

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



ACCESS Joint Committee

Date: 7 September 2020

Report by: Officer Working Group

Subject:	Environmental, Social & Governance (ESG) and Responsible Investment (RI) Guidelines
Purpose of the Report:	To provide the Joint Committee with a position statement on the development of updated ESG/RI guidelines for the ACCESS pool
Recommendations:	The Joint Committee (JC) are asked to: <ul style="list-style-type: none">• note the content of the report.
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1. Purpose

- 1.1. To provide the Joint Committee (JC) with a position statement on the development of updated ESG/RI guidelines for the ACCESS pool.

2. Background

- 2.1. Following a review of the 11 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 Joint Committee 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.
- 2.2. In recognition of the importance of ESG and Responsible Investment to participating Authorities, the 2020/21 ACCESS Business Plan included activity relating to ESG/RI guidelines and the Risk Register reflects a risk in relation to ESG/RI. Both have been copied below:

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

Ref No.	Description of Risk	Possible Responses: Prevention, reduction, acceptance, contingency, transference	Risk Level	Comments
29	<p>Environmental, Social & Governance (ESG) / Responsible Investment (RI) Guidelines:</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>Reduction/Prevention:</p> <p>Existing guidelines to be reviewed; Revised guidelines to be developed</p>	Amber	<p>Updates: -</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. At its meeting on 17 July 2020 the Committee noted:

- the status of each Authority’s review of its own RI *policy*;
- the upcoming timescales for compliance with
 - the revised UK Stewardship Code; and
 - the Task Force for Climate Related Financial Disclosures;
- the work in progress on the stewardship and engagement survey of all Investment Managers within the ACCESS ACS; and
- Officer’s view that specialist advice be procured for ACCESS.

2.4. In discussion, the importance of completing this milestone, appropriate timescales and potential next steps were highlighted. There was specific reference made to adherence to both the UK Stewardship Code and the United Nations Principles of Responsible Investment.

3. ESG/RI polices of ACCESS Authorities

3.1. The responsibility for the determination of ESG/RI *policy* remains the province of each ACCESS Authority.

3.2. As part of the baseline for developing and updating the pool’s ESG/RI *guidelines*, the ASU has conducted analysis of Authorities’ latest ESG/RI *policies*.

3.3. In addition to reprising the status information included within the Committee July 2020 report the table below references to the UK Stewardship Code and the United Nations Principles on Responsible Investment (UNPRI) are shown.

	Most recent published ESG/RI Policy	UK FRC Stewardship Code	UNPRI	Expected completion of Policy Review
Cambridgeshire	Apr-19	Supports the principles and is working with advisers with the intention of signing up		2021
East Sussex	Mar-20	Committee has agreed to formally adhere	LFS expects IMs to comply or explain	Complete
Essex	Feb-20	Fully supports the Code and requires IMs to comply		2020
Hampshire	Mar-20	The Pension Fund is a signatory	The Pension Fund is a signatory	Complete
Hertfordshire	Mar-20	Encourages IMS to comply. Authority to sign in 2020		2020
Isle of Wight	Jan-19	Committed to the Code. Developing statement of compliance		2020
Kent	Mar-20	Expects IMS to fully comply	The Pension Fund is a signatory	2020
Norfolk	Jul-19	Expects IMs to sign up & comply		2021
Northamptonshire	Apr-19	Supports the principles and is working with advisers with the intention of signing up		2021
Suffolk	Jun-20	Expects that IMs sign & comply	Expects that IMs sign & comply	Complete
West Sussex	Jul-18	Committed to reviewing position on becoming a signatory	IMs are signatories	2021

IMs = Investment managers

LFS = Link Fund Solutions

- 3.4. A number of ACCESS Authorities have indicated that once the revised ACCESS ESG/RI *guidelines* are finalised, further reviews of local *policies* will take place. It is therefore envisaged that in future updating pool *guidelines* and local *policies* will be an iterative process.

4. Survey of Investment Managers within the ACCESS ACS.

- 4.1. The Committee were advised at its July 2020 meeting that arrangements were in hand with Link Fund Solutions to use a survey template, provided by Norfolk Pension Fund, for dialogue with all Investment Managers within the ACCESS ACS. The survey has also been shared with UBS, as passive managers to ACCESS Authorities, by the ASU.
- 4.2. In total 28 questions were included within the questionnaire. The detailed results of the survey are currently being analysed; however, the following initial themes present themselves:
- All 12 investment managers are signatories to the United Nations Principles of Responsible Investment;
 - All 11 investment managers based in the UK have been assessed as a Tier 1 Asset Manager under the UK Stewardship Code;
 - All 11 investment managers based in the UK have stated the intention to become signatories to the revised FRC UK Stewardship Code; and
 - 6 of the ACS investment managers confirmed that they measure the carbon footprint of their mandate against a carbon benchmark. *Initial reporting on this matter is included within the Investment Performance report elsewhere on this agenda.*
- 4.3. Further reports will be brought to the Committee when the detailed answers have been considered by Link and the ASU.
- 4.4. It is proposed that the summary themes are included on the ACCESS website.

5. Advice to ACCESS on ESG/RI matters

- 5.1. It was reported to the last JC that specialist advice is required on ESG/RI related matters. The intention was that this advice would assist in developing suitable *guidelines* and ensure that ESG/RI is appropriately positioned within ACCESS considerations in future.
- 5.2. It is proposed that the provision of specialist advice includes the following:

Requirement:

- i) advice on developing appropriate ESG/RI pool *guidelines* on behalf of 11 LGPS institutional asset owners;
- ii) ongoing advice on implementing ESG/RI guidelines in a pooled environment.

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 the current and future ESG/RI related challenges faced by, and opportunities open to, institutional asset owners;
- detailed knowledge of the existing ESG/RI policies of the ACCESS Authorities;
- consideration of how commonalities can be built upon and how differences can be navigated;
- advice on the development of ESG/RI *guidelines* for the ACCESS pool;
 - facilitating a workshop for ACCESS authorities to discuss RI views, in order to discuss key beliefs and identify common ground and potential no-go areas
 - drafting the updated *guidelines*
 - drafting a plan for monitoring the updated *guidelines*
 - drafting initial RI statements for the ACCESS website to articulate the position on RI
- an understanding of how to apply such *guidelines* within a pool;
- ongoing advice on implementing ESG/RI *guidelines* within in the LGPS pooled environment.

5.3. Advice can be sought by calling off against the National LGPS Frameworks. Service providers on the framework for Stewardship Related Projects (Lot 5) are as follows:

- Ethical Investment Research Services Ltd (EIRIS)
- Manifest Information Services
- Mercer Ltd
- Oekom Research
- Pensions & Investment Research Consultants (PIRC)
- Sustainalytics UK Ltd

5.4. As noted in the Business Plan OWG work continues on the development of sub-groups focussed on specific milestones. As part of this, discussions are underway on the formation of an ESG/RI “task and finish group”. Authorities have been asked for indicative nominations and it is envisaged that this group, supported by the ASU, would work alongside the appointed service provider on the development of the guidelines.

5.5. Costs estimates on the provision of advice are being sought. As outlined within the budget commentary within the Business Plan item elsewhere on this agenda, in light of delays in commencing the programme of procurements for pooling illiquid assets, it is considered that there is sufficient 2020/21 budget available for Strategic & Technical advice to meet the likely resource required. The ongoing implications for future years’ spending will be incorporated in future budgets

6. Recommendation

Joint Committee are asked to:

6.1. note the content of the report.