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## **RESPONSIBLE INVESTMENT – OBJECTIVE AND METRICS SETTING**

**Report by Director, Finance & Corporate Governance**

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### **JOINT PENSION FUND COMMITTEE & PENSION BOARD**

**17 March 2022**

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

- 1.1 The purpose of this report is seek approval for the responsible investment objective and metrics for the Pension Fund in line with the Fund's 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.
- 1.3 The Committee and Board, to ensure these fiduciary duties are met, and in line with good practice, approved a revised Responsible Investment Policy on 16 September 2021. The revised policy stated the Committee would seek to monitor key ESG metrics and look to set targets based on their views and how key metrics evolve over time.
- 1.4 To take forward this action a survey was undertaken with all Committee and Board members to identify the key priorities areas with the UN Sustainable Development Goals (SDG's). The results from the survey were used as the basis of a workshop on 28 February 2022. The results of the survey can be found on page 20 of the Appendix to this report.
- 1.5 The workshop highlighted challenges around the availability of data to allow some of the SDG's to be measure in a reliable and robust way. Due to existing reporting requirements the Task Force for Climate Related Financial Disclosure (TCFD) and Paris Aligned SDG's relating to climate are the most developed.
- 1.6 The workshop agreed 6 key SDG's as priorities. These are SDG 13 – Climate Change, SDG 7 – Affordable & Clean Energy, SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities.
- 1.7 Due to development and current availability of data it is proposed SDG13 Climate change and SDG 7 Affordable & clean energy are taken forward with fund managers as an initial priority. This will allow a baseline position to be established prior to targets being set.

- 1.8 The social SDGs SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities are currently not able to be measured due to poor data availability. It is proposed the Fund monitors on an annual basis the improvements to data to enable future objective setting and monitoring.

## **2 STATUS OF REPORT**

- 2.1 Due to the timing of the availability of valuations the report is currently undergoing consultation. Comments received from the consultation will be reported at the meeting.

## **3 RECOMMENDATIONS**

### **3.1 It is recommended that the Pension Fund Committee :**

- (a) Approve SDG 13 – Climate Change, SDG 7 – Affordable & Clean Energy, SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities, as the key responsible investment objectives of the Fund;**
- (b) Notes the output of the survey and workshop on 28 February;**
- (c) Approves work now be commenced with fund managers on the assessment and collection of data for SDG13 Climate change and SDG 7 Affordable & clean energy;**
- (d) Notes further reports will be presented to Committee on the results of this exercise to allow targets to agreed; and,**
- (e) Notes an annual review will be undertaken on the progress of development of further information to allow SDG's SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities to be progressed as quickly as practicable.**

## **4 BACKGROUND**

- 4.1 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.
- 4.2 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.
- 4.3 The Committee approved the first Responsible Investment Policy on 30 November 2018. A reviewed and revised policy was approved on 16<sup>th</sup> September 2021. The revised policy stated the Committee would seek to monitor key ESG metrics and would look to set targets based on their views and how key metrics will evolve over time.
- 4.4 The policy also recognised that the increased levels of reporting and monitoring Pension Funds are required to undertake is increasing. The Stewardship Code and TCFD which the Fund will also be required to adhere to, both have extensive monitoring and reporting requirements.

## **5 RESPONSIBLE INVESTMENT OBJECTIVE & METRIC SETTING**

- 5.1 The Committee fully supports all the UN Sustainable Development Goals (SDG's). However it acknowledges the information and data for some goals are not yet available in a form that would allow the Fund to set meaningful targets or undertake any robust measurement of their achievement.
- 5.2 To allow the Fund to prioritise its objectives and set meaningful metrics the Fund, Isio the Fund's investment advisor, undertook a survey of all Committee and Board members to gather data on their key priorities. This information was collated and present at a workshop on 28th February 2022. The full result of the survey can be found on page 20 of the Appendix to this report.
- 5.3 The data gathered and the discussions subsequently held at the workshop highlighted the lack for information or robust data for some of the SDG's. It also highlighted work which is currently ongoing within the investment world on the development of systems and methods to allow data to be collected in a way that will allow the production of robust, reliable and comparable data.
- 5.4 The output from the workshop is a recommendation for the Fund to prioritise 6 key objectives. The first two are Environmental objectives and the remaining 4 are Social objectives. These are listed below
  - SDG 13 – Climate Change
  - SDG 7 – Affordable & Clean Energy
  - SDG 1 – No Poverty
  - SDG 2 – Zero Hunger
  - SDG 3 – Good Health & Well-being
  - SDG 10 – Reduce Inequalities

- 5.5 Due to the requirements for Managers and Funds to undertake reporting to Task Force on Climate Related Financial Disclosures (TCFD) and the Paris Aligned Investment Initiative, much work has previously been undertaken around the development of measurable data for climate reporting. SDG 7 (Climate Change) and SDG 13 (Affordable & Clean Energy) both align to the goals of TCFD and Paris Aligned. It is therefore proposed these two measures are taken forward initially with requests to all fund managers to allow assessment of data availability and provide a base line position for the Pension Fund. Progress and information will be reported to Committee to allow targets to be agreed at a future meeting.
- 5.6 Data availability for non-climate metrics is currently very poor. It is proposed therefor for SDG's 1 (No Poverty), 2 (Zero Hunger), 3 (Good Health & Well-being) and 10 (Reduce Inequalities) the Fund actively engages with its managers to improve data and continues to reassess the ability to set key metrics for each of these metrics on an annual basis.
- 5.7 The attached Appendix details the key areas of discussion and full detail of the rational for the recommendations.

## **6 IMPLICATIONS**

### **6.1 Financial**

The additional requirements, improvements and development for reporting and monitoring will require external assistance. The costs are estimated at £12,500 for 2021/22 and £33,450 for 2022/23. These costs have been included in the budget for 2021/22 and 2022/23.

### **6.2 Risk and Mitigations**

The Responsible Investment Policy and monitoring process will ensure the Fund meets its fiduciary duties to ensure it has appropriate regards to ESG responsibilities in its investment decisions.

### **6.3 Integrated Impact Assessment**

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a 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 as doing so, signifies that equality, diversity and socio –economic factors have duly been considered when preparing this report.

### **6.4 Sustainable Development Goals**

The recommendations of this report, per the Funds Responsible Investment Policy, will further strengthen the Fund's commitment to sustainable investment.

### **6.5 Climate Change**

The recommendations of this report, per the Fund's Responsible Investment Policy, will further strengthen the Funds commitment to reducing climate change. Although no direct impact on climate change the policy continues

the commitment to encourage Managers and Companies invested in to ensure the environmental impact of their operations are considered and to 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**

No changes to the Scheme of Administration or Scheme of Delegation 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 Director (People Performance & Change), the Clerk to the Council and Corporate Communications are being consulted and any comments received will be reported at the meeting.

**Approved by**

**David Robertson**

**Director, Finance & Corporate Governance**

**Signature .....**

**Author(s)**

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**Background Papers:**

**Previous Minute Reference:** Pension Fund Committee and Pension Board 16 September

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

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