

**SURREY COUNTY COUNCIL****PENSION FUND COMMITTEE****DATE: 20 DECEMBER 2019****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE****SUBJECT: RESPONSIBLE INVESTMENT POLICY REVIEW****SUMMARY OF ISSUE:**

The Border to Coast Pension Partnership (BCPP) is now an established fully regulated asset management company when the authorised contractual scheme (ACS) went "live" on 26 July 2018. As part of this, BCPP now reviews its Responsible Investment (RI) and Corporate Governance and Voting Policy annually in advance of the proxy voting season.

In light of the continual transitioning of assets and voting responsibilities over to BCPP, the Surrey Fund is developing its own approach in the context of Responsible Investing.

**RECOMMENDATIONS:**

It is recommended that the Pension Fund Committee:

1. Notes the results of the ShareAction survey regarding the Fund's approach to Responsible Investment and Climate change.
2. Approves the revised BCPP Responsible Investment (RI) Policy 2020 and Corporate Governance & Voting Guidelines 2020
3. Approves for a Committee sub-group to be convened to develop the Fund's RI Approach. To include, but not limited to:
  - The Fund's positioning of Responsible Investment in its Core Investment Beliefs
  - The Fund's relationship with BCPP, more specifically BCPP's RI approach to the Fund's pooled assets
  - The Fund's RI approach to existing legacy portfolios yet to be transitioned to BCPP
  - The Fund's RI approach to its Indexed Funds currently held with Legal & General Investment Management (LGIM)
  - Reaching a recommendation on the position of The Fund on the Spectrum of Capital (Paragraph 16)
  - Exploring the analysis of scenario mapping The Fund's portfolio in line with the United Nations' (UN) Sustainable Development Goals (SDGs) (Paragraph 17), carried out by an independent provider

## **REASON FOR RECOMMENDATIONS:**

The Government required, as part of the initial pooling submission in July 2016, that each Pool has an approach to Responsible Investment (RI) with a commitment that a written RI policy would be in place at Pool level by 1st April 2018. The Responsible Investment Policy and Corporate Governance & Voting Guidelines were developed in 2017 in conjunction with the twelve Partner Funds and are reviewed annually and require approval from the Surrey Pension Fund Committee.

An investment objective of the Fund in the 2019/20 Business Plan is to review its Responsible Investment Policy. The April 2019 ShareAction report provides a benchmark of the Fund's current approach to Responsible Investment and Climate change. The convening of a Committee sub-group will enable the Fund to explore its own investment beliefs and how these fit within its Investment Strategy.

## **DETAILS:**

### **ShareAction Survey - Responsible Investment in the LGPS**

1. In April 2019, a report was commissioned by Unison with ShareAction to develop an overview of LGPS funds approach to Responsible Investment and Climate change.
2. Methodology

This was mainly desk based research of each LGPS Fund's Investment Strategy Statements (ISS), and from it, each Fund's approach to Responsible Investment. The research was qualitative, so therefore if Funds did carry out further work not mentioned in their ISS, they did not receive any scores from this. They then rated each Fund based on the number of points they scored as per the below table.

#### ShareAction Ranking Table

<b>Ranking</b>	<b>Factors</b>	<b>Score</b>
A	Progressing in all areas	>12-18
B	Action being taken in at least one area	>8-12
C	Starting to take action	>4-8
D	Limited Disclosure	>0-4
E	No Disclosure	0

#### Previous Score

3. Based on ShareActions methodology and framework, the score for Surrey Pension Fund is shown below. This was only based on information derived

from the Fund's ISS as opposed to all publicly available documents and platforms

Fund	Original Score	Category	
Surrey Pension Fund	3.5	D	Limited Disclosure

#### Revised Score

4. In October 2019, since the original research was carried out, ShareAction were consulted on how to incorporate more sustainability reporting into Investment Strategy Statements.
5. The BCPP RI Policy and Corporate Governance & Voting Guidelines are reviewed every year, with the most recent having been reviewed internally using the same framework. Moreover, the RI work carried out by the Fund in addition to the Revised RI Policy, based on what has been reported through Public Available documents demonstrate the actual work carried out by the Fund.
6. Based on Surrey Pension Fund's Investment Strategy Statement (ISS), with the BCPP Revised RI Policy/ Corporate Governance & Voting Guidelines and its RI work not explicitly mentioned in its ISS, The Fund has been internally rescored as per the below.

