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## **RESPONSIBLE INVESTMENT MONITORING**

**Report by Director Finance & Corporate Governance**

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

**14 December 2021**

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

- 1.1 The purpose of this report is to provide the Committee with the third 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 and on 16 September 2021 approved a revision to the Policy. Annual monitoring is required under the terms of the policy. As the monitoring is retrospective the monitoring requirements per the 30 November 2018 have been used.
- 1.3 98.8% 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 4.5. 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 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.

#### **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Pension Fund Committee:**

- (a) **Notes the third 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 first Statement of Responsible Investment Policy (SRIP) on 30 November 2018. Following an ESG workshop on 23 August 2021 a revised was presented and approved by the Committee on 16 September 2021. The 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 2020-21 MONITORING**

- 4.1 The 2020-21 monitoring is based on the requirements in the SRIP approved on 30 November 2018. This requires all new fund managers to have signed up to the United Nations Principles of Responsible Investment (UNPRI). Since the last monitoring report on 24 September 2020, no new fund management appointments have been appointed.
- 4.2 16 out of the 17 existing managers have confirmed they are signatories to UNPRI. Gaia , the one manager who is not a signatory is however a signatory of 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. In the review of the Funds RIP on 24 September 2021 GRESB was included as requirement for infrastructure and property managers who are not UNPRI signatories.
- 4.3 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 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 2020 Assessment Report. Key information for each the Managers has been extracted for the asset type held and is shown in Appendix 1. However due to changes in UNPRI reporting for some asset groups there have been a number of managers who have been unable to provide their most recent reports. For these managers the previous year reports has been used.

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 again 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 2021. All Managers who are signatories to UNPRI agreed to share their Assessment Reports where they were available. Maximum score is 25.

<b>Manager</b>	<b>Overall score 2020/21</b>	<b>% of Assets held as 31/3/2021</b>	<b>Overall Score 2019/20</b>
Baillie Gifford	25	26.2	24.5
UBS	24	10.3	23
Morgan Stanley	25	13.8	21
LGT Capital	25	7.0	24.5
Blackrock	24	6.7	23
M&G	24	20.8	23.5
Partners	23	3.2	22
Permira	21	2.9	21
Macquarie	21	4.7	21
KKR	19	0.4	18
Dalmore	22	1.6	19
Brookfield	15	0.2	10
Infrared	23	0.1	20
Gaia	10	0.3	10
Equitix	20	0.2	20
Oaktree	15	0.3	15
Alinda	20	0.4	17
Cash	n/a	0.9	n/a

- 4.7 The scores above demonstrate the fund managers all have ESG policies in place and 16 out of 17 are signatories to the UNPRI. 98.8% of the assets of the Fund are managed by fund managers who scored 20 or more, this compares to 96.8% in 2019/20.
- 4.8 The table above also demonstrates the eleven out of the twelve fund managers reported last year have score either improved or same scores as 2019/20.

## **5 ENGAGEMENT AND PARTICIPATION**

- 5.1 The Joint Committee and Board agreed on 12 September 2019 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+, now has 615 investors, 167 companies and \$60 trillion in assets as signatories. Through its engagement activities it has achieved a number of key commitments in a number of sectors to reduce carbon emissions. During 2021 it has also worked with Bayer on the development of their first climate policy and set decarbonisation expectations for electric utility companies to achieve net zero emissions globally by 2040.
- 5.3 Officers remain 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 Sustainable Development Goals**

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 **Climate Change**

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 **Data Protection Impact Statement**

There are no personal data implications arising from the proposals contained in this report.

#### 6.8 **Changes to Scheme of Administration or Scheme of Delegation**

There are not changes to the Scheme of Administration or the Scheme of Delegation required as a result of this report.

### **7 CONSULTATION**

7.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (People Performance & Change), 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 .....**

**Director Finance & Corporate Governance**

#### **Author(s)**

Name	Designation and Contact Number
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#### **Background Papers:**

**Previous Minute Reference:** Joint Pension Fund Committee & Board, 24 September 2020

**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	A+	
10-50%	11. Listed Equity - Active Ownership	A+	

### 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 - Securitised	A	

### Partners

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

### Permira

	01.Strategy & Governance	A+	
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10-50%	14. Fixed Income - Corporate Non-Financial	A	
<10%	15. Fixed Income - Securitised	A	
>50%	16. Private Equity	A+	

### Macquarie

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

Figures based on 2020 assessment report due to delay by UNPRI in release of 2021 submission.

### KKR

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

### Dalmore

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

**Brookfield-** Became signatories Not a UNPRI Signatory in early 2020 and will submit their first formal submission in early 2022 with results being available July 2022.

### Equitix

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

### Infrared

	01.Strategy & Governance	A+	
10-50%	17. Property	A+	
>50%	18. Infrastructure	A+	

**Gaia-** Not a UNPRI Signatory

**Oaktree-** Became signatory in inaugural PRI reporting requirement for the PRI, however the PRI have delayed the results until the summer of 2022

### Alinda

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