factors are an active consideration of the new Investment Strategy Statement. 	Chairmen of Local Pension Board and Pension Fund Committee:

Revised work plan (as of March 2017):

Timescale	Task	Responsible
25 January 2017	ESG Workshop for Board to: <ul style="list-style-type: none"> • Discuss current ESG context and background • Review ESG component of draft Investment Strategy Statement <p>Board commissioned Mercer to conduct a Responsible Investment Peer Benchmarking Review.</p>	Neil Mason/Phil Triggs
10 February 2017	Investment Strategy Statement approved by Pension Committee	Phil Triggs
19 April 2017	Workshop for Board review the Responsible Investment Benchmarking Review	Neil Mason
Local Election 2017		

2 June 2017	Pension Committee consider any report or recommendations made by the Board following the workshop.	Pension Fund Committee
June 2017	<p>Checkpoint review to confirm the following draft aims and objectives of further review:</p> <p><u>Aim</u></p> <ul style="list-style-type: none"> To consider the risks and opportunities faced by the impacts of climate change, and how this influences the Funds' Investment Strategy Statement. <p><u>Objective</u></p> <ul style="list-style-type: none"> To evidence the Fund complies with the relevant regulatory framework, and that ESG factors are an active consideration of the new Investment Strategy Statement. 	Chairmen of Local Pension Board and Pension Fund Committee:

It is important to clearly allocate who is responsible for the work, to ensure that officers can plan the resources needed to support the Board.

<p>Useful Documents</p> <p>Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016</p> <p>2014 Law Commission review of fiduciary duties of investment intermediaries</p> <p>Task Force on Climate Related Financial Disclosures Recommendations Report, December 14, 2016</p>
<p>Potential barriers to success (Risks / Dependencies)</p> <p>Time – the draft Investment Strategy Statement must be approved by April 2017. This gives the Board and Committee limited time to conduct this work. In order to mitigate this, there could be a commitment to review progress in implementing of the strategy in six months' time.</p> <p>Board engagement and understanding – The framework in which ESG compliance operates is complex and contains a number of fiduciary and regulatory considerations. This could require the Board to identify and actively address knowledge gaps in regard to this. In order to do so, the Board will be provided with an initial training workshop, as well as resources and advice from appropriate parties.</p>

Equalities implications

None applicable, though the Board will consider any equalities implications as they may arise.