

MEETING: **PENSIONS COMMITTEE**

DATE: **15 MARCH 2018**

TITLE: **RESPONSIBLE INVESTMENT AND GOVERNANCE**

PURPOSE: **To ask the Pensions Committee to adopt fundamental principles regarding responsible investment**

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1. Introduction

A paper on Agreeing Responsible Investment Beliefs was discussed at the Investment Panel on 28 February. That paper included the principles listed in 2.1 and 2.3 - 2.5 below. Following consideration, the Panel added the principle suggested in 2.2 below.

2. Responsible Investment Beliefs

- 2.1** In line with the Committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations within investment decision making, although environmental, social and governance (ESG) factors can have a material impact on risk and return. The consideration of ESG factors should therefore be embedded in the investment processes and decision making of managers employed by the Fund.
- 2.2** The Fund's Committee will look to invest in sustainable assets, including investing within the Welsh region where non-financial benefits may accrue, provided that fiduciary duty conditions are met.
- 2.3** The Committee recognise they have a duty to be a responsible investor. Engagement with companies, rather than disinvestment, is expected to be more effective in changing corporate behaviours and reducing risk. Collaborative action, where possible, offers the most successful means of engagement to influence outcomes.
- 2.4** As a long-term investor, the Fund is exposed to systemic risks such as climate change and the expected transition to a low-carbon economy. Financial outcomes could be improved by effectively managing the Fund's exposure to such risks.
- 2.5** Disclosure across all stages of the value chain can improve the understanding of stakeholders and improve outcomes.

3. Recommendation

The Committee is asked to approve responsible investment principles listed in 2.1 - 2.5 above, to be included in the Fund's Investment Strategy Statement.