

**Environmental, Social & Governance (ESG) and Responsible Investment (RI) Guidelines**



**ACCESS Joint Committee**

**Date: 12 November 2020**

**Report by: Officer Working Group**

<b>Subject:</b>	<b>Environmental, Social &amp; Governance (ESG) and Responsible Investment (RI) Guidelines</b>
<b>Purpose of the Report:</b>	To provide the Joint Committee with a position statement on the development of updated ESG/RI guidelines for the ACCESS pool
<b>Recommendations:</b>	<b>The Joint Committee (JC) are asked to:</b> <ul style="list-style-type: none"><li>• note the content of the report.</li><li>• determine the representatives to participate in the selection interview panel.</li></ul>
<b>Enquiries to:</b>	Name – Kevin McDonald E-mail – kevin.mcdonald@accesspool.co.uk

## 1. Purpose

- 1.1. To provide the Joint Committee (JC) with a position statement on the development of updated Environmental, Social and Governance (ESG) and Responsible Investment (RI) guidelines for the ACCESS pool.

## 2. Background

- 2.1. Following a review of the eleven locally determined ESG/RI *policies* of each of the ACCESS Authorities, initial ESG/RI *guidelines* for the pool were drafted. At its January 2018 meeting, the JC agreed these current ESG *guidelines* which form part of the Prospectus, which each participating Authority agrees when making an investment in the ACCESS ACS. The current voting guidelines form part of Investment Manager Agreement between Link and the various Managers on a comply or explain basis.
- 2.2. In recognition of the importance of ESG/RI to participating ACCESS Authorities, the 2020/21 ACCESS Business Plan included activity relating to ESG/RI guidelines. The Risk Register also reflects a risk in relation to ESG/RI. Both have been copied below:

Theme	Milestone	2020/21 activity
<b>Governance</b>	Agreement to Joint Polices & guidelines.	Work will be undertaken to finalise joint guidelines on ESG/RI.

Ref No.	Description of Risk	Possible Responses: Prevention, reduction, acceptance, contingency, transference	Risk Level	Comments
29	<p><b>Environmental, Social &amp; Governance (ESG) / Responsible Investment (RI) Guidelines:</b></p> <p>Notwithstanding the intention of the ACCESS pool being to [facilitate the implementation of local strategies] it has been necessary for the Joint Committee to determine responsible investment terms, voting and stock lending guidelines – all of which were agreed in early 2018. Since that time Authorities will have conducted reviews of their respective Investment Strategy Statements and a number have indicated developments in their respective approaches to ESG/RI matters. The guidelines agreed by ACCESS need to be maintained in order to reflect the requirements of the investing Authorities.</p>	<p><b>Reduction/Prevention:</b></p> <p>Existing guidelines to be reviewed; Revised guidelines to be developed</p>	<b>Amber</b>	<p><b>Updates: -</b></p> <p>The ASU has conducted a baseline analysis of each ACCESS Authority's latest ESG/RI policy;</p> <p>All Investment Managers with ACCESS portfolios have been surveyed on a range of stewardship and engagement matters;</p> <p>A draft specification for the provision ESG/RI advice has been drawn up.</p>

- 2.3. The JC may appoint professional advisers on such terms as it thinks fit.
- 2.4. At its meeting on 7 September the JC noted:
- that responsibility for the determination of ESG/RI *policy* remains the province of each ACCESS Authority;
  - references within all Authorities' ESG/RI policies to both the UK FRC Stewardship Code and United Nations Principles of Responsible Investment;
  - that a statement would be included on the ACCESS website to highlight that
    - All 11 investment managers are signatories to the United Nations Principles of Responsible Investment;
    - All 10 investment managers based in the UK have stated the intention to become signatories to the revised FRC UK Stewardship Code;
    - 9 of the 10 investment managers based in the UK have been assessed as a Tier 1 Asset Manager under the UK Stewardship Code; and
    - currently 6 of the ACS investment managers measure the carbon footprint of their mandate against a carbon benchmark.
  - An outline specification for the provision of specialist advice to develop ACCESS's ESG/RI guidelines;
  - the intention to use Lot 5 of the LGPS Stewardship framework to procure this advice.
- 2.5. The JC agreed that Essex County Council would act as the Lead Authority for the purposes of procuring the ESG/RI advice, and this will be conducted in line with Essex County Council procurement arrangements. The final stage of the procurement will be a recommendation to the JC when it meets on 13 January 2021 on the appointment of a preferred provider. Essex County Council will then enter into a contract with the appointed adviser on behalf of the Authorities.

