

PENSIONS PANEL – 3 DECEMBER 2019

Report of the Director of Corporate Services

RESPONSIBLE INVESTMENT REPORT QUARTER 3 2019

Recommendations of the Chairman

1. That the Pensions Panel notes the content of the Responsible Investment (RI) report, including the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2) and LGPS Central Limited (LGPSC) Quarterly Stewardship Report (Appendix 3).

Introduction & Background

2. The United Nations Principles of Responsible Investing (UNPRI) define RI as ‘an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns’.



Environmental

- Resource utilisation
- Sustainability
- Pollution
- Carbon emissions



Social

- Community
- Human Rights
- Employees
- Customers
- Suppliers



Governance

- Stakeholder alignment
- Ownership structure
- Regulatory controls
- Board accountability
- Transparency

3. The Pensions Panel recognises its role in promoting RI and endorses the UNPRI, whilst the Fund’s equity managers are encouraged to sign up to them to ensure they incorporate ESG issues into their investment process. Currently all the Fund’s equity managers are signatories to the UNPRI (including those within the LGPS Central Active External Global Equity Multi Manager sub-fund).
4. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require the Pension Fund to have an Investment Strategy Statement (ISS) which must refer to the way in which the authority takes RI into account in the selection, non-selection, retention and realisation

of investments. The Staffordshire Pension Fund's ISS can be found on the Pension Fund's website www.staffspf.org.uk.

5. Under the 2016 regulations, the Fund is expected to become a signatory to the Financial Reporting Council's UK Stewardship Code. The Staffordshire Pension Fund was accepted as a Tier 1 signatory of the UK Stewardship Code in 2017. The Fund's statement of compliance with the UK Stewardship code was updated in 2018 and submitted to the Financial Reporting Council, who reaffirmed the Tier 1 status.
6. The Fund's Statement of Compliance with the UK Stewardship Code, as well as individual investment manager's RI policies and the UNPRI, are available on the Staffordshire Pension Fund website. www.staffspf.org.uk.
7. The Financial Reporting Council recently launched its updated UK Stewardship Code. The Code, which takes effect from 1 January 2020, aims to improve stewardship practices and sets a substantially higher standard than before. Existing signatories to the Code will be required to submit a Stewardship Report that meets the FRC's new reporting expectations by 31 March 2021, to continue to be listed as signatories to the UK Stewardship Code. Further information will be brought to the Panel next year on the work the Fund does to meet the criteria of the enhanced UK Stewardship Code.

Responsible Investment Beliefs

8. Recently, Members and Officers held a workshop and training event to review the Fund's Investment Beliefs. With RI becoming a more prominent part of the investment process and the Fund pooling assets with 8 other Partner Funds at LGPS Central; the events were held to ensure the Fund's Investment Beliefs were current and more aligned with the views of stakeholders.
9. The Fund's current Investment Beliefs make limited reference to RI: -
 - *'Responsible investment can enhance long term investment performance.'*

However, after a focussed workshop and training event for Pensions Committee and Pensions Board Members, which also involved representatives from LGPS Central Ltd and an external investment manager; Members agreed to update the Fund's Investment Beliefs to include the following RI Beliefs. These new RI Beliefs will be included alongside the Fund's wider Investment Beliefs, in an updated ISS which will be presented to Members for approval at the March 2020 Pensions Committee.

- *Responsible investment can enhance long-term investment performance across all asset classes and should be integrated into all investment processes.*
- *A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment. The*

opportunity to influence through stewardship is waived with a divestment approach.

- *Financial markets could be materially affected by climate change. Responsible investors should proactively manage this risk through stewardship activities in partnership with like-minded investors where feasible.*
- *Asset managers and investee companies with robust governance structures will be better positioned to handle future events. Decision making and performance are improved when there are diverse individuals involved.*

LAPFF Quarterly report

10. LAPFF's Quarter 3 2019 Engagement Report is attached for information at Appendix 2. Staffordshire joined LAPFF in March 2013, to reaffirm its commitment to RI matters. Pensions Panel Members are encouraged to read the report as it highlights the good work LAPFF does in engaging with organisations on behalf of its members.

LGPS Central Quarterly Stewardship report

11. The LGPS Central Quarterly Stewardship Report is attached at Appendix 3. This report outlines the collective work of LGPS Central, its engagement partners and the underlying managers they have appointed to manage assets in RI matters.

Quarterly voting summary

12. The Pensions Panel receives quarterly updates from the Fund's investment managers on details of votes cast on corporate resolutions. The following table summarises the voting activity of the Fund's investment managers in Quarter 3 2019.

Investment Manager Voting Activity Quarter 3 2019

	Total resolutions	Vote with management	Votes against management	Abstain
JP Morgan	3,250	3,029	194	27
Aberdeen Standard	289	282	7	0
Longview	3	3	0	0
Legal & General	5,980	5,114	844	22
LGPS Central – Global Equity Fund	104	79	25	0

John Tradewell
Director of Corporate Services

Contact: Melanie Stokes / Tim Byford
Telephone No.: (01785) 276330 / 278196

Background Documents:

LAPFF Quarterly Engagement Report
LGPS Central Quarterly Stewardship Report

Appendix 1

Equalities implications: There are no direct equalities implications arising from this report.

Legal implications: There are no direct legal implications arising from this report.

Resource and Value for money implications: The resource and value for money implications are included in the body of the report. Specific consideration should be given to any effect on investment returns.

Risk implications: There is a risk that any screening of investments may result in the Pension Fund not maximising investment returns.

Climate Change implications: There are no direct climate change implications arising from this report, but the wider climate change issue is considered through the Fund's voting and engagement.

Health Impact Assessment Screening: There are no direct implications arising from this report.