

**PENSION BOARD**  
**9 MARCH 2020****PENSION INVESTMENT AND FUND UPDATE**

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**Recommendation**

1. **The Chief Financial Officer recommends that the Pension board consider and advise the Pensions Committee on:**
  - a) **The Funds proposed draft 2020 Investment Strategy Statement attached at Appendix 1**
  - b) **The Funds proposed Environmental, Social and Governance audit specified in paragraph 8**
  - c) **The Fund's position against the 'Spectrum of capital (Appendix 2) in paragraph 9**
  - d) **Review of feedback from Triennial Consultation 2019 in paragraph 12; and**
  - e) **Scheme Advisory Board Responsible Investment Consultation in paragraph 14 and attached at Appendix 3.**

**Purpose of Report**

2. This report provides an update to the Board on several Investment and Funding areas for consideration and advice back to the Pensions Committee.

**Background****Draft Investment Strategy Statement 2020**

3. The LGPS Investment Regulations that came into effect from 1 November 2016 required all funds to publish a new ISS by 1 April 2017. The current ISS was approved by the Committee in March 2017 (Minute no 79 refers) and under Regulation 7(6) and (7); the ISS must then be kept under review and revised from time to time and at least every three years.

4. The Department for Communities and Local Government (DCLG) has also outlined new guidance on preparing and maintaining an Investment Strategy Statement which are reiterated in paragraph 5 below.

**Investment Strategy Statement Guidance Requirements**

5. Regulation 7(1) requires an Administering Authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS must include:

- a) A requirement to invest money in a wide variety of investments;

- b) The authority's assessment of the suitability of investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance (ESG) considerations are considered in the selection, non-selection, retention and realisation of investments; and
- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

6. The last ISS was agreed by Pension committee in June 2018 and the latest draft version (Appendix 1) has been updated to take on board recommendations from the Funds strategy review in March 2019 and strengthen the Environmental, Social and Governance (ESG) areas and Responsible Investment (RI) activities.

### **Environmental Social and Governance (ESG) and Responsible Investment (RI) Activities**

7. The term 'responsible investment' refers to the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes. It has relevance before and after the investment decision and it is a core part of our fiduciary duty. It is distinct from 'ethical investment' which is an approach in which moral persuasions of an organisation take primacy over its investment considerations

### **ESG Audit**

8. Given the increase and focus on RI and particularly Climate change it is evident that the Fund needs to conduct an ESG audit to establish a baseline for the Fund for future action and consideration. This is also on the back of the presentation to members by Karen Shackleton from Pensions for Purpose on the 31<sup>st</sup> January 2020. on **'Responsible Investment, Sustainable/Ethical Investment and Impact Investment.**

9. A key aspect of the presentation was where as a Fund we would wish to be on the 'Spectrum of capital (Appendix 2) ranging from 1 being the traditional forms of investment through to 8 being Philanthropy. Members have been asked for their view and based on the feedback so far Members would like to see the Fund on 4 between a mix of sustainable and impact driven investments. The ESG audit will help the Fund establish where we are and help formulate future strategic actions required for the Funds investment approach.

### **Development of a Climate Risk Monitoring Platform**

10. The Pension Board are asked to note that the Partner Fund Responsible Investment Working Group and LGPS Central are developing a Climate Risk Monitoring Service. This would provide four optional deliverables

- Assistance drawing up a climate change framework and strategy
- Per fund an annual climate change risk report tailored to individual funds requirements comprising
  - Climate scenario analysis, fund wide, all asset classes
  - Carbon metrics scorecard (carbon footprint, stranded asset analysis, etc.

- Annual climate stewardship plan
- Per fund annual training of Pensions Committee
- Task Force for Climate-related Financial Disclosures (TCFD) report for public disclosure with our annual report

11. All partner funds have now agreed to take this forward. A procurement exercise has been completed for Climate Scenario Analysis and Carbon Risk Metrics and providers appointed. Work is now ongoing to look to provide initial reports for each individual partner and the aim will be to bring this to the Board in June 2020 for consideration before going to the Pension Committee.

