

---

## **RESPONSIBLE INVESTMENT MONITORING**

**Report by Chief Financial Officer**

---

### **JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD**

**12 September 2019**

---

#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide the Committee with the first annual monitoring report of the extent to which the Fund's Investment managers have complied with the requirements of the agreed Statement of Responsible Investment Policy.**
- 1.2 The Pension Fund as part of its fiduciary duties is required to ensure appropriate consideration is given to Environmental, Social and Governance (ESG) issues as part of its investment decisions, whilst acting in the best interest of the scheme beneficiaries. The Pension Fund approved a Responsible Investment Policy on 30 November 2018. Annual monitoring is required under the terms of the policy.
- 1.3 All fund managers appointed since the approval of the Policy are signatories of the United Nations Principles of Responsible Investment Code (UNPRI) and eleven out of 12 existing managers are signatories.
- 1.4 Information has been provided by Fund Managers and scored against questions listed in para 4.5. The scores for each manager is shown in para 4.6. Officers will work with Fund managers who score 15 or less to improve their performance and fully meet the objectives of the ESG policy.
- 1.5 Climate Action 100+ is an investor led initiative to engage greenhouse gas emitting companies to improve their emissions. The initiative has two levels of participation.
- 1.6 It is recommended the Pension Fund signs the statement shown in 5.5 to become a Supporter of the initiative. This support will help demonstrate the Fund's commitment to tackling climate change and reducing carbon emissions.

#### **2 RECOMMENDATIONS**

- 2.1 **It is recommended that the Committee and Board: -**
  - (a) Notes the first annual performance report regarding compliance with the Pension Fund's policy on responsible investment and the scores for each of the managers**
  - (b) Agrees to become a Supporter of the Climate Change 100+ initiative.**

### **3 BACKGROUND**

- 3.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. In doing so it is intended that the financial contributions required of Fund employers will be minimised.
- 3.2 Trustees of the Pension Fund also have a responsibility to ensure the Fund is undertaking its investment activities in a socially responsible way. This means the fund must be aware of its Environmental, social and governance (ESG) responsibilities.
- 3.3 Public interest in ESG has increased in recent years and there is a drive to increase the responsibilities placed upon Trustees for Environmental, Social and Governance issues. It is no longer acceptable for Trustees to do nothing on ESG.
- 3.4 The Joint Pension Fund Committee and Pension Fund Board approved the Statement of Responsible Investment Policy (SRIP) on 30 November 2018. This Policy sets out the Fund's approach to responsible investment and arrangements to monitor manager performance against the principles of the policy on an annual basis.

### **4 2018-19 MONITORING**

- 4.1 The SRIP requires all new fund managers to have signed up to the United Nations Principles of Responsible Investment (UNPRI). Since the approval of the policy, three new fund management appointments have been made. All three were members of the UNPRI. A review has also been undertaken of the existing managers and confirmation attained that all managers bar one are signatories to the UNPRI.
- 4.2 Eleven out of the twelve existing managers have confirmed they are signatories to UNPRI. Brookfield, the one manager not signed, represents 0.2% of fund assets and considers the ESG framework they have adopted is fully aligned with the PRI principles
- 4.3 Signatories report on an annual basis on their responsible investment activities by responding to asset specific modules in the UPRI reporting framework. Each module houses a variety of indicators that address specific topics of responsible investment. The reports are then assessed and results are compiled into an Assessment Report. The Assessment report includes the following
  - Indicator scores – summarising the individual scores achieved and comparing them to the median
  - Section Scores – grouping similar indicator scores together into categories (e.g. policy assurance governance) and comparing them to the median
  - Module scores – aggregating all the indicator scores within a module to assign one of six performance bands (from E to A+)
- 4.4 As part of the annual review process of Fund Managers all Managers have provided their 2018 Assessment Report. Key information for each the Managers has been extracted for the asset type held and is shown in Appendix 1.
- 4.5 Based on the information contained in the individual manager's assessment reports each manager has scored between 1 – 5 over 5 key question a. These questions were

1. Do they have an integrated ESG Policy?
  2. Do produce an annual ESG report?
  3. Are they a signatory of the UNPRI Code?
  4. Comparison of manager score against median for strategy & governance per UNPRI Assessment report?
  5. Comparison of manager score against median for section scores per UNPRI Assessment report?
- 4.6 The table below shows the overall score for each manager funds where held with as at 31 March 2019. All Managers who are signatories to UNPRI agreed to share their Assessment Reports. Maximum score is 25.