### **3. Advice to ACCESS on ESG/RI matters**

- 3.1. Since the last meeting of the Committee, an Officer Task & Finish Group has been formed of Officers. Whilst drawn from nine Authorities the Officers are representing ACCESS rather than a local interest. This group has met on five occasions.
- 3.2. The specification drawn up by this group builds on the detail included within the JC's last report in September, and is included at Annex A.
- 3.3. Advice in two phases is required. Although it is possible that one provider could undertake both phases, separate procurements will take place for Phase 1 (using the Stewardship Advisory Services LGPS National Framework) and Phase 2.

#### Phase 1

- i) advice on developing ESG/RI pool guidelines on behalf of eleven LGPS institutional asset owners;
- ii) drafting of ESG/RI pool guidelines;

- iii) advice on implementing ESG/RI guidelines in a pooled environment; and
- iv) advice on future appropriate reporting requirements to provide transparency to stakeholders, monitor adherence to the guidelines and inform discussion on ESG/RI matters.

Phase 2

- i) deliver reporting requirements to provide transparency to stakeholders, monitor adherence to the guidelines and inform discussion on ESG/RI matters.
- ii) provide comment on developing of the reporting requirements to reflect industry changes and best practice.

3.4. For the Phase 1 procurement the evaluation criteria will be based upon the following:

Quality	40%
Service Fit	40%
Commercials:	20%
 Total	 100%

3.5. A selection interview will be worth 30% of the total score and will consist of both Quality and Service Fit components. The evaluation criteria will split across the written format and interview format on a 70:30 basis.

3.6. The outline Phase 1 procurement timetable is set out below. The process includes a final selection interview. The suggestion is that up to 3 Joint Committee Members participate on this panel, along with s151 and OWG representation.

Date	Action	Participants	Status
30 October 2020	Detailed specification and evaluation finalised	Officer Task & Finish Group (drafting) OWG (agreement)	Complete
12 November	Update on progress	JC	Complete
Mid November	Procurement launched	ASU	On track
Early December	Deadline for responses	Lot 5 service providers	On track
Mid December	Evaluation of responses	Officer Task & Finish Group	On track
Mid December / early January	Final selection interview	Selection interview panel: <ul style="list-style-type: none"> <li>• Up to 3 JC Members</li> <li>• s151 Officer (East Sussex)</li> <li>• OWG representation</li> <li>• ASU</li> </ul>	On track

13 January 2021	Approval of appointment	JC	On track
31 January 2021	Appointment ratified	Essex County Council	On track

#### **4. Recommendation**

JC are asked to:

- 4.1. note the content of the report
- 4.2. determine the representatives to participate in the selection interview panel

## Advice to ACCESS on ESG/RI matters: Specification

### ACCESS background

In response to the Government's pooling initiative, in early 2016 eleven Local Government Pension Scheme (LGPS) Authorities came together to form ACCESS.

Building on commonalities including similar approaches to investing and the exclusive use of external asset managers, the eleven Authorities agreed the following principles set out below:

Collaborative	Risk management	Objective evidence based decisions
Equitable voice in governance	Professionalism	Equitable cost sharing
No unnecessary complexity	Evolution and innovation	Value for money

Implicit within how these principles are applied was the fundamental importance of both *democratic accountability* and the *fiduciary duty of those charged with governance of the LGPS at each local Authority*.

ACCESS objectives are to:

1. enable Authorities to execute their fiduciary responsibilities to LGPS stakeholders;
2. provide a range of asset types necessary to enable Authorities to execute their locally decided investment strategies; and
3. enable Authorities to achieve the benefits of pooling and create the desired level of local decision-making and control.

The pooling arrangements are underpinned by an Inter Authority Agreement (IAA) which frames the relationship between the individual Authorities and a Joint Committee. The Joint Committee comprises of one nominated Councillor from each LGPS Authority.

### ACCESS in 2020/21

As at 30 June 2020 assets totalling **£25bn**<sup>1</sup> invested under ACCESS pooled governance in the following ways:

- **£12bn** in jointly procured passive mandates with UBS for equity and fixed income assets; and
- **£13bn** across 15 sub-funds and 10 investment managers within an Authorised Contractual Scheme (ACS), operated by Link Fund Solutions. Currently investments are in equity, fixed income and diversified growth assets.

<sup>1</sup> This represents c. 50% of the total AUM of all 11 ACCESS Authorities

The ACCESS Business Plan for the year to 31 March 2021 includes:

- the continuance of the listed asset pooling programme;
- the commencement of a programme to pool alternative asset classes (private debt, private equity, infrastructure and property); and
- a review of the pool's ESG/RI guidelines.

