

From:	Chairman Superannuation Fund Committee Corporate Director of Finance
To:	Superannuation Fund Committee – 13 November 2020
Subject:	Responsible investment update
Classification:	Unrestricted

Summary:

To update the Committee on the feedback received on the Fund's draft Responsible Investment ("RI") policy and to report on the investment managers' recent engagement with companies on behalf of the Fund.

This report also provides an update on the progress being made in developing a set of ACCESS RI guidelines as well as a summary of recent environmental initiatives.

Recommendations:

1. The Committee is recommended to note the report and to agree to:
 - a) set up a working group comprising members and officers to consider the further development of the policy, and its implementation, taking account of the feedback from stakeholders as well as the recent environmental initiatives
 - b) finalise the RI policy, taking account of the recommendations of the working group at a future meeting of the Committee.

FOR DECISION

1. Introduction

- 1.1 As the Committee will be aware, following on from the ESG workshop hosted by Mercer at the 13 February 2020 meeting, a revised draft RI policy was agreed at the committee meeting on 13 March. A copy of this draft policy is attached at appendix 1.
- 1.2 On 13 March the Committee agreed to seek feedback and comments from stakeholders including LGPS members and employers in the Fund including Kent County Council, as well as from the Fund's investment managers.
- 1.3 This report informs the Committee of the responses from stakeholders and the Fund's investment managers. Due to Covid 19 collecting these responses has taken longer than was anticipated.

- 1.4 The Committee also agreed to review the policy every 6 months to ensure it is appropriate with respect to ESG issues and takes into account any feedback received.
- 1.5 In order to properly inform the Committee of the feedback on the policy it was decided to defer further consideration of the policy to this meeting.
- 1.6 In addition members agreed to develop reporting arrangements with investment managers and this report includes a summary of their voting activity in the 3-month period to June 2020 as well as examples of their recent engagement with companies.
- 1.7 Officers were also asked to bring a report on stock lending and this is included in this report.

2. Consultation with stakeholders

- 2.1 Since March a copy of the draft policy has been available on the Pension Fund website and LGPS members, employers and other interested parties have provided comments and feedback on the policy.
- 2.2 60 responses were received of which 58 were from individuals and 2 were from Fund employers. A separate detailed response was also received from Kent County Council officers. Details of these responses are at appendix 2.
- 2.3 The next step is to take account of the responses and to finalise the RI policy for implementation. It is important that the responses are given due consideration and taken account of in the final policy. In order to undertake this work, it is proposed that a working group of committee members and officers is established to develop and put forward recommendations to the Committee at a future meeting.

3. Consultation with investment managers

- 3.1 Our investment managers were invited to comment on the draft RI Policy and to confirm that they would be able to comply with it.
- 3.2 All managers responded confirming that they would be able to comply with the requirements of the policy. All are already signatories to the UN Principles of Responsible Investing (UNPRI), apart from YFM, who are in the process of signing up and hope to have completed the process by the end of this calendar year.
- 3.3 Most of the managers of listed investments are also signatories to the UK Stewardship Code.
- 3.4 The following table details the responses received.

Fund Manager	UNPRI Signatory	UK Stewardship Code Signatory
Baillie Gifford	Yes	Yes
CQS	Yes	In progress
DTZ	Yes	TBC
Fidelity	Yes	Yes
Goldman Sachs	Yes	Yes

Harbourvest	Yes	TBC
Impax	Yes	Yes
Kames	Yes	Yes
M&G	Yes	Yes
Partners Group	Yes	TBC
Pyrford	Yes	Yes
Ruffer	Yes	Yes
Sarasin	Yes	Yes
Schroders	Yes	Yes
UBS	Yes	Yes
YFM	In progress	TBC

4. Voting

4.1 The RI Policy requires the Fund's investment managers to report on their voting decisions and a summary of the managers' voting activity for the Quarter ended 30 June 2020 is shown in the table below:

Manager	ACCESS ACS	Mandate	Number of Meetings	No. of votes for	No. of votes Against, Abstained or Withheld
Baillie Gifford	√	Global Equities	131	1,284	56
Schroders	√	UK Equities	28	571	9
Schroders GAV	X	Global Equities	480	5,669	668
M&G	√	Global Equities	11	163	16
Ruffer	√	Absolute Return	14	194	7
Sarasin	X	Global Equities	30	271	160
UBS (across all UBS products)	Under Pool governance	UK, Global Equities	6,642	62,848	12,655
Impax	X	Global Equities	146	1,776	136
Pyrford	X	Absolute Return	Data	published	annually

4.2 The Investment managers used their discretion to cast votes at meetings on behalf of the Kent Fund, and voted against resolutions where they felt it was in the best interests of shareholders to do so. This most frequently occurred on matters relating to Directors and Remuneration.

4.3 The managers of ACCESS funds are also required to comply with the ACCESS voting policy guidelines or to explain why if they did not comply.

5. Engagement activity

- 5.1 Investment managers are expected to actively engage with companies to monitor and develop their management of ESG issues in order to enhance the value of the Fund's investments.
- 5.2 Some examples of successful engagements carried out by the managers can be found in Appendix 3.

6. Stock lending

- 6.1 At the March committee members asked for more information on the Fund's stock lending programme. Details of the programme and income earned in 2019-20 are included in the Fund's annual report and accounts. The total reported income from stock lending on the Sarasin and GSAM directly held portfolios in the year was £42,000.
- 6.2 In the quarter to June 2020 the Fund received a further £15,000. The average value of the stock on loan was £22.75m representing 8% of the total value of the 2 portfolios.

7. ACCESS RI workstream

- 7.1 The ACCESS Joint Committee received a paper at its September meeting providing a position statement on the development of RI/ESG guidelines for the ACCESS pool. A copy of the paper is at item 7, pages 23 – 28:
<https://democracy.kent.gov.uk/ieListDocuments.aspx?CId=898&MId=8653&Ver=4>
- 7.2 An ESG/RI officer task and finish group has since been established to develop the guidelines and to ensure that ESG/RI is appropriately positioned within ACCESS considerations going forwards. The Kent Fund is represented by a KCC officer on this group who attends the bi-monthly meetings.
- 7.3 The working group is currently seeking to engage the services of a consultant to provide advice and assistance with this work, and on an ongoing basis. For this purpose the group plans to call off against the National LGPS Frameworks and work is currently underway to agree a specification document and scoring matrix.

8. Climate Change investment initiatives

- 8.1 As members will be aware there is an increasing focus on LGPS funds to demonstrate how they are tackling climate change issues and the RI policy anticipates that the Fund will continue to evolve its approach to responsible investment and climate risk.
- 8.2 The Task Force for Climate Related Financial Disclosures (TCFD) was established in 2015 by the Financial Stability Board and provides investors with a framework for managing climate-related risk. The Department for Work and Pensions (DWP) is currently consulting on whether certain occupational pension schemes should be required to align with the TCFD recommendations from 2021 and details of the framework are at appendix 4. If the DWP does proceed with this requirement, there is a strong likelihood that similar requirements will be placed on the LGPS.

- 8.3 Mercer's view is that the TCFD is a sensible framework for the Kent Fund. In addition, the Institutional Investors Group on Climate Change (IIGCC), of which the Fund is a member, has stated that it supports the efforts of the UK government to encourage TCFD disclosure by UK pension funds.
- 8.4 In August 2020 the IIGCC launched the draft Net Zero Investment Framework for use by investors to align their portfolios with the goals of the Paris Agreement and maximise their contribution to achieving net zero emissions globally by 2050. A final framework is expected to be published later this year.

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