Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Responsible Investment Review Timetable **Pensions Committee** **15th March 2021**	Classification **PUBLIC** Ward(s) affected **ALL**	Enclosures One **AGENDA ITEM NO.** **5**

1. INTRODUCTION

1.1. This report presents the Committee with the proposed timetable for the further review of various aspects of the Committee's responsible investments agenda including ongoing engagement with companies and fund managers, approach to the Stewardship Code and Taskforce on Climate Related Financial Disclosures (TCFD) reporting, Committee's investment beliefs, climate change policy and Environmental, Social & Corporate Governance (ESG) aspirations.

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1.2. In addition it considers the further development of the Fund's current target in respect of fossil fuel exposure and the timetable for this given we will soon be in the final year of the six year time horizon originally set for the current target to be achieved.

2. RECOMMENDATIONS

2.1. The Committee is recommended to:

- Note and approve the proposed timetable for the review of the Fund's responsible investment activities as set out in the Appendix to the report
- Note the timetable and further work required in order to develop the climate change policy further and to set a new target during 2022 as sset out in section 7 of this report.

3. RELATED DECISIONS

- Pensions Committee Workshop February 2020 - development of investment beliefs
- Pensions Committee July 2016 - Climate Change Impact Assessment and Target setting

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1. The Pensions Committee has always been keen to ensure that it remains at the forefront when considering its approach to responsible investment and other ESG issues, whilst of course bearing in mind its obligations arising from its overarching fiduciary duty to employers and members in the Fund.

4.2. This is clearly evidenced by the work the Committee has done, particularly over the last 4-5 years, in response to climate change, and the progress it has made in reducing its exposure to fossil fuel reserves throutions taken uity holdings. This freeport sets out its aspirations to explore this further given the progress already made against the target it set for the fund.

4.3. In addition to actions taken in relation to its physical investment holdings, the Committee strongly believes that it should continue to engage with companies and fund managers on ESG issues via various bodies, such as the Local Authority Pension Fund Forum (LAPFF)

4.4. Whilst there are no direct financial implications arising from this report, it is recognised that such issues can have a significant influence on the returns achieved from the Fund's investments due to the medium to long-term impact on a company's value of their associated policies and actions.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1. The Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. Reviewing the Fund's Investment Strategy following the 2019 actuarial valuation helped to ensure that the Strategy remains appropriate given the funding position and assists the Committee in fulfilling this duty.

5.2. Regulation 7 of the 2016 Regulations requires the Administering Authority to formulate an Investment Strategy in line with guidance published by the Secretary of State. Regulation 7(2) stipulates that the authority's investment strategy must include:

(a) a requirement to invest fund money in a wide variety of investments;
(b) the authority's assessment of the suitability of particular investments and types of investments;
(c) the authority's approach to risk, including the ways in which risks are to be assessed 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 and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

5.3. This paper helps demonstrate that the Committee is investing in line with Regulation 7(2), by carrying out an assessment and development of the funds policies in respect of ESG considerations whilst bearing in mind its overarching fiduciary duty.

6. RESPONSIBLE INVESTMENT REVIEW

6.1. The Committee has had many discussions on its approach to responsible investment, including specific workshops to develop its investment beliefs and approach to engagement with the companies it is invested in and fun d managers.

6.2. It has been a member of LAPFF for many years and continues to support that organisations work in engaging with companies on behalf of LGPS funds on ESG issues.

6.3. The Committee has adopted very clear policies on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments and on the exercise of rights (including voting rights) attaching to investments. These are both included in the latest version of the Investment Strategy Statement approved in June 2020.

6.4. More recently, at a special Committee workshop devoted to the review of the Committee's investment beliefs, those beliefs were evaluated against the 17 UN Sustainable Development Goals and refreshed and updated. These beliefs now form an important part of the revised investment strategy and will be key to choices made in the implementation of that strategy over the next 12-18 months.

6.5. To ensure that our policies in this area remain relevant and in line with the Committee's agenda on ESG, officers have discussed a responsible investment review roadmap with the fund's investment advisers, and this is discussed in the attached appendix.

6.6. This includes the review of various aspects of the funds and others policies, including:

- Review of fund fund manager and LCIV approach to responsible investment and engagement
- Approach to the Stewardship Code
- TCFD reporting
- Further review of Committee investment beliefs and ESG aspirations, including its climate policy
- Review of mandate benchmarks

6.7. The investment advisers from Hymans Robertson will be in attendance at the Committee meeting and will present the responsible investment timetable for discussion and approval in order that these activities can be completed over the remainder of 2021.

7. CLIMATE CHANGE TARGET

7.1. In the summer of 2016, the Committee commissioned Trucost to carry out a carbon risk audit of the Fund. In doing this they evaluated the carbon footprint of the Fund via its equity holdings.

7.2. Having taken into account the risks associated with exposure to fuel reserves, the Committee approved a target to reduce the Fund's relative exposure to future emissions from fossil fuel reserves by 50% over 2 valuation cycles (6 years). That reduction was to be measured relative to the Fund's position as at July 2016 and adjusted for assets under management (AUM).

7.3. At the halfway point, as reported in February 2020, the fund had already reduced its exposure by 31% (60% of the target) and was therefore well on its way to meeting or even exceeding its target by the end of the 6 year period.

7.4. At that point and in view of the progress already made it was stated that the

Committee would use the results to help set out the investment strategy for the next three years and to make sure we meet or exceed our overall target

7.5. In light of this, the recent decisions made in respect of changes to the Fund's Asset allocation as part of the review of the investment strategy, including reducing exposure to equities overall and an allocation to renewable infrastructure, will result in the Fund investing in a "greener" portfolio and will certainly assist in reaching the climate change target.

7.6. It is also envisaged that the approved investment strategy and revised asset allocation will bring the funds position in terms of fossil fuel exposure in line with the IPCC Special report on Global Warming of 1.5 degree C.

7.7. Given there is now only just over 1 year left to the end of the time set in the current target for reduction in fossil fuel exposure the Committee should consider how it can align the Fund's target to the Council's commitment to a net zero carbon footprint by 2040. It is recommended therefore that officers engage with Trucost again to measure progress against ite current target late in the current year in order that we can then move on to consider a refreshed target, brought into line with the Council target, by the summer of 2022.

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Appendices
Appendix 1 - Responsible Investment Timetable