## **ACCESS ESG/RI Guidelines**

Whilst ACCESS has been established to enable Authorities to execute their locally decided investment strategies and meet their local fiduciary responsibilities, as part of the establishment of the ACS and in line with good governance, guidelines have been agreed by the Joint Committee in relation to Responsible Investment. These guidelines have been drawn from the commonalities that exist across the individual ESG/RI Policies of each ACCESS Authority . A set of Voting Guidelines was finalised at the same time (2018). Pool reporting on ESG/RI matters is developing.

In the time since Authorities have reviewed and updated / expanded their respective ESG/RI Policies in response to both their own requirements and the evolving expectations place upon institutional investors. Furthermore, some Authorities continue to actively develop their policies in this area during 2020/21.

The ACCESS ESG/RI Guidelines therefore require review to ensure they continue to be reflective of the position of the ACCESS Authorities.

## **Lead Authority**

Essex County Council are acting as Lead Authority for the procurement of ESG/RI advice on behalf of ACCESS Authorities.

## **ESG/RI advice requirement**

Advice in two phases is required. Although it is possible that one provider could undertake both phases, separate procurements will take place for Phase 1 and Phase 2.

### Phase 1

1. advice on developing ESG/RI pool guidelines on behalf of eleven LGPS institutional asset owners;
2. drafting of ESG/RI pool guidelines;
3. advice on implementing ESG/RI guidelines in a pooled environment;
4. advice on future reporting requirements to provide transparency to stakeholders, monitor adherence to the guidelines and inform discussion on ESG/RI matters.

This will entail:

- an understanding of the LGPS and the pooling agenda;
- an understanding of the ACCESS pool, its stakeholders, objectives and principles;
- an understanding of each of the ACCESS Authorities, their stakeholders, objectives, principles and key beliefs including detailed knowledge of their existing and developing ESG/RI policies;

- an understanding of the current and future ESG/RI related challenges faced by, and opportunities open to, institutional asset owners;
- consideration of how commonalities between investors can be built upon and how differences can be navigated;
- advice on ESG/RI guidelines for the ACCESS pool:
  - facilitating a workshop for ACCESS authorities to discuss ESG/RI views, in order to discuss objectives, principles and key beliefs and identify common ground, any differences and red lines;
  - drafting the updated *guidelines*;
  - presenting draft updated *guidelines* to the Joint Committee;
  - drafting a plan for monitoring adherence to the updated *guidelines* to provide transparency to stakeholders and inform discussion on ESG/RI matters; and
  - drafting initial RI statements for the ACCESS website to articulate the position on RI;
- an understanding of how to apply such guidelines within different asset classes and structures including the ACS, with advice on how guidelines should be implemented through sub-fund documentation and sub-fund manager relationships;
- advice on implementing ESG/RI guidelines within the LGPS pooled environment;
- an understanding of the current and future ESG/RI reporting expectations of institutional asset owners; and
- advice on future ESG/RI reporting requirements that are both appropriate and deliverable, to provide transparency to stakeholders, monitor adherence to the guidelines and inform discussion on ESG/RI matters.

ACCESS will keep the guidelines under review and reserves the right to commission further advice at a future point.

Information on Phase 2 is provided below for the purpose of completeness and to assist potential Phase 1 suppliers in developing their response. The Phase 2 specification will be further shaped by the outputs of Phase 1.

## Phase 2

1. deliver reporting requirements to provide transparency to stakeholders, monitor adherence to the guidelines and inform discussion on ESG/RI matters.
2. provide ongoing commentary on any required development of the reporting requirements to reflect industry changes and best practice.

This will entail:

- an understanding of the LGPS and the pooling agenda;
- an understanding of the ACCESS pool, its stakeholders, objectives and principles;
- an understanding of each of the ACCESS Authorities, their stakeholders, objectives, principles and key beliefs including detailed knowledge of their existing and developing ESG/RI policies;
- detailed knowledge of the development of ACCESS's ESG/RI guidelines;
- an understanding of the current and future ESG/RI related challenges faced by, and opportunities open to, institutional asset owners with particular reference to reporting requirements;



- the capacity to deliver ESG/RI reporting requirements to satisfy the needs of the eleven ACCESS Authorities and the Joint Committee;
- the ability to monitor developments in ESG/RI reporting requirements;
- the capacity to recommend and implement revised ESG/RI reporting requirements.