
RESPONSIBLE INVESTMENT MONITORING

Report by Executive Director Finance and Regulatory

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

24 September 2020

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 99.5% of the assets held by the Fund are managed by fund managers who are signatories to the United Nations Principles of Responsible Investment Code (UNPRI).
- 1.4 Information has been provided by Fund Managers and scored against questions listed in para 4.6. The scores for each manager is shown in para 4.7. 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 The Fund is a "Supporter" of Climate Action 100+ as agreed on 12 September 2019. Climate Action 100+ has been active and successful in achieving a number of key commitments in a number of sectors to reduce carbon emissions.
- 1.6 Officers of the Fund are now actively working with the Scottish Responsible Investors roundtable group to share good practice and investigate possible areas of improvement in the Funds responsible investment.

2 RECOMMENDATIONS

2.1 It is recommended that the Pension Fund Committee:

- (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) Notes the engagement and participation work completed by the Fund.**

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 2019-20 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 last monitoring report on 12 September 2019, four new fund management appointments have been made. Of these three were members of the UNPRI.
- 4.2 An investment made with Gaia during 2019/20 for a project focused on renewable energy. Although Gaia are not currently signatories of UNPRI the investment opportunity links directly to the aims of the agreed Responsible Investment Policy and the assists the move away from fossil fuels.
- 4.3 15 out of the 17 existing managers have confirmed they are signatories to UNPRI. The investments made with the two managers not signed, represents 0.5% of fund assets. These funds do however have clear ESG policies and are adhere to other ESG frameworks which are aligned with the SRIP principles. Brookfield is a signatory to Global Real Estate Sustainability Benchmark (GRESB), which is deemed to be the ESG benchmark for real assets. Gaia GP Ltd is a small sustainable investment fund what has sustainable investment at the core and which specialise in sustainable infrastructure assets.
- 4.4 Signatories to UNPRI 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 than 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+)

4.5 As part of the annual review process of Fund Managers all Managers have provided their 2019 Assessment Report. Key information for each the Managers has been extracted for the asset type held and is shown in Appendix 1.

4.6 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?

4.7 The table below shows the overall score for each manager funds where held with as at 31 March 2020. All Managers who are signatories to UNPRI agreed to share their Assessment Reports. Maximum score is 25.

Manager	Overall score 2019/20	% of Assets held as 31/3/2020	Overall Score 2018/19
Baillie Gifford	24.5	23.5	23
UBS	23	11.6	23
Morgan Stanley	21	13.9	20
LGT Capital	24.5	7.1	24
Blackrock	23	8.4	22
M&G	23.5	18.9	23
Partners	22	3.3	18
Permira	21	3.9	22
Macquarie	21	4.7	19
KKR	18	0.4	18
Dalmore	19	1.6	18
Brookfield	10	0.2	10
Infrared	20	0.2	24
Gaia	10	0.3	
Equitix	20	0.2	
Oaktree	15	0.2	
Alinda	17	0.4	
Cash	n/a	1.2	

- 4.8 The scores above demonstrate the fund managers all have ESG policies in place and 15 out of 17 are signatories to the UNPRI. 96.8% of the assets of the Fund are managed by fund managers who scored 20 or more, this compares to 94.6% in 2018/19.
- 4.9 The table above also demonstrates the eleven out of the twelve fund managers reported last year have score either improved or same scores as 2018/19.

5 ENGAGEMENT AND PARTICIPATION

- 5.1 The Joint Committee and Board agreed on 12 September to become "Supporter" to Climate Change 100+ initiative. The Fund has been accepted and now lends its support towards the initiative achieving the goals of the Paris Agreement.
- 5.2 Climate Action 100+, through its engagement activities, achieved a number of key commitments in a number of sectors to reduce carbon emissions. During 2020 Climate Action 100+ are looking to complete the development of a net zero company benchmark measurement system to allow progress to be monitored. These measurements will be used as a baseline to monitor progress against. Companies will be measured for three key indicators
1. How companies are performing on climate governance
 2. How companies are performing on climate action
 3. How companies are performing on climate disclosure
- 5.2 Officers are also now active in the Scottish Responsible Investor round table group. This group is formed up of Scottish Investors from both Local Government and Private sector. The group looks to share good practice and investigate areas where of improvement in the Funds responsible investment areas.

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 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is routine good governance required under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website demonstrates that equality, diversity and socio-economic factors have duly been considered when preparing 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/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

David Robertson

Signature

Executive Director Finance & Regulatory

Author(s)

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Background Papers:

Previous Minute Reference: Joint Pension Fund Committee & Board, 12 September 2019

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

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Appendix 1

Baillie Gifford

	01.Strategy & Governance	A+	
>50%	10. Listed Equity - Incorporation	A+	
>50%	11. Listed Equity - Active Ownership	A+	

UBS

	01.Strategy & Governance	A+	
10-50%	10. Listed Equity - Incorporation	A	
10-50%	11. Listed Equity - Active Ownership	A+	

Morgan Stanley

	01.Strategy & Governance	A	
10-50%	10. Listed Equity - Incorporation	C	
10-50%	11. Listed Equity - Active Ownership	B	

LGT

	01.Strategy & Governance	A+	
>50%	07. Private Equity	A+	

Blackrock

	01.Strategy & Governance	A+	
<10%	17. Property	A	

M&G

	01.Strategy & Governance	A+	
10-50%	12. Fixed Income - SSA	A+	
<10%	13. Fixed Income - Corporate Financial	A+	
10-50%	14. Fixed Income - Corporate Non-Financial	A+	
<10%	15. Fixed Income - Securitized	A	

Partners

	01.Strategy & Governance	A+	
10-50%	14. Fixed Income - Corporate Non-Financial	A	

Permira

	01.Strategy & Governance	A+	
10-50%	14. Fixed Income - Corporate Non-Financial	A	

Macquarie

	01.Strategy & Governance	A+	
10-50%	18. Infrastructure	A+	

KKR

	01.Strategy & Governance	A+	
10-50%	18. Infrastructure	Not reported	

Dalmore

	01.Strategy & Governance	A+	
>50%	18. Infrastructure	A+	

Brookfield- Not a UNPRI Signatory

Equitix

	01.Strategy & Governance	A	
>50%	18. Infrastructure	A	

Infrared

	01.Strategy & Governance	A+	
>50%	18. Infrastructure	A+	

Gaia- Not a UNPRI Signatory

Oaktree-Became signatory during 2019, first reporting period for them 2020.

Alinda

	01.Strategy & Governance	A	
>50%	18. Infrastructure	B	