Fund	Revised Score	Category	
Surrey Pension Fund	12	B	Action being taken in at least one area

#### **Responsible Investment Policy updates**

7. Both Responsible Investment Policy and Corporate Governance & Voting Guidelines policies are due to be reviewed annually or whenever revisions are proposed; policies will then be updated as necessary through the appropriate governance channels. The process for review includes the participation of all the Partner Funds; this is to ensure that we have a strong, unified voice. The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2020 proxy voting season.
8. BCPP is a strong advocate of Responsible Investment. Its approach is to hold companies to account on environmental, social and governance (ESG) issues and practice active ownership through voting, monitoring companies, engagement and litigation. The RI policy sets out the approach to RI and stewardship, and the Corporate Governance & Voting Guidelines sets out the approach and principles to voting. The aim is to manage risk and generate

sustainable, long-term returns which is a key part of improving outcomes for our Partner Funds and delivering their objectives.

9. The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. The day-to-day administration and implementation however, will be done by BCPP with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements
10. Both policies have been evaluated by Robeco using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks.
11. After taking into account any comments from the OOG, the policies had gone to BCPP's Investment Committee, Board and finally to the Joint Committee in November for approval.
12. The main changes to the BCPP RI Policy is summarised in the below table while the full revised RI Policy can be viewed as Annex 1;

Section	Type of Change	Rationale
Introduction	Addition / Clarification	Investment time horizon.
Integrating RI into investment decisions	Addition	Additional ESG issues: water stress, data privacy, single-use plastics, political lobbying.
Climate change	Addition  Clarification	Extra detail on climate change as a systemic risk. Additional detail on risks and opportunities. Change from 'will therefore look to' to 'is'
Stewardship Use of proxy advisers	New sub-section	To comply with SRD II, need to name and describe use of proxy advisers.
Engagement	Restructuring	Bullet points for engagement strands.
Escalation	Addition  Addition – new sub-section	Detail on engagement process – required by PRI & SRD II/FRC. Detail on options when initial engagement ineffective – required by PRI.
Due diligence and monitoring	Addition – new sub-section	Detail of audit of stewardship activities – required by PRI.

13. The main changes to the BCPP Corporate Governance and Voting Guidelines Policy is summarised in the below table

Section	Type of Change	Rationale
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Company Boards – Composition and independence	Addition / Clarification	Change of “9 years” to “9-12 years”. Clarification that this will also depend on market practice.
Leadership	Addition	Changed ‘must’ to ‘should’ to cover market practice outside the UK
Diversity	Clarification	Additional; wording to clarify stance.
Board Evaluation	Addition	Good practice for Board to disclose these evaluations.
Directors’ remuneration – Long-term incentives	Addition Addition	Transparency on pay ratios Encourage Executive Directors to hold stock to align interests with those of shareholders.
Directors’ contracts	Addition	Limit termination benefits in-line with market best practice.
Audit	Addition	Publish audited financial statements ahead of shareholder voting deadline – to cover the Korean market where this does not always happen. Additional text to cover audit tender requirements for markets outside the UK.
Political donations	Clarification	Ensure money not being used to fund political parties
Lobbying	Clarification	Alignment of company and trade association values.

### Outcomes from Climate Change Working Party

14. The working party was set up to improve the wider pool understanding of climate change and identify what we can change to improve investment outcomes. Much ground was covered over the six sessions with a fast, collective learning process with areas identified where further detailed work needs to be done. Whilst the outcome of the party suggests that no changes are required to the policy this year, there are areas recommended for further consideration which may lead to changes next year.
15. A clear shared priority is to manage risk and opportunities from climate change. It was recognised that the only revisions to the climate change section in the Responsible Investment policy were for more detail to be included on climate change as a systemic risk and on the risks and opportunities. A number of Key areas to work on and next steps include:
- Considering the impact of climate change risk on strategic asset allocation
  - How to measure transition risk and the implications of setting targets
  - The role private markets will play in managing transition risk