<b>Manager</b>	<b>Overall score</b>	<b>% of Assets held as 31/3/2019</b>
Baillie Gifford	23	25.7
UBS	23	14.5
Morgan Stanley	20	13.7
LGT Capital	24	7.1
Blackrock	22	8.3
M&G	23	21.3
Partners	18	2.7
Permira	22	3.8
Macquarie	19	1.3
KKR	18	0.3
Dalmore	18	0.9
Brookfield	10	0.2
Infrared	24	0.2

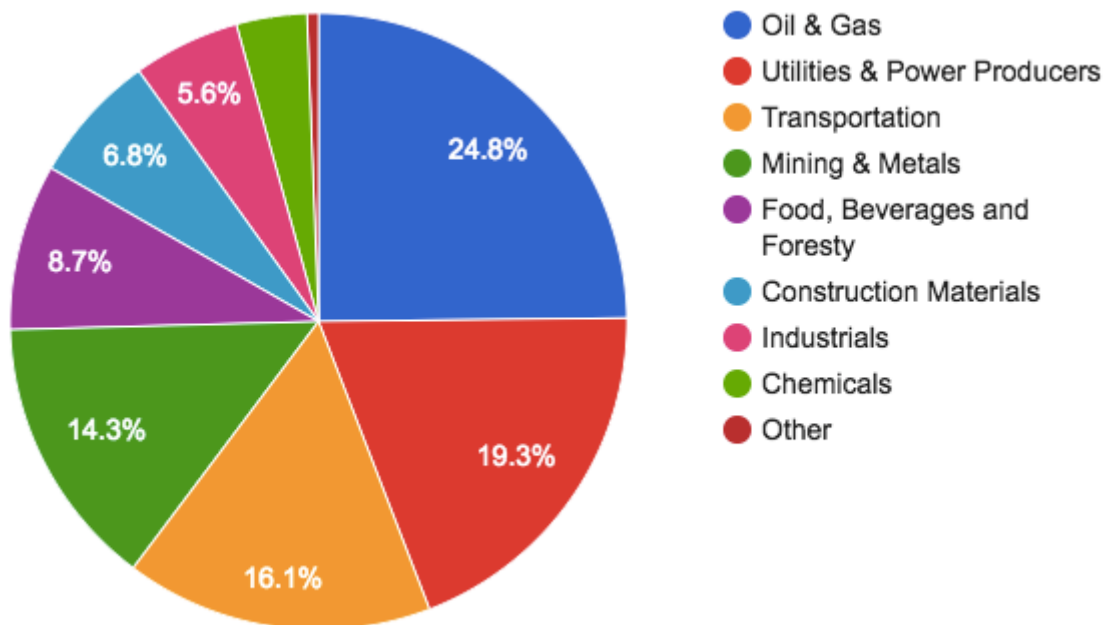
- 4.7 The scores above demonstrate the Fund managers all have ESG policies in place and that most are signatories to the UNPRI. 94.6% of funds managed on the Funds behalf with managers who score over 80% of the maximum score available.
- 4.8 Brookfield, which represents 0.2% of the fund scores the lowest as is the only manager not currently a signatory to the UNPRI code. They have however joined other ESG focused organisations such as Business for Social Responsibility and Accounting for Sustainability. They also produce an annual consolidated ESG brochure detailing their ESG activities.
- 4.9 This report will be an annual report which will compare each manager against the previous year's score. This should ensure the fund in actively monitoring the ESG performance of each manager. For those manager scoring 15 or less Officers will actively engage with them to improve their ESG position.

## **5 CLIMATE ACTION 100+**

- 5.1 Climate Action 100+ is an investor-led initiative to engage systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement. The key aims are shown below:

- Implement a strong governance framework which clearly articulates the board’s accountability and oversight of climate change risk
- Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement’s goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels.
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and sector-specific GIC Investor Expectations on Climate Change (when applicable) to enable investors to assess the robustness of companies’ business plans against a range of climate scenarios, including well below 2 degrees and improve investment decision-making.

