

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 11 DECEMBER 2020****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. Approves the revised BCPP Responsible Investment (RI) Policy 2021 and Corporate Governance & Voting Guidelines 2021.
2. Approves continuing work to be carried out by officers in collaboration with BCPP and partner funds, with the principle of embedding a consistent approach to Responsible Investment approach between the Fund and BCPP.

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 2020/21 Business Plan is to review its Responsible Investment Policy.

DETAILS:**Responsible Investment Policy updates**

1. 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.

2. 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.
3. 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
4. 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.
5. 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.
6. 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	Page	Type of Change	Rationale
1. Introduction	5	Clarification	Implementation of policy.
1.1 Policy framework	5/6	Addition	Policy framework context.
5. Integrating RI into investment decisions	7	Addition Addition	Biodiversity. Text explaining 'overarching principles' apply to all asset classes.
5.1 Listed equities – internally managed	8	Clarification	Extra text to clarify process.
5.2 Private markets	8	Addition	Monitoring ESG policies and encourage improvement.
5.4 External manager selection	9	Addition	Extra detail on expectations.

	9	Addition	PRI Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
5.5 Climate change	10	Addition Addition Addition	Reference to climate risk reporting via TCFD report. Use of Transition Pathway Initiative (TPI). Vote against Chair where rated zero or 1 by TPI. Private market investment themes.
6. Stewardship	10	Addition	Extra clarification text. Commitment to 2020 UK Stewardship Code.
6.1 Voting	11	Addition	Clarification on split voting circumstances - clear rationale from Partner Fund.
6.1.1 Use of proxy advisers	7	Clarification Clarification	Monitoring of Robeco. Updated text on share blocking.
6.2 Engagement	13	Addition Addition Addition	Input into Robeco process for new themes. Include OECD Guidelines breaches. Sharing engagement information.
9. Training and assistance	15	Addition	Training for Investment Team, Board and Joint Committee.

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

8. Section	Page	Type of Change	Rationale
Diversity	7	Addition / clarification	Rewording and increasing scope of approach.
Re-election	8	Addition / clarification	Board member election using majority voting standard.
Board evaluation	8	Addition	Assess skills.
Stakeholder engagement	8	Addition	Company response where significant votes against received.
Directors' remuneration	9	Clarification Addition	Rephrasing. Greater detail on ESG incorporation into exec pay.
Annual bonus	9/10	Addition	Deferral of portion of short-term bonus.
Political donations	12	Clarification	Oppose political donation proposals.
Dividends	12	Addition	No publicly disclosed capital allocation strategy.
Virtual shareholder General Meetings	13	Addition	Loosen current approach but need to safeguard shareholder participation.
Shareholder proposals	14	Addition	Expand text to include types of proposal we would usually support.
Climate change	14	Addition	Vote against Chair if high emitting company with TPI* score of zero or 1.

*The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition. Companies are assessed to one of 5 levels based on their position in relation to the recognition and management of transition risks.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

9. 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

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

11. 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

12. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

13. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

15. The following next steps are planned:
 - Implementation of BCPP's revised RI Policy across Partner Fund pooled assets as well as inclusion in the Fund's Investment Strategy Statement

Contact Officer:

Mamon Zaman, Senior Pensions Finance Specialist

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1 – BCPP Responsible Investment Policy 2021

Annex 2 – BCPP Corporate Governance & Voting Guidelines 2021

Sources/background papers:

Transition Pathway Initiative

<https://www.transitionpathwayinitiative.org/>

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