

MEETING	PENSIONS COMMITTEE
DATE	22 MARCH 2013
PURPOSE	CONSIDER THE PENSION FUND'S POLICY IN RESPECT OF ETHICAL INVESTMENT
TITLE	SOCIAL, ENVIRONMENTAL AND ETHICAL INVESTMENT
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1. Background

At the meeting of the Pensions Committee on 28 September 2012, a report on investment policy specifically in relation to investments in the tobacco industry was considered. Following discussion of the item members requested that research be undertaken to ascertain how other pension funds deal with ethical investment and report back to this committee.

Each Local Government Pension Fund is required to produce a Statement of Investment Principles in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 which must include 'the extent to which, social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments'.

2. Assessment Undertaken

Information was obtained from the websites of large funds in England and a request for information from the seven other Pension Funds in Wales on their principles regarding Social, Environmental and Ethical considerations when investing.

In addition, the Local Authority Pension Fund Forum (LAPFF) decided in June 2011, that it would be useful to have a Statement of Investment Principles (SIP) template on corporate governance for member funds to use. The executive committee agreed to this and that the example should also include environmental and social issues. As part of this work a survey of LAPFF member SIPs and global pension funds active in considering Environmental, Social and Governance (ESG) issues was undertaken to identify best practice.

3. Conclusion Drawn

The emphasis on ESG issues varies between funds with some having a broader approach and others having more detailed considerations. No evidence has been found to suggest that any fund would rule out a specific type of investment on ESG grounds. Where more details of the policy are given, funds tend to stress the priority of making long-term investment returns but that a long-term approach of active engagement working with companies to improve ESG is essential. This responsibility is usually delegated to the investment managers appointed by the fund.

4. Recommendation

The Fund's Statement of Investment Principles will be reviewed in 2014 following completion of the actuarial valuation as at 31 March 2013. This review will consider ESG principles and appropriate use of the LAPFF template for Social, Environmental and Ethical Considerations.

It is **recommended** that the Fund's current Social, Environmental and Ethical Considerations, a copy of which is included as Appendix A, be retained until the full review of the Statement of Investment Principles in 2014.

**EXTRACT FROM THE STATEMENT OF INVESTMENT PRINCIPLES
ADOPTED 28 SEPTEMBER 2012**

6.0 Social, Environmental and Ethical considerations

- 6.1 With regard to socially responsible investment, the Committee is mindful of legal principles which are based on decisions in the courts and which apply to all pension schemes. In particular the administering authorities are not entitled to subordinate the interests of members to social, environmental and ethical demands. The financial performance of the Fund consistent with proper diversification and prudence is paramount.
- 6.2 The Committee have considered the extent to which social, environmental and ethical factors should be taken into account in the selection, retention and realisation of investments. They also recognise that these factors can also affect the return on investments.
- 6.3 The Committee has demonstrated its commitment to the Stewardship Code which was published by the Financial Reporting Council in 2010. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies.
- 6.4 The Fund is a member the of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. The LAPFF brings together a number of local authority pension funds providing an opportunity for discussion of investment issues and shareholder action. The influence gained by such funds acting together as shareholders on issues of common concern has considerable potential in relation to companies where they invest. Such influence can be used to address social, environmental and ethical issues within investee companies.
- 6.5 The Committee expects that the boards of companies in which the Pension Fund invests should pay due regard to social, environmental and ethical matters and thereby further long-term financial interests of the shareholders. The Committee looks to the directors of a company to manage that company's affairs taking proper account of the shareholder's long-term interests.
- 6.6 The investment managers have produced statements of investment policy in relation to social, environmental and ethical considerations which the Committee deem to be consistent with the aims outlined in para. 6.3. above. The Committee

expects investment managers to act in accordance with their stated socially responsible investment policies.

- 6.7 The Committee believe that this stance is consistent with the long-term objective of the scheme.
- 6.8 The Committee will satisfy themselves annually that the investment managers are following this policy.