### **Review of feedback from Triennial Consultation 2019. How can we improve feedback?**

12. The provisional individual employer funding results and proposed employer contribution rates for 2020/2021 to 2022/2023 were discussed at the Employer Administration Forum on the 14 October 2019. A presentation from Mercers covered the assumptions used in and the results of the actuarial valuation as at 31 March 2019. Initial meetings were also held with the County Council and District Councils early September 2019. All employers were offered the opportunity to meet up with Mercers, the Funds actuarial advisors to discuss further their results. Around 50 Employers (25%) took up this option.

13. The consultation on the draft Funding Strategy Statement was sent to Employers on 21 October 2019 and were asked to respond by Friday, 22 November 2019. However, this was extended as some Employers were sent their results later than expected. There were 13 formal responses received which is just under 7% of our employers. The overall feedback response was poor, and the Pensions Committee requested that the Pensions Board review the consultation process to look to improve the response rate for the future.

### **Scheme Advisory Board Responsible Investment Consultation Feedback**

14. At the meeting of the Scheme Advisory Board on the 6 November, approval was given for the first part of guidance on Responsible Investment (RI) to be published for consultation until the 11 January 2020 Appendix 3. The aim of this first part of RI guidance is to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating Environmental Social & Governance (ESG) policies as part of investment strategy statements. The Board wished to make it clear that there is no intention to prescribe the extent to which ESG policies must be adopted as this must clearly remain a matter for local consideration and agreement in accordance with MHCLG's statutory guidance.

15. The Board also agreed that work should commence on drafting part two of the guidance, the aim of which is to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy. As part of the consultation on part one of the guidance, consultees are therefore also invited to submit details of case studies that evidence the successful adoption of ESG policies those focused on the risks associated with climate change. Consultees are also invited to suggest other matters that should be included in the part two guidance. The Board issued the following statement on the 24 February 2020.

*"The Scheme Advisory Board wishes to thank all those who responded to the request for comments on Part 1 of the Responsible Investment draft guidance. Responses have been generally positive with some very helpful drafting points that would help to improve the*

*content and readability of the document. However, some respondents have raised concerns around the issue of fiduciary duty in the context of the LGPS and, in particular, the role and responsibilities of elected members responsible for making investment decisions.*

*The Board is also aware that the issue of fiduciary duty was discussed during the recent case in the Supreme Court involving the Palestine Solidarity Campaign and MHCLG that could shed some light on how the fiduciary duty test applies to investment decision makers in the LGPS. More recently, the government has introduced amendments to the Pension Schemes Bill which potentially could have a significant impact on the way in which investment strategy statements are prepared on issues like ESG and climate change.*

*For these reasons, the view is taken that it would be imprudent at this stage to offer any definitive advice or guidance on how the fiduciary duty test applies to investment decision makers in the LGPS. The Board has therefore decided to take stock until it has had the opportunity to evaluate the judgement handed down by the Supreme Court and when more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill.*

*Notwithstanding this decision, the Board is mindful that there are matters outside of fiduciary duty where advice and information would continue to be helpful. The Board has therefore decided to restructure the proposed guidance to explain and clarify the terminology associated with responsible investment and provide investment decision makers with a range of information, case studies and tools to help them meet the challenges associated with responsible investment. The revised document will be circulated in draft to scheme stakeholders for comment in the normal way.*

*This change of direction will not preclude the Board from addressing the issue of fiduciary duty as a separate issue once the Supreme Court judgement in the foreign boycott case has been handed down and when there is more certainty about the government's proposals under the Pension Schemes Bill."*

## **Contact Points**

### County Council Contact Points

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### Supporting Information

Appendix 1 – Draft 2020 Investment Strategy Statement

Appendix 2 – Spectrum of Capital Slide

Appendix 3 – SAB Responsible Investment consultation

## **Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report