

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD– 1 JUNE 2015**

**REPORT ON: REVIEW OF ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE
POLICY IN RESPONSE TO TOBACCO INVESTMENT DECISION**

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 222-2015

1 PURPOSE OF REPORT

This report reviews the Fund's current policy on Socially Responsible Investing (Article IV of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 17 November 2008, Report No 556-2008 refers) and recommends an addendum to the policy with regards to the Fund's investment in tobacco companies.

2 RECOMMENDATION

The Sub-Committee is asked to approve the addendum to the policy as outlined in Appendix 1.

3 BACKGROUND

Having reviewed the outcome of an employer consultation on the fund's investment in tobacco (Article VI of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 27 October 2014, Report No 386-2014 refers), the Sub-agreed that:

i) the Tayside Pension Fund recognised that investing in tobacco companies was in direct conflict with the policies of the Scottish Government on the prevention of cancer and the promotion of good health and long-life and agreed to stop investing in tobacco companies, subject to the process described in part (ii) of this motion below; and

(ii) the Tayside Pension Fund, through each of its Fund Managers, would keep the issue of alternative investments to tobacco under constant review and that, as soon as a Fund Manager identified other investments which would provide satisfactory returns without materially affecting the volatility of risk and return or impacting on current investment benchmarks, the Fund Managers would reduce the Fund's investment in tobacco, the Fund's finding aim being to disinvest from tobacco stocks, where investment circumstances permit.

In light of this decision, the Fund's policy on Environmental, Social and Corporate Governance requires amendment to incorporate the actions required for investment managers to comply with.

4 PRINCIPLES FOR RESPONSIBLE INVESTING

Since its launch in 2006, the United Nations Principles for Responsible Investing Initiative has been instrumental in raising awareness about responsible investment among the global investment community, increasing the level of transparency around the activities and capabilities of its signatories and fostering collaboration between them, and supporting their engagements with companies and policymakers on ESG issues.

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.

All of the Funds' assets managers are signatories to the principles and therefore it is not considered necessary that the Fund should also become a signatory. Principles are incorporated into the Statement of Investment Principles and the policy is applied as outlined in Appendix 1.

5 **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.

6 **CONSULTATIONS**

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

7 **BACKGROUND PAPERS**

Principles for Responsible Investment www.unpri.org.

MARJORY STEWART
HEAD OF FINANCE

26 MAY 2015

TAYSIDE PENSION FUND**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 and the engagement activity of 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.

* 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.