

**ITEM No ...5.....**

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 4 JUNE 2018**

**REPORT ON: ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE POLICY**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 194-2018**

**1 PURPOSE OF REPORT**

This report reviews the Fund's current policy on Socially Responsible Investing (Article V of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 5<sup>th</sup> June 2017, Report No 195-2017 refers).

**2 RECOMMENDATION**

The Sub-Committee are asked to approve the Environmental, Social & Corporate Governance Policy for the Tayside Pension Funds.

**3 BACKGROUND**

Corporate Governance and Corporate Social Responsibility have developed significantly in recent years in response to both legislative and stakeholder demands. Tayside Pension Fund remains committed to supporting good environmental, social and corporate governance within the companies in which it invests.

**4 FIDUCIARY DUTY**

Tayside Pension Fund has a fiduciary duty to incorporate Environmental, Social and Corporate Governance (ESG) factors, as an active and embedded principle of risk and return assessment in managing and determining its investment portfolio and ensuring that any managers appointed by the Funds are doing likewise. Dedicating sufficient time and resource to monitoring the proper application of ESG factors.

Tayside Pension Fund is required to take a responsible approach, grounded in industry best practice, to administer their investment programmes and exercise their fiduciary duty to guard against extremes or selective interpretation of the legal principles, which might unduly restrict the consideration of ESG and other wider factors which may influence the choice of investments so long as that does not risk material financial detriment to the Fund.

**5 PRINCIPLES FOR RESPONSIBLE INVESTING**

The United Nations Principles for Responsible Investing Initiative is intrinsic within the global investment community. Tayside Pension Fund requires all assets managers be signatories to the principles. These principles are incorporated into the Statement of Investment Principles and the policy is applied as outlined in Appendix 1.

These principles widen socially responsible investing to cover environmental, social and corporate governance (ESG). They set out guidance on how this can be met and encourage organisations to sign up to show their commitment to implementing the principles.

There is ever increasing levels of transparency around the activities and capabilities of UNPRI signatories and the foster collaboration to support their engagements with companies and policymakers on ESG issues. With that in mind the ability to ensure effective responsible stewardship through active ownership is incorporated into the Statement of Investment Principles and the policy as outlined in Appendix 1.

**6 ACTIVE OWNERSHIP AND RESPONSIBLE STEWARDSHIP**

Tayside Pension Fund use an independent voting advisory service to provide global voting recommendations and disclosures on a quarterly basis for companies within the main financial indices in order to exercise responsible stewardship across their entire global portfolio, the requires investment managers to vote in accordance with these recommendations.

**7 POLICY IMPLICATIONS**

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

The Fund's policy will continue to require its investment managers to engage with companies on Sustainability and the Environment and Employee Care and Human Rights.

**8 CONSULTATIONS**

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

**9 BACKGROUND PAPERS**

Principles for Responsible Investment [www.unpri.org](http://www.unpri.org).

The Scottish Local Government Pension Scheme – Scheme Advisory Board 24 June 2016 – Guidance on Fiduciary Duty:

<http://www.sppa.gov.uk/Documents/Governance/Scheme%20Advisory%20Boards/Letter%20to%20Funds%20on%20Fiduciary%20Duty.pdf>

**GREGORY COLGAN**

**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**25 MAY 2018**



### POLICY ON ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

The fund believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios through time. So, where it is consistent with its fiduciary duty, the Fund would follow the principles below:

1. Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.\*
2. Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights globally in accordance with independent corporate governance and shareholder advisors and further engagement activity of investment managers.
3. Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment manager engagement.
4. Promote acceptance and implementation of the Principles within the investment industry - this can be met by seeking the quarterly reports from investment managers.
5. Work to enhance effectiveness in implementing the Principles - this will be both by working with its investment managers and other Pension Funds (particularly other Scottish Local Authorities).
6. Report on activities and progress towards implementing the Principles - a six monthly Report will continue to be prepared for the Sub-Committee.
7. Exercise their fiduciary duty to guard against extremes or selective interpretation of the legal principles which might unduly restrict the consideration of ESG and other wider factors which may influence the choice of investments so long as that does not risk material financial detriment to the Fund.

\* In the case of tobacco companies, the Fund requests that investment managers provide quarterly review of investments in tobacco with a view to identifying investments which would provide satisfactory returns without materially affecting the volatility of risk and return or impacting on current investment benchmarks.

As it is the Fund's aim (where circumstances permit) to disinvest from tobacco stocks, the Fund require investment managers to provide the Fund with an investment case prior to undertaking new investments within this industry. These businesses cases must demonstrate that there are no suitable alternatives at that time that better meet the criteria to meet their investment objectives.