5.2 The initiative is currently supported by 409 investors representing more than US\$24 trillion. Members of Climate Action 100+ have initiated challenges against companies such as Royal Dutch Shell and BP and have been able to encourage them to create agreements in order for them to reduce greenhouse gas emissions. The diagram below shows the industry areas that the companies targeted represent. There are currently 61 companies included on the target list.



5.3 Climate Action 100+ will monitor each company’s performance in respect of the high level goals. The output will be report to Members via Bi-annual investors updates and an Investor-led annual report.

5.4 There are two levels of participation which investors may join as. The levels are shown below:

**Participants** may be asset owners, managers or engagement service providers\* and are requested to:

- Publicly support the sign-on-statement, initiative objectives and agenda (see Appendix A).

- Commit to engage with at least one company during each year of the initiative, either via an existing collaborative engagement group or individually.
- Provide a high level report back to other participants of the initiative on the progress and next steps of their engagement.

**Supporters** may be asset owners only and are requested to:

- Publicly support the sign-on-statement and the initiative objectives and agenda
- Request that their managers or service provider with responsibility for engagement join the initiative.

5.5 To become a Supporter investors are required to sign up to the following commitment

***"We believe that engaging and working with the companies in which we invest – to communicate the need for greater disclosure around climate change risk and company strategies aligned with the Paris Agreement – is consistent with our fiduciary duty and will contribute to achieving the goals of the Paris Agreement.***

***The initiative aims to secure commitments from the boards and senior management to:***

- 1. Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk and opportunities.***
- 2. Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels.***
- 3. Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and sector-specific GIC Investor Expectations\* on Climate Change (when applicable) to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2 degrees and improve investment decision-making.***

***Working through AIGCC, Ceres, IGCC, IIGCC and PRI, we will together monitor the progress that companies make towards these towards these goals. We are committed to working collaboratively through this initiative, using a range of engagement approaches to ensure fulfilment of the above mentioned goals. "***

5.6 Due to the resources required to be a "Participating" member it is recommended the Pension Fund, to reinforce its commitment to climate change, considers becoming a "Supporter" and signs up to the commitment detail in para 5.5. The fund would encourage its fund managers to also join, currently three out of 13 of the fund's managers have already signed up to the commitment with Climate Action 100+.

## **6 IMPLICATIONS**

### **6.1 Financial**

There are no direct financial impacts relating to this report.

### **6.2 Risk and Mitigations**

The establishment of a Statement of Responsible Investment Policy and monitoring process will ensure the Fund meets its requirement under its fiduciary duties to ensure it has appropriate regards to ESG responsibilities.

**6.3 Equalities**

It is anticipated that there is no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

**6.4 Acting Sustainably**

This report monitors the approved policy of responsible investment which will require Fund Managers and Companies the Fund is invested in to ensure the environmental impact of their operations are considered and encourage them to act in a sustainable way

**6.5 Carbon Management**

This report will have no direct impact on the carbon emissions of the Council. It will however encourage Managers and Companies invested in to ensure the environmental impact of their operations are considered and encourage them to act in a sustainable way.

**6.6 Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

**6.7 Changes to Scheme of Administration or Scheme of Delegation**

No changes are required as a result of this report

**7 CONSULTATION**

7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and any comments received have been incorporated into the final report.

**Approved by**

**Name David Robertson**  
**Title Chief Financial Officer**

**Signature .....**

**Author(s)**

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager, 01835 825249

**Background Papers:** Statement of Responsible Investment

**Previous Minute Reference:** Joint Pension Fund Committee & Board, 30 November 2018

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Pensions & Investment Team can also give information on other language translations as well as providing additional copies.

Contact us at Pensions & Investment Team, Council Headquarters, Newtown  
St'Boswells, Melrose, TD6 0SA  
Tel 01835 825249  
Email; [t&cteam@scotborders.gov.uk](mailto:t&cteam@scotborders.gov.uk)