- Implications of an exclusion policy if engagement is ineffective
  - Continue to embed and enhance analysis in the investment process
  - Provide further education on the TCFD<sup>1</sup> for our Partner Funds
  - Review our communication approach to managing climate change risk
16. Understanding has improved amongst those participating in the group. Bulletins have been issued for each session and shared with all Partner Funds. It is however, more difficult to ensure that all Partner Funds are involved. Rather than continue the climate change working party the suggestion is to hold a Responsible Investment meeting for all Partner Funds to attend on a quarterly basis, thus keeping communication lines open.

### **Impact Investing Training Session**

17. The Fund Officers and Members attended a training session on 6 November 2019, held by the Pensions for Purpose Director, Karen Shackleton.
18. The first outcome from the session, was the possibility of exploring the Fund's position on the Spectrum of Capital shown on the next page. With the growing trend of sustainable and impact driven investment opportunities, the Spectrum of Capital provides a guideline for Investment Committees to begin to understand their own Investment Approach over the medium to long term.

# The Spectrum of Capital

	1	2	3	4	5	6	7	8	
Investment Approach	Traditional	Responsible	Sustainable	Impact-Driven			Philanthropy		
Financial Goals	Deliver competitive risk-adjusted financial returns					Tolerate higher risk	Tolerate below market returns	Partial capital preservation	Accept full loss of capital
Impact Goals:	Avoid harm and mitigate ESG risks								
	Benefit all stakeholders								
	Contribute to solutions								
	Don't consider May have significant negative outcomes for people and the planet	Avoid harm Try to prevent significant effects on important negative outcomes for people & planet	Benefit Effect important positive outcomes for various people and the planet	Contribute to solutions Have a material effect on important positive outcome(s) for underserved people or the planet					
The 'impact economy'									

Source: *The rise of Impact: Five steps towards an inclusive and sustainable economy. UK National Advisory Board on impact investing 2017 & Impact Management Project 2017*





19. The second outcome was to commission an independent provider to map the Fund's portfolio and its position within the UN's SDGs, shown below. The Sustainable Development Goals are a universal set of goals to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere. The 17 Goals were adopted by all UN Member States in 2015, as part of the 2030 Agenda for Sustainable Development over a 15 year plan.



#### **CONSULTATION:**

20. The Chairman of the Pension Fund Committee has been consulted and fully supports the conclusions of the report.

#### **RISK MANAGEMENT AND IMPLICATIONS:**

21. The consideration of risk related issues specific to Responsible Investment are an integral part of the Border to Coast project plan and a risk register is presented to every Project Team, Officer Group and Joint Committee meeting.

#### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

22. There are no financial and value for money implications contained in this report.

#### **DIRECTOR OF CORPORATE FINANCE COMMENTARY**

23. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

The Director of Corporate Finance will continue to work closely with other officers and the other BCPP S151 officers to ensure effective governance and assurance of administering authority responsibilities under the new pooling arrangement.

#### **LEGAL IMPLICATIONS – MONITORING OFFICER**

24. There are no legal implications or legislative requirements.

#### **EQUALITIES AND DIVERSITY**

25. There are no equality or diversity issues.

#### **OTHER IMPLICATIONS**

26. There are no potential implications for council priorities and policy areas.

#### **WHAT HAPPENS NEXT**

27. The following next steps are planned:

- Implementation of BCPP's revised RI Policy across Partner Fund pooled assets
- Engaging with Committee sub-group to define the Fund's RI Approach, consistent with BCPP

#### **Contact Officer:**

Mamon Zaman, Senior Pensions Finance Specialist

#### **Consulted:**

Pension Fund Committee Chairman

#### **Annexes:**

Annex 1 – BCPP Responsible Investment Policy 2020

Annex 2 – BCPP Corporate Governance & Voting Guidelines 2020

#### **Sources/background papers:**

United Nations – About the Sustainable Development Goals

<https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

United Nations – 2030 Agenda for Sustainable Development

[https://www.un.org/ga/search/view\\_doc.asp?symbol=A/RES/70/1&Lang=E](https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E)