

# Pensions Committee

2.30 p.m., Wednesday, 17 December 2014

## Environmental Social and Governance Activity Update

<b>Item number</b>	5.10
<b>Report number</b>	
<b>Executive/routine</b>	
<b>Wards</b>	All

### Executive summary

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This report provides the annual update on Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund's, (the Funds), activity on environmental, social and governance (ESG) issues. The Funds pursue a policy of constructive engagement on issues, which is consistent with fiduciary duties.

### Links

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#### Coalition pledges

#### Council outcomes

CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

#### Single Outcome Agreement

## Environmental Social and Governance Activity Update

### Recommendations

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- 1.1 Committee is requested to:
- Note the contents of this report.
  - Endorse Councillor Cameron Rose's nomination to stand for re-election to the Local Authority Pension Fund Forum (LAPFF) Executive and for the position of Vice Chair, at the January 2015 AGM.

### Background

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- 2.1 The Funds pursue a policy of constructive engagement on issues, which is consistent with fiduciary duties.

### Main report

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#### Voting and Engagement

- 3.1 The voting and engagement arrangements on the Funds' equity holdings are shown in the tables below.

Mandate	Voting and Engagement Arrangement
UBS (Emerging markets)	UBS
State Street Pooled Funds (for Scottish Homes Pension Fund)	State Street
All other listed equities	Hermes Equity Ownership Services (EOS)

- 3.2 The busiest voting season is the quarter ending 30 June (Q2). In Q2 2014 Hermes EOS voted on the Funds' behalf at 413 meetings (5,876) resolutions. Hermes opposed 351 resolutions and supported management on 5,525.

- 3.3 Hermes EOS' recent engagement activity is detailed in Hermes quarterly report, which is available on the LPF website. Activity includes promotion of integrated sustainability and financial reporting by companies. As well as engaging with companies on this issue Hermes EOS is part of several initiatives to promote integrated reporting, such as the Sustainable Stock exchange initiative.
- 3.4 Hermes EOS has also engaged with food companies on the paradox that both obesity and malnutrition are problems.
- 3.5 Recent work on governance has included increased focus on issues with boards in Asia, where engagement with companies on stewardship issues is starting to gain momentum.

#### **Local Authority Pension Fund Forum (LAPFF)**

- 3.6 Lothian Pension Fund was a founding member of the LAPFF when it was established in 1990. It promotes the long-term investment interests of local authority pension funds and aims to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations. Its membership has increased over recent years (currently 60 of the 110 UK local government pension schemes).
- 3.7 LAPFF has continued its work on accounting standards for the banking industry and has made significant progress. Other recent activity includes corporate governance, carbon risk and executive pay. Further information such as Quarterly Engagement Reports and Newsletters is available on the LAPFF website. LAPFF also uses Twitter to update on activity.
- 3.8 Councillor Cameron Rose is currently Vice Chair of the Executive Committee of the LAPFF. Committee is asked to endorse Councillor Rose's nomination to stand for re-election to the Executive and for the position of Vice Chair at the AGM in January 2015. If successful, Council's endorsement of the appointment will be sought. Councillor Rose will provide a verbal update to Committee on his role on the Executive.

#### **Principles for Responsible Investment (PRI)**

- 3.9 Lothian Pension Fund signed the PRI in 2008. The PRI is a global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues, and to incorporate these factors into their investment decision making and ownership practices. Through membership of PRI we have been able to join various working groups on specific responsible investment issues. We also participate in an informal group of PRI signatories, which has been very useful. For example, through this group we have collaborated in an

initiative to encourage external investment managers to produce meaningful information on ESG activity in their regular client reporting.

- 3.10 Signatories complete a self assessment each year to measure progress against the PRI principles and also to allow comparison with peers.
- 3.11 Previous assessments of the Funds' activities have generally been very good. The feedback on our submission for 2013 included a suggestion for improvement in ESG integration in investment decision making. The Fund is reviewing options in this area for the internally managed funds. One possibility is the use of quantitative ESG data in the decision making process. As the 2013 assessment process was still at the pilot stage, PRI stipulates that feedback reports are only made available to stakeholders, and are not to be made public.
- 3.12 In the past the Fund has found that the self assessment process was time consuming and complex and the value of the resulting report questionable. However we have worked with PRI on their efforts to improve the process and we have now received the assessment request for year ending 31 Dec 2014, which is to be completed by March 2015. The PRI will provide our results by July 2015. This is quicker than previously and the new assessment also seems more relevant and useful. Further updates on the assessment will be provided to Committee.

## Measures of success

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- 4.1 Success of engagement with companies is very difficult to measure. The Funds' approach is essentially qualitative and is wide ranging. The impact is very difficult to quantify, especially in the short term. The Funds are signatories to PRI and complete the annual self assessment process which compares ESG activity with peers.

## Financial impact

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- 5.1 There is no financial impact as a result of this report. The costs of the Funds' ESG activity are included in the pension funds' budget.

## Risk, policy, compliance and governance impact

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- 6.1 The Environmental Social and Governance (ESG) activity of the Fund, that is being responsible informed and involved investors, is expected to reduce risk.

## Equalities impact

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7.1 There are no adverse equalities impacts arising from this report.

## Sustainability impact

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8.1 As much of the engagement activity is on sustainability issues, it is expected to contribute to the sustainability of the funds' investments.

## Consultation and engagement

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9.1 The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

## Background reading / external references

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None.

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## Links

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Lothian Pension Fund:

Responsible Investment [http://www.lpf.org.uk/info/68/responsible\\_investment](http://www.lpf.org.uk/info/68/responsible_investment)

<http://www.lpf.org.uk/lpf1/info/76/unpri>

United Nations Principles for Responsible Investment <http://www.unpri.org/>

Local Authority Pension Fund Forum <http://www.lapfforum.org/>

### Coalition pledges

**Council outcomes** CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

**Single Outcome Agreement**

**Appendices** None