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| Report to: | Pension Committee | Date: | 30 November 2015 |
| Report title: | Responsible Investment | | |
| Report from: | Gerald Almeroth, Strategic Director - Resources | | |
| Ward/Areas affected: | Borough Wide | | |
| Chair of Committee/Lead Member: | Councillor Sunita Gordon | | |
| Author(s)/Contact Number(s): | Sue Hogg, Interim Head of Financial Strategy and Planning 020 8770 5260 | | |
| Corporate Plan Priorities: | <ul style="list-style-type: none"> • A Smart Council | | |
| Open/Exempt: | Open Exempt (Appendix B) | | |
| Signed: |  | Date: | 16 November 2015 |

1. Summary

- 1.1 This reports provides an overview of responsible investment within the existing investment strategy and recommends a review of environmental, social and governance factors that might impact on the Pension Fund for further consideration.

2. Recommendations

That the Pension Committee agree that:

- 2.1 A review is undertaken of the environmental, social and governance factors that may impact on the fund with a report back to the Committee on the outcome of the review and options on future actions.
- 2.2 Fund managers are requested to adopt the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.

3. Background

- 3.1 At the last Pension Committee meeting in June 2015, a report was requested on responsible investment within the Pension Fund and how environmental, social and governance factors can be taken into account when considering the approach to investments.
- 3.2 Hymans Robertson have produced a report on this issue, which is attached at appendix B.



4 Issues

- 4.1 Sutton's current approach towards responsible investment falls under the heading of "Socially Responsible Investments" and can be found within the statement of investment principles (an extract of which is included in appendix B).
- 4.2 In 2001 following a review of institutional investment, a set of ten principles were developed for all institutional investors to work to. Lord Myners conducted the review and so the principles became known as the "Myners principles". The principles were revised during 2008 and a new set of six principles published. In December 2009 CIPFA issued statutory guidance for Local Government Pension Schemes to determine their level of compliance with the principles.
- 4.3 The Myners six principles of investment practice include a principle on responsible ownership, Sutton's Pension fund is currently only partially compliant with this principle as we have not to date adopted, or ensured our fund managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents (attached at appendix A). The code aims to improve long-term returns, reduce the risk of catastrophic outcomes due to bad strategic decisions and to help with the efficient exercise of governance responsibilities.
- 4.4 The Law Commission published a report in July 2014 on the fiduciary duty of investment intermediaries, this summarises the law governing the duties of those involved in the investment process and offered guidance on how trustees and managers can take account of responsible investment factors.
- 4.5 This report reiterates that financially material environmental, social and governance should be taken into account, but it is up to trustees to decide whether a factor is financially material. If non-financial factors are taken into account there must be good reason to think that all pension scheme members will agree and that there should be no risk of significant financial detriment.
- 4.6 There are three ways to manage responsible investment issues:
 - divest - this removes exposure to compromised investments but reduces diversification by excluding a sector of the market
 - tilt - invest more with non-fossil fuel companies without excluding all
 - engage and influence corporate behaviour.
- 4.7 The funds statement of investment principles summarises the current position. Using this document as a starting point it is recommended that a review is undertaken of the environmental, social and governance factors that may impact on the fund with a report back to the Committee on the outcome of the review and options on future actions. This review will also consider the adoption by the pension fund or fund managers of the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents in line with best practice.
- 4.8 Some local authority pension funds are members of the Local Authority Pension Fund Forum (LAPFF) which is a collaborative shareholder engagement group. The LAPFF has 65 local authority pension fund members from across the country who discuss investment issues and



shareholder engagement. Responsible Investment is one of the areas that would be discussed by the forum who will then form a collective view on what best practice is for local authority pension funds.

5 Impacts and Implications

5.1 Financial

There are no direct financial implications arising from this report. The financial impact of any proposed future changes in the approach to investment of the pension fund will be reported to the Committee as part of the review.

5.2 Legal

There are no direct legal implications arising from this report.

6 Appendices and Background Documents

| Appendix Letter | Title |
|-----------------|---|
| A | Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents |
| B | Hymans Robertson paper on Responsible Investment (exempt from publication) |

| Background Documents |
|--------------------------------|
| Myners revised principles 2008 |

| Audit Trail | | |
|----------------------------------|-----------------|------------------------|
| Version | Final | Date: 19 November 2015 |
| Consultation with other officers | | |
| Officer | Comments Sought | Comments checked by |
| Finance | N/A | Sue Hogg |
| Legal | Yes | Fabiola Hickson |

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