

Investment, Governance and Engagement Sub Committee

Item 6 – Paper B

Responsible Investment – Update

1.1. To supplement the work already undertaken to publish SAB guidance on Responsible Investment, the committee is invited to consider extending this work to include –

- A template narrative to assist administering authorities in the preparation and maintenance of their Investment Strategy Statements in so far as it relates to their policy on social, environmental and corporate governance considerations;
- A three part checklist enabling administering authorities to measure their ESG policy against the current legal and best practice framework, in particular, on climate change risk,
- Signposting key guidance, information and best practice examples on ESG matters, to assist administering authorities in implementing their ESG policy, and
- Opening discussions with MHCLG with the view of updating the statutory guidance under Regulation 7(1) of the 2016 Investment Regulations to better reflect current thinking and good practice on ESG matters, including climate change risk.

Consideration

1.2. In response to the Law Commission's reports to government on the duties and responsibilities of trustees, trust based funded schemes will be required with effect from 1st October 2019 to publish their policy on ESG considerations including specifically, climate change risk.

1.3 LGPS administering authorities have long been required to publish their policy on ESG factors. Although it can reasonably be inferred from government policy that this should include specific consideration of climate change risk and the way that this might impact on the long term sustainability of investments, it is not mandated in the same way that it will be for trust based schemes.

1.4 The proposals described at paragraph 1.1 above, in particular, the template narrative, are therefore intended to help those responsible for making investment decisions to navigate their way through the current legal framework on ESG matters, including climate change risk and to mitigate the risk of their ESG policy falling short of what the law and best practice requires.

1.5 The committee is advised that Shareaction has examined all 88 Investment Strategy Statements and measured the policies on ESG matters

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against their own set of criteria. They have categorised administering authorities as either leaders, followers and laggards and it is likely that engagement with individual authorities to better understand local circumstances and decision making will follow.

1.6 The three part checklist proposed at paragraph 1.1 would therefore be introduced to provide administering authorities with a tool to measure their ESG policy against an agreed standard. It is proposed that the three levels would measure :-

- The minimum required to comply with the current legal framework;
- The minimum required to comply with level 1 and current good practice, and
- What is required to significantly exceed levels 1 and 2.

1.7 The Secretariat has taken informal soundings with both Shareaction and the Local Authority Pension Fund Forum (LAPFF), both of whom would be willing to work with the Secretariat in preparing a draft performance checklist for the Committee's consideration and approval. This would rely heavily on the joint paper prepared by UNISON and Shareaction and the Climate Change Investment Policy Framework published by LAPFF in 2017.

1.8 The committee may also wish to consider recommending that the Board should agree to commence discussions with MHCLG on reviewing and updating the statutory guidance on Preparing and Maintaining an Investment Strategy Statement to ensure a consistent approach on ESG matters, in particular, on climate change risk, and to drive the spread of good practice on Responsible Investment in general.

Recommendation – that the committee agrees to recommend to the Board that the proposals set out at paragraph 1.1 are taken forward.